

# FY16 financial results

Multiple forces driving market opportunities

16 August 2016



# Overview

## Multiple forces driving market opportunities

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### **FY16 operating performance**

Brian Benari – Managing Director and Chief Executive Officer

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### **FY16 financial results**

Andrew Tobin – Chief Financial Officer

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### **Strategy and outlook**

Brian Benari – Managing Director and Chief Executive Officer

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# Highlights

## Multiple forces driving market opportunities

### Challenger Group

Continuing track record of growth

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### Life

Growing franchise with stable margin

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### Funds Management

Net flows consistently outperforming peers

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### Outlook

Multiple forces driving market opportunities

Market leader with competitive advantage

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# Group financial performance

## Continuing track record of growth

<b>AUM</b> <b>\$60.1bn</b> –	<ul style="list-style-type: none"><li>▶ Group AUM up 10% excluding Kapstream sale – \$5.4bn of FUM derecognised<sup>1</sup></li><li>▶ Life AUM up 10%; Funds Management FUM up 8% (exc. Kapstream sale)</li></ul>
<b>Normalised NPAT<sup>2</sup></b> <b>\$362m +8%</b>	<ul style="list-style-type: none"><li>▶ Normalised NPAT benefiting from EBIT growth (+8%)</li><li>▶ EBIT growth impacted by UK transaction activity (Fidante Europe \$10m pre-tax loss)</li></ul>
<b>Normalised EPS</b> <b>64.6cps +6%</b>	<ul style="list-style-type: none"><li>▶ Normalised EPS growth from higher normalised NPAT</li><li>▶ Partially offset by higher average share count – up 3%</li></ul>
<b>Statutory NPAT<sup>2</sup></b> <b>\$328m +10%</b>	<ul style="list-style-type: none"><li>▶ Includes investment experience (-\$56m) and significant one-off items (+\$22m)</li><li>▶ Profit on sale of Kapstream included in significant items</li></ul>
<b>Normalised ROE<sup>3</sup> 17.8%</b> <b>Dividend +8%</b>	<ul style="list-style-type: none"><li>▶ ROE impacted by Fidante Europe (18.1% pre Fidante Europe loss)</li><li>▶ FY16 dividend 32.5 cps and fully franked – up 8%</li></ul>

### FY16 – Full year 30 June 2016

1. Following the sale of Kapstream in July 2015, Fidante Partners derecognised Kapstream institutional FUM (\$5.4bn), with Fidante Partners earnings not expected to be impacted by the sale over the short and medium term following revised and ongoing retail distribution agreements.
2. Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in the Directors' Report (section 4.2) of the Challenger Limited 2016 Annual Report.
3. Normalised ROE pre-tax.

# Life financial performance

## Growing franchise with stable margin

<b>Average AUM</b> \$13.2bn +8%	<ul style="list-style-type: none"><li>▶ Average AUM benefiting from both annuity and GIR net book growth</li><li>▶ Strong final quarter with Life AUM up \$1.0bn in Q416</li></ul>
<b>Life COE</b> \$592m +9%	<ul style="list-style-type: none"><li>▶ Life COE growth driven by higher average AUM (+8%) with stable margin at 4.5%</li><li>▶ 2H16 COE product margin unchanged on 1H16</li></ul>
<b>Life EBIT</b> \$500m +9%	<ul style="list-style-type: none"><li>▶ EBIT growth inline with COE increase despite investment for growth</li><li>▶ Expenses up 6% with new distribution initiatives</li></ul>
<b>Annuity sales</b> \$3.4bn +22%	<ul style="list-style-type: none"><li>▶ Annuity sales growth supported by new distribution initiatives</li><li>▶ 2H16 annuity sales \$1.7bn (up 45% on pcp) and new business tenor 7.2 years</li></ul>
<b>Book growth</b> \$1.1bn +11.1%	<ul style="list-style-type: none"><li>▶ FY16 annuity book growth +8.5% with +5.4% in 2H16</li><li>▶ FY16 total net book growth 11.1%<sup>1</sup> with new \$0.3bn GIR client mandate</li></ul>

### FY16 – Full year 30 June 2016

1. Life net book growth calculated as net flows (\$1,068m) divided by the sum of opening period annuity liability (\$8,693m) and Guaranteed Index Return liability (\$945m).

# Life scorecard

## Entrenching leadership position using competitive advantage

### Partnerships

- ✓ Colonial platform launched
- ✓ Link Group technology build completed
- ✓ 5 new platforms/white labels launching 1H17<sup>1</sup>

### Brand

- ✓ Brand leadership further entrenched
- ✓ 2016 lifestyle expectancy campaign
- ✓ Income layering thought leadership

**FY16  
net book  
growth  
11%**

### Distribution

- ✓ Rated #1 overall adviser satisfaction<sup>2</sup>
- ✓ Rated #1 in technical and client services<sup>2</sup>
- ✓ Leveraging technology to improve product access

### Product

- ✓ New lifetime options (eg VicSuper)
- ✓ CarePlus launched & added to APLs
- ✓ GIR growth

**FY16 – Full year 30 June 2016**

1. Industry Funds - Local Government Super (launched July 2016); legalsuper (launched August 2016); caresuper (scheduled to launch Q217). Retail Funds – ClearView wrap (launched July 2016); Suncorp white label (scheduled to launch Q217).  
2. Wealth Insights Fund Managers Survey 2016.

# Life operating performance

## Strategic partnerships driving scale



Australia's  
largest retail  
platform

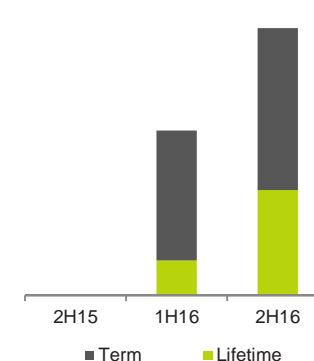
### FY16

- ✓ Launched August 2015 – FirstWrap and FirstChoice platforms
- ✓ ~90% increase in annual volume<sup>1</sup>
- ✓ ~50% of platform sales via new advisers<sup>2</sup>
- ✓ Sales mix ~32% lifetime
- ✓ Supported by retirement income models
  - recommends 25% lifetime annuity allocation

### NEW

- ✓ CarePlus on CFS FirstChoice platform from September 2016

CFS Platforms – Challenger annuity sales<sup>4</sup>



\$16bn profit for  
members fund  
with retirement  
focus

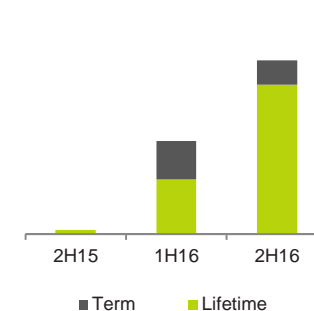
### FY16

- ✓ Launched June 2015
- ✓ Australia's first CIPR – backed by Challenger annuities
- ✓ Chant West 2016 Longevity Product Best Fund
- ✓ Quality business – average tenor 20 years<sup>3</sup>

### NEW

- ✓ Moving advisers to needs based analysis
- ✓ Starting to promote product strongly to member base

VicSuper annuity volumes<sup>4</sup>



## FY16 – Full year 30 June 2016

1. Annuity sales FY16 compared to FY15 from CBA distribution channel.
2. Defined as having not written a Challenger annuity in last three years.
3. Average tenor FY16 sales using lower of the withdrawal guarantee period or life expectancy for Guaranteed Income for Life sales.
4. CFS platform and VicSuper graphs are illustrative only and use different scales. Total annuity sales across both CFS and VicSuper platforms was ~6% (~\$200m) of FY16 annuity sales.

# Life operating performance

## Strategic partnerships driving scale



Provides services to 10m super fund members

### FY16

- ✓ Technology build completed May 2016

### NEW

- ✓ Three industry funds launching Challenger branded annuities
- ✓ New industry funds can be rolled out quickly



Launched Q117



Launched Q117



Scheduled to launch Q217



### NEW

- ✓ ClearView Wealth Solutions platform offering Challenger annuities
  - a private label Colonial First State platform



### NEW

- ✓ Strategic partnership – to provide Suncorp customers with longevity solutions
- ✓ Suncorp branded term and lifetime annuities – scheduled to launch Q217
- ✓ Lifetime annuities to be included in Suncorp retirement income models

FY16 – Full year 30 June 2016



# Funds Management financial performance

## Double digit FUM growth in challenging markets

<b>Average FUM</b> <b>\$55.1bn</b> –	<ul style="list-style-type: none"><li>▶ Average FUM up 11% excluding impact of Kapstream sale in July 2015<sup>1</sup></li><li>▶ Benefiting from strong organic flows – \$2.4bn</li></ul>
<b>Net income</b> <b>\$128m</b> <b>+9%</b>	<ul style="list-style-type: none"><li>▶ Fidante net income up \$16m – includes \$12m from Dexion acquisition</li><li>▶ CIP management fees up \$7m and performance &amp; transaction fees down \$12m</li></ul>
<b>Normalised EBIT</b> <b>\$37m</b> <b>-15%</b>	<ul style="list-style-type: none"><li>▶ EBIT \$47m (up 7%) excluding Fidante Europe loss</li><li>▶ Fidante Europe loss impacted by stalled UK transaction activity (Brexit)</li></ul>
<b>Net organic flows<sup>2</sup></b> <b>+2.4bn</b>	<ul style="list-style-type: none"><li>▶ Fidante Australia +\$1.3bn; Fidante Europe +\$1.0bn; CIP +\$0.1bn</li><li>▶ Organic net flows +\$1.8bn in 2H16</li></ul>
<b>ROE (pre-tax)</b> <b>23.5%</b>	<ul style="list-style-type: none"><li>▶ Ongoing strong ROE contribution from Australian business</li><li>▶ ROE negatively impacted by Fidante Europe</li></ul>

### FY16 – Full year 30 June 2016

1. Following the sale of Kapstream in July 2015, Fidante Partners will no longer receive distribution fees on Kapstream institutional FUM (\$5.4bn), resulting in \$5.4bn of Fidante Partners' FUM derecognised on 1 July 2015. Fidante Partners earnings over the short and medium term are not expected to be impacted by the sale given revised and ongoing retail distribution agreements.
2. Funds Management FY16 net flows were -\$2.5bn, and include +\$2.4bn of organic flows; -\$5.4bn of FUM derecognised following the sale of Kapstream in July 2015; and +\$0.5bn following the acquisition of Dexion Capital in July 2015.

# Funds Management operating performance

## Replicating Fidante model in Europe

S

STRATEGIC  
PRIORITY

### Extend global distribution and product footprint

- acquisition of alternatives investment group Dexion Capital in July 2015 (price subject to profitability over 6 years)
- expands Fidante Partners' European presence as part of international distribution & product growth strategy
- Fidante Partners Europe established with Dexion business integrated and rebranded

#### Fidante Capital



*Matching investors with alternative investments via closed-end listings*

- Earnings impacted by inactive IPO market
- Maintaining careful cost control
- IPO pipeline conversion dependant on market conditions
- Demand for follow-on raisings remains

#### Fidante Partners



*Multi-boutique platform focused on alternative assets*

- \$1.0bn of boutique net flows since acquisition
- Boutique FUM tripled since acquisition
- Global UCITS<sup>1</sup> platform
  - 3 products launched by June 2016
  - \$0.2bn raised including Whitehelm

**FY16** – Full year 30 June 2016

1. UCITS - Undertakings for Collective Investment in Transferable Securities. UCITS provide a single European regulatory framework for an investment vehicle, meaning the vehicle can be marketed across the European Union.

