



2017 Sustainability Report

Providing our customers with financial
security for retirement

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Chair's report

Today's retirees are living longer and they are healthier and wealthier than previous generations. Thanks to a quarter century of the Superannuation Guarantee, the average household now has \$423,000 in super savings at retirement.

With higher superannuation savings and a growing appreciation for the risks in retirement, retirees are demanding stable and secure income streams that last as long as they do.

At Challenger, our vision is to provide our customers with financial security for retirement. Not only does this benefit our customers and our business, it also addresses the economic and social challenges that arise from an ageing population.

We are fortunate at Challenger to have an excellent team. Our employees continued to tell us that their workplace has provided a rewarding experience, with sustainable employee engagement, measured by independent survey, well above the norm for high-performing companies globally.

We recognise the value in being a good employer, investing in a customer-focused, diverse and inclusive workforce, and developing the skills and capabilities of our people. We've also continued to make good progress on our diversity goals, increasing the representation of women in the organisation.

Challenger is committed to ensuring that our business practices have a positive effect on our customers, our people and the community more broadly.



Peter Polson
15 August 2017

This year we have refreshed our approach to corporate sustainability. For us, being sustainable is about looking ahead and facing the issues that have the potential to challenge the financial security of our customers, or conversely, the ability to create new opportunities. We see this as an ongoing process that we will seek to continually improve.

Our 2017 Sustainability Report provides extended discussions on the matters that are material to our business. These include issues such as ethical conduct, sustainable retirement incomes, regulatory change, long-term risk management, demographic shifts and corporate governance.

Meeting the challenge of sustainable retirement incomes is at the heart of our business. It has driven our extensive contributions to public policy through research and consultation. It has also guided our business activities as we seek to create and distribute products that help retirees manage their financial risks in retirement.

Challenger is committed to ensuring that our business practices have a positive effect on our customers, our people and the community more broadly.

From an environmental perspective, Challenger is committed to reducing the environmental impact of our operations. We've continued to monitor and report on our carbon footprint, and offset relevant greenhouse gas emissions, to make our business operations carbon neutral.

Genuine sustained change takes time, but we have begun the process. Our approach to sustainability will continue to evolve and mature.

We trust you will find valuable content in this report in which we have provided details on how we are responding to our most important challenges and opportunities.



Peter Polson
Independent Chair

Our vision and strategy

To provide our customers with financial security for retirement



Increase the Australian retirement savings pool allocation to secure and stable incomes



Be recognised as the leader and partner of choice in retirement income solutions with a broad product offering



Provide customers with relevant investment strategies exhibiting consistently superior performance



Deliver superior outcomes to customers and shareholders through a highly engaged, diverse and agile workforce committed to sustainable business practices and a strong risk and compliance culture

Our sustainability approach

The purpose of this report is to inform stakeholders about how we manage and anticipate current and future economic, social and environmental risks and opportunities. We also report on the way in which we identify and manage the issues that matter most to our business and stakeholders.

Report structure

This report is structured in sections. The first section outlines how we do business, how we've identified our material issues and our stakeholder engagement. The remaining sections detail our management approach and performance relevant to materially significant issues. These issues have been grouped under the categories of: sustainability priorities; our business; operating environment; our people; and community.















This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option.






Identifying our most material issues

To determine our material matters for FY17, we undertook desktop research including:

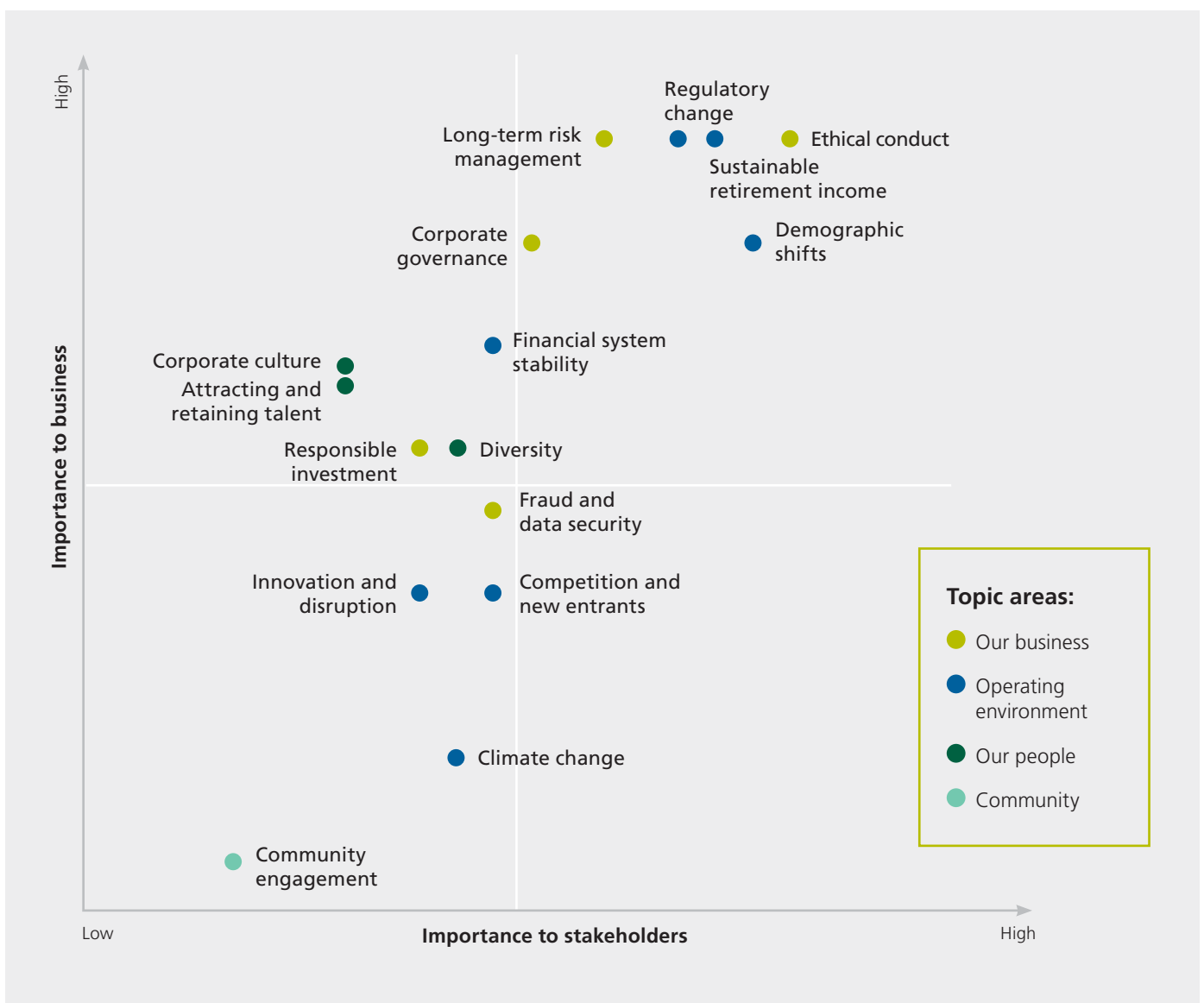
- a review of competitor materiality;
- analysis of regulator commentary and recommendations;
- a review of global research from the Investor Group on Climate Change;
- a review of sector media coverage;
- a review of analyst notes and investor feedback;
- consideration of employee views gauged through the annual employee engagement survey; and
- consideration of customer views gleaned from relevant surveys.

We then applied a business lens to this research and from this have identified 16 areas of importance to our business. Of this, six themes have emerged as being of high importance to both our business and our stakeholders – our material matters. These clearly link to our business strategy.

Six key themes	Theme description	Link to strategy
 Ethical conduct	How we conduct our business is a top priority for our stakeholders and for us. This means doing the right thing by all our stakeholders and in particular our customers. It incorporates the values and behaviours of our people, as well as our standards, policies and procedures.	 
 Sustainable retirement incomes	Around 700 Australians reach retirement age every day, and providing a reliable and sustainable income for this growing cohort is a key concern for governments, businesses and the community. As a leader in providing retirement income solutions, Challenger is particularly focused on this matter.	  
 Regulatory change	Regulatory change has the potential to create opportunities and challenges for our business. In recent years, the Government has embarked on a series of superannuation reforms intended to create a world-class retirement income system, and which are broadly positive for Challenger. How these and other regulatory changes progress has the potential to impact our customers, our business and other stakeholders.	
 Long-term risk management	How we manage risk in the long term is central to our promise to provide secure and stable incomes to our customers. We invest in long-dated investments to match the long-dated annuities we sell. How we manage these investments, from origination through to divestment, requires us to take a long-term view of risk, including issues such as demographic change, competition, innovation and disruption, and climate change.	   

Six key themes	Theme description	Link to strategy
 Demographic shifts	As a retirement income provider, our business is supported by the substantial growth in an ageing population. Our business is also dependent on accurate life expectancy assumptions. Each of these factors is also key to decisions being made by governments and other stakeholders and presents both opportunities and challenges.	
 Corporate governance	Stakeholders have expressed a strong demand for greater transparency and good governance from businesses. This includes demonstrating that our leadership has an appropriate and diverse mix of capability, capacity and independence to support long-term value creation. Our approach to risk and compliance is a key focus area.	 

