INVESTOR BUSINESS UPDATE

18 June 2013, Sydney – Challenger Limited (ASX: CGF) will be holding an investor business update commencing at 2pm today. The presentation material is attached.

The investor briefing will be webcast and can be accessed at www.challenger.com.au

ENDS
Introduction

Brian Benari
Managing Director and Chief Executive Officer
Outline

Global trends in retirement income
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
Challenger Vision and Strategy

Our Vision
Provide Australians with financial security in retirement

Our Strategy
Increase the Australian retirement savings pool allocation to secure and lifetime income products

Our Strategy
Be recognised as the leader in retirement income solutions in Australia

Our Strategy
Be an active investment manager providing superior returns from Fidante Partners and Aligned Investments
Global trends in retirement income

Jeremy Cooper
Chairman, Retirement Income
Key points
Global trends in retirement income

1. **Expert opinion**
   - Supports partial annuitisation for most retirees

2. **Re-assumption of some risks in retirement seems inevitable**
   - This is what US and UK trends are telling us

3. **OECD principles for good DC pension design**
   - Australia well positioned, but more to do in retirement

4. **Global demographic trends**
   - All point to retirement

5. **Priorities in retirement**
   - “Don’t talk to me about taking risks”
In conclusion, more than 50 articles discuss the optimal timing of annuitization, and although authors, papers and models provide different conclusions, the main result seems to be that at some advanced age - perhaps as early as 60 or as late as 80 – most consumers should have some of their wealth in life annuities.
US retirement income market
Increasingly signalling trends here

• Similar demographic trends
  – 10,000 baby boomers retiring every day

• 401(k) plans showing signs of strain
  – GAO\(^1\) – querying DC drawdown without annuities
  – Qualified Lifetime Annuity contracts now exempt from minimum drawdown
  – $3m cap on ‘qualified’ retirement savings (remarkably similar to Australia’s move)

• Emerging market in deferred income annuities off a low base with strong growth
  – Q1 2013 sales up 150% on Q1 2012

• Increasing symmetry between US and Australian systems

UK retirement income market
Annuities still a big part of the story

- UK has **not** completely abandoned compulsory annuitisation
  - Retirees must first have £20,000 in annual pension or annuity income and only then are they free to move to non-annuitised drawdowns
  - Annuities market £12 billion annually
  - Established annuities market with multiple product providers

- **Under consideration**
  - ‘Defined Ambition’ pension schemes – blend of DB and DC schemes
  - ‘Money safe’ pensions – getting your money back no matter what

- National Employment Savings Trust - pre-retirement default phase managed toward annuitisation
# OECD principles of good DC design

Australia well positioned, but more to do in retirement

<table>
<thead>
<tr>
<th>#</th>
<th>Principle</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Consider overall pension system</td>
<td>Green</td>
</tr>
<tr>
<td>2</td>
<td>Encourage people to enrol and to contribute for long periods</td>
<td>Green</td>
</tr>
<tr>
<td>3</td>
<td>Improve incentives to save for retirement</td>
<td>Green</td>
</tr>
<tr>
<td>4</td>
<td>Promote low-cost retirement savings instruments</td>
<td>Green</td>
</tr>
<tr>
<td>5</td>
<td>Appropriate default strategies while providing choice</td>
<td>Green</td>
</tr>
<tr>
<td>6</td>
<td>Establish default life-cycle strategies</td>
<td>Green</td>
</tr>
<tr>
<td>7</td>
<td>Encourage annuitisation for retirement phase</td>
<td>Red</td>
</tr>
<tr>
<td>8</td>
<td>Promote supply / competition in annuity market</td>
<td>Red</td>
</tr>
<tr>
<td>9</td>
<td>Develop means to deal with longevity risk</td>
<td>Red</td>
</tr>
<tr>
<td>10</td>
<td>Ensure effective communication and address financial illiteracy</td>
<td>Green</td>
</tr>
</tbody>
</table>

Source: OECD principles of good DC design June 2012. Assessment (green, amber, red) represents Challenger’s view on how Australia scores against these principles.

