Challenger Limited

29 October 2020

ANNUAL GENERAL MEETING
CHAIRMAN AND CEO ADDRESS

CHAIRMAN ADDRESS

The 2020 financial year was unprecedented for the community, our industry and the broader economy. We have had to adapt to new ways of doing things in order to keep our communities safe and our people healthy.

The COVID-19 pandemic also had an immediate and severe impact on our financial performance. It occurred when our business was adjusting to structural changes in the Australian wealth management industry that commenced a few years ago.

Our performance over the last financial year reflects the impacts of these events. On a positive note, it also demonstrates the resilience we have built through the diversification of our business, while maintaining financial discipline and strong capital and risk management practices.

This year we have made significant progress responding to the shifts in our operating environment, with new initiatives to build deeper customer engagement, to support financial advisers and to expand our work with leading superannuation funds. Underpinning our business strategy is our commitment to best practice corporate governance, risk management and sustainability.

Despite the extremely challenging environment, Challenger's assets under management grew 4% to $85 billion. This increase was driven by market-leading net flows in the Funds Management business and a 13% increase in Life sales.

Normalised net profit before tax was down 8% to $507 million, in line with our guidance range. We registered a statutory net loss after tax of $416 million which includes significant negative investment experience relating to the COVID-19 sell-off in global financial markets. Challenger Life is required to value all assets and liabilities supporting the Life business at fair value. The volatility over the past six months resulted in significant investment losses.

In response to the market and economic volatility, Challenger acted quickly to reposition the investment portfolio in order to maintain a strong capital position. In June 2020, we successfully undertook a $270 million institutional placement and a share purchase plan for retail investors, raising $35 million.

With $1.6 billion in excess regulatory capital and over $3 billion in cash and liquid fixed income at 30 June 2020, Challenger is well placed to manage through the current conditions and enhance earnings by deploying our high cash balance into higher returning investments.

In the light of ongoing economic and market uncertainty, protecting the balance sheet is of utmost importance. Consequently, the Board decided it was prudent to not pay a final FY20 dividend. We expect to return to paying dividends this financial year.

Executive remuneration

While we have ensured Challenger remains strongly capitalised and well positioned for the longer term, there is no question the events of the year have had a significant impact on our business and our shareholders.

While we met our normalised net profit before tax guidance range of between $500 million to $550 million, statutory profit was severely impacted by investment experience as a result of the COVID-19 pandemic related market sell-off.

As shareholders would expect, our performance and the broader economic outlook is reflected in the remuneration outcomes for executives this year. They are determined based on performance against our balanced scorecard which assesses a range of financial and strategic KPIs that are aligned to our vision and strategy.

Taking all of these factors into account, the Board exercised its discretion to materially reduce reward outcomes, including:

- Total short-term incentives for key management were down 56% on 2019 with the CEO's short-term incentive down 60%;
- On average, short term incentives for key management were 33% of maximum with the CEO at 20% of maximum; and
- There were no cash short term incentives paid, with 100% deferred into equity vesting over four years.

The Board considers that these outcomes strike the right balance - reflecting the impacts of this challenging environment on shareholders and our business, while recognising how critical it is to have a talented team to manage Challenger through the cycle.

We recognise that while many shareholders and advisers have expressed their support for our approach, a number have relayed concerns about the reward decisions we have made in light of the disappointing shareholder outcomes experienced this year. The Board accepts this feedback and takes these concerns very seriously. We will continue to engage with shareholders, proxy advisers and other stakeholders on this important matter.

Sustainability

Sustainability forms an important part of our business strategy and is essential to our long-term success.

Our 2020 Sustainability Report outlines how we manage and anticipate current and future environmental, social and governance opportunities and challenges. It highlights the matters which have the most significant impact on our ability to create value for stakeholders.

During the 2020 financial year, we undertook work to enhance our understanding of current and potential climate-related risks and to develop mitigation strategies. We have also published responsible investment statements for Challenger Life and CIP Asset Management.

