

FIRST QUARTER PERFORMANCE UPDATE¹

Positive start to FY22 and well positioned for strong growth

- Group assets under management \$113 billion, up 3% for the quarter
- Life sales up 32% and 3.4% Life book growth for the quarter²
- Funds Management FUM up 2% for the quarter, including \$1.4 billion of net flows
- Bank acquisition accelerating growth through direct-to-customer reach

Challenger Limited (ASX: CGF) today reported its first quarter results, with Group assets under management (AUM) increasing 3% for the quarter, driven by strong Life book growth and Funds Management net flows.

Managing Director and Chief Executive Officer Richard Howes said: “Challenger has started 2022 positively, with strong momentum across the business, as we focus on executing our growth strategy, implementing plans to diversify revenue and expanding our retirement offering.

“The Life business performed well, with book growth of 3.4%. Strong quarterly sales growth highlights the success of our diversification strategy and reflects our focus on building relationships with institutional clients. Continuing to innovate has been a priority and we recently launched our new market-linked annuity for customers who seek the benefits of lifetime income, while maintaining exposure to investment markets. Benefiting from rigorous market testing, this option will form an attractive complement to our existing lifetime annuity offering.

“Our Funds Management business continued to deliver a stand-out performance, with strong net inflows and positive investment markets delivering a 2% increase in FUM for the quarter. Our diversified product suite and broad stable of leading boutique managers continue to drive growth across the business.

“With the acquisition of our bank now complete, we are executing on plans to build relationships directly with customers via the term deposit market. The large majority of new customers in the quarter are aged 50 and over, reflecting our strategy to provide retirees and pre-retirees with a broader range of solutions to help build wealth for retirement.

“The release of draft legislation for the Retirement Income Covenant last month is an important step towards ensuring the superannuation system works as well for Australians in retirement as it does in accumulation. This also presents significant opportunities for our business and we are already working with funds who are seeking to address the needs of their members in retirement.

¹ All commentary compares the September 2021 quarter against the September 2020 quarter (the prior corresponding period or pcp), unless otherwise stated.

² Life book growth of 3.4% for the quarter represents Life net flows divided by opening FY22 annuity and Challenger Index Plus liabilities.

“We also continue to maintain a strong capital position, which is in line with our target operating level and well above minimum regulatory requirements.

“Our performance this quarter is the direct result of decisions to diversify revenue and the strategic investments made to support our growth plans. The business is in great shape, and I am confident that we are well positioned to deliver on our strategy and plans for growth in FY22 and beyond.” said Mr Howes.

Life

Challenger Life continues to be Australia’s clear leader in secure retirement incomes.

Total Life net flows were \$594 million for the quarter, up significantly on the prior corresponding period (pcp). Life net flows benefited from strong sales that drove quarterly Life book growth of 3.4%².

Total Life sales increased 32% to \$2.1 billion, demonstrating the success of Challenger’s diversification strategy. Other Life sales, which represents the Challenger Index Plus product, performed particularly strongly and increased by 149% to \$856 million, benefiting from new clients and retention of maturities.

Annuity sales of \$1.2 billion were stable and included strong growth in domestic annuity sales, which increased by \$143 million (up 17%) to \$986 million.

Domestic term annuity sales increased by \$250 million (up 39%) to \$885 million driven by strong institutional term sales that increased by over 200% to \$504 million.

Institutional term annuity sales represent a relatively new distribution channel for Challenger and reflect the business’ focus on diversifying its client base. For the quarter, all institutional term maturities were reinvested, and a number of existing clients increased their investments. All institutional term sales for the quarter were priced at similar economics to Challenger’s retail offering.

Retail annuity sales were lower at \$381 million for the quarter, decreasing by 21% reflecting lower adviser activity as a result of the COVID-19 pandemic and a more competitive environment for short duration term annuities.

Domestic retail lifetime annuity sales were \$101 million, comprising Liquid Lifetime sales of \$63 million and CarePlus sales of \$38 million, both increasing slightly on the pcp. The prior corresponding period of \$208 million included an institutional lifetime sale of \$114 million.

Japan (MS Primary) sales were \$245 million, with Challenger on track to achieve the annual sales target. This was lower than the pcp reflecting a particularly strong start to the 2021 financial year. The arrangement with MS Primary provides an annual amount of reinsurance, across both Australian and US dollar annuities, of at least ¥50 billion per year (equivalent to ~A\$600 million³) for a minimum of five years⁴.

Sales of Other Life products comprise Challenger Index Plus and were \$856 million, increasing by 149%. Challenger Index Plus is a highly attractive institutional client proposition providing guaranteed alpha above a pre-agreed benchmark with flexibility in relation to the term and

³ Based on the exchange rate as at 30 June 2021.

⁴ This is subject to review in the event of a material adverse change for either MS Primary or Challenger Life.

underlying index return. Challenger Index Plus sales include \$349 million of new business sales and \$507 million of maturities reinvested during the quarter.

