

## CHALLENGER INVESTOR DAY

### BUILDING A MORE DIVERSIFIED BUSINESS, MEETING MORE CUSTOMER NEEDS

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#### One Challenger

- Expanding Challenger brand to include Bank and CIP Asset Management
- Building a more diversified business, broadening product offering and distribution channels to bring the best of Challenger to more customers

#### Building strong strategic partnerships

- Progress in Apollo joint venture opportunity to build a lending platform
- Non-binding MoU with SimCorp to establish joint venture providing leading investment operations platform

#### On track to meet full year guidance

- FY22 earnings expected to be towards the upper end of guidance range

**Challenger Limited (ASX:CGF)** today provided an update on its strategy as it focuses on building a more diversified business that meets a wider range of customer needs.

Challenger CEO and Managing Director Nick Hamilton stated that the business will build on its strong foundations as a leader in retirement incomes, and is well positioned for growth:

“We have an exciting opportunity to bring the best of Challenger to more customers than we do today. To achieve this, we will expand our brand and deliver more products across a greater number of channels. We will also focus on our investment capability and operating platform to deliver more of what our customers need.

“As we progress our ‘one Challenger’ priority, we will capitalise on the expertise across our talented team to play a more meaningful role in our customers’ lives and enhance shareholder outcomes.

“I am delighted that we have made progress in developing strategic partnerships with Apollo and SimCorp, which are strongly aligned to our approach of working with global partners to diversify and grow our business.

“The joint venture opportunity with Apollo reflects the continued success of our relationship, which we have been developing over a number of months. This opportunity would also address an underserved market, leverage the capabilities of the group and provide business diversification.

“Our joint venture with SimCorp will leverage Challenger’s existing investment operations capability and deliver Australia’s first end-to-end investment administration platform. We see an untapped opportunity to deliver these critical services to leading financial services organisations and asset owners.

“We have a strong business and core platform, but we can be even more. Through executing our strategy, we will take a broader stance in retirement and seize the exciting opportunities ahead.”

### **‘One Challenger’ priority**

Under the ‘one Challenger’ priority, Challenger intends to bring the best of the business to even more Australians. This includes expanding the Challenger brand from a leader in retirement incomes, to a brand synonymous with high-quality income generating products and a wider retirement offering.

As part of this strategy, CIP Asset Management will move to the Challenger brand, as Challenger Investment Management over the next six months. Work is also well progressed to transition the Bank and its products to the Challenger brand by the end of this financial year, leveraging Challenger’s position as the leader in retirement incomes.

### **Challenger and Apollo continue to progress strategic partnership**

Challenger continues to progress its strategic partnership with Apollo (NYSE:APO).

Challenger and Apollo share a common purpose, strong complementary skills and capabilities.

Both parties are working together on a range of opportunities to help customers achieve financial security in retirement and deliver meaningful value for their shareholders.

Initiatives under discussion include investment and life risk opportunities, product and distribution opportunities and investigating joint venture opportunities, as previously announced.

The joint venture opportunity aims to build a lending platform and the teams are working diligently to ensure the foundations of the joint venture are strong, including structural, tax and regulatory considerations.

The proposed initiative would also leverage the capabilities of both Challenger and Apollo to drive opportunities for growth for both firms. It would bring together Challenger’s operating platform and relationships across Australian lending markets with Apollo’s extensive global scale, whilst also providing important business diversification.

### **Challenger announces non-binding Memorandum of Understanding with SimCorp**

Challenger has also entered into a non-binding Memorandum of Understanding with SimCorp (CSE:SIM) – a global leader in investment administration services – with the intention to establish a joint venture to provide a market-leading investment operations platform, servicing customers across Australia, and APAC.

The proposed joint venture will leverage the capabilities of both Challenger and SimCorp to provide Australia’s first fully technology-led, integrated front-to-back cloud-based investment operations platform. The initiative will provide investment administration as a service to Challenger, Fidante and third-party clients.

The proposed joint venture builds on a long standing 17-year business relationship between Challenger and SimCorp and is expected to be operational in the first half of FY23. The platform

will be powered by SimCorp's investment management solution, Dimension, and operated by Challenger's experienced investment operations team.

Challenger will be a majority owner of the joint venture.

David Mackaway, Challenger's Group Chief Operating Officer, will be appointed as Chief Executive Officer of the joint venture and lead the business. David has significant industry experience, an intrinsic understanding of Challenger's operational requirements and is ideally positioned to realise the significant opportunity ahead.

### **Bank integration update**

The Bank forms a key component of Challenger's growth strategy by broadening its customer reach and providing access to the significant term deposit market.

Since the completion of the acquisition, Challenger has focused on building out the Bank's lending capability and distribution strategy, integrating systems and expanding the team.

To date, Challenger has taken a very disciplined approach to deposit and asset growth until the Bank's lending program was established. Challenger recently received approval from APRA to commence certain types of non-retail lending, including SME, commercial real estate and corporate lending. This is a significant milestone, providing the opportunity to expand Challenger's guaranteed income offering and leverage the business' superior yield origination platform.

### **FY22 outlook**

Challenger reaffirms its FY22 normalised net profit before tax guidance and expects to be towards the upper end of the \$430 million to \$480 million guidance range.

Underpinning Challenger's growing, successful franchise, is a strong balance sheet and sustainable capital settings. The business is strongly capitalised with a Life PCA ratio<sup>1</sup> of 1.61 times, as at April 2022, which is towards the upper end of its target range.

ENDS

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

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<sup>1</sup> 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 30 April 2022.

**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.

**About Apollo**

Apollo is a high-growth, global alternative asset manager. The asset management business seeks to provide clients excess return at every point along the risk-reward spectrum from investment grade to private equity with a focus on three investing strategies: yield, hybrid, and equity. For more than three decades, investing expertise across the fully integrated platform has served the financial return needs of clients and provided businesses with innovative capital solutions for growth. Through Athene, the retirement services business, Apollo specialises in helping clients achieve financial security by providing a suite of retirement savings products and acting as a solutions provider to institutions. The patient, creative, and knowledgeable approach to investing aligns clients, businesses invested in, employees, and the communities impacted, to expand opportunity and achieve positive outcomes. As of March 31, 2022, Apollo had approximately US\$513 billion of assets under management. To learn more, please visit [www.apollo.com](http://www.apollo.com).

**About SimCorp**

SimCorp was founded in 1971 and is the world's leading provider of multi-asset integrated investment management solutions. SimCorp's platform and ecosystem, comprising of partners, services and third-party connectivity, empower the company to provide 40% of the world's top 100 financial companies with the efficiency and flexibility needed to succeed.

SimCorp has its headquarters in Copenhagen and has offices in over 25 locations throughout Europe, Asia, and North America, and has more than 2,000 employees.

For more information visit [www.simcorp.com](http://www.simcorp.com).

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# Challenger Limited Investor Day

Building a more diversified business  
Meeting more customer needs

24 May 2022





# Agenda

## Building a more diversified business to meet more customer needs

9:00 – 9:25	<b>Overview and strategy</b> Nick Hamilton – Managing Director and Chief Executive Officer
9:25 – 9:50	<b>Customer and distribution</b> Catherine van der Veen – General Manager, Strategy and Growth Lucy Foster – General Manager, Strategy and Growth
9:50 – 10:15	<b>Yield platform</b> Victor Rodriguez – Head of Fixed Income Mark Ellis – Chief Executive, Bank
10:15 – 10:25	<b>Break</b>
10:25 – 10:45	<b>Strategic partnerships</b> Chris Plater – Deputy Chief Executive Officer Stuart Kingham – Chief Commercial Officer
10:45 – 10:55	<b>Life investment portfolio</b> Peter Schliebs – Chief Investment Officer, Life
10:55 – 12:00	<b>Outlook, wrap up and Q&amp;A session</b> Nick Hamilton – Managing Director and Chief Executive Officer

# Overview and strategy

**Nick Hamilton**  
Managing Director & Chief Executive Officer



# Key points

## Building a diversified business to meet more customer needs

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Strong business with significant competitive advantages

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Broaden products and distribution to meet more customer needs

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Expand Challenger brand

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Accelerate growth through leveraging strategic partnerships

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Enhance shareholder outcomes

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# Purpose and strategy

**Building a more diversified business to meet more customer needs**

Our **purpose** is to provide customers with financial security for a better retirement

**Broaden customer access across multiple channels**

**Leverage the combined capabilities of the group**

**Expand range of financial products and services for a better retirement**

**Strengthen resilience and sustainability of Challenger**

# Strong core business

## Complementary businesses positioned for growth

Our purpose is to provide customers with financial security for a better retirement

### SPREAD BASED INCOME

**Life**  
challenger 

#1 Australian retirement  
income business<sup>1</sup>

**Bank**  
challenger 

Digital banking platform providing  
access to term deposit market

### FEE BASED INCOME

**Funds Management**



One of Australia's fastest growing  
Fund Managers<sup>2</sup>

**Strong balance sheet and significant capital reserves**

**Leveraging strategic partnerships**

**Highly capable and engaged team**

2022 Investor Day – Overview and strategy

1. Plan for Life – December 2021 – based on annuities under administration.

2. Rainmaker Roundup, December 2021.

# Highly capable and engaged team

Focused on driving engagement, innovation and collaboration



## High employee engagement<sup>1</sup>

**81%** Sustainable engagement

**89%** Diversity & inclusion

**90%** Collaboration



## Driving innovation through Imagine22

**80** Submissions focused on growth, simplification and One Challenger



## Supporting flexible working & employee wellbeing



2022 Investor Day – Overview and strategy

1. 2022 Employee engagement survey, April 2022.