# Funds Management operating performance

## Net flows consistently outperforming peers

### Fidante Partners Australia

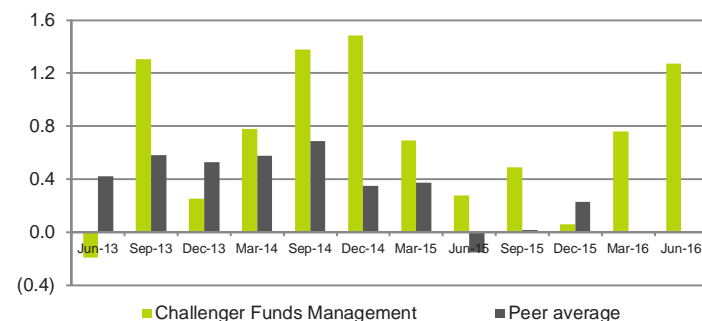


- Expanding existing managers offerings
  - Alphinity – global equities
  - Ardea – nominal bonds
  - Bentham – asset backed securities
  - Kinetic – mid-cap equities
  - Merlon – long only
  - Tempo – global currency
  - Wavestone – long only
- Emerging Manager Program to attract new managers
- Professional Planner / Zenith 2015 distributor of the year

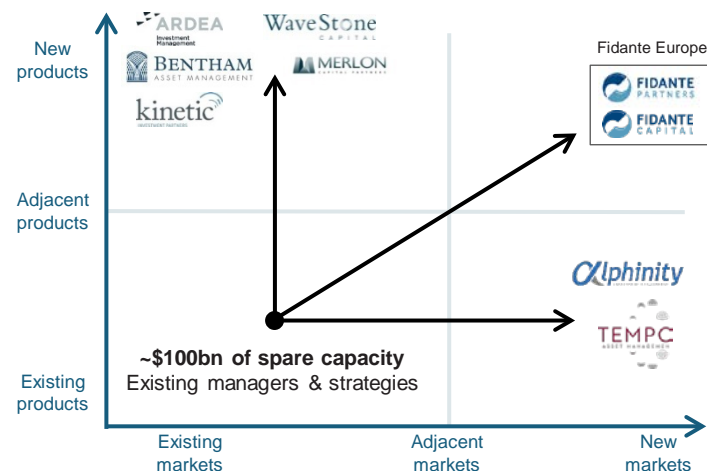
### Challenger Investment Partners

- Expansion of client base to offshore markets
  - \$0.4bn property and fixed income mandates from offshore investors
- 3rd party FUM up 14%
- Low interest rates creating demand for higher yielding assets

Quarterly net flows vs peers<sup>1</sup> (\$bn)



Fidante Partners product and market matrix



FY16 – Full year 30 June 2016

1. Quarterly net flows for peers, including Magellan, BTIM, Perpetual, AMP Capital Investors, Platinum and Pacific Current Group.

# Highlights

## Multiple forces driving market opportunities

### **Challenger Group**

Continuing track record of growth

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### **Life**

Growing franchise with stable margin

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### **Funds Management**

Net flows consistently outperforming peers

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# FY16 Financial results

**Andrew Tobin**

Chief Financial Officer

16 August 2016

FY16 – Full year 30 June 2016

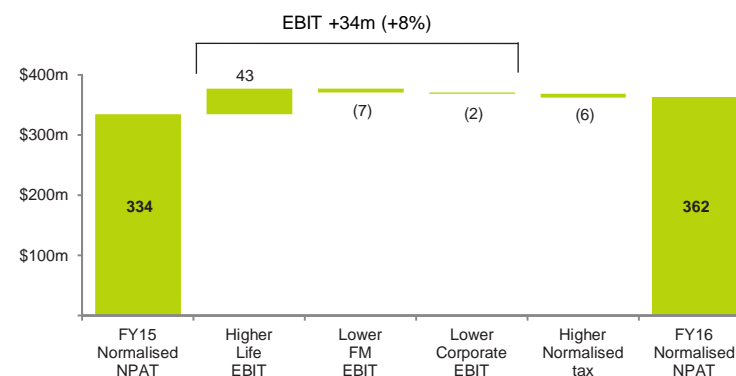
# Group financial performance

## Continuing track record of growth

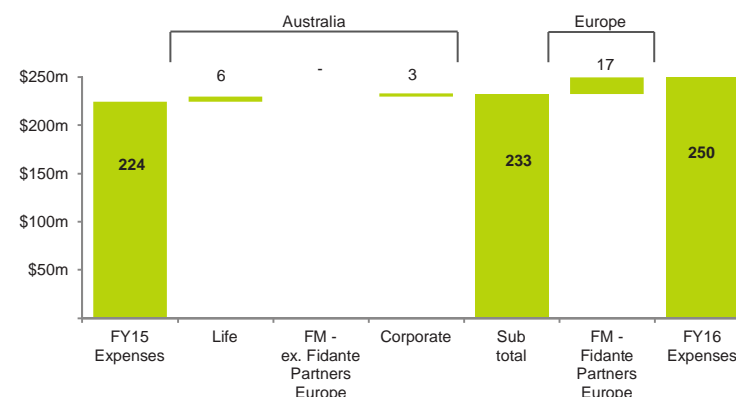
Financial performance (\$m)	FY16	FY15	Change
Life	500	457	9%
Funds Management	37	44	(15%)
Corporate	(65)	(63)	(3%)
<b>Normalised EBIT</b>	<b>472</b>	<b>438</b>	<b>8%</b>
Interest expense	(4)	(4)	-
Normalised tax	(106)	(100)	(6%)
<b>Normalised NPAT</b>	<b>362</b>	<b>334</b>	<b>8%</b>
Investment experience (post-tax)	(56)	(35)	n/a
Significant items (post-tax)	22	-	n/a
<b>Statutory NPAT</b>	<b>328</b>	<b>299</b>	<b>10%</b>

Key metrics	FY16	FY15	Change
AUM (\$bn) <sup>1</sup>	60.1	54.4	10%
Normalised cost to income (%)	34.6	33.8	(80 bps)
Normalised ROE (pre-tax) <sup>2</sup> (%)	17.8%	18.0%	(20 bps)
EPS – normalised (cps)	64.6	61.2	6%
EPS – statutory (cps)	58.5	54.8	7%

Movement in normalised NPAT



Movement in expenses



### FY16 – Full year 30 June 2016

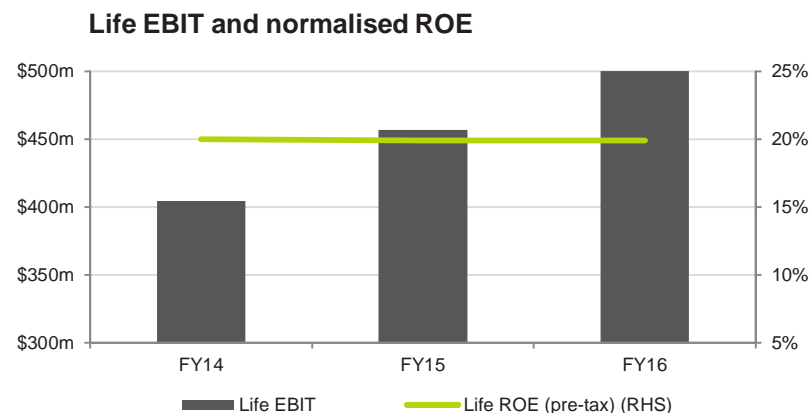
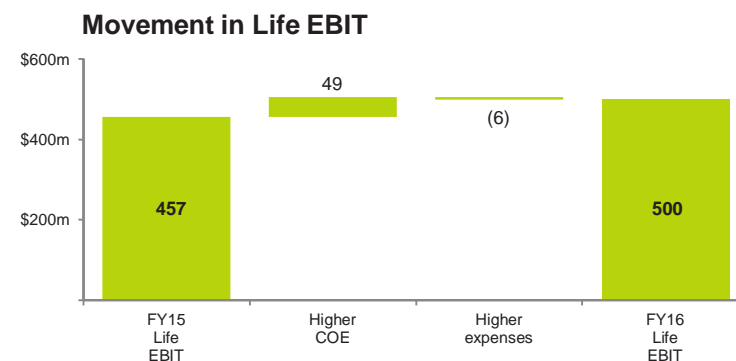
1. FY15 AUM excludes \$5.4bn to remove Kapstream institutional FUM following the sale of Kapstream in July 2015. Following the sale of Kapstream, Fidante Partners will continue to receive administration and distribution fees on retail FUM, however will no longer receive distribution fees on institutional FUM.
2. Normalised ROE calculated as normalised NPBT divided by average net assets.

# Life financial performance

## Book growth driving earnings

Financial performance (\$m)	FY16	FY15	Change
Normalised COE	592	544	9%
Expenses	(93)	(87)	(7%)
<b>Life EBIT</b>	<b>500</b>	<b>457</b>	<b>9%</b>
Investment experience (post-tax)	(56)	(35)	large

Key metrics	FY16	FY15	Change
AUM average (\$bn)	13.2	12.2	8%
Annuity net book growth (%)	8.5%	9.4%	(90bps)
Total Life book growth (%)	11.1%	7.3%	380 bps
Normalised cost to income (%)	15.6%	16.0%	40 bps
Normalised ROE (pre-tax) <sup>1</sup> (%)	19.9%	19.9%	-



## FY16 – Full year 30 June 2016

1. Normalised ROE calculated as normalised EBIT divided by average net assets.

# Life margins

## COE margin stable at 4.4% – 4.5% since 1H13

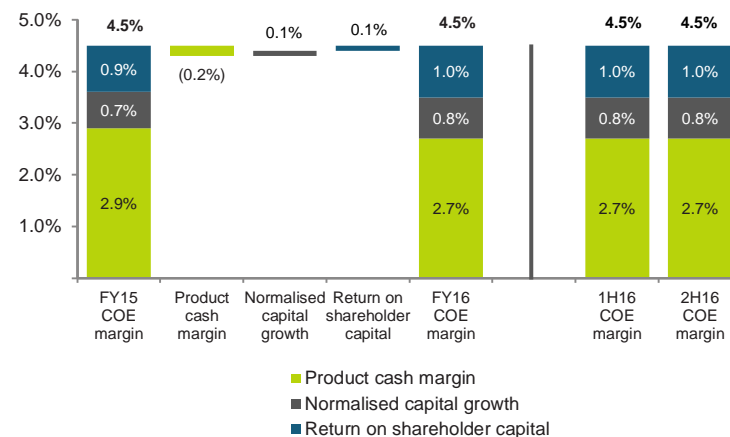
### FY16 Life COE margin stable

- Product cash margin (-20 bps)
  - lower fixed income yields, partially offset by higher property and equity yields (-50 bps)
  - lower annuity funding costs (+30 bps)
- Normalised capital growth (+10 bps)
  - increased property and equity allocation
- Return on shareholder capital (+10 bps)
  - higher average shareholder capital (up \$0.3bn)
  - partially offset by lower returns (down 10 bps)

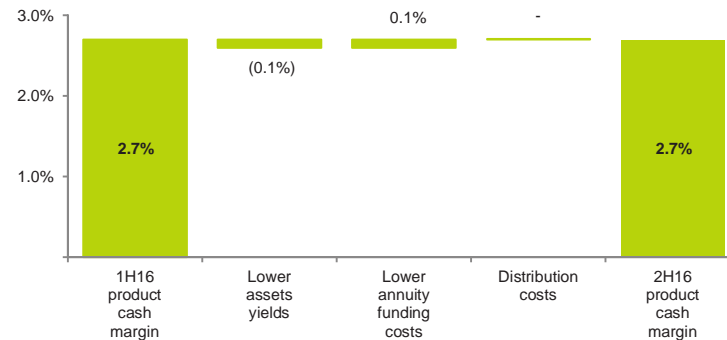
### 2H16 product margin unchanged on 1H16

- Lower asset yields – down 10 bps
- Lower annuity funding costs – down 10 bps

Life COE margin – FY15 to FY16



Life product cash margin – 1H16 to 2H16



FY16 – Full year 30 June 2016



# Life sales

## Strong sales growth in both annuities and GIR

### FY16 annuity sales \$3.4bn – up 22%

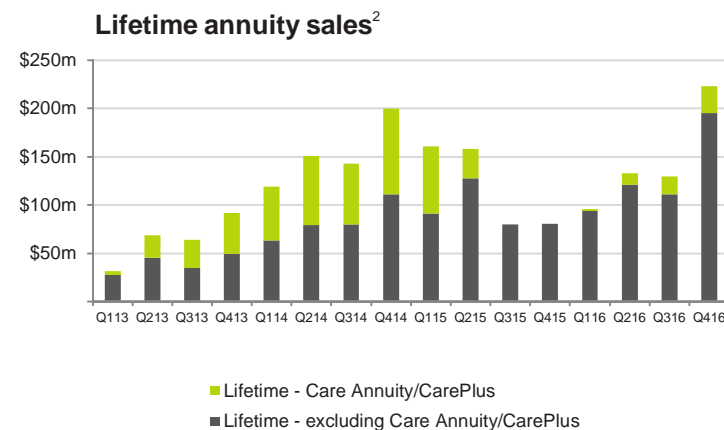
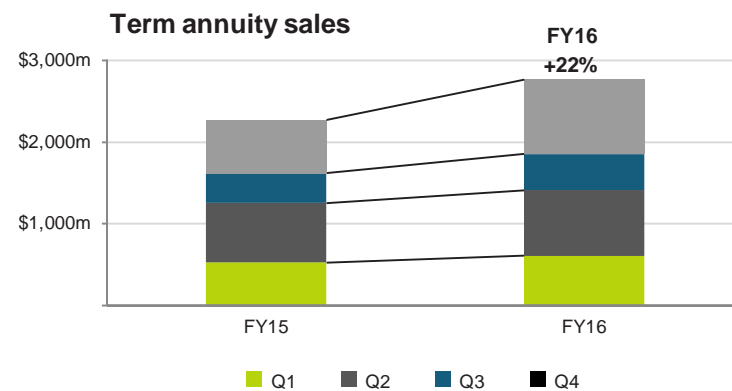
- Term sales \$2.8bn – up 22%
  - sales increased in all quarters (relative to pcp)
- Lifetime sales \$0.6bn – up 21%
  - 17% of FY16 sales (1H16 14%; 2H16 21%)
  - CarePlus sales \$60m – launched August 2015

### Q416 annuity sales \$1.1bn – up 55%

- first ever \$1bn sales quarter
- Term sales up 40%
- Lifetime sales up 175%
- CarePlus sales \$32m (114% increase on Q316)

### FY16 other Life (GIR<sup>1</sup>) sales \$1.0bn

- \$0.3bn new client mandate in Q416
- \$0.7bn reinvestment of maturities



### FY16 – Full year 30 June 2016

1. Guaranteed Index Return (GIR) – refer to page 42 for more details.
2. Care annuity sales were \$100m in FY15. CarePlus was launched in 1H16 with \$60m of sales in FY16.

