

Challenger Limited

(ABN 85 106 842 371)

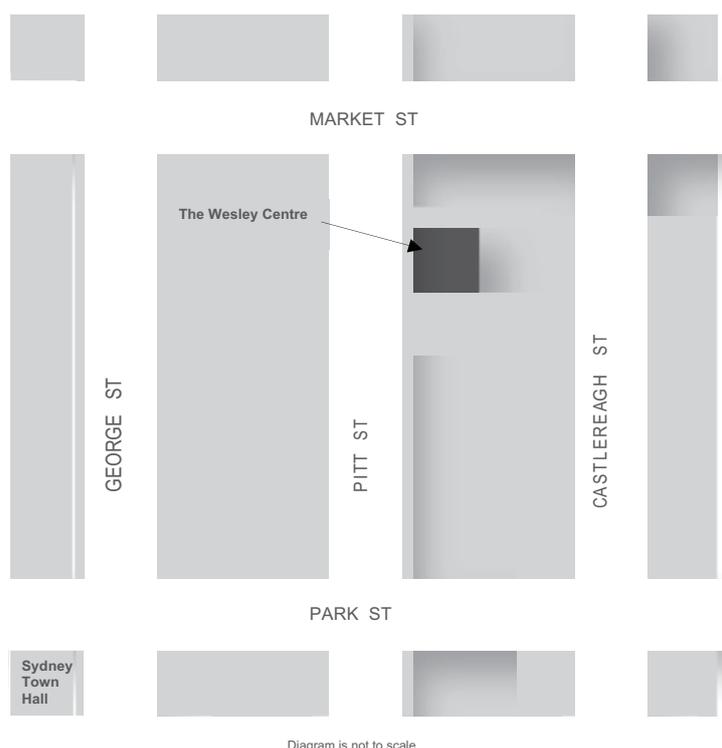
Notice of Annual General Meeting

2014

Notice of Annual General Meeting

NOTICE is hereby given that the Annual General Meeting of the shareholders of Challenger Limited (Challenger or the Company) will be held at the Wesley Centre, 220 Pitt Street Sydney on Tuesday 28 October 2014 at 10.30am (AEDST).

Location map for the venue of the Annual General Meeting (AGM)



Business

Financial Reports

1. To receive and consider the Financial Report, Directors' Report and Independent Auditor's Report for Challenger and its controlled entities for the financial year ended 30 June 2014.

Note: A copy of the above reports, which are included in Challenger's Annual Report, is accessible on Challenger's website at www.challenger.com.au/share/financialinfo.

Election of Directors

To consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

2. That Mr Leon Zwier, who retires by rotation in accordance with clause 6.1 of the Constitution of Challenger, be re-elected as a Director of Challenger; and
3. That Ms Brenda Shanahan, who retires by rotation in accordance with clause 6.1 of the Constitution of Challenger, be re-elected as a Director of Challenger.

Remuneration Report

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

4. That the Remuneration Report for Challenger for the financial year ended 30 June 2014 be adopted.

The vote on this Item is advisory only.

Approval to Refresh the Company's 15% Placement Capacity Under ASX Listing Rules

To consider and if thought fit, pass the following as ordinary resolutions:

5. That for all ASX Listing Rule purposes, including Listing Rule 7.4, the issue of an additional 33,200,532 ordinary shares under the Institutional Share Placement (Placement) announced on 20 August 2014 and summarised in the Explanatory Notes to this Notice of Meeting, be approved.
6. That for all ASX Listing Rule purposes, including Listing Rule 7.4, the issue of up to A\$360 million of Challenger Capital Notes (Notes) on the terms set out in the Replacement Prospectus issued 4 September 2014 and summarised in the Explanatory Notes to this Notice of Meeting, be approved.

Note: Please refer to the Explanatory Notes attached to this Notice of Meeting, which provides details regarding the Placement and the Notes and share issue breakdown. This Notice of Annual General Meeting and the Explanatory Notes are available on Challenger's website at www.challenger.com.au/share/agm.

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Voting Exclusion Statement

Item 4

Item 4 is connected directly with the remuneration of key management personnel (KMP) of Challenger. Except as set out below, a vote must not be cast (in any capacity) on Item 4 by or on behalf of:

- a member of the KMP, the details of which and their remuneration are included in the Remuneration Report; and
- a 'closely related party' of any such member of the KMP,

(collectively, 'Excluded Persons')

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of Challenger or the Challenger group, whether directly or indirectly. Members of the KMP include Directors (both executive and non-executive) and certain senior executives in the Challenger group.

A 'closely related party' of a member of the KMP is defined as:

- a company the KMP member controls;
- the KMP member's spouse, child or dependant (or a child or dependant of the member's spouse); or
- anyone else who is one of the KMP member's family and may be expected to influence, or be influenced by, the member in the member's dealings with Challenger.

However, a vote may be cast on Item 4 by an Excluded Person as a proxy if:

- the proxy appointment is in writing and specifies how the proxy is to vote on Item 4; and
- the vote is not cast on behalf of an Excluded Person.