- **Three areas identified where Australia’s pension system is weak**
  - #7 Encourage annuitisation for retirement phase
  - #8 Promote supply / competition in annuity market
  - #9 Develop means to deal with longevity risk
Australian demographic trends

Baby boomers starting to retire and control the super assets

- About 600 Australian baby boomers retire each day
- Over $900bn (>60%) of super assets are controlled by the boomer segment
- In retirement allocation to fixed income needs to increase to reduce investment volatility
- Australia has a very low allocation to fixed income assets
- Challenger is perfectly placed for these trends

Priorities in retirement
What do Australian retirees really want?

• National Seniors Australia research shows retirees focused on
  − health
  − longevity risk
  − peace of mind
  − inflation protection

• The most dramatic findings relate to risk aversion

• Retirees are much more risk averse than the industry realises

Priorities in retirement

“Don’t talk to me about taking risks”

• More than 75% of over 50s would rather a 5% return guaranteed for life, than a 6% return that, on average, would not last their whole lifetime

• Over 37% of over 50s say they cannot tolerate any losses and only 13% say they would tolerate a loss of 5% or more in any one year

• 52% would not make a $1,000 investment with a 50% chance of losing $1,000 no matter what the upside potential

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2. Approximately 20% of survey respondents did not answer this question.
Key points
Global trends in retirement income

1. Expert opinion
   Supports partial annuitisation for most retirees

2. Re-assumption of some risks in retirement seems inevitable
   This is what US and UK trends are telling us

3. OECD principles for good DC pension design
   Australia well positioned, but more to do in retirement

4. Global demographic trends
   All point to retirement

5. Priorities in retirement
   “Don’t talk to me about taking risks”
Distribution Product and Marketing

Paul Rogan
Chief Executive, Distribution Product and Marketing
Key points
Distribution, Product and Marketing capability a core strength

1 Leadership
Recognised as the leader in retirement income solutions in Australia

2 Product innovation
Proven success in retirement incomes product innovation

3 Distribution - Life
Increasing Australian retirement allocation to secure income products

4 Distribution – Funds Management
Track record of achieving sustained strong net flows
Leadership in retirement incomes
Thought leadership driving differentiation

- Thought leadership supports our differentiated brand positioning as retirement income specialist
- Engaging channel partners on a non-product basis
  - retirement income research
  - investing in retirement income planning accreditation programmes for advisers
  - Challenger delivering ‘masterclass’ workshops to up-skill advisers
    - Aged Care (available)
    - Portfolio construction in Retirement (imminent)

18 retirement income research papers issued in the last 18 months
Leadership in retirement incomes

Developing robust portfolio guidelines

- Developed retirement income portfolio construction guidelines with Mercer
- Objective is to improve researchers and advisers understanding of how retirement portfolios can be designed to improve retirement outcomes
- Based on solving the retirees ‘trilemma’ of balancing competing needs for income, capital access and longevity protection
- Demonstrates value of partial annuitisation for the majority of advisers clients
  - actively insulates growth assets within a retirees portfolio
**Brand leadership**

Clear leader in retirement incomes amongst advisers

- Challenger’s strategic objective is to be recognised as the leader in retirement income solutions
- Strong brand and reputation is critical when dealing with retiree’s savings
- Advisers consistently rate Challenger as the leader in retirement incomes
- ~45% of advisers say they are getting enquiries from clients about annuities

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**Advisers**

This company is a leader in providing retirement income products – Best 5 companies (prompted)

![Chart showing percentage of advisers rating Challenger as leader in retirement incomes from Apr-10 to Dec-12](chart.png)

1. Marketing Pulse Adviser study.
Leadership

Brand leadership

Brand equity with consumers materially increased

• Challenger’s strategic objective is to be recognised as the leader in retirement income solutions

• Brand objectives
  Phase one (2011-2013) – ‘Real Stories’ – empathy
    - Aim: increase awareness of brand, associate with retirement/annuities
    - Strategy: ‘real stories’ to convey empathy, annuities positioned as safe haven
    - 40% - 95% improvement in consumer recall of Challenger brand in just 2 years
  Phase two (2013 - 2014) – education
    - Aim: grow awareness of brand and product, educate consumer on benefits
    - Strategy: creatively educate, position as retirement income solution

Consumers¹
Before today, had you heard of a company called Challenger?

