

# Challenger Limited

## Challenger Capital Notes Offer

27 August 2014



# Important Notice

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UBS AG, Australia Branch (ABN 47 088 129 613) (“UBS”) is the Structuring Adviser to the Offer. UBS, J.P. Morgan Australia Limited (ABN 52 002 888 011), National Australia Bank (ABN 12 004 044 937) and Westpac Institutional Bank (a division of Westpac Banking Corporation) (ABN 33 007 457 141) are the joint lead managers to the Offer (“Joint Lead Managers”).

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Notes are complex and may not be suitable for all investors. The investment performance of Notes is not guaranteed by Challenger nor any other member of the Challenger Group. The risks associated with investing in these securities could result in the loss of your investment. Information about the risks associated with investing in Notes are detailed in the Prospectus.

All amounts are in Australian dollars unless otherwise indicated. Unless otherwise defined, capitalised terms in this presentation have the meaning in the Prospectus.

# Outline

**Section 1** Offer summary

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**Section 2** About Challenger

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**Section 3** Key features of Challenger Capital Notes

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**Section 4** Offer process

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# Section 1

## Offer summary

# Summary

## Offer summary

<b>Issuer</b>	<ul style="list-style-type: none"><li>• Challenger Limited (<b>Challenger</b>)<ul style="list-style-type: none"><li>– non-operating holding company of an investment management group managing more than \$50 billion in assets<sup>1</sup> and the leading provider of annuities and guaranteed retirement incomes in Australia</li><li>– operates two businesses, a life business and a funds management business</li><li>– market capitalisation of \$4.2 billion<sup>2</sup> and is one of Australia's 100 largest listed companies</li></ul></li></ul>
<b>Offer size</b>	<ul style="list-style-type: none"><li>• \$250 million with the ability to raise more or less</li></ul>
<b>Type of security</b>	<ul style="list-style-type: none"><li>• Fully paid, subordinated, perpetual, non-cumulative, unsecured, mandatorily convertible notes (Notes)</li></ul>
<b>Use of proceeds</b>	<ul style="list-style-type: none"><li>• To fund the regulatory capital requirements of Challenger Life Company (CLC) resulting from annuity sales growth</li></ul>
<b>Distribution Payments</b>	<ul style="list-style-type: none"><li>• Floating rate, quarterly, preferred, discretionary, non-cumulative frankable payments, subject to Payment Conditions<sup>3</sup></li><li>• Distribution rate based on 3 month Bank Bill Swap Rate (BBSW) plus a margin</li><li>• Margin expected to be 3.40% – 3.60% over 3 month BBSW, to be determined under the Bookbuild</li><li>• Distributions are expected to be franked at the same rate as Challenger Ordinary Shares<ul style="list-style-type: none"><li>– expected to be 70% for the first distribution payment</li></ul></li></ul>

1. As at 30 June 2014.

2. Based on the market capitalisation as at 22 August 2014.

3. Payment of any Distribution is within the absolute discretion of Challenger and subject to Payment Conditions.

# Summary

## Offer summary (cont'd)

<b>Term</b>	<ul style="list-style-type: none"><li>• <b>Optional Exchange Date:</b> 25 May 2020</li><li>• <b>Scheduled Mandatory Conversion Date:</b> 25 May 2022</li><li>• <b>Perpetual</b> (no fixed maturity date) unless Converted, Redeemed or Resold</li><li>• <b>Mandatory Conversion:</b> Subject to the Mandatory Conversion Conditions being satisfied, Challenger must Exchange Notes for Ordinary Shares on 25 May 2022</li><li>• <b>Optional Exchange:</b> Challenger may elect, with APRA's prior written approval, to Convert, Redeem or Resell all or some Notes on 25 May 2020, or earlier following a Regulatory Event or Tax Event</li><li>• <b>Non-Viability Trigger and Acquisition Event:</b> Challenger must Convert Notes on a Non-Viability Trigger Event or on an Acquisition Event</li></ul>
<b>Offer structure</b>	<ul style="list-style-type: none"><li>• Institutional Offer, Broker Firm Offer, Securityholder Offer, General Offer</li></ul>
<b>Bookbuild date<sup>1</sup></b>	<ul style="list-style-type: none"><li>• Expected to be 3 September 2014</li></ul>
<b>Joint Lead Managers</b>	<ul style="list-style-type: none"><li>• J.P. Morgan, National Australia Bank, UBS, Westpac Institutional Bank</li></ul>
<b>Quotation</b>	<ul style="list-style-type: none"><li>• Challenger will apply for Notes to be quoted on ASX under ASX code "CGFPA"</li></ul>

