

# Market Release

18 April 2024

## Third quarter update<sup>1</sup>

Continuing to focus on longer duration more valuable sales

Upgrading FY24 earnings to top end of guidance range

- Group assets under management (AUM) \$124 billion, up 6% for the quarter
- Total Life sales \$1.7 billion and Life book growth 0.9%<sup>2</sup> for the quarter
  - Strong Lifetime annuity sales \$202 million, up 37%
  - New business annuity sales tenor 8.1 years (6.1 years pcp)<sup>3</sup>
  - Moderating annuity maturity rate for the quarter 4%<sup>4</sup>
- Challenger Life strongly capitalised with a PCA ratio of 1.49 times<sup>5</sup>
- Funds Management funds under management (FUM) \$114 billion, up 6% for the quarter
- Normalised net profit before tax guidance upgraded to the top end of the \$555 million to \$605 million FY24 guidance range

**Challenger Limited (ASX:CGF)** today reported its third quarter AUM, annuity sales and net flows, with AUM increasing 6% for the quarter, driven by Life book growth and Funds Management FUM growth.

Managing Director and Chief Executive Officer, Nick Hamilton said:

"I am very pleased with the continuing success of our strategy to prioritise growing longer duration and more valuable annuity business, which is improving the quality of our Life book growth and financial performance.

"Sales across our retirement income products in Life have remained strong, supported by rising demand for guaranteed lifetime income and a growing number of Australians entering retirement and aged care.

"As we continue to execute our sales remix strategy, we have seen a pick-up in new business tenor that has led to a significant reduction in maturities and will further support future book growth. We remain disciplined on pricing around shorter-term annuities as pricing dynamics in the term deposit market remain unattractive.

"The performance across our domestic advised sales channel and MS Primary reinsurance partnership is very pleasing, both of which are delivering strong volumes, and we continue to develop new institutional relationships for defined benefit and retirement income partnerships.

"Challenger is uniquely placed to help Australians achieve financial security for a better retirement. We recently launched the Retirement Happiness Index to explore retiree satisfaction. This identified the majority of Australians worry about their finances in retirement, with 70% of Australian retirees believing a guaranteed income in retirement would significantly boost their happiness.

"Challenger's latest marketing campaign highlights the importance of combining income streams – blending a lifetime annuity with an account-based pension – that can help customers achieve their

retirement goals with a guaranteed regular income for life, which allows them to 'do more, live more and create more.'

"Our technology partnership with Accenture is making good progress as we deliver a digital platform that will make it easier and more efficient for customers to do business with Challenger by allowing us to easily integrate with platforms, superannuation funds, advisor tools and direct.

"The Funds Management business has continued to rebound strongly, with strong momentum in flows and positive investment markets delivering a 6% increase in FUM for the quarter.

"Our focus on higher value private credit and alternatives strategies is showing very positive signs as advisors' and clients' demand continues to grow rapidly. Challenger Investment Management and Fidante have developed leading capabilities across private credit and alternatives.

"With the sale of the Bank expected to now complete by the end of April, Challenger will focus on its core Life and Funds Management businesses, continue to execute our growth strategy and deliver on our purpose of providing customers with financial security for a better retirement.

"Challenger is well placed to finish the year strongly and we're pleased to upgrade our full year profit guidance to the top end of the range", said Mr Hamilton.

## Challenger Life

Total Life sales decreased 13% to \$1.7 billion, reflecting continued focus on growing longer duration and more valuable business.

Annuity sales decreased 21% to \$823 million, with very strong longer duration lifetime annuity sales more than offset by lower shorter duration fixed term annuity sales.

Lifetime annuity sales are benefitting from rising demand for lifetime income. Lifetime annuity sales increased 37% to \$202 million and comprised Liquid Lifetime of \$94 million (up 9%) and CarePlus of \$108 million (up 77%). Reflecting the growing opportunity in aged care, CarePlus continues to experience strong momentum.

Fixed term annuity sales decreased 36% to \$441 million as Challenger maintained its disciplined approach to pricing shorter duration business.

Japanese (MS Primary) annuity sales were \$180 million. Total Japanese annuity sales for the nine months were \$526 million and have now exceeded the FY24 minimum annual sales target<sup>6</sup>. Japanese-yen denominated annuity sales were very strong following the commencement of Japanese-yen denominated reinsurance from November 2023.

Consistent with Life's strategy of extending the duration of sales, 95% of new business annuity sales had a tenor of 2-years or more<sup>7</sup> compared to 80% in the pcp. The tenor on new business annuity sales<sup>3</sup> also increased to 8.1 years in the quarter compared to 6.1 years in the pcp.