1. Newspoll online survey.

13% 16% 19% 17% 25% 33% 20% 23% 36% 33% 34%

Sweet spot
Core retirement income strategies

Retirement outcomes improve with income layering

- Retirement is different!
  - maximising ‘nest egg’ in accumulation
  - having a ‘pay cheque’ in retirement to live on
  - risks in retirement include market, inflation and longevity

- Retirees
  - generally very risk adverse
  - want certainty and control

- Retiree’s goals best met by layering assets within portfolios to secure income needs

- Annuities
  - protect savings from retirement risks
  - provide regular, safe, secure, reliable income payments

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1. The Association of Superannuation Funds of Australia (ASFA) is the peak industry body for the superannuation sector.
2. Age pension is income support provided by the Australian government and is subject to income and asset tests.
Innovation
Proven success in retirement income innovation

- Launched a series of award winning products in recent years
  - Guaranteed Income Fund
  - Guaranteed Pension Fund
  - Liquid Lifetime
  - Care Annuity

- Innovation in products and advice tools is reinventing the Australian annuities market, which is driving increased sales of longer duration products

- Challenger’s calculators and e-quote adviser tools demonstrate robust retirement income portfolio construction in various market conditions
Innovation
Liquid Lifetime – regular and secure income for life

- Traditional lifetime annuities have existed for decades. Post the Asset Test Exemption changes in 2004 the market for lifetime annuities deteriorated
- Without policy support lifetime annuities had a major consumer sales barrier – ‘what if I get hit by a bus tomorrow’
- Challenger’s innovation was a new annuity providing liquidity certainty
  - Liquid Lifetime offers up to 100% capital repayment in first 15 years
  - including in event of death or just the need for access to capital
  - whilst providing peace of mind security by protecting against retirees’ longevity, market and inflation risks
- Liquid Lifetime sales are growing strongly
  - 1H13 was 240% up from 2H12

Liquid Lifetime example

1. Illustration is indicative only. Based on product features as at 18 June 2013 and assumes 3% inflation.
2. Source: Plan for Life industry lifetime annuity sales.
Innovation

Care Annuity – investing for aged care .... a new solution

- Care Annuity leverages features of Liquid Lifetime
- Care Annuity optimises social security outcomes and reduces aged care facility fees
- Superior to alternative products
- Technical advice strategies drive client benefits
- Representation on APL’s of all major hubs
- Care Annuity sales are growing strongly
  - $29m in Q313
- FY13 total Lifetime sales (Liquid Lifetime and Care Annuity) ~$240m

**Aged care comparison**

<table>
<thead>
<tr>
<th></th>
<th>Term Deposit</th>
<th>Challenger Care Annuity</th>
<th>Aged care comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduces income tested aged care fees</td>
<td>✗</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Age pension friendly</td>
<td>✗</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Eligibility for Seniors Card</td>
<td>✗</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Ease of administration</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Tax free income for seniors</td>
<td>✗</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Provides known withdrawal benefit</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Provides cash flow to pay fees</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Guaranteed income/return</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

**Benefits of Care Annuity – worked example (as at May 2013)**

<table>
<thead>
<tr>
<th>Item</th>
<th>Term Deposit</th>
<th>Challenger Care Annuity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest / income received (pa)</td>
<td>$15,750</td>
<td>$15,750</td>
</tr>
<tr>
<td>Note: Interest / income received for social security purposes²</td>
<td>$13,319</td>
<td>$0</td>
</tr>
<tr>
<td>Mary’s aged pension received (pa)³</td>
<td>$16,335</td>
<td>$20,316</td>
</tr>
<tr>
<td>Income tested nursing home fees paid (pa)</td>
<td>($1,952)</td>
<td>$0</td>
</tr>
<tr>
<td>Total received (pa)</td>
<td>$30,133</td>
<td>$36,066</td>
</tr>
<tr>
<td>Benefit in first year⁴</td>
<td></td>
<td>$5,933</td>
</tr>
</tbody>
</table>

1. Challenger Care Annuity - $350,000 paying annual payments equivalent to 4.5% for life.
2. Term deposit - social security income based on deeming rules. Care Annuity - social security income of $15,750 (i.e. $350,000 @ 4.5%) less social security deductible amount ($30,837).
3. Term deposit - maximum aged pension of $21,018 less $4,683 (as calculated under social security system). Care Annuity – maximum aged pension of $21,018 less $702 (as calculated under social security system).
4. Benefit in the first year represents 1.7% on $350,000 investment.
Innovation

