

MARKET RELEASE

INVESTOR BUSINESS UPDATE

4 June 2014, Sydney – Challenger Limited's (ASX: CGF) investor business update commences at 10am today. The presentation material is attached.

The investor briefing can be accessed via teleconference and will be webcast live.

Details to access the briefing are as follows –

| | |
|----------------|----------------------------------------------------------------------------------------------|
| Teleconference | Telephone number - 1800 558 698 or +61 2 9007 3187 (for overseas) Conference pin - 702349 |
| Webcast | www.challenger.com.au (from 10am) |

ENDS

Challenger Limited

Investor business update

4 June 2014



Introduction

Investor business update



Brian Benari

Managing Director and
Chief Executive Officer

Outline

Providing Australians with financial security in retirement



Retirement income policy – drivers and trends

Jeremy Cooper – Chairman, Retirement Income



Distribution Product and Marketing

Paul Rogan – Chief Executive, Distribution Product and Marketing



Life

Richard Howes – Chief Executive, Life



Funds Management

Rob Woods – Chief Executive, Funds Management



Wrap up

Brian Benari – Managing Director and Chief Executive Officer

Retirement income policy – drivers and trends

Investor business update



Jeremy Cooper

Chairman,
Retirement Income

Key points

Retirement income policy – drivers and trends

1. Movement on the supply side

Policy interventions that might drive increased need for retirement income products

2. Financial System Inquiry (FSI)

FSI has a surprisingly strong retirement income and superannuation focus

3. Australian retirement income policy

What's already happening and what's over the horizon?

4. Where is super going?

Cooper's views on market in 10 years time

Movement on the supply side

Policy interventions

Annuity sales growth to date driven by demand

- Retirees focused on
 - Longevity risk
 - Peace of mind
 - Inflation protection



Fiscal constraints/ideology driving retirement income policy interventions

Where could policy interventions come from?

1. Financial System Inquiry recommendations
2. Treasury review of retirement products
3. Commission of Audit-type ideas
4. Taxation White Paper



Financial System Inquiry

Comprehensive review of Australian financial system



Investor business update – Retirement income policy – drivers and trends

David Murray – Chair of Financial System Inquiry panel. Photo Rob Homer AFR 2 May 2014.

Financial System Inquiry

What's been said so far on retirement income?

David Murray quotes¹

There is a "paucity of attractive **financial products that help retirees manage their income and risks, particularly longevity risk**"

"But at the heart of it we're **concerned about** whether the **longevity risk on individuals and on government** is being attended to by our financial system. Because a fundamental requirement of a financial system is to deal with those risks, including through the **maturity transformation process**"

"So we're **curious why there's not an incentive for annuities, why the provision of annuities in the market isn't broader** and whether that gives us signals about the state of that system"

Investor business update – Retirement income policy – drivers and trends

1. Australian Business Economists lunch, Sydney 1 May 2014, quoted in AFR 2 May 2014 by Karen Maley: 'Short term focus of super industry a cause for concern' page 3.

Noteworthy FSI submissions

What are key stakeholders saying?

| | |
|---------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Treasury | <ul style="list-style-type: none">• Not enough products dealing with longevity risk• Is super meeting needs in retirement? |
| RBA ¹ | <ul style="list-style-type: none">• Super fees too high• Notes impact of removal of incentives to buy annuities |
| Actuaries Institute | <ul style="list-style-type: none">• Extend MySuper into the drawdown phase by auto-enrolment• Remove impediments to deferred lifetime annuities |
| ASFA ² | <ul style="list-style-type: none">• Extend MySuper into retirement with intelligent defaults• Create incentives for people to take up annuities |
| FSC ³ | <ul style="list-style-type: none">• MySuper could have seamless transition to annuity/income stream• Strong 'private provision' of retirement income message |

Investor business update – Retirement income policy – drivers and trends

1. Reserve Bank of Australia (RBA).
2. The Association of Superannuation Funds of Australia (ASFA).
3. Financial Services Council (FSC).

Australian retirement income policy

Already happening

Treasury retirement income product review

- Coalition election policy
- Consider unnecessary barriers to the development of longevity insurance products
- Expect discussion paper in coming months

2014 Federal Budget – Age Pension and related measures

- Raising pensionable age to 70 by 2035
- Tightening means test deeming thresholds
- Scrapping Seniors Supplement and tightening Pensioner Concession Card rules
- Age Pension indexation changes in 2017

Clear ‘private provision’ message

Australian retirement income policy

Over the horizon?

Post-Budget comments

- Treasurer Joe Hockey signals proposal to raise super preservation age down the track¹

Federal Treasury Secretary Martin Parkinson's post-Budget speech²

- Is super for wealth creation or retirement income?
- Need a debate on the distribution of tax concessions

Taxation White Paper

- Distribution of super tax concessions

Another Treasury Intergenerational Report in 2014 (last issued 2010)

- Looks at the sustainability of the Age Pension etc. for the next 40 years
- Could be a driver for further retirement income policy changes

Commission of Audit

- Including family homes, above a certain value, in the Age Pension assets test

Other issues

- Increasing proportion of people using super to pay off home loan – restrict lump sum

Investor business update – Retirement income policy – drivers and trends

1. ABC Q&A program – 19 May 2014.
2. Post-Budget speech – 20 May 2014.

Where is super going?

Cooper's views on market in 10 years time

Market size

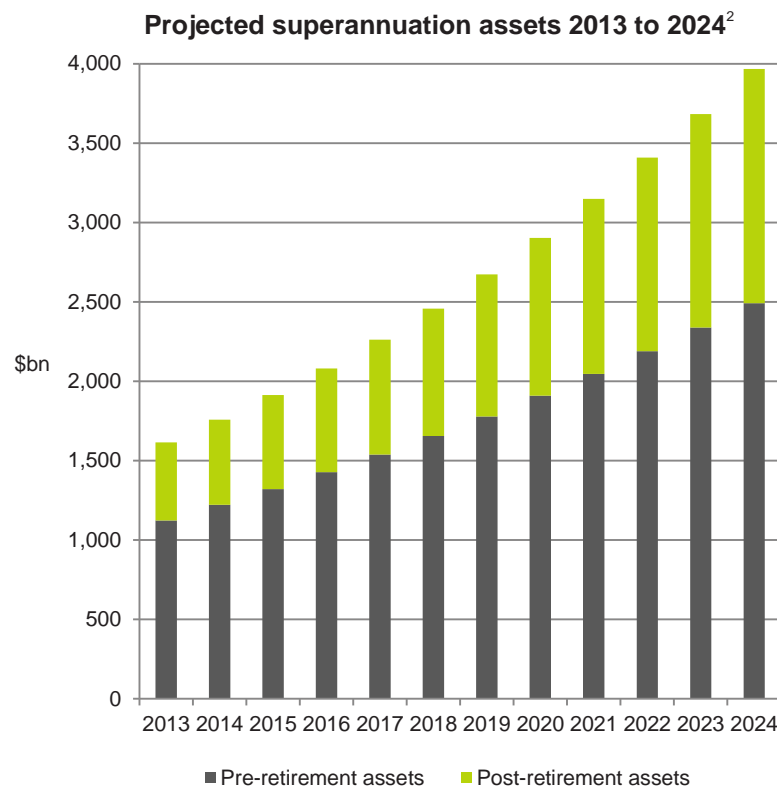
- \$4 trillion¹ – double digit CAGR ensures this

Proportion of assets in retirement

- ~40% (~30% today)

Cooper's views on super

- Retirement looks very different
- Health insurance/aged care wrapped in super
- Longevity insurance (e.g. DLAs) a standard default
- All-female funds covering higher longevity risk and broken work patterns
- Climate change/carbon #1 issue for super funds



Investor business update – Retirement income policy – drivers and trends

1. Projected superannuation assets in 2014 dollars.
2. Rice Warner Actuaries projections.

Key points

Retirement income policy – drivers and trends

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What's already happening and what's over the horizon?