1. Dates are indicative only and may change without notice. Challenger and the Joint Lead Managers may at their discretion agree to vary the timetable, including extending any Closing Date, closing the Offer early without notice or accepting late Applications, whether generally or in particular cases, or withdrawing the Offer at any time before Notes are issued.

# Section 2

## About Challenger

# About Challenger

## Business overview

### Challenger Limited

- ASX100 listed company (under the code “CGF”) with \$4.2bn market capitalisation<sup>1</sup>
- \$50.7bn of assets under management<sup>2</sup>
- Over 500 employees and \$2.2bn in net assets<sup>2</sup>
- Non-operating holding company and ultimate parent company of the Challenger Group
- Challenger Group operates two businesses, a life business and a funds management business

#### Life

Targeting ‘spending’ (or drawdown) phase of superannuation

FY14 EBIT \$404m

- Regulated by APRA
- Leading provider of annuities and guaranteed retirement incomes in Australia
- Provides products aimed at investors seeking the security of guaranteed cash flows with protection against market, inflation and longevity risks

#### Funds Management

Targeting ‘savings’ (or accumulation) phase of superannuation

FY14 EBIT \$43m

- Australia’s seventh largest investment manager<sup>3</sup>
- **Fidante Partners** – fifteen separately branded boutique investment managers
- **Challenger Investment Partners** – originates and manages fixed income and property assets for the Life business and third-party investors

1. Based on market capitalisation as at 22 August 2014.

2. As at 30 June 2014.

3. Based on funds under management.

# About Challenger

## Competitive advantage with favourable policy settings

	Life	Funds Management
<b>Market opportunity</b>	Supportive demographics Over 65's to increase by 75% in next 20 years <sup>1</sup>	Mandated superannuation system Growth underpinned by mandatory contributions
	Consumer risk preferences Retirees focused on regular, secure income	Contributions increasing Increasing from 9.5% to 12% by 2021
	Need for longevity protection Increasing demand as retirees live longer	Offshore investor appetite for assets Australian assets attractive to offshore investors
<b>Competitive advantage</b>	Independent provider Products on all major distribution hubs	Contemporary model Model has strong investor alignment & support
	Retirement incomes core focus Product innovation and leading market share	Strong investment management capabilities 95% of FUM outperforming benchmark <sup>3</sup>
	Retirement incomes market leader Strong support from advisers <sup>2</sup>	Diversified strategies and products 15 different managers across multiple asset classes

1. Deloitte – Dynamics of the Australian superannuation system: the next 20 years 2013 – 2033 – September 2013.

2. Rated leader in retirement incomes by 89% of advisers - Marketing Pulse Adviser Study – December 2013.

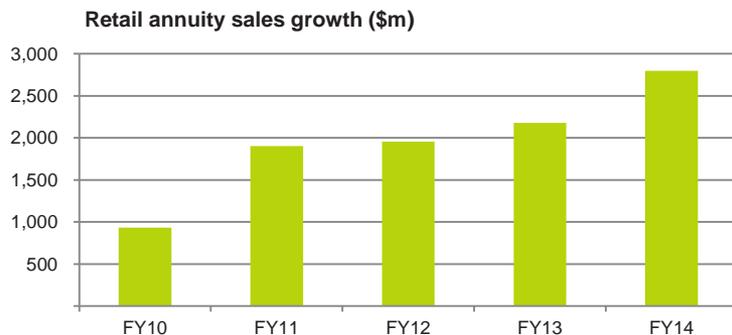
3. Investment performance as at 30 June 2014 for all funds and mandates since inception.