2017 materiality matrix chart



2017 boundary mapping












Challenger material issue	GRI material topic	Boundary
Our business		
Ethical conduct*	GRI 102: General Disclosures – Ethics and integrity	External (shareholders, advisers, customers, communities) Internal (employees)
Long-term risk management*	GRI 102: General Disclosures – Strategy GRI 201: Economic performance (201-1)	External (shareholders, advisers, customers, communities) Internal (employees)
Corporate governance*	GRI 102: General Disclosures – Governance	External (shareholders, advisers, customers, communities) Internal (employees)
Responsible investment	GRI 201: Economic performance (201-1)	External (communities, environment, regulators)
Fraud and data security	GRI 418: Customer privacy	External (customer, advisers) Internal (employees)
Operating environment		
Sustainable retirement incomes*	Challenger-specific topic	External (shareholders, advisers, customers, communities, regulators) Internal (employees)
Regulatory change*	Challenger-specific topic	External (customers, advisers, shareholders, regulators) Internal (employees)
Demographic shifts*	Challenger-specific topic	External (customers, communities, regulators)
Financial system stability	Challenger-specific topic	External (customers, advisers, shareholders, regulators) Internal (employees)
Innovation and disruption & Competition and new entrants	Challenger-specific topic	External (customers, advisers, shareholders, regulators) Internal (employees)
Climate change	GRI 305: Emissions	External (customers, communities, regulators) Internal (employees)
Our people		
Corporate culture & Talent, attraction and retention	GRI 401: Employment GRI 403: Occupational health and safety (403-1 & 403-2)	External (customers, advisers) Internal (employees)
Diversity	GRI 405: Diversity and equal opportunity	External (customers, shareholders, regulators) Internal (employees)
Community		
Community engagement	Challenger-specific issue rated as 'lower in priority'	External (customers, shareholders, regulators) Internal (employees)

* Key material themes

Supporting the Sustainable Development Goals

On 1 January 2016, the United Nations Sustainable Development Goals (SDGs) came into effect. The 17 goals aim to improve the wellbeing of present and future generations by tackling the world's biggest challenges through the promotion of sustainable development over the next 15 years.

We have mapped the SDGs that we can most directly help to achieve, against our areas of importance in the following table.

Our business Ethical conduct Long-term risk management Corporate governance Responsible investment Fraud and data security	  
Operating environment Sustainable retirement income Regulatory change Demographic shifts Financial system stability Competition and new entrants Innovation and disruption Climate change	    
Our people Corporate culture Talent attraction and retention Diversity	  
Community Community engagement	



Our sustainability priorities

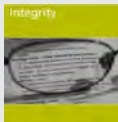
Ethical conduct



How we conduct our business is a top priority for our stakeholders and for us. This means doing the right thing by all our stakeholders and in particular our customers. It incorporates the values and behaviours of our people, as well as our standards, policies and procedures.

Challenger has a strong culture that sets us apart, drives our performance and accelerates the execution of our strategy. Integral to our culture are five principles that are aligned to everything we do. How we live these principles is evaluated as part of our performance reviews and has a direct link to individual reward.

The five principles are



Integrity

It's about being authentic and being accountable for what you say and do



Working together

It's about true collaboration and embracing diversity



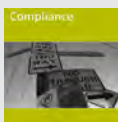
Creative customer solutions

It's about superior customer service and providing innovative solutions to clients



Commercial ownership

It's about achieving the best for you, the business and the client



Compliance

It's about being responsible for how and what you do

Complementing our Challenger principles are a suite of policies that detail expectations of our employees regarding their behaviour, both internally and externally. These include our:

- Anti-Money Laundering and Counter Terrorism Financing policy
- Board Risk Appetite Statement
- Conflicts of Interest policy
- Fraud and Corruption policy
- Group Compliance policy
- Privacy policy
- Inside Information policy and Practice Note
- Regulated Persons policy
- Staff Trading policy
- Gifts, Benefits and Entertainment policy
- Corporate Code of Conduct
- Discrimination and Harassment policy

- Workplace Bullying policy
- Work Health and Safety policy
- Group Information Security policy
- IT Acceptable Use policy
- Social Media policy.

Code of conduct

It is a requirement that all Challenger employees comply with our Code of Conduct. This applies equally to employees who are permanent or temporary, contractors and consultants. The Code articulates the standards of honest, ethical and law-abiding behaviour expected. Employees are encouraged to raise any breaches of the Code.

Whistleblower provisions

All policies at Challenger have a whistleblower provision and clear instructions on how employees can raise concerns in a confidential and non-threatening way. We strongly encourage employees to act on any concerns and actively foster a culture where issues can be raised and are addressed.

Fraud

We recognise that the management of fraud and corruption is an integral part of good governance and management practice, and we have implemented a robust framework that adopts the standards contained in the Australian Standard AS8001-2008: Fraud and Corruption Control. Our Fraud and Corruption policy establishes a consistent understanding of fraud across our business. It outlines each employees responsibilities to prevent and detect fraud.

Challenger has adopted a zero-tolerance approach on fraud and corruption in all our business activities, which is consistent with our Code of Conduct.

Fraud and data security have been identified as a material issue to Challenger and further information on this is provided later in this report.

Anti-money laundering, counter-terrorism financing and anti-corruption

Challenger is committed to deterring the use of our products and services as an avenue for money laundering, financing of terrorism, tax evasion, or as a means for processing criminal gains. We've adopted a program to address these matters which complies with anti-money laundering and counter-terrorism financing legislation.

We endorse a culture where employees understand that fraud, corruption, dishonest acts and conflicts of interest will be detected and investigated. This is governed by our Fraud and Corruption policy.

[LINK TO STRATEGY](#)





Sustainable retirement incomes

Around 700 Australians reach retirement age every day, and providing a reliable and sustainable income for this growing cohort is a key concern for governments, businesses and the community. As a leader in providing retirement income solutions, Challenger is particularly focused on this matter.

According to the National Seniors Association 2017 survey, more than half of senior Australians are concerned they may outlive their savings. The Australian National University (ANU) Ageing and Money poll also found that almost 40% were concerned about becoming a burden on their families when they are older. These statistics underscore a key challenge for all Australians – how to provide income in retirement for Australia's ageing population.

In 2016, the Government proposed adopting an objective for superannuation that reflects its role in addressing this challenge – to provide income in retirement to substitute or supplement the age pension. This recognises the importance of individual superannuation and the Age Pension working together to provide sustainable retirement incomes.

The National Commission of Audit found that, without policy change, the cost to taxpayers of the age pension would rise from \$39.5 billion in FY14 to \$72.3 billion in FY24. By FY55, the number of Australians aged over 65 will more than double to 8.9 million, representing about one fifth of the total population and placing strain on the age pension system.

Pooling a portion of a retiree's longevity risk benefits both the individual retiree and the sustainability of the retirement income system. Challenger has twice engaged Deloitte Access Economics to analyse the fiscal benefits of broad-based pooling of longevity risk. These investigations found substantial improvements in fiscal sustainability in an intergenerational context. In this way, Challenger's focus on providing retirement income products that offer stable and secure income for life is well aligned with the government's objective of achieving retirement income system sustainability.

Industry and government responding to the challenge

This year, \$57 billion of superannuation savings in Australia will transfer from the accumulation phase to the retirement phase. This number is projected to grow to \$198 billion by 2030. This shift is also reflected in the focus of industry and government. Until recent years, the Australian superannuation system has been focused on accumulation. With that part of the system now well established, attention has turned to creating a world-class retirement income system.

The superannuation industry is responding with a growing focus on retirement incomes. Many key players are adapting their approach to retirement advice and adopting income-layering portfolio construction, driving demand for longevity products like annuities. This approach seeks to work with retirees to understand their needs and fund these with secure income streams such as annuities, while wants are then funded with growth investments.

This approach, combining a pooled longevity product with an account-based pension, is also reflected in the Government's retirement income reforms currently underway – Comprehensive Income Products for Retirement. These reforms are firmly focused on creating sustainable retirement incomes, and this is reinforcing the direction for industry. (For more details about the government reform process see the [regulatory change](#) section of this document.)

Research and education

Addressing the sustainable retirement income challenge is at the heart of our business. Challenger undertakes significant research into retirement income issues including funding independent analysis, partnering with research groups and undertaking our own research.

While Challenger has seen rapid growth in the use of annuities, they still represent less than 5% of the annual transfer from the savings phase to retirement phase of superannuation, so there's significant opportunity for growth. With higher superannuation savings and a growing appreciation for the risks in retirement, retirees are demanding stable and secure income streams that last as long as they do.

We also work extensively with industry partners to provide education for financial planners, super trustees and retirees. Education takes the form of seminars, articles, online content and technical services specialists. The insights we gain through our research and education initiatives are used to help contribute to sustainable retirement income public policy outcomes.

Annuities as part of retirement savings

Ultimately, we believe that allocating a portion of retirement savings to annuities provides the best outcome for retirees and for the fiscal system. Combining existing account-based pensions with pooled longevity products can provide retirees with income for life, better protection from market and inflation risk and some capital flexibility. Analysis has shown that it also reduces the burden on the social security system.

To improve the use of longevity products and broaden the customer appeal, we have introduced a number of product innovations over the years. For example, innovations such as liquidity options (to help overcome behavioural biases and drive take-up) and CPI indexation, to help protect against inflation risk, have significantly increased usage of annuities. We are now planning to introduce deferred lifetime annuities (DLAs) following the implementation of enabling legislation at the end of FY17. DLAs will provide pure longevity protection, acting as a buffer to running out of retirement savings later in life.



Regulatory change



In recent years, the Government has embarked on a series of superannuation reforms intended to create a world-class retirement income system, and which have been broadly positive for Challenger. How these and other regulatory changes progress has the potential to impact our customers, our business and other stakeholders.

Regulatory change significantly affects our business

Challenger operates in a highly regulated market, and regulatory change is material. Regulatory change can both increase and decrease the range of products Challenger can provide and influence their attractiveness to consumers.

Regulatory change can also increase or decrease the cost of doing business. As most of Challenger's sales are through third parties, regulatory change can affect the ease and cost of those third parties doing business with us. Adding to this, changes in prudential regulation can alter capital requirements affecting the returns that Challenger can offer both investors in its products and shareholders.

Increased focus on retirement income policy

The Financial System Inquiry final report released on 7 December 2014 noted that: 'The retirement phase of superannuation is underdeveloped and does not meet the risk management needs of retirees'. In response to this finding, the Government embarked on a series of reforms including: defining the objective of superannuation; introducing new retirement income rules to enable the creation of new products such as Deferred Lifetime Annuities; and implementing Comprehensive Income Products for Retirement (CIPRs).





The objective of superannuation proposed by Government is to provide income in retirement to substitute or supplement the Age Pension. This remains the subject of debate and has not been enshrined in legislation.

The Retirement Income Streams Review has been completed, and legislation enabling new products was passed in November 2016. This legislation is key to addressing the challenge of sustainable retirement income as it enables a broader range of products to be developed to meet the retirement income needs of a wider range of retirees. This includes Deferred Lifetime Annuities which will provide a stable and secure income stream for a retiree's whole life, commencing at a future date. This product means that retirees can access pure longevity protection for the first time.

The final pillar of the current reforms is CIPRs. The Government released a CIPR Discussion Paper in December 2016, with submissions closing on 21 July.

The consultation is the first stage in a process to implement CIPRs. These reforms are viewed as highly supportive for Challenger, as they increase awareness of, and demand for, secure retirement income products. There is, however, also significant risk for our business as the details of regulations are debated and finalised, as these can have a substantial impact on whether products can be realistically implemented and whether customers will accept them.

Government objectives of CIPRs

Problems seeking to be addressed	Objectives of CIPRs products and the CIPRs framework
Individuals are self-insuring against longevity risk and may be living more frugally in retirement than they need to	Increase individuals' standard of living by facilitation of risk pooling – providing security of income for life and the potential for higher income in retirement 
Individuals face a lack of diversity and choice in retirement income products, in particular an absence of products that efficiently manage longevity risk	Increase the availability and choice of products that efficiently manage longevity risk 
The superannuation system is not achieving its objective efficiently due to its over-reliance on account-based pensions	Increase the efficiency of the superannuation system so that it can better meet its proposed objective 
Individuals face complex financial decisions , a lack of guidance and behavioural biases at retirement but many are unlikely to seek financial advice	Empower trustees to provide members with an easier transition into retirement 

Our approach to regulatory change

For over a decade, Challenger has run an extensive public policy program to develop an evidence base for reform of Australia's retirement income system. The goal being to facilitate the provision of innovative products that will better manage longevity, inflation and market risk, which are the principal risks in retirement.

The Government consults on most regulatory changes affecting the wealth management, superannuation and retirement income industry. Challenger is proactive responding to those consultations and regulatory changes through direct engagement with government and active involvement in a number of industry groups.

We will continue to actively engage in the policy process related to retirement income reform, including providing submissions to relevant discussion papers, undertaking relevant research and providing the results to key stakeholders, and through industry participation.





Long-term risk management

How we manage risk in the long term is central to our promise to provide secure and stable incomes to our customers. We invest in long-dated investments to match the long-dated annuities we sell. How we manage these investments, from origination through to divestment, requires us to take a long-term view of risk, including issues such as demographic change, competition and climate change.

Challenger provides secure income and longevity protection for retirees, which requires focus and expertise in long-term investment including origination, asset management and divestment. Over recent years the proportion of long-term and lifetime annuities we sell has increased significantly, reflecting the increasing demand for retirement income products that will provide a secure and stable income for the retiree's life.

This trend is expected to continue, and it creates a need for Challenger to access more long-term investments, including fixed income, property and infrastructure. Long-term investments are not attractive to all investors due to their lower liquidity. This creates an advantage for Challenger, as these assets may face less competition and offer an illiquidity premium. However, our ability to originate sufficient investments as the business continues to grow is a potential challenge.

Our investment approach

Managing this process effectively requires us to take a comprehensive review of investment opportunities, including environmental, social and governance (ESG) aspects, to support long-term returns. Challenger has adopted an integrated investment management approach to deliver responsible investment outcomes and believes there are links between long-term sustainable returns and the quality of our ESG practices.

We recognise that ESG considerations cover a wide range of issues and that the means of applying responsible investment principles in a practical sense are still developing across the industry.

We have a Board approved Responsible Investment policy, and our dedicated investment teams across property and fixed income have built extensive global relationships that provide access to off-market transactions. Their activities are governed by Challenger's risk management framework.

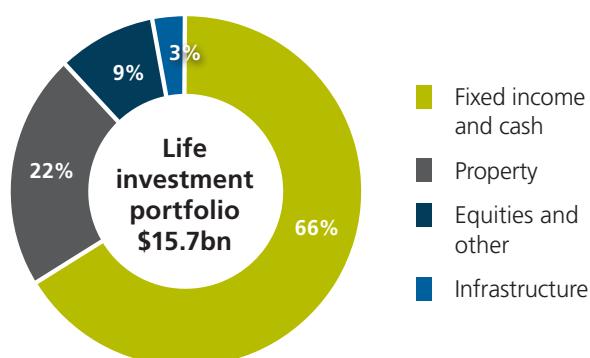
A robust risk management framework

Challenger has a robust risk management framework that supports our operating segments. Our risk appetite distinguishes risks from which we seek to make an economic return from those we seek to minimise. The management of these risks is fundamental to Challenger's business and building long-term shareholder value. Challenger is also prudentially supervised by the Australian Prudential Regulation Authority (APRA) which prescribes certain prudential standards that must be met by Challenger and its life insurance subsidiary.

In addition to having an independent risk management function, Challenger recognises that a requirement for an effective risk management framework is for there to be a strong risk culture throughout the organisation where risk is everyone's responsibility. We regularly assess our risk culture with a combination of external audits and internal employee surveys to ensure that the management of risk and day-to-day compliance remains entrenched in the way we operate.

Challenger's Risk Appetite Statement provides that, subject to earning acceptable economic returns, it can retain exposure to credit risk, property risk, equity risk and life insurance risk. Through selling lifetime annuities and assuming wholesale reinsurance agreements, Challenger takes longevity risk, which is the risk that customers who have bought a lifetime annuity live longer, in aggregate, than expected.

Life investment portfolio as at 30 June 2017



Demographic shifts



As a retirement income provider, our business is supported by the substantial growth in the ageing demographic. A deep understanding of this cohort, such as life expectancy and assets at retirement, is key to providing sustainable retirement incomes.

As a leading retirement income provider, our business is significantly influenced by demographic change. The ongoing growth of our business is supported by the ageing population, as baby boomers move from accumulating retirement savings to relying on retirement income. The number of Australians over 65 will double to more than seven million within the next 40 years.

In addition, retirees are living longer. On average, men are expected to live to 87 and women to 90, meaning that half will live longer than this. There is a 9% chance that one member of a 65 year old couple today will live to be 100. These demographic trends provide substantial tailwinds for our business, providing an increasing market for retirement income products, particularly providing longevity protection.

Understanding trends is key

Our business relies on accurate life expectancy estimates to accurately price the growing number of lifetime guaranteed products being sold. Dramatic changes in a population's life expectancy would have a significant financial impact on the business, as these product types provide a guaranteed income to the customer for their whole life.

Considering other dimensions of the population is also critical for achieving sustainable retirement income solutions both for each retiree and from a societal perspective. These include issues such as superannuation balances and other savings at retirement, home ownership in retirement and the gender superannuation gap. Understanding these demographic dimensions is vital for Challenger, government and other stakeholders such as the wider superannuation industry as we all work to deliver a sustainable retirement income system.

Our research

Challenger undertakes research and partners with other research bodies to deepen the understanding of trends that impact the provision of sustainable retirement incomes. This includes a significant Australian Research Council Linkage Project partnership between Monash University, the Commonwealth Scientific and Industrial Research Organisation and Challenger that aims to improve our understanding of the circumstances of Australian retirees.

Our research both informs our own decisions and is used throughout the industry. Our analysis of household assets for retirees was updated in 2016 and has been widely used by the industry to help Australians get better outcomes in retirement. We also work with National Seniors Australia, the largest member organisation representing the interests of senior Australians' to understand their changing situations. We have partnered with three Australian universities to help educate advisers and industry participants on the demographic issues.

Other research undertaken includes analysis of data available from the Australian Bureau of Statistics, as well as relevant data from the Australian Taxation Office (ATO) and APRA, that we use to glean demographic patterns in superannuation statistics. We also examine the Household, Income and Labour Dynamics in Australia data for more longitudinal assessments of how the Australian population lives, works, spends and saves as people grow older.

Addressing demographic impacts

To address demographic impacts from an operational perspective, we have a team of actuaries who utilise detailed age, gender and life expectancy data to assess and manage longevity risk. They regularly review the portfolio to ensure that longevity assumptions remain appropriate and monitor mortality trends through detailed analysis and review of expert views and developments in the industry.

Challenger is well positioned to capitalise on the ageing demographic with products tailored to provide a stable and secure income for life. Challenger is recognised by financial advisers as the leading retirement income provider and also enjoys strong consumer brand recognition. We are strong advocates in the industry and have been recognised for our work helping advisers understand the demographic challenges faced by their clients.

We remain committed to developing and marketing products that specifically meet the needs of the ageing population, providing financial security in retirement. We continue to expand the range of longevity products available to retirees, with work well progressed to offer a deferred lifetime annuity for the first time in early FY18. Product innovations such as this are designed to address the market growth being driven by the demographic shifts identified.





Corporate governance

Stakeholders have expressed a strong demand for greater transparency and good governance from businesses. This includes demonstrating that our leadership has an appropriate and diverse mix of capability, capacity and independence to support long-term value creation. Our approach to risk and compliance is a key focus area.

Challenger's Board and Leadership team have a long-standing commitment to good corporate governance. Our governance structure provides oversight of the risks and opportunities arising from our activities, and we believe having good corporate governance adds value to all stakeholders and enhances investor confidence.

The Board sets a high standard with its strategic direction while maintaining accountability to all stakeholders. It delegates to the Chief Executive Officer (CEO) and the Leadership team the authority to implement approved strategies and to manage Challenger's business within policy and delegation limits.

The structure, composition and diversity of the Board are essential to its effectiveness. With the exception of the CEO, all Board members are independent.

To assist it in its duties, the Board has established the following committees:

- the Risk Committee
- the Audit Committee
- the Nomination Committee
- the Remuneration Committee.

The Board and each of the committees have charters which provide strategic guidance and effective oversight of management.

The Executive Risk Management, Work Health and Safety, Asset Liability, Diversity and Our Community Committees are responsible for progressing aspects of our strategy and providing regular updates to Senior Executives, the Board and its committees.

Board Committees



Risk management at Challenger

At Challenger, risk is everyone's business. Culturally, it filters through all levels of the organisation in the behaviours displayed towards identifying, discussing and mitigating risk.

The Board is committed to effective risk management, and the Leadership team are accountable for managing risk within its area of responsibility. It is also required to manage risk as part of its business objectives with risk management integrated across business processes.

The Board's Risk Appetite Statement outlines the level of risk that is acceptable for us to achieve our strategic goals and financial objectives. It also provides clear boundaries on acceptable risk-taking activities across the organisation.

Our employees take risk seriously. In our most recent employee engagement survey, 88% of employees had a positive view of Challenger's risk culture (this is nine points above the Australian national norm).

Challenger also considers sustainability to be an important part of its broader risk management framework and has in place a range of policies and practices detailed throughout this report.

For more information about Challenger's approach to corporate governance, refer to our 2017 Corporate Governance Statement available at

www.challenger.com.au/share/corporategovernance.asp





Our
business

Responsible investment

As one of the largest investment managers in the Asia-Pacific region, we recognise the responsibilities we have as a company in relation to sustainability and the environment, our people and the community in which we operate.

Challenger undertakes to consider environmental, social and governance (ESG) factors in investment decision-making and ownership practices. We have adopted an integrated investment management approach to deliver responsible investment outcomes and believe there are links between long-term sustainable returns and the quality of an organisation's ESG practices.

Challenger is a signatory to the Principles for Responsible Investment (PRI) and, in March 2017, we lodged our annual PRI assessment report covering the period 1 January 2016 to 31 December 2016. In this report, Challenger Limited publicly reported assets and funds under management as at 31 December 2016 as \$64.7 billion (for PRI purposes, the assets under management associated with our Funds Management Boutique Partners through external segregated mandate appointments by their third party clients, totalling \$31.0 billion, has been excluded).

Challenger recognises that ESG considerations cover a wide range of issues and that the means of applying responsible investment principles in a practical sense are still developing across the industry. We have a Board-approved Responsible Investment policy and our Board, relevant Chief-level staff, and all Investment Management Heads and their teams are responsible for the effective management of the integration of ESG matters into the

investment decision-making process. They also ensure that proper procedures are in place to meet the obligations outlined within the Responsible Investment policy.

Challenger and its consolidated entities are required to mark-to-market the value of assets and investments. Challenger is generally a long-term holder of assets to match the term of life insurance contract liabilities. We have an Asset Liability Committee appointed to assist in managing investment portfolios, approving transactions, and managing investment risk. For the Funds Management business, operations monitor and report internally instances where third party managers are not adhering to the investment mandate terms, including any ESG matters.

As part of demonstrating our commitment to responsible investment:

- our strategy includes reference to continuing to build a leading responsible investment and asset origination capability;
- we have invested in responsible investment training through the PRI Academy;
- we have endorsed the PRI initiative encouraging credit reporting agencies to incorporate ESG data into their ratings; and
- we have contributed to submissions relating to the sustainability and equity of the Australian superannuation system and its capacity to deliver adequate retirement income outcomes for Australian retirees.

Fraud and data security

At Challenger, we are committed to ensuring the security and protection of all the personal information we hold in line with our obligations under the Privacy Act, the Australian Privacy Principles and equivalent EU privacy laws.

Challenger collects sensitive information where required by law or where we have permission to collect it. We are committed to good privacy practice and our Privacy policy sets out our approach to privacy management. It includes details regarding the types of personal information collected, and how it may be used and disclosed. No significant complaints regarding breaches of customer privacy or loss of customer data occurred during FY17.

Each year, Challenger promotes good privacy practice to employees through its participation in Privacy Awareness Week (PAW). PAW is an initiative of the Office of the Australian Information Commissioner (OAIC). This participation includes registering as a 'PAW Partner' and promoting the importance of sound privacy practice and risk awareness across the organisation.

Fraud may take various forms and occur through a range of channels. Over the past 12 months, the most significant increase in fraud related incidents across all financial services organisations worldwide has been related to cyber-attacks. These include

phishing, hacking, scamming, social engineering, identity theft and, more recently, ransomware attacks. At Challenger, we have implemented a number of policy and technological initiatives to keep our systems and data secure.

While Challenger did not identify fraudulent activity over the past 12 months, we recognise that the management of fraud and the security of our data is integral to good governance and management practice. We have implemented a Fraud and Corruption framework to identify and manage fraud and corruption related risks.

Challenger addresses fraud and data security risk through a variety of measures, including:

- ensuring that employee remuneration is linked to behavioural ratings;
- conducting operational risk coverage reviews (including fraud risk) across the organisation;
- employee, customer and supplier due diligence procedures;
- targeted online and face-to-face training for employees; and
- appointing a dedicated cyber security officer.



Taxation practices

Challenger is committed to meeting its tax obligations and complying with prevailing taxation laws, practice and reporting requirements.

Challenger maintains an open relationship with key regulators, including APRA, the Australian Securities and Investments Commission (ASIC) and the ATO.

Challenger's tax charter governs how tax is managed within the organisation and has been in place since 2007. The charter states that Challenger will manage its tax obligations in a sustainable way with regard to the commercial and social imperatives of the business and our stakeholders. It determines that Challenger will comply with prevailing revenue laws and maintain professional relationships with the regulatory and tax authorities in the jurisdictions we operate in.

Challenger does not knowingly participate in the avoidance of tax or facilitate and/or promote the avoidance or evasion of tax by a third party.

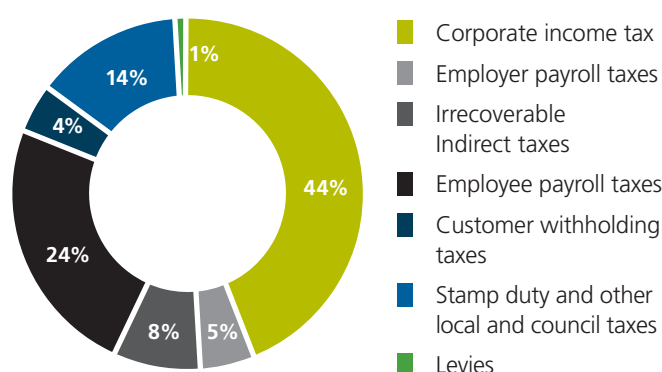
Challenger is committed to meeting the requirements of the voluntary Tax Transparency Code (TTC), issued by the Australian Government Board of Taxation. We have prepared our tax transparency disclosures in this report and in the tax note of our 2017 Annual Report in conformance with the TTC.

Engagement with the ATO

According to the ATO's risk differentiation framework, which is used to assess tax compliance risk and determines the frequency of monitoring and review, Challenger has been categorised as a 'Key Taxpayer'. This rating positions Challenger at the low end of the relative likelihood of non-compliance with relevant tax laws.

This is a result of the open working relationship Challenger has with the ATO. Matters are disclosed to the ATO in a transparent and collaborative way, and there is ongoing engagement between Challenger's Chief Financial Officer and the relevant Assistant Tax Commissioner.

Challenger's total tax contribution (paid and collected) to and on behalf of the Australian Government (state and federal) for FY17 was \$177.4 million, broken down as follows:



Overseas subsidiaries

Twenty-five percent of Challenger Life Company's investment assets, as at 30 June 2017, were offshore. Challenger invests offshore to secure a diversified and balanced portfolio for its investors and to back its policies. Challenger's Life Company is also party to a number of global reinsurance agreements.

Challenger's Funds Management business originates and manages offshore assets on behalf of Challenger Life Company and third party institutional investors such as Australian industry superannuation funds. These offshore interests mean that a number of overseas subsidiaries are included in the Challenger Group organisational structure.

Foreign structures are used to provide certainty over commercial, legal and tax aspects of the various transactions we enter into. This certainty comes from using entities in jurisdictions with similar laws to Australia or those that have substantially complied with the Organisation for Economic Cooperation and Development's guidelines on tax transparency, including information exchange with global tax authorities.

Challenger, like many other institutional investors in Australia and globally, when investing in offshore assets is required to establish wholly-owned subsidiaries in the countries where the investment is located.

Use of these structures are part and parcel of global investing for most institutional investors. For Challenger, it allows us to invest alongside other institutions from other countries in an efficient way; increase economies of scale by allowing investors to pool their capital; reduce investment risk through portfolio diversification; and gain exposures to assets that Challenger may not otherwise be able to access directly on its own.

The investment returns that Challenger makes are taxable in the source country of the investment and also in Australia. This results in an underlying effective tax rate for Australian activities of 22.6% compared to an underlying effective tax rate of 28.8% for offshore operations.





Operating
environment

Financial system stability

It is usually taken for granted that the financial system will provide the stable, smooth and efficient transfer of funds between savers and investors that is necessary to promote economic growth and improve our standards of living.

Often the benefits of financial stability are expressed in terms of the costs of not having it: for example, the higher cost of financing investment as capital becomes harder to access and the disruption to activity in the real economy, that arise from uncertainty and volatility. As a result, policymakers have rebuilt large parts of the regulatory framework in an effort to deliver a more stable financial system.

Setting a regulatory framework

Consumers find it hard to judge the safety of institutions that they rely upon for their financial security. They depend on regulators to ensure a high degree of confidence that the promises made to them by financial institutions will be met. As the Financial System Inquiry noted 'confidence and trust... are essential ingredients to building an efficient, resilient and fair financial system'.¹

Critical to the setting of a regulatory framework is the extent to which financial institutions – large and small – can be relied upon to manage themselves with the long-run interests of all stakeholders in mind. As a result, three areas of heightened supervisory intensity in recent years have been governance, culture, and remuneration. The three go hand-in-hand, as all are critical to ensuring that financial institutions conduct their business in a manner that avoids a repeat of the mistakes made in the lead-up to the financial crisis.

At Challenger, we recognise that the actions we take and the choices we make play a critical role in enabling the financial security of our customers and in the overall economic stability of our nation. It is our responsibility therefore to be proactive in ensuring that we operate in a prudent way that does the right thing by our customers. Ensuring that we have a strong risk and compliance culture and that we are committed to sustainable business practices is part of our strategy.

We work constantly to ensure that our strategy, risk and governance frameworks and operations are aligned to doing the right thing by our stakeholders. Challenger has a very active approach to capital management, consistently maintaining capital within our target range, which includes a buffer above the level required by APRA. We also access capital from a range of sources to improve our resilience to potential financial instability.

Financial stability risk is managed at a group level by Challenger's Board through the Chief Risk Officer and the Executive Risk Management Committee, supported by a comprehensive set of policies for the risks which financial stability impacts.

We also believe that allocating a portion of retirement savings to annuities provides the best outcome for retirees and for the fiscal system. Combining existing account-based pensions with pooled longevity products can provide retirees with income for life, better protection from market and inflation risk and some capital flexibility. Analysis has shown it also reduces the burden on the social security system. (For more details, refer to the [sustainable retirement incomes](#) section of this document.)

Over the past decade, Challenger has run an extensive public policy program to develop an evidence base for reform of Australia's retirement income system, which will have an impact on financial system stability. We do this through direct engagement with government and through active involvement in a number of industry groups. (For more details, refer to the [regulatory change](#) section of this document.)

[LINK TO STRATEGY](#)



Innovation and disruption & Competition and new entrants

Innovation is having a significant impact in the financial services sector, both by incumbents improving efficiency and addressing the needs of customers, and by new entrants disrupting the established approach to financial products and services.

Financial institutions globally are increasingly competing with start-ups that are finding new ways for consumers to save, spend, borrow, lend, and invest, and better ways for businesses to operate, such as 'know your client' processes. Blockchain and distributed ledger technology remain a key focus for many in the sector. Digital consumer engagement and sales channels are becoming more prevalent, often providing peer-to-peer solutions and challenging intermediated distribution models. Pressure for banks to open their application programming interfaces (APIs) to third parties is mounting.

The policy and regulatory environment is focused on keeping pace with the changes occurring. In Australia, the Federal Government's National Innovation and Science Agenda is focused on harnessing new sources of growth, and is providing initiatives such as tax breaks to encourage investment in start-ups. ASIC is offering a regulatory sandbox for fintech businesses in order to facilitate innovation and product testing, without excessive regulatory burden.

At Challenger we have invested in disrupting technologies such as peer-to-peer lending and robo-advice.

¹ Financial System Inquiry Final Report (December 2014).

Maintaining an agile business

Challenger has developed and maintains a highly innovative culture supported by agile business processes. The framework starts with an annual strategic planning process that includes business unit strategy workshops, management team planning days and culminates in a Board meeting. Through these activities, threats and opportunities created by technology and disruption are assessed and addressed.

This process is supported by an ongoing program of innovation and continuous improvement known as the Agility program. Agility aims to increase our speed of delivery and enhance our ability to capture opportunities. It includes three approaches:

- **Just Do It** – for quick process improvements that individuals or teams can design and implement themselves;
- **Plan Then Act** – for initiatives that require collaboration across teams; and
- **Workout** – for more complex problems or opportunities that require a structured design approach.

Agility initiatives have delivered significant efficiency improvements and are estimated to have saved around 200 people hours per month.

Product innovation and research

Challenger has a strong history of product innovation as a key driver of business performance. The development of our Liquid Lifetime product introduced in 2011 addressed the behavioural bias wherein retirees were reluctant to risk loss of capital when

buying a lifetime annuity. This innovation led to dramatic growth in the sale of lifetime annuities. In 2010, 53 lifetime annuities were sold in Australia and in 2016 that number had grown to 9,000. This year, planning has been underway to introduce a deferred option, enabled by new legislation coming into effect on 1 July 2017. This innovation will enable retirees to access pure longevity protection for the first time.

We undertake research and partnering to understand key technology trends and their implications for retirement incomes. In 2016, we commissioned a research paper by Dr Deborah Ralston, Professorial Fellow, Monash University, into the use of fintech to help provide more tailored retirement planning for the majority of retirees who do not access financial planning services. This paper is helping to inform our proposed approach to CIPRs currently being contemplated by the Federal Government. This significant regulatory change is likely to lead to more innovation in the retirement income sector.

Currently, Challenger has few direct competitors offering annuities although competes in the broader market for retirement income products. As this changes over time, in part driven by regulatory change, we expect to see an increase in innovation and disruption. We will seek to maintain our market-leading position through ongoing product and distribution innovation and will continue to closely monitor and respond to new entrant and competitor activities both domestically and from overseas.

[LINK TO STRATEGY](#)



Climate change

The increasing physical impacts of climate change, bringing warmer temperatures, increased water scarcity, and more frequent and severe weather events, pose immediate and long-term threats.

Some market participants are already attempting to factor climate change scenarios into investment decisions. In turn, there is a growing body of research pointing to possible ways in which financial systems themselves may be vulnerable to climate risk.

At Challenger, we consider climate change both in terms of our investment decision-making and ownership practices; and how we manage the impact we have on the environment from our direct operations.

Investment decision-making

Challenger undertakes to consider environmental, social and governance (ESG) factors in investment decision-making and ownership practices. Environmental considerations include assessing the climate risk of our investments and assets. (For more details about our investment and ownership considerations refer to the [responsible investment](#) section of this document.)

Reducing our impact on the environment

We are also committed to reducing the impact we have on the environment through our business operations.

We've worked to minimise our impact in a number ways, including consideration of the office spaces we occupy. In January 2016, we relocated our Sydney head office to 5 Martin Place (representing 90% of our workforce), a 5-star NABERS and Green Star rated building. We've also raised employee awareness of environmental issues through recycling initiatives and participation in Earth Hour activities.

When calculating our carbon emissions, we discovered we did not have a complete view of our energy consumption for our Sydney office. We have addressed this for FY17, and a full view is included in our emissions summary, provided in the [performance summary](#) section of this document.

When comparing like-for-like information from FY16 to FY17, we have reduced our energy consumption for our Sydney office by over 7%.

Compared to FY16, our overall greenhouse gas emissions for FY17 are down by 20.5%. Some of this is attributed to a reduction in Sydney emissions as a result of our first full year in our new head office building. However, we've also benefited favourably from:

- a change in the methodology for calculating carbon emissions from business flights as provided by our partner South Pole Group; and
- a change in the data we collect to calculate employee car emissions.

We have also expanded our boundary to include IT equipment as an emission source in our FY17 footprint. This should all be considered when comparing data from last year.

Since 2015, Challenger has offset all known relevant greenhouse gas emissions for our offices, making our business operations carbon neutral.

[LINK TO STRATEGY](#)





Our
people

Corporate culture

We recognise that our corporate culture is part of our identity; and the opportunities we provide to employees to learn and grow, how we develop our leaders, and providing a safe and happy workplace are key components of this.

Managing an engaged workforce

At Challenger, we are committed to creating a great place to work and have a goal to be a top quartile company. We understand that a better employee experience directly translates to a better customer experience and has an impact on business performance.

We track employee engagement and give our employees the opportunity to provide feedback about working at Challenger through our annual Your Voice survey. The results and insights are used as an input into refining our strategy and priority areas of focus. In 2017, the survey was administered by Willis Towers Watson, and participation was high with, 91% of employees providing feedback.

Challenger's overall sustainable engagement score was 88%, placing us well above the Australian National Norm (ANN), Global Financial Services Norm (GFSN) and Global High Performing Companies Norm (GHPN).

We outperformed ANN and GFSN benchmarks across all 17 categories surveyed and 88% of categories were also above the GHPN benchmark.

Areas where we achieved the strongest results when compared to ANN include:

- communication and change management (+28 points);
- innovation and agility (+22 points);
- leadership (+21 points);
- collaboration (+17 points); and
- reward and recognition (+15 points).

In addition, 93% of employees responded favourably to questions relating to Challenger delivering on the promises it makes to employees.

The survey also gave us great insights into where we could improve. These include communicating more about our corporate responsibility approach; amplifying our focus on our customers; and providing greater clarity on aspects of our reward and recognition and career development opportunities. These focus areas are being addressed through team and divisional action planning and more broadly through our strategic planning process.

Learning and development

We place great emphasis on learning and career development and have a range of programs in place to help our people grow their careers.

The world of work is constantly changing, and we encourage employees to focus on thinking of managing their careers as a lattice rather than 'climbing the career ladder'. In February 2017, we showcased the breadth of careers available to employees at a Challenger Expo. Each part of the business was represented at the Expo, and it gave employees the opportunity to network with their peers; find out more about roles; and ask questions of their colleagues.

We also provide development through broad and deep roles and exposure to a range of leaders. Employees are offered the opportunity to be involved in a wide range of activities and situations which develop knowledge, skills and experience. Our environment enables employees to build and grow capabilities across functions and teams. Throughout the year, 110 employees moved across the organisation to other roles as a result of transfers, secondments or promotions.

All our employees receive regular performance and career development reviews, and talent reviews are conducted annually.



Developing our leaders

We recognise the importance of leadership development and the critical role leaders play in the success of the business.

Challenger has an Executive Management Team (EMT) and a Senior Management Forum (SMF) and has programs in place to focus on the development of leaders in these groups. Both groups were established to:

- enable leaders to share ideas and drive business performance;
- consider market trends and impacts and contribute to the strategic planning process; and
- build leadership capability.

This year, both the EMT and the SMF enjoyed a highly practical and thought-provoking mindfulness learning experience. Based on neuroscience, these sessions equipped leaders with concepts and tools to support their resilience at work and in their personal lives. Feedback from the sessions was overwhelmingly positive, with 71% of participants rating the sessions as excellent.

Other key leadership highlights included:

- Our sixth group of leaders attended Challenger's customised Leadership Foundations Program, developed with and delivered by the Australian Graduate School of Management. This was complemented by a refresher program for earlier cohorts that also assessed leadership progress.
- A simplified talent classification model was rolled out across the business, with outcomes informing a number of key talent business decisions.



- Two young leaders from Challenger have been nominated to participate in the Financial Services Council Future Leaders Award Program 2017, centred on 'What does the Super of the future look like?'. This program presents participants an opportunity to develop core skills necessary to thrive and lead within the industry, with a focus on research and innovative thinking.

In our 2017 employee engagement survey, 90% of employees indicated confidence in the Leadership team and there was strong acknowledgement of all leadership dimensions surveyed. Overall, our leadership result was well ahead of both ANN and GFSN.

Looking after our people

Being well is about more than just avoiding illness. It's about finding the healthy balance of mind, body and spirit, and this is what we strive to achieve. When our people are safe and well, they're able to make great things happen in their personal and work lives.

Our Work Health and Safety (WHS) Committee meets bi-monthly and provides regular updates to the Board via the Executive Risk Management Committee regarding both hazards and risks, and actions taken to eliminate or control them. Over the past year, the committee reviewed and updated our WHS policy and risk register and played an important role in ensuring that the health and safety of employees was a priority.

We also have a number of policies and provisions to support us in maintaining a safe and happy work environment, free of bullying, discrimination and harassment. These include our:

- Work Health and Safety policy
- Workplace Bullying policy
- Discrimination and Harassment policy
- Whistleblower provisions.

Throughout the year, we introduced new WHS and Equal Employment Opportunity compliance training modules to improve learning outcomes and rolled this out to all employees. We also made available in our Sydney office an onsite health check machine with access to health programs, encouraging employees to take ownership of their own health and safety.

Supporting mental health

At Challenger, we also recognise the importance of supporting mental health. We've continued to partner with our employee assistance provider, Assure Programs, and community partner, beyondblue, to increase awareness and understanding of mental health issues.

Employees and their immediate families are offered confidential and free counselling services through Assure Programs. Assure Programs also provides support and advice to leaders in managing people related issues.

In September 2016, we held an R U OK Day employee event. Along with fundraising for beyondblue, this event raised awareness of the potential impacts of mental illness.

In our 2017 employee engagement survey, 95% of employees responded favourably when asked if Challenger cares about the health and safety of its employees at work, positioning us well above benchmarks.



Attracting and retaining talent

We aim to recruit and retain the best talent and to provide a workplace where employees can be the very best version of themselves. Leaders own their recruitment and are trained and provided tools to facilitate the recruitment process.

Our recruitment practices focus on getting the right people with the right skills in the right roles. Challenger's employment brand, developed with employees, articulates the employment experience offered to current and potential employees. It is built on the following four pillars:



We challenge ourselves

We value intellectual inquisitiveness, rigorous analysis and the delivery of results.



We value each other

We are driven to succeed and we value and respect each other.



We offer opportunities

We provide individual development through broad and deep roles and exposure to leaders.



You can make an impact

Our vision is bold and we welcome creativity and initiative to achieve it.

Our recruitment practices

We use recruitment agencies and referrals to ensure that we are attracting a diverse range of people. All agencies are required to put gender equitable shortlists forward for roles, and all people leader roles must be interviewed by a mix of male and female business people.

In the year ahead we plan to develop an in-house recruitment function to complement our current processes and support projected business growth. Adding to this, we'll start to use LinkedIn to broaden our search for talent.

In our 2017 employee engagement survey, 87% of employees responded favourably when asked if they felt their expectations regarding what it would be like to work at Challenger had been met, and 97% were proud to be associated with Challenger.

Supporting flexible working

We offer flexible work to support employees in balancing work and personal commitments.

Definitions of 'work life balance' are shifting and demand has grown substantially for organisations to offer and support flexible working arrangements.

In December 2016, we rolled out a flexible work toolkit to all employees. This toolkit provides information for employees and managers to successfully implement and manage flexible work in ways that work for the employee, the broader team and Challenger.

Coinciding with the launch of the toolkit, we also implemented an online application process to track the outcome of formal flexible work applications. Since the launch of the toolkit, 25 formal applications have been approved, with a third of these from male employees. We also understand and support that there are times when employees require adhoc informal flexible work arrangements. At Challenger, flexible work arrangements are available for all employees, regardless of gender.

Employees who are new parents, both male and female, are supported through our parental leave policy, with primary care givers receiving 12 weeks' paid leave and secondary care givers receiving two weeks' paid leave. In addition, Superannuation Guarantee payments are paid to both male and female employees whilst on parental leave, and Challenger matches salary sacrifice to super up to \$500 per employee per year, further supporting our vision to provide financial security for retirement.



Diversity

Challenger seeks to provide an inclusive workforce and values the capability and experience which diversity brings to the organisation.

We recognise that an inclusive work environment increases our ability to attract and retain the best talent from the widest pool of candidates, enabling us to build upon our high performing team. We also recognise that successfully harnessing diverse thought and working styles contributes to innovative and long-term sustainable outcomes.

Our commitment to diversity

We are committed to ensuring not only regulatory compliance, but also a deeper commitment to the principles of diversity. Our Diversity policy emphasises our commitment that employees be treated fairly, equally and with respect when employment and career decisions are made, and sets measurable objectives to ensure that the policy is effective. (Our progress against our 2017 measurable objectives is outlined in the [performance summary](#) section.)

To provide a continued focus on and promotion of a diverse and inclusive workplace at Challenger, the Leadership Team formed the Diversity Committee in 2014. The Diversity Committee reports to the CEO and is sponsored by the Chair of the Challenger Board.

A number of principles guide our efforts in the area of workplace diversity.

A focus on gender diversity

As we seek to achieve diversity within our workforce, a key focus continues to be on improving the gender balance in our business.

To encourage greater representation of women at senior levels of the organisation, Challenger continues to develop initiatives targeting improved gender equality. These include:

- gender diversity targets;
- enhancement of our talent acquisition processes;

- annual gender pay-gap analysis;
- leadership development and sponsorship programs; and
- knowledge sharing opportunities available to female employees.

Our gender diversity targets are monitored by the Board and the Leadership team each month and on a quarterly basis by all managers using our diversity scorecard.

Since the communication of gender targets in December 2015, the percentage of women working at Challenger has increased. Specifically:

- women in all roles at Challenger has increased 3.1% to 42.6% (FY17 target is 42%); and
- women in management roles have increased 6.1% to 33.5% (FY17 target is 32%).

In May 2017, the Board approved the introduction of a 30% target for female Non-Executive Directors on the Challenger Board by 30 June 2020, further demonstrating our commitment to gender balance.

Complementing our gender targets, Challenger has implemented a sponsorship program to provide support to talented women to increase their capability, contribution and career progression, and to increase the Leadership Team’s awareness of high potential women in the organisation. The program started in 2015 with eight high potential women, each matched with a Leadership team member to be mentored for 24 months. The program has been very successful and, as a result, a further cohort of participants was nominated and commenced the program in early 2017.

Broadening the focus of diversity beyond gender is an opportunity for Challenger.

Our diversity principles





Community

Community engagement

Challenger aims to contribute to the prosperity of the communities in which we operate.

Challenger partners with a range of charitable and not-for-profit organisations supporting a broad demographic of Australians. We have community partnerships with Alzheimer's Australia; Barnardos; Bear Cottage; beyondblue; Meals on Wheels; and National Seniors Australia, and we support these partners through a range of initiatives. These include:

- a Workplace Giving Program, where employees can make regular pre-tax donations directly from their salary and these contributions (up to \$500 per employee per year) are matched by Challenger;
- fundraising events;
- Christmas donations;
- research grants; and
- corporate memberships.

We are also a silver sponsor of the Sohn Hearts & Minds investment leaders conference which raises funds to support Australian medical research. In 2016, 100% of funds raised was shared between four charities:

- Victor Chang Cardiac Research Institute;
- Black Dog Institute;
- MS Research Australia; and
- Juvenile Diabetes Research Foundation.

