Shareholder Newsletter

MARCH 2016

Peter Polson
Chairman

INCREASE IN NORMALISED PROFIT AFTER TAX

↑18%

INCREASE IN 2016 INTERIM DIVIDEND

↑10%

Dear Shareholder,

On behalf of Challenger's Board and management team, I'm pleased to provide you with an update on the performance of your company for the first half of our 2016 financial year.

The year started with further positive regulatory announcements from the Government, new opportunities to distribute annuities through investment platforms and a Challenger retirement incomes brand which continues to go from strength to strength.

Growth in earnings

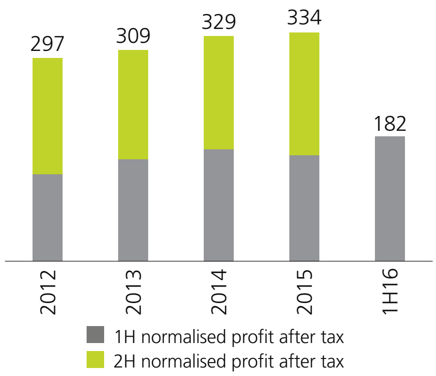
With ongoing inflows across our Life and Funds Management businesses, total funds and assets under management is now approaching $60 billion, having more than doubled over the past five years.

The increase in total funds and assets under management drove an 18% increase in normalised profit after tax to $182 million for the six months ended 31 December 2015. Normalised earnings per share were up 13% at 32.6 cents per share.

Statutory profit after tax[1] was $52 million higher at $234 million, and includes the impact of valuation changes on our assets and liabilities and a one-off profit following the sale of Kapstream, one of our boutique investment managers, in July 2015.

The Board continues to believe normalised profit is a better indicator of our underlying business performance than statutory profit, and for this reason the Board bases shareholder dividends on normalised profit after tax.

Normalised profit after tax ($m)



Increase in interim dividend

Your Board is focused on increasing dividends over time and seeks to ensure there is an appropriate balance between profits paid to shareholders as dividends and profits retained in order to grow the business.

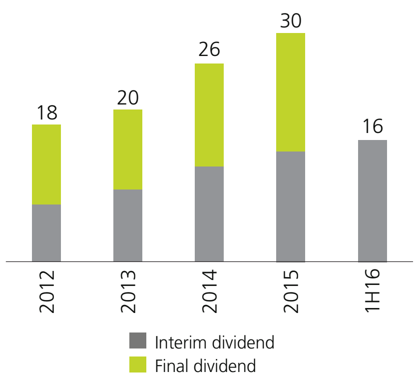
A fully franked interim dividend of 16.0 cents per share has been declared for the six months, reflecting growth in our earnings. This dividend is 10% higher than last year, is fully franked and represents around 50% of normalised profit after tax.

Over the past four years, both the interim and final dividends have more than doubled and we have returned to full dividend franking.

Based on current forecasts, the Board will continue to target paying out between 45% and 50% of normalised profit each year as dividends.

We have implemented a Dividend Reinvestment Plan (DRP), enabling you to receive some or all of your dividends as Challenger shares instead of cash. If you would like to participate in the DRP, you will need to make an election with Challenger's share register, Computershare Investor Services, at www.computershare.com/investor.

Dividends (cps)



1 Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in the Directors' Report of the Challenger Limited Interim Financial Report 2016.

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Life business update

Our annuities or Life business targets the retirement spending phase of superannuation by providing investment products that convert retirement savings into safe and secure retirement incomes.

The Life business is targeting Australia's increasing superannuation savings pool and the rapidly rising number of retirees. Currently about 700 Australians turn 65 every day, which when coupled with a greater general awareness of the risk for a retiree in outliving their savings, creates greater interest in our products.

Life's average assets under management for the half year exceeded $13 billion, and were 12% higher than last year. This increase together with a higher margin drove a 15% rise in Life's normalised earnings before interest and tax and we are on track to achieve Life's full year earnings guidance.

Since 2009, Challenger has remained focused on retirement incomes through our vision of providing Australians with financial security for retirement. We now play a significant role in highlighting the importance of annuities in relieving financial stress during retirement.

Our brand is recognised by both retirees and financial advisers as the leading Australian retirement incomes brand. We intend building on this with a new advertising campaign, launched in February 2016. This campaign focuses on lifestyle expectancy and how annuities protect people from outliving their savings.

The Federal Government has announced its support for the Financial System Inquiry's retirement income recommendations, including the development of Comprehensive Income Products for Retirement. These products will address some of the shortcomings that exist in Australia's retirement system by helping protect retirees from the risks of market movements, inflation and the risk of outliving their savings. Lifetime annuities will be a key component of these retirement solutions.

The superannuation industry is already starting to move ahead of this important regulatory reform and has begun making guaranteed retirement incomes more readily available.

Challenger annuities have been launched by Colonial First State on Australia's largest investment platform, and we have partnered with a range of industry funds who will use Challenger annuities to provide more comprehensive retirement solutions for their members. We expect more super funds and platforms to partner with Challenger, unlocking new distribution opportunities for us.

Funds Management update

The Funds Management business generally targets investors and specifically the retirement savings phase of superannuation by providing investment products aiming to deliver superior investment returns to maximise retirement savings.

Our boutique funds management business, Fidante Partners, attracted organic net flows of $1 billion for the six months, across a range of our boutique investment managers.

These organic inflows were offset by a $5.4 billion reduction in funds under management following the sale of Kapstream Capital. Challenger recorded a $40 million profit on the sale and will continue to provide distribution and operational services to the business. No ongoing normalised earnings impact is expected over both the short and medium term as a result of the sale.

During the half year we completed the acquisition of London based Dexion Capital, with the acquisition representing a significant step-up in our European presence and an important part of our international distribution and product expansion plans.

Funds Management net income increased by 20% for the half, inclusive of Dexion Capital, and earnings before interest and tax were $22 million, which was up 4% on last year. The higher Funds Management income was partially offset by higher expenses as we invest in the expansion of our proven multi-boutique model into Europe.

The Funds Management business benefits from growth in Australia's super system, which is underpinned by rising compulsory super contributions. Over the next twenty years Australia's super system is projected to grow from $2 trillion today to over $10 trillion[2].

Key dates

29 March 2016	Payment date for 2016 interim dividend
16 August 2016	Full year 2016 financial results released Final 2016 dividend announcement
1 September 2016	Ex-date for 2016 final dividend
2 September 2016	Record date for 2016 final dividend
5 September 2016	Final dividend DRP election date
28 September 2016	Payment date for 2016 final dividend
27 October 2016	2016 Annual General Meeting – Sydney

Manage your shareholding

For administrative matters in respect of your Challenger shareholding, please contact Computershare Investor Services.

To assist with all enquiries, please quote your unique Security Reference Number (SRN) and your current address.

T: 1800 780 782
W: www.computershare.com/investor

Go electronic

Challenger can deliver your shareholder communications electronically, just update your communication preferences via Computershare Investor Services. You can even elect to receive your dividend statements via mail and all other communications online.

I would like to thank you, our shareholders, for your ongoing support and commitment to Challenger.

Peter Polson
Chairman
Challenger Limited

2 Deloitte – Dynamics of the Australian superannuation system: the next 20 years 2015 – 2035.

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