# Business well positioned

## Competitive advantages and tailwinds supporting growth

### Challenger competitive advantages

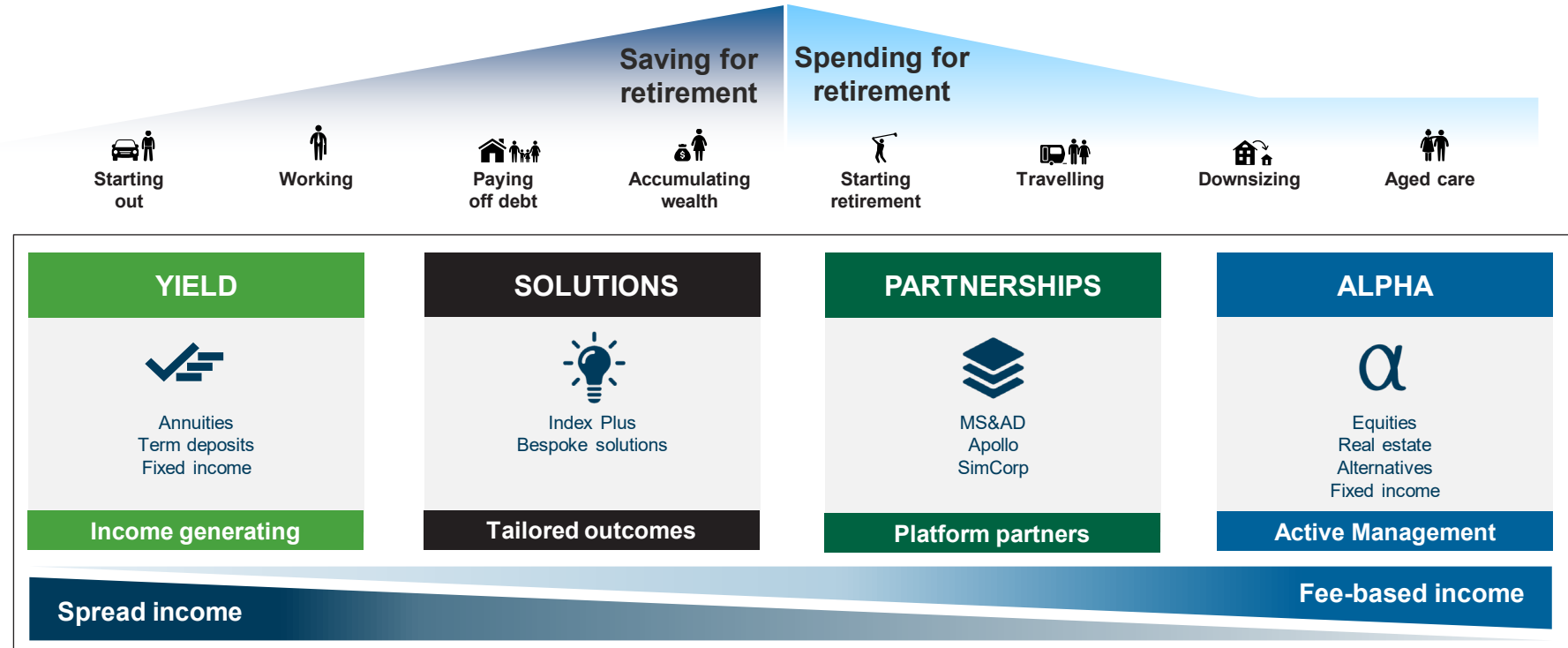
<b>Strong brands</b>	<b>Leading origination and investment capability</b>	<b>Exceptional distribution footprint</b>	<b>Investment operations excellence</b>	<b>Highly capable and engaged team</b>
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### Supportive long-term tailwinds

 <b>World class accumulation system</b> Assets to triple over next 20 years <sup>1</sup>	 <b>Significant wealth transfer</b> Intergenerational wealth driving demand	 <b>Supportive macro environment</b> Rising interest rates and credit spreads normalising	 <b>Investors seeking yield</b> Both guaranteed and non-guaranteed income	 <b>Active management</b> Benefits in periods of higher market volatility
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# One Challenger

Building a more diversified business to meet more customer needs



# Alpha capability

Diversified offering generating strong returns for clients

## 17 brands across multiple strategies and asset classes

Australian equities	   
	  
Global, regional & EM equities	 
Fixed income	    
Sustainable investments	 
Alternatives	   
Pipeline	~\$133bn of available capacity <sup>3</sup> Strong pipeline of product and affiliate opportunities

### Strong performance

**97%** FUM outperforming benchmark over 3 years<sup>1</sup>

**6** New affiliates added since 2019

**\$1.7 billion** FUM from new managers since launch<sup>2</sup>

## 2022 Investor Day – Overview and strategy

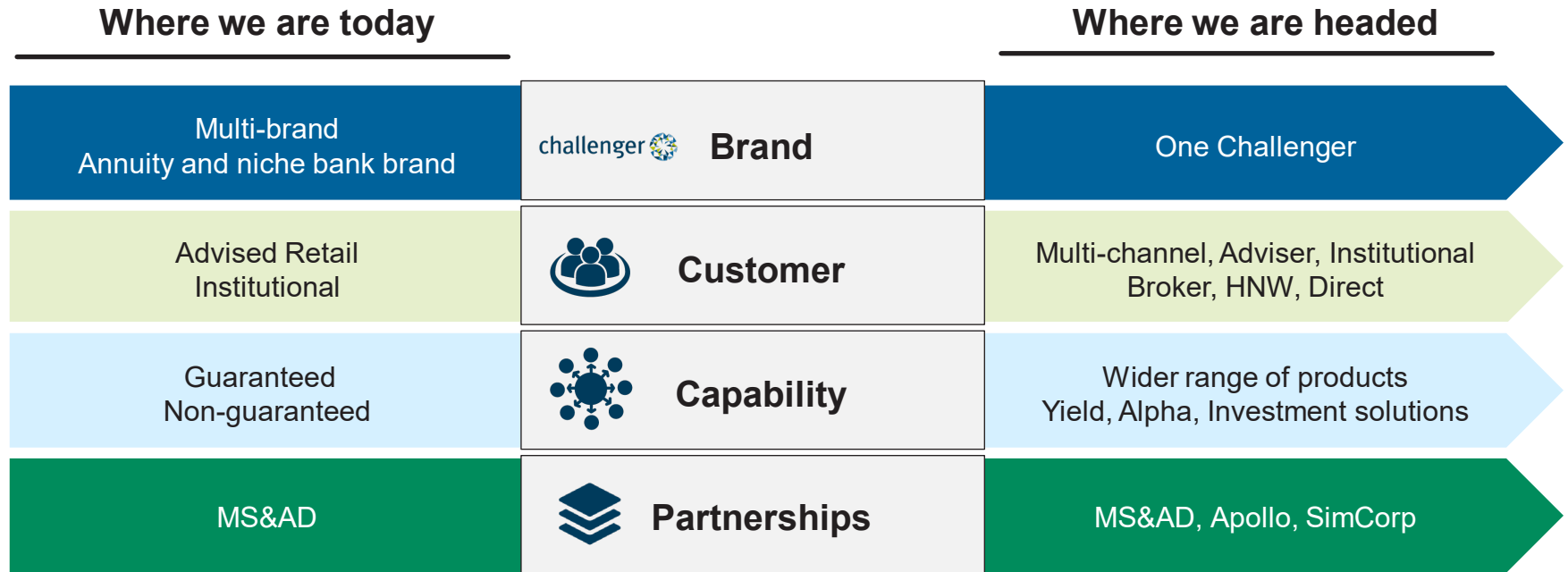
1. As at 31 December 2021. Percentage of Fidante Partners Australian affiliates meeting or exceeding the performance benchmark, with performance weighted by FUM.

2. Cumulative Funds Under Management for Eiger (launched April 2019), Ares Australia Management (launched September 2019), Impax (launched April 2021) and Ox Capital (launched July 2021) as at 31 March 2022.

3. As at March 2022.

# Challenger growth strategy

Building a more diversified business and meeting more customer needs





# Significant opportunities for growth

## Clear plan to capture opportunities

Opportunity	Our response	Why we will be successful	Strategy
 <b>Meeting more customer and client needs</b>	<ul style="list-style-type: none"> <li>Expand brand across capabilities</li> <li>Broaden products and distribution</li> </ul>	<ul style="list-style-type: none"> <li>Leading annuity provider &amp; active manager</li> <li>Exceptional distribution footprint</li> </ul>	<b>One Challenger</b>
 <b>Clients seeking yield</b>	<ul style="list-style-type: none"> <li>Develop attractive income solutions</li> <li>Expand investment capabilities</li> </ul>	<ul style="list-style-type: none"> <li>#1 Fixed income house</li> <li>Spread and fee-based business</li> </ul>	<b>Breadth of income offering</b>
 <b>Investment &amp; Origination Excellence</b>	<ul style="list-style-type: none"> <li>Best-in-class investment management</li> <li>JV Non-bank lender in Australia &amp; NZ</li> </ul>	<ul style="list-style-type: none"> <li>Challenger – deep relationships &amp; experience</li> <li>Apollo – extensive global scale and network</li> </ul>	<b>Grow FM</b> <b>Grow private lending</b>
 <b>Complexity in investment operations</b>	<ul style="list-style-type: none"> <li>Partnership with global technology leader</li> <li>Market leading front to back-office platform</li> </ul>	<ul style="list-style-type: none"> <li>Leverage technology leader</li> <li>Administration core capability and strength</li> </ul>	<b>SimCorp JV</b>

# Customer and distribution

**Catherine van der Veen**

General Manager, Strategy and Growth





**Lucy Foster**

General Manager, Strategy and Growth



# Significant opportunities for growth

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# Leading capability

Provides strong foundation for future growth

## Leading retirement brand



Leader in retirement income<sup>1</sup>



Strong brand awareness amongst 65-74 year olds<sup>2</sup>

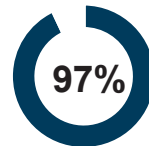
## Leading investment products and solutions