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Cooper's views on market in 10 years time

Distribution Product and Marketing

Investor business update



Paul Rogan

Chief Executive, Distribution
Product and Marketing

Key points

DPM capability a core strength

1. What retirees want

Lifetime annuities address retiree needs

2. Growth in Lifetime sales leveraging book growth

Meeting demand for longevity protection

3. Life product and channel initiatives

Growth leverage across channels

4. Brand update

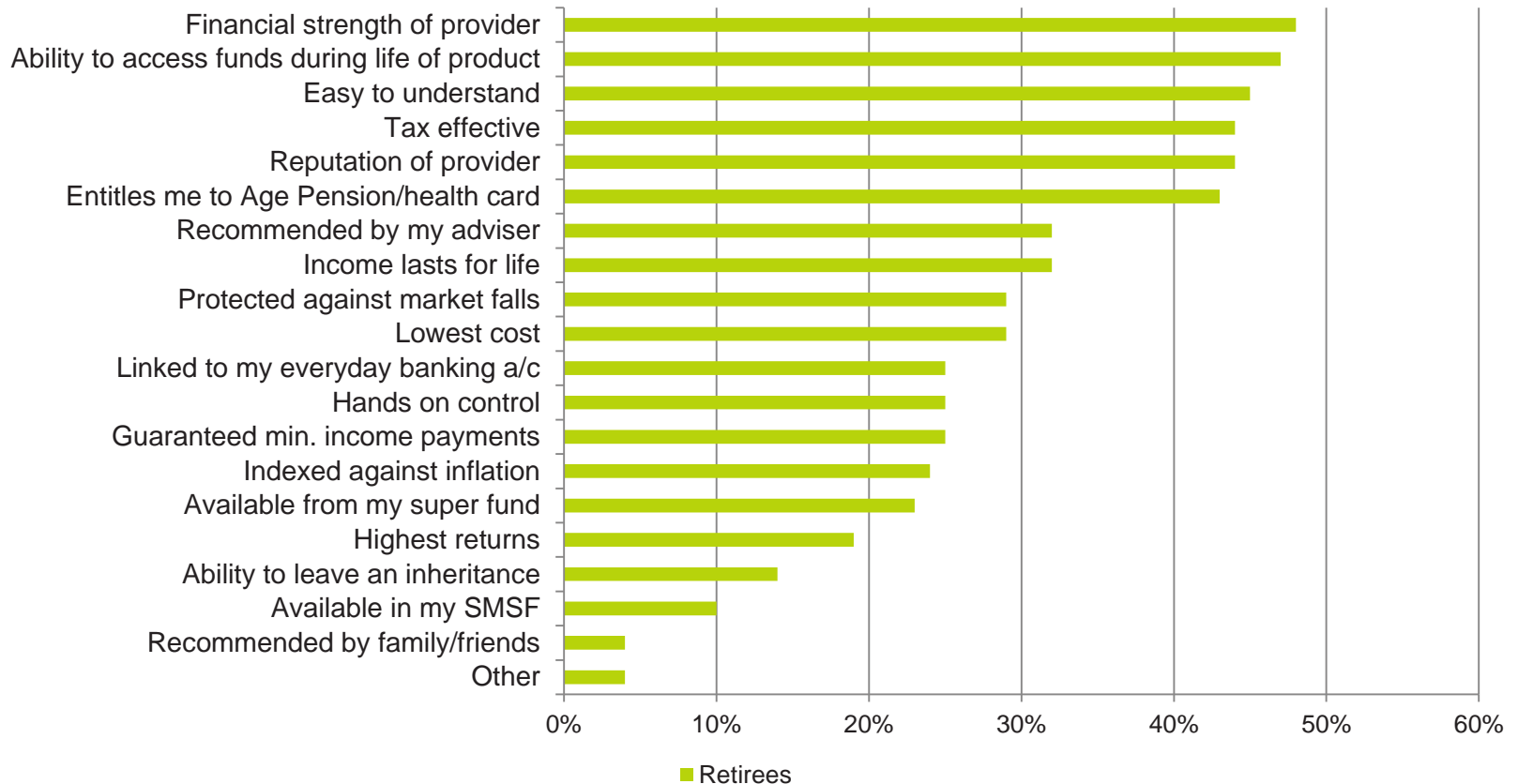
Recognised as the leader in retirement incomes

