

ANNUAL REPORT AND ANALYST PACK CORRECTION

Challenger Limited (ASX: CGF) – Challenger has today released to the Australian Securities Exchange its 2020 financial information, which includes the 2020 Annual Report and the 2020 Analyst Pack.

The 2020 Annual Report on page 65 stated the normalised equity and infrastructure growth assumption from 1 July 2020 is 3.5%, this should have been 4.0%. The correct assumption was included in the Analyst Pack and Investor Presentation.

In the 2020 Analyst Pack, the table on page 35 (Table 2: Fixed income portfolio by credit rating) contained a formatting error with the misalignment of the rows, resulting in duplicated values.

The items are not considered material and have been corrected in the attached 2020 Annual Report and 2020 Analyst Pack revised pages.

END

This release has been authorised by Challenger's Continuous Disclosure Committee

About Challenger

Challenger Limited (Challenger) is an investment management firm focusing on providing customers with financial security for retirement.

Challenger operates two core investment businesses, a fiduciary Funds Management division and an APRA-regulated Life division. Challenger Life Company Limited is Australia's largest provider of annuities.

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Note 3 Segment information (continued)

Definitions (continued)

Corporate and other

The corporate segment, which is not considered an operating segment of the Group, is used to reconcile the total segment results back to the consolidated results and consists of other income and costs that fall outside the day-to-day operations of the reportable segments. These include the costs of the Group CEO and CFO, shared services across the Group, long-term incentive costs, Directors' fees, corporate borrowings and associated borrowing costs and shareholder registry services.

To reconcile to Group results, the Corporate and other segment also includes eliminations and non-core activities of the Group.

Transactions between segments

All transactions and transfers between segments are generally determined on an arm's length basis and are included within the relevant categories of income and expense. These transactions eliminate on consolidation.

Normalised vs. statutory results

Net income and operating expenses differ from revenue and expenses as disclosed in the statement of comprehensive income as certain direct costs (including distribution expenses, property expenses and management fees) included in expenses are netted off against revenues in deriving the management view of net income above. Net income consists of the following sub-categories of management views of revenue:

- Normalised cash operating earnings (Life segment).
- Net income (Funds Management segment).
- Other income (Corporate and other segment).

In addition, the revenues, expenses and finance costs from Special Purpose Vehicles (SPV) are separately disclosed in the statutory view but are netted off in net income.

Revenue also includes investment gains and losses which are excluded from the management view as they form part of investment experience (refer below).

Normalised cash operating earnings

This is calculated as cash earnings plus normalised capital growth (refer below). Cash earnings represent the sum of investment yield (being the management view of revenue from investment assets, such as net rental income, dividends and interest), interest expense, distribution expenses and fees.

Normalised EBIT

Normalised earnings before interest and tax (EBIT) comprises net income less operating expenses, as defined above. It excludes investment experience, corporate interest and borrowing costs, tax and any significant items (refer below).

Interest and borrowing costs differ from finance costs as disclosed in the Statement of comprehensive income for similar reasons to revenue and expenses, with the major difference arising from the netting of SPV finance costs against SPV revenue in net income in the management view of the Life segment.

Tax on normalised profit

This represents the consolidated statutory tax expense or benefit for the period, less tax attributable to non-controlling interests, investment experience and significant items.

Investment experience after tax

The Group is required by accounting standards to value applicable assets and liabilities supporting the life insurance business at fair value. This can give rise to fluctuating valuation movements being recognised in the Statement of comprehensive income, particularly during periods of market volatility. As the Group is generally a long-term holder of assets, due to assets being held to match the term of life contract liabilities, the Group takes a long-term view of the expected capital growth of the portfolio rather than focusing on short-term volatility. Investment experience is a mechanism employed to isolate the volatility arising from asset and liability valuation within the results so as to more accurately reflect the underlying performance of the Group.

Investment experience is calculated as the difference between the actual investment gains/losses (both realised and unrealised) and the normalised capital growth (refer below) plus life contract valuation changes and new business strain. Investment experience after tax is investment experience net of tax at the prevailing income tax rate.

Normalised capital growth

This is determined by multiplying the normalised capital growth rate for each asset class by the average investment assets for the period. The normalised growth rates represent the Group's medium to long-term capital growth expectations for each asset class over the investment cycle.

