

MARKET RELEASE

ASSETS AND FUNDS UNDER MANAGEMENT

NET FLOWS AND ANNUITY SALES

15 October 2015, Sydney – Challenger Limited (ASX:CGF) today announced September quarter assets and funds under management, net flows and annuity sales across its two operating businesses, Funds Management and Life (annuities).

Total group assets and funds under management at 30 September 2015 were \$56.1 billion, a decrease of \$3.7 billion, or 6%, for the quarter reflecting strong organic flows (\$1.1 billion) offset by the previously announced sale of the Kapstream Capital business (\$5.4 billion reduction in institutional FUM) and, acquisition of Dexion Capital (\$0.6 billion increase in FUM). Both transactions completed in early July 2015. Excluding the impact of these transactions, total group funds under management increased by \$1.1 billion or 2% for the quarter.

Life's total annuity sales for the first quarter of 2016 were \$884 million, up 12% compared to the prior corresponding period (pcp), and comprised retail annuity sales of \$707 million and institutional annuity sales of \$177 million. Total retail annuity sales of \$707 million increased by 2% on the pcp. On a like-for-like basis excluding sales of the Care Annuity, which was suspended in November 2014, retail annuity sales increased by 14% on the pcp. Challenger launched a new care product, CarePlus in mid-August.

Challenger's Chief Executive Officer Brian Benari said:

"As the baby-boomer generation starts to retire, about 700 Australians turn 65 every day of the week. This demographic shift is focusing policymakers and the superannuation industry on the retirement income challenges facing Australia's retirees.

"Whilst we expect positive regulatory reform, the superannuation industry has already begun to take steps to make annuities more readily available to super members, such as through VicSuper's use of Challenger annuities in its comprehensive income product for retirement-style solution and, through investment and administrative platforms. We are also seeing strong interest by industry funds in the AAS initiative which is now in the technology development phase.

"During the quarter Challenger's annuities were launched by Colonial First State, the largest investment platform provider in Australia, with financial advisers now being educated on the benefits of income layering and retirement income model portfolios. This increases market access to our products and we are seeing promising quote and initial sales volumes, including from advisers who have traditionally not sold our products. This annuities-on-platform initiative will increase our retail adviser distribution footprint with sale volumes expected to build over time.

Further enquiry: Stuart Kingham, Head of Investor Relations, Challenger Limited, 02 9994 7125
Paul Marriage, Senior Manager Corporate Marketing and Communications, Challenger Limited, 02 9994 7053

“In late August we re-entered the aged care market with the launch of CarePlus, which addresses a clear market need. The initial market feedback has been very positive and our distribution team is focused on getting CarePlus added to the Approved Product Lists of major hubs. We have started adviser education and the roll-out of aged care support tools, and remain confident the product will fill a gap in the aged care market.”

Funds Management

Funds Management FUM at 30 September 2015 was \$53.5 billion, down \$4.4 billion for the quarter impacted by the sale of Kapstream in July 2015. Funds Management FUM comprises financial assets held within the Fidante Partners boutique funds management businesses as well as those under management in the Challenger Investment Partners business, which focuses on securing and servicing fixed income and commercial property co-investment and management mandates.

Fidante Partners FUM was \$40.5 billion, a decrease of \$4.2 billion or 9% for the quarter reflecting the exclusion of Kapstream institutional FUM (\$5.4 billion) following the sale of Kapstream, partially offset by the Dexion acquisition (\$0.6 billion FUM inflow).

Excluding the impact of both Kapstream and Dexion, Fidante Partners FUM increased by \$0.7 billion or 2%, as a result of strong organic net flows (\$1.0 billion), partially offset by the impact of negative investment markets (\$0.3 billion). Fidante Partners quarterly organic equity net flows were \$0.8 billion and fixed income were \$0.4 billion, partially offset by \$0.2 billion of alternative net outflows.

Despite the sale of Kapstream, normalised earnings are not expected to be negatively impacted over the medium term due to new retail service agreements with Kapstream and Janus Capital Group. Kapstream’s retail FUM was \$4.1 billion at 30 September 2015.

Challenger Investment Partners (CIP) FUM was \$13.0 billion at 30 September 2015, down \$0.2 billion for the quarter due to a net outflow of \$0.5 billion, partially offset by positive market adjustments.

Life (annuities)

Challenger Life recorded a 12% increase in total annuity sales on the pcp, reaching \$884 million. Institutional annuity sales increased from \$98 million to \$177 million, and retail annuity sales increased from \$690 million to \$707 million.

Institutional sales represent Challenger’s Guaranteed Index Return Product, with quarterly sales mainly representing the reinvestment of maturities.

Total retail annuity sales of \$707 million, include fixed term annuity sales of \$611 million and lifetime annuity sales of \$96 million. Fixed term annuity sales increased by \$82 million or 16% from \$529 million to \$611 million, while lifetime annuity sales decreased by \$65 million to \$96 million. Excluding the Care Annuity product, on a like-for-like basis total retail annuity sales increased by 14%.

Retail annuity net book growth for the quarter was \$123 million, or 1.4%, also impacted by reduced Care Annuity sales during the quarter.

