

THIRD QUARTER PERFORMANCE UPDATE

- Group assets under management up 8% for the quarter and exceeds \$100 billion
- Life investment assets up 6% for the quarter, benefiting from
 - record quarterly annuity sales of \$1.6 billion
 - record quarterly Life book growth of 9.2% for the quarter¹
- Funds Management FUM up 9% for the quarter, including \$7.0 billion of net flows
- FY21 normalised net profit before tax expected to be at the bottom end of \$390 million to \$440 million guidance range

Challenger Limited (ASX: CGF) today provided an update for the three months to the end of March 2021, with Group assets under management (AUM) increasing 8% for the quarter and exceeding \$100 billion for the first time.

Growth in Group AUM was driven by record Life annuity book growth and a continuation of market leading Funds Management net flows.

Managing Director and Chief Executive Officer Richard Howes said: “Challenger’s performance in the third quarter demonstrates our strategy to diversify revenue is working. We have been investing in our distribution, product and marketing capability over recent years which is extending our customer reach and diversifying our product offering and distribution channels.

“Sales of our institutional term annuity and Challenger Index Plus have been very strong, reflecting the investment we are making to build relationships with new institutional clients.

“Annuity sales also benefited from stabilisation in the retail adviser market, with domestic retail term sales up 32%. As previously flagged, Japanese annuity sales moderated following the strong start to the year.

“Funds Management further solidified its position as the fastest growing active manager in Australia. Total funds under management rose 9% during the quarter, benefiting from industry leading quarterly net flows of \$7 billion.

“Group assets under management exceeded \$100 billion for the first time and Challenger is now Australia’s third² largest active asset manager.

“Challenger remains well positioned for continued growth with diversified revenue streams in the Life business and a differentiated Funds Management offering.

¹ Life book growth of 9.2% for the quarter represents Life net flows divided by opening FY21 annuity and Challenger Index Plus liabilities.

² Rainmaker Roundup – Investment managers by consolidate FUM – December 2020.

“Our recently announced bank acquisition will significantly expand the role Challenger plays in helping customers achieve financial security in retirement. We are well progressed in our preparations to integrate the bank, expand its term deposit offerings and build more direct relationships with customers as we await regulatory approval.

“Challenger remains on-track to achieve its normalised profit guidance, however, reflecting the tighter credit spread environment now expects to be at the bottom end of guidance range.

“We are responding to the investment conditions through our annuity pricing to reflect the tighter credit spread environment.”

Life

Total Life net flows for the quarter were \$1,377 million, including annuity net flows of \$879 million and Other Life net flows of \$498 million. Life’s book growth for the quarter was a record 9.2%¹

Total Life sales were \$2,419 million, up 155% on the prior corresponding period (pcp) reflecting both higher annuity sales and higher Challenger Index Plus sales.

Total annuity sales increased by \$979 million (up 165%) on the pcp to \$1,572 million driven by strong growth in domestic term annuity sales, partially offset by a moderation in the contribution from Japan (MS Primary) following a strong start to the 2021 financial year.

Domestic annuity sales were \$1,493 million. Domestic fixed term sales recorded significant growth and totalled \$1,386 million and lifetime sales of \$107 million were broadly stable on the pcp.

Domestic retail term annuity sales of \$366 million increased 32% on the pcp, benefiting from the stabilisation in the retail financial advice market.

Domestic institutional term annuity sales of \$1,020 million were very strong due to the investment Challenger is making to establish new institutional partnerships and client relationships. The institutional term annuities were written at lower margins during the period reflecting a strategic investment in new relationships and the impact of long sales lead times which reduced the extent to which the sharp decline in credit spreads could be passed through to clients.

Domestic lifetime annuity sales of \$107 million were stable on the pcp and comprised Liquid Lifetime sales of \$64 million and CarePlus sales of \$43 million.

Japan (MS Primary) sales were \$79 million, with the volume moderating following the 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 (A\$670 million³) for a minimum of five years from FY20⁴. Japanese sales for the nine months to 31 March 2021 were \$622 million.

Sales of Other Life products (Challenger Index Plus) were \$847 million, with \$498 million of new business sales and \$349 million of maturities reinvested during the quarter.