5. Funds Management

Strong growth driven by broadening product and footprint

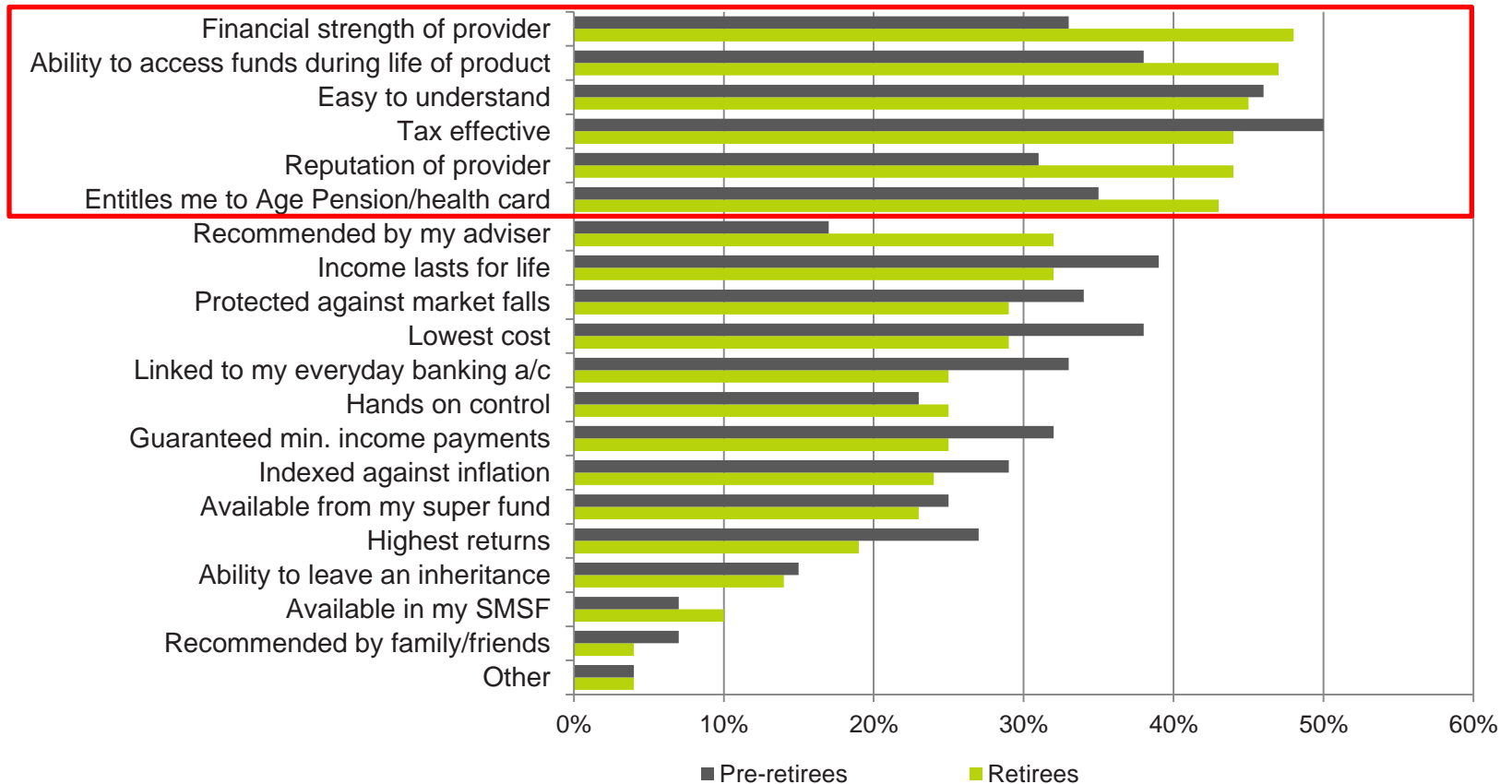
What retirees want

Lifetime annuities address retiree needs



What pre and post retirees want

Lifetime annuities address retiree needs



Investor business update – Distribution Product and Marketing (DPM)

Source: 2014 Investment Trends Pty Ltd, 2013 Retirement Income Report, Retirees n=911; Pre Retirees n=1,483.

What retirees want

Lifetime annuities address retiree needs

| | Top retiree preferences | Lifetime annuity product features |
|---|--------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Financial strength of provider | <ul style="list-style-type: none"> ✓ Issued by regulated Life Company with capital reserves ✓ S&P “A” rated |
| 2 | Ability to access funds | <ul style="list-style-type: none"> ✓ Liquidity feature resolves capital access concerns ✓ Flexible options |
| 3 | Easy to understand | <ul style="list-style-type: none"> ✓ Product is simple and does what it says ✓ Clear role in retirement income portfolio construction |
| 4 | Tax effective | <ul style="list-style-type: none"> ✓ Superannuation product – tax free in retirement |
| 5 | Reputation of provider | <ul style="list-style-type: none"> ✓ Challenger is the leader in retirement incomes ✓ On all major approved product lists |
| 6 | Age Pension / health card | <ul style="list-style-type: none"> ✓ Preferential social security treatment |



Investor business update – Distribution Product and Marketing (DPM)

Growth in Lifetime sales

Meeting demand for longevity protection

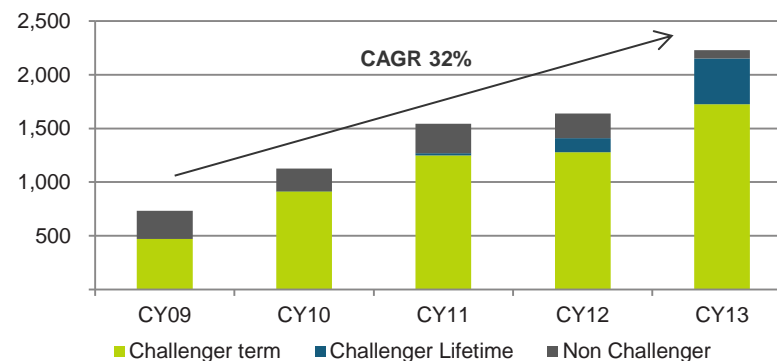
Australian annuity market flows

- Challenger market share ~97% in 2013
 - ~4% share of \$72bn¹ moving to retirement
 - Sales mix changing with Lifetime sales
- Annuity providers today
 - Challenger (term & lifetime)
 - Commisure (term & lifetime)
 - BT (term)

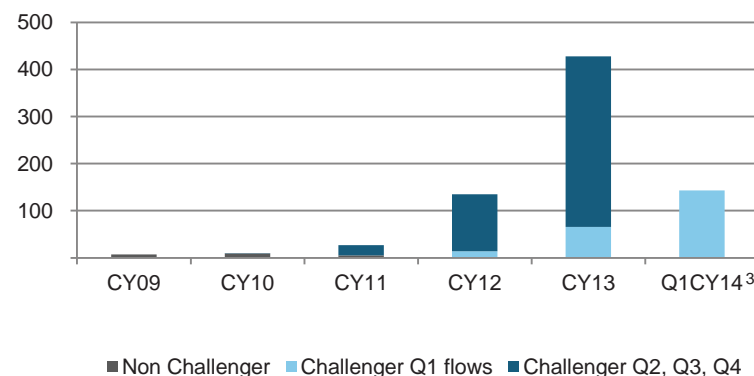
Australian Lifetime annuity market

- Reinvigorated by Challenger innovation
 - Guaranteed liquidity access in first 15 years
 - Provides retirees with liquidity peace of mind
 - Calculators and research that assist advisers
- Lifetime sales growing strongly
 - ~60% Liquid Lifetime and ~40% Care Annuity

Total annuity market flows² (\$m)



Lifetime annuity market flows² (\$m)



Investor business update – Distribution Product and Marketing (DPM)

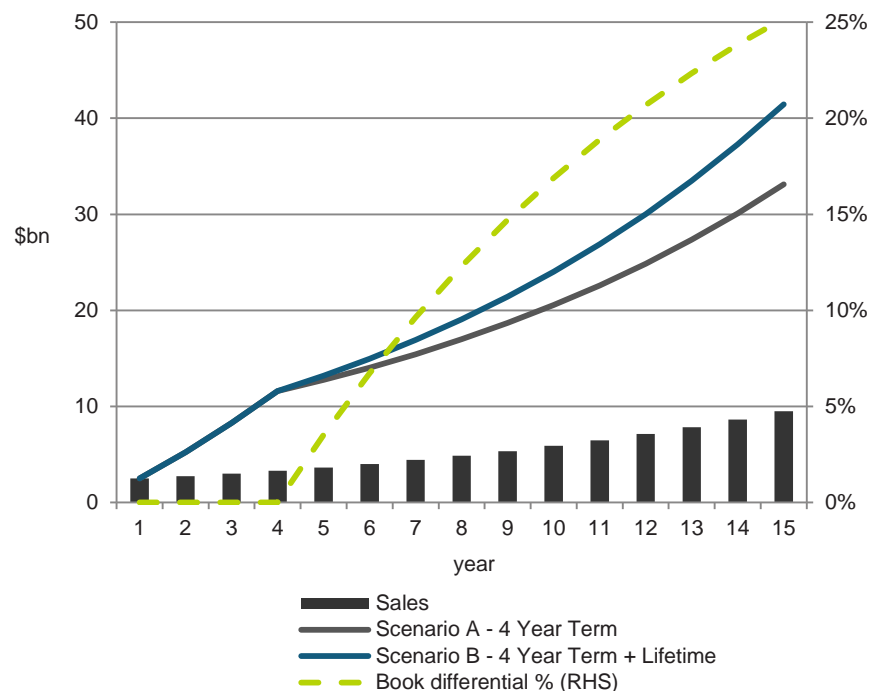
1. Rice Warner Actuaries projection for the financial year to 30 June 2014.
 2. Source: Plan for Life based on calendar years. CY11 excludes the High Yield Fund annuity (\$444m).
 3. Q1CY14 Lifetime sales per Challenger's 31 March 2014 AUM and annuity sales announcement.