We launched our new corporate values and refreshed our Code of Conduct and we were globally recognised for workplace gender equality. We also created a new diversity and inclusion strategy, reinforcing our commitment to gender equality and placing a greater focus on inclusion.

Conclusion

There's no doubt that the 2020 financial year has been one of the most challenging we have faced, and I would like to thank the Board and the Challenger team for their efforts and achievements during the year. I would also thank our shareholders for their continued support.

We are confident that Challenger has the right foundations in place to grow in coming years.

I will now hand over to Managing Director and Chief Executive Officer Richard Howes to provide an update on Challenger's strategy and growth outlook.

CEO ADDRESS

Thank you Peter, and good morning.

It is a pleasure to be here at our virtual AGM, my second as Chief Executive Officer.

My first full year as CEO of your company has certainly been one to remember. It has been an extraordinary year and I'm proud of the progress we've made to deliver our vision, notwithstanding the coronavirus outbreak.

In 2020 we have diversified our revenue streams, expanded our distribution and maintained a strong capital base in a difficult operating environment, demonstrating the robustness of our strategy.

The work we have done to offer a broader range of income stream products through diverse channels and our focus on growing the Funds Management business has delivered solid results in challenging conditions. This has shown through particularly strongly in the first quarter of FY21 where we delivered record annuity sales and industry leading Funds Management inflows.

Our business is in a high growth and essential sector of the economy. I have great confidence that we will emerge from the current economic downturn in a stronger position, aided by a growing retirement system in coming years.

Business performance

Our strategy is based on taking advantage of the high growth rate of retirement incomes in Australia. In FY20 we invested in a range of initiatives that position us for future growth. These included our new, Retirement Made Simple hub, and Retire with Confidence tool aimed at expanding our relationship with customers. We are targeting deeper engagement with independent financial advisers and continue to innovate our product offerings including a new lifetime annuity payment option, RBA Cash Linked, that is specifically designed for customers and advisers who are concerned about investing in a low interest rate environment.

We also continue to benefit from our diversified business model, with our Life business complemented by Funds Management, which includes our Fidante Partners boutique funds business and our asset management business CIP Asset Management, specialising in fixed income and commercial real estate.

The Funds Management business continued to expand its product offering in 2020 with new partnerships and investment strategies. Challenger is now the fifth largest active fund manager in the country and our clients include all of Australia's top 30 pension funds. These deep and beneficial relationships put both our businesses in a very strong position to benefit as Australia's superannuation system grows and develops.

COVID-19 pandemic

I'd like to spend a few minutes discussing the impact of COVID-19 on our business.

The COVID-19 pandemic has presented significant challenges to global economies and investment markets. Looking after the health and wellbeing of our people during this time has been a key business priority for Challenger, and we transitioned almost all of our employees to working from home arrangements from mid-March.

Outside of Challenger, the COVID-19 pandemic also impacted financial advisers' ability to meet new clients, and their focus had been on servicing their existing client base, rather than bringing on new clients.

New clients at the point of retirement represent an opportunity for advisers to recommend annuities. As demonstrated in our first quarter performance update a few weeks ago, we are starting to see financial advisers once again focus on bringing new clients on board as the economy is opening back up.

The pandemic also hurt our investment performance. The requirement to mark to market Challenger Life's investments impacted both statutory earnings and the excess capital position. Both include $750 million (post-tax) of realised and unrealised investment experience losses. Pleasingly we are starting to see some of these unrealised losses reverse in the current year.

Significant market sell-offs highlight the benefits of annuities and guaranteed income relative to market-linked account-based pension products. Over the past year, Challenger has paid out approximately $3.8 billion in guaranteed annuity payments to its customers, with payments not impacted by the pandemic or related investment market sell-off.

Strategy update

Challenger is a company with a clear purpose: to provide our customers with financial security for retirement. This purpose underpins our vision and strategy and is central to everything we do.

