# 2019 Sustainability Report

**Providing our customers with financial security for retirement**

**challenger.com.au**
Challenger Limited ACN 106 842 371

challenger

# About this report

At Challenger, we're embedding sustainability across the business to create strategic value for our customers, our employees and our business.

Our 2019 Sustainability Report outlines Challenger's approach to addressing our most material matters and tracks our key achievements against our sustainability strategy through:

- Responsible business practices;
- Constructive public policy settings; and
- Financially resilient customers and communities.

Throughout this report we also outline how our business contributes to the achievement of the UN Sustainable Development Goals (SDGs).

The final section provides key performance data to track our progress.

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

# Contents



WGEA Employer of Choice for Gender Equality | FTSE4Good | GRI Empowering Sustainable Decisions

# Update from the Chair & CEO


In 2019, we continued to make good progress implementing our strategy for long-term growth, expanding our customer reach, launching new products and building on our brand leadership. We have maintained a strong capital position, leading employee engagement and a highly effective risk culture. Unfortunately, headwinds in the form of investment market volatility and disruption in the financial advice sector, have impacted our performance outcomes for the year.

While we face challenges in the near term, we are well positioned to continue to deliver long-term growth as conditions improve. We remain focused on fulfilling our purpose, which is to provide our customers with financial security for retirement.

We deliver on this through the disciplined implementation of our business strategy and our aligned sustainability strategy.

To enable a full understanding of our business, we provide comprehensive annual reporting of our financial and non-financial performance, strategy and outlook for the future. We're committed to providing stakeholders with a balanced and transparent view of our business and strategic progress, incorporating both financial and non-financial metrics. Our Sustainability Report covers the matters that have the most significant impact on our ability to create value for stakeholders in the short, medium and long term. We encourage you to read it in conjunction with our Annual Review or full Annual Report.

There are many long-term trends that may impact our business, including climate change, advances in technology and an ageing population. The shorter-term effects of regulatory change as well as increasing expectations from our customers, employees and the broader community require careful consideration. At Challenger, our business model enables us to adapt to a continually changing operating environment and ensure long-term risks are considered in everything we do.

We also recognise that trust is everything, and are committed to having the right policies and business practices in place to maintain public trust. We have high standards of conduct and a strong risk culture, which provide comfort that our processes are effective and robust.

We incorporate environmental, social and governance (ESG) considerations in our investment decision-making and ownership practices and take a long-term approach to risk management. During the year, we increased our capability to identify ESG risks and opportunities through the appointment of ESG specialist resources. We also updated our Responsible Investment policy and our Challenger Life business published a Responsible Investment statement, reflecting our commitment to these important issues.

The shift to an ageing population will put increasing pressure on the retirement phase of superannuation, which is widely recognised as being underdeveloped. We continue to actively participate in public policy discussions and provide research and education on retirement incomes to contribute to positive outcomes for Australian retirees. This report provides extended discussions on these topics and more.

At Challenger, our high-performing and engaged teams ensure we deliver on our promises to customers. We know that supporting a diverse and inclusive workforce delivers value for our stakeholders. For the second year, we were recognised as an Employer of Choice for Gender Equality (WGEA) and continue our commitment to achieving gender equity.

This year we conducted a detailed review of our community program and are looking forward to commencing a new partnership that aligns with our sustainability strategy to help older Australians be strong and financially resilient.

We made good progress on the programs and initiatives within our sustainability strategy during the year and we are proud of our achievements. We hope you enjoy reading the content of this report which details our progress.

There is more to do and we are excited about the upcoming opportunities as our sustainability approach evolves.

**Peter Polson**
Independent Chair

**Richard Howes**
CEO and Managing Director

# Business highlights

## Our business strategy

**To provide our customers with financial security for retirement**

Increase the use of secure retirement income streams

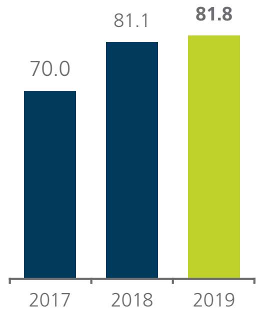
Lead the retirement incomes market and be the partner of choice

Provide our customers with excellent funds management solutions

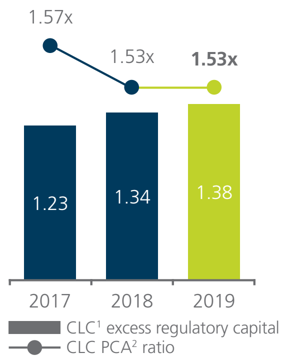
Maintain leading operational and people practices

## FY19 highlights

**Group assets under management ($bn)**




**Excess regulatory capital ($bn)**




**#1 RETIREMENT INCOME BRAND[3]**

**MS&AD EXPANDED STRATEGIC RELATIONSHIP**

**LAUNCHED ANNUITIES ON 3 LEADING INVESTMENT PLATFORMS**

**ActiveX** A FIDANTE PARTNERS ETF SERIES

**LAUNCHED FIRST ETF IN ACTIVEX SERIES**

**84% SUSTAINABLE EMPLOYEE ENGAGEMENT[4]**

**85% SCORE FOR RISK CULTURE[5]**

1 Challenger Life Company.
2 Prescribed capital amount.
3 Adviser – Marketing Pulse Adviser Study April 2011 to December 2018. Peers include major Australian wealth managers.
4 Willis Towers Watson – March 2019. Challenger received an 84% sustainable engagement score exceeding the Australian National norm and the Global Financial Services norm.
5 Willis Towers Watson – March 2019. Challenger received an 85% score for risk culture exceeding the Australian National norm, Global Financial Services norm and Global High Performance norm.

# Progress implementing our corporate sustainability strategy

## Responsible business practices

Responsible business practices that focus on our customers, employees, shareholders and the environment.

**Progress:**

- achieved an **84% sustainable engagement score** in our 2019 employee engagement survey;
- recognised as an **Employer of Choice** for Gender Equality from WGEA for the second year in a row;
- increased **ESG capability** with appointment of specialist resources;
- satisfactory completion of external **risk governance assessment**;
- enhanced reporting under the **FTSE4Good** index and the **Principles for Responsible Investment.**

## Constructive public policy settings

Taking action on issues affecting the ability of retirees to achieve financial security.

**Progress:**

- ongoing engagement with policy makers on **retirement income reform** initiatives;
- published a series of **thought leadership articles** in conjunction **with our partner organisations**;
- produced retirement income **research to educate Australians** on spending patterns in retirement;
- delivered **retirement income webinars** to a significant proportion of advisers;
- coordinated **103 CPD accredited workshops** around Australia for advisers.

## Financially resilient customers and communities

Helping our customers and communities to be strong and financially resilient.

**Progress:**

- launched a **new campaign** focused on **educating retirees** and creating **confidence in retirement**;
- **donated $321 per employee** to community partners through our workplace giving program;
- employees spent **1024 hours volunteering**;
- strategic planning underway for a **new community program** to commence in FY20.

# What matters most

## Process

Our annual materiality assessment is critical to identifying the most material risks and opportunities for our business. Through extensive internal and external stakeholder engagement, we gained a clear understanding of how we can create the biggest impacts across our value chain.

To ensure we focus on the issues that matter most to our stakeholders, we engage throughout the year with our customers, shareholders, analysts, investors, government and regulators, industry groups, business partners, financial advisers, media, community groups and employees through the following activities:

- reviewing guidance from the GRI and considering the SDGs in the development of our strategic objectives;
- obtaining feedback from key customer channels;
- researching media coverage on key material matters;
- analysing commentary and recommendations from regulators;
- reviewing our competitors' materiality assessment outcomes;
- reviewing investor feedback and analyst reports;
- incorporating employee views via regular feedback and our employee engagement survey; and
- conducting workshops with key internal stakeholders. To enhance the credibility of this process, we included a panel of external experts from Australian Ethical Super, Regnan and Choice.

The graph below shows our material matters based on both importance to the business and importance to our stakeholders.

### Our material matters


# What matters most

| Sustainability strategy | Material matter | Link to business strategy & Sustainable Development Goals |
|---|---|---|
| **Responsible business practices that focus on our customers, employees, shareholders and the environment** | **Trust and confidence**<br>Maintaining stakeholder trust and confidence is critical to our ability to continue to deliver for our customers, shareholders, employees and the broader community. Earning public trust requires us to set and maintain high standards of conduct; provide open, transparent and continuous disclosure; ensure the security of our customers' information; and contribute to industry-wide sustainability commitments. | 8 Decent work and economic growth<br>16 Peace, justice and strong institutions |
| | **Long-term risk management**<br>How we manage risk in the long term is central to providing secure and stable income to our customers. To match the long-dated annuities we sell, we invest in a diversified portfolio of assets. Taking a long-term view also involves investing responsibly and anticipating current and long-term impacts such as climate change. | 12 Responsible consumption and production<br>13 Climate action<br>17 Partnerships for the goals |
| **Constructive public policy settings – taking action on issues affecting the ability of retirees to achieve financial security** | **Changing operating environment**<br>Challenger works within a complex operating landscape. This includes working closely with distribution and product partners, fund managers and financial advisers, all of whom have been impacted by a changing regulatory and market environment. | 17 Partnerships for the goals |
| | **Retirement policy settings**<br>As a retirement income provider, we play a key role in contributing to fiscally responsible solutions that help support an ageing population. There is broad agreement across industry and government that the retirement phase of the superannuation system is underdeveloped and reform is needed. Challenger is engaging broadly to contribute to this fundamental public policy process. | 8 Decent work and economic growth<br>10 Reduced inequalities |
| **Helping our customers and communities to be strong and financially resilient** | **Great customer experiences**<br>We are committed to providing great customer experiences and to providing our customers with financial security for retirement. We do this by investing in research to understand our customers; educating advisers and customers on the important role annuities can play in retirement; and designing products and services that meet both customer and society needs. | 4 Quality education<br>8 Decent work and economic growth |

Note: Other material matters covered in this report include challenging investment markets, people and culture and supporting the community.

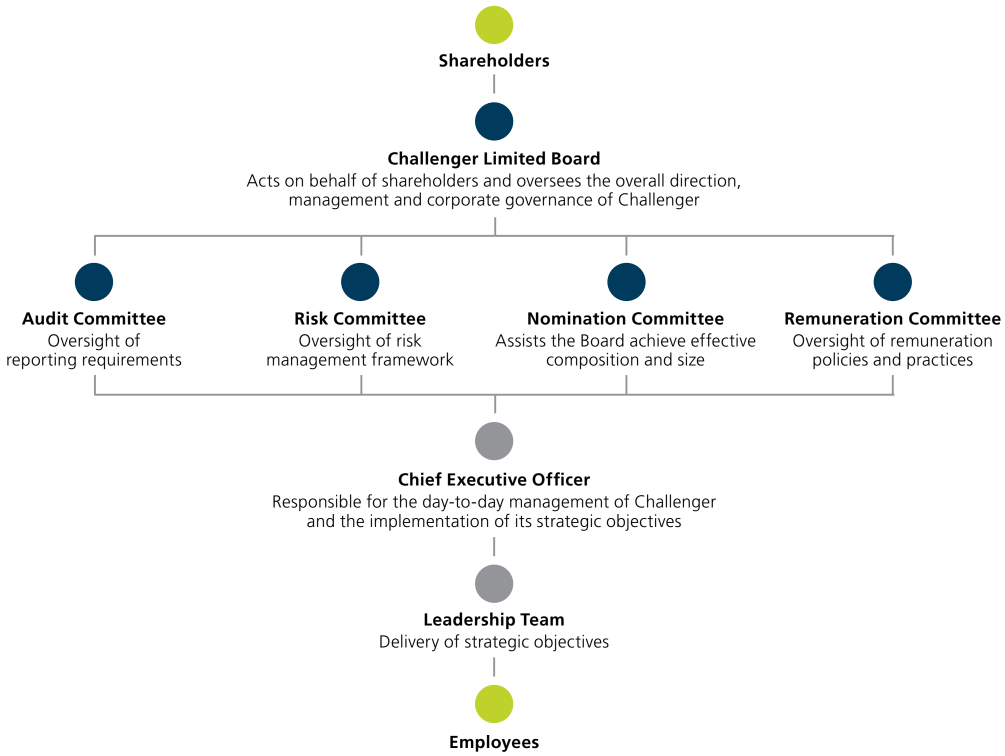
# Governance and risk management

Challenger has a strong governance and risk management framework to ensure effective and responsible decision-making. The Board has oversight of the risks and opportunities for the business and acts on behalf of our shareholders.