Challenger’s next innovation – DLAs

Deferred Lifetime Annuities (DLAs)

- Government announcements\(^1\) are positive
  - government to encourage take up
  - confirmed that during deferral period income will not be taxed
  - same concessional tax treatment as superannuation assets supporting income streams

- Expected key DLA features
  - purchased at or near retirement
  - income paid for life from an agreed deferred date (say 10 or 20 years)
  - provides security of additional income layer above the aged pension which is free of market, inflation and longevity risk

- Initial DLA concept design has been tested with advisers

- Industry funds offer significant potential

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1. Federal Governments 5 April 2013 superannuation reforms announcement.
Distribution footprint – Life retail
Specialist team assisting advisers

- Challenger’s retail annuity sales
  - 98% via retail advisers
  - Footprint reflects the market
- Challenger has a team of 35 specialist BDMs focused on a range of retirement solutions
  - 1,000+ advisers attended Challenger workshops since June 2012
- Adviser business processes supported by e-quote software and array of online tools & client reporting
- Significant analytics capability
  - 400-500 advisers use e-quote each week
  - drives further sales and process improvements

Distribution footprint – Life retail
Challenger’s capability is highly ranked

Wealth Insights 2013 Service Level Report Fund Managers

BDM support

Technical support

Adviser service

IT/Web functionality
Distribution footprint – new channels

Opportunities to expand

- FoFA presents opportunities to expand advice channels via scaled advice
  - currently piloting aged care advice with a specialist scaled advice provider
- White labelling alliances (eg Bendigo)
- Industry Funds actively considering retirement incomes strategies and solutions
  - QSuper white label commenced in March 2013
  - further opportunities to expand white label offering
- New channels take time to build sales volumes given consumer education and adviser training
Distribution footprint – Funds Management

Track record of strong net flows

- Brand strategy
  - Fidante Partners umbrella brand supporting a portfolio of alpha focused investment managers
  - Challenger brand for Aligned Investments with absolute return focus
- Delivering alignment for investors
- Net flows driven by
  - quality investment managers
  - strong investment performance
  - highly regarded Distribution, Product and Marketing teams
- Net flows dominated by institutional channel

Key points
Distribution, Product and Marketing capability a core strength

1 Leadership
Recognised as the leader in retirement income solutions in Australia

2 Product innovation
Proven success in retirement incomes product innovation

3 Distribution - Life
Increasing Australian retirement allocation to secure income products

4 Distribution – Funds Management
Track record of achieving sustained strong net flows
Life

Richard Howes
Chief Executive, Life
Key points

1. Risk management
   Hedge unwanted risks, robust controls on retained risks

2. Investment portfolio
   Philosophy of liability matching, relative value and return on capital

3. Fixed income
   High grade portfolio with investment continuing to meet RoE targets

4. Property
   Annuity sales mix afford conservative properties meeting RoE targets

5. Life insurance risk
   Opportunities to enhance return on capital
Risk management framework
Robust controls and governance process

- Risks separated into those retained and those hedged
- Robust governance process
  - delegated dealing authorities from Board down
  - Board risk policies and oversight
  - Asset and Liability Committee (ALCO)
  - Chief Risk Officer with direct access to the Board
  - separate Credit Risk Management function
  - detailed performance attribution process

Risk universe

- Risks that provide return for risk
  Life may seek these risks subject to appropriate return and absolute risk quantum
  Credit risk
  Property risk
  Life Insurance risk
  Infrastructure risk
  Equity risk
  Liquidity risk

- Risks that do not provide return for risk
  Life minimises its exposure to these risks
  Foreign exchange risk
  Licence risk
  Inflation risk
  Operational risk

Challenger Limited Board
- Other Board Committees
- Group Risk & Audit Committee
- Executive Risk Management Committee
  All risks including financial risks (market, credit, and liquidity)

Challenger Life Company Board
- Life Risk & Audit Committee
- Asset Liability Committee
  Covers mainly financial risks

Trustee/Responsible Entity/Subsidiary Boards
- Audit & Compliance Committees (as appointed)
- Investment Committees
  Covers mainly financial risks