Challenger has four strategic pillars to ensure that it achieves its vision over the long-term. They are to:

1. increase the use of secure retirement income streams;
2. lead the retirement incomes market and be the partner of choice;
3. provide customers with excellent funds management solutions; and
4. maintain leading operational and people practices.

In FY20 Challenger delivered across all four pillars of our strategy and going forward we are ideally placed in a high growth sector, at the centre of regulatory, demographic and industry tailwinds.

The size of Australia's superannuation industry is forecast to more than double over the next ten years, benefiting from both natural market growth along with mandated and increasing contributions.

We are also in the middle of a 20-year cycle of retiring baby boomers with more than 700 Australians turning 65 years of age every day. This year there will be a transfer of over $70 billion from the pre to post retirement phase, which is increasing each year as the demographic tailwinds push more and more Australians into the retirement phase.

The retirement phase has never been more important. The government is focused on enhancing retirement incomes policy and encouraging industry to expand their retirement offerings to convert savings to regular and reliable income and improve the living standards of Australian retirees.

Challenger is positioned at the centre of these tailwinds and our strategy to diversify the business positions us well to capture these significant opportunities.

We have the strongest retirement income brand in the country, a product offering uniquely able to address risks in the retirement phase and a leading distribution capability across both retail and institutional sectors.

With the contraction in major bank advice channels, we have successfully pivoted our strategy toward independent advisers and see significant opportunities to expand our work with Australia's leading superannuation funds.

This strategy is not only diversifying our revenue streams and making the business more resilient, it is also maximising the opportunity to benefit as the industry leader in the high growth retirement and superannuation market.

We also see significant opportunities to selectively grow our businesses outside of Australia.

We are actively targeting the large Japanese pension market, which is benefiting from a savings culture. Our annuity relationship with MS Primary continues to go from strength to strength, delivering over 30% of annuity sales in the first quarter of this year.

We are also expanding our Japanese Funds Management presence with new distribution partnerships and exporting our capabilities to the region.

In Europe, we are also having success. As a natural business adjacency, our UK Life Risk business started some seven years ago and provides wholesale longevity and mortality protection to institutional clients, including major pension funds and insurance companies. This year the market experienced record volumes, which we benefited from, and we expect this market to grow strongly from here as clients pool their longevity and mortality risks. We stand to benefit as this market continues to develop.

Our foundations are strong and the diversified business we have built in high growth markets means Challenger is well positioned to capture long term growth.

Outlook

Challenger continues to be well-positioned with a strong and diversified product offering, which will benefit from superannuation system growth and demographic changes.

Our annuities and Funds Management businesses have already had a strong start to 2021, with record quarterly annuity sales and market leading Funds Management inflows. We have also made significant progress in deploying Life's significant cash balance into higher yielding investments, which will enhance both earnings and return on equity.

We continue to prioritise a strong capital position with defensive investment portfolio settings to ensure the business is well positioned to withstand any further market shocks.

For this financial year, we are targeting normalised net profit before tax of between $390 million and $440 million. Following our first quarter performance, we are on track to achieve it.

Challenger has a range of through the cycle targets including return on equity and dividend targets. Notwithstanding no final dividend was paid for 2020, the Board expects to maintain the same target dividend payout ratio of between 45% to 50% of normalised net profit and return to paying dividends this financial year.

Conclusion

In conclusion, 2020 was a tough year, but a year in which our strategy was proven to be the right one. Our business has been buffeted by the COVID-19 pandemic, but as the economy emerges from recession, we are in a very good position to grow earnings and shareholder returns.

I am proud of how our team has operated through 2020, and the hard work and commitment that has served our customers well. I'm looking forward to the opportunities over the next 12 months to build strong outcomes for all of our stakeholders.

I will now hand back to Peter.

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

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About Challenger

Challenger Limited (Challenger) is an investment management firm focused 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 (Challenger Life) is Australia's largest provider of annuities.