Lifetime sales leveraging book growth

Sales mix matters

- Increase in new business tenor is benefiting book growth
- Lifetime sales ~30% of total retail annuity sales in Q314
- Book growth rises as mix of lifetime sales increases
- Illustrative example – NewAnnuityCo:
 - Assume year 1 sales \$2.5bn and 10% pa growth
 - **Scenario A¹** – 0% lifetime sales mix
 - **Scenario B²** – 30% lifetime sales mix
 - **Annuity book growth**
 - ~17% larger year 10
 - ~25% larger year 15

Illustrative example – book growth for different sales mix



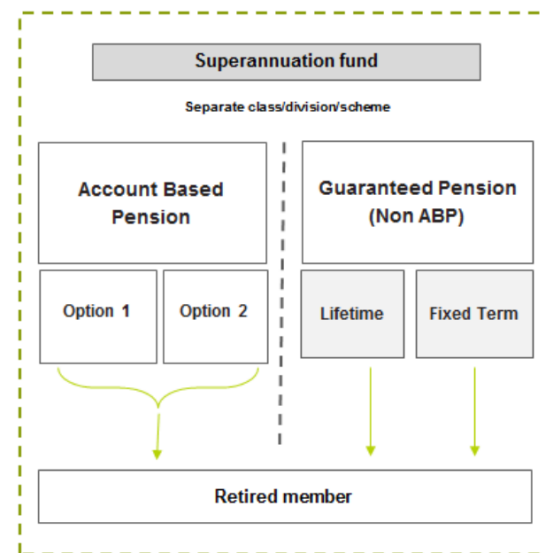
Investor business update – Distribution Product and Marketing (DPM)

1. Scenario A – assumes sales mix 100% 4 year term annuities (RCV100 repayment at maturity) and 0% lifetime annuities.
2. Scenario B – assumes sales mix 70% 4 year term annuities (RCV100) and 30% lifetime annuities (split 60% Liquid Lifetime with a 15 year term; 40% Care Annuity with a 4 year term).

Life product and channel initiatives

Growth leverage across channels

- Retail
 - GIF¹ and GPF² already on platforms
 - Objective – all products via platforms
- Institutional
 - Annuities complement account based pensions of major super funds
 - Enhances retirement offering for retention of valuable members
 - Implementation of retirement income models within super funds
- SMSF
 - Bendzulla acquisition
 - Repositioning as SMSF retirement specialists
 - Education and research focus
 - SMSF cash flow manager solution



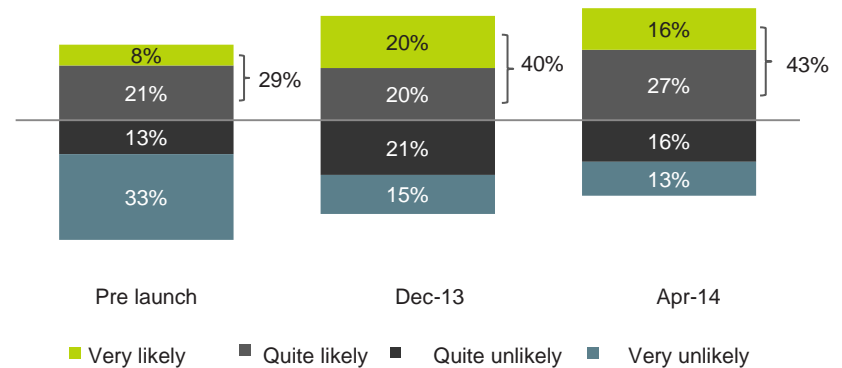
Brand update - customers

New advertising campaign effectively engaging customers

- New campaign – retirement on paper launched September 2013
 - To improve “Challenger” brand position amongst consumers and annuity product perception
 - Innovative animation execution
 - Education focus
 - “Google Challenger Annuities”
- Exceeding expectations
 - ✓ Brand awareness
 - ✓ Advertising awareness
 - ✓ Brand attribution
 - ✓ Product consideration
- Money Management advertising campaign of the year 2014



Retirees considering annuities¹



Investor business update – Distribution Product and Marketing (DPM)

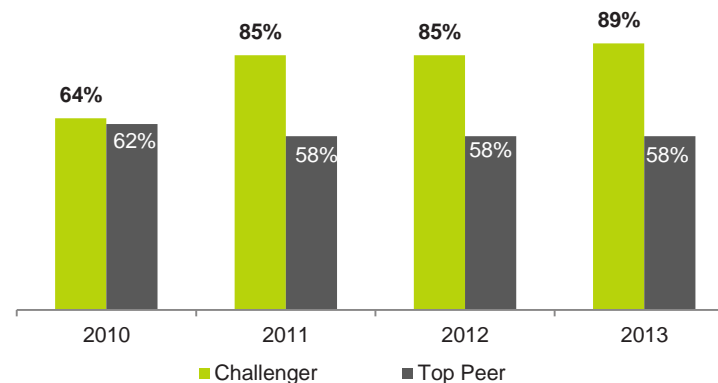
1. Hall & Partners Open Mind Consumer Study December 2013 and May 2014. Chart does not add to 100% due to “not sure” responses excluded.

Brand update - advisers

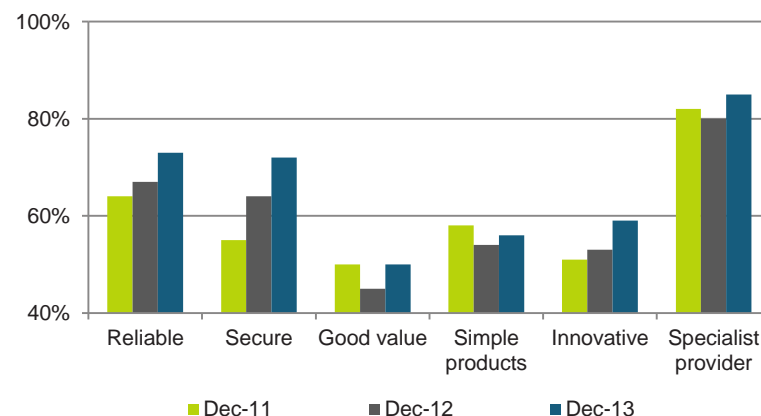
Recognised as the leader in retirement incomes

- Brand strength
 - Very strong amongst advisers
 - All key metrics improving
 - 45%³ of advisers receiving reverse annuity enquiries
- Specialist capability independently² recognised
 - Overall satisfaction - **equal first**
 - BDM team - **No.1**
 - Technical Services team - **No.2**
 - Client Services - **No.2**
 - Online capability - **No.2**
 - Value - **Top 3**
 - Image and reputation - **Top 3**

Challenger - the leader in retirement incomes¹



Key adviser metrics improving³



Investor business update – Distribution Product and Marketing (DPM)

1. Source: Marketing Pulse: Survey of advisers - asked "do you agree with the statement that this Company is a leader in providing retirement income products". Peer comparison included AMP, CFS, BT, MLC, Perpetual, Macquarie, ING, Vanguard, Zurich, Fidelity, Tyndall.