Our Board oversees the strategic direction of Challenger and establishes key policies to assist management in delivering results for our shareholders and to ensure appropriate governance and oversight in the management of our business. The Chief Executive Officer (CEO) and Leadership Team have the delegated authority from the Board to implement key strategies and policies.

Good corporate governance starts top down and is key to the way Challenger operates.

## Challenger's approach to corporate governance




## Committees

The following committees support the Board:

- Audit Committee – Oversight of regulatory reporting requirements;
- Risk Committee – Oversight of Challenger's risk management framework;
- Nomination Committee – Assists the Board to ensure it maintains an effective composition and size;
- Remuneration Committee – Oversight of remuneration policies and practices.

Other committees and groups that are responsible for progressing our strategic agenda include:

- Executive Risk Management Committee;
- Asset Liability Committee;
- Work Health and Safety Committee;
- Diversity Committee;
- Our Community Committee;
- Sustainability Action Group.

## Risk management

Fundamental to building value for stakeholders and to the success of our business is effective risk management. At Challenger, risk is everybody's business.

The Board's Risk Appetite Statement outlines the level of risk that is acceptable to our business to achieve our strategic objectives. Guiding our broader suite of policies, the statement provides clear boundaries on acceptable risk-taking activities across the organisation.

As a participant in the financial services industry, Challenger is impacted by a wide range of risks, including investment and pricing risk; licence and regulatory risk; funding and liquidity risk; strategic, business and reputational risk; counterparty risk; conduct risk; climate change risk; and operational risk.

The Board is committed to ensuring effective risk management. The Leadership Team is accountable for managing identified risks and is required to manage risk as part of business objectives with risk management integrated across business processes.

We consider sustainability to be an important part of our broader risk management framework and have in place a range of policies and practices to ensure that ESG risks are carefully considered when making key business decisions.

# Tax transparency

Challenger is committed to paying our fair share of taxes and complying with prevailing taxation laws, practice and reporting requirements. We maintain an open relationship with key regulators, including the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC), and the Australian Taxation Office (ATO).

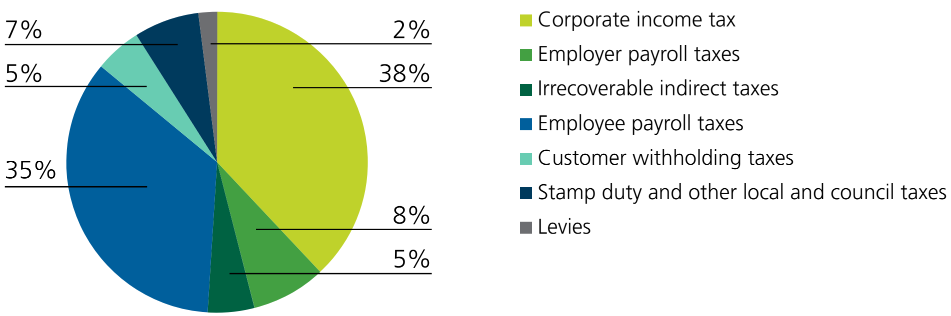
Our tax disclosures meet the requirements of the Australian Board of Tax's voluntary Tax Transparency Code (TTC) of which Challenger is a signatory. We have prepared our tax transparency disclosures in this report and in the tax note of our 2019 Annual Report in conformance with the TTC.

We have a tax charter in place that governs how tax is managed within the organisation. 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.

Our total tax contribution (paid and collected) to and on behalf of the Australian Government (state and federal) for FY19 was $133.4 million.

## Breakdown of total tax contribution




## Overseas subsidiaries

We invest offshore to secure a diversified and balanced portfolio for our investors and to back our policies. As at 30 June 2019, 36% of Challenger Life Company Ltd's investment assets were offshore. Challenger Life Company is also party to a number of global reinsurance agreements.

These offshore interests mean that a number of overseas subsidiaries are included in the Challenger Group organisational structure. Our 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.

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 Co-operation and Development's (OECD) guidelines on tax transparency, including information exchange with global tax authorities.

Like many other institutional investors in Australia and globally, when Challenger invests in offshore assets, we are required to establish wholly-owned subsidiaries in the countries where the investment is located. Use of these structures is 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 29.3% compared to an underlying effective tax rate of 26.4% for offshore operations.

# Trust and confidence

Maintaining trust is key to doing business.

## Why does it matter?

Maintaining trust is key to doing business. Financial institutions have a responsibility to ensure customers have confidence in where they invest and manage their money. According to the 2019 Edelman Trust Barometer, business has some way to go in terms of earning public trust, with just 53% of women and 60% of men, trusting today's businesses. The financial services sector has the lowest level of trust of any sector at 57%.

At Challenger we recognise that the expectations of businesses have significantly increased in recent years, which is particularly highlighted by the findings of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (see 'Changing operating environment'). We also understand that there is opportunity for businesses such as ours to affect significant change in society through our business practices.

## Our response

### Corporate conduct

Corporate responsibility has become core to business at Challenger. Our vision and strategy outline what we will focus on in the short, medium and long term and we also recognise that how we deliver on these strategies is equally important. Our code of conduct (the Code) outlines the standards of honest and ethical behaviour expected of employees. We have five principles – integrity, commercial ownership, working together, compliance and creative customer solutions – that are linked to everything we do. The Code and principles apply equally to permanent and temporary employees, as well as contractors and consultants. Employees are assessed on how they demonstrate expected behaviours as part of an annual performance review (that is linked to remuneration outcomes) as well as through organisational recognition programs.

### Investor confidence

Challenger is committed to delivering on our strategy to provide our customers with financial security for retirement. Through challenging and dynamic market conditions, our investment approach allows for the flexibility to continue to deliver returns for our customers and investors. We work hard to ensure our investors can be confident in receiving returns in the long term.

**Delivering on the UN SDGs**

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

## Information security

The security and privacy of our customers' information and systems are critical to our business and we deploy and maintain a variety of risk-based security controls and procedures to ensure the protection of critical data. These systems are monitored and reviewed, both internally and externally, to ensure they remain current and are operating optimally.

Over the past 12 months, we have seen continued cyber crime directed towards financial services organisations worldwide. These crimes include phishing, malicious data loss, social engineering, identity theft and ransomware attacks. At Challenger, we have implemented a number of policy and market-leading technological initiatives to ensure we keep pace with these threats as they evolve. These include targeted simulation-based training for employees; regular external penetration testing and software patching; and a dedicated information security and risk team with access to external experts to ensure we are able to monitor and respond to incidents as they arise.

Central to our focus is the prevention of attacks and the integrity and protection of customer data. These controls operate at various levels. At the edge of our network where our networks connect to others, such as our business partners and the wider internet, we operate a layered set of controls to protect our systems and people from attacks. Inside our network, our servers and devices have both secured configurations and an additional set of capabilities to protect against both malicious software and attack. We also monitor activity on business devices to detect and respond to incidents in real time.

## Improving disclosure

To guide our business practices, we have a suite of policies which are regularly reviewed to ensure current issues, legislative changes and trends are captured and addressed. These include the:

| |
|---|
| **Anti-Money Laundering and Counter-Terrorism Financing policy** |
| **Code of Conduct** |
| **Conflicts of Interest policy** |
| **Continuous Disclosure policy** |
| **Discrimination and Harassment policy** |
| **Fraud and Corruption policy** |
| **Gifts, Benefits and Entertainment policy** |
| **Group Compliance policy** |
| **Group Information Security policy** |
| **Inside Information policy and Practice Note** |
| **IT Acceptable Use policy** |
| **Political Donations policy** |
| **Privacy policy** |
| **Regulated Persons policy** |
| **Risk Appetite Statement** |
| **Social Media policy** |
| **Staff Trading policy** |
| **Whistleblower policy** |
| **Work Health and Safety policy** |
| **Workplace Bullying policy** |

To enhance disclosure, highlighted policies are discussed in detail.

These policies provide direction on the content of our ongoing external disclosure. Communication is an important tool to increase public confidence. It is also an opportunity to highlight Challenger's strategic approach to future risks, innovative products and services as well as our understanding of our impacts on society.

## Political Donations policy

At Challenger, we have adopted the approach of not making political donations. We believe, as a business, it is important that we follow best practice approaches and remain flexible to changing community expectations. The way we engage with political parties and politicians allows us to meet the expectations of our stakeholders and support our business.

## Privacy policy

Our business brings us into contact with thousands of customers, and significant amounts of personal information is collected in providing our services. Our Privacy policy sets out our approach for ensuring we manage our customers' information in a way that meets existing privacy regulations and our customers' expectations. We have had no significant complaints regarding breaches of customer privacy or loss of customer data during FY19. Challenger was not required to make any data breach reports to the Office of the Australian Information Commissioner under Australia's Notifiable Data Breaches scheme during FY19.

## Whistleblower provisions

At Challenger, we believe in doing the right thing, and integrity, honesty and compliance are at the heart of how we operate. We actively encourage our employees (including contractors), former employees, suppliers, service providers and relatives to speak up and report any concerns of wrongdoing. We do this by providing a trusted avenue to make a disclosure and providing support throughout the process to help those who raise concerns. Our Whistleblower policy outlines the process for raising concerns and the protections and support available to whistleblowers through our independent whistleblower service.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Providing an independent whistleblower service contributes to **SDG 16**, enhancing the accountability of business

72% of Australians believe that a company can take specific action to increase profits and improve conditions in communities.

– Edelman Trust Barometer

# Long-term risk management

Our approach to responsible investment enables us to deliver long-term sustainable returns.

**Delivering on the UN SDGs**

| | |
|---|---|
| 12 Responsible consumption and production | Ensure sustainable consumption and production patterns |
| 13 Climate action | Take urgent action to combat climate change and its impacts |
| 17 Partnerships for the goals | Strengthen the means of implementation and revitalise the global partnership for sustainable development |

## Why does it matter?

Australia will be impacted by global megatrends in the coming years. Demographic shifts will see a higher proportion of the population over the age of 65, and Australians are also living longer. Effective financial systems and a responsible approach to investing will be required to ensure sufficient capital is available to support these shifts.

In addition, climate change is a global issue that the world must come together to address. Ensuring temperature levels are kept well below a two degree increase (in line with the Paris Agreement) will require innovation and significant change to current systems. The financial services sector has an opportunity to deliver long-term value to customers through new products that are aligned with mitigating climate-related risks as well as other ESG risks.

