

Market Release

18 February 2025

Challenger announces 1H25 results¹

Delivering strong result; executing strategy and investing for next phase of growth

Strong performance; delivering against targets

- Normalised net profit after tax (NPAT)² \$225 million, up 12%
- Statutory net profit after tax \$72 million, up 28%
- Normalised ROE (post-tax) 11.6%, up 120 bps and above ROE target³
- Group assets under management (AUM) \$131 billion, up 3% in the half
- Interim dividend 14.5 cents per share fully franked, up 12%
- On track to achieve FY25 earnings guidance

Exceptional longer tenor annuity sales supporting higher quality Life book

- Total Life sales \$4.6 billion
- Record retail lifetime annuity sales \$583 million, up 24%
- Record Japanese sales \$616 million, up 78%
- New business annuity sales tenor 6.4 years⁴

Progress across key strategic initiatives

- Remixed Life book to longer tenor annuity sales
- New credit asset origination capability
- Re-platforming customer and investment technology to enable next phase of growth

Challenger Limited (ASX:CGF) today announced its financial results for the first half of FY25, with a 12% increase in normalised net profit after tax to \$225 million.

Managing Director and Chief Executive Officer, Nick Hamilton said:

“In the first half of 2025, Challenger reported a strong result as we delivered against our financial targets and executed our growth strategy. At the same time, we made significant progress in re-platforming our customer and investment technology, which will enable future growth.

“The Life business maintained its momentum, with record retail lifetime and Japanese annuity sales contributing to total Life sales of \$4.6 billion.

“Our focus on longer duration sales has lengthened the tenor of our liabilities and is supporting stronger returns.

“Further progress has also been made in strengthening relationships across our sales channels, including with institutional clients where we have secured new lifetime annuity and defined benefit opportunities in the half.

“Funds Management continued to demonstrate the value of active management, with funds under management (FUM) increasing 3% to \$121 billion in the half.

"Funds Management also expanded its leading range of investment strategies and managers. Our leading credit asset origination platform now includes whole loan servicing, and we have participated in a number of flow and block opportunities that provide the Life business with attractive risk adjusted returns. Fidante also broadened its network of affiliate managers, welcoming System Capital to its stable.

"Reflecting confidence in the business, the Board determined a fully franked interim dividend of 14.5 cents per share, an increase of 12%."

Mr Hamilton said that the uplift in Challenger's operating platforms will be a key enabler of future growth:

"Over the last three years, we have reset the business to deliver stronger earnings - uplifting our customer and investment platforms lays the foundations for the next phase of our growth strategy. Our business will have access to the best technology and capability to design, improve and innovate across retirement, investment management and asset origination.

"Modernising Life's core customer registry and technology will make it easier for customers, advisers, platforms and super funds to access our retirement products, enhance productivity and importantly, support our sales growth strategy.

"The transition of our investment administration and custody services to State Street accelerates our path to a highly scalable investment administration platform, at the same time as delivering operating efficiencies.

"Challenger enters the second half of the financial year in great shape. We have a business with strong fundamentals that is achieving our targets and will generate long term sustainable growth."

Group financial performance

Normalised net profit after tax (NPAT) was up 12% to \$225 million, driven by higher earnings across Life and Funds Management as well as management action to structurally reduce the business' expense base.

Statutory net profit after tax increased 28% to \$72 million and includes the impact of commercial office property revaluations and accounting valuation changes to Life Risk liabilities.

Group assets under management (AUM) increased 3% to \$131 billion in the half driven by positive investment markets.

Normalised ROE increased 120 bps to 11.6% post-tax, outperforming the ROE target³.

The Challenger Board determined a fully franked interim dividend of 14.5 cents per share, an increase of 12%.

Life

Challenger Life is Australia's leading retirement income brand⁵, providing customers with financial security and confidence to spend in retirement.

Life NPAT increased 7% to \$225 million, driven by growth in AUM and cash operating earnings margin. Normalised cash operating margin increased by 7 bps to 3.11% and normalised ROE increased 50 bps to 13.0% post-tax.

Total Life sales of \$4.6 billion included exceptional sales in longer duration products across retail lifetime and Japanese (MS Primary) annuities.

Challenger delivered record retail lifetime annuity sales of \$583 million, up 24% as the business successfully delivered its strategy to grow longer tenor, more valuable annuity sales.

Japanese annuity sales were up strongly, increasing 78% to \$616 million.

Retail fixed term annuity sales were \$1.2 billion. In the half, the inverted yield curve saw investor preference for shorter dated term product.

Institutional sales⁶ were \$2.2 billion and included lower Challenger Index Plus sales of \$1.8 billion and shorter duration institutional term annuity sales of \$417 million, as Challenger maintained its disciplined approach to pricing.

The tenor on new business annuity sales was 6.4 years⁴, which continues to have a positive effect on the overall Life book composition.

The maturity rate in FY25 is expected to be 24% and weighted towards 1H25. Maturities in the half represented 15% of the opening period annuity liability⁷.

Challenger Life remained strongly capitalised with a PCA ratio of 1.61 times⁸ the minimum regulatory requirement, which provides financial strength and will support future growth.

Retirement income partnerships

Challenger is making progress in building its pipeline of retirement income partnerships and defined benefit opportunities.

Challenger was selected as the sole external lifetime annuity provider on UniSuper's Approved Product List (APL) and commenced recommending Challenger's Liquid Lifetime annuity in the half.

