

# Market Release

16 October 2024

## First quarter update

- Group assets under management (AUM) \$128 billion, up 1% for the quarter
- Total Life sales \$2.4 billion
  - Retail lifetime annuity sales \$275 million, up 26%<sup>1</sup>
  - Japanese sales \$244 million, up 74%
  - Challenger Index Plus sales \$1.1 billion, up 55%
  - Fixed term annuity sales \$839 million, down 28%
- Challenger Life strongly capitalised with a PCA ratio of 1.61 times<sup>2</sup>
- Funds Management funds under management (FUM) \$119 billion, up 1% for the quarter

**Challenger Limited (ASX:CGF)** today reported its first quarter AUM, annuity sales and net flows.

Total Life sales were \$2.4 billion driven by strong sales in retail lifetime annuities, Japanese annuities and Challenger Index Plus, and lower fixed term annuity sales. Group AUM was up 1% for the quarter driven by Funds Management FUM growth from positive investment market movements.

Managing Director and Chief Executive Officer, Nick Hamilton said:

“We have maintained momentum in the first quarter, with a strong sales performance across our longer duration lifetime and Japanese annuity products and Challenger Index Plus.

“Term pricing competition through the quarter, which combined with an inverted yield curve, impacted fixed term annuity sales year on year, although, pleasingly, sales are up on the prior quarter.

“Sales activity and market interest remains high and our efforts to drive longer tenor sales remains the focus. Further progress has been made building our pipeline of retirement income partnerships and defined benefit opportunities.

“Challenger continues to execute a range of strategic initiatives that will strengthen and broaden the business.

“Our strategic investment to re-platform the customer registry and technology for the annuity business is progressing to schedule. Once launched, the benefit from making our retirement products easy to access will be essential for our growth strategy. We remain on track to launch this financial year.

“Significant progress has been made to further broaden our credit origination platform. Challenger is already a leader in domestic credit markets and expanding to include servicing whole loans has been a multi-year initiative. The capability is now in place, with flow and block loan opportunities now live. This initiative will provide the Life business attractive risk-adjusted returns and support margins.

“We also announced a partnership with State Street to provide investment administration and custody services that will deliver operating efficiencies and support future growth.

“As more Australians transition to retirement and with the market now developing solutions consistent with their unique needs, we see significant opportunities for Challenger to continue achieving strong growth across our range of retirement income and other investment products”, said Mr Hamilton.

## Challenger Life

Total Life sales decreased 14% to \$2.4 billion, which incorporates the impact of a \$619 million group lifetime annuity policy win in 1Q24. Excluding this, total Life sales increased 10%, driven by exceptional retail lifetime and Japanese (MS Primary) annuity sales growth and strong Challenger Index Plus sales. Retail lifetime annuity sales increased 26% to \$275 million, reflecting continued focus on growing longer tenor sales and increased advisor usage. Demand for guaranteed lifetime income was a standout, with Liquid Lifetime annuity sales increasing 19% to \$117 million and Care Plus sales increasing 32% to \$158 million.

Japanese annuity sales were up strongly increasing 74% to \$244 million.

Retail fixed term annuity sales decreased 22% to \$564 million as Challenger maintained its disciplined approach to pricing shorter duration business. The short duration fixed income market remains competitive and the yield curve inverted.

Institutional sales<sup>3</sup> were \$1.3 billion comprising of higher Challenger Index Plus sales of \$1.1 billion (up 55%) and lower shorter duration institutional term annuity sales of \$275 million (down 38%).

The tenor of new business annuity sales<sup>4</sup> was 5.9 years, which continues to have a positive effect on overall book composition.

Maturities for the quarter represented 8% of opening period annuity liability<sup>5</sup>. As previously announced, Challenger's FY25 maturity rate is expected to be 24% with a greater weighting towards 1H25.

Life book growth was -0.8% for the quarter<sup>6</sup> and includes the impact of maturities from short-term Index Plus and institutional term annuities.

Challenger Life's investment assets as at 30 September 2024 were \$25 billion, in line with the prior quarter.

Challenger Life remains strongly capitalised with a PCA ratio of 1.61 times following the payment of the final 2024 dividend.

## Funds Management

Funds Management FUM was \$119 billion, an increase of \$1.3 billion or 1% for the quarter, benefitting from positive investment market movements.

Fidante's FUM was \$101 billion, an increase of \$1.0 billion or 1% for the quarter. FUM growth for the quarter included positive investment market movements of \$3.4 billion, partially offset by net outflows of \$1.9 billion and client distributions of \$0.5 billion. Net outflows were primarily driven by redemptions of fixed-income mandates.

Challenger Investment Management (CIM) FUM was \$18 billion and increased by \$233 million or 1% for the quarter primarily driven by net flows of \$330 million from third-party clients.