Life’s investment assets as of 31 March 2021 were \$20.8 billion, up \$1.2 billion or 6% for the quarter, benefiting from record quarterly net book growth (\$1,377 million), retained earnings and

³ Based on the exchange rate as at 1 July 2020.

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

other movements. Retained earnings includes a positive investment experience contribution as a result of tighter fixed income credit spreads.

Life's strong capital position and defensive portfolio settings have been maintained.

Life's PCA ratio was 1.56 times⁵, reflecting growth in the business and is after a one-off \$100 million distribution (equivalent to 4 points of PCA) to fund the recently announced bank acquisition and its initial growth. Challenger remains comfortable operating toward the top end of its target range of 1.3 to 1.6 times the minimum amount set by the Australian Prudential Regulation Authority.

Funds Management

Funds Management funds under management (FUM) was \$99.7 billion, an increase of \$8.5 billion or 9% for the quarter. FUM growth was driven by \$7.0 billion of net flows and a positive contribution from investment markets.

Fidante Partners' FUM was \$78.8 billion, an increase of \$6.9 billion or 10% for the quarter. FUM benefited from industry leading net flows of \$5.5 billion and positive investment markets of \$1.4 billion. Strong net flows were recorded across a range of equity and fixed income boutiques.

Earlier this month, Fidante Partners and global specialist asset manager Impax Asset Management Limited announced they had entered into a new distribution agreement, with Fidante Partners becoming Impax's exclusive distribution partner in Australia and New Zealand. Founded in 1998, Impax Asset Management is a specialist asset manager, with £30bn⁶ in both listed and private markets strategies, investing in opportunities arising from the transition to a more sustainable global economy.

CIP Asset Management FUM was \$20.9 billion and increased by \$1.5 billion or 8% for the quarter, reflecting an increase in funds managed on behalf of Life following very strong book growth.

Outlook

Challenger reaffirms its FY21 normalised net profit before tax guidance, however, now expects to be at the bottom end of the \$390 million and \$440 million⁷ guidance range.

Earnings reflect the sharp decline in credit spreads over the year, which were not fully reflected in customer pricing. Challenger is responding to the investment conditions by significantly adjusting annuity pricing.

ENDS

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

⁵ 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 31 March 2021.

⁶ As at 31 March 2021.

⁷ The COVID-19 situation and its impacts on markets create an inherently uncertain environment. This could, among other things, impact the speed of deployment of Life's capital and therefore impact guidance.

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.

For more information contact

Stuart Kingham

Head of Investor Relations
+61 401 139 067

Sean Aylmer

Head of External Communications
+61 409 817 039

Mark Chen

Senior Investor Relations Manager
+61 423 823 209

Disclaimer

The forward-looking statements, estimates and projections contained in this release are not representations as to future performance and nothing in this release should be relied upon as guarantees or representations of future performance.

Challenger Limited

Assets and Funds Under Management, net flows and sales

Life quarterly sales and investment assets

\$m	Q3 21	Q2 21	Q1 21	Q4 20	Q3 20
Life sales					
Fixed term sales	1,465	819	1,025	480	487
Lifetime sales ¹	107	139	208	98	106
Life annuity sales	1,572	958	1,233	578	593
Maturities and repayments	(693)	(900)	(1,133)	(926)	(590)
Life annuity flows	879	58	100	(348)	3
Annuity book growth²	7.0%	0.5%	0.8%	(2.7%)	0.0%
Other Life sales					
Other Life sales	847	903	344	486	356
Other maturities and repayments	(349)	(366)	(330)	(783)	(322)
Other Life flows	498	537	14	(297)	34
Other Life net book growth²	20.6%	22.2%	0.6%	(15.2%)	1.7%
Total Life sales					
Total Life sales	2,419	1,861	1,577	1,064	949
Total maturities and repayments	(1,042)	(1,266)	(1,463)	(1,709)	(912)
Total Life net flows	1,377	595	114	(645)	37
Total Life book growth²	9.2%	3.9%	0.8%	(4.3%)	0.2%
Life					
Fixed income and cash ³	15,996	14,821	14,260	13,971	14,571
Property ³	3,309	3,316	3,303	3,292	3,320
Equity and Infrastructure ^{3,4}	569	604	398	393	392
Alternatives ⁴	922	893	987	647	677
Total Life investment assets	20,796	19,634	18,948	18,303	18,960
Average Life investment assets⁵	19,924	19,323	18,625	18,393	19,696