#1 Australian annuity provider



One of Australia's fastest growing asset managers<sup>3</sup>



Fidante FUM outperformance over 3 years<sup>4</sup>

## Leading distribution



Top 50 Australian super funds are Challenger clients



Zenith Distributor of the Year 2021 and 2020



Plan for Life Longevity Provider of the Year 2021

## 2022 Investor Day – Customer and distribution

1. Leader in the retirement income category according to advisers: Marketing Pulse November 2021.

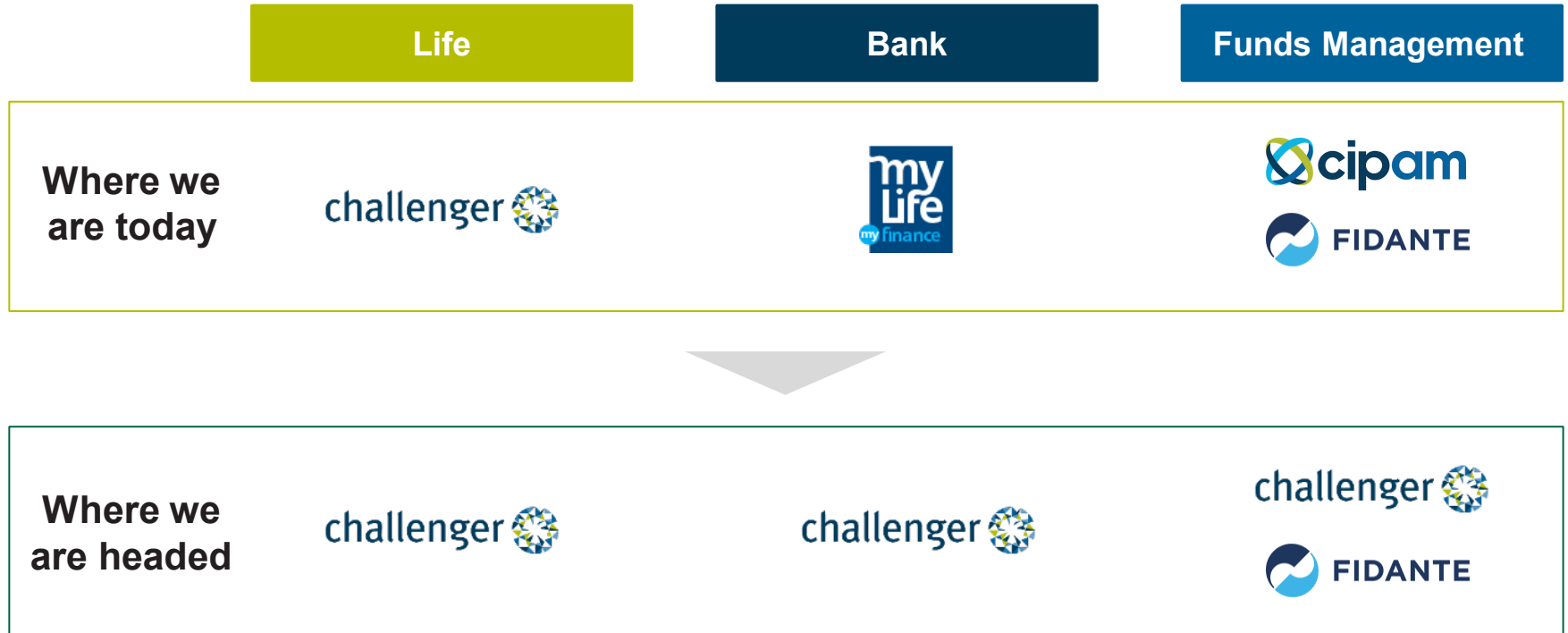
2. Hall & Partners Consumer Study June '21 Quarter & Feb '22 –Base: 65-74yo. Sample per 3-month rolling period (240), February '22 (300).

3. Rainmaker Roundup, December 2021.

4. As at 31 December 2021. Percentage of Fidante Partners Australian affiliates meeting or exceeding the performance benchmark, with performance weighted by FUM.

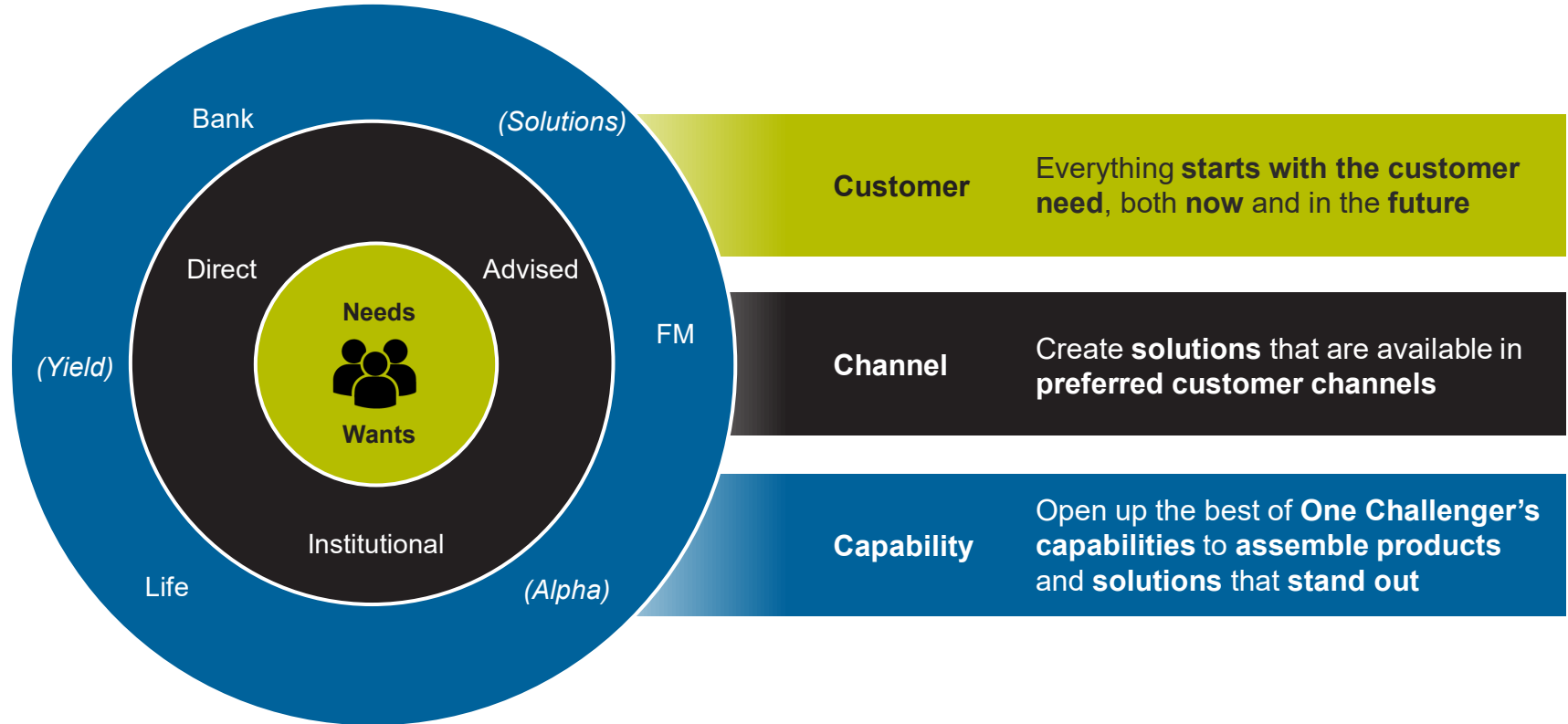
# Leveraging brand strength

Broaden Challenger brand to represent more of our capability



# Customer focus

One Challenger mindset key to further growth



2022 Investor Day – Customer and distribution

# One Challenger solution capability

Innovating to meet more customer needs

## Customer trends

**64%**

Investors would accept moderate or high variability with the potential for higher returns<sup>1</sup>

**58%**

People expect to generate retirement income from more than super and age pension<sup>2</sup>



Rising affluence in advised channels and emergence of self-directed customers



Superannuation funds becoming increasingly sophisticated

## One Challenger

### YIELD



Annuities  
Term deposits  
Fixed income

**Income generating**

### SOLUTIONS



Index Plus  
Bespoke solutions

**Tailored outcomes**

### PARTNERSHIPS



MS&AD  
Apollo  
SimCorp

**Platform partners**

### ALPHA



Equities  
Real estate  
Alternatives  
Fixed income

**Multi-affiliate platform**

2022 Investor Day – Customer and distribution

1. ASX Australian Investor Study 2020.

2. Firstlinks (a Morningstar company) 2021 retirement income survey (<https://www.firstlinks.com.au/unexpected-results-reader-survey-retirement-income>).



