Market
release

Q3 2018 AUM, net flows, sales

Challenger Limited
19 April 2018

CHALLENGER ANNOUNCES THIRD QUARTER PERFORMANCE

- Total assets under management of $78.6 billion, up 3% for the quarter
- Life net book growth of $629 million, up 74% on pcp
- Life net book growth of 5.2% in third quarter
- Total Life sales of $1.1 billion, down 13% on pcp
- Long term annuities account for 43% of annuity sales
- Funds Management net flows $2.1 billion

Challenger Limited (ASX:CGF) today announced continued momentum across its two operating businesses in the March quarter, with 3% growth in total assets under management to $78.6 billion, driven by strong Life book growth and Funds Management net flows.

Challenger's Chief Executive Officer Brian Benari said: "Disciplined implementation of our strategy is continuing to drive business diversification and very healthy growth in assets under management, increasing by $12 billion in the past year.

"Challenger remains focused on long-term annuity sales, with 43% of sales for the quarter being either lifetime or 20-year fixed rate MS Primary annuities in Japan. This long-term focus is expected to reduce the annuity maturity rate by eight percentage points to 25% for FY18. Our ongoing focus on long-term business underpins our future book growth.

"Our Funds Management business remains one of the fastest growing in Australia, having attracted $2.1 billion of net inflows for the quarter despite renewed market volatility. This is further endorsement of our differentiated model."

Total Life sales for the quarter were $1,099 million, down $159 million or 13% on the prior corresponding period (pcp), primarily driven by a lower Japanese reinsurance quota share (being Challenger's share in each sale). The reinsurance quota share varies from time to time and in the March 2018 quarter the quota share was half the level it was in the same period last year.

Mr Benari said: “Challenger remains on track to achieve $600 million of total sales from the MS Primary annuity relationship for FY18, in line with our guidance.

“Our strategy to diversify our growth through our partnership in Japan has been extremely successful, contributing more than $1 billion in sales in less than 18 months and, we look forward to deepening this important relationship.”

Funds Management

Funds Management achieved positive net flows across both Fidante Partners and Challenger Investment Partners of $2.1 billion for the quarter. FUM increased by $2.9 billion (4%) for the quarter to $76.4 billion, due to strong net flows ($2.1 billion) and positive investment markets ($0.8 billion).

Fidante Partners’ FUM was $57.3 billion, up $1.3 billion or 2% for the quarter, with net inflows of $1.4 billion and negative investment market movements of $0.1 billion. Fidante Partners’ net flows include $0.7 billion as a result of establishing a new boutique relationship with Latigo Partners, which specialises in alternative investments.

Challenger Investment Partners’ FUM was $19.0 billion, up $1.6 billion, or 9% for the quarter. Net inflows for the quarter were $0.7 billion, driven by Life net flows.

Life

Total Life net book growth was $629 million for the quarter, up 74% on the pcp, driven mainly by sales and a lower maturity rate as a result of the ongoing focus on long-term sales. Life net book growth for the quarter was 5.2% of opening FY18 liabilities[1], compared to 3.3% in the pcp.

Total Life sales were down $159 million on the pcp due to a $166 million lower contribution from MS Primary, which represented 14% of total annuity sales, down from 31% in the pcp.

Reflecting this, annuity sales of $761 million, were down $119 million or 14%. Fixed term annuity sales, which include the MS Primary sales were $544 million. Australian term annuity sales were $435 million and increased by $48 million, or 12%. Lifetime annuity sales of $217 million were consistent with the pcp.

[1] Life annuity book, Guaranteed Index Return (GIR) and Challenger Index Plus liabilities.

Other Life sales were $338 million, down $40 million on the pcp. Other Life sales were primarily the Challenger Index Plus product.

Annuity net book growth for the quarter was $316 million, representing 3.1% of the opening FY18 Life annuity book. Annuity net book growth was supported by the lower rate of annuities maturing in the quarter. The maturity rate for the quarter, which is based on prior period sales, was 4% of the opening FY18 Life annuity book.

Life's investment assets at 31 March 2018 were $17.7 billion, an increase of $0.6 billion for the quarter. Movements in Life's investment assets reflect net book growth and changes in retained earnings net of dividends paid to the Challenger Group.

Outlook

For the 2018 financial year, Challenger remains on track to achieve normalised net profit before tax guidance of between $545 million and $565 million, representing growth of 8% to 12% on FY17.

Challenger remains committed to its 18% pre-tax normalised return on equity target, noting that ROE in FY18 will be impacted by higher levels of capital received at the start of the financial year.

