

CHALLENGER ANNOUNCES FY21 RESULTS IN LINE WITH EXPECTATIONS POSITIONED FOR STRONG GROWTH IN FY22

Record sales growth and successful diversification strategy driving strong business momentum

- Group assets under management (AUM) \$110 billion, up 29%
- Life book growth 14%
- Funds Management net flows \$16 billion
- Bank acquisition to extend customer reach and accelerate medium-term growth

Profit within guidance range

- Normalised net profit before tax (NPBT) \$396 million¹, reflects proactive decision to maintain more defensive portfolio settings during pandemic
- Statutory net profit after tax \$592 million, including positive investment experience

Strong capital position

- \$1.6 billion of Challenger Life Company Limited (Challenger Life) excess regulatory capital
- Full year dividend 20 cents per share, up 14%

Challenger (ASX:CGF) today announced its results for the 2021 financial year, with strong growth in assets under management (AUM) driving positive business momentum, while the business's diversification strategy has delivered record sales growth.

Managing Director and Chief Executive Officer Richard Howes said:

"This year, we have taken decisive action to set up the business for future growth – executing our strategy to diversify revenue, repositioning our investment portfolio and strengthening our balance sheet.

"Challenger's performance demonstrates that diversifying our client base, distribution channels and product offering is working – our Life business delivered record sales of \$7 billion, whilst net flows in Funds Management hit a record \$16 billion.

"Following our decision to reposition the investment portfolio during the early stages of the pandemic, as flagged, we gradually deployed significant cash balances into higher returning assets throughout the year, with the full benefits to be realised next year.

"We have maintained our strong capital position and enhanced our risk settings to underpin our strong brand and customer franchise and ensure we have the flexibility to withstand market movements.

"Underscoring confidence in our business, the Board resumed paying dividends after pausing in the early stages of the pandemic, declaring a full year dividend of 20 cents per share.

“The Life business performed strongly, with book growth of 14%. Sales were up across all key segments, notably in domestic institutional sales, reflecting our strategy to deepen engagement with institutional investors. Pleasingly, domestic retail sales also performed strongly, following our emphasis on building relationships with independent advisers, and benefiting from stabilisation of the wider advice market.

“Our Funds Management business again delivered a standout performance, with funds under management up 30% to \$106 billion, supported by strong institutional and retail flows and promising signs from our strategy to diversify globally. Challenger is now Australia’s third largest and one of the fastest growing active fund managers.

“Looking ahead, I am optimistic about Challenger’s future.

“We have emerged from a period of significant disruption in good shape and are well positioned to deliver strong earnings growth going forward.

“There is positive momentum across the business and a clear strategy to capture the growth opportunities created by long-term structural tailwinds. The superannuation system continues to grow significantly, and retirement income reforms are progressing that will see increased focus on providing better retirement solutions.

“We are absolutely focused on delivering our strategy, leveraging the combined capabilities of the Group to expand our product offering and customer reach. With the acquisition of MyLife MyFinance bank now complete, we are well placed to provide customers with a more holistic offering as they prepare for and live out their retirement, delivering on our purpose to provide financial security for a better retirement.”

Group financial performance

Challenger achieved record assets under management (AUM) of \$110 billion, up 29% driven by strong contributions from both the Life and Fund Management businesses.

As noted in previous updates, Challenger’s FY21 financial performance reflects the proactive decision to reposition the investment portfolio during the pandemic including holding higher levels of cash and liquid assets, as well as enhancing the business’s risk settings.

As a result, normalised NPBT was \$396 million and within our guidance range. Normalised net profit after tax (NPAT) was \$279 million, down 19% compared to FY20.

Statutory net profit after tax was \$592 million, including positive investment experience of \$319 million.

More defensive portfolio and enhanced risk settings, along with the high levels of cash progressively deployed throughout the year, resulted in a lower return on equity, as previously guided.

Reflecting confidence in the business and its capital position, the Board declared a final dividend of 10.5 cents per share, bringing the full year dividend to 20.0 cents per share, up 14%, fully franked.

Challenger Life

Challenger Life continues to be the clear leader in retirement income and is Australia's leading annuity provider with a high customer satisfaction rating of 91%².

In FY21, earnings before interest and tax (EBIT) was \$399 million.

Life sales

Total Life sales reached a record \$6.9 billion, up 35% on last year, underlining the success of Challenger's diversification strategy.

Following a focus on building Challenger's institutional client base, domestic institutional sales increased by 53% to \$4.0 billion.

Domestic retail sales were also up 19% to \$2.1 billion reflecting Challenger's strategy of working with a wide range of advice groups and independent financial advisers and supported by a stabilisation in the advice market.

Japanese (MS Primary) annuity sales were \$0.8 billion, exceeding the agreed minimum annual target by 18%.

Record sales across the business also drove Life book growth of 14% for the year.

Capital

Challenger maintained a strong capital position throughout the year.