## Our response

Effective long-term risk management enables us to deliver on our promise to provide secure and stable incomes to our customers. Our investment strategy is to match the long-term annuities we sell with a diversified portfolio of assets. This diversification, combined with our continuous review of investment opportunities, allows us to deliver on our vision to provide our customers with financial security for retirement.

At Challenger, our asset allocation process ensures our investment teams source appropriate assets to match our liabilities. Our integrated investment management approach is to assess investments based on long-term risks, including the consideration of ESG risks. Challenger also invests in a variety of instruments to minimise interest rate, currency and inflation risk. Our approach to responsible investment enables us to deliver long-term, sustainable returns.

### Our risk appetite

We have a strong risk culture across our business. Our risk culture is regularly reviewed through internal and external audits that assess the appropriateness, effectiveness and adequacy of our risk management framework, as well as through employee surveys to ensure we maintain its strength.

Our robust risk management framework is key to building long-term shareholder value. 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 provides that, subject to earning acceptable economic returns, it can retain exposure to certain risks, including credit risk, infrastructure risk, property risk, equity risk and life insurance risk. We also ensure we meet all prudential standards as prescribed by APRA.

## Responsible investment

Investing responsibly doesn't have to come at a cost. A recent report released by the Responsible Investment Association Australasia (RIAA) shows that over the long-term, responsible investments provide larger returns compared to mainstream funds.[1] At Challenger, we have adopted an integrated investment management approach to deliver responsible outcomes. We recognise that the consideration of ESG factors provides us with a greater understanding of potential risk and opportunity that could affect the value, performance and reputation of our investment decision-making.

We are a signatory to the Principles for Responsible Investment (PRI) and each year we report against the principles to demonstrate our progress and contribution to elevating the importance of responsible investment. Throughout the year, we increased ESG capability across the organisation with the appointment of specialist resources. This in turn builds knowledge across our investment teams and boutique investment manager partners and supports them to better understand ESG considerations. Building on this, Challenger Life Company (CLC) released a Responsible Investment statement in May 2019 outlining Challenger's approach to ESG risks and opportunities in investment analysis and decision-making.

We have a Board-approved Responsible Investment policy and our Board, relevant chief-level employees and our investment teams are responsible for the effective management of the integration of ESG considerations in the investment decision-making process.

Challenger's Funds Management business comprises Fidante Partners and Challenger Investment Partners. Throughout the selection process for new third-party investment managers, we discuss our expectations around ESG considerations. This includes understanding how they factor into the firm's investment approach and supporting them in integrating ESG considerations into their processes.

Fidante Partners comprises co-owned, separately branded, boutique active investment managers. With our assistance, four boutiques – Avenir Capital Pty Ltd, Lennox Capital Partners Pty Ltd, Novaport Capital and Wavestone Capital – have now developed standalone ESG policies and two boutiques – Alphinity Investment Management and Whitehelm Capital – have also documented their own responsible investment policies. Most of our boutiques have now also become signatories to the PRI.

At Challenger, we've taken a number of steps to demonstrate our commitment to responsible investment and understanding ESG considerations. These include:

- delivering internal presentations focused on trends, risks and opportunities;
- hosting an ESG forum in collaboration with RIAA and our boutique partner – Alphinity Investment Management; and
- including responsible investment performance objectives for relevant investment management employees.

We also engaged with a leading external data platform to analyse our investments through an ESG lens. This platform allows our internal investment teams to access ESG data and research to provide additional insights into the ESG profile.

More broadly, we also participated on a panel at a student networking event hosted by Future IM/Pact. This event showcased how students can impact the world through a career in investment management.

Challenger is also a member of the Financial Services Council (FSC) where we actively participate on an ESG working group. This group supports the industry in delivering change to broaden ESG considerations.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION — Through ESG advice provided to our boutiques, we contribute to **SDG 12** to encourage sustainable practices

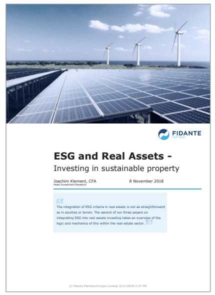
17 PARTNERSHIPS FOR THE GOALS — Participating in industry initiatives supporting ESG contributes to **SDG 17** partnering to deliver the goals

### Fidante's four-part series on ESG investing

We have a strong commitment to embedding ESG into investment decisions and educating advisers. During the year, our Funds Management business, Fidante Partners released a four-part series on ESG investment.

Topics covered in the series: Investing in Sustainable Infrastructure, Investing in Sustainable Property, Integrating ESG in Commodities and Operational Excellence in Real Assets.







[1] Responsible Investment Benchmark Report 2019 Australia, Responsible Investment Association Australasia.

## Climate change

Climate change is one of the biggest challenges facing society now and for future generations.

A recent report from the Climate Council concluded:

- climate change is a major threat to Australia's financial stability, and poses substantial systemic economic risks;
- detailed new modelling, based on the Federal Government's current approach to climate change, finds that the economic damage to Australia's property and agricultural sectors will be very significant;
- the property market is expected to lose $571 billion in value by 2030 due to climate change and extreme weather and will continue to lose value in the coming decades if emissions remain high;
- investments in resilience and adaptation will be essential to reduce or prevent losses in the coming decades[1].

Older Australians are one of the most vulnerable groups in society to the impacts of climate change. They are more vulnerable to temperature extremes, more susceptible to disease, and less physically mobile to independently remove themselves from harm in extreme weather[2].

As the population ages, more people will need support. At Challenger, we monitor our climate-related risks through our ESG framework and are continually finding ways to ensure we mitigate these risks.

We consider ESG factors in investment decision-making and ownership practices. Environmental considerations include, where relevant, assessment of climate-related risks. Due to the diversification of our asset allocation strategy, we are not materially exposed to climate risk.

> We offset all known relevant greenhouse gas emissions for our offices, making our business operations carbon neutral.

Fixed income is our largest asset class, with an average duration of approximately three years. This average duration, combined with portfolio diversification, means that fixed income investments have a reduced exposure to longer-term climate change impacts.

Investments in our commercial property portfolio take environmental performance and operating efficiency ratings (NABERS) into consideration at the time of acquisition. We also actively look for opportunities to implement strategies to improve the environmental performance credentials or efficiencies of the investment over time. Our asset management team focus on implementing energy efficiency initiatives and green building principles across our commercial property portfolio, which is comprised of both domestic and international investments.

Infrastructure represents a small part of our investment portfolio, with most invested by external fund managers in listed infrastructure markets.

As part of our risk management practices, we will continue to manage the broad range of risks that apply to Challenger, including climate risk. We will also continue to monitor our climate risk approach and disclosures to ensure they remain appropriate. This includes consideration of future adoption of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

13 CLIMATE ACTION — Assessing ESG risks across our business contributes to **SDG 13** to strengthen resilience

## Reducing our impact on the environment through our operations

We are committed to reducing the environmental impact we have through our direct operations. This year, we partnered with Pangolin Associates Pty Ltd to calculate our carbon footprint and have again extended our greenhouse gas emissions boundary to provide a more thorough understanding of our emissions. In our FY19 footprint, we have included scope 2 and scope 3 emissions from our overseas offices in London and Tokyo. Our full emissions reporting is provided in the performance and reference data.

In FY19, we reduced our overall greenhouse gas emissions by 2.4% (this includes the extended emissions boundary), and when comparing like-for-like information[3] from FY18 to FY19, we reduced our emissions by 4%.

When comparing the total scope 2 and 3 emissions from FY18 to FY19, we have:

- reduced electricity usage in our three largest offices (Sydney, Melbourne and Hobart) by 5%; and
- reduced our overall scope 3 emissions by 6%.

During this year's comparison process, we discovered an error in the calculation of our FY18 flight data, resulting in an increase in our FY18 total carbon emissions to 5,417.8 tCO2-e (up from 4,525.7 tCO2-e). Verified carbon credits have been purchased and surrendered to offset these additional emissions. The comparisons above are based on the updated figures.

We've validated our carbon footprint by having our energy and emissions externally assured.

To reduce our impact on the environment, we offset all known relevant greenhouse gas emissions for our offices, making our business operations carbon neutral.

> We've increased ESG capability across the organisation with the appointment of specialist resources.

1 Costs of Climate Change, Climate Council, May 2019.
2 Older People and Climate Change: Vulnerability and Health Effects, American Society of Ageing.
3 Includes emissions from scope 2 and 3 electricity (excluding base building), flights, taxis and hire cars, employee transport fuels, paper, IT equipment, waste to landfill, and food from major events.

Central to our asset allocation framework is a key focus on capital and risk management.

**Delivering on the UN SDGs**

8 DECENT WORK AND ECONOMIC GROWTH

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

# Challenging investment markets

## Why does it matter?

Investment markets are undergoing challenges, driven by low inflation, slowing global growth, low interest rates, political risk and regulatory uncertainty.

There is significant opportunity to diversify investment portfolios across asset classes, industry sectors, geographies and risk profiles. Through continuous monitoring and developing innovative solutions to address identified risks, we can respond to the challenging investment environment.

## Our response

Our investment strategy at Challenger is to generate strong returns to deliver on the promises we make to our customers. This is guided by a Board-approved Asset Allocation Plan and Risk Appetite Statement.

### A robust asset allocation framework

Central to our asset allocation framework is a key focus on capital and risk management. This is the foundation of our investment process.

In terms of financial risk management, we seek to minimise interest rate, currency and inflation risks. We do this using a variety of instruments including:

- swaps and government bonds to minimise our interest rate risks across all maturities;
- hedging currency exposure using foreign exchange swaps; and
- inflation-linked products and investments to minimise residual inflation risks.

A fundamental principal of asset allocation for Challenger is that liability cash flows must be matched with appropriate asset cash flows.

Our asset allocation is also informed by close review of expected excess returns inclusive of illiquidity premiums (a premium for having a longer term investment).

We get signals on relative value by comparing broad liquid market risk premiums for the key asset classes of:

- investment grade credit;
- high yield credit;
- equities; and
- property.

These feed into our assessment of our risk adjusted returns. We manage our asset allocation within our Board-approved risk appetite, which also includes our excess capital targets.


[1] Group normalised ROE (pre tax) target.

### Diversifying investment portfolios

We have a strategy to diversify our product mix and this is progressing well. We have three main product groups: Guaranteed Income Return (GIR); Japanese annuity products, through our relationship with MS Primary; and our core Australian business in of term and lifetime annuities.

8 DECENT WORK AND ECONOMIC GROWTH

Through our diversified approach, we contribute to **SDG 8**

### Low interest environment

Interest rates have been in decline for a number of years. This trend is expected to continue, taking us into a low interest environment for a longer period of time. A low rate environment is challenging for retirees who are trying to generate income and impacts all asset classes and investments. Challenger annuities offer our customers the comfort of secure and stable incomes in a challenging investment market.

Challenger's normalised return on equity (ROE) target[1] was introduced in 2004 to demonstrate and underpin our commitment to driving business performance in a way that creates shareholder value. Reflecting the lower rate environment, the normalised ROE was revised in June 2019 and commencing in FY20, we will target a normalised ROE of the Reserve Bank of Australia cash rate plus a margin of 14%.

The principles behind how we use this target to drive the business forward and generate strong performance across the broad spectrum of both our Life and Funds Management businesses, remains the same.

# People and culture

In 2019, we achieved an 84% sustainable engagement score.