The Chairman of the meeting is also permitted to vote undirected proxies on Item 4 (other than on behalf of Excluded Persons), provided the proxy appointment expressly authorises the Chairman of the meeting to exercise the proxy even if the resolution is connected, directly or indirectly, with the remuneration of one or more members of the KMP.

Please read the information under the heading 'Undirected Proxies', which (among other things) deals with the Chairman's exercise of voting for proxies on all resolutions.

A shareholder may be held liable for breach of the voting restrictions under the Corporations Act if the shareholder has cast a vote on Item 4 in contravention of the above restrictions.

Item 5

Except as permitted by the ASX waivers referred to below, Challenger will disregard any votes cast on Item 5:

- by any person who has participated in the Placement; and
- an associate of a person referred to above.

The applicable definitions of 'associate' are set out in the Corporations Act 2001 (Cth) (Corporations Act). For the purpose of this Voting Exclusion Statement on Item 5, a person in one of the above categories is an excluded person for this item. Shareholders who are excluded persons for this item and who intend to attend and cast a vote at the meeting in person, should inform a representative of the Company's Share Registrar, Computershare Investor Services Pty Ltd (Computershare), of this fact when they register at the meeting.

However, Challenger need not disregard a vote on Item 5 if it is cast by:

- an excluded person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- the Chairman of the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Please read the information under the heading 'Undirected Proxies' in the Information for Shareholders section, which (among other things) deals with the Chairman's exercise of voting for proxies on all resolutions.

Item 6

Except as permitted by the ASX waivers referred to below, Challenger will disregard any votes cast on Item 6:

- by any person who has participated in the issue of Notes; and
- an associate of a person referred to above.

The applicable definitions of 'associate' are set out in the Corporations Act. For the purpose of this Voting Exclusion Statement on Item 6, a person in one of the above categories is an excluded person for this item. Shareholders who are excluded persons for this item and who intend to attend and cast a vote at the meeting in person, should inform a representative of the Company's Share Registrar, Computershare, of this fact when they register at the meeting.

However, Challenger will not disregard a vote on Item 6 if it is cast by:

- an excluded person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- the Chairman of the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Please read the information under the heading 'Undirected Proxies' in the Information for Shareholders section, which (among other things) deals with the Chairman's exercise of voting for proxies on all resolutions.

ASX Waivers in Relation to Items 5 and 6

ASX has granted a waiver allowing Challenger to limit the application of ASX Listing Rule 14.11 such that a person acting solely in a fiduciary, nominee or custodial capacity on behalf of beneficiaries who did not participate in the Placement and/or the Notes issue (each a 'Nominee Holder') may vote on Items 5 and 6 (as the case may be) subject to the following:

- the beneficiaries confirm in writing to the Nominee Holder that neither they nor an associate of theirs has an interest in the outcome of the relevant resolution;
- the beneficiaries direct the Nominee Holder to vote for or against the relevant resolution; and
- the Nominee Holder does not exercise any discretion in casting any vote on behalf of the beneficiaries.

Questions on Voting Restrictions

If shareholders have questions regarding the voting restrictions, they should contact the Company's Share Registrar, Computershare on 1800 780 782 (within Australia) or +61 3 9415 4065 (outside Australia).

By order of the Board.

Michael Vardanega

Company Secretary
23 September 2014

Information for shareholders

Appointing a Proxy

A shareholder that is entitled to attend and vote at a meeting of shareholders may appoint not more than two people as the shareholder's proxy to attend and vote for that shareholder at the meeting. A proxy need not be a shareholder of Challenger, and can be either an individual or a body corporate. A proxy form is included with this Notice of Meeting.

If a shareholder is entitled to cast two or more votes, they may nominate two persons to vote on their behalf at the meeting. If the shareholder appoints two proxies, the proxy form may specify the proportion of voting rights each proxy is appointed to exercise on a poll. If no proportions are specified, each proxy may exercise half the available votes (disregarding fractions) on a poll. If a shareholder appoints two proxies, neither is entitled to vote on a show of hands if more than one proxy attends the meeting. If a shareholder requires a second proxy form, please request a form by contacting Computershare on telephone 1800 780 782.

Under the Corporations Act, if the appointment of a proxy specifies the way the proxy is to vote on a particular item:

- the proxy is not required to vote on a show of hands, but if the proxy does so, the proxy must vote as directed (subject to any applicable voting restrictions);
- if the proxy has two or more appointments that specify different ways to vote on the items, the proxy must not vote on a show of hands;
- if the proxy is not the Chairman of the meeting, the proxy need not vote on a poll, but if the proxy does so, the proxy must vote as directed (subject to any applicable voting restrictions); and
- if the proxy is the Chairman of the meeting, the proxy must vote on a poll and must vote as directed.

For an appointment of a proxy to be effective for the meeting, Challenger must receive the proxy form duly completed and executed no later than 10.30am on Sunday 26 October 2014 and if signed by the shareholder's attorney or corporate representative, then Challenger must also receive by that time the power of attorney or corporate representative appointment or a certified copy of it.