# Life net book growth

## 11% total book growth

### Annuity net book growth +8.5%

- FY16 \$740m
  - 1H16 \$270m
  - 2H16 \$470m
- Annuity net book growth benefiting from
  - increase in lifetime and term annuity sales
  - new business tenor increasing – 6.5 years
    - 1H16 5.6 years
    - 2H16 7.2 years

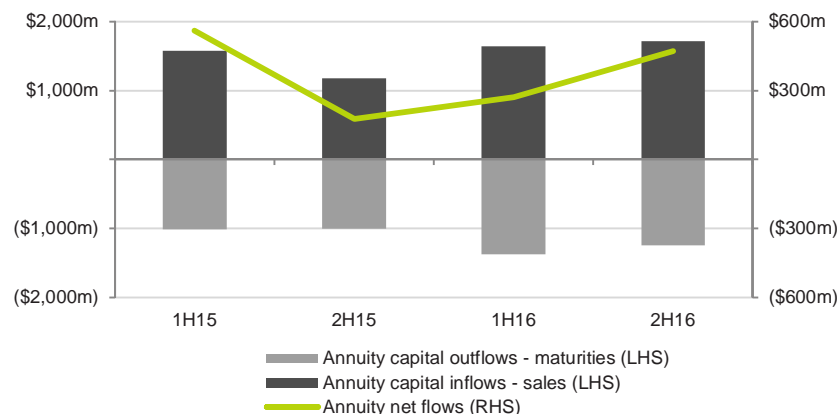
### Other Life (GIR) net book growth +35%

- Other Life (GIR) net book growth \$328m<sup>1</sup>

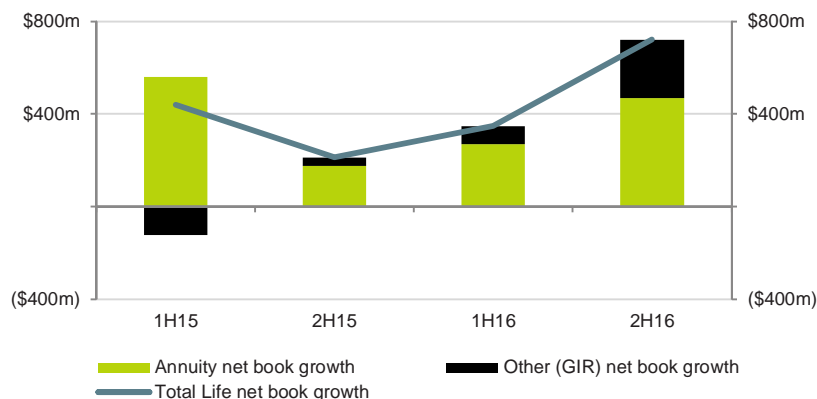
### Total Life net book growth +11.1%<sup>2</sup>

- Total Life net book growth \$1,068m

Annuity net book growth



Life total net book growth

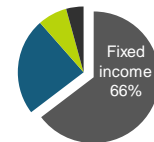


FY16 – Full year 30 June 2016

1. Includes \$370m new mandate, \$629m of maturities and distributions reinvested and \$671m of maturities.  
 2. Life net book growth calculated as net flows (\$1,068m) divided by the sum of opening period annuity liability (\$8,693m) and Guaranteed Index Return liability (\$945m).

# Life investment portfolio

## High quality fixed income portfolio meeting 18% ROE target



### Fixed income

\$9.3bn  
(FY15 \$8.5bn)

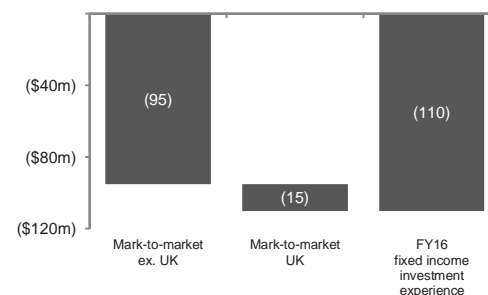
66% of portfolio  
(FY15 66%)

- FY16 investment grade – 81%
  - up from 76% with 'B and below' down \$0.3bn
- FY16 expansion of fixed income credit spreads
  - RBA 'A' rated<sup>1</sup> +35 bps<sup>1</sup>
  - RBA 'BBB' rated<sup>1</sup> +76bps<sup>1</sup>
  - Challenger portfolio industry composition different to RBA indices
- FY16 investment experience -\$110m
  - includes -\$95m mark-to-market ex. UK
    - represents ~47 bps spread increase
  - includes -\$15m mark-to-market UK – Brexit impact at balance date
    - represents ~120 bps spread increase
- Credit default allowance
  - FY16 31 bps vs. FY15 26 bps
  - FY16 \$26m (31 bps) relates to 6 individual credits

Fixed income credit quality



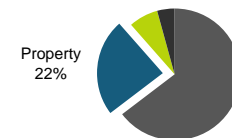
FY16 fixed income investment experience



### FY16 – Full year 30 June 2016

1. RBA non-financial corporate A-rated bonds and non-financial corporate BBB-rated bonds – spread to swap for 3 year tenor.

# Life investment portfolio



## Property portfolio continues to meet 18% ROE target

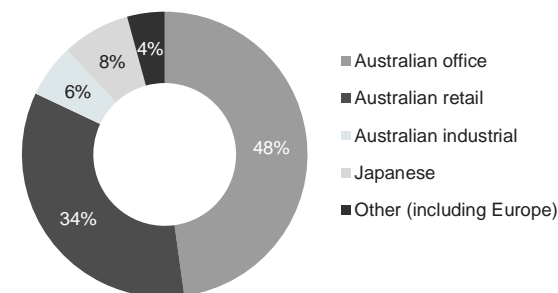
### Property

\$3.2bn  
(FY15 \$2.9bn)

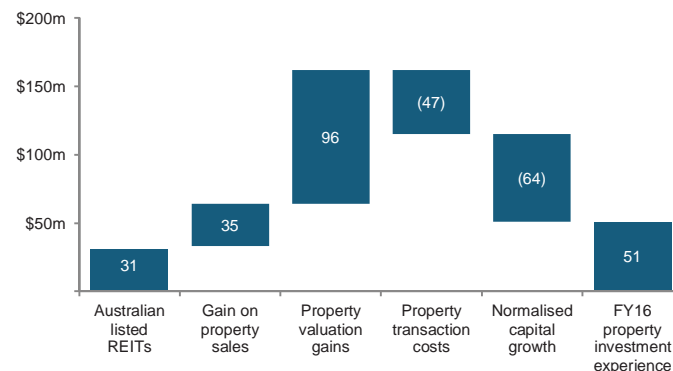
22% of portfolio  
(FY15 23%)

- Property portfolio overview
  - Australian direct portfolio average cap rate 7.0%
  - occupancy rate 95%
  - WALE 4.6 years
- Property remix ongoing in FY16
  - disposals ~\$360m
    - \$35m gain on sales
    - 12% premium to book
  - acquisitions ~\$530m
    - average cap rate 7.0%
- FY16 property revaluations
  - all properties independently valued<sup>1</sup>
  - direct property valuation gains +4%
    - exceeding growth assumption (+2%)
  - Australian listed AREIT portfolio +17%
    - portfolio sold in 2H16

### Life property portfolio overview<sup>2</sup>



### FY16 property investment experience



FY16 – Full year 30 June 2016

1. Excludes properties acquired during FY16.

# Life investment experience

## Positive liability experience offset by asset mark-to-market

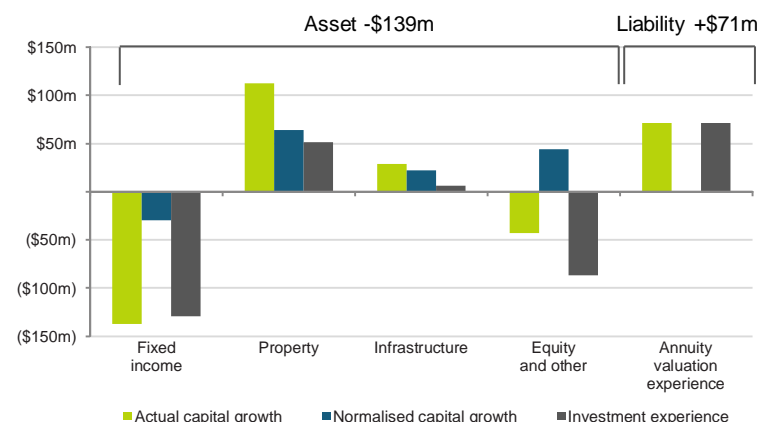
### Asset investment experience (-\$139m)

- Fixed income -\$110m – refer page 19
- Property +\$51m – refer page 20
- Equities and other -\$87m
  - lower global equity markets than assumption
  - equity markets up 4%<sup>1</sup> in July 2016
- Infrastructure +\$7m

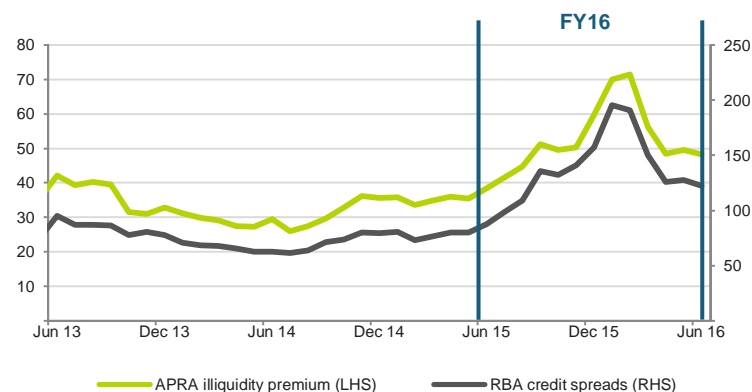
### Annuity liability valuation experience (+\$71m)

- Increased illiquidity premium (+\$62m) resulting in higher liability discount rate
- Positive longevity experience (+\$26m)
- Other assumption changes (+\$26m) including lower unit costs and CPI
- Offset by net new business loss (-\$43m)

### Investment experience (pre-tax) -\$68m



### Movement in illiquidity premium (bps)<sup>2</sup>



### FY16 – Full year 30 June 2016

1. Represents MSCI world index in US dollars.  
 2. In accordance with APRA Prudential Standards (LAGIC) and Australian Accounting Standards, Challenger Life values term annuities at fair value and lifetime annuities using a risk-free discount rate, both of which are based on the Australian Commonwealth Government Bond curve plus an applicable illiquidity premium. The illiquidity premium shown has been calculated based on APRA LPS112 which is used for prudential capital purposes.