**Delivering on the UN SDGs**

5 GENDER EQUALITY — Achieve gender equality and empower all women and girls

8 DECENT WORK AND ECONOMIC GROWTH — Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

## Why does it matter?

Employee expectations are evolving. It's more important than ever for companies to focus on key issues such as inclusive workplaces, work-life balance and employee enablement to prevent high turnover rates and decreased productivity.[1] It also puts our business at a strategic advantage in attracting and retaining the best talent to support our business growth. Adding to this, creating a diverse and inclusive workplace generates tangible benefits. Companies in the top quartile for gender diversity on their executive teams are 21% more likely to experience above average profitability.[2]

Together, these are all important aspects in building trust. The more an employee trusts their employer, the more employees meet or exceed business expectations. It helps to enhance employee advocacy, loyalty, engagement and commitment.[3] Through commitment to social issues, such as human rights, companies can build trust while improving business and workplace practices.

## Our response

At Challenger we understand the significant value our employees add and that a top-class team is vital in ensuring business success and sustainable growth. That's why we have put programs in place to ensure we're attracting and retaining talented people, and providing a great place to work.

### Engagement

Challenger is committed to creating an environment where our passionate teams can thrive. Through our employee engagement survey, we ask our employees for feedback and ideas on ways we can improve our workplaces and ways of working to enable them to deliver great results for our customers. Through improved employee engagement practices, we can achieve higher employee retention, fewer work days lost and higher operating margins.

Our 2019 overall sustainable engagement score was 84%[4]. This level of engagement is well above both the Australian National norm (ANN) and the Global Financial Services norm (GFSN).

### Sustainability Action Group

Challenger's employee-led Sustainability Action Group provides a forum to engage our employees and allow them to meaningfully contribute to environmental and community initiatives in and around the workplace. During the year, our team implemented significant changes, including:

- removing all plastic cutlery and plates from catering;
- introducing mobile phone recycling at the office;
- supporting the Wayside Chapel winter giving drive; and
- improving recycling in the office through innovative awareness campaigns.

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1 A National Survey of Employees, Diversity Council Australia.
2 McKinsey and Company, 2018.
3 2019 Edelman Trust Barometer, Global Report.
4 Willis Towers Watson – March 2019.

## Diversity and inclusion

Creating a diverse and inclusive workplace is key to building an effective and engaged team. We understand that encouraging a diversity of backgrounds and experience, and ensuring all opinions are considered, will lead to better business decisions and outcomes. We also believe that to provide the best services and outcomes for our customers, we must attract, retain, develop and engage great people.

In 2019, we refreshed Challenger's approach to diversity and inclusion, incorporating direct inputs from our employees to focus on the areas that matter to them most. Our strategy going forward will extend our existing focus on gender equality and empower our employees to shape a broader approach to diversity. It also focuses on initiatives to support older workers.

8 DECENT WORK AND ECONOMIC GROWTH — Promoting diversity contributes to **SDG 8** to achieve full and productive employment for all

### Gender equality

Challenger believes that gender equality is an important strategic element in creating a truly diverse and inclusive workplace. We are committed to achieving gender equality in our own business and more broadly in Australia. We continue to report to the Workplace Gender Equality Agency (WGEA) and this year we were again recognised as an Employer of Choice for Gender Equality by WGEA.

The Board and Senior Leadership team continue to monitor gender pay equity as part of the annual remuneration review. We continue to ensure pay parity for those working in comparable roles. Given our businesses' strategic focus on building financial security for retirement, we recognise the importance of ensuring that we adopt practices and processes in our workplace that contribute to these outcomes for all of our employees. For this reason, we also continue to make superannuation guarantee contributions to our employees on parental leave.

5 GENDER EQUALITY — Providing support for women contributes to **SDG 5** to end discrimination against women

**Women overall working at Challenger**

| December 2015 | June 2019 | FY19 Target | FY20 Target |
|---|---|---|---|
| 39.5% | 44.2% | 43.5% | 45.0% |

**Women in management roles**

| December 2015 | June 2019 | FY19 Target | FY20 Target |
|---|---|---|---|
| 27.4% | 37.0% | 38.5% | 40.0% |

Challenger was recognised as an Employer of Choice for Gender Equality from WGEA for the second year in a row.

### Diverse and inclusive workplace

A key pillar of our diversity strategy is to create a diverse and inclusive workplace. We achieve this through guidance and governance from our Diversity Committee comprised of senior leaders across the business. To provide a greater sense of inclusion and belonging, we're engaging our employees to help shape initiatives in the areas that matter to them most.

In 2019, we became a partner of Future IM/Pact, an industry initiative aimed at attracting more talented women into the investment management industry. Complementing this, we provided the opportunity for a second cohort of 12 talented female employees to participate in our Women Leading @ Challenger program. This program, introduced in 2018, uses a strengths-based approach to accelerate the development of female leaders across the business.

Challenger is committed to supporting these and other key initiatives to create a diverse talent pool to sustain our ongoing business needs.

### Human rights

We respect and support human rights as set out in the Universal Declaration of Human Rights and the Fundamental Conventions of the International Labour Organisation.[1] At Challenger, we do this through our corporate policies, programs and initiatives, and broader governance and stakeholder management methods. We are committed to providing a fair, safe and healthy work environment for our employees that is free from unlawful discrimination, harassment and bullying and where individuals are treated with respect and courtesy. We also respect and support the rights of employees to establish, join or not join trade unions or other associations, and we recognise any local rights to collective bargaining.

At Challenger, we do not tolerate or support the use of child labour, forced or compulsory labour, or any form of slavery or slavery-like practices in our operations or our supply chain.

With the introduction of the modern slavery legislation, Challenger is committed to ensuring we develop the right systems and processes to do our part to eliminate modern slavery in all its forms.

8 DECENT WORK AND ECONOMIC GROWTH — Promoting human rights contributes to **SDG 8** to end modern slavery

1 These conventions address: freedom of association; collective bargaining; forced labour; minimum age; worst forms of child labour; equal remuneration; and discrimination.

## Leadership and talent

Leadership is fundamental to the success of every part of our business and is a key focus at Challenger. We understand that developing great leaders is an important part of what we do. Critical to this, is attracting great people and having the programs in place to enable their growth and development.

> Teams and organisations that are seen as positive places to work will attract and retain highly skilled staff.[1]

At Challenger, we ensure our leaders are prepared through training programs covering a broad range of topics, including how to manage reports of instances of harassment or bullying.

In 2017, Challenger created an in-house recruitment function to allow for a more consistent recruitment experience for our candidates. We have a strong employment brand where people from diverse backgrounds and varying experience can flourish and achieve success. Following a full year of this in-house function, we have experienced improvement and 92% of our employees would recommend Challenger as a good place to work.

### Career development programs

As a part of career development, we provide support to allow our employees to guide their career path. Performance and career development conversations occur throughout the year and in-depth talent reviews are conducted annually. Our employees have the opportunity to work on projects across the business, enabling them to develop new skills and find new opportunities to grow.

During the year, 115 employees moved within the organisation as a result of promotions, secondments and transfers.

Through forums and discussions for our three leadership groups – Leadership Team (LT), Executive Management Team (EMT) and Senior Management Forum (SMF) – Challenger provides leadership development and growth of skills using detailed trend analysis and strategic planning.

5 GENDER EQUALITY

Promoting women in leadership contributes to **SDG 5**

> During the year, 115 employees moved within the organisation through promotions, secondments and transfers.

[1] Creating a Respectful Workplace, Australian Public Service Commission.

## Wellbeing and culture

We understand that having healthy employees benefits our business and our community. Our Wellbeing@Challenger program was developed to support our employees in all areas of their lives, including their health and wellbeing at work, their life outside of work, their financial resilience and supporting the communities in which they live.

### Health

Physical and mental health are critical to enabling every person to contribute positively to all aspects of life. Challenger is committed to supporting the physical and mental wellbeing of our employees. During FY19, we:

- **Delivered stress management workshops**
- **Increased awareness of our Employee Assistance Program**
- **Provided access to doctors to conduct skin cancer checks**
- **Provided access to musculoskeletal assessments**
- **Provided anytime access to a Health Check Machine**
- **Supported our employees to participate in the JP Morgan Chase fun run, including providing professional massage services following the race**

### Life

We understand that work is just one aspect of our employees' busy lives. At Challenger we offer flexible working arrangements to allow our employees to balance work with the other priorities in their lives. We also offer, and encourage, our employees to consider the opportunity to purchase additional leave every year. We believe that this flexibility is key to Challenger attracting and retaining the most talented and committed employees.

### Financial

A recent report found that almost three in five Australians are stressed about their financial situation.[1] At Challenger, we aim to ensure that our employees are well prepared for the future and understand how to manage their finances. During the year, Challenger held a series of workshops for our employees covering a range of financial topics, from preparing for retirement to decreasing debt for younger people. We will continue to support our employees to ensure they achieve their financial goals.

> Since introducing our flexible work program, almost 100 new flexible work arrangements have been put in place.

### Community

We provide opportunities for employees to get involved in a range of community initiatives.

In September 2018, we partnered with leading mental health charity, beyondblue, to participate in R U OK Day. This included hearing from a guest speaker who shared their experience with mental health. This assists in removing the stigma about mental health issues in our communities and supports our employees who may be experiencing stress, anxiety or other mental health issues.

### Work

Research shows that employees are more productive and they produce better outcomes when they enjoy their physical work environment.[2] Challenger's offices are designed to provide comfort, flexibility and connectivity to all employees, contributing to their overall wellbeing as well as the success of the business.

The Challenger Work Health and Safety (WHS) Committee includes employees at all levels of our business. The Committee meets regularly and provides updates to the Board via the Executive Risk Management Committee regarding both hazards and risks and the actions that have been put in place to manage them.

To further support our employees to create a safe and healthy workplace, Challenger has a range of key policies including:

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

[1] Financial Fitness Whitepaper, Mortgage Choice 2019.
[2] An Overview of the Influence of Physical Office Environments Towards Employee, N. Kamarulzaman et al, 2011.

At Challenger, we work with our partners to develop effective distribution channels for our products.

**Delivering on the UN SDGs**

8 Decent work and economic growth — Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

16 Peace, justice and strong institutions — Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

# Changing operating environment

## Why does it matter?

The Australian financial services industry is experiencing significant industry disruption and evolution. The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry and major reforms to the education, training and ethical standards of financial advisers are creating new pressures and structural shifts.

Regulation is evolving to keep pace with the rapidly changing nature of financial products and services and changes in community expectations. Increased competition and shifts to embrace new technologies represent both challenges and opportunities for the wealth sector.

Other regulatory reforms are underway, which will impact on the operating environment. These include a new design and distribution obligation on financial product providers, a new product intervention power for the securities regulator (ASIC), and enhanced fee and cost disclosures. Together, these reforms represent an unprecedented level of change within the financial services industry and therefore Challenger's operating environment.

## Outcomes of Royal Commission

The Royal Commission made 76 recommendations for how the industry can improve customer outcomes. Key recommendations that affect our business are:

- to remove the grandfathering on conflicted remuneration[1];
- for advisers to conduct annual reviews of ongoing fee arrangements;
- the extension of the existing Banking Executive Accountability Regime (BEAR) to a wider range of financial entities; and
- ongoing internal business reviews of remuneration, culture and governance.

We are carefully considering the outcomes of the Royal Commission and working closely with the government and regulators as they seek to implement the recommendations. This includes reviewing our business practices and processes to respond to both regulatory and community expectations.