You may direct on your proxy form if your proxy is to vote for a resolution, against a resolution or abstain from voting on a resolution. Any abstained votes will not be counted in computing the required majority on a poll. In the absence of such a direction, the proxy is authorised to vote or abstain from voting on any resolution at their discretion.

If you do not appoint any person or persons as your proxy on the proxy form, the Chairman of the meeting will be appointed as your proxy.

You may send your proxy form to Computershare by doing one of the following:

- lodging it online at Computershare's website www.investorvote.com.au as instructed on the website (you will have been taken to have signed your proxy form if you have lodged it in accordance with the instructions given on the website); or
- faxing it to (03) 9473 2555; or
- posting it by using the reply paid envelope to:
Computershare Investor Services Pty Limited
GPO Box 242, Melbourne Vic 3001; or
- Custodian voting - for Intermediary Online subscribers only (custodians) please visit www.intermediaryonline.com to submit your voting intentions; or
- Delivering it to:
Computershare Investor Services Pty Limited
Level 4, 60 Carrington Street
Sydney NSW 2000.

Appointing a proxy does not mean you cannot attend the meeting. However, under the Challenger Constitution, if you vote on any resolution, the proxy is not entitled to vote, and must not vote, as your proxy on the resolution.

Chairman's Deemed Appointment as Proxy

There are some circumstances where the Chairman of the meeting will be taken to have been appointed a shareholder's proxy for the purposes of voting on a particular resolution even if the shareholder has not expressly appointed the Chairman of the meeting as their proxy. This will be the case where:

- the appointment of the proxy specifies the way the proxy is to vote on a particular resolution; and
- the appointed proxy is not the Chairman of the meeting; and
- a poll is called on the resolution; and
- either of the following applies:
 - the proxy is not recorded as attending the meeting; or
 - the proxy attends the meeting but does not vote on the resolution.

Undirected Proxies

If you appoint the Chairman of the meeting as your proxy (including by default) and you do not specify how the proxy is to vote, you expressly authorise the Chairman to exercise your proxy, even if, in the case of Item 4, the resolution is connected directly or indirectly with the remuneration of one or more members of the KMP, which includes the Chairman.

The Chairman intends to vote undirected proxies in favour of all resolutions on the agenda for the meeting.

Any undirected proxy given to a Director (other than the Chairman of the meeting) or other member of the KMP of Challenger or their related parties for Item 4 will not be cast, unless shareholders specify how the proxy should vote on the shareholder proxy form.

Corporate Shareholders

Corporate shareholders wishing to appoint a representative to attend and vote at the meeting on their behalf must provide that person with:

- an appropriately executed letter or certificate authorising the person to act as the company's representative in accordance with the company's constitution; or
- a copy of the resolution appointing the representative, certified by a company secretary or director of the company.

A representative may be authorised for a single meeting or all meetings of Challenger and an authorisation for more than one meeting must be stated on the authorising instrument.

Eligibility to Attend and Vote

In accordance with the Corporations Act Regulations and the ASX Settlement Operating Rules, the Challenger Board has determined that, for the purposes of the meeting, those shareholders registered as holding shares at 7.00pm (AEDST) on Sunday 26 October 2014 will have voting entitlements for the meeting. Transactions registered after that time will be disregarded in determining a shareholder's entitlement to attend or take into account their voting rights at the meeting.

Registration

If you are attending the meeting in person, you should present the signed proxy form enclosed with this Notice of Meeting as your entitlement to attend and vote. The bar code at the top of the proxy form will facilitate registration. If you do not bring the proxy form with you, you will still be able to attend the meeting, but representatives from Computershare must be able to verify your identity at registration. If you are a proxy holder, you will not be allowed entry unless your proxy authority has been verified by Computershare or you produce the original signed proxy form. Registration will be possible from 9.30am (AEDST) on the day of the meeting.

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Questions and Comments by Shareholders at the Meeting

In accordance with the Corporations Act, a reasonable opportunity will be given to shareholders as a whole to ask questions or make comments about Challenger's management, its Remuneration Report and other agenda items at the meeting. Similarly, a reasonable opportunity will be given to shareholders as a whole to ask Challenger's auditor, Ernst & Young, questions about:

- the conduct of the audit;
- the preparation and content of the Independent Auditor's Report;
- the accounting policies adopted by Challenger in relation to the preparation of the financial statements; and
- the independence of the auditor in relation to the conduct of the audit.

Shareholders may also provide written questions to the auditor concerning the content of the Auditor's Report or the conduct of the audit of Challenger's financial report for the financial year ended 30 June 2014 in advance of the meeting. Written questions should be submitted in writing to Challenger no later than 5.00pm (AEDST) on Tuesday 21 October 2014, and should be forwarded to:

The Company Secretary
Challenger Limited
Level 15
255 Pitt Street
Sydney NSW 2000

A list of any questions will be prepared by Ernst & Young and will be made available to shareholders on the day of the meeting.