# Regulatory capital

## Strongly capitalised to support future growth

### CLC excess capital and PCA ratio<sup>1</sup>

- \$1.0bn excess regulatory capital
- Additional \$0.1bn of Group cash
- PCA ratio 1.57x – upper end of target range<sup>2</sup>
- CET1 ratio of 1.12x

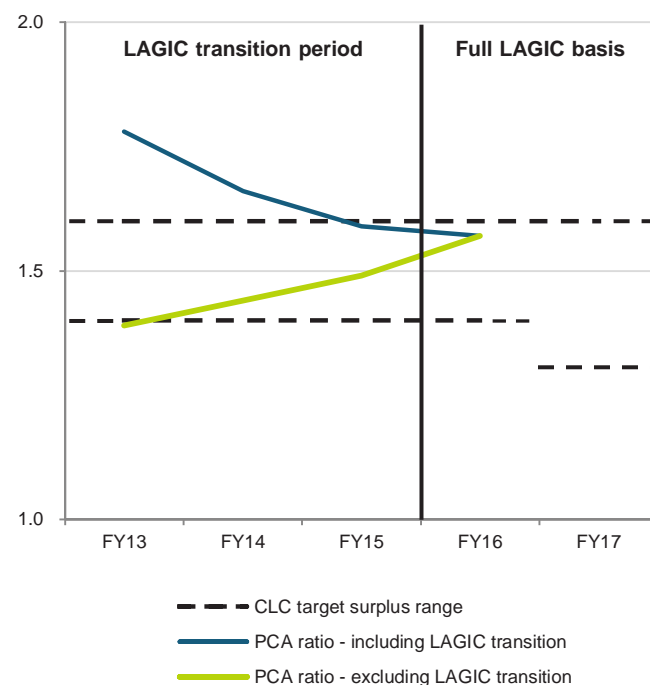
### Target surplus range expanded

- Expanded to 1.3x (from 1.4x) – 1.6x (unchanged), reflecting
  - completion of LAGIC transition
  - change in PCA mix – growing insurance risk capital

### Capital flexibility for growth

- Excess capital and retained earnings funds annuity book growth of ~12%<sup>3</sup>

CLC PCA ratio and target surplus range



### FY16 – Full year 30 June 2016

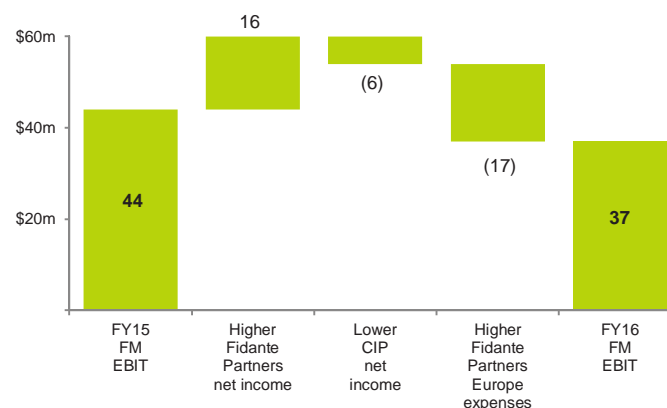
1. Challenger Life Company (CLC) total regulatory capital base divided by Prescribed Capital Amount (PCA).
2. CLC target surplus range based on asset allocation and economic circumstances. Target range 1.4 to 1.6 times from FY13 to FY16 and extended to 1.3 to 1.6 times from FY17.
3. Capital to support annuity growth based on current asset mix, assumes no adverse investment experience and assumes a Life dividend payout ratio of 50% and PCA ratio of 1.3 times.

# Funds Management financial performance

## Australia delivering ... Europe lagging

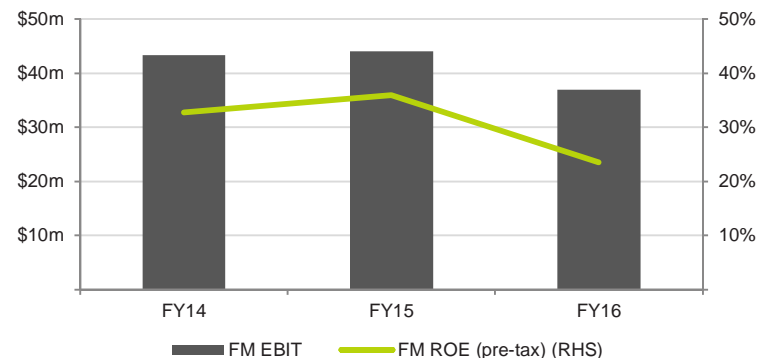
Financial performance (\$m)	FY16	FY15	Change
Fidante Partners net income	78	62	26%
CIP <sup>1</sup> net income	50	55	(10%)
<b>Total net income</b>	<b>128</b>	<b>118</b>	<b>9%</b>
Expenses	(90)	(73)	(23%)
<b>EBIT</b>	<b>37</b>	<b>44</b>	<b>(15%)</b>

Movement in Funds Management EBIT



Key metrics	FY16	FY15	Change
FUM (average) (\$bn) <sup>2</sup>	55.1	49.7	11%
Organic net flows (\$bn) <sup>3</sup>	2.4	2.7	(11%)
Cost to income (%)	70.7%	62.5%	large
ROE (pre-tax) (%)	23.5%	35.5%	large

Funds Management EBIT and ROE

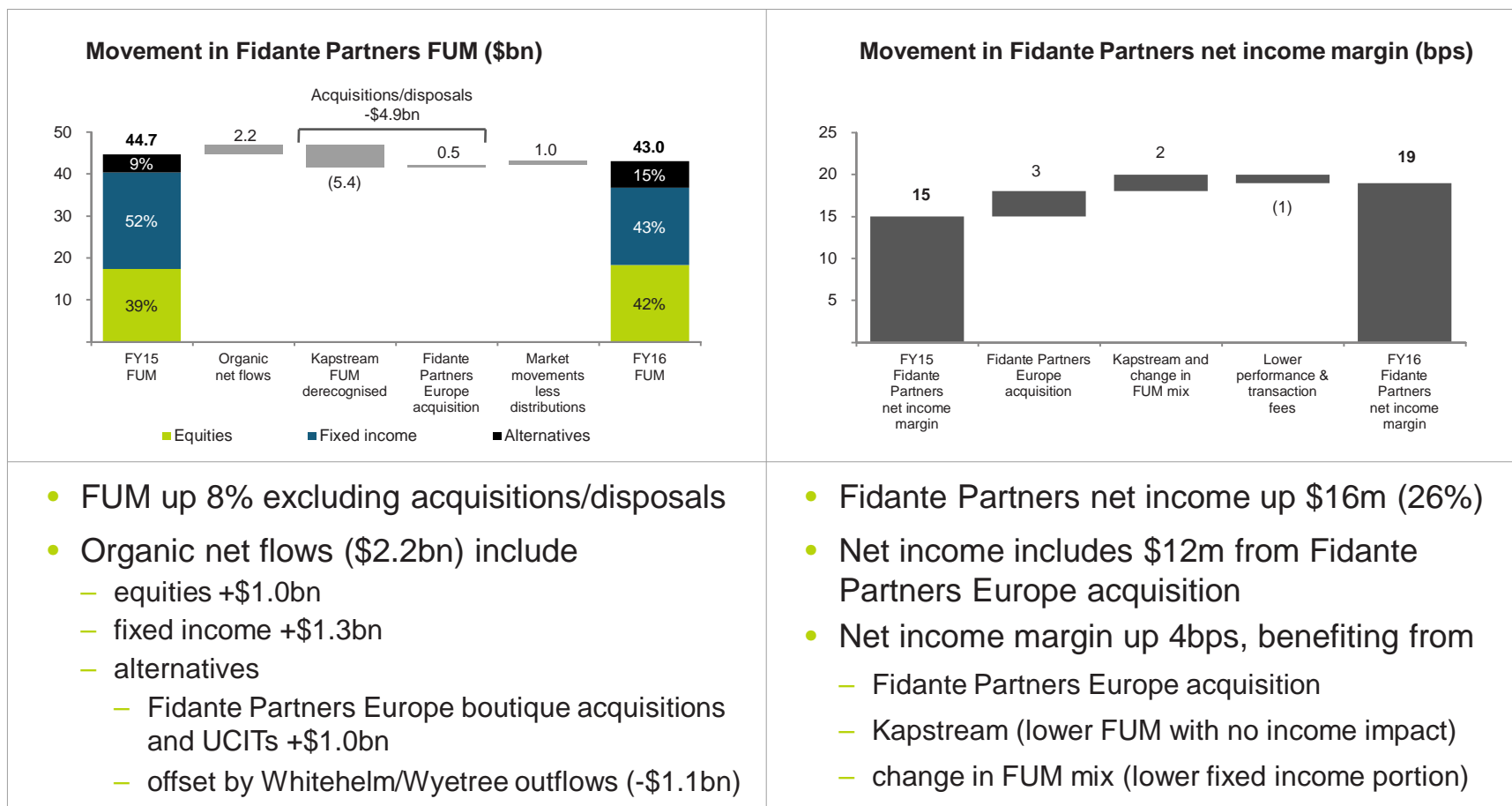


## FY16 – Full year 30 June 2016

1. Challenger Investment Partners (CIP).
2. FY15 FUM excludes \$5.4bn to remove Kapstream institutional FUM following the sale of Kapstream in July 2015. Following the sale of Kapstream, Fidante Partners will continue to receive administration and distribution fees on retail FUM.
3. Funds Management FY16 net flows were -\$2.5bn, and include +\$2.4bn of organic flows; -\$5.4bn of FUM derecognised following the sale of Kapstream in July 2015; and +\$0.5bn following the acquisition of Dexion Capital in July 2015.

# Funds Management – Fidante Partners

## Strong net flows and margin expansion

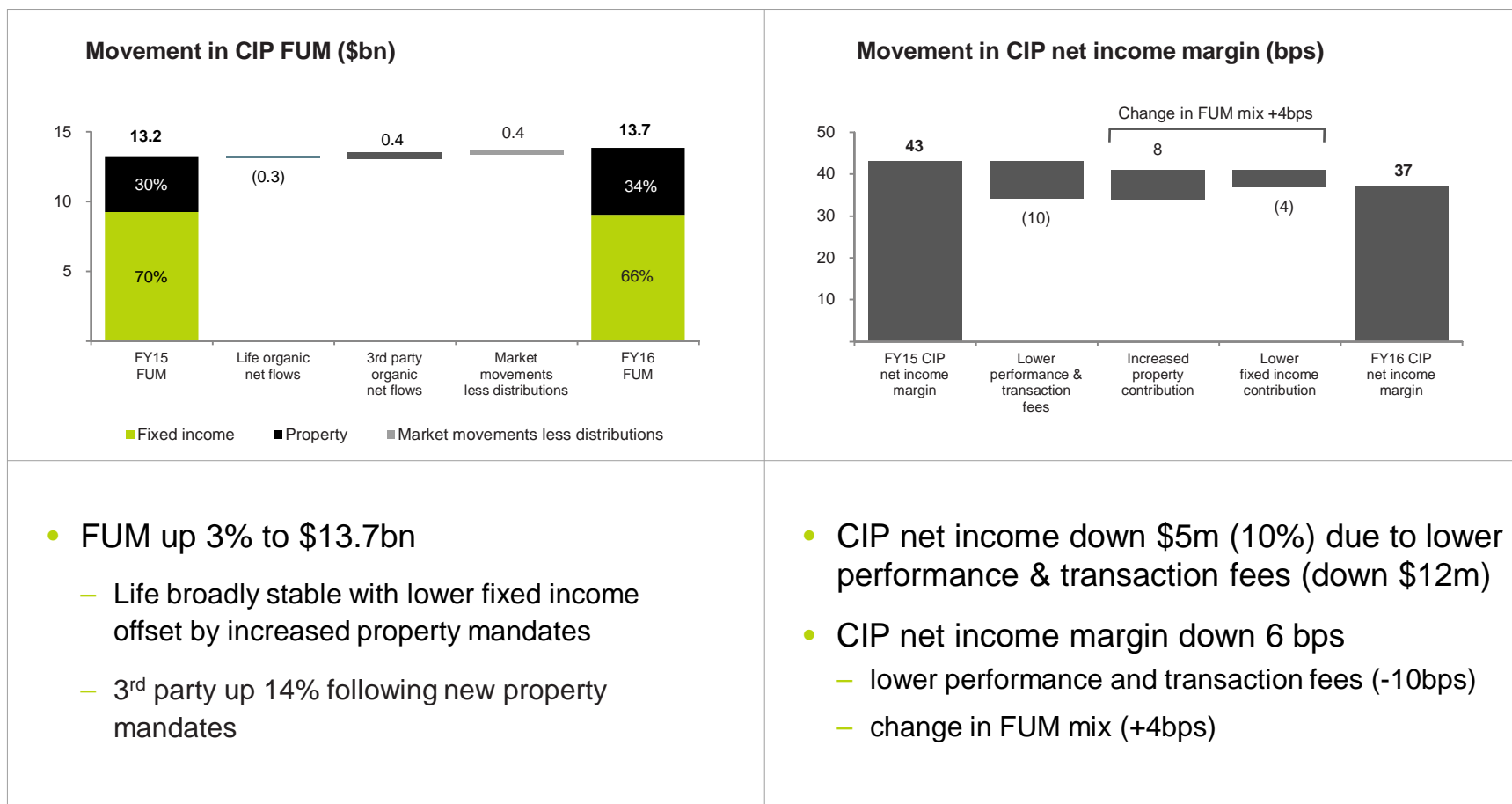


FY16 – Full year 30 June 2016



# Funds Management – CIP

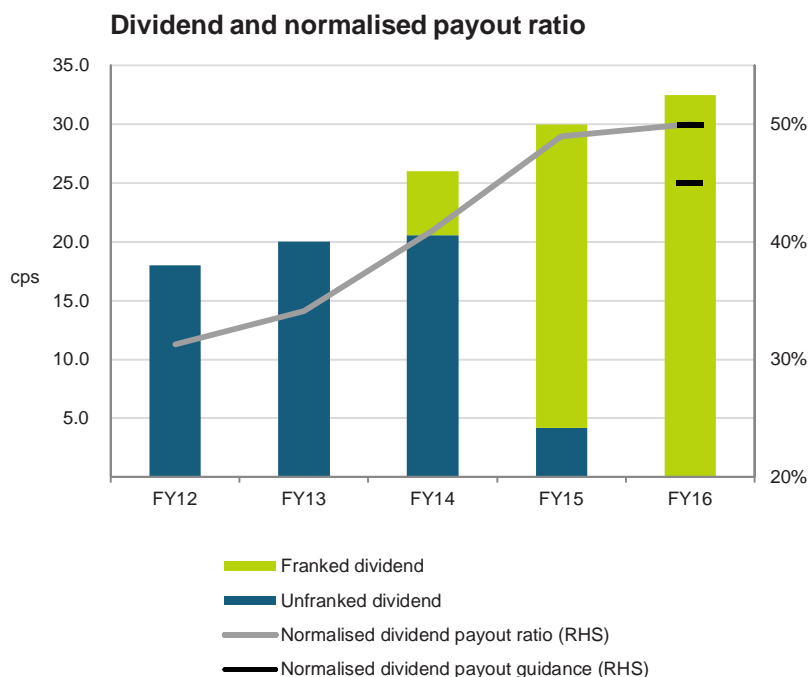
## Growing 3<sup>rd</sup> party property net flows