2. Source: Wealth Insights: 2014 Service Level Report – Fund Managers, n=856.

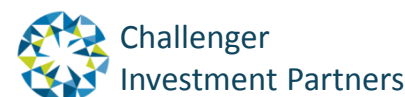
3. Source: Marketing Pulse Adviser study, May 2010 n=117; Dec 2011 n=146, Dec 2012 n=331, Dec 2013 n=231 financial planners across Australia.

Funds Management

Strong growth driven by broadening product and footprint

From July 2012

| | |
|------------------------------------|---------------------------------------------------|
| Increase in total FUM ¹ | \$17.3bn (up ~56%) |
| FUM market ranking | 8th (up from 10 th) |
| Net new products ² | 11 |
| New institutional clients | 43 |
| New institutional mandates | 16; \$5bn+ |
| Retail platform wins | 27 |
| Retail APL wins | 83 |
| Retail model portfolio wins | 66 |



Investor business update – Distribution Product and Marketing (DPM)

1. Based on 31 March 2014 FUM (\$45.3bn excluding Five Oceans) plus Whitehelm Capital (\$3bn of FUM to be contributed by Access Capital Advisers on 1 July 2014).
2. Excludes new share classes for New Zealand distribution and mFunds platform.



Key points

DPM capability a core strength

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Lifetime annuities address retiree needs

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5. Funds Management

Strong growth driven by broadening product and footprint

Life

Investor business update



Richard Howes

Chief Executive, Life

Key points

High quality investment portfolio meeting 18% RoE target

1. Financial risk management

Life assets and liabilities cash flow matched and risks managed

2. Investment portfolio construction

Tenor and RoE key metrics driving asset allocation

3. Fixed income portfolio

High quality with investment continuing to meet RoE targets

4. Property portfolio

Annuity sales mix affords conservative property portfolio

5. Life risk

Journey commenced ... diversification and RoE enhancement opportunity

Financial risk management

Life assets and liabilities cash flow matched and risks managed

Assets and liabilities are matched

- Liquid Lifetime matching reflects life expectancy and early redemption option

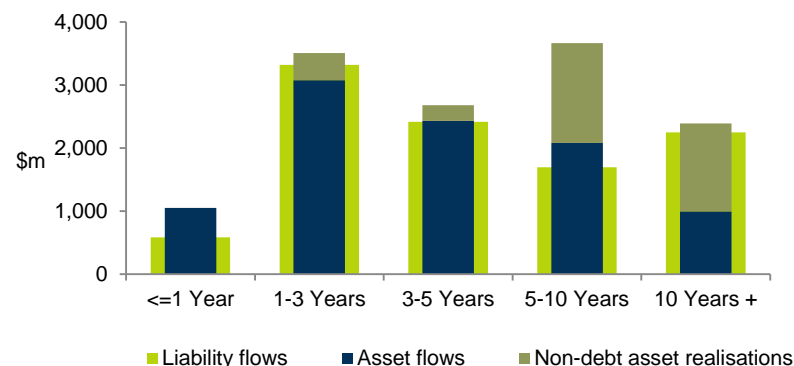
Risks that do not generate a return are hedged

- FX
- Interest rate
- Inflation

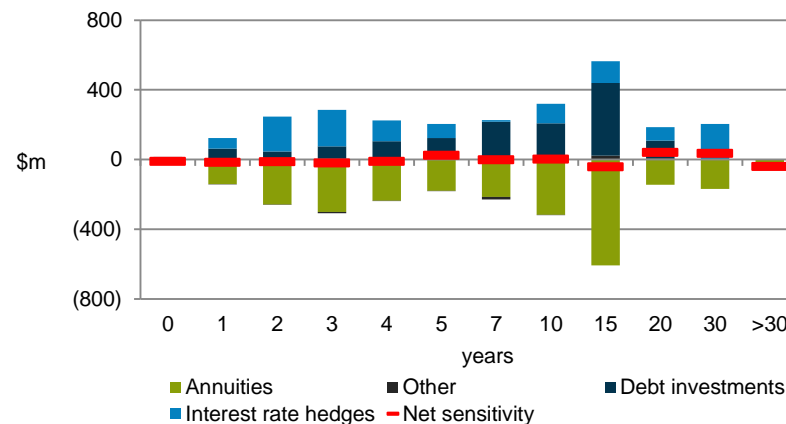
Interest rate risk management

- Interest rate swaps used to manage interest rate risk
 - P&L sensitivity to 100bps rate change +/- \$3m
- Hedging via CGS¹ has become less expensive
- Opportunity to rotate hedging strategy to Government bonds and repos from swaps

Assets and liabilities cash flow matched

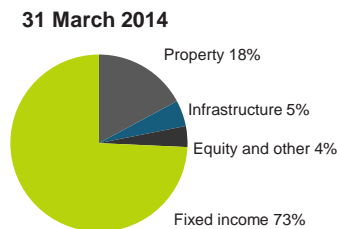


Sensitivity to a 1bp movement in interest rates



Investment portfolio construction

Tenor and RoE key metrics driving asset allocation



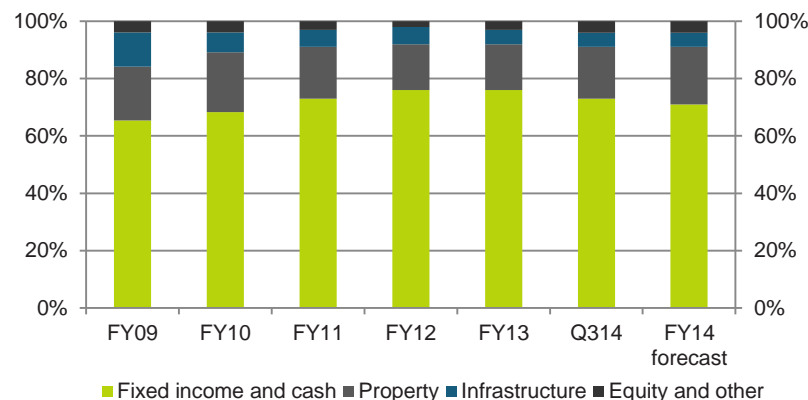
Approach

- Asset allocation reflects
 - annuity maturity profile
 - relative value
- Primary asset classes internally managed by highly regarded teams
 - fixed income
 - property
- Infrastructure and equities provide diversification, capital efficiency and longer duration cash flows

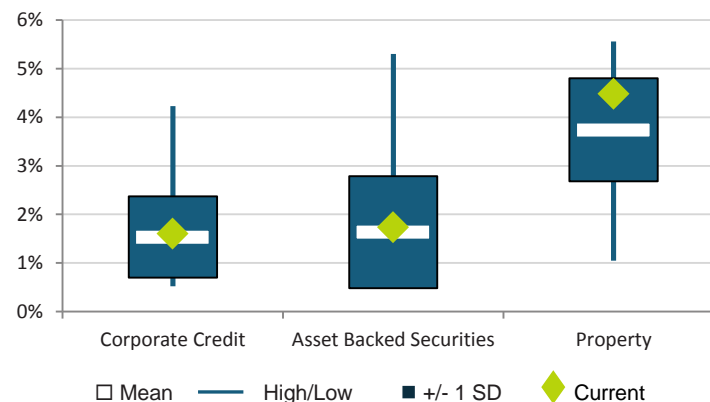
Relative value

- Fixed income** - continues to deliver 18% RoE
- Property** - risk premium contracted and good match for long term annuity sales success
- Infrastructure and equity risk** - premia attractive and plays a role in matching long term annuities