# About Challenger

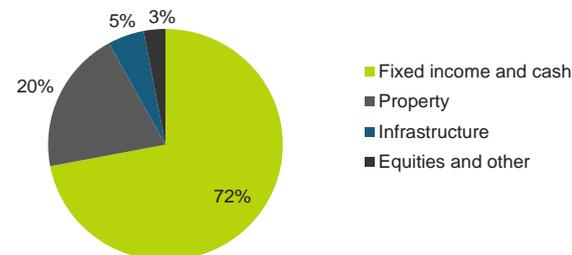
## Life business (Challenger Life Company)

### Overview

- Annuity and guaranteed retirement income products distributed to retail customers through independent financial advisers and to financial advisers associated with the four major Australian banks and AMP Limited
- Life generates income by ensuring capital invested by annuity customers is invested in assets generating a greater investment return than the payments required to be made to annuity customers
- Annuity sales growth has been underpinned by favourable macroeconomic trends, including an ageing population, changes in retiree risk preferences and an increased focus by retirees on longevity and market risks
- Total annuity sales in FY14 were \$2.8bn (up 28%). Over five years annuity sales increased by 40% CAGR
- Life manages a cash flow matched portfolio, with liability cash flows (ie payments to annuity customers) matched with cash flows from investment assets
- Over five years Life EBIT has increased by 78%



**Policyholder and shareholder funds<sup>1</sup> - \$11.1bn**  
(by investment assets)



1. As at 30 June 2014.

# About Challenger

## Funds Management business

### Overview

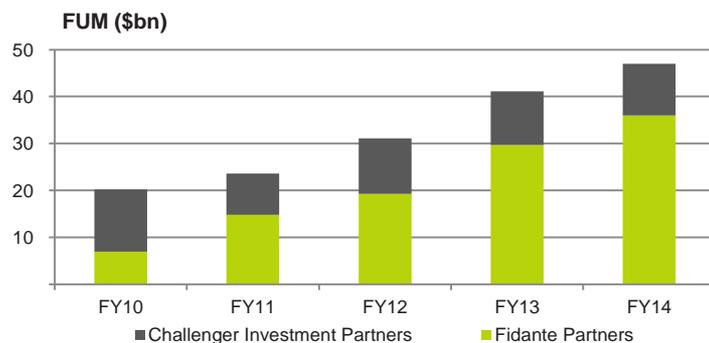
- Funds Management business comprises Fidante Partners and Challenger Investment Partners
- As at 30 June 2014, Challenger had \$47.1bn in FUM, up 133% since 30 June 2010.

### Fidante Partners

- Interests in fifteen separately branded active boutique investment managers, managing fixed income, Australian and international equities and alternative investments including infrastructure
- Earns distribution and administration fees and shares in the equity accounted profits of most boutique managers

### Challenger Investment Partners

- Invests in fixed income and property assets on behalf of Life and external clients, including Australian industry superannuation funds and sovereign wealth funds
- Earns fee (management fees, performance fees and transaction fees) income in relation to the assets it manages



### Fidante Partners' fifteen investment managers



# About Challenger

## FY14 operating performance – strong business momentum

### Challenger Group

- Normalised EBIT up 6% to \$388m
- Normalised NPAT<sup>1</sup> up 7% to \$329m
- Statutory NPAT<sup>1</sup> of \$341m
- Normalised EPS up 9% to 64.0 cps
- FY14 dividend up 30% to 26.0 cps
- Normalised RoE (pre tax) of 19%
- Growth outlook enhanced by policy settings
- Strengthening capital for growth

### Life

- COE up 6% to \$481m
- Retail book growth of 12.5%<sup>2</sup>
- Retail annuity sales up 28% to \$2.8bn
- AUM up 3% to \$11.1bn
- CLC PCA ratio of 1.7 times

### Funds Management

- Normalised EBIT up 27% to \$43m
- Fidante Partners net flows of \$2.4bn
- FUM up 15% to \$47.1bn
- 95% of funds outperforming<sup>3</sup>

1. Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in the Directors' Report and Note 2 (segment information) in the Challenger Limited 30 June 2014 full year financial report.