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Challenger Limited

2020 Annual General Meeting

Providing our customers with financial security for retirement

29 October 2020

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Peter Polson

Independent Chair

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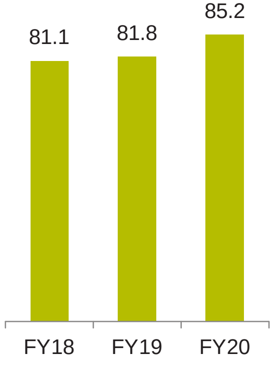
FY20 outcomes

Normalised profit in line with guidance
Statutory profit impacted by COVID-19 market sell-off

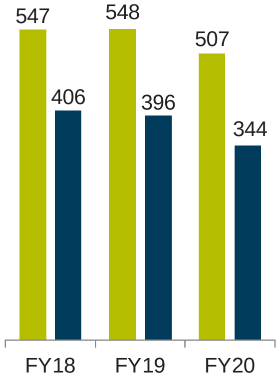
Group Assets Under Management ($bn)



AUM up 4% to $85bn

1H20 +6%; 2H20 -1%

Normalised NPBT[1] ($m)
Normalised NPAT[1] ($m)



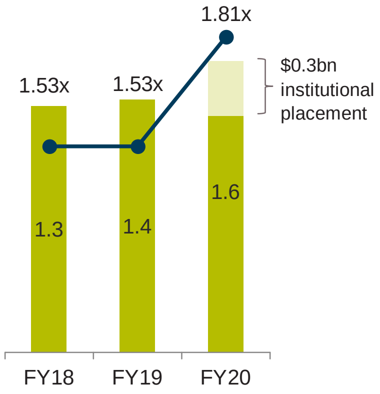
Normalised NPBT -8% to $507m
(guidance range $500m – $550m)

Normalised NPAT -13% to $344m

Statutory NPAT[1] ($m)

Statutory NPAT -$416m includes -$750m of investment experience[2]

CLC[3] excess capital ($bn)
CLC[3] PCA ratio (times)



CLC excess regulatory capital $1.6bn

PCA ratio 1.81x following placement and above top end of guidance range

1. Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in the 2020 Annual Report – Operating and Financial Review Section 8.
2. FY20 investment experience post-tax.
3. Challenger Life Company Limited (CLC) and as at 30 June.

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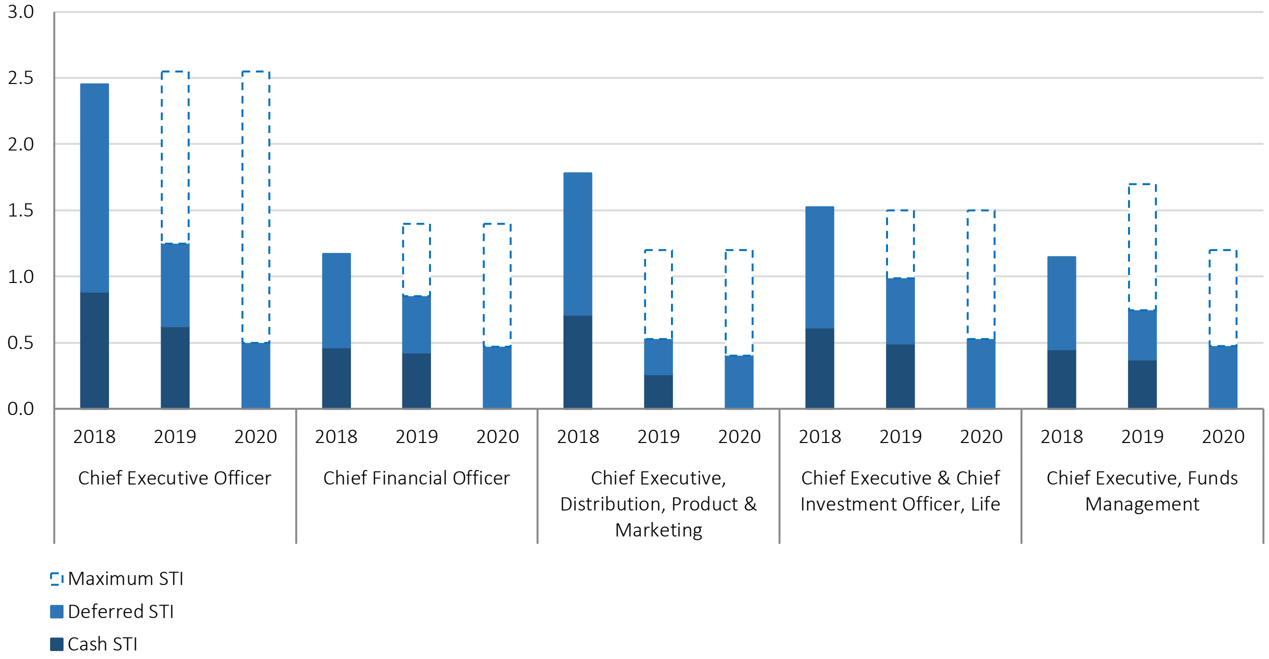
Executive Remuneration