Explanatory Notes

Item 1 – Financial Statements and Reports

The Financial Report, Directors' Report and Independent Auditor's Report for Challenger and its controlled entities for the financial year ended 30 June 2014 will be laid before the meeting in accordance with the requirements of the Corporations Act.

Challenger's 2014 Annual Report (which includes the Financial, Directors' and Independent Auditor's Reports) is available on Challenger's website at www.challenger.com.au/share/annualreport2014.

A printed copy of the Reports has been sent to those shareholders who have requested a printed copy.

Shareholders will be provided with the opportunity to ask questions about and make comments on the Reports and the management of Challenger generally but there will be no formal resolution put to the meeting in relation to Item 1.

Items 2 and 3 – Re-Election of Directors by Rotation

In accordance with Challenger's Constitution, it is necessary for one-third of the Directors (rounded down to the nearest whole number), excluding the Managing Director and any Director appointed since the last Annual General Meeting, to retire by rotation each year. Additionally, each Director (excluding the Managing Director) who will, at the conclusion of the meeting have been in office for three or more years or for three or more Annual General Meetings since he or she was last elected, must stand for re-election.

Accordingly, Mr Zwier and Ms Shanahan will retire by rotation at the 2014 Annual General Meeting and, each being eligible, will be resubmitted for re-election as a Director at the meeting.

The Board is accountable to shareholders for the activities and performance of Challenger. Board members have been selected for their experience and knowledge of the financial markets in which Challenger operates, their familiarity with Challenger's stakeholders and their capacity to assist the Board to act cohesively and with integrity.

A brief description of each Director's expertise and knowledge is provided below:

Mr Leon Zwier

Non-Executive Director

Independent

Experience/qualifications

Mr Zwier is a partner in the law firm Arnold Bloch Leibler, which has its principal office in Melbourne. Mr Zwier heads the firm's litigation and dispute resolution and reconstruction and insolvency practices. Mr Zwier holds a Bachelor of Laws from the University of Melbourne. Mr Zwier has been a Director of the Company since 15 September 2006.

Special Responsibilities

Mr Zwier is a member of the Nomination Committee.

Directorships of other listed companies

Mr Zwier is not a director of any other listed companies.

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Ms Brenda Shanahan

Non-Executive Director

Independent

Experience/qualifications

Ms Shanahan is a graduate of Melbourne University in Economics and Commerce and a Fellow of the Australian Institute of Company Directors. Ms Shanahan has a research and institutional background in finance in Australian and overseas economies and equity markets. She has held executive positions in stock broking, investment management and an actuarial firm. Ms Shanahan has been a Director of the Company since 1 April 2011.

Special responsibilities

Ms Shanahan is a member of the Group Risk and Audit Committee, Nomination Committee and Remuneration Committee.

Directorships of other listed companies

Ms Shanahan is a non-executive director of Clinuvell Pharmaceuticals Limited, appointed 6 February 2007 and Bell Financial Group Limited, appointed 5 June 2012.

Recommendation

The Board has benefited significantly from the contributions of Mr Zwier and Ms Shanahan and their commercial experience. Each member of the Board (other than Mr Zwier and Ms Shanahan in relation to their own re-election) recommends that shareholders vote in favour of the re-election of both Mr Zwier and Ms Shanahan.

Item 4 – Adoption of the Remuneration Report

The Annual Report for the financial year ended 30 June 2014 contains a Remuneration Report, which sets out Challenger's remuneration policy and reports on the remuneration arrangements in place for KMP (including executive Directors, specified executives and non-executive Directors). A copy of the Report is set out on pages 41-65 inclusive of the Annual Report, which can also be found on Challenger's website at www.challenger.com.au/share/annualreport2014.

This resolution, which is proposed pursuant to the requirements of section 250R(2) of the Corporations Act, proposes that shareholders adopt the Remuneration Report.

This resolution to adopt the Remuneration Report is advisory in nature and does not bind the Directors or Challenger. However pursuant to the Corporations Act, if at least 25% of the votes cast on the resolution are voted against adoption of the Remuneration Report at the meeting, then:

- if comments are made on the report at the meeting, Challenger's Remuneration Report for the next financial year will be required to include an explanation of the Board's proposed action in response or, if no action is proposed, the Board's reasons for this; and
- if at next year's Annual General Meeting, at least 25% of the votes cast on the resolution for adoption of the Remuneration Report are against it, Challenger will be required to put to shareholders a resolution proposing that an extraordinary general meeting (EGM) be called to consider the election of Directors of Challenger (spill resolution). If a spill resolution is passed (i.e., more than 50% of votes cast are in favour), all of the Directors (other than the Managing Director) will cease to hold office at the subsequent EGM, unless re-elected at that meeting.

A reasonable opportunity will be provided for the discussion of and questions relating to the Remuneration Report at the meeting.

If you intend to appoint a proxy to vote on your behalf on the remuneration resolution, please read the information above, under the heading 'Undirected Proxies'.