Change in asset allocation

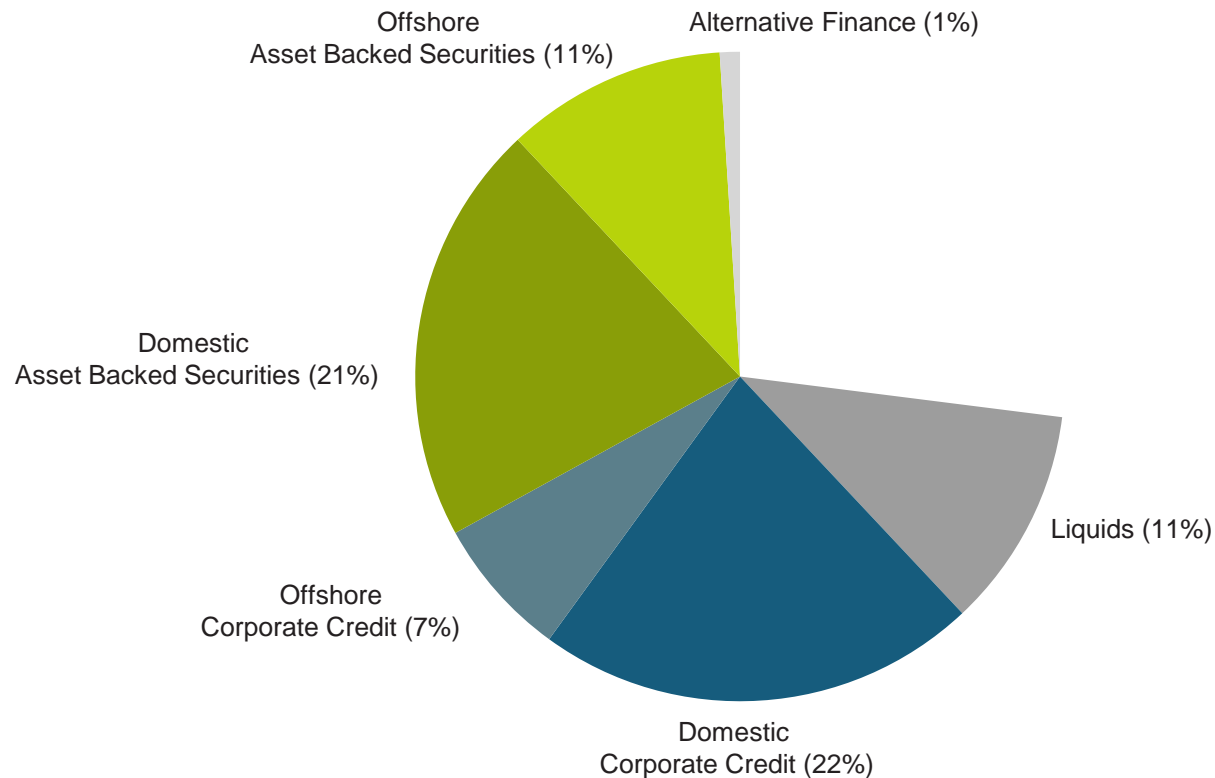


Primary asset class risk premium¹



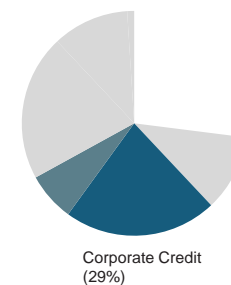
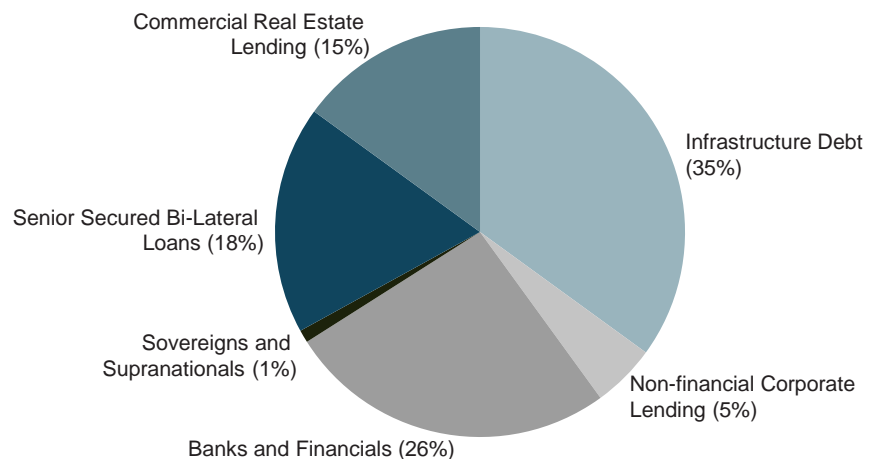
Fixed income portfolio

High quality and diversified portfolio ... (82% IG)

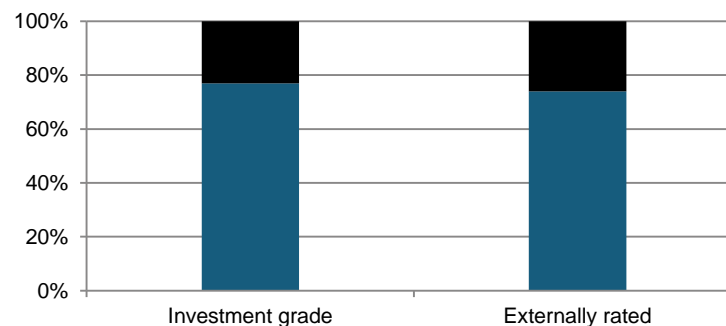


Fixed income portfolio

Corporate credit - \$3.0bn



Corporate credit portfolio



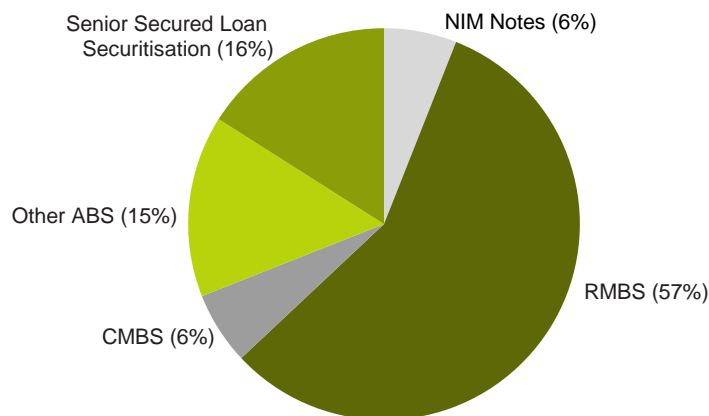
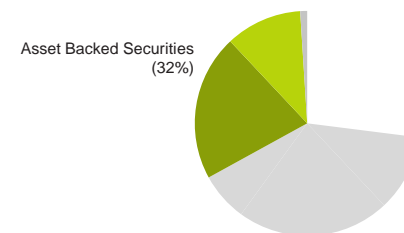
| Name | Senior Secured Bi-Lateral Loan | Senior Loan on Diversified Property Portfolio | Infrastructure Medium Term Note | Long Term PPP Backed Bond |
|------------|--------------------------------|-----------------------------------------------|---------------------------------|---------------------------|
| Trade date | May 2014 | August 2013 | October 2013 | May 2014 |
| Rating | BB- | BBB- | BBB- | A+ |
| Term | 5 years | 3 years | 5 years | 17 years |
| Margin | 4.30% | 3.70% | 2.25% | 2.10% |
| RoE | 25% | >25% | 18% | 18% |

