

MARKET RELEASE

ASSETS AND FUNDS UNDER MANAGEMENT

NET FLOWS AND ANNUITY SALES

15 October 2014, Sydney – Challenger Limited (ASX:CGF) today announced September quarter assets and funds under management, net flows and annuity sales across its two operating businesses, Funds Management and Life (annuities).

Total group assets and funds under management at 30 September 2014 were \$54.2 billion, an increase of \$3.5 billion or 7% for the quarter and \$8.1 billion or 18% up on the prior corresponding period (pcp).

Funds Management FUM increased by \$5.5 billion or 12% for the quarter to reach \$52.6 billion at 30 September 2014, while Life's annuity sales were up 8% on the pcp, and comprised retail annuity sales of \$690 million and institutional annuity sales of \$98 million.

Challenger's Chief Executive Officer Brian Benari said: "Challenger is now a \$54 billion investment manager and recording growth across its 'super saving' and 'super spending' businesses.

"Over the quarter we were pleased to see a 35% rise in lifetime annuity sales compared with this period last year, lifting lifetime's share of our overall retail annuity sales to 23%. We expect Australia's Baby Boomers will continue to seek protection from longevity, market and inflation risks while also seeking to maximise any age pension entitlements.

"In response to this expected demand we're intending to make annuities widely available on investment platforms and today announce a relationship with Colonial First State by which Challenger annuities will be made available to customers of the FirstChoice and FirstWrap platforms by June 2015".

Funds Management

Funds Management FUM at 30 September 2014 was \$52.6 billion, up \$5.5 billion for the quarter. This FUM comprises financial assets held within the Fidante Partners boutique funds management businesses as well as those under management in the Challenger Investment Partners business, which focuses on securing and managing fixed income and commercial property co-investment mandates.

Fidante Partners FUM was \$40.6 billion, an increase of \$4.7 billion or 13% for the quarter and \$9.5 billion or 30% higher than twelve months ago, driven principally by fixed income and alternatives net inflows and partially offset by equities net outflows.

Further enquiry: Stuart Kingham, Head of Investor Relations, Challenger Limited, 02 9994 7125
 Stuart Barton, General Manager Corporate Marketing and Communications, Challenger Limited, 02 9994 7008

Challenger Limited A.B.N 85 106 842 371

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

All of Fidante Partners fixed income managers experienced positive net flows for the quarter, while alternatives net inflows included \$3.9 billion arising from the formation of Whitehelm Capital, with \$3.0 billion of external FUM and \$0.9 billion of Challenger Investment Partners infrastructure FUM transferred to the new firm. Fidante Partners equities net outflows were \$0.5 billion.

Net inflows to Challenger Investment Partners saw its FUM rise by 7% to \$12.0 billion as at 30 September 2014. This included \$1.8 billion of fixed income and property transferred from Life to Challenger Investment Partners as a result of consolidating investment teams, partially offset by the \$0.9 billion in infrastructure FUM transferred to Whitehelm Capital and the final capital payment to Howard Mortgage Fund unit holders (\$0.1 billion).

Life (annuities)

Challenger Life recorded an 8% increase in annuity sales over the pcp, reaching \$788 million and comprising an increase in institutional annuity sales from \$18 million to \$98 million, and a decrease in retail annuity sales from \$714 million to \$690 million.

Within retail annuity sales, lifetime annuity sales increased by 35% from \$119 million to \$161 million, while fixed term annuity sales decreased from \$595 million to \$529 million. This quarter's annuity sales were impacted by advisers' focus on the establishment of account-based pensions before the new income deeming rules come into force from 1 January 2015. This timing impact is expected to reverse after that date.

Retail annuity net book growth for the quarter was \$154 million, or 2.0%. Life's 2015 financial year net book growth target of 12% to 14% and Life's cash operating earnings guidance of \$535 million to \$545 million remain unchanged.

Life's investment assets at 30 September 2014 were \$11.5 billion, up \$0.4 billion for the quarter. This increase reflected retail annuity net book growth, an increase in Life's capital base following the institutional share placement, and changes in retained earnings. Subsequent to the end of the September 2014 quarter, proceeds from the Challenger Capital Notes (~\$345 million) were received and invested into Challenger Life Company.

Challenger annuities to feature on Colonial First State's investment platforms

Challenger's new relationship with Colonial First State means that, for the first time, clients will be able to invest directly in its innovative annuities through the convenience of retail investment platforms FirstChoice and FirstWrap, which together service approximately 50% of financial advice businesses in Australia.

Challenger annuities will sit alongside managed funds, term deposits, direct equities and similar mainstream investments. They will be supported on-platform by Challenger's age pension, aged care and retirement simulation calculators, for use by advisers when planning their client's retirement portfolios.

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“This platform breakthrough represents a major modernisation of one of the world’s most tried and tested pension products”, said Mr Benari.

“While highly customisable to meet individual cashflow needs, annuities have traditionally been harder to integrate with platform-based portfolios for that very same reason.

“Now, thanks to this project with CFS, we’ve solved the integration problem. It will be easier than ever for advisers to provide bedrock income through a combination of annuities and age pension entitlements, freeing up account-based pensions to focus on growth and liquidity needs”.