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Life's investment assets at 30 September 2015 were \$13.0 billion, up \$0.2 billion for the quarter mainly due to net book growth. Property as a percentage of total Life investment assets increased from 23% to 25% over the quarter with an offsetting reduction in fixed income, largely due to Life's property portfolio remix. This property allocation is expected to decrease due to \$0.3 billion of property disposals which are yet to settle.

For the 2016 financial year, Life's Cash Operating Earnings guidance range is unchanged at \$585 million to \$595 million.

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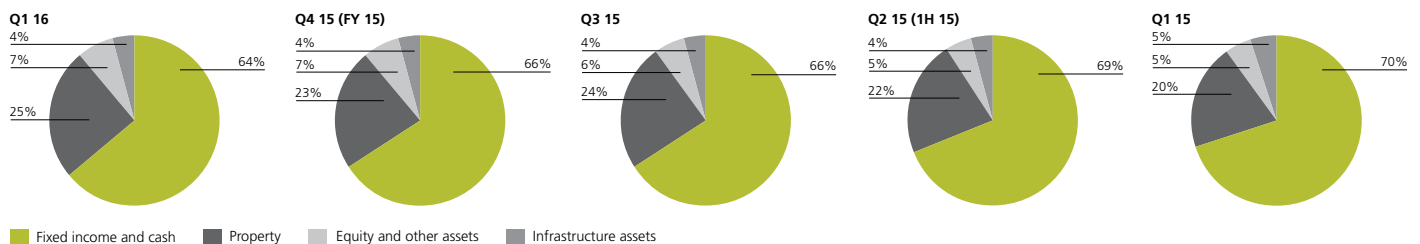
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Disclaimer: The forward looking statements, estimates and projections contained in this release are not representations as to future performance and nothing in this release should be relied upon as guarantees or representations of future performance.

Assets and Funds Under Management, net flows and sales

\$m	Q1 16	Q4 15	Q3 15	Q2 15	Q1 15
Total Assets and Funds Under Management	56,095	59,789	60,430	57,169	54,189
Represented by:					
Funds Management					
Fidante Partners¹					
Equities	17,096	17,323	18,011	16,626	15,960
Fixed income ²	17,273	23,085	22,952	21,795	20,699
Alternatives ²	6,141	4,259	4,178	4,082	3,893
Total Fidante Partners	40,510	44,667	45,141	42,503	40,552
Challenger Investment Partners					
Fixed income	8,532	9,231	8,985	8,624	8,461
Real estate	4,498	4,004	4,609	4,085	3,565
Total Challenger Investment Partners	13,030	13,235	13,594	12,709	12,026
Total funds under management	53,540	57,902	58,735	55,212	52,578
Average Fidante Partners	42,049	45,018	43,936	41,567	39,435
Average Challenger Investment Partners	13,201	13,585	13,191	12,339	11,784
Average total funds under management³	55,250	58,603	57,127	53,906	51,219
Life					
Fixed income and cash ⁴	8,336	8,514	8,514	8,541	8,120
Property ⁴	3,218	2,884	3,046	2,717	2,320
Equity and other	909	883	736	632	551
Infrastructure ⁴	558	514	527	503	536
Total Life investment assets	13,021	12,795	12,823	12,393	11,527
Average Life investment assets³	12,962	12,857	12,647	12,001	11,254

Life asset allocation



¹ Fidante Partners comprise a number of co-owned, separately branded active boutique investment managers from which Fidante Partners receives distribution and administration fees. Fidante Partners also shares in the profits from these businesses through its equity ownership.

² In Q1 16 WyeTree Asset Management FUM (\$0.7bn) was reclassified from fixed income to alternatives.

³ Average total funds under management and Life investments calculated on a monthly basis.

⁴ Fixed income, property and infrastructure are reported net of debt.

Assets and Funds Under Management, net flows and sales (continued)

Analysis of flows	Q1 16	Q4 15	Q3 15	Q2 15	Q1 15
Funds Management net flows					
Equities	766	473	(170)	220	(551)
Fixed income ¹	(5,050)	240	520	653	1,251
Alternatives ²	416	(120)	(265)	4	3,849
Total Fidante Partners	(3,868)	593	85	877	4,549
Challenger Investment Partners	(545)	(314)	609	609	731
Funds Management net flows	(4,413)	279	694	1,486	5,280
Life sales					
Fixed term	611	652	365	727	529
Lifetime (including Care)	96	81	80	158	161
Total retail annuity sales	707	733	445	885	690
Institutional sales	177	–	395	451	98
Total Life sales	884	733	840	1,336	788
Reconciliation of Total Group Assets and Funds Under Management					
Funds Management (FUM)	53,540	57,902	58,735	55,212	52,578
Life investment assets	13,021	12,795	12,823	12,393	11,527
Adjustment to remove double counting of cross holdings	(10,466)	(10,908)	(11,128)	(10,436)	(9,916)
Total Assets and Funds Under Management	56,095	59,789	60,430	57,169	54,189

¹ Q1 16 fixed income net flows includes a \$5.4bn derecognition of institutional FUM in relation to the sale of Fidante Partner's equity stake in Kapstream Capital to Janus Capital.

² Q1 16 alternatives net flows includes a \$0.6bn inflow following the acquisition of Dexion Capital.