## Strategic partnerships

In September 2024, Challenger announced it entered an agreement to appoint State Street to provide its investment administration and custody services. The agreement supports Challenger's strategy to drive growth through its core strengths in retirement, investment management and asset origination.

Challenger, Fidante and its affiliates will benefit from State Street's advanced technology, capability and scale that integrates front, middle and back-office functions with custody services.

## Outlook

Challenger reaffirms its FY25 normalised net profit after tax guidance of between \$440 million and \$480 million.

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 and an APRA-regulated Life division. Challenger Life Company Limited (Challenger Life) is Australia's largest provider of annuities.

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- <sup>1</sup> All commentary compares the September 2024 quarter against the September 2023 quarter (the prior corresponding period or pcp), unless otherwise stated.
- <sup>2</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 30 September 2024.
- <sup>3</sup> Institutional sales include institutional fixed term annuity sales, institutional lifetime annuity sales and Challenger Index Plus.
- <sup>4</sup> Based on new business annuity sales, including term annuities and Lifetime annuities, excluding reinvestments.
- <sup>5</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 \$18.2 billion.
- <sup>6</sup> Book growth percentage represents net flows for the period divided by opening book value for the financial year.

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# Challenger Limited

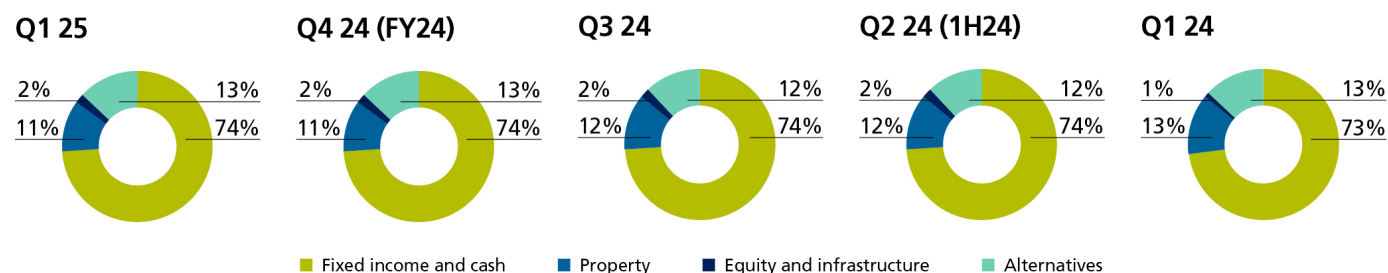
## Assets and Funds Under Management, net flows and sales