Recommendation

The Remuneration Report forms part of the Directors' Report which has been approved in accordance with a unanimous resolution of the Challenger Board. Each Director recommends that shareholders vote in favour of the adoption of the Remuneration Report.

Items 5 and 6 – Approval to Refresh the Company's 15% Placement Capacity Under ASX Listing Rules

Challenger Life Company Limited (CLC) is growing strongly and on 20 August 2014 (**Announcement Date**), Challenger announced the following capital management initiatives to support future growth ambitions:

1. **Equity Placement (Placement)** – raising A\$250 million. An equity placement of Challenger's ordinary shares to institutional holders was successfully completed on 21 August 2014, resulting in 33,200,532 million ordinary shares being issued on 29 August 2014 priced at A\$7.53 per share, representing an additional 6.3% of Challenger's total outstanding ordinary shares on issue as at the Announcement Date.
2. **Share Purchase Plan (SPP)** – expected to raise A\$30 million with capacity to raise more or less. Under the SPP offer, the Company's existing Australian and New Zealand retail shareholders can invest up to \$15,000 in new shares each.
3. **Challenger Capital Notes (Notes)** – initially intended to raise A\$250 million with capacity to raise more or less. Following strong demand, the Replacement Prospectus lodged with both the Australian Securities and Investment Commission (ASIC) and Australian Securities Exchange (ASX) on 4 September 2014 increased the Notes offer size to up to A\$340 million with the ability to raise more or less. \$340 million has been allocated under the Broker Firm and Institutional Offers. Challenger may accept up to a further \$20 million, depending on the response received from eligible shareholders through the Shareholder Offer. This may result in a potential offer size for the Notes of up to A\$360 million or 3,600,000 Notes.

The majority of the proceeds from the Placement (\$250 million) and SPP (expected to raise \$30 million) will be invested in CLC. The proceeds of the Notes will be used to fund Additional Tier 1 Capital for CLC, a registered life company regulated by the Australian Prudential Regulatory Authority (APRA) and a wholly owned subsidiary of the Company.

Under Listing Rule 7.1, Challenger is not permitted to issue more than 15% of its issued share capital in any 12 month period ('placement capacity') unless the issue is approved by Challenger shareholders or an exemption applies. Under Listing Rule 7.4, an issue of any securities may be treated as having been made with approval under Listing Rule 7.1 if the issue did not otherwise breach Listing Rule 7.1 and the holders of ordinary shares in Challenger subsequently approve it.

The issue of the Notes and the Placement are within the limits of Listing Rule 7.1 and did not require approval to proceed. The SPP issue is not considered to fall within the 15% placement capacity cap and does not require approval under ASX Listing Rule 7.1 (or subsequently under Listing Rule 7.4) as a result of ASX Listing Rule 7.2, Exemption 15.

The purpose of Items 5 and 6 of the agenda is to refresh Challenger's placement capacity to issue shares under ASX Listing Rule 7.1 and to provide the Challenger group with the maximum flexibility as to how it manages its future capital requirements. Notwithstanding all three capital raising initiatives, Challenger will not exceed the 15% placement capacity cap (79,629,388 ordinary shares), based on Challenger's total outstanding shares on issue as at the Announcement Date. If shareholders approve the issue of the Notes and the Placement, these initiatives will not be counted towards Challenger's placement capacity cap and will provide Challenger with maximum flexibility as to how it manages its future capital requirements.

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Item 5 – Institutional Share Placement (Placement)

Placement Summary

On 20 August 2014, Challenger announced an underwritten institutional share placement raising A\$250 million in ordinary shares. The Placement was offered to qualified and sophisticated investors with an issue price at A\$7.53 per share, which was determined via a variable priced bookbuild process. The issue price of A\$7.53 per share represented a 1.1% discount to the 10 day volume weighted average price.

Shares issued under the Placement rank equally with existing ordinary shares but are not eligible to receive Challenger's FY14 final dividend.

For the purpose of determining the amount of Challenger's placement capacity used by the Placement issue, the Placement resulted in the issue of 33,200,532 million ordinary shares or approximately 6.3% of Challenger's total outstanding shares on issue as at the Announcement Date.

Item 6 – Issue of Challenger Capital Notes (Notes)

Notes Summary

On 4 September 2014, Challenger offered via a Replacement Prospectus subordinated unsecured and convertible Notes to raise \$A340 million with the ability to raise more or less. \$340 million has been allocated under the Broker Firm and Institutional Offers. Challenger may accept up to a further \$20 million, depending on the response received from eligible shareholders through the Shareholder Offer. This may result in a potential offer size for the Notes of up to A\$360 million or 3,600,000 Notes. The Broker Firm Offer closes on 7 October 2014 and the Shareholder Offer closes on 30 September 2014. A copy of the Replacement Prospectus is available at www.challenger.com.au/announcements.