# Shareholder dividends

## Dividend up 8% and fully franked

- 2H16 dividend 16.5 cps and 100% franked
  - up 6% on 2H15
  - payable 28 September 2016
- FY16 dividend 32.5 cps and 100% franked
  - up 8% on FY15
  - 50% payout ratio<sup>1</sup> – within guidance range
- Dividend payout guidance maintained
  - 45% to 50% of normalised NPAT<sup>2</sup>
- Dividend Reinvestment Plan (DRP)
  - participation rate 6% of issued capital
  - 1.5m new shares issued (at no discount)



### FY16 – Full year 30 June 2016

1. Dividend payout ratio based on normalised EPS.
2. Dividend payout ratio and franking levels subject to market conditions and capital allocation priorities.

# Strategy and outlook

**Brian Benari**

Chief Executive Officer

16 August 2016

FY16 – Full year 30 June 2016

# Retirement income market progress

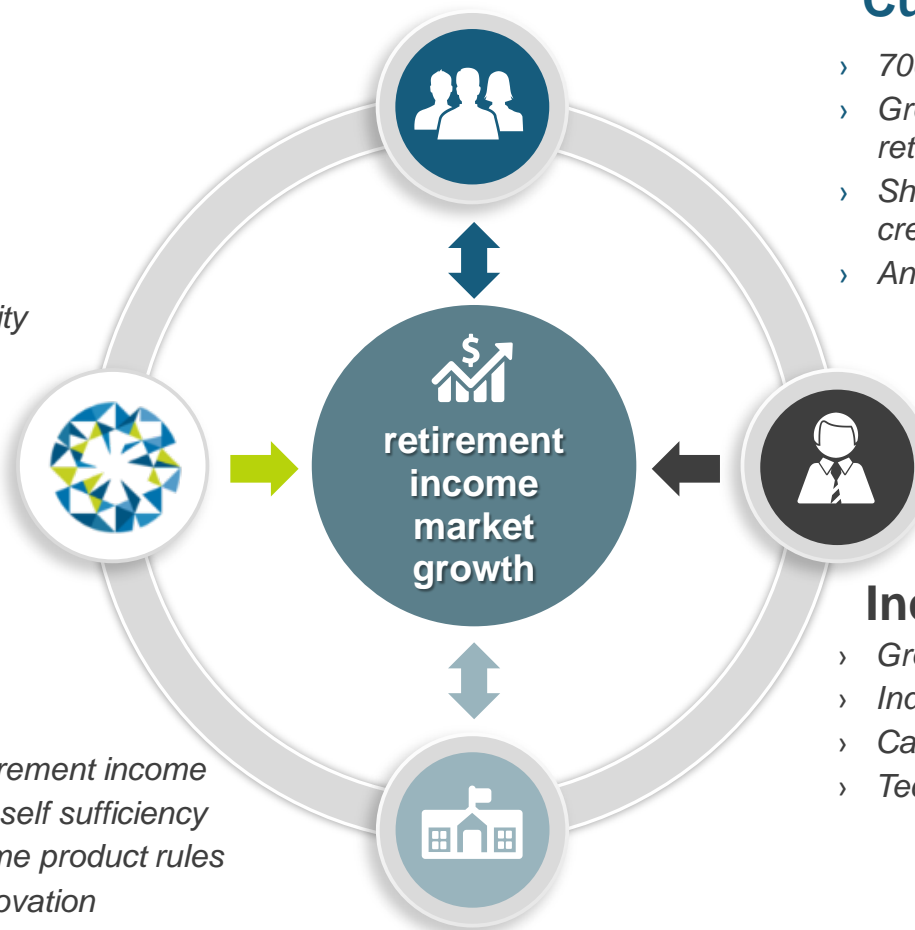
## Multiple forces driving market opportunities

### Customers

- › 700 new retirees a day
- › Greater awareness of retirement risks
- › Shifting mindset - wealth creation to retirement income
- › Annuity usage increasing

### Industry

- › Growing focus on retirement income
- › Industry moving ahead of regulation
- › Capability attracting industry partners
- › Technology improving accessibility



### Challenger

- › Focused Strategy
- › Recognised Capability
- › Talented People
- › Market Leader

### Government

- › Super objective - retirement income
- › Encouraging greater self sufficiency
- › New retirement income product rules
- › Enabling product innovation

FY16 – Full year 30 June 2016

# Investor proposition

## Market leader with competitive advantage

### TO PROVIDE OUR CUSTOMERS WITH FINANCIAL SECURITY FOR RETIREMENT

<b>FOCUSED STRATEGY</b> 	<b>TALENTED PEOPLE</b> 	<b>RECOGNISED CAPABILITY</b> 	<b>MARKET LEADER</b> 
<ul style="list-style-type: none"><li>✓ FM – boutique and co-investment model (super savings phase)</li><li>✓ Life – dedicated retirement income focus (super spending phase)</li><li>✓ Independent provider with broad based distribution</li></ul>	<ul style="list-style-type: none"><li>✓ Highly engaged staff with shareholder alignment</li><li>✓ Track record of delivering</li><li>✓ Investment team talent – internal managers and boutiques</li><li>✓ Entrenched risk management culture</li></ul>	<ul style="list-style-type: none"><li>✓ Recognised consumer retirement income brand<sup>1</sup></li><li>✓ Rated #1 by advisers<sup>2</sup></li><li>✓ Award winning product manufacturer and innovator</li><li>✓ Forming partnerships and leveraging technology</li></ul>	<ul style="list-style-type: none"><li>✓ FM growing twice speed of market</li><li>✓ Life No.1 annuities provider</li><li>✓ Scalable platform with leading cost ratio<sup>3</sup></li></ul>

### SUSTAINABLE SHAREHOLDER OUTCOMES WITH 18% ROE TARGET<sup>4</sup>

#### FY16 – Full year 30 June 2016

1. Hall & Partners Open Mind Consumer Study.
2. Wealth Insights Fund Manager Survey 2016.
3. Challenger's normalised cost to income ratio (FY16: 34.6%) is 13 percentage points lower than the average cost to income ratio for ASX100 banks and diversified financials (includes AMP, ANZ, BEN, BOQ, BTT, CBA, IFL, MFG, MQG, NAB, PPT, WBC).
4. Normalised ROE (pre-tax) target of 18%.

# Outlook

## Market leader with competitive advantage

### Life

FY17 strategic priorities

- ✓ Increase access to products via digital platforms
- ✓ Form new distribution partnerships
- ✓ Develop products for new retirement income rules
- ✓ Guidance – FY17 COE range \$620m to \$640m

### Funds Management

FY17 strategic priorities

- ✓ Add new boutique managers
- ✓ Promote new strategies for existing managers
- ✓ Expand CIP 3<sup>rd</sup> party mandates
- ✓ Restore European listed transaction volumes and build out European boutique business

### Shareholder outcomes

- ✓ Maintain 18% ROE target<sup>1</sup>
- ✓ Maintain dividend payout ratio<sup>2</sup>
- ✓ Remain strongly capitalised – PCA target range 1.3x to 1.6x

**FY16** – Full year 30 June 2016

1. Normalised ROE (pre-tax) target of 18%.

2. Dividend payout ratio based on normalised EPS. Dividend payout ratio subject to market conditions and capital allocation priorities.

# Appendix

## additional background information

FY16 – year ended 30 June 2016

# Vision and strategy

To provide our customers with financial security for retirement

## Vision

To provide our customers with financial security for retirement

## Strategy

Increase the Australian retirement savings pool allocation to secure and stable incomes

Be recognised as the leader and partner of choice in retirement income solutions with a broad product offering

Provide clients with relevant investment strategies exhibiting consistently superior performance

Deliver superior returns to shareholders by maintaining a highly engaged, diverse and agile workforce committed to outstanding client service with a strong risk and compliance culture



# Business overview

Two core businesses benefiting from super system growth

## Challenger Limited (ASX:CGF)

### Life

*#1 market share in annuities<sup>1</sup>*

**Life** - Leading provider of annuities and guaranteed retirement income solutions in Australia. Products offer certainty of guaranteed cash flows with protection against market, inflation and longevity risks.

### Funds Management

*Australia's 7<sup>th</sup> largest fund manager<sup>2</sup>*

**Fidante Partners** - co-owned separately branded active fixed income, equity and alternative boutique investment managers. Includes Fidante Partners Europe following the acquisition of Dexion Capital in July 2015.

**Challenger Investment Partners** - originates and manages assets for Life and 3rd party investors

## Distribution, Marketing and Research (DMR)

## Central functions

Operations, Finance, IT, Risk Management, HR, Treasury, Legal and Strategy

FY16 – year ended 30 June 2016

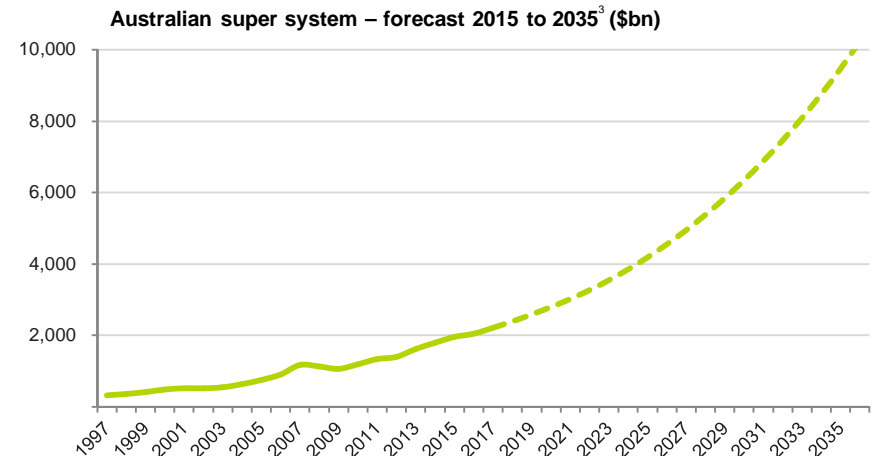
1. Annuity market share – Plan for Life.
2. Consolidated FUM for Australian Fund Managers - Rainmaker Roundup March 2016.