# Leveraging retail distribution capability

Broader offer and stronger presence in high net worth channels



## Maintain strength and momentum

Depth and breadth in retail advice –  
Life + Funds Management

65%

Licensees hold FUA  
with Challenger

53%

Advisers hold FUA  
with Challenger

## Take a broader offer to market



Income  
products



Specialist  
retirement  
products



Tailored  
solutions

## Build stronger presence in key channels



High Net  
Worth



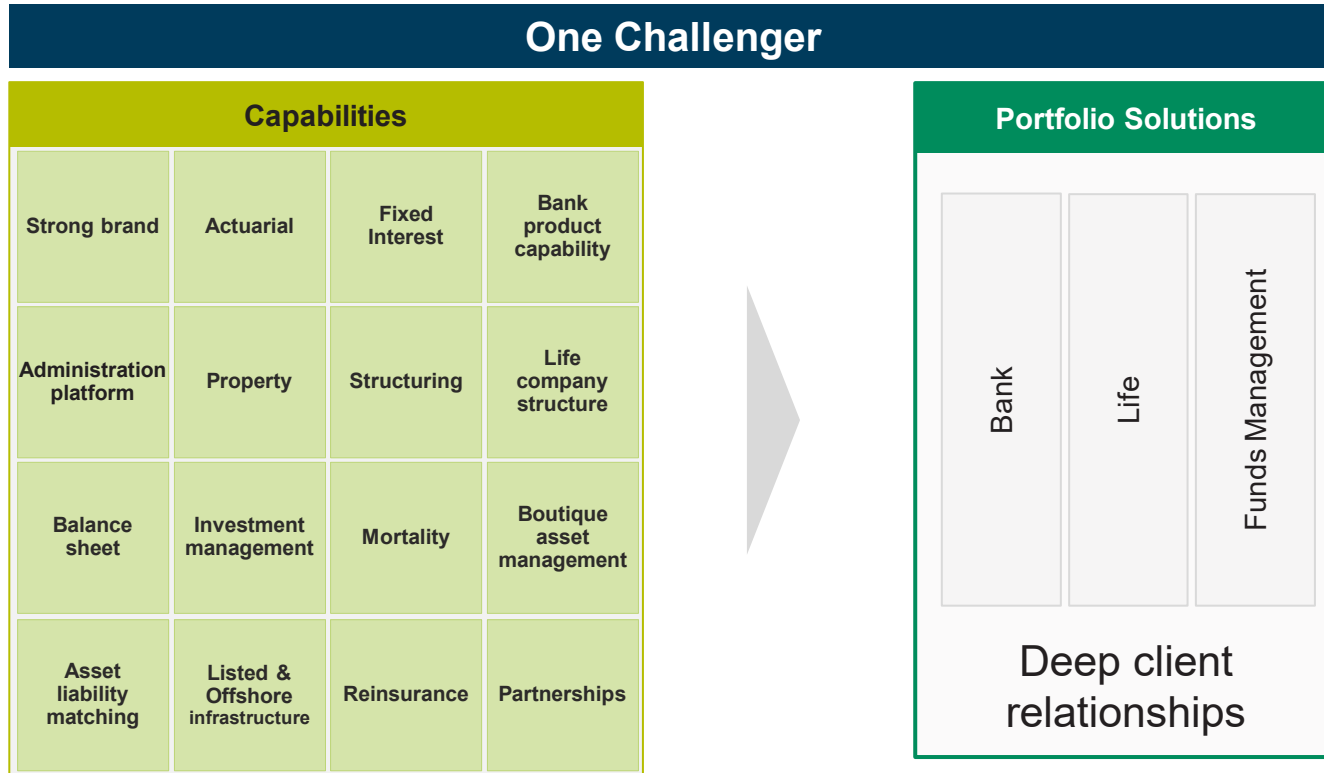
Advisory  
broker



Self-  
directed

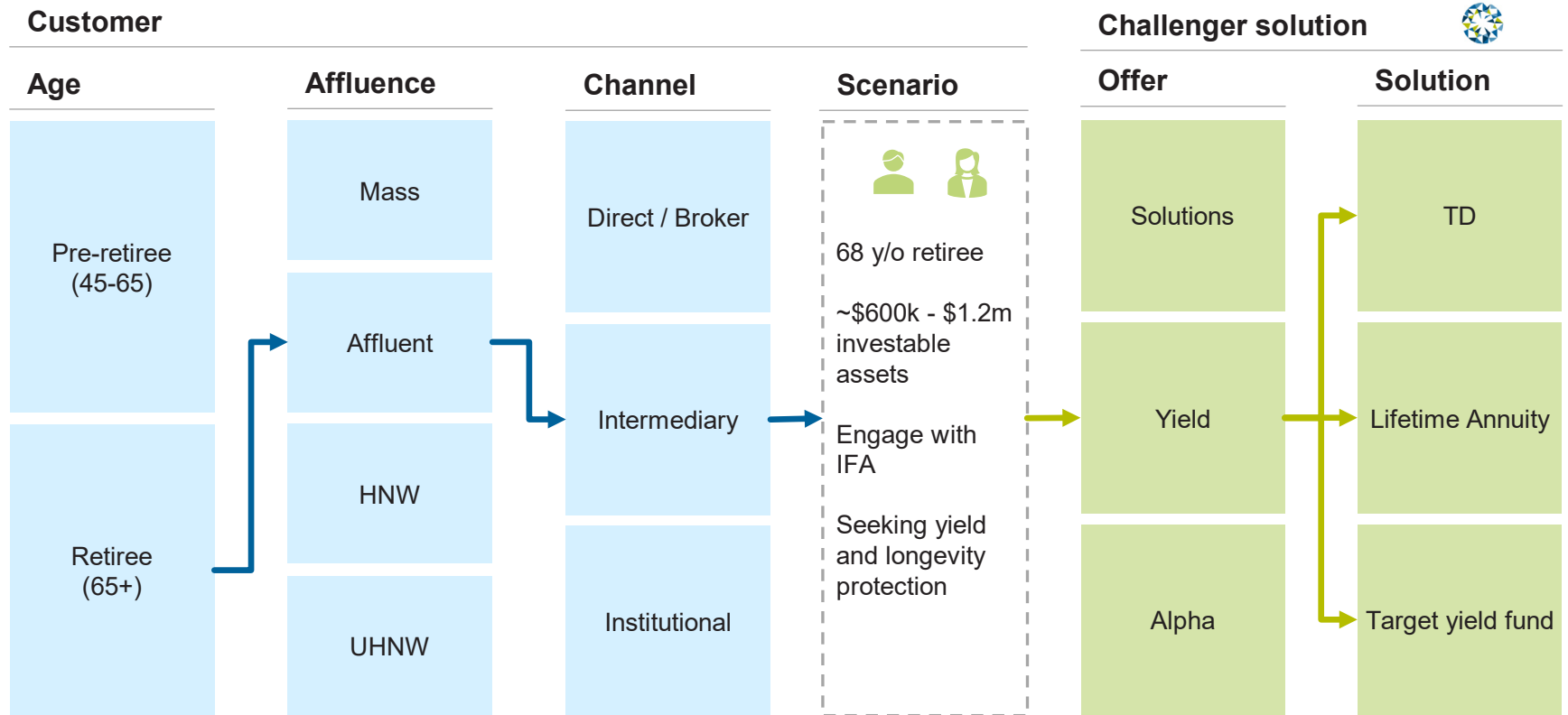
# Institutional partnerships – solving client needs

## Market-leading capabilities



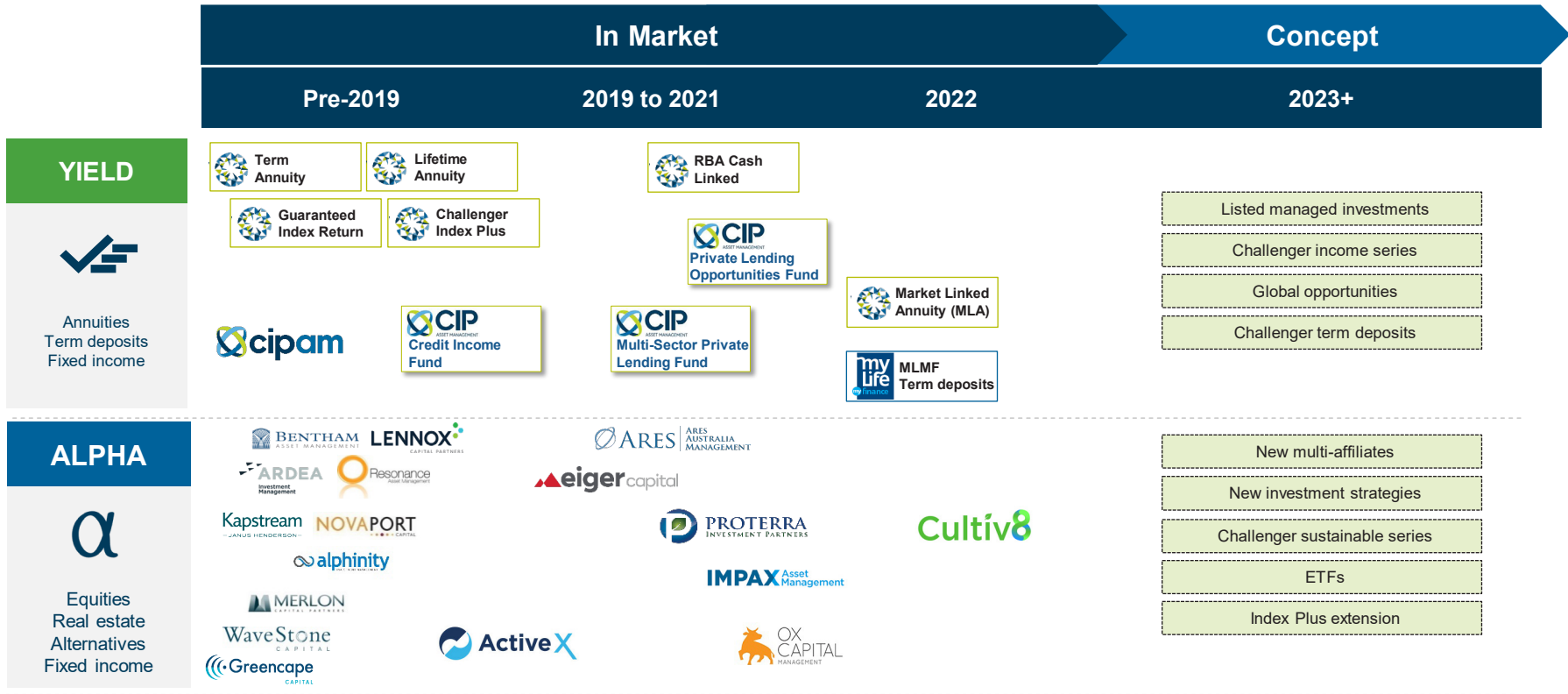
# Target customer segments and channels

Understanding each customer segment need will inform solution design



# Product pipeline

Driving innovation to meet more customer needs



2022 Investor Day – Customer and distribution

# Key points

## Meeting more customer needs

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Broaden the Challenger brand across more of our capability

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Innovate to meet more customer needs

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Build on existing strength in retail distribution and investment solutions

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Meet demand for solutions-based approaches in HNW and self-directed segments  
Support super funds to meet member needs, including Retirement Income Covenant

