

Challenger Shareholder

Newsletter
February 2023



Duncan West
Chair

\$250m

NORMALISED NPBT¹
Up 5% on last year

\$123m

STATUTORY NPAT¹
Includes impact of
investment markets

\$5.5bn

LIFE SALES
Up 11% with benefit of
diversification strategy

\$99bn

GROUP AUM
Down 14% from investment
markets. Stable on FY22

12.0cps

INTERIM DIVIDEND
Up 4% on last year

12.3%

GROUP ROE²
Up 20bps from earnings growth

Dear Shareholder,

On behalf of the Board and management team, I'm pleased to provide you with an update on Challenger's performance over the first half of the 2023 financial year.

Our performance again demonstrates the resilience we have embedded with a diversified business model, enabling us to capture opportunities in all market conditions.

In the first half of 2023, we delivered a strong financial performance, while making significant progress building a more customer-centric business, meeting more customer needs, simplifying our operations and executing our growth strategy.

We have invested in a range of initiatives that will enhance the customer experience and expand access to Challenger products and services. This includes launching a new registry service in Funds Management, making it easier to access products, while also improving our ability to bring new solutions to market. In the Life business, we are digitising the annuity customer experience, which will allow customers to purchase simple term annuity products within minutes.

Our joint venture opportunities with SimCorp (CSE:SIM) and Apollo (NYSE:APO) are progressing in line with management expectations. Both businesses are now operational and with leadership appointed. These partnerships will leverage the capabilities of Apollo and Challenger and will further diversify revenue streams to support long-term growth.

As we look ahead, Challenger is well positioned to leverage and benefit from our unique

competitive advantages as we seek to deliver for our customers, our shareholders and our people.

Financial update

Challenger's financial performance in the first half of the 2023 financial year demonstrates the resilience we have embedded through our diversified business model.

Normalised net profit before tax (NPBT) of \$250 million was up 5%, with higher earnings driven by strong Life book growth and margin expansion.

Statutory net profit after tax was \$123 million, impacted by negative investment experience (\$42 million after tax) due to largely unrealised movements in investment markets.

The Life business is benefitting from a more favourable macroeconomic environment, with higher interest rates helping to accelerate annuity sales and expand margins. Total Life sales were up 11% to \$5.5 billion, driven by exceptional growth in retail annuity sales (up 89% to \$2.1 billion). Life continues to be recognised for its innovative range of retirement products and was awarded the Overall Longevity Cover Excellence Award by Plan For Life.

In Funds Management, our diverse offering has allowed our business to largely withstand market conditions, with total funds under management (FUM) remaining stable over the half. Funds Management earnings were lower, reflecting lower average FUM of \$93 billion following the sale of Whitehelm Capital³ in the second half of the 2022 financial year, and the market sell off last year. Funds Management is focused on further diversifying its offering by expanding its range of products available

¹ Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in the Operating and Financial Review in the Challenger 2023 Interim Financial Report.

² Normalised ROE (pre-tax).

³ In February 2022, Challenger completed the sale of Fidante's 30% equity interest in Whitehelm Capital to PATRIZIA AG for €32 million (~A\$50 million) and derecognised \$5,162 million of FUM.

to customers, and was recognised for its leading distribution capability, winning Zenith Investment Partners' Distribution of the Year for the third consecutive year.

Group assets under management (AUM) was \$99 billion, which was stable on FY22; however down 14% on the prior comparable period.

Strategic partnerships

Challenger is accelerating growth and diversifying revenue streams through strategic partnerships.

Challenger has a strong track record developing successful strategic partnerships, which we have demonstrated over many years through our relationship with the MS&AD group in Japan.

This includes our long-term annuity reinsurance relationship, which delivered us over \$400m of longer duration annuity sales this half, as well as a new property mandate awarded in FY22.

Challenger and Apollo (NYSE:APO) have been working together over the past 12 months on a range of opportunities that leverages their common purpose, strong complementary skills, scale and capabilities. This includes product and distribution opportunities including a partnership that will bring the Apollo Aligned Alternatives (AAA) fund to the Australian market. Work has progressed on Apollo and Challenger's non-bank lending joint venture, which will deliver finance solutions in sectors not well served by traditional providers, including the major banks.

Challenger and SimCorp (CSE:SIM) established Artega Investment Administration in October 2022, a new joint venture providing technology-led investment administration services to investment managers and superannuation funds in Australia and Asia-Pacific. Artega secured its first third-party client, a \$2 billion multi-manager, in January 2023.

Strongly capitalised

Challenger continues to maintain a strong capital position with significant financial flexibility.

Challenger Life has \$1.6 billion of excess capital, which is well above both the Australian Prudential Regulation Authority's (APRA) minimum requirement and our own internal capital targets.

Reflecting the strength of the business, the Challenger Board determined a fully franked interim dividend of 12.0 cents per share (up 4%), representing a normalised dividend payout ratio of 49%, which is within our target of between 45% and 50%.

Board changes

Peter Polson retired as Chair from the Challenger Board in October 2022 having made an enormous contribution to our business during his 19 years. In his time as Chair, Challenger has grown to the unique and successful business it is today. There is no doubt Challenger is in much better shape as a result of his stewardship. On behalf of all shareholders and our people, I thank Peter for his leadership and significant contribution.

Outlook

For FY23, Challenger is targeting normalised net profit before tax guidance of between \$485 million and \$535 million.

Challenger is on track to achieve full year guidance with 1H23 normalised net profit before tax of \$250 million representing 49% of the mid-point of the guidance range.

Our strong performance in Life, building annuity sales momentum and new opportunities in our strategic partnerships mean Challenger is well placed to achieve our purpose of providing customers with financial security for a better retirement.

I would like to thank you for your ongoing support and commitment to Challenger.



Duncan West
Independent Chair
Challenger Limited

Additional information section

Manage your holding

For administrative matters in respect of your Challenger shareholding, please contact Computershare Investor Services.

T: 1800 780 782

› computershare.com.au

Dividend Reinvestment Plan

Challenger operates a Dividend Reinvestment Plan (DRP) to enable you to receive some or all of your dividends as Challenger shares instead of cash. If you would like to participate in the DRP, you will need to make an election with Challenger's share register, Computershare Investor Services.

› computershare.com.au/investor

Go electronic

Challenger can deliver your shareholder communications electronically. Please update your communication preferences via the Computershare website.

Get in touch with investor relations

› investorrelations@challenger.com.au

Key dates

Ex-dividend date for 2023 interim dividend	21 February 2023
Record date for 2023 interim dividend	22 February 2023
DRP election date for 2023 interim dividend	23 February 2023
Payment date for 2023 interim dividend	21 March 2023
2023 Third quarter performance update	20 April 2023
2023 Investor Day	30 May 2023
2023 Full year results and final dividend	15 August 2023
Ex-dividend date for 2023 final dividend	28 August 2023
Record date for 2023 final dividend	29 August 2023
DRP election date for 2023 final dividend	30 August 2023
Payment date for 2023 final dividend	20 September 2023
2024 First quarter performance update	17 October 2023
Annual General Meeting	26 October 2023