### Life quarterly sales and investment assets

\$m	Q1 25	Q4 24	Q3 24	Q2 24	Q1 24
<b>Life sales</b>					
Fixed term sales – 1-year	204	161	121	247	260
Fixed term sales – 2-years or more	360	319	271	406	467
Lifetime sales <sup>1</sup>	275	230	202	251	218
<b>Total retail annuity sales</b>	<b>839</b>	<b>710</b>	<b>594</b>	<b>904</b>	<b>945</b>
Fixed term sales – 1-year	275	153	6	12	407
Fixed term sales – 2-years or more	—	22	43	28	34
Lifetime sales	—	—	—	—	619
<b>Total institutional annuity sales</b>	<b>275</b>	<b>175</b>	<b>49</b>	<b>40</b>	<b>1,060</b>
<b>Total domestic annuity sales</b>	<b>1,114</b>	<b>885</b>	<b>643</b>	<b>944</b>	<b>2,005</b>
Japan sales	244	183	180	206	140
<b>Total Life annuity sales</b>	<b>1,358</b>	<b>1,068</b>	<b>823</b>	<b>1,150</b>	<b>2,145</b>
Maturities and repayments	(1,538)	(884)	(736)	(1,239)	(1,548)
<b>Total Life net flows</b>	<b>(180)</b>	<b>184</b>	<b>87</b>	<b>(89)</b>	<b>597</b>
<b>Annuity book growth<sup>2</sup></b>	<b>(1.2%)</b>	<b>1.3%</b>	<b>0.6%</b>	<b>(0.6%)</b>	<b>4.2%</b>
Challenger Index Plus sales	1,072	1,065	925	1,267	691
Challenger Index Plus maturities and repayments	(1,057)	(1,042)	(841)	(811)	(1,327)
<b>Challenger Index Plus flows</b>	<b>15</b>	<b>23</b>	<b>84</b>	<b>456</b>	<b>(636)</b>
<b>Challenger Index Plus net book growth</b>	<b>0.3%</b>	<b>0.4%</b>	<b>1.6%</b>	<b>8.7%</b>	<b>(12.1%)</b>
Total Life sales	2,430	2,133	1,748	2,417	2,836
Total maturities and repayments	(2,595)	(1,926)	(1,577)	(2,050)	(2,875)
<b>Total Life net flows</b>	<b>(165)</b>	<b>207</b>	<b>171</b>	<b>367</b>	<b>(39)</b>
<b>Total Life book growth<sup>2</sup></b>	<b>(0.8%)</b>	<b>1.0%</b>	<b>0.9%</b>	<b>1.9%</b>	<b>(0.2%)</b>
<b>Life investment assets</b>					
Fixed income and cash <sup>3</sup>	18,293	18,334	18,356	17,877	16,921
Property <sup>3</sup>	2,669	2,762	2,955	2,964	3,060
Equity and Infrastructure <sup>3</sup>	470	448	422	365	333
Alternatives	3,084	3,167	3,121	2,888	2,942
<b>Total Life investment assets</b>	<b>24,516</b>	<b>24,711</b>	<b>24,854</b>	<b>24,094</b>	<b>23,256</b>
<b>Average Life investment assets<sup>4</sup></b>	<b>24,754</b>	<b>24,776</b>	<b>24,473</b>	<b>23,593</b>	<b>23,446</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.
- 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	Q1 25	Q4 24	Q3 24	Q2 24	Q1 24
<b>Funds Under Management</b>					
Equities	67,546	63,988	58,887	52,853	43,914
Fixed Income	48,414	50,815	52,896	52,375	52,007
Property	792	735	768	787	781
Alternatives	1,936	1,870	1,932	1,579	1,729
<b>Total Funds Under Management</b>	<b>118,688</b>	<b>117,408</b>	<b>114,483</b>	<b>107,594</b>	<b>98,431</b>
Fidante	101,128	100,081	96,778	90,879	81,692
Challenger Investment Management <sup>1</sup>	17,560	17,327	17,705	16,715	16,739
<b>Total Funds Under Management</b>	<b>118,688</b>	<b>117,408</b>	<b>114,483</b>	<b>107,594</b>	<b>98,431</b>
Institutional	100,529	99,396	95,997	89,505	80,368
Retail	18,159	18,012	18,486	18,089	18,063
<b>Total Funds Under Management</b>	<b>118,688</b>	<b>117,408</b>	<b>114,483</b>	<b>107,594</b>	<b>98,431</b>
Average Fidante	101,869	96,419	94,168	85,036	80,239
Average Challenger Investment Management <sup>1</sup>	17,605	17,592	17,070	16,739	17,634
<b>Total average Funds Under Management<sup>2</sup></b>	<b>119,474</b>	<b>114,011</b>	<b>111,238</b>	<b>101,775</b>	<b>97,873</b>
<b>Analysis of flows</b>					
Equities	1,148	5,029	515	5,733	663
Fixed income	(2,711)	(1,564)	200	(441)	2,999
Property <sup>3</sup>	—	29	—	—	(3,254)
Alternatives	39	(35)	303	(130)	33
<b>Total net flows</b>	<b>(1,524)</b>	<b>3,459</b>	<b>1,018</b>	<b>5,162</b>	<b>441</b>
Fidante	(1,854)	3,594	321	5,227	4,265
Challenger Investment Management <sup>3</sup>	330	(135)	697	(65)	(3,824)
<b>Total net flows</b>	<b>(1,524)</b>	<b>3,459</b>	<b>1,018</b>	<b>5,162</b>	<b>441</b>
Institutional	(1,412)	3,787	1,028	5,625	839
Retail	(112)	(328)	(10)	(463)	(398)
<b>Total net flows</b>	<b>(1,524)</b>	<b>3,459</b>	<b>1,018</b>	<b>5,162</b>	<b>441</b>

1. Includes ~\$0.8bn of FUM relating to Japanese real estate holdings managed by Challenger Kabushiki Kaisha (CKK) in periods Q1 24 to Q1 25.
2. Average total Funds Under Management calculated on a monthly basis.
3. Q1 24 \$3,253m FUM derecognition following the sale of Challenger's Australian real estate business to Elanor Investors Group (ASX:ENN).

## Reconciliation of total Group assets and Funds Under Management

\$m	Q1 25	Q4 24	Q3 24	Q2 24	Q1 24
Funds Management Funds Under Management	118,688	117,408	114,483	107,594	98,431
Life investment assets	24,516	24,711	24,854	24,094	23,256
Adjustments to remove double counting of cross-holdings	(14,805)	(14,997)	(15,572)	(14,563)	(14,247)
<b>Total Assets Under Management<sup>1</sup></b>	<b>128,399</b>	<b>127,122</b>	<b>123,765</b>	<b>117,125</b>	<b>107,440</b>

1. Total Assets Under Management excludes Bank lending and financing assets, which was sold in April 2024. Q3 24 - \$972m, Q2 24 - \$346m, Q1 24 - \$382m.

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