Investor business update - Life

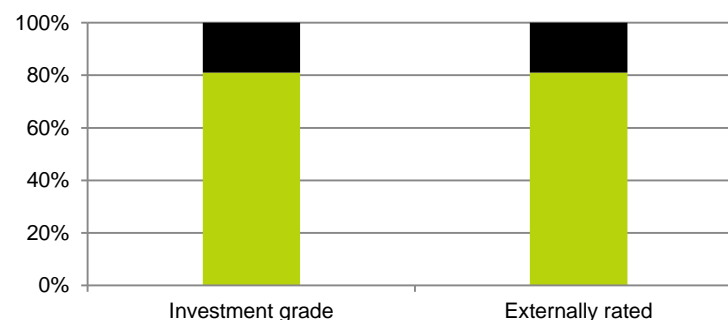
Note – 31 March 2014 investment assets. The investments listed are sample only and terms (including margin and RoE) of investments vary across the portfolio.

Fixed income portfolio

Asset Backed Securities - \$3.4bn



Asset Backed Securities portfolio



| Name | Private RMBS | Private RMBS | Commercial Equipment Finance | Receivables Finance | Senior Secured Loan Securitisation |
|------------|---------------------|-----------------|------------------------------|---------------------|------------------------------------|
| Trade date | Current opportunity | April 2014 | March 2014 | August 2013 | February 2014 |
| Rating | AAA-B | AA- | BB- | BBB | AAA |
| Collateral | Non-prime mortgages | Prime mortgages | Large ticket equipment | Receivables | Senior Secured Bank Loans |
| Term | 3 years | 1 years | 5 years | 3 years | 1.5 years |
| Margin | 3.40% | 2.00% | 4.20% | 3.30% | 1.65% |
| RoE | >25% | >25% | 21% | 25% | >25% |

Investor business update - Life

Note – 31 March 2014 investment assets. The investments listed are sample only and terms (including margin and RoE) of investments vary across the portfolio.

Property portfolio

Conservative portfolio - \$2.1bn

- Long term annuity sales success affords investment in conservative property portfolio
- Portfolio remix occurring
- Takeover of CDI
 - return on equity 18%
 - weighted average lease expiry 4.6 years
 - occupancy 96%
 - weighted average cap rate 8.30%¹
 - predominantly office (61% of portfolio)
 - allows full control of underlying property portfolio
- Disposal of ~15% or ~\$110m (~\$20m net) of Japanese properties
 - 4% above book value

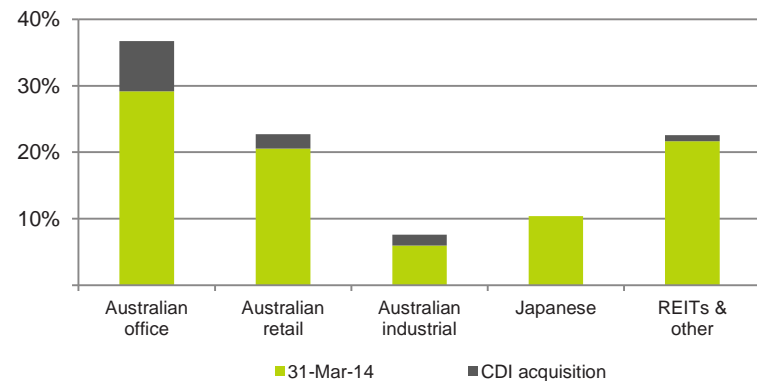
Jam Factory, Melbourne



31 Queen street, Melbourne



Life property portfolio - adjusted for CDI acquisition²



Investor business update - Life

1. CDI cap rate represents 31 March 2014 adjusted for subsequent property disposals (Todd Road and Taylors House).
2. Life property portfolio based on 31 March 2014, adjusted for the acquisition of CDI.

Life risk - longevity and mortality risk

Diversification and RoE enhancement opportunity

Strategic rationale

- Core Life insurance company capability and natural business extension
- Challenger Life experienced in pricing, managing and reinsuring longevity risk
- Conservative risk limits

Business model

- Originating longevity risk via lifetime annuity sales which are growing strongly
- Provides income and capital diversification in RoE accretive way
- Participating in reinsurance transactions alongside global reinsurers

Financial implications

- 4 transactions executed in last 12 months
- PV of future profit margins ~\$110m (to be released over life of transactions)
- FY15 Normalised COE expected to be ~\$5m to ~\$10m

Reinsurance markets

- ✓ UK longevity
- ✓ US mortality
- ✓ European longevity

Key points

High quality investment portfolio meeting 18% RoE target

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High quality with investment continuing to meet RoE targets

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Journey commenced ... diversification and RoE enhancement opportunity

Funds Management

Investor business update



Rob Woods

Chief Executive,
Funds Management

Funds Management

Scalable and diversified platform with significant capacity

1. Multiple brands and strategies

Providing a scalable and diversified platform

2. Significant manager capacity

Existing manager capacity underwrites future growth

3. Managers at key life cycle stages

Provides diversification of earnings and growth opportunities

4. Leading and contemporary business model

Delivering significant shareholder returns

Multiple brands and strategies

Scalable and diversified - 16 managers with \$48bn¹ of FUM



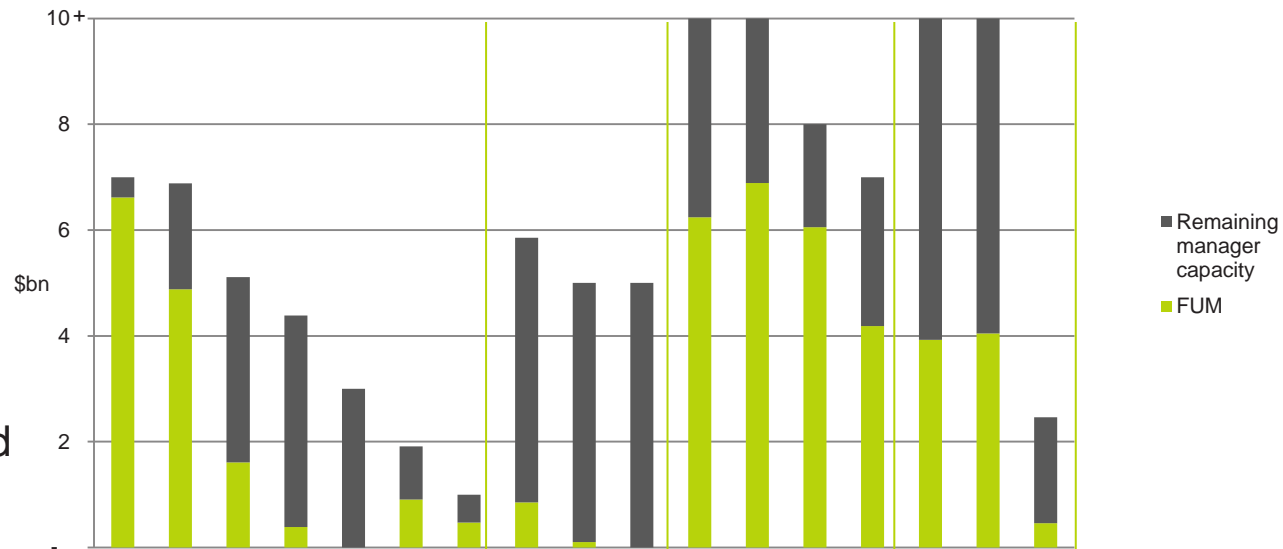
Investor business update – Funds Management

- 31 March 2014 FUM (\$45.3bn excluding Five Oceans) plus Whitehelm Capital (\$3bn of FUM to be contributed by Access Capital Advisers on 1 July 2014).