2. FY14 retail book growth excludes \$284m of High Yield Fund annuity maturities.

3. Investment performance represents percentage of mandates and FUM meeting or exceeding benchmark since inception.

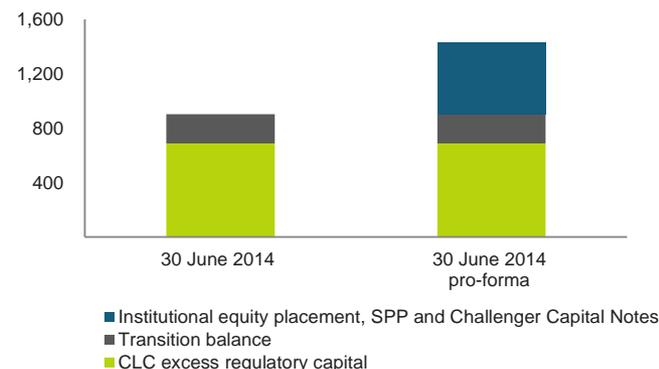
# About Challenger

## Capital management

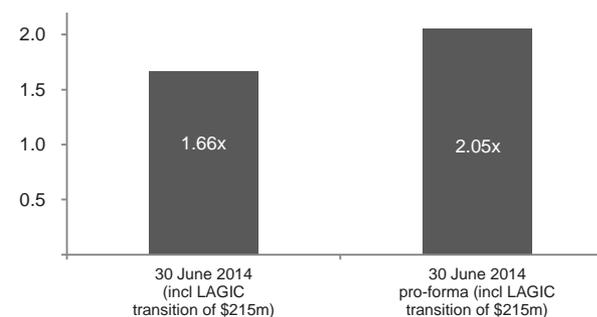
### Strongly capitalised

- Challenger Life Company (CLC) is regulated by APRA
- New APRA life company prudential standards (LAGIC) implemented on 1 January 2013
  - increased CLC's capital requirements by \$323m
  - 3 year transition arrangements apply
  - CLC's 30 June 2014 excess regulatory capital includes \$215m of LAGIC transition
- CLC capital position at 30 June 2014
  - total regulatory capital of \$2.3bn
  - \$0.9bn (or 1.66 times) of regulatory capital above APRA's minimum requirement
  - Common Equity Tier 1 (CET1) capital 1.3 times versus minimum of 0.6 times
- CLC pro-forma capital at 30 June 2014
  - total regulatory capital of \$2.8bn<sup>1</sup>
  - \$1.4bn<sup>1</sup> (or 2.05 times) of regulatory capital above APRA's minimum requirement
  - CET1 capital 1.5 times following capital raising<sup>2</sup>

CLC excess regulatory capital (\$m) (increases by \$0.5bn)



CLC PCA multiples (PCA ratio increases to 2.05x)



1. Pro-forma includes \$250m institutional placement conducted on 20 August 2014 and \$30m of Share Purchase Plan (SPP) announced on 20 August 2014 (both net of transaction costs). Pro-forma assumes \$250m raised by Challenger Capital Notes.  
2. Capital raising refers to the \$250m institutional placement and \$30m SPP.

# Section 3

## Key features of Notes

# Key features

## General

<b>Issuer</b>	<ul style="list-style-type: none"><li>• Challenger Limited (Challenger)</li></ul>
<b>Security</b>	<ul style="list-style-type: none"><li>• Fully paid, subordinated, perpetual, non-cumulative, unsecured, redeemable, mandatorily convertible notes (Notes)</li></ul>
<b>Offer size</b>	<ul style="list-style-type: none"><li>• \$250 million with the ability to raise more or less</li></ul>
<b>Issue Price</b>	<ul style="list-style-type: none"><li>• \$100 per Note</li></ul>
<b>Ranking (in a winding-up)</b>	<ul style="list-style-type: none"><li>• Notes rank ahead of Ordinary Shares, equally with all other Relevant Perpetual Subordinated Instruments, but behind any securities or instruments that rank in priority to Notes and all other creditors of Challenger</li></ul>
<b>Term</b>	<ul style="list-style-type: none"><li>• Perpetual (no fixed maturity date) unless Converted, Redeemed or Resold</li><li>• Optional Exchange Date: 25 May 2020</li><li>• Scheduled Mandatory Conversion Date: 25 May 2022</li></ul>
<b>Distribution Payment Dates</b>	<ul style="list-style-type: none"><li>• The first Distribution Payment Date is 25 February 2015. This period is longer than a quarter<sup>1</sup></li><li>• Distribution Payment Dates are 25 February, 25 May, 25 August and 25 November in each year</li></ul>