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# Yield platform





**Victor Rodriguez**  
Head of Fixed Income

**Mark Ellis**  
Chief Executive, Bank



# Significant opportunities for growth

## Clear plan to capture opportunities

Opportunity	Our response	Why we will be successful	Strategy
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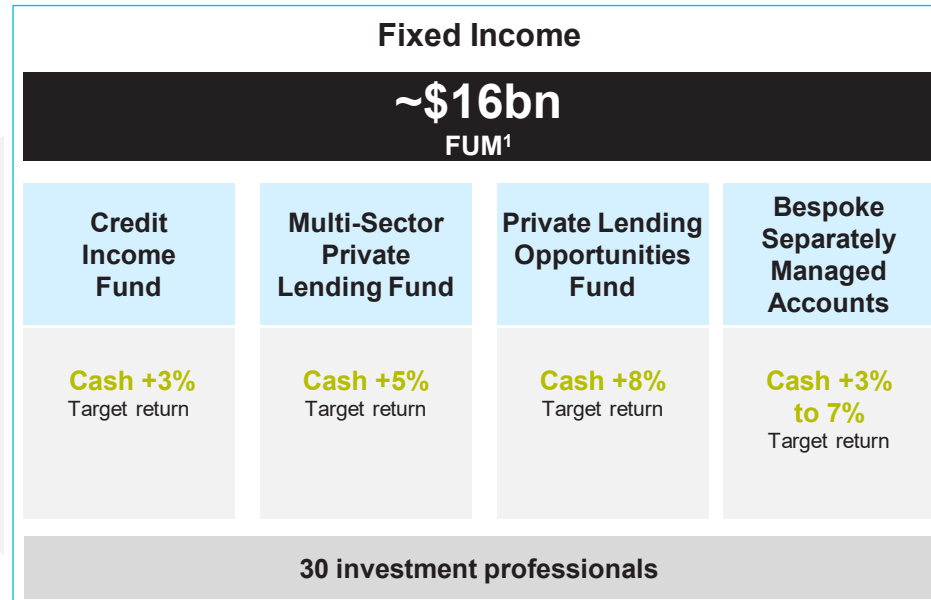


# Challenger Investment Management

Alternative investment manager

Long track record of excellence in credit markets

 Challenger Investment Management  
Funds Under Management



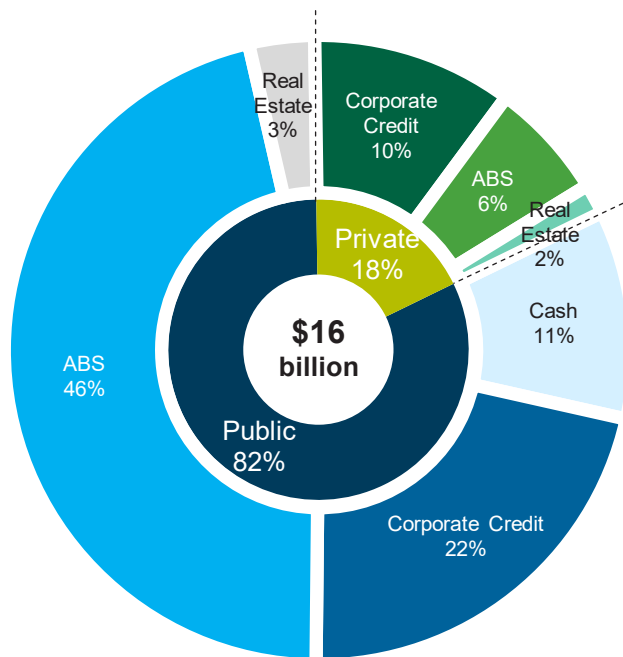
2022 Investor Day – Yield platform

1. As at 31 March 2022.

# One of Australia's largest fixed income managers

## Wide breadth of credit investments and expertise

Fixed income portfolio by sector<sup>1</sup>



Wide range of both public and private credit sector capabilities globally



\$3bn invested in domestic private lending markets



Wide geographic coverage across developed markets



Invested capital across the risk spectrum from AAA through to B credit ratings

# Challenger IM competitive advantages

Exceptional access to corporate, securitised and real estate market

## Challenger Investment Management competitive advantages



**Strong track record**



**Significant scale**



**Strong governance**



**Highly experienced team**



**Market place longevity**

# Market themes

Supportive structural tailwinds present very substantial opportunity



## Increased market volatility

High inflation and tighter monetary policy



## Banks withdrawing from certain types of lending

Tighter regulatory and capital rules

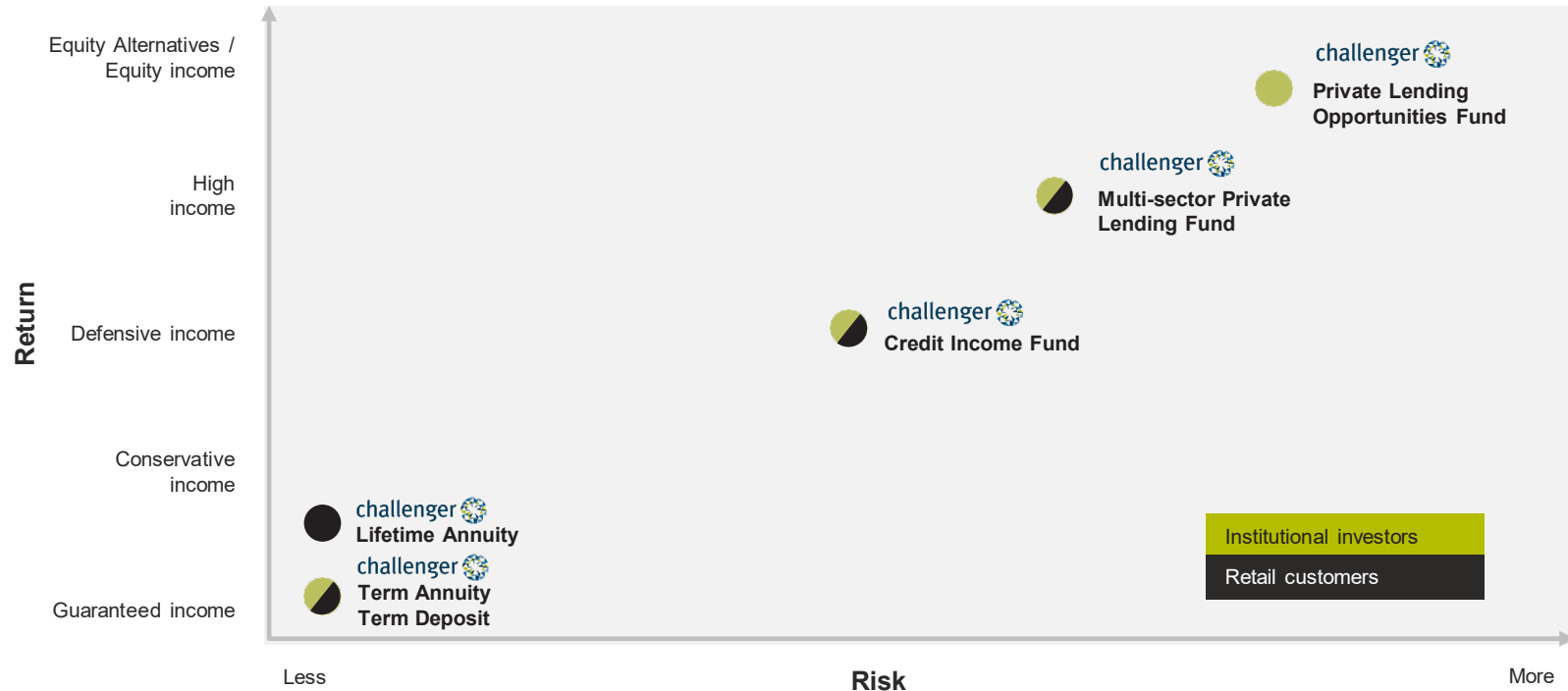


## Demand for debt finance from private companies

Debt funding required to fund growth

# Challenger income solutions

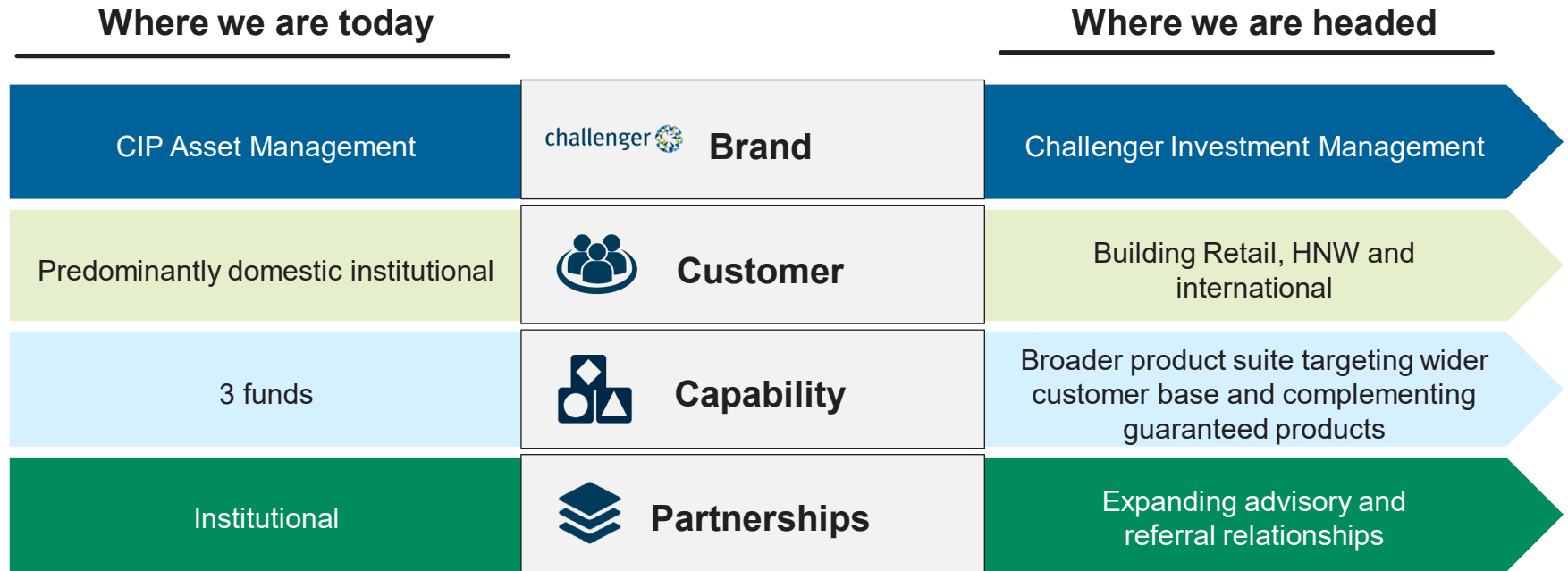
Providing clients with range of income options