Materially reduced reward outcomes for key management

2020 Key Management Personnel (KMP)

- No fixed remuneration increases
- Materially reduced STI
- No cash STI and increased use of equity
- No LTIs vested and reduced likelihood of future vesting
- 20% reduction in Non-Executive Directors fees

Short Term Incentive (STI) outcomes ($m)



Sustainability

Corporate sustainability approach supports Challenger's vision and strategy

Corporate sustainability strategy

Key benchmarking indices

WGEA Employer of Choice for Gender Equality

Signatory of: PRI Principles for Responsible Investment

FTSE4Good

Strategic partnership to support mature aged workers

COTA NEW SOUTH WALES for older Australians

Recognised as a global top 100 employer for gender equality[1]

EQUILEAP TOP 100 2019 MAKING PROGRESS TOWARDS GENDER EQUALITY

Redefined Challenger values

1. Challenger was recognised for the first time as a global top 100 employer for gender equality in the 2019 Equileap Global Gender Equality rankings.

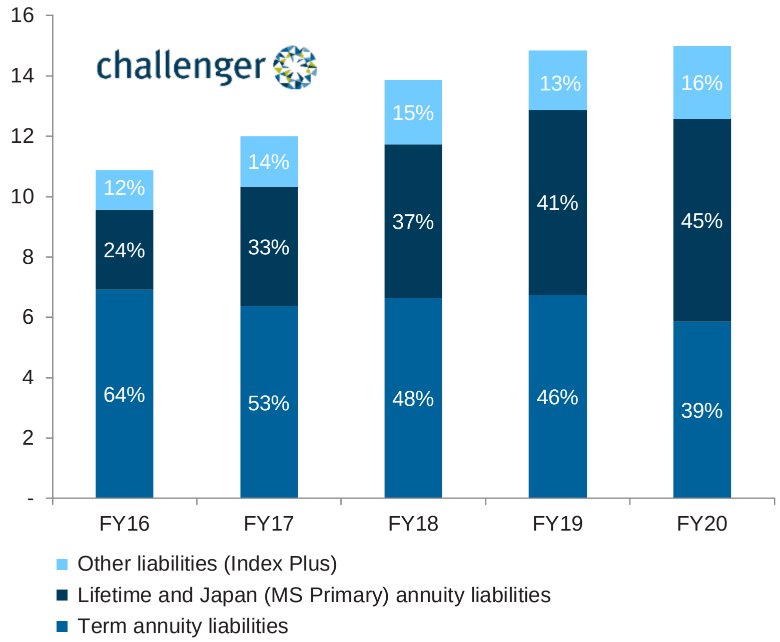
Richard Howes

Managing Director and CEO

Australia's largest annuity provider[1] and fifth largest asset manager[2]

