

Challenger Capital Notes

Newsletter August 2019



Dear Noteholder

On behalf of the Board and management team, I'm pleased to provide you with an update on the performance of Challenger.

In 2019 we made good progress delivering on our long-term strategy for growth; however, our financial performance was below expectations set at the start of the year, impacted by a disrupted Australian financial services landscape.

2019 financial results

Group performance was impacted by the challenging operating environment. Normalised net profit before tax was up \$1 million to \$548 million. This was in line with the revised guidance provided in January 2019. Normalised net profit after tax was down \$10 million to \$396 million due to a higher tax rate.

Statutory profit after tax was down \$15 million to \$308 million. This includes \$88 million of negative investment experience, which represents the fair value movements on Life's assets and liabilities.

Capital position

We have maintained a strong capital position, with \$1.5 billion of excess regulatory capital and Group cash, an increase of \$0.1 billion for the year. Challenger Life Company's prescribed capital amount (PCA) ratio of 1.53 times is towards the top end of our target range of 1.3 to 1.6 times the minimum amount set by the Australian Prudential Regulation Authority (APRA). Our strong capital position supports future growth in Challenger's annuity book and ensures the business is positioned well to manage through this period.

Group assets under management

\$82_{bn}

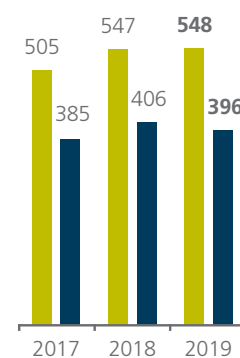
Normalised return on equity (pre-tax)

16%

Regulatory capital above APRA's minimum requirement and Group cash

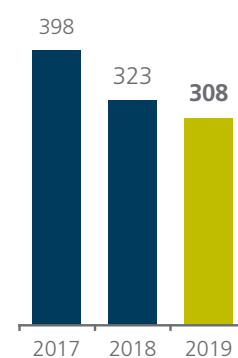
\$1.5_{bn}

Normalised profit after tax (\$m)¹



■ Normalised profit before tax
■ Normalised profit after tax

Statutory net profit after tax (\$m)



Life performance

Life focuses on the retirement spending phase of superannuation by providing products that convert retirement savings into safe and secure income for life.

Total Life sales were \$4.6 billion, down 18% on last year, impacted by both lower annuity and lower other product sales.

The biggest driver of the decline in annuity sales was lower MS Primary sales in Japan, which were down 54% due to higher US interest rates relative to Australia. The contribution from MS Primary is expected to increase significantly in FY20 following an agreement with Challenger to reinsure US dollar annuities in Japan, which commenced on 1 July 2019.

¹ Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in Section 8 of the Operating and Financial Review in the Challenger 2019 Annual Report.

Domestic annuity sales were down 4%, or \$140 million to \$3.3 billion, despite significant adviser market disruption. This resilience was particularly evident in sales by independent financial advisers (IFAs), up 26% for the year, while major advice hub sales were down 16%.

Increasing the availability of Challenger annuities via superannuation and investment platforms has supported the shift towards a more diverse and dispersed adviser market. During the year, Challenger launched its annuity products on three leading platforms serving the independent advice market, including BT Panorama, HUB24 and Netwealth.

Challenger has also increased its focus on engaging more directly with customers with the aim of building bottom-up customer demand. This year, Challenger launched a new brand campaign and website aimed at building awareness about Challenger and the benefits of annuities.

Funds Management performance

Funds Management focuses on building savings by providing products seeking to deliver superior investment returns.

In our Funds Management business, strong underlying earnings were offset by lower performance fees, which were \$16 million lower than last year. When the impact of performance fees are removed, earnings before interest and tax increased by 23%.

This year Fidante Partners has focused on expanding products and adding new boutiques. In December 2018, Fidante Partners launched ActiveX, a series of active exchange traded funds (ETFs) to cater to the growing demand from retail investors for different types of investment strategies accessible via the Australian Securities Exchange. The series launched an actively managed fixed income ETF from Ardea and we expect to launch new ETFs this year. In April 2019, Fidante welcomed small companies boutique, Eiger Capital to its stable.

Outlook

While 2019 performance has been impacted by disruption across the Australian financial services landscape, the business is in good shape to navigate the current operating environment and well positioned to capture opportunities as they emerge. Investment in a range of new Distribution, Product and Marketing growth initiatives in 2020 will support deeper integration with the advice process and build bottom-up customer demand for Challenger annuities.

Thank you for your ongoing support and commitment to Challenger.



Peter Polson

Independent Chair
Challenger Limited

Manage your holding

For administrative matters in respect of your Challenger Capital Notes holding, please contact Computershare Investor Services.

T: 1800 780 782

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Go electronic

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Challenger Capital Notes distribution history

Distribution payment date	Cash distribution ¹	Total return ^{1,2}
26 August 2019	\$0.84	4.8342%
27 May 2019	\$0.92	5.2911%
25 February 2019	\$0.93	5.3441%
26 November 2018	\$0.93	5.3537%
27 August 2018	\$0.96	5.3350%

Challenger Capital Notes 2 distribution history

Distribution payment date	Cash distribution ¹	Total return ^{1,2}
22 August 2019	\$1.04	5.9000%
22 May 2019	\$1.07	6.2946%
22 February 2019	\$1.12	6.3432%
22 November 2018	\$1.12	6.3550%
22 August 2018	\$1.12	6.3453%

¹ The cash distribution is the cash payment made on each \$100 Challenger Capital Note or Challenger Capital Note 2 for the relevant quarterly Distribution Period. It is calculated as the Distribution Rate, multiplied by the number of days in the relevant quarterly Distribution Period divided by 365 days, applied to each \$100 Challenger Capital Note or Challenger Capital Note 2.

² Total return represents the cash distribution plus franking credits.