Life's investment assets as of 30 September 2021 were \$22.0 billion, increasing by 2% for the quarter, reflecting net book growth and retained earnings.

Challenger is committed to continuing its track record of leading innovation in retirement income. Earlier this month, Challenger launched a new market-linked annuity enabling retirees to protect against longevity risk while maintaining exposure to investment markets. Retirees can choose from a range of payment and indexation options between defensive and growth indices. Challenger has commenced adviser education and the approval process to add the market-linked lifetime annuity to adviser approved product lists. The new market-linked annuity option complements Challenger's existing lifetime annuity offering, providing retirees with regular income payments for life, indexed annually to investment markets.

Challenger continues to maintain a strong capital position with a PCA ratio⁶ in line with Challenger's target operating level of 1.60 times and well within Challenger's target range to hold 1.3 to 1.7 times above the minimum amount set by the Australian Prudential Regulation Authority.

Funds Management

Challenger's Funds Management business is one of the fastest growing asset managers in Australia⁷. Funds Management delivered a strong performance for the quarter, with funds under management (FUM) increasing to \$108.4 billion, up \$2.6 billion or 2% for the quarter. FUM growth was driven by net inflows of \$1.4 billion for the quarter, a \$1.7 billion contribution from investment markets and net distributions of \$0.5 billion.

Fidante Partners' FUM was \$87.5 billion, increasing by \$2.6 billion or 3% for the quarter. FUM was supported by strong net flows across both domestic retail and offshore clients.

Fidante Partners welcomed new emerging market boutique fund manager Ox Capital Management and entered into an agreement to sell its 30% equity interest in Whitehelm Capital for approximately \$50 million. While it's not Fidante Partners' strategy to sell interests in its boutique partners, the sale of Whitehelm Capital provided a unique and compelling opportunity to deliver value to Challenger's shareholders. Funds Management operating earnings are not impacted by the sale of Whitehelm Capital.

Bank

The completed acquisition of digital bank MyLifeMyFinance Limited (MLMF) is a key pillar of Challenger's growth strategy. Challenger is now well positioned to increase the role it plays in improving retirement outcomes, extending its customer reach and further diversifying its product offering to accelerate medium-term growth.

To ensure speed to market, term deposits are initially being marketed under the MLMF brand and will transition to the Challenger brand in the second half of FY22. Guaranteed term deposits⁸ are an important part of many retirees' and pre-retirees' portfolio and, in September 2021, access to

⁶ PCA ratio represents total Challenger Life Company Limited (CLC) Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount (PCA) and is as at 30 September 2021.

⁷ Consolidated FUM for Australian Fund Managers – Rainmaker Roundup, June 2021.

⁸ The Financial Claims Scheme provides protection to depositors of up to \$250,000 per account holder per authorised deposit-taking institution (ADI).

MLMF term deposits was expanded and are now available on the widely used bank-specific comparator sites, Mozo and Canstar.

A large majority of initial bank term deposit sales were to customers over the age of 50 years and for terms greater than 12 months, reinforcing Challenger's commitment to supporting customers as they prepare for retirement.

Bank integration into Challenger is well progressed and distribution partnerships are being formed to make Challenger's term deposits available via the retail broker channel.

Outlook

In FY22, Challenger expects to achieve strong profit growth and reaffirms its FY22 normalised net profit before tax guidance of between \$430 million and \$480 million, with a mid-point of \$455 million representing 15% growth on FY21. The mid-point of the range continues to represent Challenger's best estimate of FY22 normalised net profit before tax.

ENDS

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

About Challenger

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

Challenger operates three core investment businesses – a fiduciary Funds Management division, an APRA-regulated Life division and an APRA-regulated authorised deposit-taking institution. Challenger Life Company Limited (Challenger Life) is Australia's largest provider of annuities.

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Challenger Limited

Assets and Funds Under Management, net flows and sales

Life quarterly sales and investment assets

\$m	Q1 22	Q4 21	Q3 21	Q2 21	Q1 21
Life sales					
Retail fixed term sales	381	463	316	426	484
Institutional fixed term sales	504	50	1,070	240	151
Japan sales	245	168	79	153	390
Fixed term sales	1,130	681	1,465	819	1,025
Lifetime sales ¹	101	122	107	139	208
Life annuity sales	1,231	803	1,572	958	1,233
Maturities and repayments	(939)	(760)	(693)	(900)	(1,133)
Life annuity flows	292	43	879	58	100
Annuity book growth²	2.1%	0.3%	7.0%	0.5%	0.8%
Other Life sales	856	268	847	903	344
Other maturities and repayments	(554)	(233)	(349)	(366)	(330)
Other Life flows	302	35	498	537	14
Other Life net book growth	8.3%	1.5%	20.6%	22.2%	0.6%
Total Life sales	2,087	1,071	2,419	1,861	1,577
Total maturities and repayments	(1,493)	(993)	(1,042)	(1,266)	(1,463)
Total Life net flows	594	78	1,377	595	114
Total Life book growth²	3.4%	0.5%	9.2%	3.9%	0.8%
Life					
Fixed income and cash ³	16,230	16,418	15,996	14,821	14,260
Property ³	3,481	3,468	3,309	3,316	3,303
Equity and Infrastructure ³	1,067	623	569	604	398
Alternatives	1,234	1,054	922	893	987
Total Life investment assets	22,012	21,563	20,796	19,634	18,948
Average Life investment assets⁴	21,944	21,062	19,924	19,323	18,625

