

Challenger Capital Notes Newsletter June 2016



Peter Polson
Chairman

GROUP ASSETS UNDER MANAGEMENT UP 10%¹

\$60^{bn}

NORMALISED PROFIT AFTER TAX

↑ 8%

REGULATORY CAPITAL ABOVE APRA'S MINIMUM REQUIREMENT

57%

Dear Noteholder

On behalf of the Board and management team, I'm pleased to provide you with an update on the performance of Challenger Limited.

2016 financial results

Our 2016 financial results are driven by continued growth in assets under management to \$60.0 billion. This is a very strong result when considering it excludes \$5.4 billion of funds under management due to the sale of our interest in Kapstream Capital.

On a statutory basis, net profit after tax was up 10% to \$328 million, which included the profit from the Kapstream sale.

Normalised net profit after tax was up 8% to \$362 million. Even though there were more Challenger shares on issue partly due to the success of our Dividend Reinvestment Plan, normalised earnings per share rose 6% to 64.6 cents.

Our pre-tax Return on Equity at 17.8% was slightly below our 18% target due to a \$10 million pre-tax loss from our Fidante Partners Europe business, where market uncertainty ahead of the Brexit vote had an impact on financial transaction activity in the alternatives sector in the first half of calendar year 2016.

In our Life business, shareholders benefited from stable margins that meant strong asset book growth translated into earnings growth.

Our distribution partnerships have contributed to accelerating growth in annuity sales. Overall annuity sales grew 22% to a record \$3.4 billion, with sales of our lifetime annuities up 21% to \$581 million. Growth was particularly strong in the fourth quarter with annuity sales of \$1.1 billion, exceeding \$1 billion in a quarter for the first time. The tenor of new annuity business also increased reflecting the quality of sales from our partnerships.

We continue to maintain a strong capital position and were holding at 30 June 2016 some 57% or \$1 billion more capital than the Australian Prudential Regulation Authority's minimum requirement.

We have seen significant progress on the Funds Management side of our business, with double digit growth in average funds under management, excluding Kapstream, boosted by organic flows of \$2.4 billion. Overall, over the past five years funds under management in this business has grown from \$24 billion to \$57 billion with net flows consistently outperforming peers over many years.

Normalised profit after tax (\$m)

up 8%



Statutory profit after tax (\$m)

up 10%



Strategy update

Challenger continues to grow strongly reflecting the demand for annuity products from the rapidly-increasing number of Australian retirees and the growing capabilities of our Life and Funds Management businesses.

1. Increase in AUM (10%) excludes Kapstream institutional FUM (\$5.4bn) from FY15 following the FUM being derecognised as a result of the sale of Kapstream in July 2015.

Over the next 40 years the number of Australians aged over 65 will double to seven million.

We are very well positioned to fulfil Challenger's vision – to meet the financial needs of the rising wave of retirees and to provide them with financial security for retirement.

Over the past year, there has been increased recognition by government of the fiscal and social challenges presented by our ageing population.

In the Federal Budget in May 2016 the government cleared the way for essential reforms that will increase the availability of retirement income products.

At the heart of this is the government's proposed definition of the objective of superannuation as being to 'provide income in retirement to substitute for or supplement the Age Pension', making it clear that the specific purpose of superannuation is to create sustainable retirement income streams will have far-reaching effects. It provides direction for policymakers, for industry participants such as super funds, and for individuals planning for retirement.

At the same time the government announced the removal of tax impediments to allow for a wider range of retirement income products, including Deferred Lifetime Annuities. The new rules, expected to come into effect in July 2017, will provide the building blocks for super funds to develop a Comprehensive Income Product for Retirement.

The outcome of these reforms will be a superannuation system better suited to meet the retirement income needs of our customers. Through its progressive approach to the financial needs of retirees, Challenger has helped shape the reform agenda and will continue to be at the forefront of what we expect to be a larger and more innovative retirement incomes market.

We are also continuing to make good progress in Funds Management. Our multi-boutique business Fidante Partners continues to be one of Australia's fastest growing fund managers and has a growing global distribution and product platform.

The senior executive team and Board have never been more dedicated to pursuing Challenger's vision to 'provide our customers with financial security for retirement.'

I would like to thank you for your ongoing support and commitment to Challenger.



Peter Polson
Chairman
Challenger Limited

Additional information

A copy of Challenger Limited's 2016 Annual Report is available at:



challenger.com.au/annualreport2016

Manage your holding

For administrative matters in respect of your Challenger Capital Notes holding, please contact Computershare Investor Services.

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Challenger can deliver your noteholder communications electronically, please update your communication preferences via Computershare Investor Services.

FY16 Challenger Capital Notes distributions

Distribution Payment Date	Distribution ¹	Distribution Rate ²	Franking credits ³	Total return ⁴
25 August 2015	A\$0.97	3.8675%	1.6575%	5.5250%
25 November 2015	A\$0.97	3.8605%	1.6545%	5.5150%
25 February 2016	A\$1.00	3.9620%	1.6980%	5.6600%
25 May 2016	A\$0.98	3.9818%	1.7065%	5.6883%

Key dates – 2016/2017

Ex-date	Record date	Payment date
16 August 2016	17 August 2016	25 August 2016
16 November 2016	17 November 2016	25 November 2016
16 February 2017	19 February 2017	27 February 2017
16 May 2017	17 May 2017	25 May 2017

¹ The Distribution is the cash payment made on each \$100 Challenger Capital Note for the relevant quarterly Distribution Period. It is calculated as the Distribution Rate, multiplied by the number of days in the relevant quarterly Distribution Period, applied to each \$100 Challenger Capital Note.

² The Distribution Rate (expressed as a percentage per annum) for each quarterly Distribution Period is calculated in accordance with the Challenger Capital Notes prospectus dated 4 September 2014, and is equal to the aggregate of the Bank Bill Rate and the Margin of 3.40%, multiplied by the Franking Adjustment Factor. The Distribution Rate is used to determine the amount of the quarterly cash payment made on each \$100 Challenger Capital Note (see note 1).

³ Franking credits (expressed as a percentage per annum) for each quarterly Distribution Period are calculated as the difference between the total return (see note 4) and the Distribution Rate.

⁴ The total return (expressed as a percentage per annum) for each quarterly Distribution Period is equal to the aggregate of the Bank Bill Rate and the Margin of 3.40%. The total return for the relevant quarterly Distribution Period represents (as a percentage per annum) the aggregate of the cash payment and the Franking credits.