

Challenger Capital Notes

Newsletter August 2021



Peter Polson
Chair



\$110_{bn}

Group assets under management

Value of assets managed by Challenger up 29% for the year

\$396_m

Normalised NPBT¹

Reflects more defensive portfolio settings and higher levels of capital

\$592_m

Statutory NPAT¹

Includes investment experience of \$319m

+14.4%

Life book growth

Benefiting from diversification strategy

\$16.1_{bn}

Funds Management net flows

Record net flows and FUM growth

\$1.6_{bn}

Excess capital above APRA requirement

Strongly capitalised and above targets

Dear Noteholder,

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

While Challenger has faced significant challenges over recent years, with major disruption in the wealth market followed by the impacts of COVID-19, the business has demonstrated its resilience and enters the 2022 financial year in a strong position.

In 2021, we have continued to take action to set up the company for future growth – executing our strategy to diversify revenue, repositioning our investment portfolio and strengthening the balance sheet.

Challenger's performance demonstrates that diversifying our client base, distribution channels and product offering is working – the Life business delivered record sales of \$7 billion, while net flows in Funds Management hit a record \$16 billion.

Following our decision to reposition the investment portfolio during the early stages of the pandemic, we have gradually deployed significant cash balances into higher returning investments throughout the year.

We have maintained a strong capital position and enhanced our risk settings to underpin our strong brand and customer franchise and ensure we have the flexibility to withstand significant market movements.

Financial performance

Challenger achieved record assets under management (AUM) of \$110 billion, up 29% for the year driven by strong contributions from both the Life and Funds Management businesses.

Normalised NPBT was \$396 million and within our guidance range and reflects the more defensive and enhanced risk settings maintained throughout the pandemic.

Statutory net profit after tax was \$592 million, including positive investment experience of \$319 million.

The Life business performed strongly, with book growth of 14%. Sales increased across all key segments and benefited from more stability in the financial advice market, a renewed focus on institutional sales, and Japan delivering above target sales.

The Funds Management business delivered a standout performance, with funds under management increasing 30% to \$106 billion, supported by strong institutional and retail flows and promising signs from our strategy to diversify globally. Challenger is now Australia's third largest² and one of the fastest growing active fund managers³.

Strategy – a clear plan for sustainable growth

Challenger has continued to drive progress against its strategic objectives, in line with its purpose of providing customers with financial security for a better retirement.

At an investor update in June, Challenger launched its refreshed corporate strategy, which set a clear path forward for long-term sustainable growth.

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 2021 Interim Financial Report.

² Consolidated FUM for Australian Fund Managers – Rainmaker Roundup, March 2021.

³ Plan For Life Wholesale Trust Data, September 2020, December 2020 and March 2021.

This included a vision to provide one in five Australian retirees with improved financial outcomes as Challenger customers, and to be the partner of choice for institutions and advisers, by 2030.

The acquisition of MyLife MyFinance bank is an important part of this strategy and creates the opportunity to further diversify Challenger's product offering. It also accelerates Challenger's plans to build relationships directly with customers, complementing Challenger's other well-established distribution channels, including financial advisers and a broad range of institutional clients.

Challenger Life strongly capitalised

Challenger maintained a strong capital position throughout the year.

Challenger Life had \$1.6 billion in excess regulatory capital, representing 63% more than the Australian Prudential Regulation Authority's minimum requirement.

The financial strength is demonstrated by Standard & Poor's 'A' credit rating of Challenger Life, with a stable outlook reaffirmed in November 2020.

Reflecting confidence in the business and its capital position, the Board declared a final dividend of 10.5 cents per share, bringing the full year dividend to 20.0 cents per share, up 14%, fully franked.

Outlook

We have emerged from a period of significant disruption in good shape and are well positioned to deliver strong earnings growth going forward.

For the 2022 financial year, normalised net profit before tax is expected to be between \$430 million and \$480 million, with the mid-point representing 15% growth on this year.

There is positive momentum across the business and a clear strategy to capture the growth opportunities created by long-term structural tailwinds.

We are absolutely focused on delivering our strategy and purpose to provide Australians financial security for a better retirement.

Thank you for your ongoing support and commitment to Challenger.



Peter Polson
Independent Chair
Challenger Limited

Additional information

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Challenger Capital Notes distribution history

Distribution payment date	Cash distribution	Total return p.a.
25 August 2021	\$0.61	3.44%
25 May 2021	\$0.58	3.42%
25 February 2021	\$0.60	3.42%
25 November 2020	\$0.62	3.50%

Challenger Capital Notes 3 distribution history

Distribution payment date	Cash distribution	Total return p.a.
25 August 2021	\$0.82	4.64%
25 May 2021	\$0.79	4.62%
25 February 2021	\$0.81	4.62%

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Challenger Capital Notes 2 distribution history

Distribution payment date	Cash distribution	Total return p.a.
23 August 2021	\$0.77	4.44%
24 May 2021	\$0.77	4.41%
22 February 2021	\$0.77	4.42%
23 November 2020	\$0.79	4.51%