Challenger is the issuer of the Notes which will be fully paid at \$A100 per Note. Distributions on the Notes are discretionary non-cumulative, floating rate distributions scheduled to be paid quarterly and in arrears. Challenger has applied for the Notes to be quoted on ASX so that they can be bought and sold on ASX. If ASX does not give approval for the Notes to be quoted, the Notes will not be issued and the Notes application payments will be refunded.

Notes will be issued in respect of institutional investors and syndicate brokers as agreed by Challenger and the joint lead managers to the offer, following a bookbuild process which has now been completed. Allocations to applicants under the Broker Firm Offer by a syndicate broker are at the discretion of that syndicate broker. Allocations to shareholders under the Shareholder Offer will be determined by Challenger in consultation with the joint lead managers.

A fuller summary of the terms of the Notes is provided in Appendix A to this Explanatory Note. Shareholders should refer to the full terms of the Notes as set out in the Replacement Prospectus which will prevail in the event of any inconsistency between this Explanatory Note (including Appendix A) and the Replacement Prospectus.

Notes Conversion to Ordinary Shares

The Notes do not have a fixed maturity date but Challenger has a right to convert the Notes to ordinary shares or redeem or resell the Notes on 25 May 2020 or an earlier date if certain conditions are met and subject to approval by APRA. The Notes will mandatorily convert to ordinary shares on or after 25 May 2022 on certain conditions being met at the relevant date. Challenger may be required to convert some or all Notes to ordinary shares or undertake other measures if APRA so requires on the happening of a Non-Viability Event (as defined in the Replacement Prospectus) at any time.

Conversion Number of Notes to Ordinary Shares

ASX has confirmed that for the purposes of determining Challenger's placement capacity, the number of ordinary shares taken to be issued on the conversion of Notes should be calculated by notionally converting the Notes into ordinary shares based on the market price, calculated as the average volume weighted average price for ordinary shares in the twenty (20) business days on which trading in ordinary shares took place prior to 27 August 2014 (being the date of issue of the original Prospectus for the offer).

The following formula represents the principle in determining the notional number of ordinary shares each Note represents:

$$\begin{aligned} \text{Conversion Number} &= \frac{\text{Face Value}}{99\% \text{ of VWAP}} \\ \text{Face Value} &= \$100 \\ \text{VWAP} &= \text{average volume weighted average price for CGF shares in the twenty business days on which trading in ordinary shares took place prior to 27 August 2014} \end{aligned}$$

As of 27 August 2014, the Challenger share price based on the simple average of the daily volume weighted average prices for ordinary shares in the twenty (20) business days on which trading in Challenger ordinary shares took place prior to that date was A\$7.84. For the purpose of determining the amount of Challenger's placement capacity used by the potential A\$360 million Notes issue, the Notes are notionally converted into 46,382,189 ordinary shares or approximately 8.2% of Challenger's total ordinary shares outstanding as at the Announcement Date.

Waiver of ASX Listing Rule 10.11

Listing Rule 10.11 requires the approval of security holders to issue securities to a related party. This rule is directed at preventing a related party from obtaining securities on advantageous terms and increasing their holding proportionate to other holders. Only unassociated security holders' votes are counted where such approval is sought. This protects security holders' interests by supplementing the related party provisions of the Corporations Act (and whatever related party provisions that apply to foreign entities).

Directors of the Company and their associates (who are related parties of the Company) will participate in the Notes offer on the same terms as unassociated investors. ASX has granted a waiver of Listing Rule 10.11 to permit the Directors and their related persons (being the spouses, parents, children and associates of Directors) to collectively participate in the offer without shareholder approval, subject to an aggregate cap of no more than 0.2% of the total number of Notes issued. The participation of natural person related parties in an offer subject to this cap is a de minimis departure from the principle that no equity securities may be issued to a related party without shareholder approval other than under an exception to Listing Rule 10.12.

Recommendation

The Board unanimously recommends that shareholders vote in favour of Items 5 and 6 of the agenda.

Appendix A

Summary of the terms of the Notes

Shareholders should refer to the Replacement Prospectus which will prevail in the event of any inconsistency between this Explanatory Note (including this Appendix A) and the Challenger Capital Note Terms set out in the Replacement Prospectus.

Capitalised terms in the table below are defined in the Replacement Prospectus of 4 September 2014.