Institutional sales decreased 8% to \$974 million, with Challenger Index Plus sales decreasing 4% to \$925 million and institutional term annuity sales decreasing 50% to \$49 million.

Challenger Index Plus is an institutional product providing institutional clients guaranteed excess return above a chosen index. Challenger has been successful in extending the tenor of Index Plus business being written in the quarter, with the tenor on new business sales increasing to 2.1 years compared to 1.0 year in the pcp.

The benefit of longer duration sales is resulting in a material step down in the annuity maturity rate, which was 4% for the quarter<sup>4</sup> (down from 10% in 3Q23). As previously announced, Challenger's FY24 maturity rate is expected to be 26%.

Annuity net flows were \$87 million benefitting from the lower maturity rate, with annuity book growth of 0.6%<sup>2</sup> for the quarter. Total Life net flows were \$171 million representing Life book growth of 0.9%<sup>2</sup> for the quarter.

Challenger Life's investment assets as at 31 March 2024 were \$25 billion, up 3% for the quarter.

Challenger Life remains strongly capitalised with a PCA ratio of 1.49 times, reflecting statutory profit for the quarter, offset by higher capital intensity due to investment gains in alternatives and a decline in the ASX dividend yield, and the payment of dividends and Additional Tier 1 instrument coupons. Challenger remains comfortable operating within the target range of 1.3 to 1.7 times PCA.

## Funds Management

Funds Management FUM was \$114 billion, up \$6.9 billion or 6% for the quarter, benefitting from institutional net inflows of \$1.0 billion and positive investment markets.

Fidante's FUM was \$96.8 billion, an increase of \$5.9 billion or 6% for the quarter. FUM growth benefitted from net inflows of \$321 million for the quarter and positive investment markets of \$5.8 billion. Net inflows primarily related to equity (\$515 million) and alternative strategies (\$303 million), partially offset by outflows in fixed income strategies (\$497 million).

Fidante's investment managers continue to be externally recognised. In March 2024, Greencape Capital was awarded 'Fund Manager of the Year – Domestic Equities – Large Cap' at the 2024 Morningstar Awards for Investing Excellence.

Challenger Investment Management (CIM) FUM was \$17.7 billion and increased by \$1.0 billion or 6% for the quarter driven by net inflows of \$697 million and positive investment markets of \$322 million.

## Challenger Bank

On 8 April 2024, Heartland Group Holdings Limited (Heartland) announced that it had received indicative direction from the Australian Prudential Regulation Authority (APRA) and the Reserve Bank of New Zealand (RBNZ) to acquire Challenger Bank.

The sale is expected to complete by 30 April 2024 subject to Heartland receiving final regulatory approvals from APRA and the RBNZ.

The sale is expected to generate a gain on sale of approximately \$11 million, which will be reported as a significant item once completed. Of the capital returned on completion, approximately \$40 million is expected to be injected into Challenger Life.

## Outlook

Challenger reaffirms its FY24 normalised net profit before tax guidance, and now expects to be at the top end of the \$555 million and \$605 million guidance range<sup>8</sup>.

ENDS

This release has been authorised by Challenger's Continuous Disclosure Committee.

## About Challenger

Challenger Limited (Challenger) is an investment management firm focused on providing customers with financial security for a better retirement.

Challenger operates a fiduciary Funds Management division, an APRA-regulated Life division and an APRA regulated authorised deposit-taking institution. Challenger Life Company Limited is Australia's largest provider of annuities.

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- <sup>1</sup> All commentary compares the March 2024 quarter against the March 2023 quarter (the prior corresponding period or pcp), unless otherwise stated.
- <sup>2</sup> Book growth percentage represents net flows for the period divided by opening book value for the financial year. Book growth calculations prior to adoption of AASB 17 from 1 July 2023 have not been restated.
- <sup>3</sup> Based on new business annuity sales, including term annuities and Lifetime sales, excluding reinvestments.
- <sup>4</sup> Maturity rate represents the value of Life annuities maturing and repayments (excluding interest payments) in the period as a proportion of opening Life annuity liabilities (undiscounted) of \$16.6 billion.
- <sup>5</sup> PCA ratio represents total Challenger Life Company Limited (CLC or Challenger Life) Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount (PCA) and is as at 31 March 2024.
- <sup>6</sup> Reinsurance across both Australian, US dollar and Japanese yen annuities, of at least ¥50 billion (A\$520m based on the exchange rate as at 30 June 2023) in FY24.
- <sup>7</sup> Based on new business annuity sales, including term annuities and Lifetime annuities, excluding reinvestments and Japanese sales.
- <sup>8</sup> Given the pending sale of the Bank to Heartland, it has been classified as a discontinued operation and excluded from the FY24 guidance range.