Chief Risk Officer
- Executive Risk Management

Appointed Actuary
- Risk & Actuarial

Life Insurance risk
Credit risk
Liquidity risk
Property risk
Infrastructure risk
Equity risk

Life

33
Financial risk management

Unwanted risks hedged

- Assets and liabilities matched
  - assets and liabilities cash flow matched
  - locking in COE earnings over term as business is written
  - assets and liabilities continuously marked to market

- Risks that do not generate returns hedged
  - interest rates hedged
  - FX hedged
  - inflation hedged
Financial risks retained
Delivering risk premium within robust limits

- **Credit, Property, Infrastructure and Equity risks selectively retained**
  - asset classes and assets evaluated against RoE hurdles based on forward looking risk premium assessment
  - experienced specialist portfolio teams managing diversified portfolio of ~1,000 individual investments

- **Risks retained within comprehensive limit structure**
  - Board approved plan constrains asset allocation
  - country, rating band and counterparty limits constrain fixed income and tenancy exposures
  - capital based limits constrain aggregate sector exposures across asset classes

- **S&P rating at ‘A’**
  - very strong financial risk profile
  - Challenger capital levels are commensurate with AAA score on insurance capital model
  - overall rating reflects business concentration and scale

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1. As at 31 March 2013.
Investment Portfolio Construction
Asset allocation reflects relative value to meet RoE target

- **Approach**
  - assets delivering contracted cash flows to back policy liabilities
  - primary asset classes
    - fixed income
    - property
  - infrastructure and equities provide diversification and capital efficiency
  - Assets managed by highly regarded specialist teams

- **Return on Equity** key metric driving asset allocation
  - equity requirement of each asset driven by risk

- Asset allocation evolves to reflect
  - relative value
  - annuity maturity profile

1. Challenger based on external data.
Fixed income
High quality diversified portfolio - 84% IG

- Domestic corporate credit (29%)
- Offshore corporate credit (7%)
- Domestic asset backed securities (21%)
- Offshore asset backed securities (13%)
- Cash and equivalents (6%)
- Alternative finance (2%)
Fixed income

Corporate credit

- Senior Secured Bank Loans
- Sovereigns and Supranationals
- Banks and Financials
- Commercial Real Estate Lending
- Non-Financial Corporate Lending

Corporate credit – recent opportunities

<table>
<thead>
<tr>
<th>Sydney airport</th>
<th>Ingham</th>
<th>Spencer St Station PPP</th>
<th>Snr loan on Melbourne A-grade office</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating</td>
<td>Rating</td>
<td>Rating</td>
<td>Rating</td>
</tr>
<tr>
<td>BBB</td>
<td>BBB</td>
<td>A+</td>
<td>BBB-</td>
</tr>
<tr>
<td>Duration</td>
<td>Duration</td>
<td>Duration</td>
<td>Duration</td>
</tr>
<tr>
<td>7 years</td>
<td>5 years</td>
<td>8.4 years</td>
<td>5 year</td>
</tr>
<tr>
<td>Margin</td>
<td>Margin</td>
<td>Margin</td>
<td>Margin</td>
</tr>
<tr>
<td>3.75%</td>
<td>4.25%</td>
<td>2.70%</td>
<td>3.60%</td>
</tr>
<tr>
<td>Trade date</td>
<td>Trade date</td>
<td>Trade date</td>
<td>Trade date</td>
</tr>
<tr>
<td>current</td>
<td>Jun 13</td>
<td>Current</td>
<td>Jun 13</td>
</tr>
<tr>
<td>RoE</td>
<td>RoE</td>
<td>RoE</td>
<td>RoE</td>
</tr>
<tr>
<td>21%</td>
<td>25%</td>
<td>21%</td>
<td>24%</td>
</tr>
</tbody>
</table>
Fixed income
Asset Backed Securities (ABS)