In December 2024, Challenger also issued a group lifetime annuity to the value of \$23 million to support a defined benefit de-risking transaction.

Brand strategy and engagement

In 1H25, Challenger progressed a range of initiatives to strengthen its brand and engagement with advisers ahead of the launch of its re-platformed customer technology later this year.

As Challenger continues to deepen its relationship with advisers and reflecting the strength of its offering, the number of quotes for Lifetime and CarePlus products increased by 21% from 1H24.

Challenger also launched its new website that will deliver an improved customer and adviser experience, and reflecting the business' commitment to enhancing its brand, rolled out a new television commercial.

Funds Management

Funds Management is one of Australia's largest active fund managers⁹ and provides clients with access to a broad range of investment products across Fidante and Challenger Investment Management (CIM).

Funds Management NPAT was up 37% to \$27 million due to FUM growth, strong investment performance and lower expenses.

Funds Management FUM increased 3% to \$121 billion in the half, benefiting from positive investment markets. Net outflows of \$3.1 billion were predominantly from institutional fixed-income mandates, partially offset by inflows across equity managers.

Investment performance remained strong, with 95% of Fidante affiliates outperforming their respective benchmark over the past five years¹⁰.

Leveraging private credit origination platform

CIM continued to expand its leading private credit asset origination capability that will support the Life business and meet growing demand for higher yielding income strategies. This includes broadening its mortgage origination and servicing platform that will enhance its private loan investment capabilities.

In December 2024, CIM acquired for Challenger Life a NZ\$560 million book of New Zealand residential mortgages from Bluestone Group, representing a compelling investment opportunity and offering attractive risk adjusted returns.

Expanded offering

Funds Management broadened its leading range of investment products as well as bringing a new manager to the platform.

In February 2025, global long-short manager System Capital joined Fidante's stable. Fidante has taken a minority equity stake in System Capital and entered into an exclusive distribution agreement. System Capital's strategy is well suited to family offices, high-net-worth investors and retail clients looking to leverage the benefits of under and overvalued global stocks.

Strategic partnerships

In September 2024 Challenger appointed State Street, a global leader in investment services, to provide its investment administration and custody services. The partnership supports Challenger's strategy to drive growth through its core strengths in retirement, investment management and asset origination and accelerates the business' path to a highly scalable platform.

Challenger has continued to execute its program to modernise its core customer registry and technology for the Life business, in partnership with Accenture. This will improve how Challenger integrates its capabilities with advisers, platforms, and superannuation funds, make it easier for customers to do business with Challenger and enhance productivity.

Outlook

Challenger reaffirms its FY25 normalised net profit after tax guidance of between \$440 million and \$480 million, with the mid-point of the range representing 10% growth on FY24.

Key metrics

	1H25	1H24	Change
Normalised NPAT (\$m)	225	201	12%
Statutory NPAT (\$m)	72	56	28%
Normalised EPS (cps)	32.8	29.3	12%
Statutory EPS (cps)	10.5	8.2	28%
Normalised ROE post-tax (%)	11.6	10.4	120 bps
Normalised cost to income ratio (%)	32.0	34.6	(260 bps)
Total Group AUM (\$bn)	131.4	117.1	12%
Interim year dividend (cps)	14.5	13.0	12%
CLC PCA ratio (times)	1.61	1.50	0.11
Total Life sales (\$bn)	4.6	5.3	(12%)
Annuity sales (\$bn)	2.9	3.3	(13%)
Life net book growth (%)	(1.7)	1.7	(340 bps)
Funds Management net flows (\$bn)	(3.1)	5.6	n.a

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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¹ All growth rates compare the year ended 31 December 2024 against the year ended 31 December 2023 (the prior corresponding period or pcpr), unless otherwise stated.

² 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 asset and liability experience and significant items. Asset experience is calculated as the difference between actual investment gains/losses (both realised and unrealised) and normalised capital growth in relation to assets. Liability experience includes any economic and actuarial assumption changes in relation to policy liabilities for the period, impacts of accounting mismatches within the liability valuation of Life Risk business under AASB 17, and new business strain. New business strain is the requirement to apply the risk-free discount rate plus an illiquidity premium to value annuity liabilities, rather than the actual interest rate paid on annuity liabilities. 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 has been disclosed in the Operating and Financial Review section of the Directors' Report in the Challenger Limited 2025 Interim Financial Report. The normalised profit after tax has been subject to a review performed by Ernst & Young.

³ Normalised ROE (post-tax) target of 11.2% being the RBA cash rate plus a margin of 12% less tax (equivalent to a Normalised ROE pre-tax target of ~16.4% and assumes tax rate of 31.3% in FY25).

⁴ Based on new business annuity sales, including term annuities and lifetime sales, excluding reinvestments.

⁵ Plan For Life – September 2024 – based on annuities under administration.

⁶ Institutional sales include institutional fixed term annuity sales, institutional lifetime annuity sales and Challenger Index Plus.

⁷ 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.

⁸ PCA ratio represents total Challenger Life Company Limited (CLC) Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount (PCA) and is as at 31 December 2024.

⁹ Calculated from Rainmaker Roundup, September 2024 data.

¹⁰ As at 31 December 2024. Percentage of Fidante affiliates meeting or exceeding the performance benchmark, with gross performance weighted by FUM.