

**Market
release**

Q3 2016

Challenger Limited
Assets and funds under
management, net flows and sales

ASSETS AND FUNDS UNDER MANAGEMENT OF \$57.4 BILLION

ANNUITY SALES OF \$575 MILLION UP 29% ON PCP

STRONG GROWTH IN LIFETIME SALES UP 63% ON PCP

FUNDS MANAGEMENT NET FLOWS OF \$759 MILLION

21 April 2016, Sydney – Challenger Limited (ASX:CGF) today announced March quarter assets and funds under management, net flows and sales across its two operating businesses, Funds Management and Life.

Challenger's total group assets and funds under management at 31 March 2016 was stable on the previous quarter at \$57.4 billion.

In Funds Management, positive inflows across both Fidante Partners and Challenger Investment Partners of \$0.8 billion in the quarter were offset by negative market movements resulting in stable FUM of \$54.6 billion.

Total Life sales for the quarter were \$864 million, comprising annuity sales of \$575 million and other Life sales of \$289 million. Annuity sales increased by 29% on the prior corresponding period (pcp) and included strong growth in both term annuities (up 22%) and lifetime annuities (up 63%). Life annuity net book growth for the quarter was \$135 million, or 1.6%.

Challenger's Chief Executive Officer Brian Benari said: "The key stand out is the step up in lifetime annuity sales which accounted for 23% of sales in the quarter and benefitted from our move to embed annuities on platforms. This resulted in flows through Colonial First State (Colonial), being up more than 100% on the same period last year.

“During the quarter there was significant progress on the regulatory reform agenda. Treasury is currently setting the objective of superannuation. This is critical to prepare Australia for one of the great social and economic issues of our time – the ageing of Australia’s population. Making it clear that superannuation is to provide income in retirement provides government and industry the framework to tackle this challenge.

“It’s also the first logical step in an expected series of reforms, including a review of retirement income streams regulation and the development of Comprehensive Income Products for Retirement.

“On the Funds Management side of the business, there were promising inflows from Fidante’s European business.”

Funds Management

Funds Management FUM includes both the Fidante Partners multi-boutique funds management business as well as Challenger Investment Partners fixed income and commercial property mandates.

Fidante Partners’ FUM was \$41.5 billion, unchanged for the quarter, with net inflows of \$0.6 billion offset by negative market movements. Inflows of \$1.0 billion across a range of boutiques were offset by a one-off \$0.4 billion outflow following the previously announced closure of Metisq Capital. Fidante Partners’ inflows comprised equities of \$0.3 billion, fixed income of \$0.4 billion and alternatives of \$0.3 billion. Alternatives net inflows were driven by Dexion Capital, which has now been rebranded under the Fidante Partners umbrella.

Challenger Investment Partners FUM was \$13.1 billion at 31 March 2016, unchanged for the quarter, with net inflows of \$0.2 billion across both property and fixed income offset by fixed income market movements.

Life

Annuity sales increased from \$445 million to \$575 million (up 29%). Other Life sales, representing Challenger’s Guaranteed Index Return (GIR) product, were \$289 million from the reinvestment of GIR maturities during the quarter.

Annuity sales of \$575 million, included fixed term annuity sales of \$445 million which were up by \$80 million or 22% on the pcp and lifetime annuity sales of \$130 million which were up by \$50 million or 63% on the pcp. Life annuity net book growth for the quarter was \$135 million, or 1.6%.

Lifetime annuity sales include the Liquid Lifetime and CarePlus products. Liquid Lifetime sales are benefitting from strong demand for lifetime retirement income annuities, as advisers implement comprehensive retirement income models. Following the launch of CarePlus in August 2015, the roll out and product education process continued during the quarter, with CarePlus contributing \$15m to lifetime annuity sales.

Lifetime annuity sales represented 23% of third quarter total annuity sales, up from 18% in the pcp and 14% in 1H16. The higher proportion of lifetime sales increased year to date annuity new business tenor to 6.4 years, up from 5.6 years in 1H16.

Both term and lifetime annuity sales continue to benefit from the recent launch of Challenger annuities on the Colonial and VicSuper platforms.

Sales through Colonial increased by more than 100% on pcp, with 51% of platform sales from new advisers that haven't traditionally sold Challenger annuities¹. Lifetime sales from the Colonial platform for the period increased to 40%, up from 21% in 1H16.

Life's investment assets at 31 March 2016 were \$13.1 billion, unchanged for the quarter. Movements in Life's investment assets reflect net book growth and changes in retained earnings net of dividends paid to the Challenger Group.

For the 2016 financial year, Life's Cash Operating Earnings guidance remains unchanged at a range of \$585 million to \$595 million and Challenger remains committed to its 18% pre-tax normalised return on equity target.