1. The first Distribution Payment Date is more than 4 months from the Issue Date. Notwithstanding this, the 90 day BBSW rate set on the first day of the Distribution Period will be used as the Bank Bill Rate.

# Key features

## Distributions

<b>Distributions</b>	<ul style="list-style-type: none"><li>• Distributions are floating rate, preferred, discretionary, non-cumulative frankable payments</li><li>• Distributions are scheduled to be paid quarterly in arrears, subject to Payment Conditions</li><li>• Distributions on Notes may be partially franked, fully franked or not franked at all<ul style="list-style-type: none"><li>– if any Distribution is not fully franked, the amount of the cash Distribution will be increased to compensate for the unfranked component</li><li>– Distributions are expected to be franked at the same rate as Ordinary Shares, expected to be 70% for the first Distribution payment</li></ul></li></ul>
<b>Distribution Rate</b>	<ul style="list-style-type: none"><li>• <math>\text{Distribution Rate} = (\text{Bank Bill Rate} + \text{Margin}) \times \text{Franking Adjustment Factor}^1</math></li><li>• Bank Bill Rate is the 90 day BBSW rate on the first Business Day of the relevant Distribution Period</li><li>• Margin expected to be 3.40% – 3.60%, to be determined under the Bookbuild</li></ul>
<b>Payment Conditions</b>	<ul style="list-style-type: none"><li>• Payment Condition means<ul style="list-style-type: none"><li>– the consolidated retained earnings of the Challenger Group as at the relevant Distribution Payment Date are, or would on payment of the Distribution become, negative;</li><li>– the payment would result in Challenger becoming, or being likely to become, insolvent for the purposes of the Corporations Act; or</li><li>– APRA objecting to the payment.</li></ul></li></ul>
<b>Distribution Restriction</b>	<ul style="list-style-type: none"><li>• Unless a Distribution has been paid in full within 3 Business Days of the relevant Distribution Payment Date, Challenger must not, without a Special Resolution until and including the next Distribution Payment Date:<ul style="list-style-type: none"><li>– declare, determine to pay or pay a dividend or distribution on any Ordinary Shares; or</li><li>– buy back or reduce capital on any Ordinary Shares.</li></ul></li></ul>

1. Franking Adjustment Factor means:  $(1-T)/1-[Tx(1-F)]$  Where: 'F' means the Franking Rate (being the franking percentage applicable to Challenger's franking account; and 'T' means the Tax Rate (being the Australian corporate tax rate applicable to Challenger's franking account) at the relevant Distribution Payment Date.

# Key features

## Exchange

Exchange by Challenger <sup>1</sup>	<ul style="list-style-type: none"><li>• Challenger <b>may</b> choose to Exchange all or some Notes on 25 May 2020</li><li>• Challenger <b>may</b> choose to Exchange all or some Notes after a Tax Event or a Regulatory Event</li><li>• Challenger <b>may</b> choose to Exchange all (but not some only) Notes after a Potential Acquisition Event<sup>2</sup></li></ul>
Exchange	<ul style="list-style-type: none"><li>• Exchange means:<ul style="list-style-type: none"><li>– Conversion into approximately \$101 worth of Ordinary Shares per Note<sup>3</sup></li><li>– Redemption for \$100 per Note; or</li><li>– Resale for \$100 per Note</li></ul></li></ul>
Holder rights	<ul style="list-style-type: none"><li>• Holders do not have a right to request Exchange</li></ul>
Resale by Challenger	<ul style="list-style-type: none"><li>• If Resale is chosen by Challenger, Holders will be notified and on the Exchange Date will receive \$100 per Note</li><li>• Challenger may appoint one or more third parties (Nominated Purchaser(s)) to purchase some or all Notes</li><li>• If the third party does not pay the Resale Price to Holders, Resale will not occur and Holders will continue to hold Notes</li></ul>

1. Challenger's right to elect to Exchange is subject to APRA's prior approval and satisfaction of certain conditions.

2. Challenger may only choose Conversion on the occurrence of a Potential Acquisition Event.

3. The exact number of Ordinary Shares to be received depends on the VWAP of Ordinary Shares, is capped at the Maximum Conversion Number and may be worth less than \$101 per Note.