16 Peace, justice and strong institutions — Supporting positive outcomes from the Royal Commission contributes to **SDG 16** to develop effective institutions

## Changes to financial advice

The financial advice industry has been undergoing considerable change since 2013 when the Future of Financial Advice (FoFA) reforms commenced. FoFA was intended to improve the trust and confidence of Australian retail investors in the financial services sector and ensure the availability, accessibility and affordability of high-quality financial advice.

FoFA included a pathway for the financial advice industry to become recognised as a profession. The Financial Adviser Standards and Ethics Authority (FASEA) was established in April 2017 to set the education, training and ethical standards of licensed financial advisers in Australia. The new regime for financial advisers commenced on 1 January 2019 and all elements will be finalised by 2024, when all existing advisers must complete the new training requirements. These changes will come into effect as the industry implements recommendations from the Royal Commission.

A number of Royal Commission recommendations will apply directly to financial advisers, including:

- the prohibition on previously grandfathered commission payments;
- annual reviews of ongoing fee arrangements;
- limitations on the deduction of advice fees from superannuation accounts;
- additional disclosures by advisers and reference checking; and
- the establishment of a new disciplinary system for advisers.

These reforms have created an unprecedented amount of change and disruption to the financial advice market and have resulted in distribution challenges across the wealth industry.

1 Any benefit, whether monetary or non-monetary, given to a financial services licensee, or its representative, who provides financial product advice to retail clients.

## Our response

### Engaging with regulatory change

Changes to the policy and regulatory environment in financial services impact on investment certainty. At Challenger, we're committed to providing our customers with financial security for retirement and are engaging broadly and leveraging our research to contribute to the public policy discussion.

We recognise that the 2019 federal election cycle created competing priorities and has impacted the progress of retirement income reforms. Our approach is to proactively engage with government and industry to ensure that the policy intention of new reforms is delivered. This includes developing thought leadership papers and making submissions to public consultations. Where we have concerns that unintended customer outcomes may arise, we raise these issues with a view to working together on a solution.

We partner with key stakeholders in business and the community and participate in industry working groups through membership of various industry associations.

We also continue to focus on educating Australians on the importance of investing in secure retirement incomes.

### Distribution changes

Disruption in the financial advice market is ongoing. Client remediation work, adviser movement, and uncertainty around business models and future ownership of advice continues to impact our distribution channels. At Challenger, we work with our partners to develop effective distribution for our products. Increasing competition and advances in technology provide the opportunity to innovate on how we get our products to our customers. In our Funds Management business, we continue to build on our leadership position as one of the fastest growing active fund managers by adding new boutiques and expanding our products and distribution.

Advisers remain an important distribution channel. We are making it easier for advisers to do business with us by making annuities available on leading investment and administration platforms they use, as well as simplifying and streamlining access to our products.

During the year we made the full range of Challenger annuities available on the BT Panorama, Hub24 and Netwealth platforms, making our annuities available on the platforms used by around 70% of Australian financial advisers.

Profit-for-member funds are increasing their focus on providing retirement income solutions for their members, and we are focused on strengthening our relationships with them to support this. In addition to our existing partners, we are also working with other superannuation funds as they develop their retirement solutions. Our focus is understanding member needs and fund priorities and exploring how our products could help provide stronger member outcomes.

In response to the global trend towards exchange-traded funds (ETFs), Fidante Partners launched ActiveX in December 2018. ActiveX is a series of actively managed ETFs, providing investors with easier access to the extensive investment expertise of Fidante's boutique investment managers.

This year we've increased our focus on the independent financial adviser channel. We're committed to improving adviser experiences to increase the allocation made to annuities.

8 DECENT WORK AND ECONOMIC GROWTH

Adapting our distribution channels contributes to the achievement of **SDG 8**, expanding access to financial services

### Advances in technology

Technology is improving to support efficient and productive ways of working. At Challenger, we monitor how these technologies may work to improve our business. We engage with providers to understand the functionality of new technologies and test their application in our current systems.

Artificial intelligence (AI) continues to become a greater focus. While AI may not improve all systems and processes, it can support many functions. The application of AI can help a business meet regulatory requirements, including monitoring the privacy and security of data. Emerging cloud platforms, with enhanced features, are also a focus for us.

Challenger products are now available on platforms used by 70% of advisers.

There is broad agreement that reform is needed to provide better outcomes for retirees.

**Delivering on the UN SDGs**

| | |
|---|---|
| 8 DECENT WORK AND ECONOMIC GROWTH | Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all |
| 10 REDUCED INEQUALITIES | Reduce inequalities within and among countries |

# Retirement policy settings

## Why does it matter?

Australians are living longer and older Australians will comprise a larger portion of the population in the future. The nature of work is also shifting, with the rise of the gig economy as well as an increase in part-time workers. Reform is required today to ensure that our economy and our society are prepared for the financial implications these shifts will bring.

## Our response

### Supporting an ageing population

Retirement income policy, including superannuation, needs to be flexible to cater for a changing population – both in its demographics and in the shifts in the composition of the workforce. Innovative financial management strategies need to be developed to address and complement the broad range of circumstances of older Australians.

At Challenger we understand that advances in modern medicine and an increased awareness of healthy lifestyles means older Australians are fitter, stronger and able to enjoy a more active lifestyle than previous generations. With longer lifespans, however, comes the reality that we'll need a similarly healthy retirement income.

A recent survey by National Seniors Australia[1], a consumer group representing older Australians, found that around 26% of participants 'hadn't planned at all' for an increasing lifespan. It also found that almost half of senior Australians still working are concerned they will outlive their savings (with 34% worried savings will run out, and 14% extremely worried).

At Challenger, we are working with a broad set of stakeholders to ensure these key considerations are incorporated into policy development and we continue to research and educate through the development of thought leadership papers.

10 REDUCED INEQUALITIES — Supporting an ageing population contributes to **SDG 10** to empower and promote inclusion of all

### Retirement phase of superannuation underdeveloped

Retirement income policy continues to evolve in Australia. There is broad agreement across industry and government that the retirement phase of the superannuation system is underdeveloped, and reform is needed to provide better outcomes for retirees.

Recent leadership changes and competing priorities have impacted the government's ability to progress reform.

At Challenger we are committed to providing financial security for retirement and will work with the government to ensure the system provides resilience for older Australians now and in the future. We also engage with key stakeholders and develop partnerships to contribute to the public policy discussion. This includes developing thought leadership and research papers supporting evidence-based reform.

While there is still much work to do to develop the retirement phase of superannuation, industry and government are increasingly focused on creating options for retirees that provide both security and flexibility. The government's proposed Retirement Income Framework seeks to improve the standard of living for retirees by providing more options for them to convert their savings into reliable income that lasts for life. The Framework builds on earlier reforms that encourage the development of innovative retirement income streams. This includes new means test rules that came into effect on 1 July 2019, which are designed to support lifetime income products.

8 DECENT WORK AND ECONOMIC GROWTH — Strengthening policy around retirement incomes contributes to **SDG 8** to encourage and expand access to financial services

[1] Seniors more savvy about retirement income, National Seniors Australia, October 2017.

Our goal is for our customers to be able to look forward with confidence.

**Delivering on the UN SDGs**

| | |
|---|---|
| 4 Quality Education | Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all |
| 8 Decent Work and Economic Growth | Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all |

# Great customer experiences

## Why does it matter?

Customers have a growing choice when it comes to funding their lives and their retirement. A survey conducted by Salesforce found that 76% of customers expect a business to understand their needs and expectations.[1] They also found that customers expect products and services to be personalised. Going forward, a company's ability to adapt and adjust to meet changing customer expectations will be a driving force of success.

## Our response

Providing our customers with financial security for retirement is the reason we exist. Key to achieving this is investing in research to understand more about our customers, educating our advisers and customers on the important role annuities can play in retirement and designing products and services that meet both customer and societal needs.

### Customer research

It is vital that we remain well informed about the changing needs and expectations of our customers.

In 2018, we commissioned a customer research program to better identify the needs and understand the experiences of existing and prospective lifetime annuity customers. This past year, our focus has been to embed the outcomes of this research. As a result, we've simplified the language we use in our communications and disclosure documents; updated the information available on our website to make sure it is relevant and engaging; and through paid advertising, focused on educating retirees about sustainable retirement incomes. Our plan looking forward, is to continue to build on this progress.

The growth of digitisation over recent years has significantly impacted a broad range of consumer products and services. Understanding the demand from customers to interact with us through digital channels will be a focus of further research planned over the next 12 months.

4 Quality Education — Educating our customers contributes to **SDG 4** to enable others to promote sustainable development

[1] Customer Expectations Hit All-time High, Salesforce 2019.

## Educating customers and advisers

At Challenger, we invest in educating our customers on the role annuities can play in their retirement. We know from our customer research that the more people understand how annuities can provide for their retirement needs, the more they will consider annuities within their retirement plans.

To empower more customers to consider a lifetime annuity as a part of their retirement portfolio, we developed an interactive tool. This tool demonstrates how a lifetime annuity works with other sources of retirement income and illustrates the level of payments they may expect to receive from an annuity (based on their gender, age and investment amount).

Our research also confirmed the important role of sound, impartial advice in the retirement planning process.

The retirement market is complex and continues to evolve. We aim to help support advisers and dealer groups through a multi-channel approach including on the ground support by our Distribution team, technical support from a team of product specialists; and facilitating a number of state-based workshops and webinars.

> We aim to help support advisers and dealer groups through a multi-channel approach.

## Improved product design

Our lifetime product (Liquid Lifetime) has been enhanced to ensure compliance with the Innovative Superannuation Income Stream rules. This allows for customers to access the benefits of an innovative product, including the ability to defer payments in return for higher income.

Guaranteed Annuity and CarePlus have also been simplified by removing rarely used product options. This has reduced complexity and makes it easier for retirees to understand the benefits of these products.

8 DECENT WORK AND ECONOMIC GROWTH — Our products and services contribute to **SDG 8**

## A trusted brand

Challenger has continued to evolve its brand over the past 12 months by using insights garnered from our customer research. Our brand recognition is strong and we are regarded as a reputable and successful company that provides confidence to our customers. Through our new education campaign and our social outreach initiatives planned for FY20, we're looking to build on this brand recognition. Our aim is to be a brand that meets the complex and diverse requirements today's retirees need from a retirement income provider.

8 DECENT WORK AND ECONOMIC GROWTH — Our brand campaign contributes to **SDG 8** to expand access to financial services

> We launched a new campaign focused on educating retirees and creating confidence in retirement.

$321 per employee donated to our community partners through our workplace giving program.

**Delivering on the UN SDGs**

Celebrating diversity and inclusion contributes to SDG 10 to empower and promote inclusion of all.

Strengthen the means of implementation and revitalise the global partnership for sustainable development

# Supporting the community

## Why does it matter?

Australian businesses rely on customers and the community for their success. There are many ways a company can impact their community both positively and negatively.

Research has shown that outcomes from workplace giving drives employee engagement, enhances the employee value proposition and leads to more engaged stakeholders. Workplace giving also provides a positive social impact for the community, helping to develop stronger communities and more resilient not-for-profit organisations.[1]

Australians are living longer, and older Australians will make up a larger proportion of the population in coming years. They are more vulnerable to many externalities and are subject to discrimination in many aspects of their lives.

## Our response

### Growing expectations

Strong business outcomes are becoming ever more aligned with positive impacts in the communities in which they operate. At Challenger, we understand the growing expectation of our stakeholders and recognise the opportunity we have to make a difference to those in the communities around us. Through workplace giving and volunteering programs, we provide ways for our employees to support their communities. For every dollar our employees donate through our program, Challenger will match that donation (up to $500). We also offer all permanent employees a day of paid leave to volunteer for a charity of their choice. Throughout the year, $321 per employee was donated to our community partners through workplace giving and 1,024 hours were spent volunteering in the community.