# Challenger Limited

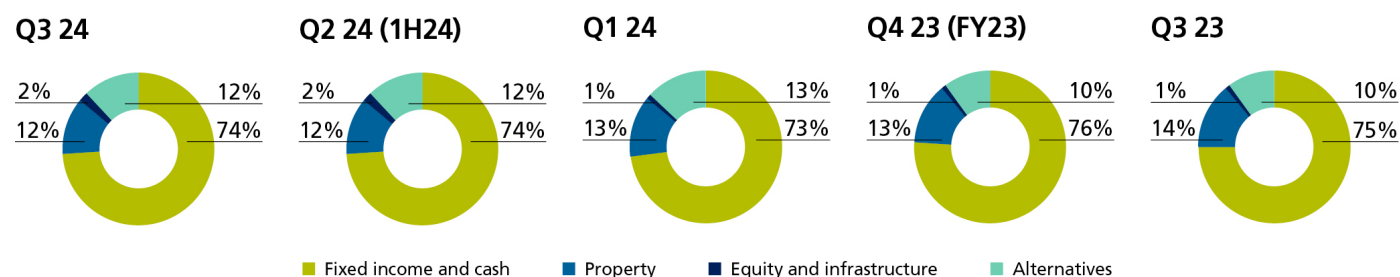
## Assets and Funds Under Management, net flows and sales

### Life quarterly sales and investment assets

\$m	Q3 24	Q2 24	Q1 24	Q4 23	Q3 23
<b>Life sales</b>					
Fixed term sales – 1-year	121	247	260	229	194
Fixed term sales – 2-years or more	271	406	467	327	394
Lifetime sales <sup>1</sup>	202	251	218	187	147
<b>Total retail annuity sales</b>	<b>594</b>	<b>904</b>	<b>945</b>	<b>743</b>	<b>735</b>
Fixed term sales – 1-year	6	12	407	50	9
Fixed term sales – 2-years or more	43	28	34	5	88
Lifetime sales	—	—	619	14	—
<b>Total institutional annuity sales</b>	<b>49</b>	<b>40</b>	<b>1,060</b>	<b>69</b>	<b>97</b>
<b>Total domestic annuity sales</b>	<b>643</b>	<b>944</b>	<b>2,005</b>	<b>812</b>	<b>832</b>
Japan sales	180	206	140	117	212
<b>Total Life annuity sales</b>	<b>823</b>	<b>1,150</b>	<b>2,145</b>	<b>929</b>	<b>1,044</b>
Maturities and repayments	(736)	(1,239)	(1,548)	(807)	(1,583)
<b>Total Life net flows</b>	<b>87</b>	<b>(89)</b>	<b>597</b>	<b>122</b>	<b>(539)</b>
<b>Annuity book growth<sup>2</sup></b>	<b>0.6%</b>	<b>(0.6%)</b>	<b>4.2%</b>	<b>0.9%</b>	<b>(4.0%)</b>
Challenger Index Plus sales	925	1,267	691	1,331	963
Challenger Index Plus maturities and repayments	(841)	(811)	(1,327)	(993)	(933)
<b>Challenger Index Plus flows</b>	<b>84</b>	<b>456</b>	<b>(636)</b>	<b>338</b>	<b>30</b>
<b>Challenger Index Plus net book growth</b>	<b>1.6%</b>	<b>8.7%</b>	<b>(12.1%)</b>	<b>7.7%</b>	<b>0.7%</b>
Total Life sales	1,748	2,417	2,836	2,260	2,007
Total maturities and repayments	(1,577)	(2,050)	(2,875)	(1,800)	(2,516)
<b>Total Life net flows</b>	<b>171</b>	<b>367</b>	<b>(39)</b>	<b>460</b>	<b>(509)</b>
<b>Total Life book growth<sup>2</sup></b>	<b>0.9%</b>	<b>1.9%</b>	<b>(0.2%)</b>	<b>2.5%</b>	<b>(2.8%)</b>
<b>Life investment assets</b>					
Fixed income and cash <sup>3</sup>	18,356	17,877	16,921	17,800	17,506
Property <sup>3</sup>	2,955	2,964	3,060	3,062	3,236
Equity and Infrastructure <sup>3</sup>	422	365	333	291	259
Alternatives	3,121	2,888	2,942	2,385	2,349
<b>Total Life investment assets</b>	<b>24,854</b>	<b>24,094</b>	<b>23,256</b>	<b>23,538</b>	<b>23,350</b>
<b>Average Life investment assets<sup>4</sup></b>	<b>24,473</b>	<b>23,593</b>	<b>23,446</b>	<b>23,600</b>	<b>23,287</b>