Issuer	Challenger Limited ABN 85 106 842 371 (ASX – CGF)
Security	Challenger Capital Notes (Notes)
Offer size	\$A340 million with the ability to raise more or less. \$340 million has been allocated under the Broker Firm and Institutional Offers. Challenger may accept up to a further \$20 million through the Shareholder Offer. This may result in a potential Offer size for the Notes of up to \$A360 million or 3,600,000 Notes. The Offer opened on 4 September 2014 and closes on 30 September 2014 for the Shareholder Offer and on 7 October for the Broker Firm offer.
Note Value	A\$100 per Note
Features	<p>Challenger Capital Notes have the following features:</p> <ul style="list-style-type: none"> • fully paid – at \$100 per Note; • subordinated – to claims of Senior Creditors, and rank equally with other Relevant Perpetual Subordinated Instruments if issued and ahead of Ordinary Shares; • convertible – in certain circumstances. Challenger will be required to Convert Notes into Ordinary Shares and in certain circumstances, Challenger may elect to Convert Notes into Ordinary Shares; • redeemable and transferable – in certain circumstances, Challenger may be permitted to repay the Face Value of Notes or transfer Notes to a third party (but there are restrictions on repayment or transfer of the Notes); • perpetual – no fixed maturity date and could remain on issue if they are not Converted, in which case Holders may not get their capital back or be issued any Ordinary Shares; • distributions – are non-cumulative, preferred and are expected to be franked to the same level as Ordinary Shares; • not guaranteed or secured – Notes are not guaranteed or secured, are also not policy liabilities of CLC, Challenger or any other member of the Challenger Group.
Capital Purpose	To fund a subscription for Additional Tier 1 Capital for CLC. The contribution of Additional Tier 1 Capital to CLC will assist with regulatory requirements for CLC resulting from annuity sales growth and will help protect CLC's creditors and policyholders.
Ranking	Notes rank ahead of Challenger ordinary shares, equally with other Relevant Perpetual Subordinated Instruments (if issued) but behind any Senior Creditors of Challenger that rank in priority to Notes and all other creditors of Challenger.
Maturity Date	Perpetual unless Converted, Redeemed or Resold

Mandatory Conversion Date	25 May 2022 subject to certain conditions being satisfied (and provided Notes have not been Converted, Redeemed or Resold on the Optional Exchange Date, being 25 May 2020).
Optional Exchange Date	25 May 2020 or an earlier date if there is a Tax Event, a Regulatory Event or a Potential Acquisition Event. Exchange is subject to APRA's prior written approval and certain conditions having been met.
Distributions	<ul style="list-style-type: none"> • Floating rate, preferred, discretionary, non-cumulative Dividends which are expected to be franked to the same level as dividends on Challenger Ordinary Shares and scheduled to be paid quarterly in arrears. • Payment of Distributions is within the absolute discretion of Challenger and subject to Payment Conditions. These include that APRA does not object to a Distribution being paid. • Distribution rate based on three month Bank Bill Swap Rate (BBSW) plus a margin of 3.40%. • Distributions are expected to be franked to the same level as Challenger Ordinary Shares. The Franking Rate applicable to the first Distribution is expected to be 70%. The level of franking may vary over time and depends on Challenger's level of available franking credits. • To the extent a Distribution is franked, the cash amount of the Distribution will be lower than it would be if the Distribution were unfranked, reflecting the value of the franking credit attached to the Distribution. • If a Distribution is not paid in full on a Distribution Payment Date, Challenger must not, without approval of Holders by a Special Resolution declare, determine to pay or pay a dividend or distribution on its Ordinary Shares, or buy back or reduce capital on any of its Ordinary Shares until and including the next Distribution Payment Date. This restriction will not apply if the relevant Distribution is paid in full within three Business Days of the relevant Distribution Payment Date.
Distribution Payment Dates	The first Distribution Payment Date will be 25 February 2015. Distribution Payment Dates will be 25 February, 25 May, 25 August and 25 November in each year (or the next Business Day).
Conversion into Ordinary Shares	Notes must Convert into Ordinary Shares on a Mandatory Conversion Date, on a Non-Viability Trigger Event or on an Acquisition Event (for example, a takeover of Challenger). Mandatory Conversion can only occur on or after 25 May 2022 and if the Mandatory Conversion Conditions are met on the relevant date. If any of the Mandatory Conversion Conditions are not satisfied on that date, the Mandatory Conversion Date will be the next Distribution Payment Date on which those conditions are satisfied.

Challenger Limited

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Ordinary Shares Received on Conversion	<p>On the Mandatory Conversion Date, a Holder will receive a number of Ordinary Shares per Note ('Conversion Number') calculated in accordance with the following formula, subject always to the Conversion Number being no greater than the Maximum Conversion Number:</p> $\text{Conversion Number} = \frac{\text{Face Value}}{99\% \text{ of VWAP}}$ <p>where:</p> <p>'VWAP' is the volume weighted average price of Ordinary Shares during the VWAP Period; and</p> <p>'VWAP Period' is the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Mandatory Conversion Date.</p>
Maximum Conversion Number	$\text{Maximum Conversion Number} = \frac{\text{Face Value}}{\text{Issue Date VWAP} \times \text{Relevant Fraction}}$ <p>where the Relevant Fraction means 0.5 (in relation to a Mandatory Conversion).</p>
Voting Rights	<p>No voting rights at meetings of holders of Ordinary Shares in Challenger. May vote at meetings for Holders in accordance with the Trust Deed.</p>
Non – Viability Event	<p>A Non-Viability Trigger Event means APRA has provided a written determination to Challenger that the conversion or write-off of Relevant Perpetual Subordinated Instruments is necessary because:</p> <ul style="list-style-type: none"> • without that conversion or write-off, APRA considers that Challenger would become non-viable; or • without a public sector injection of capital into (or equivalent capital support with respect to) Challenger, APRA considers that Challenger would become non-viable. <p>If a Non-Viability Trigger Event occurs, Challenger must convert to Ordinary Shares or write-off:</p> <ul style="list-style-type: none"> • all Relevant Perpetual Subordinated Instruments; or • an amount of the Relevant Perpetual Subordinated Instruments if APRA is satisfied that conversion or write-off of that amount will be sufficient to ensure that Challenger does not become non-viable. <p>Where APRA considers Challenger would become non-viable without a public sector injection of capital or equivalent capital support, all Relevant Perpetual Subordinated Instruments must be converted or written-off.</p> <p>Notes are Relevant Perpetual Subordinated Instruments. Conversion on the occurrence of a Non-Viability Trigger Event is not subject to any Mandatory Conversion Condition being satisfied.</p>
Anticipated Issue Date	<p>9 October 2014</p>
Listing	<p>Challenger has applied for Notes to be quoted on ASX. If quotation is approved, Notes are expected to trade under ASX Code 'CGFPA'. Quotation of the Notes does not mean that there will be a liquid market for the Notes.</p>
Anticipated Trading Date on ASX	<p>10 October 2014 on deferred settlement basis.</p>