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

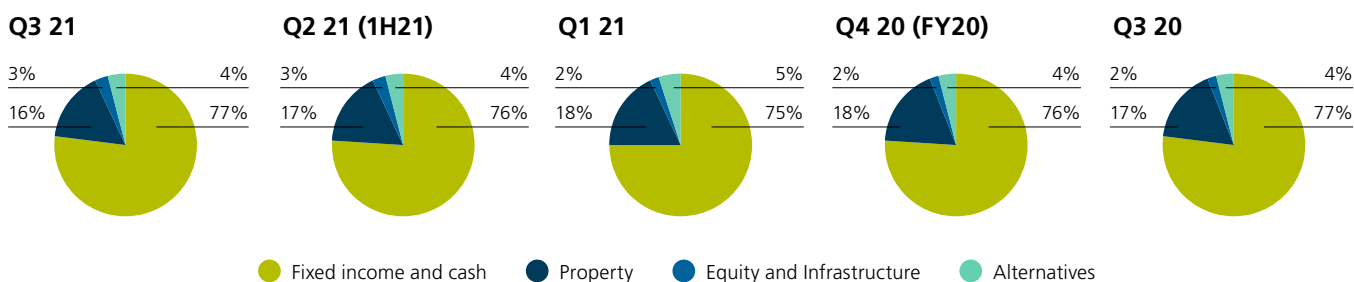
2 Book growth percentage represents net flows for the period divided by opening book value for the financial year.

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

4 Commencing in 1H21, Life's investment portfolio categories have been amended to more accurately reflect Life's portfolio composition. The equities and infrastructure categories were combined, and absolute return funds and insurance-related investments reclassified from equities to alternatives. Comparatives have been restated.

5 Average Life investment assets calculated on a monthly basis.

Life Asset Allocation



Challenger Limited

Assets and Funds Under Management, net flows and sales

Funds Under Management and net flows

\$m	Q3 21	Q2 21	Q1 21	Q4 20	Q3 20
Funds Management					
Fidante Partners					
Equities	33,820	30,229	26,985	26,295	22,672
Fixed income	38,378	35,090	31,904	29,590	26,073
Alternatives	6,566	6,507	6,336	6,508	7,240
Total Fidante Partners	78,764	71,826	65,225	62,393	55,985
CIP Asset Management					
Fixed income	16,020	14,470	14,859	13,629	13,218
Property	4,910	4,946	5,147	5,413	5,576
Total CIP Asset Management	20,930	19,416	20,006	19,042	18,794
Total Funds Under Management	99,694	91,242	85,231	81,435	74,779
Average Fidante Partners	75,305	67,963	64,065	59,021	61,491
Average CIP Asset Management	20,032	20,190	19,397	18,799	20,112
Total average Funds Under Management¹	95,337	88,153	83,462	77,820	81,603
Analysis of flows					
Funds Management net flows					
Equities	2,071	5	335	(195)	587
Fixed income	3,420	3,327	2,107	2,955	(430)
Alternatives	50	86	(96)	(199)	(864)
Total Fidante Partners	5,541	3,418	2,346	2,561	(707)
CIP Asset Management	1,489	(571)	1,230	404	(1,597)
Net flows	7,030	2,847	3,576	2,965	(2,304)

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

Reconciliation of total group assets and Funds Under Management

\$m	Q3 21	Q2 21	Q1 21	Q4 20	Q3 20
Funds Management Funds Under Management	99,694	91,242	85,231	81,435	74,779
Life investment assets	20,796	19,634	18,948	18,303	18,960
Adjustments to remove double counting of cross-holdings	(16,332)	(14,789)	(15,383)	(14,501)	(14,286)
Total Assets Under Management	104,158	96,087	88,796	85,237	79,453