# Key features

## Mandatory conversion

### Mandatory Conversion

- The Mandatory Conversion Date will be 25 May 2022 provided the Mandatory Conversion Conditions have been satisfied on that date or on the first Distribution Payment Date thereafter on which such conditions are satisfied
- On the Mandatory Conversion Date, Holders will receive approximately \$101 of Ordinary Shares for each Note<sup>1</sup>
- Challenger must Convert all (but not some only) Notes after an Acquisition Event

### Mandatory Conversion Conditions

- For the Mandatory Conversion Conditions to be satisfied:
  - the volume weighted average sale price of the Ordinary Shares (**VWAP**) on the 25<sup>th</sup> Business Day immediately preceding (but not including) a possible Mandatory Conversion Date must be greater than (110% x Relevant Fraction) of the VWAP over the 20 Business Days prior to the issue of Notes (**Issue Date VWAP**);
  - the VWAP over the 20 Business Days prior to the Mandatory Conversion Date must be greater than (101.01% x Relevant Fraction) of the Issue Date VWAP; and
  - Challenger must not be delisted from ASX or its Ordinary Shares have not been suspended from trading for a certain period

1. The exact number of Ordinary Shares to be received depends on the VWAP of Ordinary Shares, is capped at the Maximum Conversion Number and may be worth less than \$101 per Note.

# Key features

## Non-viability conversion

### Non-Viability Trigger Event

- A Non-Viability Trigger Event occurs where APRA determines that the conversion or write-off of Relevant Perpetual Subordinated Instruments is necessary because:
  - without 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
- Challenger intends to use the proceeds from the issue of Notes to fund a subscription for Additional Tier 1 Capital of CLC. **CLC represents a substantial part of the business of the Challenger Group**
- **If APRA determines that CLC would become non-viable then there is a significant risk it will also determine Challenger to be non-viable**

### Conversion following a Non-Viability Trigger Event

- Upon a Non-Viability Trigger Event occurring, Challenger must immediately Convert some or all Relevant Perpetual Subordinated Instruments into Ordinary Shares. Notes are Relevant Perpetual Subordinated Instruments
- If Conversion cannot occur for any reason, all rights of Holders in respect of Relevant Perpetual Subordinated Instruments are immediately and irrevocably written off
- As at 30 June 2014, Challenger has no Relevant Perpetual Subordinated Instruments on issue

### Maximum Conversion Number

- The Maximum Conversion Number is calculated as  $\$100 / (\text{Issue Date VWAP} \times \text{Relevant Fraction})$
- The Relevant Fraction means 0.5 in the case of a Mandatory Conversion or 0.2 in the case of any other Conversion