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Assets and Funds Under Management, net flows and sales

Reconciliation of Total Assets Under Management

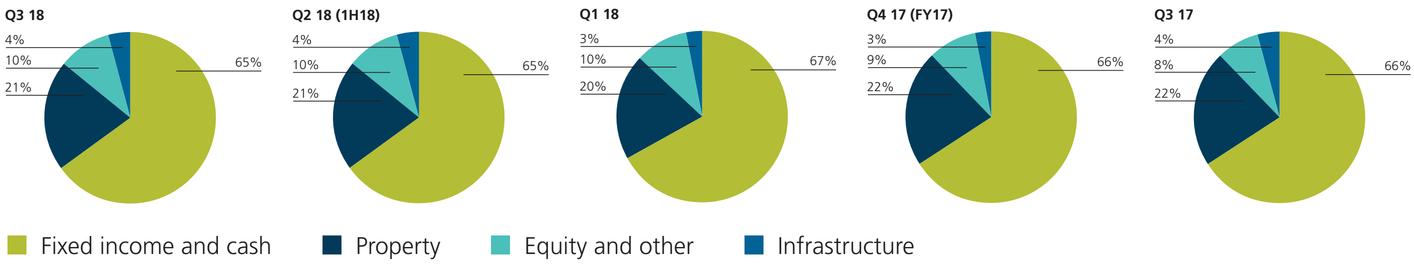
$m	Q3 18	Q2 18	Q1 18	Q4 17	Q3 17
Funds Management FUM	76,357	73,428	70,962	66,906	64,271
Life investment assets	17,672	17,040	16,486	15,677	14,940
Adjustments to remove double counting of cross holdings	(15,476)	(13,945)	(13,903)	(12,595)	(12,640)
Total Assets Under Management	**78,553**	**76,523**	**73,545**	**69,988**	**66,571**

Life – quarterly sales and investment assets

$m	Q3 18	Q2 18	Q1 18	Q4 17	Q3 17
Life sales					
Fixed Term sales	544	980	887	720	662
Lifetime (including CarePlus) sales	217	212	210	215	218
Life annuity sales	**761**	**1,192**	**1,097**	**935**	**880**
Maturities and repayments	(445)	(786)	(745)	(828)	(536)
Life annuity flows	**316**	**406**	**352**	**107**	**344**
Annuity book growth[1]	**3.1%**	**3.9%**	**3.4%**	**1.1%**	**3.6%**
Other Life sales	338	562	473	1	378
Other maturities and repayments	(25)	(543)	(302)	-	(361)
Other Life flows	**313**	**19**	**171**	**1**	**17**
Other Life net book growth[1]	**18.5%**	**1.1%**	**10.1%**	**0.1%**	**1.3%**
Total Life sales	1,099	1,754	1,570	936	1,258
Total maturities and repayments	(470)	(1,329)	(1,047)	(828)	(897)
Total Life net flows	**629**	**425**	**523**	**108**	**361**
Total Life book growth[1]	**5.2%**	**3.5%**	**4.4%**	**1.0%**	**3.3%**
Life					
Fixed income and cash[2]	11,413	11,076	11,096	10,415	9,907
Property[2]	3,718	3,655	3,305	3,408	3,330
Equity and other	1,868	1,643	1,594	1,360	1,181
Infrastructure[2]	673	666	491	494	522
Total Life investment assets	**17,672**	**17,040**	**16,486**	**15,677**	**14,940**
Average Life investment assets[3]	**17,362**	**16,884**	**16,059**	**15,559**	**14,689**

[1] Book growth percentage represents net flows for the period divided by opening book value for the financial year.
[2] Fixed income, property and infrastructure are reported net of debt.
[3] Average Life investment assets calculated on a monthly basis.

Life asset allocation



Challenger Limited

Assets and Funds Under Management, net flows and sales

Funds Management – Funds Under Management and net flows

$m	Q3 18	Q2 18	Q1 18	Q4 17	Q3 17
Funds Under Management (FUM)					
Fidante Partners					
Equities	24,373	24,295	23,343	22,365	21,576
Fixed income	24,699	24,299	23,237	21,808	20,393
Alternatives	8,275	7,437	7,110	6,787	6,426
Total Fidante Partners	57,347	56,031	53,690	50,960	48,395
Challenger Investment Partners					
Fixed income	13,134	12,290	12,538	11,051	11,068
Property	5,876	5,107	4,734	4,895	4,808
Total Challenger Investment Partners	19,010	17,397	17,272	15,946	15,876
Total Funds Under Management	**76,357**	**73,428**	**70,962**	**66,906**	**64,271**
Average Fidante Partners	56,575	54,121	52,604	50,046	47,438
Average Challenger Investment Partners	17,921	16,852	16,522	15,998	15,490
Total average Funds Under Management[1]	**74,496**	**70,973**	**69,126**	**66,044**	**62,928**
Analysis of net flows					
Equities	404	(444)	647	809	(157)
Fixed Income	242	770	1,491	1,161	446
Alternatives	758	(152)	185	31	95
Total Fidante Partners	**1,404**	**174**	**2,323**	**2,001**	**384**
Challenger Investment Partners	677	(2)	1,439	(32)	650
Net flows	**2,081**	**172**	**3,762**	**1,969**	**1,034**

[1] Total average Funds Under Management calculated on a monthly basis.

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