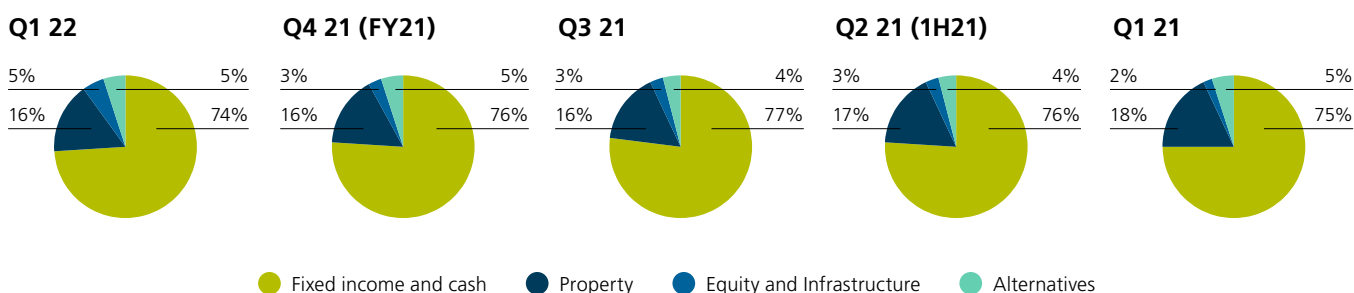
1 Lifetime sales includes CarePlus, a product that pays income for life and specifically designed for the aged care market.

2 Book growth percentage represents net flows for the period divided by opening book value for the financial year.

3 Fixed income, property and infrastructure are reported net of debt.

4 Average Life investment assets calculated on a monthly basis.

Life Asset Allocation



Challenger Limited

Assets and Funds Under Management, net flows and sales

Bank quarterly sales

\$m	Q1 22	Q4 21	Q3 21	Q2 21	Q1 21
Bank deposit sales ¹	30	-	-	-	-
Maturities and withdrawals	(27)	-	-	-	-
Bank net flows	3	-	-	-	-
Bank book growth²	1.9%	-	-	-	-

1 Deposits includes At Call accounts and Term Deposits.

2 Bank book growth percentage represents Bank net flows over the period divided by opening book value as of 30 July 2021 of \$134.2m.

Funds Under Management and net flows

\$m	Q1 22	Q4 21	Q3 21	Q2 21	Q1 21
Funds Management					
Fidante Partners					
Equities	38,935	37,428	33,820	30,229	26,985
Fixed income	41,445	40,609	38,378	35,090	31,904
Alternatives	7,166	6,906	6,566	6,507	6,336
Total Fidante Partners	87,546	84,943	78,764	71,826	65,225
CIP Asset Management					
Fixed income	16,273	16,278	16,020	14,470	14,859
Property	4,614	4,603	4,910	4,946	5,147
Total CIP Asset Management	20,887	20,881	20,930	19,416	20,006
Total Funds Under Management	108,433	105,824	99,694	91,242	85,231
Average Fidante Partners	86,977	82,206	75,305	67,963	64,065
Average CIP Asset Management	20,932	21,042	20,032	20,190	19,397
Total average Funds Under Management¹	107,909	103,248	95,337	88,153	83,462

Analysis of flows

Funds Management net flows

Equities	514	641	2,071	5	335
Fixed income	943	2,147	3,420	3,327	2,107
Alternatives	32	254	50	86	(96)
Total Fidante Partners	1,489	3,042	5,541	3,418	2,346
CIP Asset Management	(74)	(383)	1,489	(571)	1,230
Net flows	1,415	2,659	7,030	2,847	3,576

1 Average total Funds Under Management calculated on a monthly basis.

Reconciliation of total group assets and Funds Under Management

\$m	Q1 22	Q4 21	Q3 21	Q2 21	Q1 21
Funds Management Funds Under Management	108,433	105,824	99,694	91,242	85,231
Life investment assets	22,012	21,563	20,796	19,634	18,948
Bank lending and financing assets	213	-	-	-	-
Adjustments to remove double counting of cross-holdings	(17,457)	(17,427)	(16,332)	(14,789)	(15,383)
Total Assets Under Management	113,201	109,960	104,158	96,087	88,796