ENDS

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¹ Defined as having not written a Challenger annuity in the last three years.

Challenger Total Group Assets and Funds Under Management

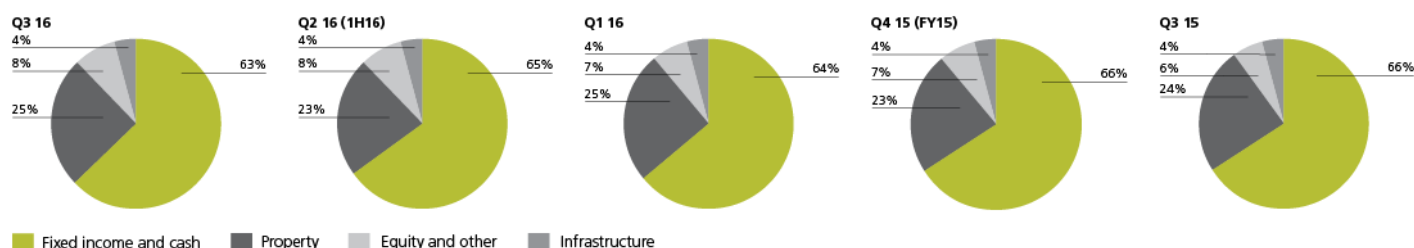
\$m	Q3 16	Q2 16	Q1 16	Q4 15	Q3 15
Funds Management (FUM)	54,621	54,698	53,540	57,902	58,735
Life investment assets	13,102	13,147	13,021	12,795	12,823
Adjustments to remove double counting of cross holdings	(10,289)	(10,228)	(10,466)	(10,908)	(11,128)
Total Assets and Funds Under Management	57,434	57,617	56,095	59,789	60,430

Life quarterly sales and investment assets

Life sales	Q3 16	Q2 16	Q1 16	Q4 15	Q3 15
Fixed Term	445	801	611	652	365
Lifetime (including Care)	130	133	96	81	80
Total annuity sales	575	934	707	733	445
Other Life sales	289	233	177	–	395
Total Life sales	864	1,167	884	733	840

Life	Q3 16	Q2 16	Q1 16	Q4 15	Q3 15
Fixed income and cash ¹	8,280	8,488	8,336	8,514	8,514
Property ¹	3,243	3,063	3,218	2,884	3,046
Equity and other	1,042	1,060	909	883	736
Infrastructure ¹	537	536	558	514	527
Total Life investment assets	13,102	13,147	13,021	12,795	12,823
Average Life investment assets²	13,134	13,047	12,962	12,857	12,647

Life asset allocation



1 Fixed income, property and infrastructure reported net of debt.

2 Average Life investment assets calculated on a monthly basis.

Funds Management Funds Under Management and net flows

\$m	Q3 16	Q2 16	Q1 16	Q4 15	Q3 15
Funds Management					
Fidante Partners					
Equities	17,929	18,754	17,096	17,323	18,011
Fixed income ¹	17,707	17,305	17,273	23,085	22,952
Alternatives ¹	5,880	5,546	6,141	4,259	4,178
Total Fidante Partners	41,516	41,605	40,510	44,667	45,141
Challenger Investment Partners					
Fixed income	8,425	8,541	8,532	9,231	8,985
Property	4,680	4,552	4,498	4,004	4,609
Total Challenger Investment Partners	13,105	13,093	13,030	13,235	13,594
Total funds under management	54,621	54,698	53,540	57,902	58,735
Average Fidante Partners	41,292	41,071	42,049	45,018	43,936
Average Challenger Investment Partners	13,126	13,029	13,201	13,585	13,191
Average total funds under management²	54,418	54,100	55,250	58,603	57,127
Analysis of flows					
Funds Management net flows					
Equities	(182)	492	766	473	(170)
Fixed Income ³	436	199	(5,050)	240	520
Alternatives ⁴	336	(765)	416	(120)	(265)
Total Fidante Partners	590	(74)	(3,868)	593	85
Challenger Investment Partners	169	131	(545)	(314)	609
Net flows	759	57	(4,413)	279	694

1 In Q1 16 WyeTree Asset Management FUM (\$0.7bn) was reclassified from fixed income to alternatives.

2 Average total funds under management calculated on a monthly basis.

3 Funds Management 1H16 net flows include -\$5.4bn following the sale of Kapstream in July 2015. Fidante Partners will no longer receive distribution fees on Kapstream institutional FUM (\$5.4bn) and as a result has derecognised this FUM in Q1 16. Despite the reduction in FUM, Fidante Partners earnings over the short and medium term is not expected to be negatively impacted following new distribution and administration agreements.

4 Q1 16 alternatives net flows includes a \$0.5bn inflow following the acquisition of Dexion Capital.