- Lifetime sales includes CarePlus, a product that pays income for life and is specifically designed for the aged care market.
- Book growth percentage represents net flows for the period divided by opening book value for the financial year. Book growth calculations prior to adoption of AASB 17 from 1 July 2023 have not been restated.
- Fixed income, property and infrastructure are reported net of debt.
- Average Life investment assets is calculated on a monthly basis.

### Life asset allocation



## Funds Under Management and net flows

\$m	Q3 24	Q2 24	Q1 24	Q4 23	Q3 23
<b>Funds Under Management</b>					
Equities	58,887	52,853	43,914	44,020	40,632
Fixed Income	52,896	52,375	52,007	48,693	49,223
Property <sup>1</sup>	768	787	781	4,036	4,289
Alternatives	1,932	1,579	1,729	1,718	1,600
<b>Total Funds Under Management</b>	<b>114,483</b>	<b>107,594</b>	<b>98,431</b>	<b>98,467</b>	<b>95,744</b>
Fidante	96,778	90,879	81,692	78,075	74,571
Challenger Investment Management <sup>1,2</sup>	17,705	16,715	16,739	20,392	21,173
<b>Total Funds Under Management</b>	<b>114,483</b>	<b>107,594</b>	<b>98,431</b>	<b>98,467</b>	<b>95,744</b>
Institutional <sup>1</sup>	95,997	89,505	80,368	79,894	76,643
Retail	18,486	18,089	18,063	18,573	19,101
<b>Total Funds Under Management</b>	<b>114,483</b>	<b>107,594</b>	<b>98,431</b>	<b>98,467</b>	<b>95,744</b>
Average Fidante	94,168	85,036	80,239	77,145	73,808
Average Challenger Investment Management	17,070	16,739	17,634	20,899	21,014
<b>Total average Funds Under Management<sup>3</sup></b>	<b>111,238</b>	<b>101,775</b>	<b>97,873</b>	<b>98,044</b>	<b>94,822</b>
<b>Analysis of flows</b>					
Equities	515	5,733	663	2,368	617
Fixed income	200	(441)	2,999	(107)	(760)
Property <sup>1</sup>	—	—	(3,254)	(64)	—
Alternatives	303	(130)	33	86	(786)
<b>Total net flows</b>	<b>1,018</b>	<b>5,162</b>	<b>441</b>	<b>2,283</b>	<b>(929)</b>
Fidante	321	5,227	4,265	2,928	(882)
Challenger Investment Management <sup>1</sup>	697	(65)	(3,824)	(645)	(47)
<b>Total net flows</b>	<b>1,018</b>	<b>5,162</b>	<b>441</b>	<b>2,283</b>	<b>(929)</b>
Institutional <sup>1</sup>	1,028	5,625	839	2,750	(652)
Retail	(10)	(463)	(398)	(467)	(277)
<b>Total net flows</b>	<b>1,018</b>	<b>5,162</b>	<b>441</b>	<b>2,283</b>	<b>(929)</b>

1. Q1 24 included \$3,253m FUM derecognition following the sale of Challenger's Australian real estate business to Elanor Investors Group (ASX:ENN).
2. Includes -\$0.8bn of FUM relating to Japanese real estate holdings managed by Challenger Kabushiki Kaisha (CKK) in periods Q3 23 to Q3 24.
3. Average total Funds Under Management calculated on a monthly basis.

## Reconciliation of total Group assets and Funds Under Management

\$m	Q3 24	Q2 24	Q1 24	Q4 23	Q3 23
Funds Management Funds Under Management	114,483	107,594	98,431	98,467	95,744
Life investment assets	24,854	24,094	23,256	23,538	23,349
Adjustments to remove double counting of cross-holdings	(15,572)	(14,563)	(14,247)	(17,278)	(17,555)
<b>Total Assets Under Management<sup>1</sup></b>	<b>123,765</b>	<b>117,125</b>	<b>107,440</b>	<b>104,727</b>	<b>101,538</b>

1. Total Assets Under Management excludes Bank lending and financing assets, which have been held for sale: Q3 24 \$972m, Q2 24 \$346m, Q1 24 \$382m; Q4 23 \$225m; Q3 23 \$322m.