The normalised growth rates for the period are +3.5% for equity and other investments (30 June 2019: +4.5%), +4.0% for infrastructure (30 June 2019: +4.0%), +2.0% for property (30 June 2019: +2.0%) and -0.35% for cash and fixed income (30 June 2019: -0.35%). The rates are set with reference to medium to long-term market growth rates and are reviewed to ensure consistency with prevailing market conditions.

Reflecting changes made to the investment portfolio asset allocation in response to COVID-19, the investment classification and normalised growth rates have been revised from 1 July 2020 as follows: +4.0% for equity and infrastructure investments, 0.0% for alternatives, +2.0% for property and -0.35% for cash and fixed income.

Annuity valuation experience

Life contract valuation assumption changes represent the impact of changes in macroeconomic variables including bond yields and inflation factors, expense assumptions and other factors applied in the valuation of life contract liabilities. It also includes the attribution of the corresponding interest rate, foreign exchange and inflation derivatives used for hedging.

New business strain is a non-cash valuation adjustment recognised when annuity rates on new business are higher than the risk-free rate used to fair value life contracts.

Table 2: Fixed income portfolio by credit rating

30 June 2020 (\$m)	Investment grade						Non-investment grade			Total
	Liquids	AAA	AA	A	BBB	Total	BB	B or lower	Total	\$m
Liquids										
Government bonds ¹	2,843	-	-	-	-	2,843	-	-	-	2,843
Covered bonds	160	-	-	-	-	160	-	-	-	160
Asset-Backed Securities										
RMBS	-	1,805	561	599	306	3,271	135	80	215	3,486
Other ABS	-	549	211	241	175	1,176	499	188	687	1,863
Senior Secured Bank Loans	-	316	57	40	162	575	118	-	118	693
Aviation Finance	-	-	-	90	29	119	15	3	18	137
CMBS	-	33	23	69	55	180	20	6	26	206
Corporate Credit										
Banks and Financials	-	-	88	287	623	998	21	2	23	1,021
Infrastructure	-	-	132	485	548	1,165	42	19	61	1,226
Non-Financial Corporates	-	4	43	115	528	690	289	517	806	1,496
Commercial Real Estate	-	30	6	391	320	747	68	25	93	840
Total	3,003	2,737	1,121	2,317	2,746	11,924	1,207	840	2,047	13,971
Fixed income portfolio (%)	21%	20%	8%	17%	19%	85%	9%	6%	15%	100%
Average duration (years)	-	2.0	2.7	3.5	2.9	2.7	2.2	2.2	2.2	2.6

30 June 2020 (%)	Investment grade						Non-investment grade			Total
	Liquids	AAA	AA	A	BBB	Total	BB	B or lower	Total	%
Liquids										
Government bonds ¹	100%	-	-	-	-	100%	-	-	-	100%
Covered bonds	100%	-	-	-	-	100%	-	-	-	100%
Asset-Backed Securities										
RMBS	-	52%	16%	17%	9%	94%	4%	2%	6%	100%
Other ABS	-	29%	11%	13%	10%	63%	27%	10%	37%	100%
Senior Secured Bank Loans	-	46%	8%	6%	23%	83%	17%	-	17%	100%
Aviation Finance	-	-	-	66%	21%	87%	11%	2%	13%	100%
CMBS	-	16%	11%	33%	27%	87%	10%	3%	13%	100%
Corporate Credit										
Banks and Financials	-	-	9%	28%	61%	98%	2%	-	2%	100%
Infrastructure	-	-	11%	40%	44%	95%	3%	2%	5%	100%
Non-Financial Corporates	-	-	3%	8%	35%	46%	19%	35%	54%	100%
Commercial Real Estate	-	4%	1%	47%	37%	89%	8%	3%	11%	100%
Total	21%	20%	8%	17%	19%	85%	9%	6%	15%	100%

¹ Gross Government Bonds are shown net of \$2,447m of Australian Government Bonds and \$2,948m of Australian Semi-Government Bonds, that are held via repurchase agreements. Government Bonds refinanced with repurchase agreements are used to hedge movements in interest rates. Refer to page 43 for more detail.