# Australia's superannuation system

## Attractive market with long term structural growth drivers

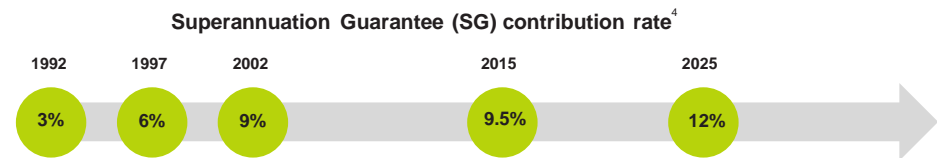
### System growth

- Transitioning from public to private pensions
- 5<sup>th</sup> largest global pension market<sup>1</sup>
- Australian super system growing twice speed of global pension market<sup>1</sup>
  - 9% CAGR over past 10 years
- Assets expected to
  - double to >\$4 trillion over next 10 years<sup>2</sup>
  - quintuple to ~\$10 trillion over next 20 years<sup>2</sup>



### Contribution rate

- Increasing from 9.5% to 12% (of wages)<sup>4</sup>
- \$104bn of super contributions in 2015



### Demographics

- Supportive demographics from ageing population
- Post-retirement super phase growing fastest
- Australians have one of world's longest life expectancies

#### Australians over 65s to increase<sup>5</sup>



FY16 – year ended 30 June 2016

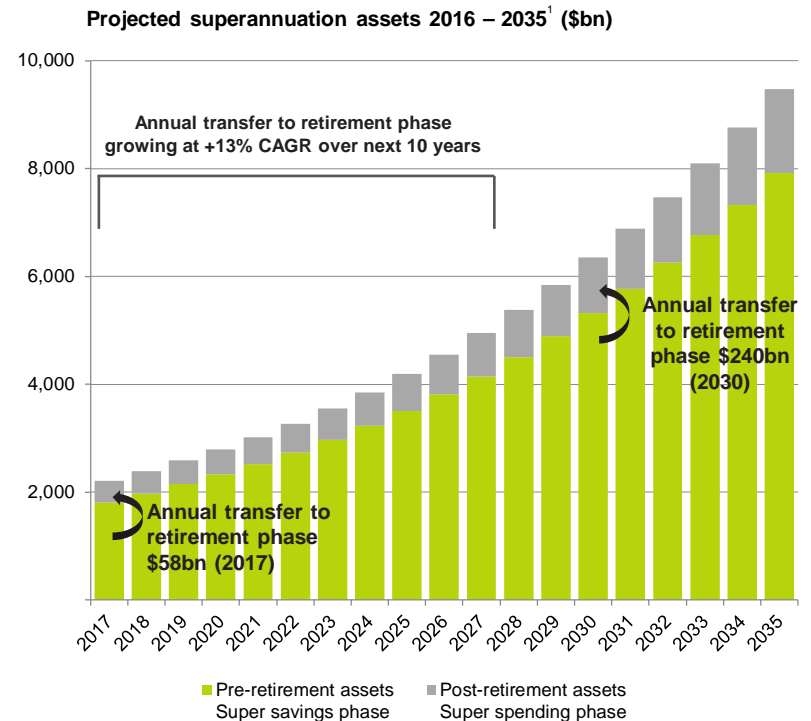
1. Towers Watson Global Pension Study 2016.  
 2. Deloitte – Dynamics of the Australian superannuation system: the next 20 years 2015-2035.  
 3. 1992 to 2014 APRA data. Deloitte – Dynamics of the Australian superannuation system: the next 20 years 2015-2035.  
 4. Percentage of gross wages required to be contributed to superannuation. Contribution rate increases to 10% on 1 July 2021 and increases by 0.5% per annum until reaching 12% on 1 July 2025.  
 5. Australian Bureau of Statistics population projections.

# Australia's superannuation system

## Attractive market with long term structural growth drivers

### Two distinctive super phases

- Accumulation (pre-retirement) phase
  - super 'savings' phase
  - Funds Management target market
- Retirement phase (post-retirement) phase
  - super 'spending' phase
  - Life target market
- \$58bn moving from accumulation (savings) to retirement (spending) phase in 2017<sup>1</sup>
  - increasing at 13% CAGR over next 10 years<sup>2</sup>
  - benefiting from demographic changes
  - benefiting from higher retirement balances
  - Challenger capturing ~4%<sup>3</sup> of annual transfer to retirement phase
- Industry and government starting to focus on superannuation retirement phase



FY16 – year ended 30 June 2016

1. Deloitte – Dynamics of the Australian superannuation system: the next 20 years 2015-2035.  
2. Rice Warner 2015 Super Projections – forecasted growth over next 10 years (based on existing regulatory environment).  
3. Represents new sales (excluding roll-overs) as a percentage of the annual transfer from pre-retirement to post-retirement phase.

# Australia's superannuation system

## Focus shifting to the retirement phase

### Australia has low fixed income allocation

- Australia fixed income and bonds allocation ~9%
- OECD average ~52%

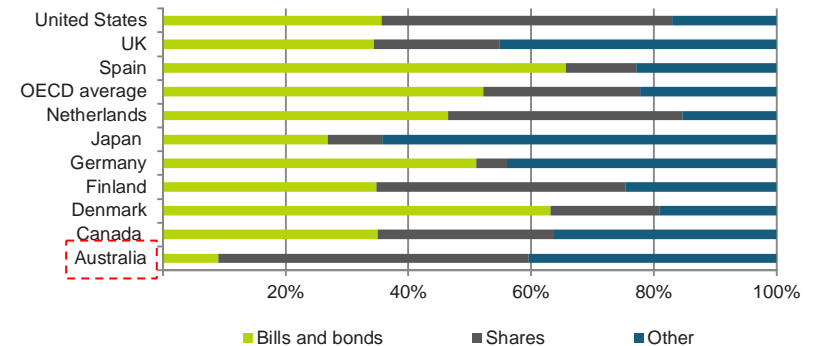
### Australia is one of the most equitised retirement markets

- Australia equities allocation ~51%
- OECD average ~25%

### Focus on longevity increasing

- Australians have one of the world's longest life expectancies<sup>2</sup>
- Medical and mortality improvements increasing longevity

Pension system allocation to fixed income equivalents<sup>1</sup>



Life expectancy at birth<sup>2</sup>

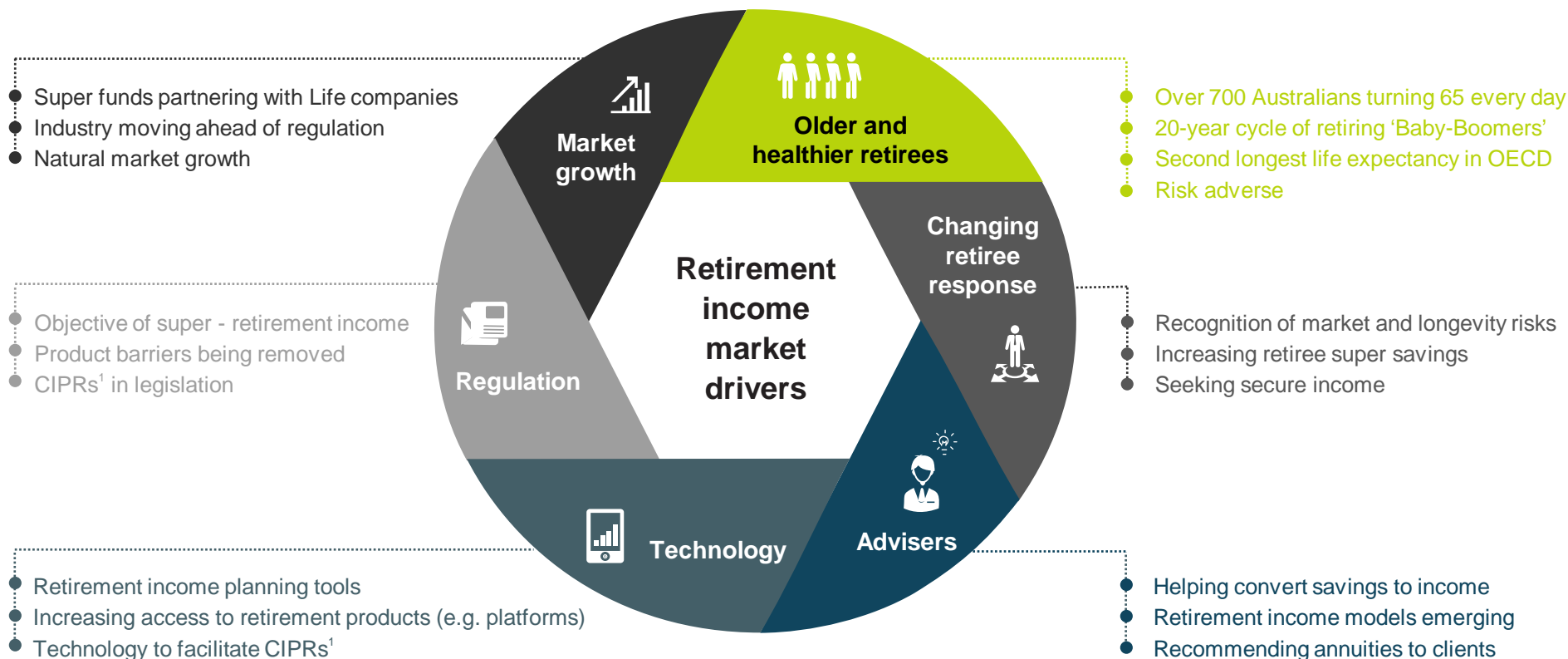


FY16 – year ended 30 June 2016

1. OECD Pension Markets in Focus – 2016.  
2. Australian Bureau of Statistics - 2014

# Retirement phase market drivers

Market leader well positioned in high growth market



FY16 – year ended 30 June 2016

1. Comprehensive Income Products for Retirement (CIPR) – as recommended by the Financial System Inquiry and supported by Government.

# Regulatory tailwinds - CIPRs

## To enhance superannuation retirement phase

David Murray - Chairman of Financial System Inquiry

*'super assets are not being efficiently converted into retirement incomes'*

### Financial System Inquiry - Recommendation 11

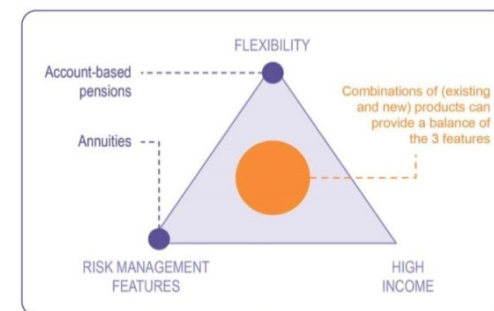
- i. Trustees pre-select for members a **CIPR (Comprehensive Income Product for Retirement)**
- ii. Remove impediments to retirement income product development

### Comprehensive Income Product for Retirement (CIPR)

- Super funds to offer pre-selected CIPR for members
  - enables seamless transition to retirement
  - delivers on super objective to provide retirement income
- CIPRs required to deliver
  - regular stable income streams
  - provide longevity risk management
  - have flexibility
- Super funds to partner with Life Companies to provide CIPRs
- Supported by Government with legislation consultation by end of 2016

CIPRs – multi component solution to managing retirement risks

(extract from Financial System Inquiry final report)<sup>1</sup>



FY16 – year ended 30 June 2016

1. Financial System Inquiry final report released on 7 December 2014. Report available at [www.fsi.gov.au](http://www.fsi.gov.au).

# Regulatory tailwinds - DLAs

## New retirement income rules to drive product innovation

- New retirement income product category announced following Retirement Incomes Streams Review
  - permit new range of lifetime income products
  - includes **Deferred Lifetime Annuities (DLAs)**
- Products meeting existing rules continue
- New category will provide “*as much flexibility for design to meet consumer preferences*”

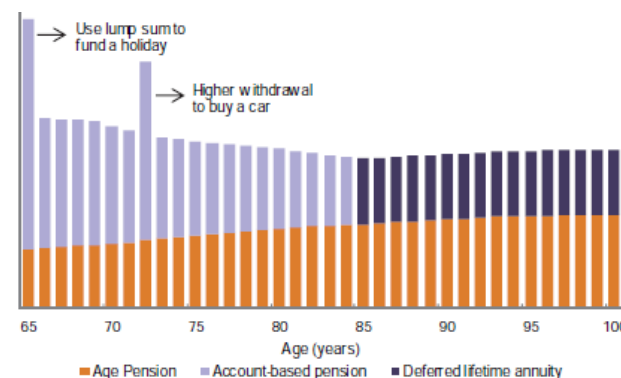
- |                           |                          |
|---------------------------|--------------------------|
| ✓ bought pre-retirement   | ✓ bought post-retirement |
| ✓ multiple premiums       | ✓ single premiums        |
| ✓ capital access schedule | ✓ death benefit options  |

- DLAs and other lifetime income products to provide building blocks for super funds to develop Comprehensive Income Products for Retirement (CIPRs)
- Rules for new retirement category start 1 July 2017



Lifetime Annuity .. or ..  
Deferred Lifetime Annuity

**DLA working to supplement Age Pension**  
Extract from FSI Interim Report



# Regulatory tailwinds

## To enhance superannuation retirement phase

### FSI

1. Superannuation objective to be enshrined in law
2. Remove impediments to longevity product development
3. Implement Comprehensive Income Products for Retirement (CIPRs)

Recommendations supported by Government

### CIPRs

1. Government supports CIPRs - to help guide members at retirement
2. Trustees pre-select CIPRs for members
3. Government to consult on CIPR legislation by end of 2016

October 2015

May 2016

December 2016

July 2017

### Budget

1. Objective of Superannuation – ‘to provide income in retirement to substitute or supplement the Aged Pension’
2. Retirement Incomes Streams review finalised
3. New lifetime income product rules, including DLAs

### New products

1. New retirement income product category from 1 July 2017
2. Will drive longevity product innovation
3. DLAs allowed under new retirement income category