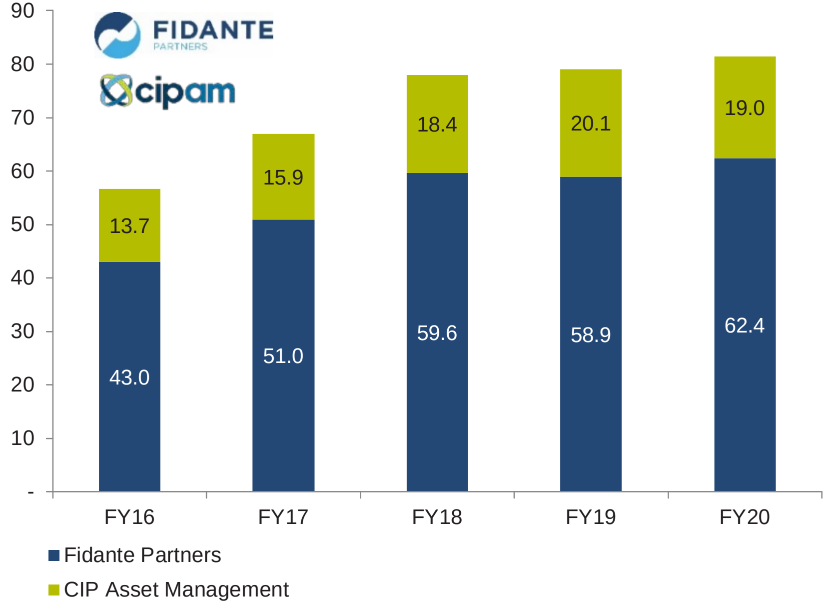
Challenger Life

Life annuity and other liabilities ($bn)



Funds Management

Funds Under Management ($bn)



1. Plan for Life – June 2020 – based on annuities under administration at 30 June 2020.
2. Consolidated FUM for Australian Fund Managers – Rainmaker Roundup, June 2020.

COVID-19 impact

Strongly capitalised and well positioned to withstand further volatility

Our people

- Majority of our people working from home from mid-March
- Employees remain highly engaged
- No customer impact from change in work practices

Our customers and partners

- ~$3.8bn[1] of annuity payments – no impact from COVID-19
- Supported advisers through digital engagement
- Liquidity for super fund clients to meet early release requests
- Supporting tenants through reduced rent or rental holidays

Business resilience

- -$0.8bn of investment experience[2]
- Responded quickly to reposition portfolio and reduce capital intensity
- $0.3bn equity raise, increasing capital to beyond top end of target range
- No final FY20 dividend

1. FY20 annuity interest and capital payments.
2. FY20 investment experience post-tax.

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Vision and strategy

A clear plan for sustainable long-term growth

Industry leader benefiting from long-term tailwinds

With clear plan for sustainable growth

Industry leader

Investment capability

- Leading investment capability
- Proven risk management approach
- Significant balance sheet flexibility

Relevant products

- #1 Australian annuity provider
- Contemporary products
- Increased product relevance following market volatility

Leading distribution

- Broad platform access
- Rated #1 by advisers
- Japanese annuity partnership

Long-term tailwinds

Market growth

- Natural market growth
- Significant retirement savings
- Super funds partnering with Life companies

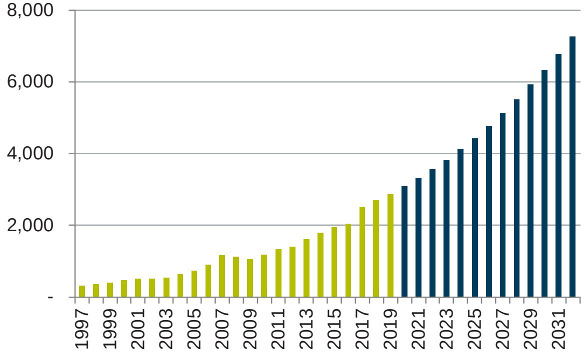
Older and healthier retirees

- 700+ Australians turning 65 every day
- 20-year cycle of retiring 'Baby-Boomers'
- One of world's longest life expectancies