2022 Investor Day – Yield platform

# Challenger Investment Management strategic journey

## Expanding yield product suite and improving customer access



# Key points

## High ROE business with strong business momentum

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Long standing proven investment management business with excellent track record

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Structural tailwinds provide opportunities to deliver attractive higher yielding risk/return outcomes

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Strong foundations to provide ongoing growth

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Expand product suite to improve customer access and meet more of their needs

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# Bank

**Mark Ellis**  
Chief Executive, Bank



# Supporting Challenger strategy

## Extend product and customer reach



### Challenger Bank



Digital savings and loans bank

**\$182m**

Savings and term deposits<sup>1</sup>

**\$320m**

Lending and financing assets<sup>1</sup>

**42**

Dedicated Bank employees

## Strategic rationale

**Access to term deposit market**

\$780bn term deposit market<sup>2</sup>

Term deposits familiar product

**Broadens customer access**

Attract new customers

Expand new distribution channels

Accelerate direct to customer capability

**Leverage Challenger capability to expand offering**

Develop product opportunities – deposit and lending

Leverage Challenger's extensive origination expertise

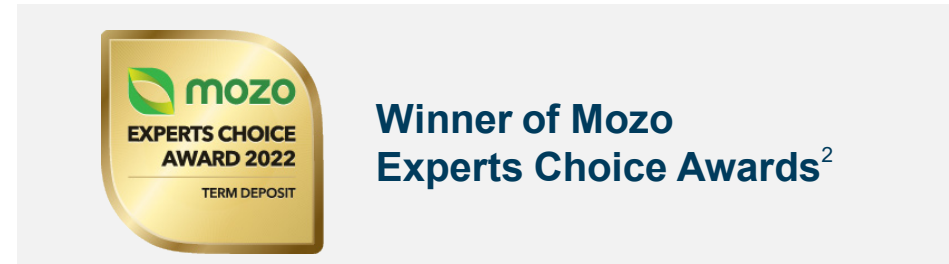
1. As at 31 March 2022.

2. APRA Quarterly authorised deposit-taking institution performance statistics, December 2021.

# Bank today

## Digital banking platform providing access to term deposit market

- ✓ **Integration well progressed**
- ✓ **Expanding distribution channels**  
TDs available via comparator sites<sup>1</sup>  
Preparing for retail broker channel launch
- ✓ **Broadening lending capabilities**  
Commencing certain types of non-retail lending to include SME, CRE and corporate lending
- ✓ **Rebranding to Challenger**



1. From September 2021 MyLife MyFinance branded term deposits available on Moza and Canstar comparator sites.

2. In March 2022, MyLife MyFinance term deposits were awarded 'Best Personal Term Deposit', 'Best Business Term Deposit' and 'Best MySavings Account' as part of the Moza Expert Choice Awards.

# Expanding distribution channels

## Term deposit strategy well progressed

### FY22

#### Early momentum & scale

- Direct to customer channels supported by comparator sites
- Intermediated channel via retail broker Australian Money Market to launch in June 2022

### FY23+

#### Long-term franchise value

- Expand retail volumes through Challenger's retail advisor network
- Institutional and high net wealth channels supported by Challenger relationships



#### Direct

Comparator sites  
- Mozo and Canstar

**Going forward:**  
Integrated Direct to  
Customer



#### Intermediated

Retail broker

**Going forward:**  
Financial platforms



#### Institutional and high net wealth

Wholesale broker

**Going forward:**  
Super funds  
Life insurers  
Asset managers  
Other Banks

# Key points

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Bank a key component of Challenger's growth strategy

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One Challenger approach allows Bank to widen distribution platform and provide wider set of income solutions to customers

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Continue to develop customer offering

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Leverage Challenger Group asset management capability

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# Strategic partnerships

**Chris Plater**  
Deputy Chief Executive Officer

**Stuart Kingham**  
Chief Commercial Officer



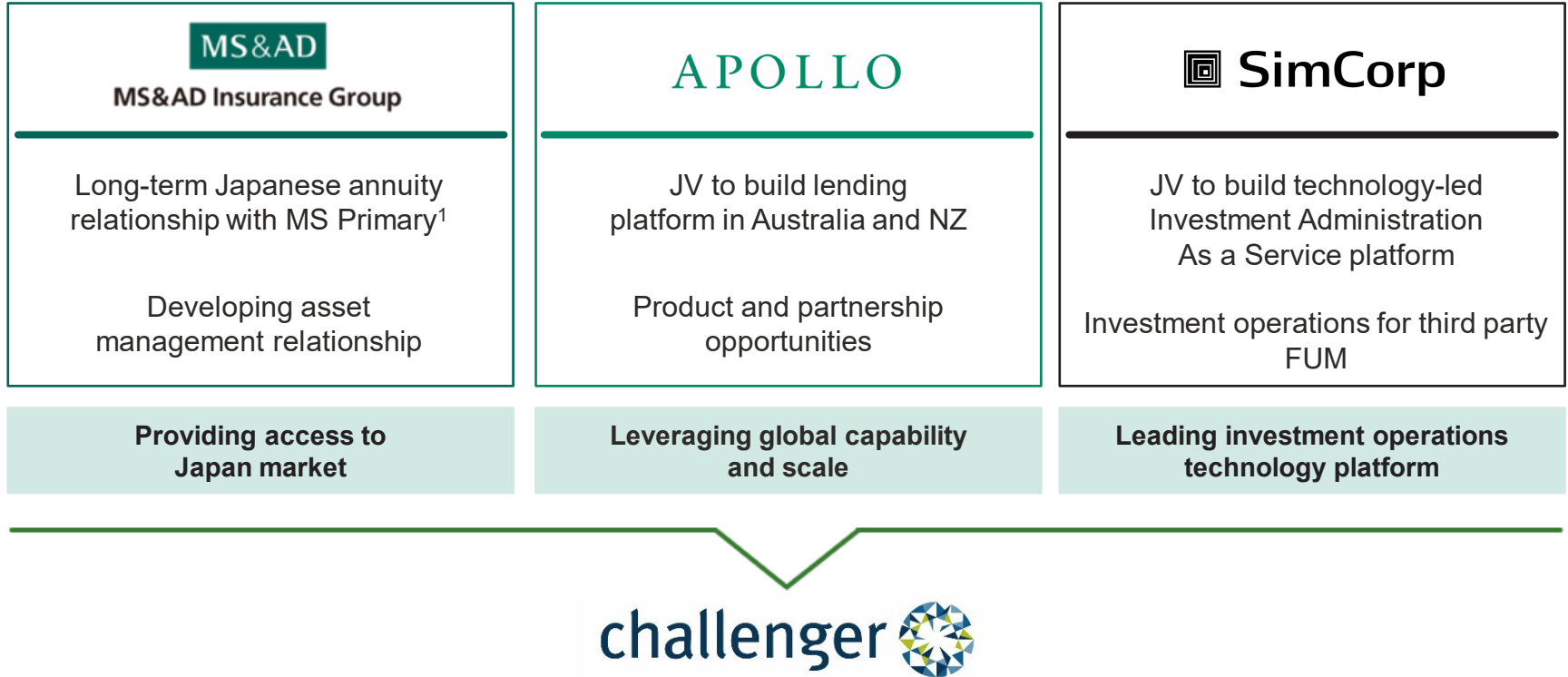
# Significant opportunities for growth

## Clear plan to capture opportunities

Opportunity	Our response	Why we will be successful	Strategy
 <b>Meeting more customer and client needs</b>	<ul style="list-style-type: none"> <li>Expand brand across capabilities</li> <li>Broaden products and distribution</li> </ul>	<ul style="list-style-type: none"> <li>Leading annuity provider &amp; active manager</li> <li>Exceptional distribution footprint</li> </ul>	One Challenger
 <b>Clients seeking yield</b>	<ul style="list-style-type: none"> <li>Develop attractive income solutions</li> <li>Expand investment capabilities</li> </ul>	<ul style="list-style-type: none"> <li>#1 Fixed income house</li> <li>Spread and fee-based business</li> </ul>	Breadth of income offering
 <b>Investment &amp; Origination Excellence</b>	<ul style="list-style-type: none"> <li>Best-in-class investment management</li> <li>JV Non-bank lender in Australia &amp; NZ</li> </ul>	<ul style="list-style-type: none"> <li>Challenger – deep relationships &amp; experience</li> <li>Apollo – extensive global scale and network</li> </ul>	<b>Grow FM</b> <b>Grow private lending</b>
 <b>Complexity in investment operations</b>	<ul style="list-style-type: none"> <li>Partnership with global technology leader</li> <li>Market leading front to back-office platform</li> </ul>	<ul style="list-style-type: none"> <li>Leverage technology leader</li> <li>Administration core capability and strength</li> </ul>	SimCorp JV