Through these programs, we both support our community and increase employee engagement.

**Celebrating diversity and inclusion contributes to SDG 10**

### Strategic community investment

Challenger is committed to making a meaningful impact through our strategic investment in community programs. We have community partnerships with Barnardos, Bear Cottage, beyondblue, Dementia Australia, Meals on Wheels and National Seniors Australia and support them through our workplace giving program and other fundraising activities throughout the year.

At Challenger, we understand the unique challenges older Australians face in the workplace. As part of our strategy, we want to support older Australians through educating the broader Australian population about the valuable contribution that older Australians make to our national productivity, and to seek to remove the direct and indirect discrimination that older Australians can experience in the workplace. In line with this, throughout the year we undertook a review of our community program with the aim of developing a new program with a strategically aligned focus on reducing financial disadvantage in the community. Core to this program is addressing age discrimination and providing support to mature age workers. We expect to finalise the details of our program in early FY20 and commence implementation later in the year.

Our employees contributed to the community through 1,024 hours of volunteering.

**Supporting our community through partnerships contributes to SDG 17**

[1] Giving Australia 2016.

# Material issue boundary map

| Challenger material issue | GRI material topic | Boundary |
|---|---|---|
| **Responsible practices** | | |
| Trust and confidence* | GRI 102: General Disclosures - Ethics and integrity<br>GRI 415: Public policy (415-1)<br>GRI 418: Customer privacy (418-1)<br>GRI 419: Socioeconomic compliance (419-1) | Internal and external |
| Long-term risk management* | GRI 102: General Disclosures - Strategy<br>GRI 201: Economic performance (201-1)<br>GRI 305: Emissions | Internal and external |
| Challenging investment markets* | Challenger specific topic | External |
| People and culture | GRI 205: Anti-corruption (205-1)<br>GRI 401: Employment (401-1 & 401-3)<br>GRI 403: Occupational health and safety (403-1 & 403-2)<br>GRI 404: Training and education (404-1)<br>GRI 405: Diversity and equal opportunity (405-1 & 405-2) | Internal |
| **Constructive policy** | | |
| Changing operating environment* | Challenger specific topic | Internal and external |
| Retirement policy settings* | Challenger specific topic | Internal and external |
| **Customers and community** | | |
| Great customer experiences* | Challenger specific topic | Internal and external |
| Supporting the community* | GRI 201: Economic performance (201-1) | Internal and external |

*Material matter rated highest in importance to both our stakeholders and our business

# Environment

## 2019 greenhouse gas emissions

| Emissions[1] | Units | Source data | $tCO_2$-e |
|---|---|---|---|
| **Scope 1** | | | |
| Natural gas | GJ | 78.2 | 4.0 |
| **Total scope 1** | **GJ** | **78.2** | **4.0** |
| **Scope 2[2]** | | | |
| Electricity | MWh | 1,153.9 | 899.4 |
| **Total scope 2** | **MWh** | **1,153.9** | **899.4** |
| **Scope 3** | | | |
| **Utilities** | | | |
| Natural gas[3] | GJ | 78.2 | 1.0 |
| Electricity[3] | MWh | 1,153.9 | 111.2 |
| Electricity (base building) | MWh | 841.7 | 842.7 |
| Water | ML | 8.3 | 5.3 |
| **Equipment & Services** | | | |
| Paper | tonnes | 11.4 | 14.9 |
| IT equipment | $ (000) | 1.7 | 0.3 |
| Postage | $ (000) | 124.6 | 174.9 |
| Couriers | $ (000) | 32.6 | 45.5 |
| **Travel & Commuting** | | | |
| Accommodation | occupancy nights | 1,584 | 80.4 |
| Flights | (000) km | 6,554.8 | 2,265.5 |
| Employee commuting | (000) km | 4,635.8 | 703.7 |
| Taxis and hire cars | $ (000) | 381.7 | 40.8 |

| Emissions[1] | Units | Source data | $tCO_2$-e |
|---|---|---|---|
| **Food & Beverage** | | | |
| Fruit[4] | $ (000) | 16.0 | 5.2 |
| Milk[4] | $ (000) | 8.0 | 4.7 |
| Other foods (from major events)[5] | $ (000) | 131.2 | 50.5 |
| **Waste** | | | |
| Landfill | tonnes | 33.7 | 30.3 |
| Recycling | tonnes | 33.0 | 6.6 |
| **Total scope 3** | | | **4,383.5** |
| **Overall total** | | | **5,286.9** |

| Topic | Units | $tCO_2$-e |
|---|---|---|
| Direct energy consumption by primary source | GJ | 78.2 |
| Indirect energy consumption by primary source | GJ | 4,154.1 |
| Direct greenhouse gas (GHG) emissions (scope 1) | $tCO_2$-e | 4.0 |
| Energy indirect GHG emissions (scope 2) | $tCO_2$-e | 899.4 |
| Other indirect GHG emissions (scope 3) | $tCO_2$-e | 4,383.5 |
| GHG emissions per employee | $tCO_2$-e | 7.7 |

1 Challenger references an operational control boundary for emissions.
2 Incorporates Scope 2 emissions calculated using a 'location-based' method. Calculations are based on the Department of Environment National Greenhouse Accounts Factors published in July 2018.
3 Under the GHG Protocol, emissions from natural gas come from its consumption (scope 1) and production and distribution losses (scope 3), and emissions from electricity come from its consumption (scope 2) and transmission and distribution losses (scope 3).
4 Incorporates fruit and milk consumption for the Sydney head office.
5 Major events include AGM, Employee Update briefings and Sydney end of year celebration.

GPP AUDIT PTY LIMITED
Chartered Accountants

P O BOX 9482
Bathurst West NSW 2795
www.gppaudit.com.au
ABN: 37 602 950 167

# GREENHOUSE GAS EMISSIONS MEASUREMENT & OFFSET VERIFICATION REPORT FOR CHALLENGER LIMITED YEAR ENDED 30 JUNE 2019

## Independence

GPP Audit Pty Limited confirms that we are not aware of any actual or perceived conflict of interest in having completed this engagement. Benjamin Jenkins confirms that he has not carried out more than five previous consecutive audits for Challenger Limited.

## Scope of audit

GPP Audit Pty Limited has been engaged to undertake an independent assurance audit to determine whether Challenger Limited has appropriately measured and offset their greenhouse gas emissions in line with the National Carbon Offset Standard (NCOS) and the NCOS Carbon Neutral Program Guidelines (the Guidelines).

Benjamin Jenkins of GPP Audit Pty Limited conducted the audit in accordance with ASAE 3000. The audit has been planned and performed in accordance with the proposal approved by the participant to enable me to provide reasonable assurance regarding the measurement and offset of the greenhouse gas emissions of Challenger Limited for the period 1 July 2018 to 30 June 2019.

## Responsibility of Challenger Limited's management

Management of Challenger Limited is responsible for preparing the reporting documentation in accordance with NCOS for Organisations in all material respects. This responsibility includes design, implementation and maintenance of internal controls relevant to the preparation and presentation of reporting documentation that is free from material misstatement, whether due to fraud or error. Management of Challenger Limited is responsible for the interpretation and application of the requirements of NCOS for Organisations. Emissions quantification is subject to inherent uncertainty because incomplete scientific knowledge has been used to determine emissions factors and the values needed to combine emissions due to different gases.

## Our responsibility

Our responsibility is to express an opinion on the measurement and offset of the greenhouse gas emissions of Challenger Limited for the period 1 July 2018 to 30 June 2019 based on the procedures we have performed and the evidence we have obtained. We have conducted our reasonable assurance engagement in accordance with the Australian Standard on Assurance Engagements ASAE 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information.

The Australian Standard on Assurance Engagements ASAE 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information requires us to plan and perform this engagement to obtain reasonable assurance about whether on the measurement and offset of the greenhouse gas emissions are free from material misstatement, omissions or misrepresentations. A reasonable assurance engagement involves performing procedures to obtain evidence about the compliance of the measurement and offset of the greenhouse gas emissions with the NCOS for Organisations. The nature, timing and extent of procedures selected depend on the assurance practitioner's judgement, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, We have considered internal controls relevant to Challenger Limited's preparation of the measurement and offset of the greenhouse gas emissions. We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our assurance conclusion.

GPP Audit Pty Limited has not conducted any audit procedures with respect to the internal control environment and data management system of the audited body as a whole. As such, no assurance is provided on any internal control environment and data management system not associated with preparing the measurement and offset of the greenhouse gas emissions.

## Summary of procedures undertaken

The procedures we conducted in our reasonable assurance engagement included: Assessment of completeness of emission sources; Assessment of greenhouse gas information systems and controls; and Assessment of greenhouse gas information and data.

## Use of our reasonable assurance engagement report

This report has been prepared for the use of Challenger Limited for the sole purpose of reporting on the measurement and offset of their greenhouse gas emissions for the period 1 July 2018 to 30 June 2019. Accordingly, we expressly disclaim and do not accept any responsibility or liability to any party other than Challenger Limited for any consequences of reliance on this report for any purpose.

## Inherent limitations

There are inherent limitations in performing assurance—for example, assurance engagements are based on selective testing of the information being examined—and because of this, it is possible that fraud, error or non-compliance may occur and not be detected. An assurance engagement is not designed to detect all misstatements, as an assurance engagement is not performed continuously throughout the period that is the subject of the engagement and the procedures performed on a test basis. The conclusion expressed in this report has been formed on the above basis.

## Audit conclusion

In our opinion, the audited body has appropriately measured and offset their greenhouse gas emissions in all material aspects in accordance with the NCOS for Organisations.

Ben Jenkins.

**Benjamin Jenkins – Director, GPP Audit Pty Limited**
**NGER Registration Number 0129/2011**
Dated this 19th Day of July 2019

CHARTERED ACCOUNTANTS AUSTRALIA + NEW ZEALAND

Liability limited by a scheme
Approved under Professional
Standards legislation

**Benjamin Jenkins B. Bus CA**
Director
**P:** 0403 035 743 **E:** ben@gppaudit.com.au

# People

## Employee profile

| Number of employees | FTE[1] | Headcount |
|---|---|---|
| Overall total | 687.4 | 703 |

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 | 206 | 382 | 588 |
| Part time | 45 | 5 | 50 |
| **Fixed term** | | | |
| Full time | 28 | 25 | 53 |
| Part time | 3 | 3 | 6 |
| **Contractors** | | | |
| Agency | 1 | 0 | 1 |
| Independent | 1 | 2 | 3 |
| **Casual** | 1 | 1 | 2 |
| **Total** | **285** | **418** | **703** |

| Employees by region and gender | Female | Male | Total |
|---|---|---|---|
| Adelaide | 1 | 1 | 2 |
| Brisbane | 5 | 4 | 9 |
| Hobart | 5 | 7 | 12 |
| Melbourne | 11 | 15 | 26 |
| Perth | 2 | 2 | 4 |
| Sydney | 254 | 357 | 611 |
| London | 6 | 23 | 29 |
| Tokyo | 1 | 8 | 9 |
| Other | 0 | 1 | 1 |
| **Total** | **285** | **418** | **703** |

| Employees by age group | Total |
|---|---|
| Under 30 | 109 |
| 30 - 39 | 271 |
| 40 - 49 | 239 |
| 50 - 59 | 72 |
| 60 and over | 12 |
| **Total** | **703** |

| New hires by age group | Total |
|---|---|
| Under 30 | 61 |
| 30 - 39 | 72 |
| 40 - 49 | 33 |
| 50 - 59 | 12 |
| 60 and over | 1 |
| **Total** | **179** |

[1] Full-time equivalent.