Significant manager capacity

>\$50bn of existing manager capacity underwrites future growth

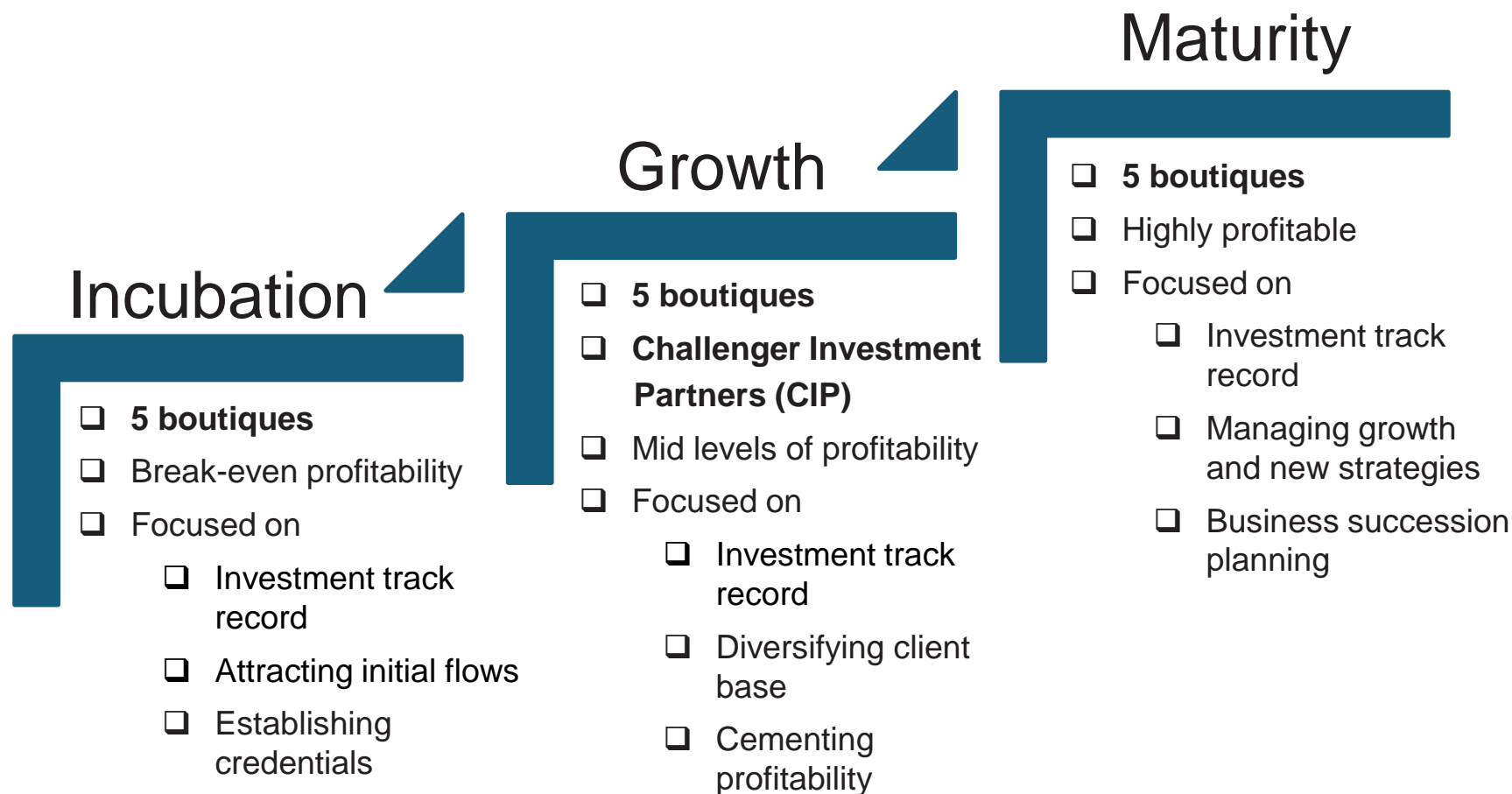
- \$36bn of capacity added over last 12 months
- Driven by
 - adding new strategies
 - adding 5 new managers
- Strong flows maintained



| | Australian equity managers | Global equity managers | Fixed income managers | Alternative managers | Total |
|----------------------------|----------------------------|------------------------|-----------------------|----------------------|------------------|
| Maximum capacity | \$29bn | \$16bn | + \$35bn | + \$23bn | + \$103bn |
| Remaining manager capacity | \$14bn | \$15bn | + \$12bn | + \$14bn | + \$55bn |

Managers at key life cycle stages

Provides diversification of earnings and growth opportunities



Leading and contemporary business model

Delivering significant shareholder returns

1. Investors support active managers with good track record

- ✓ Boutique – focus on investment performance
– 93% outperformance since inception¹
- ✓ Fidante – focus on everything else

2. Full service platform attracts talent

- ✓ Investment professionals have clear focus
- ✓ 5 new managers established in last 12 months

3. Earnings and product diversification

- ✓ 5 managers in maturity phase
- ✓ 6 managers in growth phase

Platform allows for growth materially above system

- ✓ Scope to add new boutiques and new strategies
- ✓ \$36bn of capacity added in last 12 months

Significant shareholder returns

- ✓ 1H14 EBIT up 60%
- ✓ 1H14 RoE up 12 percentage points to 31%

Funds Management

Scalable and diversified platform with significant capacity

1. Multiple brands and strategies

Providing a scalable and diversified platform

2. Significant manager capacity

Existing manager capacity underwrites future growth

3. Managers at key life cycle stages

Provides diversification of earnings and growth opportunities

4. Leading and contemporary business model

Delivering significant shareholder returns

Wrap up

Investor business update



Brian Benari

Managing Director and
Chief Executive Officer

Wrap up

Providing Australians with financial security in retirement

1. Retirement income policy – drivers and trends

Strong retirement income focus in multiple policy forums

2. Distribution Product and Marketing

Challenger's capability recognised as market leading

3. Life

High quality investment portfolio meeting 18% RoE target

4. Funds Management

Diversified and scalable platform with significant capacity

5. FY14 guidance

Expect to be at upper end of guidance

- ✓ Retail annuity net book growth range of 10% to 12%¹
- ✓ Life COE range of \$470m to \$480m

Investor business update – Wrap up

1. Excludes impact from maturity of the High Yield Fund annuity.

Q&A session

Investor business update

To ask a question

- Email: investorrelations@challenger.com.au
- Conference call – ID 702349

Toll Free: 1800 558 698

International: +61 2 9007 3187

Important note

This presentation was prepared for the purpose of a briefing to equity analysts and certain wholesale investors on 4 June 2014.

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