

Shareholder Newsletter

March 2014

Dear Shareholder,



On behalf of Challenger's Board and management team, I'm pleased to provide you with an update on our latest financial results. These results cover the first half of the 2014 financial year.

Our leading brand and business execution continues to deliver growth in both revenue and earnings, which has allowed the Board to significantly increase dividends paid to our shareholders.

Growth in earnings

We continue to experience strong flows into both our annuities and funds management businesses. Over the past year, total funds and assets under management rose by 27% to \$49 billion. These strong inflows helped drive a 10% increase in normalised profit to \$164 million for the six months.

After accounting for the benefit of shares bought back in the last financial year under Challenger's on-market share buy back program, earnings per share increased by 14%.

Statutory profit was slightly higher than normalised profit at \$166 million, and includes the impact of accounting valuation changes on our assets and liabilities. The Board continues to believe normalised profit is a better indicator of our underlying operating performance than statutory profit, and for this reason dividends are based on normalised profit¹.

Increase in interim dividend

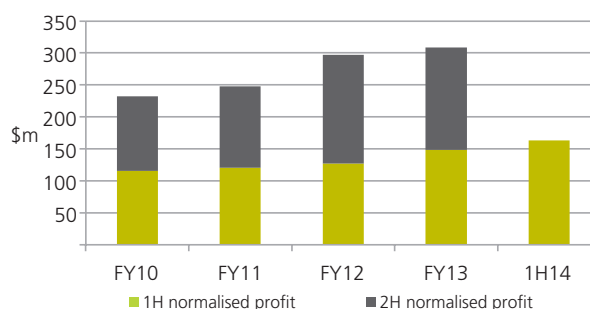
Your Board declared an unfranked interim dividend of 12.5 cents per share for the six months ending 31 December 2013 which was paid on 28 March 2014. The interim dividend is 32% higher than last year, with the increase reflecting both higher normalised profit (up 10%) and a higher payout ratio. The percentage of normalised profits paid out as dividends (the payout ratio) increased from 34% to 39%.

The Board is focused on increasing dividends over time and regularly reviews the Group's dividend policy to ensure there is an appropriate balance between dividends and retaining capital to grow our business.

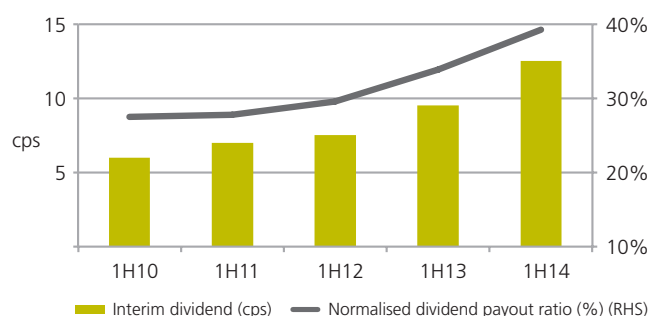
Over the last five years, the interim dividend has more than doubled. We have also announced our intention to further increase the dividend payout ratio, up to a range of 40% to 45% of normalised profit². This higher payout ratio will commence for the final 2014 dividend, which is due to be paid in September 2014. Based on current forecasts, the Board expects to be able to partially frank the final 2014 dividend at around 40%, with franking levels expected to increase up to 100% over time.

Challenger has a long history of enhancing shareholder returns through the use of an on-market share buy-back program. Our target is to return 50% of normalised profit³ by way of dividends and shares bought back.

Normalised net profit after tax



Interim dividend and normalised payout ratio



1. Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed on page 6 of the Challenger Limited 31 December 2013 half year financial report.
2. Actual 2H14 dividend payout ratio will depend on market conditions and 2H14 financial performance.
3. Dividends and buy back payout ratio based on normalised net profit after tax and is subject to prevailing market conditions and capital allocation priorities.

Life business update

Our annuities, or Life business continues to benefit from Australia's ageing population and retirees seeking safe and secure incomes. Total annuity sales for the six months were \$1.75 billion, comprising retail sales of \$1.46 billion and institutional sales of \$290 million. Retail sales increased by 38% to record levels.

As a result of strong sales, the size of our annuities portfolio grew by 8% in the period, meeting our full year target in just six months. With the growth and momentum we are experiencing, we have increased our full year growth target from 8% to a range of 10% to 12%.

Challenger continues to evaluate new products and services to offer the retiree customer segment. We continue to look for innovative ways to educate, market and communicate the role and benefits of our products and services. In order to expand our offering we have recently acquired Self Managed Superannuation Fund (SMSF) service provider, Bendzulla Actuarial. Bendzulla provides us with access to the fast growing SMSF market and we plan to position Bendzulla as the pre-eminent SMSF pension specialist.

Since 2009, Challenger has been seeking to establish itself as a leading retirement incomes brand among both consumers and their advisers. Following the launch of our new advertising campaign, our latest benchmarking shows that nearly 90% of financial advisers recognise Challenger as Australia's retirement incomes leader.

Funds Management update

Our Funds Management business attracted net flows of \$1.1 billion for the six months and with stronger asset markets, we are now Australia's seventh largest fund manager, up from nineteenth only two years ago⁴.

The growth in our Funds Management business is being supported by strong investment performance across our boutique investment managers, with 98% of flagship funds meeting or exceeding their benchmarks since inception.

We continue to attract high quality investment teams and have announced the recent formation of a new global smart beta equities manager, Tempo Asset Management. This brings our stable of boutique investment managers to fourteen, covering a range of equity and fixed income strategies.

Details on our Funds Management products and boutique managers can be found at www.fidantepartners.com.au.

Outlook

Challenger is growing strongly and we remain confident that we can continue to grow both businesses. They both operate in attractive markets and ones in which we have a competitive advantage.

The senior management team and Board have never been more dedicated to pursuing Challenger's vision to 'provide Australians with financial security in retirement' and be recognised as Australia's leader in retirement incomes.

Key dates⁵

20 August 2014	Release of 2014 financial results and dividend announcement
27 August 2014	Ex-date for 2014 final dividend
2 September 2014	Record date for 2014 final dividend
30 September 2014	Payment date for 2014 final dividend
28 October 2014	2014 Annual General Meeting (to be held in Sydney)

Shareholder information

For administrative matters in respect of your shareholding, please contact Challenger's share register, Computershare Investor Services Pty Ltd.

T: 1800 780 782

F: 612 8234 5050

W: www.computershare.com.au

To assist with all enquiries please quote your unique Security Reference Number (SRN) and your current address when dealing with Computershare.

Additional information

You can find additional shareholder information, including full details of our latest financial results on Challenger's shareholder website at www.challenger.com.au/share.



Peter Polson

Chairman, Challenger Limited

4. Consolidated FUM for Australian fund managers – Rainmaker Roundup September 2013.

5. Key dates are provisional dates and are subject to change.