# Key features

## Comparison between Notes and other investments / securities

	Challenger annuity	Term deposit	Challenger Capital Notes	Ordinary Shares
Issuer	<ul style="list-style-type: none"> <li>CLC</li> </ul>	<ul style="list-style-type: none"> <li>Bank, credit union or building society</li> </ul>	<ul style="list-style-type: none"> <li>Challenger</li> </ul>	<ul style="list-style-type: none"> <li>Challenger</li> </ul>
Legal form	<ul style="list-style-type: none"> <li>Policy (unsecured, unsubordinated debt obligation referable to a statutory fund under the Life Insurance Act)</li> </ul>	<ul style="list-style-type: none"> <li>Unsecured, unsubordinated debt</li> </ul>	<ul style="list-style-type: none"> <li>Capital note</li> </ul>	<ul style="list-style-type: none"> <li>Ordinary share</li> </ul>
Term	<ul style="list-style-type: none"> <li>One year to lifetime</li> </ul>	<ul style="list-style-type: none"> <li>One month to five years (usually)</li> </ul>	<ul style="list-style-type: none"> <li>Perpetual (subject to Mandatory conversion into Ordinary Shares)</li> </ul>	<ul style="list-style-type: none"> <li>Perpetual</li> </ul>
Ranking in winding-up	<ul style="list-style-type: none"> <li>Rank higher than Notes and Ordinary Shares</li> </ul>	<ul style="list-style-type: none"> <li>Rank higher than Notes and Ordinary Shares</li> </ul>	<ul style="list-style-type: none"> <li>Rank lower than Senior Creditors, but higher than Ordinary Shares<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>Rank lowest of all securities</li> </ul>
Transferability	<ul style="list-style-type: none"> <li>No</li> </ul>	<ul style="list-style-type: none"> <li>No</li> </ul>	<ul style="list-style-type: none"> <li>Yes – Notes are expected to be quoted on ASX as “CGFPA”</li> </ul>	<ul style="list-style-type: none"> <li>Yes – Ordinary Shares are quoted on ASX as “CGF”</li> </ul>
Protection under the Financial Claims Scheme	<ul style="list-style-type: none"> <li>No</li> </ul>	<ul style="list-style-type: none"> <li>Yes<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>No</li> </ul>	<ul style="list-style-type: none"> <li>No</li> </ul>
Distribution rate	<ul style="list-style-type: none"> <li>Fixed (usually)</li> </ul>	<ul style="list-style-type: none"> <li>Fixed (usually)</li> </ul>	<ul style="list-style-type: none"> <li>Floating (Bank Bill Rate + Margin to be determined under the Bookbuild (expected to be in the range of 3.40% and 3.60% p.a.), adjusted for franking)</li> </ul>	<ul style="list-style-type: none"> <li>Variable dividends</li> </ul>
Distribution payment dates	<ul style="list-style-type: none"> <li>Monthly, quarterly, semi-annually or yearly (depending on choice of customer)</li> </ul>	<ul style="list-style-type: none"> <li>Monthly, quarterly, semi-annually or yearly</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly</li> </ul>	<ul style="list-style-type: none"> <li>Semi-annually</li> </ul>
Franking	<ul style="list-style-type: none"> <li>Unfranked</li> </ul>	<ul style="list-style-type: none"> <li>Unfranked</li> </ul>	<ul style="list-style-type: none"> <li>Expected to be initially partially franked</li> </ul>	<ul style="list-style-type: none"> <li>Expected to be partially franked</li> </ul>
Treated by APRA as regulatory capital?	<ul style="list-style-type: none"> <li>No</li> </ul>	<ul style="list-style-type: none"> <li>No</li> </ul>	<ul style="list-style-type: none"> <li>No, but may be used to fund a subscription for Additional Tier 1 Capital of CLC</li> </ul>	<ul style="list-style-type: none"> <li>Not currently</li> </ul>
Mandatory conversion to ordinary shares	<ul style="list-style-type: none"> <li>No</li> </ul>	<ul style="list-style-type: none"> <li>No</li> </ul>	<ul style="list-style-type: none"> <li>Yes</li> </ul>	<ul style="list-style-type: none"> <li>No</li> </ul>

1. For deposits made after 1 January 2013 up to an amount of \$250,000.

2. Any return in a winding-up may be adversely affected if APRA determines that a Non-Viability Trigger Event has occurred. Following Conversion, Holders will hold Ordinary Shares and rank equally with other holders of Ordinary Shares in a winding-up of Challenger. If Conversion is not possible, Notes will be Written-Off.

