Challenger Life Company Responsible Investment statement

MAY 2024

1. Introduction

A large proportion of Challenger group earnings comes from the Challenger Life Company (CLC), which focuses on the retirement phase of superannuation, with products helping customers convert retirement savings into safe, secure and reliable retirement income. CLC maintains a high-quality investment portfolio in order to generate cash flows to meet these future obligations.

The purpose of this statement is to outline CLC's approach to environmental, social and governance (ESG) risks and opportunities within its investment portfolio and associated investment decision making process.

2. ESG Philosophy

CLC believe that ESG factors have an impact on the long-term performance of markets, countries and companies, and that considering them in the investment process should improve risk-adjusted returns. For these reasons, we seek to consider ESG risks both in our own investment decision-making and ownership practices and when we appoint managers to act on our behalf.

We are committed to continuous improvement in ESG integration across our investments. We will apply our approach to ESG integration wherever it is relevant or feasible to the investment strategy. Where it is not relevant or feasible to integrate ESG we will continue to look for guidance and developments in this area.

3. ESG integration

3.1 Our investment approach

CLC manages a diverse investment portfolio across fixed income, real estate, alternatives and equity and infrastructure that utilises both internal and external managers. The majority of our fixed income portfolio is outsourced to Challenger Investment Management (CIM). The remainder of the portfolio is generally outsourced to external third party managers.

Our investment approach is consistent with our purpose of providing customers with financial security for a better retirement. Capital preservation, value creation and risk mitigation are at the centre of our ESG integration process. We believe that working with issuers and asset managers to improve business practices and behaviour will achieve these goals and have a positive impact on society as a whole.

We have adopted an integrated investment management approach to deliver responsible investment outcomes. In line with these practices is CLC's belief that the consideration of ESG factors will provide a greater understanding of areas of potential risk and opportunity that could ultimately affect the value, performance, and reputation of the investment decision-making that it undertakes.

CLC's investment management teams consider ESG risks and opportunities that are relevant to the current or future value of an investment when deciding whether to buy, retain or sell an investment. These issues may be driven by existing or future market trends, reflect issues of considerable societal concern, or pose potential operational, financial, strategic, reputational, or systemic risks. Importantly, ESG factors form a part of the overall value proposition for an investment.

These considerations are made at the investment level and form a part of portfolio construction decisions across the entire portfolio.

ESG risks and opportunities that may be considered across different asset classes are set out in the table below.

ESG Risks and Opportunities

Considerations	Examples
Environmental	Climate change (e.g., greenhouse gas emissions, emissions trading, physical risks and opportunities, transition risks, adaptation, mitigation), biodiversity loss, building energy performance, energy consumption, pollution, natural resource use and degradation (e.g., water scarcity), land use, waste, clean technology products and services, environmental management practices and product lifecycle management.
Social	Human capital, workplace health and safety, labour relations and standards, human rights, modern slavery, demographic changes, supply-chain, responsible lending, data privacy, indigenous cultural heritage, animal welfare and community impacts.
Governance	Board composition and independence, executive remuneration and incentive plans, corporate accountability structures, compliance, negligence, bribery and corruption, conflicts of interest and related-party transactions, shareholder rights, board oversight of ESG risks, accounting and audit quality.

3.2 Materiality

We determine materiality of ESG factors by considering which ESG risks and opportunities an industry is most exposed to as well as any ESG risks and opportunities specific to the company or issuer itself. A material ESG risk is one which can have a significant impact on the valuation or reputation of a company or investment, if not well managed.

In our own investment decision-making:

- Where we consider there to be a material ESG issue in relation to a company in which we invest or are considering for investment, we will engage with the company, in relation to their ESG risk management policies, strategies, performance, disclosure and management capabilities, with the purpose of reducing the risk of the underlying investment or sector leading to improved investment outcomes for clients.
- We consider material ESG risks and opportunities relevant to the current and future value of an investment when deciding whether to buy, retain or sell an investment.
- We seek, where possible, to identify ESG trends and invest with the intent to take advantage of them to improve risk adjusted returns.

Where modern slavery has been identified to be a material ESG risk in relation to a company in which we invest or are considering investment, we will conduct additional due diligence to identify and assess any potential modern slavery risks that may be caused by, contributed or directly linked to the investment in the company. Where possible and appropriate, we will implement controls to mitigate modern slavery risks.

4. Manager Selection, Appointment, and Monitoring

CLC undertakes an extensive ESG due diligence process for any third-party investment manager that it considers appointing. This process is conducted by Challenger's Senior ESG Specialist.

When carrying out due diligence for the appointment of managers, we:

- Promote CLC's expectations in respect to ESG considerations as a part of the investment manager selection and review process;
- Ensure that the managers we appoint have formal ESG policies in place.
- Review and understand the manager's responsible investment approach, resource capability and intent with respect to ESG;
- Review the manager's ESG Policy and, where relevant, encourage and assist the manager in formalising such a policy;
- Request reporting on ESG activity on an annual basis from the managers we appoint;
- Ensure there is a specific clause contained within the Investment Management Agreement (IMA) which clearly sets out the third-party investment manager's approach to ESG considerations, including an adequate explanation as to how ESG risks are accounted for and where relevant the development of a formal ESG Policy if one does not exist;
- Encourage the manager to discuss ESG considerations undertaken in their own investment decision-making and ownership practices in their reports to CLC; and
- Encourage the manager to become a signatory to the Principles for Responsible Investment (PRI).

CLC also expects that the managers we appoint will:

- Demonstrate an acceptable level of commitment to the management of key ESG risks and opportunities, including:
  - Following the PRI principles;
  - Meeting any Sustainable Finance regulatory requirements in the relevant jurisdictions;
  - