

Shareholder Newsletter

February 2018



Group assets under management up 18%

\$77_{bn}

Life sales

↑21%

Funds Management net flows

\$4_{bn}

Increase in 2018 interim dividend

↑3%

Dear Shareholder,

On behalf of Challenger's Board and management team, I'm pleased to provide you with an update on the performance of your company for the first half of the 2018 financial year.

We have started the year strongly, delivering on our strategy which is providing momentum and growth for both our Challenger Life and Funds Management businesses.

Growth in earnings

In our results we are starting to see the benefit of diversification in our distribution channels and product range, which has significantly broadened our customer reach. We are also seeing the benefit of a reweighting to our longer term annuity business, which reduces the rate at which annuities mature and embeds value for shareholders.

Growth in assets under management for the first half was very strong, increasing by 18% on the first half of last year. This drove an 8% increase in normalised net profit before tax, and 6% growth in normalised net profit after tax¹ due to a higher effective tax rate.

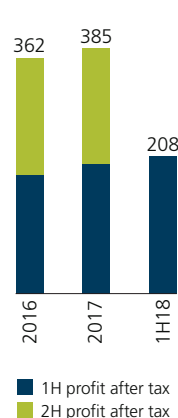
Statutory net profit after tax¹ was \$195m and \$13m lower than normalised net profit after tax because it includes the impact of valuation changes on Challenger's assets and liabilities.

The Board believes that normalised profit is a better indicator of underlying business performance than statutory profit, and for this reason the Board's dividend policy is based on normalised net profit after tax.

Normalised earnings were 35.2 cents per share, an increase of 1% on last year with higher earnings offset by a higher share count. The number of shares on issue increased following a \$500 million equity placement to MS&AD Insurance Group Holdings Inc. (MS&AD) in August 2017.

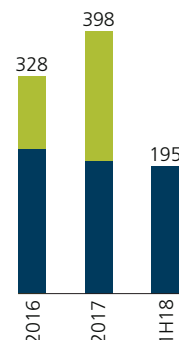
Normalised profit after tax (\$m)

up 6%



Statutory profit after tax (\$m)

down 3%



MS&AD is the parent company of MS Primary, our distribution partner in Japan. The equity placement was part of a broader strategic relationship, which will increase our access to the Japanese market.

We continue to focus on managing costs and remain one of the most efficient financial services companies. For the first half we achieved our lowest ever cost to income ratio, whilst also investing to capture new distribution opportunities.

Challenger Life business update

The Life business targets Australia's increasing superannuation savings pool and the rapidly rising number of retirees, with products helping convert savings to regular and reliable income streams.

Life sales increased by 21% on last year to \$3.3 billion. Annuity sales of \$2.3 billion increased by 4%. We continued to focus on longer term business and the average tenor of new annuity sales lengthened to 9.3 years, compared with 8.7 years for the first half of 2017.

¹ Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in the Operating and Financial Review Section of the 2018 Challenger Limited Interim Financial Report.

Sales of other products, including institutional guaranteed products and the recently launched Challenger Index Plus Fund, were very strong and increased by over 80%.

Life continues to broaden its customer reach through expanding its range of products and product features. In September 2017, Challenger's range of annuity products were launched via AMP's adviser portal to their retail and corporate superannuation clients. We are also targeting the launch of Challenger annuities on BT's new innovative Panorama platform in the June 2018 quarter. Following regulatory reform, Challenger launched Australia's first deferred lifetime annuity and is awaiting finalisation of social security means testing treatment for this product.

In Japan, we continue to focus on capturing growth opportunities. MS Primary contributed 17% of first half annuity sales, and we are building on the relationship further with a new Australian dollar lifetime annuity product, which is currently being jointly developed.

Our expanded distribution relationships and product offering, coupled with a focus on long-term business helped increase the size of Life's business, with Life's book growing by 8% for the first half of 2018.

Funds Management business update

The Funds Management business generally targets the retirement savings phase of superannuation by providing investment products aiming to deliver superior investment returns.

Our Funds Management business has a track record of superior long-term investment performance, and with a focus on active investment management continues to attract funds faster than most of the industry¹. As a result, net flows for the half year were \$4 billion, and average funds under management increased by 20%.

Funds Management is capturing the benefits of its increased scale. Growth in net income substantially outpaced expense growth, and as a result, Funds Management earnings before income tax was 31% higher than last year.

Fidante Partners, our boutique investment management business, continues to grow its stable of international boutique fund managers. In February 2018 we announced a new boutique partnership with United States based investment manager, Garelick Capital Partners.

Increase in dividend

Your Board is focused on increasing dividends over time and seeks to ensure there is an appropriate balance between profits paid to shareholders as dividends and profits retained in order to grow your business.

Reflecting growth in our earnings, a fully franked interim dividend of 17.5 cents per share has been declared for the six months. This dividend is 3% higher than last year, and represents around 50% of normalised net profit after tax.

I'm pleased to report Challenger remains strong, is growing and has a clear and focused strategy.

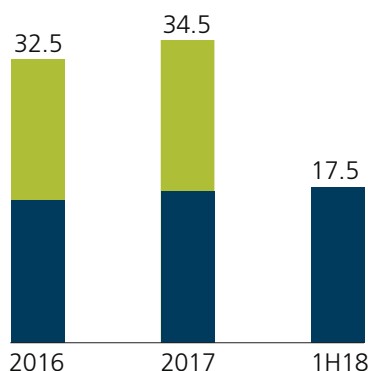
I would like to thank you, our shareholders, for your ongoing support and commitment to Challenger.



Peter Polson
Chairman
Challenger Limited

Dividends (cps)

up 3%



■ 1H (interim) dividend
■ 2H (final) dividend

Additional information section

Key dates

27 March 2018	Payment date for 2018 interim dividend
14 August 2018	Full year results and final dividend announcement
31 August 2018	Ex-dividend date for final 2018 dividend
3 September 2018	Record date for final 2018 dividend
4 September 2018	DRP election date for final 2018 dividend
26 September 2018	Payment date for final 2018 dividend
26 October 2018	Annual General Meeting

Manage your shareholding

For administrative matters in respect of your Challenger shareholding, please contact Computershare Investor Services.

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

T: 1800 780 782

 computershare.com/investor

Dividend Reinvestment Plan

Challenger operates a Dividend Reinvestment Plan (DRP) to enable you to receive some or all of your dividends as Challenger shares instead of cash. If you would like to participate in the DRP, you will need to make an election with Challenger's share register, Computershare Investor Services, at computershare.com/investor.

Go electronic

Challenger can deliver your shareholder communications electronically. Please update your communication preferences via Computershare Investor Services. You can also elect to receive your dividend statements via email and all other communications online.