FY16 – year ended 30 June 2016



# Life – product overview

Provide guaranteed income and peace of mind

Product category	% of total Life book	Product name	Key features
Fixed term annuities	64%	Guaranteed Annuity	✓ Available on leading platforms
		Guaranteed Income Plan	✓ Guaranteed rate for a fixed term
		Guaranteed Income Fund	✓ Payment frequency options
		Guaranteed Pension Fund	✓ Inflation protection options
Lifetime annuities	24%	Liquid Lifetime	✓ Ability to draw capital as part of regular payments
			✓ Tax free income <sup>1</sup>
			✓ Guaranteed payments
Other	12%	Guaranteed Index Return (GIR)	✓ Inflation protection options
			✓ Payment for life
		CarePlus	✓ Liquidity options
			✓ Tax free income <sup>1</sup>
			✓ Designed for aged care recipients
			✓ Guaranteed payments for life
			✓ Up to 100% death benefit
			✓ Institutional product
			✓ Guaranteed fixed income returns

FY16 – year ended 30 June 2016

1. If bought with superannuation money and in retirement phase.

# Life – customer needs

## Provide guaranteed income and peace of mind

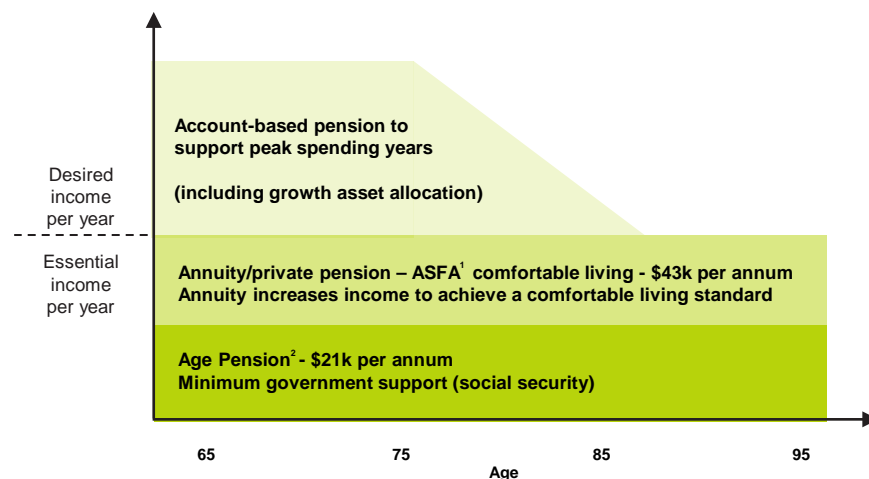
### Retirees face challenges including

- maintaining required annual income
- managing market and inflation impacts
- managing longevity risk

### Annuities provide

- stable secure income
- longevity protection
- inflation protection
- peace of mind – cover essential income when combined with Age Pension

Annuities and portfolio construction – income layering



Top retiree preferences<sup>3</sup>

1	Entitlement to Age Pension/health card
2	Easy to understand products
3	Reputation of product provider
4	Ability to access funds
5	Financial strength of provider
6	Tax effective
7	Income lasts as long as I do

FY16 – year ended 30 June 2016

1. The Association of Superannuation Funds of Australia (ASFA) is the peak industry body for the superannuation sector.  
2. Age Pension is income support provided by the Australian government and subject to income and asset tests.  
3. Investment Trends Retirement Income Report 2014.

# Life – customer demographics

Provide guaranteed income and peace of mind

## FY16 annuitant key statistics

- Average policy amount \$186,000
- Average new customer age 70 years
- Average tenor of new business 6.5 years
- 99% of sales via financial advisers

## Policy reinvestment rates

- Peak in new business 65-70 years
- Annuitant reinvests on average 2.0 times

Annuity sales by customer age

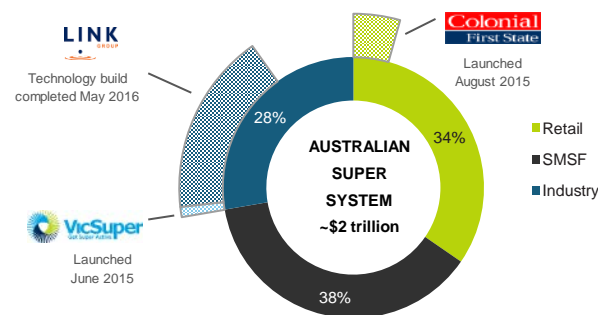


# Life – distribution

## Distribution enhanced through new platform opportunities

- Challenger products on Approved Product Lists of all major hubs (i.e. major Banks and AMP)
- Challenger annuities being added to leading platforms and superannuation funds, enabling:
  - efficient adviser access to Challenger annuities
  - annuities to be combined with other products
  - super funds to offer CIPRs
  - retirement income model portfolios
- Challenger annuities being added to leading platforms and superannuation funds

New platform opportunities provide access to 1/3 of super industry<sup>1</sup>



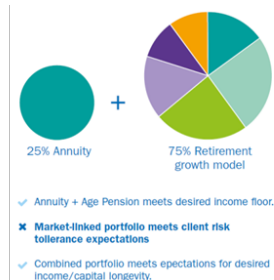
**VicSuper** – \$16bn profit for members with retirement focus.  
Launched June 2015



**Colonial First State** – Australia’s largest retail platform.  
Launched August 2015



**Link Group** – leading industry fund administrator.  
Technology build completed June 2016



*“annuities need to be one tool in the financial adviser’s toolbox”  
“we believe that an account based pension with a lifetime annuity or some sort of deferred lifetime annuity will be a good solution for Australian retirees”*

FY16 – year ended 30 June 2016

1. Represents either funds under administration/funds under management for each platform/super fund.

# Life – distribution

## Distribution competitive advantages driving growth



FY16 – year ended 30 June 2016

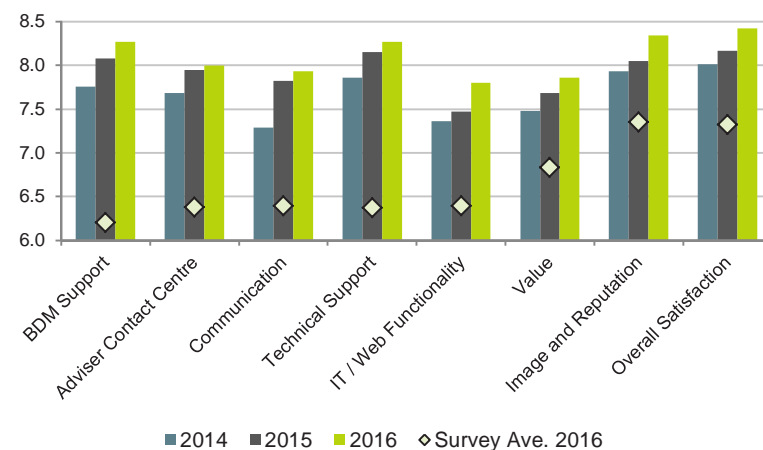
# Life – distribution

## Challenger No.1 in overall adviser satisfaction

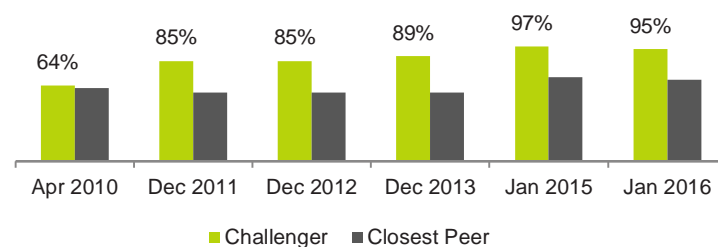
### Wealth Insights Fund Manager Service Level Report 2016<sup>1</sup>

- High profile industry survey
  - over 850 financial advisers
  - how clients regard Challenger vs. peers
- Challenger ranked No.1
  - ✓ BDM Team (5th consecutive year)
  - ✓ Technical Services (first time)
  - ✓ Client Services (first time)
  - ✓ Image and Reputation (first time)
  - ✓ Overall Satisfaction (first time)
- Clear leadership in retirement incomes under adviser surveys<sup>2</sup>

Wealth Insights Fund Manager Service Level Report 2016



Challenger remains dominant player amongst its peers, holding top position over six consecutive years<sup>2</sup>



### FY16 – year ended 30 June 2016

1. Source: Challenger Annuities Service Level Analysis conducted by Wealth Insights and compared to the broader market. Scores: Above 8.0 out of 10: Market leaders, Excellent service; 7.5 - 8.0: Good service; 7.0 - 7.75: Adequate but needs attention; Sub 7.0: Typically cause for concern.  
 2. Source: Marketing Pulse Adviser study – asked 'do you agree with the statement that this company is a leader in providing retirement income products, April 2010 n=375, Dec 2011 n=295, Dec 2012 n=331, Dec 2013 n=231, Jan 2015 n=216, Jan 2016 n=215 financial planners across Australia. Percentages are rounded to whole figures.

# Challenger's retirement brand journey

Brand strengthening with consumers<sup>1</sup>, leading with advisers<sup>2</sup>

**2011**  
*'Real Stories'*



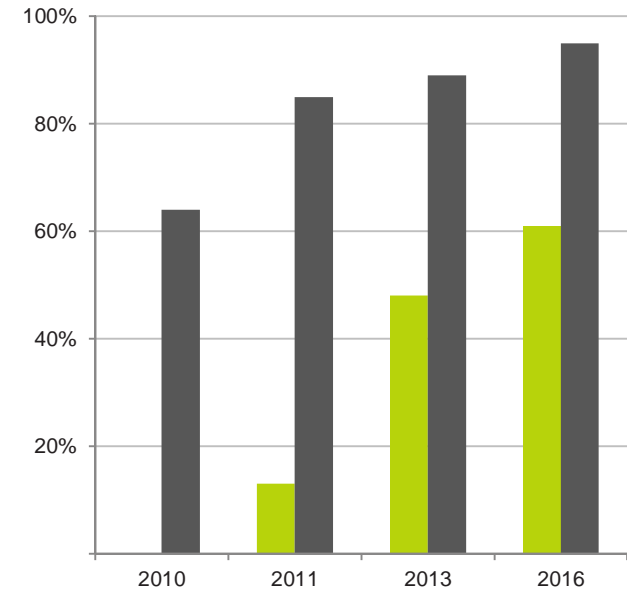
**2013**  
*'On Paper'*



**2016**  
*'Lifestyle Expectancy'*



Brand strength



■ Consumers

■ Advisers

*'Prompted brand awareness'*

*'Leaders in retirement income'*

**FY16 – year ended 30 June 2016**

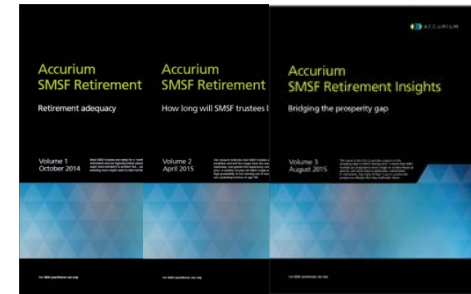
1. Newpoll Consumer Study – February 2011 n=503. Base: 55-64 years, National. Hall & Partners, Open Mind Consumer Study – December 2013 n=275; May 2016 n=250. Base: 55-64 years, Metro and GC/SC.
2. Marketing Pulse Adviser Study – April 2010 n=375; Dec 2011 n=295; Dec 2013 n=231; Jan 2016 n=215. Base: Financial advisers, National.