# Leveraging strategic partnerships

## Supporting growth and diversification strategy



### 2022 Investor Day – Strategic partnerships

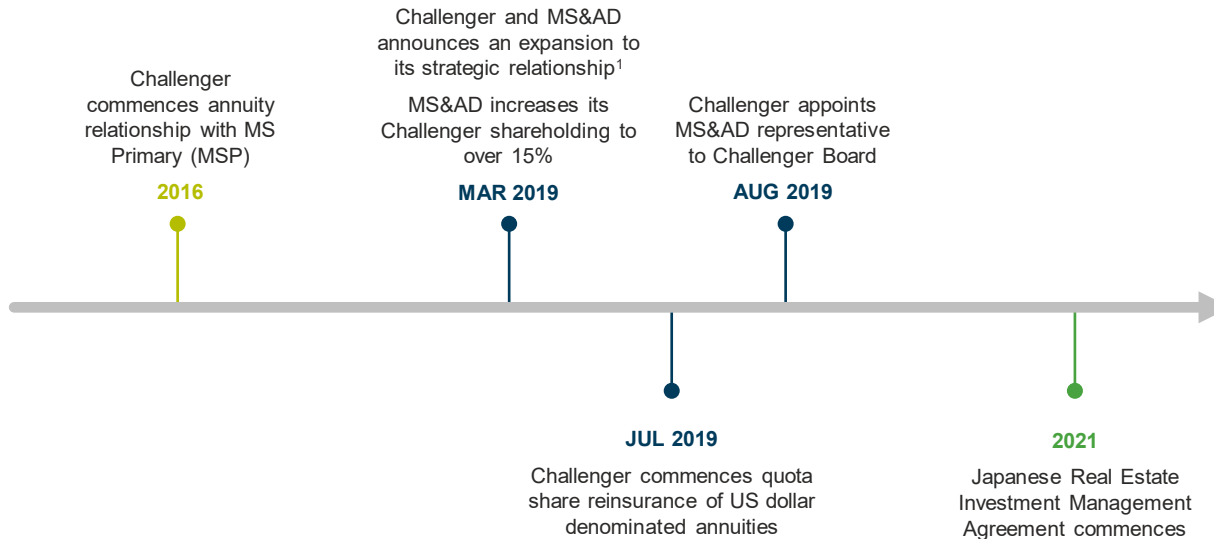
1. Challenger Life entered into an agreement with MS Primary to commence reinsuring the US dollar version of the term product. Challenger provides a guaranteed interest rate and assumes the investment risk in relation to those policies issued by MS Primary and reinsured by Challenger.



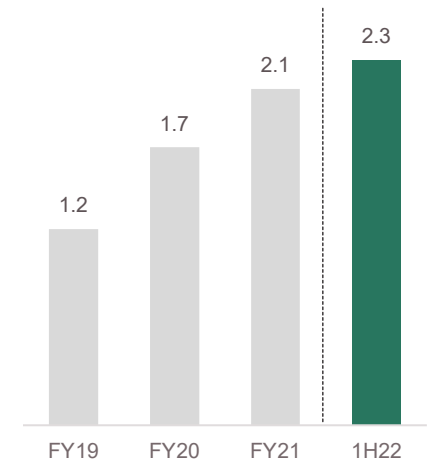
# MS&AD strategic partnership

## Long-term relationship

## Diversifying and providing access to Japanese market



Japan (MS Primary) annuity liabilities (\$bn)



### 2022 Investor Day – Strategic partnerships

1. Under the reinsurance arrangement, MS Primary provides Challenger an amount of reinsurance, across both Australian and US dollar denominated annuities, of at least ¥50b (currently ~A\$600m based on 30 June 2021 exchange rate) per year for a minimum of five years. This is subject to review in the event of a material adverse change for either MS Primary or Challenger.

# Apollo partnership

Opportunity to support customers achieve financial security for retirement

## APOLLO

- Aligned purpose – Apollo: generate investment income and retirement savings for their clients
- Natural business partner



## Opportunities to work together



Investment opportunities



Similar Life Risk operations



Product opportunities



Distribution opportunities



JV opportunity

# Apollo joint venture opportunity

## Complementary core capabilities

**challenger** 

**Domestic capability**

- ✓ #1 Fixed income manager
- ✓ Deep understanding and relationships in lending markets
- ✓ Proven origination track record
- ✓ Market leading operating platform

**APOLLO**

**Global capability**

- ✓ Global scale and network
- ✓ Private & public capability
- ✓ Experience with similar JVs
- ✓ Best in-class origination platforms

**Joint Venture opportunity**

-   
Opportunity to capture underserved market segment
-   
Leverages combined capabilities of Challenger Group
-   
Partner with global experience and scale
-   
Provides business diversification
-   
Alpha origination for clients

- Work underway to ensure foundations of JV are strong, including structural, tax and regulatory considerations

# SimCorp Joint Venture Investment Administration As a Service

**Stuart Kingham**  
Chief Commercial Officer



# Investment Administration As a Service

## Building a leading investment operations platform

### Opportunity

Macro and industry trends present **Investment Administration As a Service** opportunity

### Capability

Investment administration **core Challenger capability** and **competitive advantage**

### SimCorp

Executing **strategic joint venture** with SimCorp – global technology leader

### Strategy

Initiative supports Challenger's **growth and diversification strategy**

# Investment Administration As a Service

## Macro and industry dynamics providing opportunity

### Macro and industry dynamics

#### Macro

- Regulation increasing
- Growth in alternatives
- Demand for private markets
- Digitalisation accelerating
- Client expectations shifting

#### Industry

- Focused on cost discipline
- Driving efficiency
- Technology simplification
- Consolidation and mergers

### Industry response

- Focusing on core investment management to generate alpha
- Outsourcing investment administration operations
- Demand for cloud, big data and automation
- Focusing on strengthening risk controls with automation
- Full front to back platform to support growth
- Demand for scalable platforms

### Opportunity

#### Investment Administration As a Service



**Provide services to asset owners and investment managers**



**Front, middle, and back office services**



**Cloud based single tech and data platform**



**Expert team based locally in Australia**

# SimCorp joint venture

## Complementary core capabilities

challenger 

### Investment admin. capability

- ✓ Supported growth to >\$100bn across 18 clients<sup>1</sup>
- ✓ Exceptional efficiency – market leading admin. bps cost
- ✓ Supports private markets and complex business
- ✓ Full front to back office offering with ~130 employees

 SimCorp

### Technology capability

- ✓ Market leading cloud-based solutions<sup>2</sup>
- ✓ Front to back leadership with 40+ years experience
- ✓ €100m R&D investment per annum
- ✓ Strategic alignment – moving to As a Service model

## Joint Venture



Opportunity to capture underserved market



Leverages capabilities of Challenger Group



Partner with global technology leader



Provides business diversification



Creates new fee generating business



Capture scale to support growth

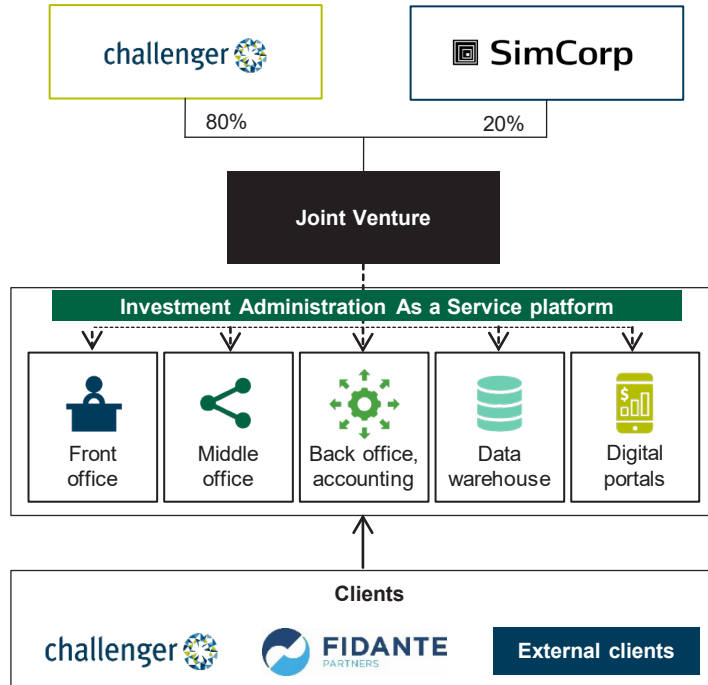
2022 Investor Day – Strategic partnerships

1. Challenger Life, Challenger Investment Management and 16 Fidante Partners affiliates as at 31 March 2022.

2. Investment operations administration global market share 16%.

# SimCorp joint venture

## Delivering leading investment operations platform



### Investment Administration As a Service

- ✓ Australian first and Australian operated
- ✓ Technology led investment administration platform
- ✓ Independently branded and majority owned
- ✓ Challenger and Fidante Partners foundation clients
- ✓ Clients to benefit from SimCorp technology
- ✓ Run by experienced Challenger employees
- ✓ Generate fee and FUM-based income
- ✓ Expect to commence operations in FY23

### Target external clients

Investment managers, super funds and platforms



# Supports growth strategy

Fit for future growth and diversifying income streams

## Investment Administration Business As a Service platform

Our **purpose** is to provide customers with financial security for a better retirement

**Broaden customer access across multiple channels**

- ✓ New third party customers
- ✓ Capability to access new channels

**Leverage the combined capabilities of the group**

- ✓ Export core capability
- ✓ Enables efficiency
- ✓ Captures more scale

**Expand range of financial products and services for a better retirement**








- ✓ Support more products
- ✓ New managers to market quickly

**Strengthen resilience and sustainability of Challenger**

- ✓ New fee-based income
- ✓ Diversifies business
- ✓ Simplifies business

# Leveraging strategic partnerships

## Supporting growth and diversification strategy

	 Leverages capabilities of Challenger Group	 Partner with global leader	 Provides business diversification	 Capture scale to support growth	 Opportunity to capture underserved market	 Alpha origination for clients	 Creates new fee generating business
<b>MS&amp;AD</b>	✓	✓	✓	✓		✓	
<b>APOLLO</b>	✓	✓	✓	✓	✓	✓	✓
<b>SimCorp</b>	✓	✓	✓	✓	✓		✓

# Life investment portfolio

**Peter Schliebs**  
Chief Investment Officer



# Strongly capitalised

## No change to current settings

### Strongly capitalised

Challenger Life Company  
PCA ratio<sup>1,2</sup>

**1.61x**

Within PCA ratio range  
1.30x to 1.70x<sup>3</sup>

### Expectations

- Preferred operating level ~1.6x
- Increase in liquid capital to improve financial flexibility

#### 2022 Investor Day – Life investment portfolio

1. The PCA ratio represents total Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount.

2. As at 30 April 2022.

3. Challenger does not target a specific PCA ratio and the target PCA ratio range is a reflection of internal capital models, not an input to them and reflects asset allocation, business mix and economic circumstances. The target surplus produced by these internal capital models currently corresponds to a PCA ratio of between 1.30 times to 1.70 times. This range may change over time and different constraints can apply including CET1 requirements.