# Notes

## Ranking of Notes in a winding-up

	Type	Illustrative examples <sup>1</sup>
	<ul style="list-style-type: none"> <li>Preferred and secured debt</li> </ul>	<ul style="list-style-type: none"> <li>Liabilities preferred by law including employee entitlement and secured creditors</li> </ul>
	<ul style="list-style-type: none"> <li>Unsubordinated and unsecured debt</li> </ul>	<ul style="list-style-type: none"> <li>Bonds and notes, trade and general creditors</li> </ul>
	<ul style="list-style-type: none"> <li>Subordinated and unsecured debt</li> </ul>	<ul style="list-style-type: none"> <li>Subordinated notes and other subordinated and unsecured debt obligations</li> </ul>
	<ul style="list-style-type: none"> <li>Preference shares and equal ranking securities</li> </ul>	<ul style="list-style-type: none"> <li><b>Notes</b> and any other preference shares or securities expressed to rank equally with Notes</li> </ul>
<p><b>High ranking</b></p>	<ul style="list-style-type: none"> <li>Ordinary Shares</li> </ul>	<ul style="list-style-type: none"> <li>Ordinary Shares</li> </ul>
<p><b>Low ranking</b></p>		

1. These examples note the order of ranking in the context of Challenger. Challenger is a non-operating holding company of companies in the Challenger Group and most of the claims Challenger has on these companies rank behind the relevant company's creditors, and in the case of CLC, also rank behind policyholders, in a winding up. Any return in a winding-up may be adversely affected if APRA determines that a Non-Viability Trigger Event has occurred.

# Key features

## Key risks associated with an investment in Notes

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- Notes are not policy liabilities of CLC, Challenger or any other member of the Challenger Group and are not guaranteed or insured by any government or other person
  - The market price at which Holders are able to sell Notes on ASX is uncertain
  - There may be no liquid market for Notes
  - The market price and liquidity of Challenger Ordinary Shares may fluctuate due to various factors
  - There is a risk that Distributions will not be paid, including where APRA objects to a payment
  - The Distribution Rate will fluctuate (both increasing and decreasing) over time as a result of movements in the Bank Bill Rate
  - Distributions may or may not be franked
  - It is uncertain whether or when Notes may be Exchanged
  - If Conversion occurs following a Non-Viability Trigger Event, Holders are likely to receive Ordinary Shares that are worth significantly less than the Face Value of Notes
  - In a winding-up of Challenger, Notes will rank ahead of Ordinary Shares, equally with all other Relevant Perpetual Subordinated Instruments, but behind any securities or instruments that rank in priority to Notes and all other creditors of Challenger
  - See Sections 1.4 and 5.1 of the Prospectus for more information on risks associated with Notes
  - See Section 5.2 of the Prospectus for more information on risks associated with the Challenger, CLC and the Challenger Group
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# Section 4

## Offer process

# Offer process

## Structure

Institutional Offer	<ul style="list-style-type: none"><li>• Offer to certain institutional investors</li></ul>
Broker Firm Offer	<ul style="list-style-type: none"><li>• Offer to Australian resident retail and high net worth clients of Syndicate Brokers</li></ul>
Shareholder Offer	<ul style="list-style-type: none"><li>• Offer to Eligible Shareholders<ul style="list-style-type: none"><li>– registered holders of Ordinary Shares as at 7.00pm on 19 August 2014, shown on the applicable register as having an address in Australia and not in the United States or acting as a nominee for a person in the United States</li></ul></li></ul>
General Offer	<ul style="list-style-type: none"><li>• Offer to members of the general public who are residents in Australia</li></ul>

# Offer process

## Key dates

Event	Date <sup>1</sup>
Lodgement of Prospectus with ASIC	27 August 2014
<b>Bookbuild to determine the Margin</b>	<b>3 September 2014</b>
Announcement of the Margin	3 September 2014
Lodgement of the replacement prospectus with ASIC	4 September 2014
Opening Date	4 September 2014
<b>Closing Date for the Shareholder Offer and General Offer</b>	<b>30 September 2014</b>
<b>Closing Date for the Broker Firm Offer</b>	<b>7 October 2014</b>
Issue Date	9 October 2014
Notes commence trading on ASX (deferred settlement basis)	10 October 2014
Holding Statements dispatched by	14 October 2014
Notes commence trading on ASX (normal settlement basis)	15 October 2014
First Distribution Payment Date	25 February 2015
Optional Exchange Date	25 May 2020
Scheduled Mandatory Conversion Date	25 May 2022

1. These dates are indicative only and may change without notice.

# Offer process

## Contact directory

Issuer			
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