# Accurium

## SMSF retirement specialist

### Repositioning ahead of accountant licensing reforms<sup>1</sup>

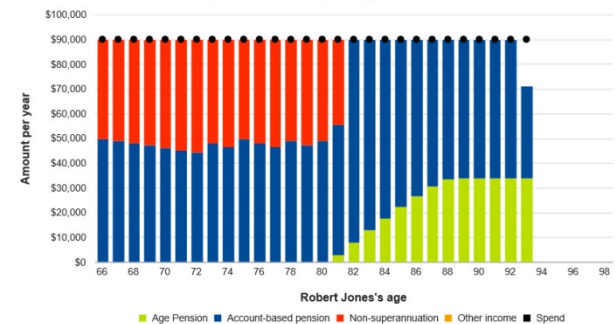
- Repositioned as SMSF Retirement Specialist
  1. SMSF Retirement Insights:
    - ‘Retirement adequacy’
    - ‘SMSF Trustees – healthier, wealthier and living longer’
    - ‘Bridging the prosperity gap’
  2. SMSF Retirement Healthcheck:
    - Launched February 2015
    - Referral tool for SMSF accountants
    - Available to clients with actuarial certificate
    - ~33,000 Healthchecks undertaken since launch



Your retirement sustainability result is:



How your retirement spending is funded



FY16 – year ended 30 June 2016

1. From 1 July 2016 accountants require an AFSL in order to provide SMSF financial advice.



# Normalised profit framework

Reflects underlying performance of Life business

## Investment experience

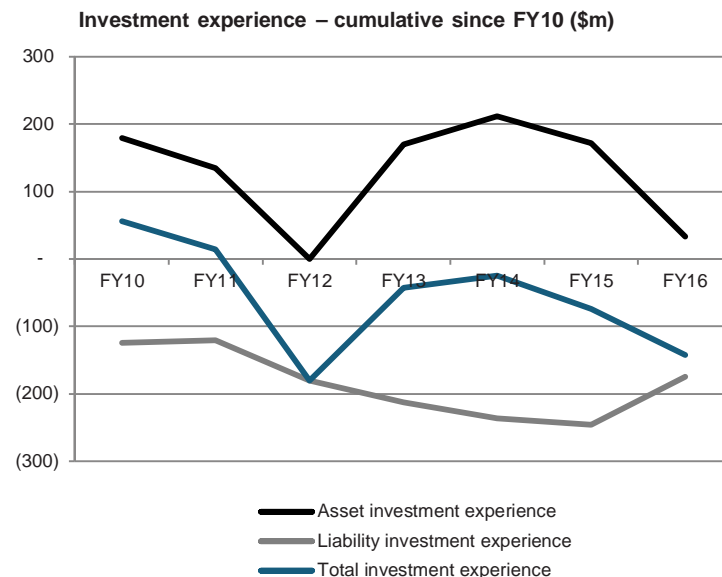
- All assets and liabilities fair valued
- Gains/losses largely unrealised and non-cash
- Reported separately as 'Investment Experience'

## Normalised profit framework

- Excludes Investment Experience
- Dividends based on normalised NPAT
- Includes expected long-term asset returns (refer page 42 of FY16 Analyst Pack)

## Investment Experience since FY10

- Asset experience +\$33m
- Liability experience -\$175m
- Total investment experience -\$142

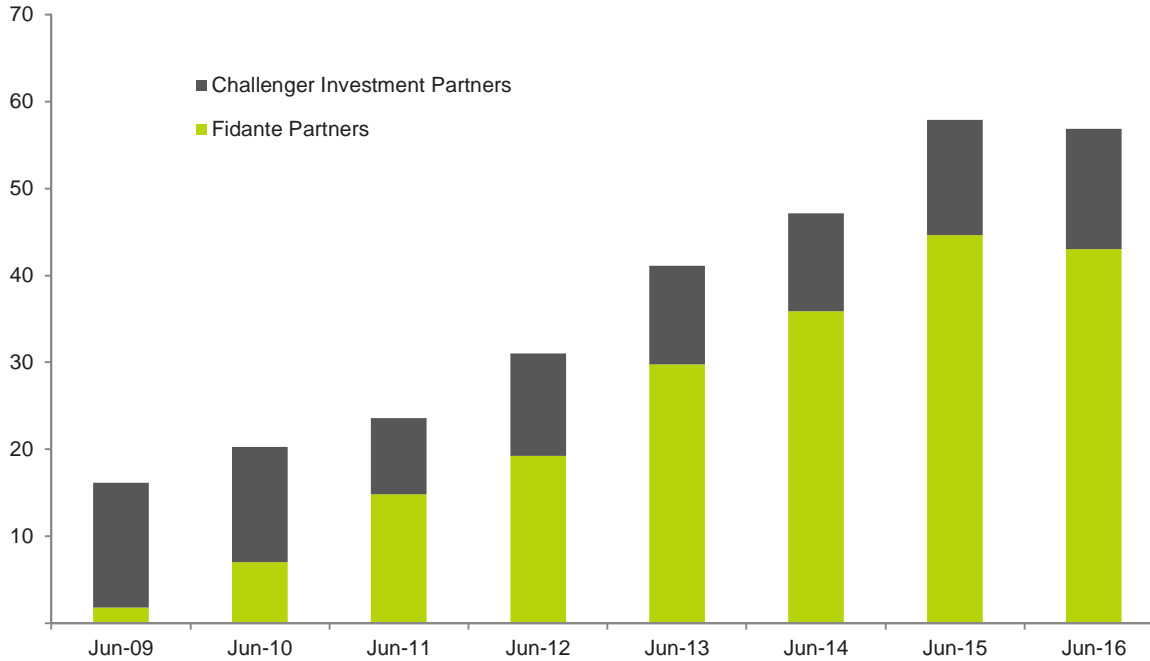


FY16 – year ended 30 June 2016

# Funds Management

## Track record of growing FUM and adding boutiques

FUM (\$bn)



- Funds Management FUM of \$57bn, up from \$24bn 5 years ago
  - annual growth 19% p.a.
  - market growth 8% p.a.<sup>1</sup>
- Fidante Partners
  - 15 boutique brands
  - geographic and asset class diversification
  - replicating model in Europe
- Challenger Investment Partners (CIP)
  - proven track record in asset origination and investment performance
  - continued growth in third party client base



**FY16 – year ended 30 June 2016**

1. March 2016 Rainmaker Superannuation total market FUM.

# Funds Management

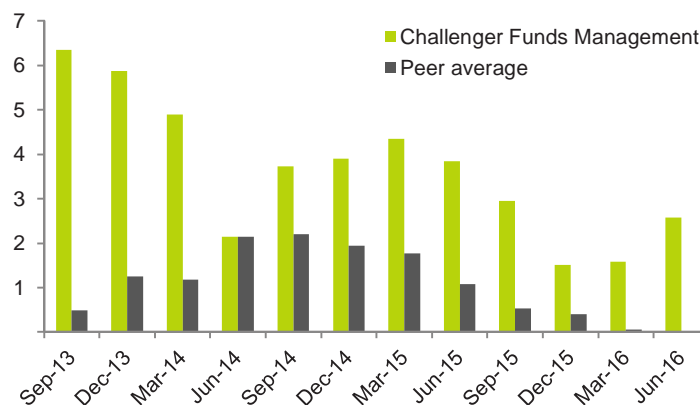
Growth supported by available capacity and superior flows

Manager capacity (\$bn)



- ~\$100bn of available capacity provides solid platform for future growth
- Boutique product expansion and Emerging Manager Program to maintain capacity

Rolling 12 month organic net flows vs peers<sup>1</sup> (\$bn)



- Funds Management net flows have consistently outperformed peers
- Net flows benefit from superior long term performance and an aligned business model that appeals to investors

FY16 – year ended 30 June 2016

1. Rolling 12 month average of quarterly net flows for peers, including Magellan, BTIM, Perpetual, AMP Capital Investors, Platinum, and Pacific Current Group.

# FM - multiple brands and strategies

Scalable and diversified ~\$57bn<sup>1</sup> of FUM



FY16 – year ended 30 June 2016

1. Funds Under Management (FUM) as at 30 June 2016.

# FM - Fidante Partners

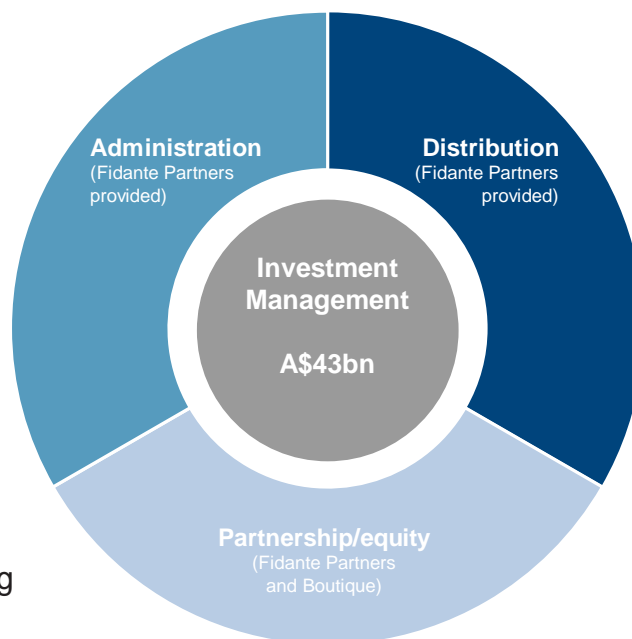
## Contemporary model with strong alignment of interests

### Administration services

- Investment operations
- Client operations
- Compliance
- IT infrastructure
- Finance
- Human Resources
- Company secretarial
- Facilities

### Partnership

- Equity participation (non-controlling interest)
- Business planning, budgeting, strategic development, succession planning



### Distribution services

- Asset consultant & researcher relationships
- Strategic positioning
- Product development & management
- Brand development & marketing support
- Sales planning & execution
- Investor relationships
- Client service
- Responsible entity


















FY16 – year ended 30 June 2016



# FM - Fidante Partners boutique managers

## Diversified managers and investment strategies

Fidante Partners Australia			Fidante Partners Europe		
Boutique	Investment date	Asset class	Boutique	Investment date	Asset class
 Alphinity	Aug 2010	Australian equities	 Agricultura	Jul 2015	Agricultural land investment & management
 ARDEA Investment Management	Nov 2008	Australian fixed income	 horizon INFRASTRUCTURE PARTNERSHIP	Jul 2015	UK social housing infrastructure
 BENTHAM ASSET MANAGEMENT	Jun 2010	Global credit portfolios	 Resonance ASSET MANAGEMENT	Jul 2015	Renewable energy and water infrastructure
 GREENCAPE CAPITAL	Sep 2006	Mid and large cap Australian equities	 WHITEHELM CAPITAL	Jul 2014	Global core infrastructure
 KAPSTREAM A JANUS CAPITAL Group Company	Feb 2007	Global fixed income	 WYE TREE ASSET MANAGEMENT	Jul 2013	US and European RMBS
 kinetic INVESTMENT PARTNERS	Oct 2005	Australian small cap equities			
 MERLON CAPITAL PARTNERS	May 2010	Australian equities (income focus)			
 NOVA PORT CAPITAL	Aug 2010	Australian small and micro cap equities			
 TEMPO ASSET MANAGEMENT	Feb 2014	Global smart beta strategies			
 WaveStone CAPITAL	Nov 2008	Australian equities (long only & long/short)			

FY16 – year ended 30 June 2016

# FM - Challenger Investment Partners (CIP)

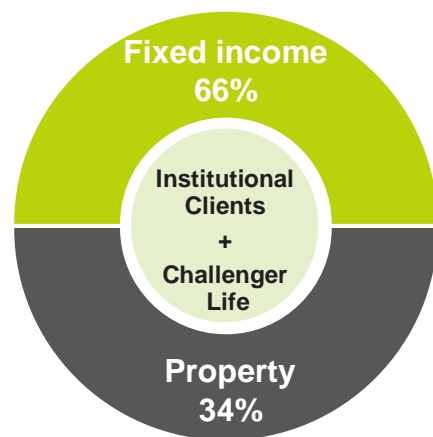
## Proven long-term investment track record and capability

- \$14 billion of FUM<sup>1</sup>
- Investment manager for Challenger Life and 3<sup>rd</sup> party institutions
- Clients benefit from experience and market insights CIP gains through breadth and scale of mandates
- Key relationships with sovereign wealth funds and Australia's leading superannuation funds

### Trusted partner for institutional clients

- Local relationships
- Asset origination capability
- Proven track record
- Strong execution
- Risk management expertise
- Excellent client service
- APRA oversight of Challenger Life drives compliance culture

### Asset specialisation



### Institutional clients

- Sovereign wealth funds
- Australian superannuation funds
- International funds
- International insurance companies
- Pension funds
- Large family offices

FY16 – year ended 30 June 2016

1. Funds Under Management (FUM) as at 30 June 2016.

## Important note

The material in this presentation is general background information about Challenger Limited activities and is current at the date of this presentation. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered with professional advice when deciding if an investment is appropriate.

Challenger also provides statutory reporting as prescribed under the Corporations Act 2001. The annual report is available from Challenger's website at [www.challenger.com.au](http://www.challenger.com.au). This presentation is not audited. The statutory net profit after tax has been prepared in accordance with Australian Accounting Standards and the Corporations Act 2001. Challenger's external auditors, Ernst & Young, have reviewed the statutory net profit after tax. Normalised net profit after tax has been prepared in accordance with a normalised profit framework. The normalised profit framework has been disclosed in Section 4.2 of the Directors' Report in the Challenger Limited 30 June 2016 full year financial report. The normalised profit after tax has been subject to a review performed by Ernst & Young. Any additional financial information in this presentation which is not included in Challenger Limited's half year financial report was not subject to independent audit or review by Ernst & Young.

This document may contain certain 'forward-looking statements'. The words 'forecast', 'expect', 'guidance', 'intend', 'will' and other similar expressions are intended to identify forward-looking statements. Forecasts or indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. You are cautioned not to place undue reliance on forward looking statements. While due care and attention has been used in the preparation of forward-looking statements, forward-looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward-looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance and may involve known and unknown risks, uncertainties and other factors, many of which are outside the control of Challenger. Actual results, performance or achievements may vary materially from any forward-looking statements and the assumptions on which statements are based. Challenger disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise.

Past performance is not an indication of future performance.

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Unless otherwise indicated, all numerical comparison are to the prior corresponding period.