Trustee and Trust Deed

Challenger has appointed Trust Company (Australia) Limited as Trustee for Holders, as required by Chapter 2L of the Corporations Act. The Trustee holds certain rights in relation to Notes on trust for Holders under the Trust Deed. In certain circumstances, the Trustee will act on behalf of Holders. The Trustee holds on trust for Holders the right to enforce any obligations of Challenger under the Terms and the Trust Deed. The Trustee will be entitled to take any action against Challenger to enforce any obligations of Challenger, subject to the Terms and the Trust Deed.

Challenger Limited
Notice of Annual General Meeting

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New South Wales

Level 15
255 Pitt Street
Sydney NSW 2000
Telephone 02 9994 7000
Facsimile 02 9994 7777

Victoria

Level 19
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Melbourne VIC 3000
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Queensland

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Brisbane QLD 4000
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Western Australia

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Perth WA 6000
Telephone 08 9261 7412
Facsimile 08 9321 5277

South Australia

Level 7
147 Pirie Street
Adelaide SA 5000
Telephone 08 7071 7042
Facsimile 08 8227 0395

Investor Services

13 35 66

Adviser Services

1800 621 009

Lodge your vote:

  **Online:**
www.investorvote.com.au

 **By Mail:**
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

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(custodians) www.intermediaryonline.com

For all enquiries call:
(within Australia) 1800 780 782
(outside Australia) +61 3 9415 4065

┌ 000001 000 CGF
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Proxy Form



Vote and view the annual report online

- Go to www.investorvote.com.au or scan the QR Code with your mobile device.
- Follow the instructions on the secure website to vote.

Your access information that you will need to vote:

Control Number: 999999

SRN/HIN: I9999999999 PIN: 99999

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.



 **For your proxy appointment to be effective it must be received by 10.30 am (AEDST) on Sunday 26 October 2014**

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. Subject to voting restrictions set out in the Notice of Meeting, if you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate authority in writing (as set out in the Notice of Meeting), such as a "Certificate of Appointment of Corporate Representative" prior to admission. A form of this certificate may be obtained from Computershare or online at www.investorcentre.com under the help tab, "Printable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,
or turn over to complete the form →**

MR SAM SAMPLE
 FLAT 123
 123 SAMPLE STREET
 THE SAMPLE HILL
 SAMPLE ESTATE
 SAMPLEVILLE VIC 3030

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

Proxy Form

Please mark to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf XX

I/We being a member/s of Challenger Limited hereby appoint

the Chairman of the Meeting **OR**

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Annual General Meeting of Challenger Limited to be held at at The Wesley Centre, 220 Pitt Street, Sydney, NSW, 2000 on Tuesday 28 October 2014 at 10.30 am (AEDST) and at any adjournment or postponement of that Meeting.

Chairman authorised to exercise undirected proxies: Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on (except where I/we have indicated a different voting intention below) even where, in the case of Item 4, the resolution is connected directly or indirectly with the remuneration of a member of key management personnel, which includes the Chairman.

Important Note: If the Chairman of the Meeting is your proxy (or becomes your proxy by default) you can direct the Chairman to vote for or against or abstain from voting on Item 4 by marking the appropriate box in step 2 below.

STEP 2 Items of Business **PLEASE NOTE:** If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

	For	Against	Abstain
2. To re-elect Mr Leon Zwier as a Director of Challenger	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Ms Brenda Shanahan as a Director of Challenger	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Adoption of the Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Approve the issue of an additional 33,200,532 ordinary shares under the Institutional Share Placement (Placement)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Approve the issue of up to A\$360 million of Challenger Capital Notes (Notes)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1	Securityholder 2	Securityholder 3
<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name _____ Contact Daytime Telephone _____ Date ____/____/____