# People

| New hires by region and gender | Female | Male | Total |
|---|---|---|---|
| Adelaide | 0 | 0 | 0 |
| Brisbane | 0 | 0 | 0 |
| Hobart | 0 | 0 | 0 |
| Melbourne | 1 | 2 | 3 |
| Perth | 0 | 0 | 0 |
| Sydney | 74 | 91 | 165 |
| London | 2 | 6 | 8 |
| Tokyo | 0 | 3 | 3 |
| Other | 0 | 0 | 0 |
| **Total** | **77** | **102** | **179** |

| Voluntary turnover[1] by age group | Total |
|---|---|
| Under 30 | 27 |
| 30 - 39 | 39 |
| 40 - 49 | 24 |
| 50 - 59 | 8 |
| Over 60 | 2 |
| **Total** | **100** |

| Voluntary turnover[1] by region and gender | Female | Male | Total |
|---|---|---|---|
| Adelaide | 0 | 0 | 0 |
| Brisbane | 0 | 1 | 1 |
| Hobart | 0 | 0 | 0 |
| Melbourne | 0 | 2 | 2 |
| Perth | 0 | 0 | 0 |
| Sydney | 42 | 48 | 90 |
| London | 2 | 3 | 5 |
| Tokyo | 0 | 1 | 1 |
| Other | 0 | 1 | 1 |
| **Total** | **44** | **56** | **100** |

## Employee safety and wellbeing

| Work health and safety | FY16 | FY17 | FY18 | FY19 |
|---|---|---|---|---|
| Lost time injury frequency rate (days) | 2.4 | 1.6 | 0 | 0 |
| Workers compensation claims | 6 | 3 | 4 | 3 |
| Absenteeism days per FTE | 3.1 | 2.8 | 2.7 | 2.7 |
| Fatalities | Nil | 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:** | | |
| - Salary continuance | yes | no |
| - Superannuation top-up (up to $500) | yes | no |
| - Superannuation on unpaid parental leave | yes | no |

[1] Voluntary turnover refers to employees who resign or retire.

# People

## Diversity

| Board and Nomination Committee diversity – gender and age | Female | Male | Total |
|---|---|---|---|
| **Board** | | | |
| Under 50 | 0 | 1 | 1 |
| 50 and over | 2 | 5 | 7 |
| **Nomination Committee** | | | |
| 50 and over | 2 | 5 | 7 |

| Internal employee movement by gender | Female | Male | Total |
|---|---|---|---|
| Transfers | 26 | 49 | 75 |
| Secondments | 12 | 9 | 21 |
| Promotions | 11 | 8 | 19 |
| **Total** | **49** | **66** | **115** |

| Remuneration positioning for women compared to men against the market median | Salary package | Total reward |
|---|---|---|
| FY14 | -2% | -3% |
| FY15 | 1% | -1% |
| FY16 | -1% | -2% |
| FY17 | -1% | -1% |
| FY18 | 0% | -1% |
| FY19 | 0% | 1% |

| Gender salary comparison by level[1] | Average female salary as a percentage of average male salary |
|---|---|
| Senior management | 90.97% |
| Other management | 86.07% |
| Non-management | 88.15% |

| Parental leave return rate | Female | Male |
|---|---|---|
| Employees who commenced parental leave during the year | 26 | 10 |
| Employees who returned to work in FY18 after a period of parental leave | 14 | 10 |
| Employees who returned to work after parental leave and were still employed 12 months after return[2] | 7 | 1 |
| Parental leave return to work rate[2] | 86% | 100% |

[1] This comparison is by level only and not a like-for-like comparison.
[2] Based on the return to work of employees who commenced parental leave in either FY17 or FY18 and returned to work in FY19.

# People

## Diversity measurable objectives for 2019

| Objective | Performance |
|---|---|
| **Strategy and business case**<br>Incorporate workplace diversity in our organisational strategy | Our Diversity strategy is published on our intranet and we have actively discussed and promoted diversity initiatives, progress and outcomes throughout the year. In February 2019, the Workplace Gender Equality Agency (WGEA) recognised Challenger as an Employer of Choice for Gender Equality for the second consecutive year. |
| **Stakeholder engagement**<br>Continue to build awareness of our priority on, and the benefits of, workplace diversity | We evaluate employee perceptions on diversity and flexibility as part of our employee engagement survey. In 2019, responses to Diversity and Flexibility category questions ranked highest, with 94% responding positively.<br><br>Challenger employees also enjoyed membership with Women in Super and the Diversity Council of Australia, and 100 employees attended seminars, workshops and networking events during FY19.<br><br>We also became a partner of Future IM/Pact, a financial services industry initiative aimed at attracting more women into investment teams. This has included the participation of a number of Challenger employees in the inaugural student and investor seminar event and roundtable lunch sessions. |
| **Gender composition**<br>Increase the representation of women in senior leadership | Challenger's talent management practices continue to focus on identifying talented women and supporting their development. During FY19, Angela Murphy and Michelle Taylor were promoted to the roles of Chief Executive, Distribution, Product & Marketing and Chief Executive, People, Corporate Affairs and Sustainability respectively, on Challenger's Leadership Team. Adding to this, 53% of appointments to manager level roles were to women.<br><br>We ensure the Nomination Committee and the Board have an appropriate diversity of membership. At the end of FY19, female representation on the Challenger Board and the Nomination Committee was 25% and 29% respectively. The Board has committed to a target of 30% female representation by 30 June 2020.<br><br>Five year gender composition targets were implemented in FY16. Our progress towards our FY20 targets are as follows: |

| | Jun 16 | Jun 17 | Jun 18 | Jun 19 | FY19 target | FY20 target |
|---|---|---|---|---|---|---|
| Women in all roles | 41.7% | 42.7% | 43.8% | 44.2% | 43.5% | 45% |
| Women in management | 29.3% | 32.9% | 38.2% | 37.0% | 38.5% | 40% |

Having made good progress on our targets in previous years, in the past year we have fallen below for women in management. Getting back on target will be a continuing focus for us.

| Objective | Performance |
|---|---|
| **Gender pay equity**<br>Continue to drive gender pay equity | Challenger has successfully closed gender pay gaps for like roles and this has been maintained for FY19.<br><br>Gender pay gaps remain by management level and across the organisation more broadly, with the pay gap for fixed salary increasing for women in senior management roles from 5% to 11%, driven by a number of senior women leaving the organisation during FY19. For women in other management roles, the pay gap for fixed salary increased from 7% to 16%.<br><br>On appointment to the position of CEO in January 2019, Richard Howes continued Challenger's commitment to gender pay equity by becoming a WGEA Pay Equity Ambassador.<br><br>Challenger also 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. |

# People

## Diversity measurable objectives for 2019 (continued)

| Objective | Performance |
|---|---|
| **Flexibility**<br>Expand flexible working to make our business more agile and enable employees to better balance life and work | Challenger's 2019 employee engagement survey results indicate that Challenger's existing workplace practices provide the vast majority of employees with the flexibility they need (92% of employees responded favourably to questions about flexibility at Challenger).<br>In December 2016, we rolled out an online application and toolkit for formal flexible work requests. Since then over 100 new flexible work applications have been made and 96% of these have been approved. Just over a quarter of these have been for male employees.<br>To support employees integrating work with life, throughout the year, we introduced the option to purchase leave. This means that all permanent employees are now able to purchase up to two additional weeks of annual leave per year. |
| **Talent pipeline**<br>Focus on recruitment and retention practices to ensure a diverse talent pool | We've continued to work with our recruitment partners to ensure appropriate gender representation for external candidate shortlists.<br>Throughout FY19, we also continued to focus on identifying opportunities for internal progression for women within Challenger, with:<br>• 35% of a total of 75 internal promotions were women (51% in FY18);<br>• 57% of a total of 21 internal secondments were women (35% in FY18); and<br>• 58% of a total of 19 internal transfers were women (42% in FY18). |

# Community and research

## Sponsorship of community events, research and leadership forums

| Activities | Total |
|---|---:|
| Sponsorship of COTA | $50,000 |
| Reasearch grant for National Seniors Australia | $75,000 |
| JP Morgan corporate challenge sponsorship | $13,833 |
| FICAP - Financial Industry Community Aid Program | $11,000 |
| Social Ventures Australia (for FY20 community program) | $187,542 |
| **Total** | **$337,375** |

# 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 | https://www.challenger.com.au/about-us | |
| | 102-3 Location of headquarters | 5 Martin Place<br>Sydney NSW 2000 | |
| | 102-4 Location of operations | https://www.challenger.com.au/about-us/contact-us/australian-offices | |
| | 102-5 Ownership and legal form | https://www.challenger.com.au/about-us | |
| | 102-6 Markets served | https://www.challenger.com.au/about-us | |
| | 102-7 Scale of the organisation | 2019 Annual Report: About Challenger | |
| | 102- 8 Information on employees and other workers | Performance data - People | 29 |
| | 102- 9 Supply chain | 2019 Annual Report: Overview.<br>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 | 2019 Corporate Governance Statement:<br>Principle 7- Recognise and manage risk | |
| | 102-12 External initiatives | FTSE4GOOD index (voluntary)<br>Principles of Responsible Investment (voluntary) | |

| GRI standard | Disclosure | Reference or response | Page |
|---|---|---|---|
| **GRI 102: General Disclosures 2016** | 102-13 Membership of associations | Asian association for Investors in Non-listed Real Estate Vehicles<br>Association of Superannuation Funds of Australia<br>Australia Japan Business Co-Op Committee<br>Australian Human Resources Institute<br>Australian Payroll Association Pty Ltd<br>Australian Securitisation Forum<br>Committee for Economic Development of Australia<br>Corporate Executive Board<br>Diversity Council Australia Ltd<br>Financial Institutions Remuneration Group Inc<br>Financial Services Council<br>Governance Risk Compliance Institute<br>Group of 100<br>Law Council of Australia<br>National Seniors Australia Ltd<br>NSW Australian Property Institute<br>Principles for Responsible Investment Association<br>Property Council of Australia<br>Shopping Centre Council of Australia<br>Women in Super | |
| | 102-14 Statement from senior decision-maker | Update from the Chair & CEO | 03 |