Volunteering

Challenger believes volunteering is a significant way in which employees can contribute to the community.

Employees are provided with one paid day of volunteering leave each year to offer voluntary services to a not-for-profit organisation, or environmental, community or charitable project. This is also a valuable driver of employee engagement and team building. Throughout FY17, 68 employees used their volunteer day to support a variety of charitable organisations.

We believe we can further engage employees in volunteering by amplifying volunteering opportunities, and this will be an ongoing focus.

Taking into account all donations made to our community partners and other charitable organisations, together with volunteering costs, Challenger donated an average of \$297 per employee during 2017.

Our community partners

**FIGHT ALZHEIMER'S
SAVE AUSTRALIA**
FIGHTDEMENTIA.ORG.AU



**National Seniors
Australia**



Challenger's IT team volunteering at Oz Harvest





Sustainability performance summary 2017

Employees

Employee profile

Number of employees	Full time equivalent (FTE)	Headcount
Overall total	654.9	671

Unless stated otherwise, employee headcount is used as the basis for the following disclosures.

Employees by contract type and gender	Female	Male	Total
Permanent			
Full-time	211	354	565
Part-time	35	10	45
Temporary			
Full-time	17	25	42
Part-time	2	3	5
Contractors			
Agency	4	7	11
Independent	0	2	2
Casual	0	1	1
Total	269	402	671

Employees by region and gender	Female	Male	Total
Adelaide	1	2	3
Brisbane	6	5	11
Hobart	6	6	12
Melbourne	7	18	25
Perth	2	2	4
Sydney	239	344	583
London	8	22	30
Other	0	3	3
Total	269	402	671

Employees by age group	Total
Under 30	107
30 – 50	503
Over 50	61
Total	671

New hires by age group	Total
Under 30	44
30 – 50	91
Over 50	6
Total	141

New hires by region and gender	Female	Male	Total
Brisbane	1	1	2
Melbourne	2	4	6
Perth	1	0	1
Sydney	59	64	123
London	2	4	6
Other	0	3	3
Total	65	76	141

Voluntary turnover by age group	Total
Under 30	14
30 – 50	53
Over 50	5
Total	72

Voluntary turnover by region and gender	Female	Male	Total
Brisbane	0	1	1
Melbourne	4	1	5
Perth	1	0	1
Sydney	26	35	61
London	1	3	4
Total	32	40	72

Employee safety and wellbeing

Work health and safety	FY15	FY16	FY17
Lost time injury frequency rate (days)	1.8	2.4	11.75
Worker's compensation claims	2	6	3
Absenteeism days per FTE	3.4	3.1	2.8
Fatalities	Nil	Nil	Nil

Employee benefits

Employee benefits by employment type	Permanent full-time & part-time	Temporary
Life insurance	yes	yes
Disability and invalidity coverage	yes	yes
Parental leave – paid	yes	no
Retirement provision	yes	yes
Stock ownership	yes	no
Other:	yes	no
– Salary continuance	yes	no
– Superannuation top-up (up to \$500)	yes	no
– Superannuation on unpaid parental leave	yes	no

Diversity

Gender diversity – % women in leadership	FY15	FY16	FY17
Senior management	22.5%	27.0%	23.5%
Other management	27.0%	37.3%	41.4%
Non-management	44.0%	45.6%	45.4%
All Challenger	40.1%	41.7%	42.5%

Board and Nomination Committee diversity – gender and age	Female	Male	Total
Board			
Over 50	2	6	8
Nomination Committee			
Over 50	2	5	7

Internal employee movement by gender	Female	Male	Total
Transfers	15	23	38
Secondments	8	17	25
Promotions	18	29	47
Total	51	69	110

Remuneration positioning for women compared to men against the market median	Salary package	Total reward
FY13	-1%	-3%
FY14	-2%	-3%
FY15	1%	-1%
FY16	-1%	-2%
FY17	-1%	-1%

Gender salary comparison by level ¹	Average female salary as a percentage of average male salary
Senior management	74.70%
Other management	91.35%
Non-management	88.09%

Parental leave return rate	Female	Male
Employees who took parental leave during the year	39	4
Employees who returned to work after parental leave during the year	19	4
Parental leave return to work rate	86.4%	100%
Employees who returned to work after parental leave and were still employed 12 months after return	17	3
Parental leave retention rate 12 months after return	94.4%	100%

Diversity measurable objectives for 2017

Objective	Performance															
Strategy and business case Incorporate workplace diversity in our organisational strategy	<p>Challenger's vision and strategy incorporates diversity as a strategic priority. Our diversity strategy is published on our intranet and is actively promoted within the organisation.</p> <p>In May 2017, the Board approved Challenger's updated Diversity policy, calling out gender as a specific area of focus.</p>															
Stakeholder engagement Continue to build awareness of our priority on, and the benefits of, workplace diversity	<p>We evaluate employee perceptions of diversity and flexibility as part of our employee engagement survey. In 2017, questions required by the Workplace Gender Equality Agency (WGEA) Employer of Choice for Gender Equality citation were included as part of the survey. Responses to diversity and flexibility category questions ranked second highest, with 93% responding positively.</p> <p>Challenger employees participated in a number of external diversity events across the year. These included:</p> <ul style="list-style-type: none">• Diversity Council of Australia – Gender pay gap seminar;• Corporate Executive Board Conference – Diversity and Inclusion session;• Diversity seminars at the Financial Institutions Remuneration Group Annual Conference;• Women in Super – various seminars. <p>We also celebrated our cultural diversity on Harmony Day to raise awareness of the diverse cultures that make up our employee population.</p>															
Gender composition Increase the representation of women in senior leadership	<p>A second cohort of talented women has been identified and has commenced a sponsorship program. Complementing this, Challenger's talent management practices focus on identifying talented women and supporting their development.</p> <p>We continue to focus on increasing female representation on our Executive Management Team (EMT). Excluding Leadership Team members, overall female representation on the EMT is now 35%, with 57% of appointments made in FY17 being women.</p> <p>We ensure that the Nomination Committee and the Board have an appropriate diversity of membership. At the end of 2017, female representation on the Challenger Board and the Nomination Committee was 25% and 29% respectively.</p> <p>In May 2017, the Board approved the introduction of a 30% target for female Non-Executive Directors on the Challenger Board by FY20.</p> <p>Five-year gender composition targets were implemented in FY16. Our progress towards our FY20 targets are as follows:</p> <table><tr><th></th><th>Jun 16</th><th>Jun 17</th><th>FY17 target</th><th>FY20 target</th></tr><tr><td>Women in all roles</td><td>41.7%</td><td>42.7%</td><td>42%</td><td>45%</td></tr><tr><td>Women in management</td><td>29.3%</td><td>32.9%</td><td>32%</td><td>38%</td></tr></table>		Jun 16	Jun 17	FY17 target	FY20 target	Women in all roles	41.7%	42.7%	42%	45%	Women in management	29.3%	32.9%	32%	38%
	Jun 16	Jun 17	FY17 target	FY20 target												
Women in all roles	41.7%	42.7%	42%	45%												
Women in management	29.3%	32.9%	32%	38%												

¹ This comparison is by level only and is not a like for like role comparison.

Objective	Performance
Gender pay equity Continue to drive gender pay equity	<p>Challenger has successfully closed gender pay gaps on a like-for-like basis. Analysis shows that 'by level' gender pay gaps remain as a result of women being under-represented in business line and business critical roles.</p> <p>Our CEO, Brian Benari, is a Workplace Gender Equality Agency Equal Pay Ambassador.</p> <p>Challenger continued to make Superannuation Guarantee Contributions for employees on parental leave. In addition to helping address lower average superannuation balances for women, this initiative aligns with Challenger's vision of providing financial security for retirement.</p>
Flexibility Expand flexible working to make our business more agile and enable employees to better balance life and work	<p>Challenger's 2017 employee engagement survey results indicate that Challenger's existing workplace practices provide the vast majority of employees with the flexibility they need (87% of employees responded favourably to questions asked about flexibility at Challenger).</p> <p>In December 2016, we rolled out a Flexible Work toolkit, providing information for employees and managers to successfully implement and manage flexible work.</p> <p>Reflecting the changing needs of our employees, we saw a strong uptake in male employees accessing both primary and secondary carer parental leave during FY17.</p>
Talent pipeline Focus on recruitment and retention practices to ensure a diverse talent pool	<p>We ensure gender diversity on interview panels for senior leadership positions (at least one woman required for interview panels).</p> <p>Throughout FY17, we continued to focus on identifying opportunities for internal progression for females within Challenger, with the result that:</p> <ul style="list-style-type: none"> • 38% of a total of 47 internal promotions were women (25% in FY16); • 32% of a total of 25 internal secondments were women (21% in FY16); and • 39% of a total of 38 internal transfers were women (55% in FY16). <p>We ensure that recruitment agencies on Challenger's panel provide 50/50 gender representation for all candidate shortlists.</p>

Community and research

Sponsorship of community events, research and leadership forums

Activities	Total
Sponsorship of the Committee for Sustainable Retirement Income Leadership forum	\$200,000
Research grant for National Seniors Australia	\$40,000
Sponsorship of Sohn Hearts & Minds minds investment leadership conference	\$50,000
Sponsorship of employee registrations for JP Morgan Challenge	\$1,078
Total	\$291,078

Environment

2017 greenhouse gas emissions

Emissions ¹	Units	Source data	tCO ₂ -e
Scope 1			
Direct emissions	N/A	N/A	N/A
Total scope 1			0.00
Scope 2²			
Electricity	MWh	1,370.00	1,068.96
Total scope 2	MWh	1,370.00	1,068.96
Scope 3			
Electricity ³	MWh	1,370.00	152.26
Air travel	('000) km	7,184.73	2,581.10
Taxis and hire cars	('000) km	384.62	128.08
Employee car travel reimbursements	('000) km	1.68	0.45
Paper consumption	tonnes	55.89	72.01
IT consumables	number of devices	2,819	91.99
Waste	tonnes	88.6	68.29
Major events ⁴			190.14
Total scope 3			3,284.31
Overall total			4,353.27

Topic	Unit	Quantity
Direct energy consumption by primary source	GJ	0.00
Indirect energy consumption by primary source	GJ	4,932.00
Direct GHG emissions (scope 1)	tCO ₂ -e	0.00
Energy indirect GHG emissions (scope 2)	tCO ₂ -e	1,068.96
Other indirect GHG emissions (scope 3)	tCO ₂ -e	3,284.31
GHG emissions per employee	tCO ₂ -e	6.65

¹ Challenger references an operational control boundary for emissions.