Challenger Life had \$1.6 billion in excess regulatory capital. The Prescribed Capital Amount (PCA) ratio³ of 1.63 times was slightly above Challenger's target operating level of 1.6 times the minimum amount set by the Australian Prudential Regulatory Authority (APRA). The CET1 ratio⁴ was 1.14 times.

The business's financial strength is demonstrated by Standard & Poor's (S&P) 'A' credit rating of Challenger Life, with a stable outlook reaffirmed by S&P in November 2020.

Funds Management

Funds Management delivered exceptional performance this year.

Net flows reached a record \$16 billion, representing 20% of opening funds under management (FUM) for the year and benefited from a diversified client base and product offering.

Record flows drove growth in FUM, up 30% to \$106 billion and significantly outperformed the broader market. This year, Fidante Partners was also the Australian number one active manager for retail net flows⁵.

Fidante Partners also continued to deliver superior investment performance, with 92% of FUM outperforming the benchmark over three years.

FY21 Funds Management EBIT increased by 23%, supported by higher fee income and lower expenses.

Strategy – clear plan for sustainable growth

In FY21, Challenger continued to drive progress against its strategic objectives, in line with its purpose of providing customers with financial security for a better retirement.

At an investor update in June 2021, Challenger launched its refreshed corporate strategy, which set a clear path forward for long-term sustainable growth.

This included a vision to provide one in five Australian retirees with improved financial outcomes as Challenger customers, and to be the partner of choice for institutions and advisers, by 2030.

The acquisition of MyLife MyFinance bank is an important part of this strategy and creates the opportunity to further diversify Challenger's product offering. It also accelerates Challenger's plans to build relationships directly with customers, complementing Challenger's other well-established distribution channels including financial advisers and a broad range of institutional clients.

Outlook

In FY22, Challenger expects to achieve strong profit growth, with a normalised net profit before tax of between \$430 million and \$480 million, with a mid-point of \$455 million, which represents 15% growth on this year.

Challenger continues to target a dividend payout ratio of between 45% to 50% of normalised net profit before tax.

Investor presentation webcast

Challenger's Managing Director and Chief Executive Officer, Richard Howes, and Chief Financial Officer, Rachel Grimes will provide an investor update at 10:30am (Sydney time) on 10 August 2021. The presentation will be streamed live via webcast which can be accessed at

www.challenger.com.au/shareholder

ENDS

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

Key metrics

	FY21	FY20	Change
Total Group assets under management (\$bn)	110.0	85.2	29%
CLC excess regulatory capital and Group cash (\$bn)	1.9	1.7	8%
Life net book growth (%)	14.4	2.1	12.3 bps
Total Life sales (\$bn)	6.9	5.2	35%
Annuity sales (\$bn)	4.6	3.1	46%
Funds Management net flows (\$bn)	16.1	2.5	large
Normalised NPBT (\$m)	396	507	(22%)
Normalised NPAT (\$m)	279	344	(19%)
Statutory NPAT (\$m)	592	(416)	large
Normalised EPS (cps)	41.5	56.5	(27%)
Statutory EPS (cps)	88.2	(68.4)	large
Normalised ROE pre-tax (%)	11.2	14.8	(360 bps)
Normalised ROE post-tax (%)	7.9	10.0	(210 bps)
Normalised cost to income ratio (%)	41.2	35.7	550 bps
Full year dividend (cps)	20.0	17.5	2.5 cps

¹ The normalised profit figures are non-statutory amounts and in Challenger's view better reflect the underlying operating performance of the business. The normalised profit figures exclude investment experience and significant items. Investment experience includes both assets and policy liability experience and net new business strain. Asset and liability experience is calculated as the difference between actual investment gains/losses (both realised and unrealised) and normalised capital growth in relation to assets, plus any economic and actuarial assumption changes in relation to policy liabilities for the period. New business strain results from using the risk-free rate plus an illiquidity premium to value term and lifetime annuities. New business strain is a non-cash item and subsequently reverses over the future period of the contract. The normalised profit also excludes any significant items which represent non-recurring income and expense items for the period. The normalised profit framework and reconciliation to statutory profit have been discussed in Section 8 of the Operating and Financial Review in the 2021 Annual Report. The normalised profit is not audited but is subject to a review performed by Ernst & Young.

² Fifth Quadrant, February 2021: 91% overall satisfaction with Challenger; and 60% of customer rate their experience with Challenger better than other financial institutions.

³ PCA ratio represents total Challenger Life Company Limited (CLC) Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount (PCA).

⁴ CET1 ratio represents total CLC Common Equity Tier 1 regulatory capital base divided by the Prescribed Capital Amount.

⁵ Plan For Life Wholesale Trust Data, September 2020, December 2020 and March 2021.

About Challenger

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

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

For more information contact:

Stuart Kingham

Head of Investor Relations

Mob +61 401 139 067

skingham@challenger.com.au

Jane Keeley

Head of External Communication

Mob +61 402 663 522

jkeeley@challenger.com.au

Mark Chen

Senior Investor Relations Manager

Mob +61 423 823 209

machen@challenger.com.au