# Market themes

## Challenger well positioned to adjust to changing market conditions

### Market themes



#### Increasing inflation and bond yields

High inflation in the near-term  
Significant interest rate increases priced into the market



#### Heightened volatility

Elevated geopolitical risk  
Central bank policy risk  
Uncertainty for growth outlook



#### Increased competition in domestic private lending

Super funds expected to become more active in this segment going forward  
Some impacts to terms and allocations

- Challenger Life hedges these impacts, including interest rate hedges over the property portfolio
- Conditions supportive for new business sales and profitability

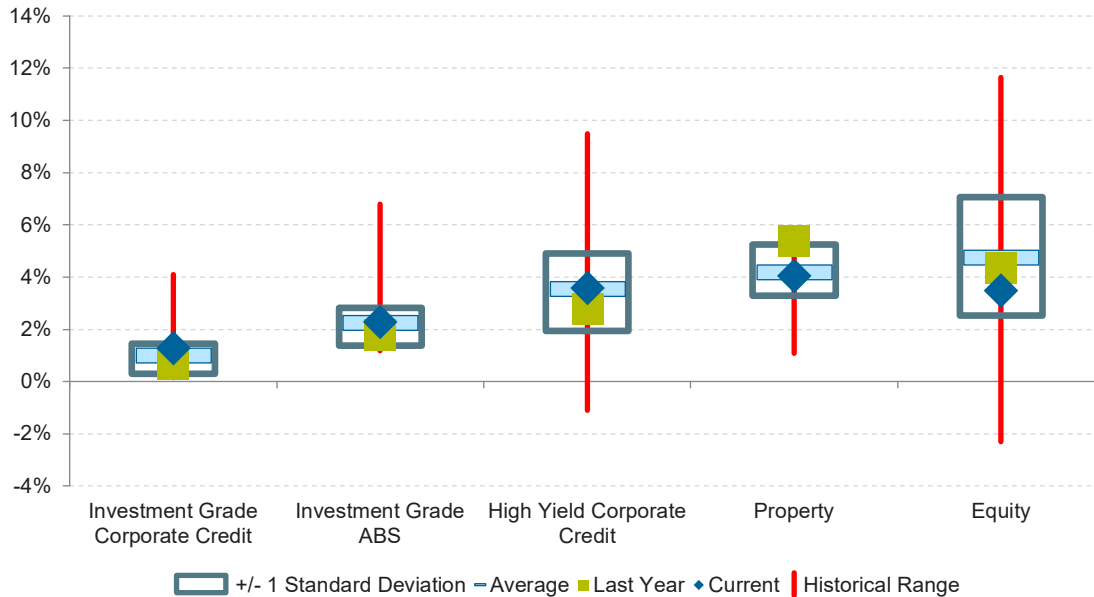
- Ongoing volatility of asset prices, capital remains at the upper end of the range, with a planned increase in uncorrelated alternative investments to increase financial flexibility

- Leverage existing deep relationships to ensure ongoing private asset pipeline

# Asset risk premium update

## Back towards long-term averages

### Asset risk premiums<sup>1</sup>

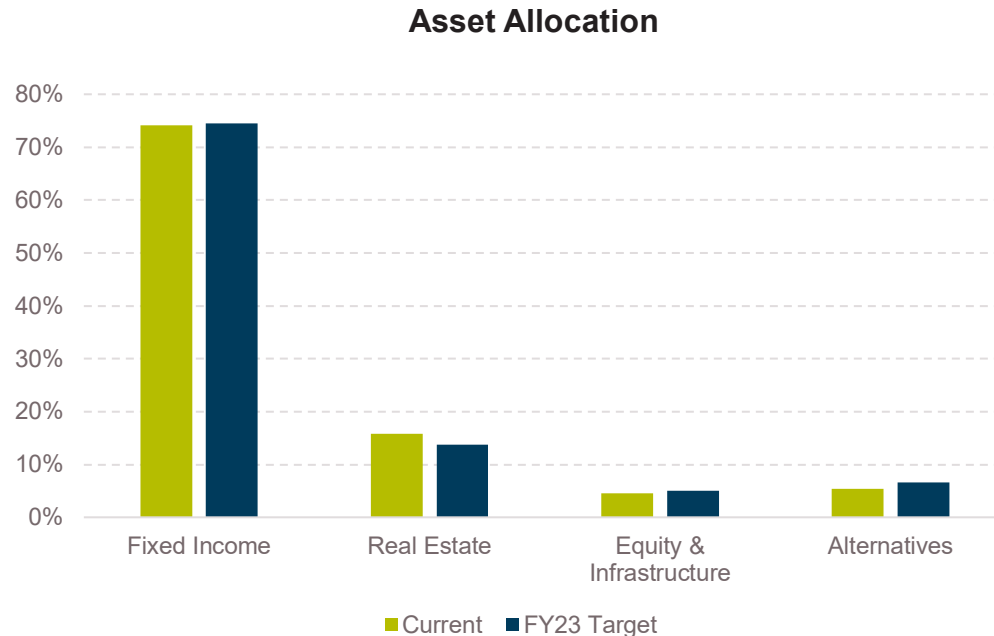


### Key observations

- Risk premia back to long-term averages (ex. equities)
- Credit spreads have moved wider and are supportive for new business profitability
- Property and equity risk premia have contracted

# Asset allocation

FY23 allocation expected to remain broadly stable



## Key Opportunities










- Further reduction in IG corporate credit, with better opportunities in asset backed and private debt, continuing to target >75% investment grade
- Reallocation of some equity collar into the unlisted equity sector
- Increased exposure to alternatives (including absolute return funds and insurance linked securities) with a reduction to real estate

## Assumptions

- Capital intensity expected to remain stable
- No change to normalised growth assumptions

# Implications for ROE and margins

Overall positive with Challenger Life well capitalised

<b>Market themes</b>	 <b>Increasing inflation and bond yields</b>	 <b>Asset returns</b>	 <b>Overall</b>
<b>ROE</b>	 ROE to increase, however takes time to season through income	 Widening of credit spreads positive for ROE, potential MTM volatility needs to be managed	 Conditions positive for ROE Challenger Life well capitalised to withstand MTM volatility
<b>Margin</b>	 Improved margin due to increased return from shareholder capital	 Positive to margin on entire book	 Conditions support margin expansion



# Key points

## Strongly capitalised and taking advantage of investment opportunities

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Challenger Life remains strongly capitalised

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Volatility expected to remain elevated in near term

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Widening credit spreads supportive for new business profitability

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FY23 asset allocation expected to remain broadly stable

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Market trends expected to be positive for ROE and margin

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# Outlook and wrap up

**Nick Hamilton**  
Managing Director & Chief Executive Officer



# Enhancing shareholder outcomes

Building a more diversified business and meeting more customer needs

Building a more diversified business

Meeting the needs of more customers



## Enhancing shareholder outcomes



Accelerate FUM growth



Capture scale benefits



Increase fee-based income







Diversify earnings



Maintain strong capital position

# Enhancing shareholder outcomes

## Building a more diversified business and meeting more customer needs

Opportunity	Strategy	Accelerate FUM growth	Capture scale benefits	Increase fee-based income	Diversify earnings
 Meeting more customer and client needs	One Challenger	✓		✓	✓
 Clients seeking yield	Breadth of income offering	✓		✓	✓
 Investment & Origination Excellence	Grow FM Grow private lending	✓	✓	✓	✓
 Complexity in investment operations	SimCorp JV		✓	✓	✓

# Strong FY22 business performance

## FY22 guidance and targets

### GUIDANCE

Normalised net profit before tax expected to be towards upper end of FY22 guidance range



### TARGETS

#### Normalised pre-tax Return on Equity (ROE)

- Disciplined approach to profitability and optimising ROE
- Target: RBA cash rate plus margin of 12%

#### Dividend payout ratio

- No change on payout policy
- Target: 45% to 50% normalised dividend payout ratio<sup>1,2</sup>

## Strong capital position

Challenger Life Company  
PCA ratio<sup>3,4</sup>

**1.61x**

Within PCA ratio range  
1.30x to 1.70x<sup>5</sup>

## 2022 Investor Day – Outlook and wrap up

1. Normalised dividend payout ratio represents dividend per share divided by normalised earnings per share (basic).  
2. Dividend subject to market conditions and capital management priorities.  
3. The PCA ratio represents total Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount.

4. As at 30 April 2022.  
5. CLC maintains a target level of capital representing APRA's Prescribed Capital Amount (PCA) plus a target surplus and does not target a fixed PCA ratio. The target PCA ratio range is currently 1.30 times to 1.70 times with a preferred operating level of 1.60 times.

# Key points

## Building a diversified business to meet more customer needs

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Strong business with significant competitive advantages

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Broaden products and distribution to meet more customer needs

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Expand Challenger brand

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Accelerate growth through leveraging strategic partnerships

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Enhance shareholder outcomes

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This presentation was prepared for the purpose of a briefing to equity analysts and certain wholesale investors on 24 May 2022.

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