# Global Reporting Initiative content index

| GRI standard | Disclosure | Reference or response | Page |
|---|---|---|---|
| **General Disclosures (continued)** | | | |
| **GRI 102: General Disclosures 2016** | 102-16 Values, principles, standards and norms of behaviour | Responsible practices - Trust and confidence | 10 |
| | 102-18 Governance structure | About us - Governance and risk management | 08 |
| | 102-40 List of stakeholder groups | About us - What matters most | 06 |
| | 102-41 Collective bargaining agreements | Challenger does not have any employees covered by collective bargaining agreements. | |
| | 102-42 Identifying and selecting stakeholders | About us - What matters most | 06 |
| | 102-43 Approach to stakeholder engagement | About us - What matters most | 06 |
| | 102-44 Key topics and concerns raised | About us - What matters most | 06 |
| | 102-45 Entities included in the consolidated financial statements | 2019 Annual Report: note 22 to the Financial Statements | |
| | 102-46 Defining report content and topic boundaries | Material issue boundary map | 26 |
| | 102-47 List of material topics | About us - What matters most | 06 |
| | 102-48 Restatements of information | The overall FY18 emissions profile was restated to reflect a correction to the method for calculating emissions from business flights. The resulting increase in emissions was 892.1, increasing the overall FY18 emissions to 5,417.8. | |

| GRI standard | Disclosure | Reference or response | Page |
|---|---|---|---|
| **GRI 102: General Disclosures 2016** | 102-49 Changes in reporting | As a result of the 2019 materiality assessment undertaken, the following changes were made to the material issues identified:<br>• 'Conduct and trust' became 'Trust and confidence'<br>• 'Responsible Investment' is considered within 'Long-term risk management'<br>• 'Technology and information security' is considered within 'Trust and confidence'<br>• 'Investing in the community' became 'Supporting our community'<br>• 'Positive customer outcomes' became 'Great customer experiences'<br>• 'Regulatory change' became 'Retirement policy settings'<br>• 'Market structures and competition' is considered within 'Changing operating environment'<br>• 'Ageing population demographics' is considered within 'Long-term risk management'<br>• 'Climate change' is considered within 'Long-term risk management'<br>• 'Workforce well-being and culture, 'Talent attraction and retention' and 'Diversity and inclusion' are considered within 'People and culture' | |
| | 102-50 Reporting period | 1 July 2018 - 30 June 2019 | |
| | 102-51 Date of most recent report | 13 August 2019 | |
| | 102-52 Reporting cycle | Annual | |
| | 102-53 Contact point for questions regarding this report | Jodi Litzenberger | |

# Global Reporting Initiative content index

| GRI standard | Disclosure | Reference or response | Page |
|---|---|---|---|
| **General Disclosures (continued)** | | | |
| **GRI 102: General Disclosures 2016** | 102-54 Claims of reporting in accordance with the GRI Standards | About us - Report outline and contents | 02 |
| | 102-55 GRI content index | GRI content index | 34 |
| | 102-56 External assurance | The energy and greenhouse gas emissions calculations provided in this report have been externally assured by GPP Audit Pty Ltd. Other topics in this report have not been externally assured. | 28 |
| **Responsible practices** | | | |
| **Material topic: Trust and confidence** | | | |
| **GRI 103: Management Approach 2016** | 103-1 Explanation of the material topic and its boundaries | Responsible practices - Trust and confidence<br>About us - What matters most | 10<br>06 |
| | 103-2 The management approach and its components | Responsible practices - Trust and confidence | 10 |
| | 103-3 Evaluation of the management approach | Responsible practices - Trust and confidence | 10 |
| **GRI 415: Public Policy 2016** | 415-1 Political contributions | Responsible practices - Trust and confidence | 10 |
| **GRI 418: Customer Privacy 2016** | 418-1 Complaints concerning privacy | Responsible practices - Trust and confidence | 10 |
| **GRI 419: Socioeconomic Compliance 2016** | 419-1 Non-compliance with laws and regulations in the social and economic area | No significant fines or non-monetary sanctions were identified in relation to non-compliance with laws and/ or regulations, including corruption. | |
| **Material topic: Long-term risk management** | | | |
| **GRI 103: Management Approach 2016** | 103-1 Explanation of the material topic and its boundaries | Responsible practices - Long-term risk management<br>About us - What matters most | 12<br>06 |
| | 103-2 The management approach and its components | Responsible practices - Long-term risk management | 12 |
| | 103-3 Evaluation of the management approach | Responsible practices - Long-term risk management | 12 |
| **GRI 105: Emissions** | 305-1 Direct (Scope 1) GHG emissions | Performance and reference data – Environment | 27 |
| | 305-2 Energy direct (Scope 2) GHG emissions | Performance and reference data – Environment | 27 |
| | 305-3 Other indirect (Scope 3) GHG emissions | Performance and reference data – Environment | 27 |
| | 305-4 GHG emissions intensity | Performance and reference data – Environment | 27 |
| | 305-5 Reduction of GHG emissions | Performance and reference data – Environment | 27 |
| **GRI 201: Economic Performance 2016** | 201-1 Direct economic value generated and distributed | 2019 Annual Report: note 3 to the Financial Statements | |
| **Material topic: Challenging investment markets (not aligned to GRI)** | | | |
| **GRI 103: Management Approach 2016** | 103-1 Explanation of the material topic and its boundaries | Responsible practices - Challenging investment markets<br>About us - What matters most | 15<br>06 |
| | 103-2 The management approach and its components | Responsible practices - Challenging investment markets | 15 |
| | 103-3 Evaluation of the management approach | Responsible practices - Challenging investment markets | 15 |
| **Material topic: People and culture** | | | |
| **GRI 103: Management Approach 2016** | 103-1 Explanation of the material topic and its boundaries | Responsible practices - People and culture<br>About us - What matters most | 16<br>06 |
| | 103-2 The management approach and its components | Responsible practices - People and culture | 16 |
| | 103-3 Evaluation of the management approach | Responsible practices - People and culture | 16 |

# Global Reporting Initiative content index

| GRI standard | Disclosure | Reference or response | Page |
|---|---|---|---|
| **Responsible practices (continued)** | | | |
| **Material topic: People and culture** | | | |
| **GRI 205: Anti-corruption 2016** | 205-1 Confirmed incidents of corruption and actions taken | No employees were disciplined or dismissed due to non-compliance with anti-corruption policies in the year. | |
| **GRI 401: Employment 2016** | 401-1 New employee hires and employee turnover | Performance and reference data - People | 29 |
| | 401-3 Parental leave | Performance and reference data - People | 31 |
| **GRI 403: Occupational Health and Safety 2016** | 403-1 Worker's representation in formal health and safety committees | Responsible practices - People and culture | 18 |
| | 403-2 Injuries, lost days, absenteeism and work-related fatalities | Performance and reference data - People | 30 |
| **GRI 404: Training and Education 2016** | 404-3 Percentage of employees receiving regular performance and career development reviews | Responsible practices - People and culture | 16 |
| **GRI 405: Diversity and Equal Opportunity 2016** | 405-1 Diversity of governance bodies and employees | Performance and reference data - People | 31 |
| | 405-2 Ratio of basic salary and remuneration of women to men | Performance and reference data - People | 31 |
| **Constructive policy** | | | |
| **Material topic: Changing operating environment (not aligned to GRI)** | | | |
| **GRI 103: Management Approach 2016** | 103-1 Explanation of the material topic and its boundaries | Constructive policy - Changing operating environment<br>About us - What matters most | 20<br>06 |
| | 103-2 The management approach and its components | Constructive policy - Changing operating environment | 20 |
| | 103-3 Evaluation of the management approach | Constructive policy - Changing operating environment | 20 |

| GRI standard | Disclosure | Reference or response | Page |
|---|---|---|---|
| **Material topic: Regulatory uncertainty in retirement (not aligned to GRI)** | | | |
| **GRI 103: Management Approach 2016** | 103-1 Explanation of the material topic and its boundaries | Constructive policy - Retirement policy settings<br>About us - What matters most | 22<br>06 |
| | 103-2 The management approach and its components | Constructive policy - Retirement policy settings | 22 |
| | 103-3 Evaluation of the management approach | Constructive policy - Retirement policy settings | 22 |
| **Customers and community** | | | |
| **Material topic: Great customer experiences (not aligned to GRI)** | | | |
| **GRI 103: Management Approach 2016** | 103-1 Explanation of the material topic and its boundaries | Customers and community - Great customer experiences<br>About us - What matters most | 23<br>06 |
| | 103-2 The management approach and its components | Customers and community - Great customer experiences | 23 |
| | 103-3 Evaluation of the management approach | Customers and community - Great customer experiences | 23 |
| **Material topic: Supporting the community** | | | |
| **GRI 103: Management Approach 2016** | 103-1 Explanation of the material topic and its boundaries | Customers and community - Supporting the community<br>About us - What matters most | 25<br>06 |
| | 103-2 The management approach and its components | Customers and community - Supporting the community | 25 |
| | 103-3 Evaluation of the management approach | Customers and community - Supporting the community | 25 |
| **GRI 201: Economic Performance 2016** | 201-1 Direct economic value generated and distributed | Customers and community - Supporting the community<br>Performance and reference data - Community and research | 25<br>33 |

# Glossary

**Australian Prudential Regulation Authority (APRA)** - APRA is an independent statutory authority that supervises institutions across banking, insurance and superannuation and promotes financial system stability in Australia.

**Australian Securities and Investments Commission (ASIC) -** ASIC is Australia's integrated corporate, markets, financial services and consumer credit regulator. It is an independent Commonwealth Government body and administers the Australian Securities and Investments Commission Act 2001.

**ESG** - Environmental, social and governance.

**Financial Adviser Standards and Ethics Authority (FASEA)** - FASEA was established in April 2017 to set the education, training and ethical standards of licensed financial advisers in Australia.

**Financial Services Council (FSC)** - The FSC's vision is for all Australians to have a fair and financially secure future. They support their membership in achieving outcomes that will contribute to their vision.

**FTSE4Good index** - The FTSE4Good Index is a series of ethical investment stock market indices launched in 2001 by the FTSE Group. Challenger submits annual reports to the index, which are assessed to provide opportunities for continuous improvement.

**Fundamental Conventions of the ILO** - The eight conventions covering subjects that are considered as fundamental principles and rights at work: freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation.

**Future of Financial Advisers (FoFA)** - The FoFA is legislation, in effect from 1 July 2012, which was designed to provide consumers with protection from deficient financial advice and improve trust and confidence in the financial services sector.

**International Labour Organisation (ILO)** - The ILO is a United Nations agency, which sets international labour standards, promotes rights at work and encourages decent employment opportunities, the enhancement of social protection and the strengthening of dialogue on work-related issues.

**NABERS** - NABERS is a national rating system that measures the environmental performance of Australian buildings, tenancies and homes.

**Paris Agreement** - At COP 21 in Paris, on 12 December 2015, Parties to the UNFCCC reached a landmark agreement to combat climate change and to accelerate and intensify the actions and investments needed for a sustainable low carbon future. The Paris Agreement's central aim is to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius.

**Responsible Investment Association of Australasia (RIAA)** - RIAA champions responsible investing and a sustainable finance system in Australia and New Zealand.

**Task Force on Climate-related Financial Disclosures (TCFD) recommendations** - Recommendations from an industry-led task force focusing on voluntary climate-related financial disclosures split across the thematic areas of governance, strategy, risk management, and metrics and targets.

**Tax Transparency Code (TTC) -** The TCC is a set of principles and 'minimum' standards to guide disclosure of tax information by businesses.

**United Nations Framework Convention on Climate Change (UNFCCC)** - The UNFCCC is an international environmental treaty adopted and implemented by countries all around the world in 1994 to address the issue of climate change. The 197 countries that ratified the agreement represent almost universal global involvement.

**United Nations Principles for Responsible Investments (PRI)** - The PRI are a set of six principles that guide investors to consider ESG factors in investment decisions.

**United Nations Sustainable Development Goals (SDGs)** - The SDGs are a call to action to improve the well being of current and future generations. They aim to tackle the world's biggest challenges through the promotion of sustainable development to 2030.

**Universal Declaration of Human Rights (UDHR)** - The UDHR is a document that sets out fundamental human rights to be universally protected, developed through the United Nations.

**Workplace Gender Equality Agency (WGEA)** - WGEA is an Australian Government statutory agency charged with promoting and improving gender equality in Australian workplaces.