ABS – recent opportunities

<table>
<thead>
<tr>
<th>Pepper securitisation</th>
<th>Flexigroup securitisation</th>
<th>Members Equity securitisation</th>
<th>Paragon UK securitisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating</td>
<td>AA</td>
<td>Rating</td>
<td>AAA - BB</td>
</tr>
<tr>
<td>Collateral</td>
<td>Residential mortgages</td>
<td>Collateral</td>
<td>Consumer receivables</td>
</tr>
<tr>
<td>Margin</td>
<td>2.40%</td>
<td>WA Margin</td>
<td>&gt;2.75%</td>
</tr>
<tr>
<td>Trade date</td>
<td>Apr 2013</td>
<td>Trade date</td>
<td>Aug 2012</td>
</tr>
<tr>
<td>RoE</td>
<td>26%</td>
<td>RoE</td>
<td>&gt;30%</td>
</tr>
</tbody>
</table>
Property

Conservative properties meeting RoE targets

- Annuity sales mix affords investment in conservative properties
- Australian property portfolio
  - 72% of tenants AAA rated
  - 88% of leases have fixed increases or CPI adjustments
  - WALE 7.2 years
  - cap rate 8.2%
- Properties independently revalued annually
- Example – Liquid Lifetime cash flows backed by existing property (Discovery House, ACT)

Assumptions:
1. Discovery house property cap rate 8.0%.
2. Assumes lease renewed.
Life Risk

Opportunities to enhance return on capital

• **Longevity Risk**
  - Liquid Lifetime and Care Annuity sales continue to build
  - Life has been monitoring global longevity markets for several years
  - longevity generates attractive RoE under new capital standards
    • under previous capital standards retaining longevity risk was uneconomic

• **Mortality Risk**
  - experience in mortality rate linked investments
  - opportunity to further improve capital efficiency
  - appetite will follow build-up of longevity risk
  - attractive RoE

• **Platform**
  - history in managing and reinsuring longevity risk
  - expert actuarial team
  - risk limits and exposures overseen by ALCO and Board
Key points

1. Risk management
   Hedge unwanted risks, robust controls on retained risks

2. Investment portfolio
   Philosophy of liability matching, relative value and return on capital

3. Fixed income
   High grade portfolio with investment continuing to meet RoE targets

4. Property
   Annuity sales mix afford conservative properties meeting RoE targets

5. Life insurance risk
   Opportunities to enhance return on capital
Funds Management

Rob Woods
Chief Executive, Funds Management
Key points
A clear strategy and growing strongly

1. Investor alignment is key to our strategy
   Both businesses have been repositioned to maximise alignment

2. Platform is highly diversified and scalable
   Institutional platform with quality investment managers

3. Business offers numerous strategic benefits
   Complements Challenger Life

4. Track record of achieving strong growth
   FUM growth replacing legacy business
Fidante Partners – FUM of $26.4bn

Strong alignment of interests in contemporary model

- Model aligns interests between Investment Principals, Fidante Partners and Investors
- Long term partnership provides the necessary stability and confidence to develop and grow a boutique
- Key agreements
  - Shareholder
  - Distribution
  - Administration
  - Employment
- Average income margin 37 bps at the boutique level with Fidante Partners share 18 bps
- Average equity ownership ~40%

1. FUM as at 31 March 2013.
2. Margin for six months to 31 December 2012.
Fidante Partners
Institutional platform with Boutique investment management expertise

Administration services
team of 78
- Our platform manages all of Challenger’s assets and liabilities
- Investment operations
- Client operations
- Compliance
- IT infrastructure
- Finance
- Human Resources
- Company secretarial
- Facilities

Distribution services
team of 31
- $3.9bn of net flows for nine months to March 2013 with a strong pipeline
- Asset consultant & researcher relationships
- Strategic positioning
- Product development & management
- Brand development & marketing support
- Sales planning & execution
- Investor relationships
- Client service
- Responsible entity

Partnership
team of 4
- Equity participation (non-controlling interest)
- Business planning, budgeting, strategic development, succession planning
Aligned Investments – FUM of $11.4bn\(^1\)
Providing alignment of interests between Challenger Life and Institutional clients

Institutional clients co-investing with Life in absolute return strategies

Focus
- Investment professionals look for relative value
  - risk adjusted
  - regular cash flows
- Adopts an APRA regulated investment thesis
- Contemporary and tailored products

Expertise in asset classes
- Fixed income
- Property
- Infrastructure
- Asset Backed Securities (ABS)

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1. FUM as at 31 March 2013.
Aligned Investments
Providing alignment of interests between Challenger Life and Institutional clients

- Trusted partner for institutional clients
  - no conflicts
  - local relationships
  - asset origination capability
  - proven track record
  - strong execution
  - excellent client service

- Large domestic and international clients
  - Sovereign wealth
    - eg $600m transaction with Federation Centres
  - Domestic super funds
    - eg AustralianSuper
  - International funds
    - eg Hines property transactions

- Goal is to deepen and broaden “blue-chip” client relationships

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1. FUM as at 31 March 2013.