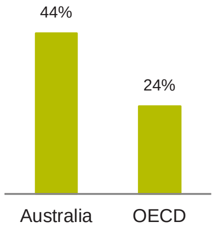
Regulation and industry momentum

- New means testing rules to support longevity products
- Government enhancing post-retirement phase
- Industry expanding retirement offerings

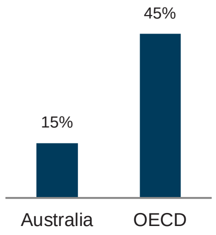
Australian superannuation growth[1] ($bn)



High equities allocation[2]



Low fixed income allocation[2]



1. Based on Rice Warner 2017 superannuation projections applied to 2018 APRA superannuation assets.
2. OECD Pension Markets in Focus – 2019.

FY21 financial outlook

Strongly capitalised with flexibility to enhance returns

Guidance	
Normalised Net Profit Before Tax	FY21 guidance range \$390m to \$440m[1]
Key through-the-cycle targets	
Normalised pre-tax return on equity (ROE)	RBA cash rate plus 14% margin (currently 14.25%) – performance against target impacted by speed of capital deployment and market conditions
Dividend payout ratio	45% to 50% normalised dividend payout ratio[2,3]
CLC[4] excess regulatory capital	Strongly capitalised Remain around top end of target range[5]

1. The COVID-19 situation and its impact on investment markets create an inherently uncertain environment. This could, among other things, impact the speed of deployment of Life's capital and therefore impact guidance.
2. Normalised dividend payout ratio represents dividend per share divided by normalised earnings per share (basic).
3. Dividend subject to market conditions and capital management priorities.
4. Challenger Life Company Limited (CLC).
5. CLC maintains a target level of capital representing APRA's Prescribed Capital Amount (PCA) plus a target surplus and does not target a fixed PCA ratio. The target PCA ratio range is currently 1.3 times to 1.6 times.

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Important note

The material in this presentation is general background information about Challenger Limited activities and is current at the date of this presentation. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered with professional advice when deciding if an investment is appropriate.

Challenger also provides statutory reporting as prescribed under the Corporations Act 2001. The 2020 Annual Report is available from Challenger's website at www.challenger.com.au. This presentation is not audited. The statutory net profit after tax has been prepared in accordance with Australian Accounting Standards and the Corporations Act 2001. Challenger's external auditors, Ernst & Young, have reviewed the statutory net profit after tax. Normalised net profit after tax has been prepared in accordance with a normalised profit framework. The normalised profit framework has been disclosed in the Operating and Financial Review section of the Directors' Report in the Challenger Limited 2020 Annual Report. The normalised profit after tax has been subject to a review performed by Ernst & Young. Any additional financial information in this presentation which is not included in Challenger Limited 2020 Annual Report was not subject to independent review by Ernst & Young.

This document may contain certain 'forward-looking statements'. The words 'forecast', 'expect', 'guidance', 'intend', 'will' and other similar expressions are intended to identify forward-looking statements. Forecasts or indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. You are cautioned not to place undue reliance on forward looking statements. While due care and attention has been used in the preparation of forward-looking statements, forward-looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward-looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance and may involve known and unknown risks, uncertainties and other factors, many of which are outside the control of Challenger. Actual results, performance or achievements may vary materially from any forward-looking statements and the assumptions on which statements are based. Challenger disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise.

Past performance is not an indication of future performance.

While Challenger has sought to ensure that information is accurate by undertaking a review process, it makes no representation or warranty as to the accuracy or completeness of any information or statement in this document.

Unless otherwise indicated, all numerical comparisons are to the prior corresponding period.

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