² Scope 2 emissions are indirect GHG emissions from the generation of purchased electricity, heating and cooling. Calculations are based on the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard Revised edition (GHG Protocol).

³ Under the GHG Protocol, the emissions from electricity consumption come from the consumption (scope 2) and also the life cycle emissions from the production (scope 3) of electricity.

⁴ Includes AGM, Employee Update briefings and the Sydney end of year celebration.

Global Reporting Initiative content index

GRI standard	Disclosure	Reference or response	Page
General disclosures			
GRI 102: General Disclosures 2016	102-1 Name of the organisation	Challenger Limited	
	102-2 Activities, brands, products and services	www.challenger.com.au/about/index.htm	
	102-3 Location of headquarters	5 Martin Place Sydney NSW 2000	
	102-4 Location of operations	www.challenger.com.au/about/OtherOffices.asp	
	102-5 Ownership and legal form	www.challenger.com.au/about/index.htm	
	102-6 Markets served	www.challenger.com.au/about/index.htm	
	102-7 Scale of the organisation	2017 Annual Report: About Challenger	
	102-8 Information on employees and other workers	Sustainability performance summary 2017 – Employees	28
	102-9 Supply chain	2017 Annual Report: Overview Information included in the section on 'Operating segments and principle activities'.	
	102-10 Significant changes to the organisation and supply chain	No significant changes during the reporting period.	
	102-11 Precautionary approach	2017 Corporate Governance Statement: Principle 7- Recognise and manage risk	
	102-12 External initiatives	FTSE4GOOD (voluntary) CDP (voluntary) Principles of Responsible Investment (voluntary)	
	102-13 Membership of associations	Asia Pacific Loan Markets Association Limited Asia Pacific Real Estate Association Limited Association of Certified Anti-Money Laundering Specialists Association of Corporate Counsel GC100 Association of Superannuation Funds of Australia Australia Japan Business Co-Op Committee Australia Korea Business Council Australian Compliance Institute Inc Australian Human Resources Institute Australian Payroll Association Pty Ltd Australian Securitisation Forum Committee for Economic Development of Australia: CEDA Corporate Executive Board Diversity Council Australia Ltd Financial Institutions Remuneration Group Inc Financial Services Council Governance Risk Compliance Institute Group of 100 Investment Innovation Institute Law Council of Australia National Seniors Australia Ltd Principles for Responsible Investment Association Property Council of Australia Risk Management Association Australia Tasmanian Chamber of Commerce & Industry Ltd Women in Banking and Finance	

GRI standard	Disclosure	Reference or response	Page
GRI 102: General Disclosures 2016	102-14 Statement from senior decision-maker	Chair's report	1
	102-16 Values, principles, standards and norms of behaviour	Ethical conduct	8
	102-18 Governance structure	Corporate governance	13
	102-40 List of stakeholder groups	Our sustainability approach	3
	102-41 Collective bargaining agreements	Challenger does not have any employees covered by collective bargaining agreements	
	102-42 Identifying and selecting stakeholders	Our sustainability approach	3
	102-43 Approach to stakeholder engagement	Our sustainability approach	3
	102-44 Key topics and concerns raised	Our sustainability approach	3
	102-45 Entities included in the consolidated financial statements	2017 Annual Report: note 22 to the Financial Statement	
	102-46 Defining report content and topic boundaries	Our sustainability approach 2017 boundary mapping	3 5
	102-47 List of material topics	Our sustainability approach	3
	102-48 Restatements of information	There has been no restatements of information	
	102-49 Changes in reporting	No significant changes	
	102-50 Reporting period	1 July 2016 – 30 June 2017	
	102-51 Date of most recent report	16 August 2016	
	102-52 Reporting cycle	Annual	
	102-53 Contact point for questions regarding this report	Kylie Lauc	
	102-54 Claims of reporting in accordance with the GRI Standards	Our sustainability approach	3
	102-55 GRI content index	Global Reporting Initiative content index	34
	102-56 External assurance	This report has not been externally assured. Challenger will consider external assurance in future reporting periods.	
Our business			
Material topic: Ethical conduct			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	Our sustainability approach 2017 boundary mapping	3 5
	103-2 The management approach and its components	Ethical conduct	8
	103-3 Evaluation of the management approach	Ethical conduct	8

GRI standard	Disclosure	Reference or response	Page
Material topic: Long-term risk management			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	Our sustainability approach 2017 boundary mapping	3 5
	103-2 The management approach and its components	Long-term risk management	11
	103-3 Evaluation of the management approach	Long-term risk management	11
GRI 201: Economic Performance	201-1 Direct economic value generated and distributed	2017 Annual Report: note 3 to the Financial Statement	
Material topic: Corporate governance			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	Our sustainability approach 2017 boundary mapping	3 5
	103-2 The management approach and its components	2017 Corporate Governance statement	
	103-3 Evaluation of the management approach	2017 Corporate Governance statement	
Material topic: responsible investment			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	Responsible investment 2017 boundary mapping	15 5
	103-2 The management approach and its components	Responsible investment	15
	103-3 Evaluation of the management approach	Responsible investment	15
Material topic: Fraud and data security			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	Fraud and data security 2017 boundary mapping	15 5
	103-2 The management approach and its components	Fraud and data security	15
	103-3 Evaluation of the management approach	Fraud and data security	15
GRI 418: Customer Privacy 2016	418-1 Complaints concerning privacy	Fraud and data security	15
Our people			
Material topics: Corporate culture & Attracting and retaining talent			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	Corporate culture Attracting and retaining talent The management approach and evaluation for material topics related to our people is combined.	21 23
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	Sustainability performance summary 2017 – Employees	29
	401-3 Parental leave	Sustainability performance summary 2017 – Employees	31

GRI standard	Disclosure	Reference or response	Page
Material topics: Corporate culture & Attracting and retaining talent (continued)			
GRI 403: Occupational Health and Safety 2016	403-1 Worker's representation in formal health and safety committees	Corporate culture	22
	403-2 Injuries, lost days absenteeism and work related fatalities	Sustainability performance summary 2017 – Employees	29
GRI 404: Training and Education 2016	404-3 Percentage of employees receiving regular performance and career development reviews	Corporate culture	21
Material topics: Diversity			
GRI 405: Diversity and Equal Opportunity	405-1 Diversity of governance bodies and employees	Sustainability performance summary 2017 – Employees	30
	405-2 Ratio of basic salary and remuneration of women to men	Sustainability performance summary 2017 – Employees	30
Operating environment			
Material topic: Sustainable retirement incomes (not aligned with GRI)			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	Our sustainability approach 2017 boundary mapping	3 5
	103-2 The management approach and its components	Sustainable retirement incomes	9
	103-3 Evaluation of the management approach	Sustainable retirement incomes	9
Material topic: Regulatory change (not aligned with GRI)			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	Our sustainability approach 2017 boundary mapping	3 5
	103-2 The management approach and its components	Regulatory change	10
	103-3 Evaluation of the management approach	Regulatory change	10
Material topic: Demographic shifts (not aligned with GRI)			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	Our sustainability approach 2017 boundary mapping	3 5
	103-2 The management approach and its components	Demographic shifts	12
	103-3 Evaluation of the management approach	Demographic shifts	12
Material topic: Financial system stability (not aligned with GRI)			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	Financial system stability 2017 boundary mapping	18 5
	103-2 The management approach and its components	Financial system stability	18
	103-3 Evaluation of the management approach	Financial system stability	18

GRI standard	Disclosure	Reference or response	Page
Material topic: Innovation and disruption & Competition and new entrants (not aligned with GRI)			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	Innovation and disruption & Competition and new entrants 2017 boundary mapping	18 5
	103-2 The management approach and its components	Innovation and disruption & Competition and new entrants	18
	103-3 Evaluation of the management approach	Innovation and disruption & Competition and new entrants	18
Material topic: Climate change			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	Climate change 2017 boundary mapping	19 5
	103-2 The management approach and its components	Climate change	19
	103-3 Evaluation of the management approach	Climate change	19
GRI 305: Emissions	305-1 Direct (Scope 1) GHG emissions	Sustainability performance summary 2017 – Environment	33
	305-2 Energy indirect (Scope 2) GHG emissions	Sustainability performance summary 2017 – Environment	33
	305-3 Other indirect (Scope 3) GHG emissions	Sustainability performance summary 2017 – Environment	33
	305-4 GHG emissions intensity	Sustainability performance summary 2017 – Environment	33
	305-5 Reduction of GHG emissions	Climate change	19
Community			
Material topic: Community engagement (not aligned to GRI)			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	Community engagement 2017 boundary mapping	26 5
	103-2 The management approach and its components	Community engagement	26
	103-3 Evaluation of the management approach	Community engagement	26