### Aligned Investments - FUM composition

<table>
<thead>
<tr>
<th>Month</th>
<th>Institutional</th>
<th>Challenger Life Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-09</td>
<td>14</td>
<td>2</td>
</tr>
<tr>
<td>Jun-10</td>
<td>12</td>
<td>1</td>
</tr>
<tr>
<td>Dec-10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>Jun-11</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Dec-11</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Jun-12</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Dec-12</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Mar-13</td>
<td>0</td>
<td>2</td>
</tr>
</tbody>
</table>

### Aligned Investments – Institutional client FUM

<table>
<thead>
<tr>
<th>Category</th>
<th>Mandate size</th>
<th>Investment amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sovereign wealth</td>
<td>1.0</td>
<td>5.9</td>
</tr>
<tr>
<td>Domestic super funds</td>
<td>2.0</td>
<td>4.8</td>
</tr>
<tr>
<td>International funds</td>
<td>1.0</td>
<td>4.8</td>
</tr>
<tr>
<td>Other</td>
<td>0.9</td>
<td>4.8</td>
</tr>
<tr>
<td>Total</td>
<td>5.9</td>
<td>4.8</td>
</tr>
</tbody>
</table>

1. FUM as at 31 March 2013.
Platform is highly diversified and scalable – FUM of $37.8bn\(^1\)

Growth from existing strategies and new investment managers

1. FUM as at 31 March 2013.
Business offers numerous strategic benefits
Complements Challenger Life

- **Strategy**
  - business provides investment solutions in both the accumulation and retirement phases

- **Capital light**
  - business has low capital intensity

- **Transparency**
  - Funds Management provides Life with greater transparency over investment process (manages two thirds of Life’s assets)

- **Synergies**
  - revenue - Institutional clients provide scale for our investment teams
  - expense - significant operational, distribution and management synergies
Track record of achieving strong growth
FUM growth replacing legacy business

- Composition of FUM and revenue is very different to four years ago
- New revenue streams are growing and have replaced legacy revenues
- FUM priced at contemporary market levels
- Howard Mortgage Fund the only outstanding legacy product (FUM of $450m)¹

¹ FUM as at 31 March 2013.
Track record of achieving strong growth
Australia’s 9th largest Fund Manager

- Australia’s 9th largest fund manager with $37.8bn of FUM\(^1\), up from 19th largest two years ago
- FUM now over $40bn
- Fastest growing manager amongst peers with FUM growth of 38% pa CAGR over the last two years
- Growth is predominantly organic with nominal investment spend added to the balance sheet
- Strong investment performance is a function of focus and alignment
- Cost to income ratio is falling and RoE improving as scale benefits are realised

\(^1\) FUM as at 31 March 2013.
\(^2\) Source: Rainmaker Roundup - December 2012.
\(^3\) Investment performance - % of funds meeting or exceeding benchmark – April 2013.
Key points
A clear strategy and growing strongly

1. Investor alignment is key to our strategy
   Both businesses have been repositioned to maximise alignment

2. Platform is highly diversified and scalable
   Institutional platform with quality investment managers

3. Business offers numerous strategic benefits
   Complements Challenger Life

4. Track record of achieving strong growth
   FUM growth replacing legacy business
Wrap up

Brian Benari
Managing Director and Chief Executive Officer
Key points
Providing Australians with financial security in retirement

1. Global trends in retirement income
   Challenger well positioned to capture Australian opportunity

2. Distribution Product and Marketing
   Building value through brand, product innovation and thought leadership

3. Life
   Strong risk management and high quality asset portfolio generating long term sustainable earnings

4. Funds management
   Complementary and scalable business growing strongly

5. FY13 guidance
   Retail net book growth ~7.5%, including ~$240m of Lifetime sales
   Life COE at upper end of $440m to $450m range
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