Included in the range of platform annuities will be Challenger’s multi award-winning Liquid Lifetime and Care annuities, which together have been responsible for Challenger’s singlehanded revival of the lifetime annuities market over the last four years, with the company’s FY14 lifetime annuity sales of \$613 million exceeding total industry sales in any given year.

“Challenger is committed to retail annuity book growth of 12% to 14% for the 2015 financial year and expects the benefit of the Colonial First State relationship to flow from 2016 onwards”, said Mr Benari.

“There’s a lot of talk about the need for more innovation in Australia’s retirement income market, but we think ‘new’ annuities are shaping up as contenders to challenge the dominance of the ‘single-solution’ position of account-based pensions.

“Annuities will be available on the same platforms as account-based pensions, will more easily integrate with those products, and will continue to become more mainstream”.

ENDS

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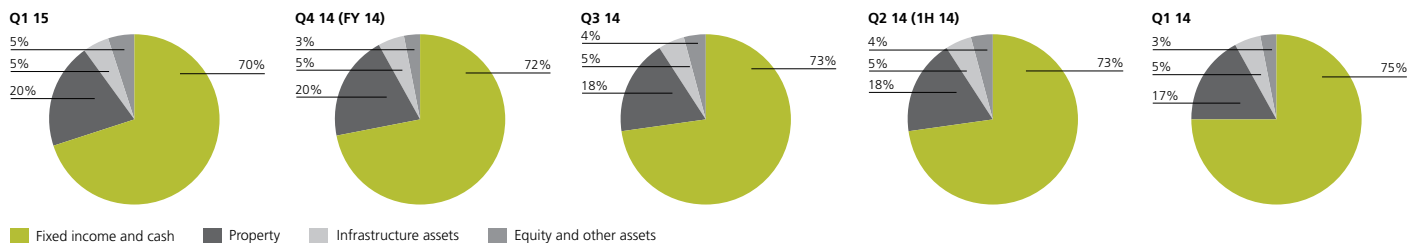
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Assets and Funds Under Management, net flows and sales

\$m	Q1 15	Q4 14	Q3 14	Q2 14	Q1 14
Total Assets and Funds Under Management	54,189	50,725	49,502	48,814	46,062
Represented by:					
Funds Management					
Fidante Partners¹					
Equities	15,960	16,541	16,570	16,384	15,678
Fixed income	20,699	19,338	18,104	17,287	15,397
Alternatives	3,893	–	–	–	–
Total Fidante Partners	40,552	35,879	34,674	33,671	31,075
Challenger Investment Partners²					
Fixed income ³	8,461	6,036	6,057	6,358	6,861
Infrastructure	–	922	896	912	862
Property					
Institutional mandates	3,565	3,418	3,160	3,157	3,048
Challenger Diversified Property Group (ASX:CDI) (gross assets)	–	871	888	888	894
Total Challenger Investment Partners	12,026	11,247	11,001	11,315	11,665
Total funds under management	52,578	47,126	45,675	44,986	42,740
Average Fidante Partners	39,435	35,634	34,024	32,306	30,675
Average Challenger Investment Partners	11,784	11,066	11,203	11,449	11,426
Average total funds under management⁴	51,219	46,700	45,227	43,755	42,101
Life					
Fixed income and cash ⁵	8,120	7,955	7,746	7,983	7,886
Property ⁵	2,320	2,168	1,955	1,952	1,821
Infrastructure ⁵	536	563	518	521	508
Equity and other	551	401	431	433	368
Total Life investment assets	11,527	11,087	10,650	10,889	10,583
Average Life investment assets⁴	11,254	10,872	10,939	10,655	10,732

Life asset allocation



¹ Fidante Partners comprise a number of co-owned, separately branded active boutique investment managers from which Fidante receives distribution and administration fees. Fidante Partners also shares in the pre-tax profits from most Boutiques through its equity ownership.

² Challenger Investment Partners develops and manages products for the Life business and third party institutional investors.

³ Fixed income (including asset backed securities).

⁴ Average total funds under management and Life investments calculated on a monthly basis.

⁵ Fixed income, property and infrastructure are reported net of debt.

Analysis of flows	Q1 15	Q4 14	Q3 14	Q2 14	Q1 14
Funds Management net flows					
Equities	(551)	(210)	(46)	76	(955)
Fixed Income	1,251	841	562	1,556	587
Alternatives	3,849	–	–	–	–
Total Fidate Partners	4,549	631	516	1,632	(368)
Challenger Investment Partners	731	149	(262)	(325)	175
Net flows	5,280	780	254	1,307	(193)
Life sales					
Fixed Term	529	664	335	592	595
Lifetime	161	200	143	151	119
Total Retail	690	864	478	743	714
Institutional	98	273	18	273	18
Sales	788	1,137	496	1,016	732
Reconciliation of Total Group Assets and Funds Under Management					
Funds Management (FUM)	52,578	47,126	45,675	44,986	42,740
Life investment assets	11,527	11,087	10,650	10,889	10,583
Adjustments to remove double counting of cross holdings:					
Life Company investment in CDI	–	(585)	(342)	(341)	(344)
Life Company investment in fixed income, property and infrastructure	(9,916)	(6,903)	(6,481)	(6,720)	(6,917)
Total Assets and Funds Under Management	54,189	50,725	49,502	48,814	46,062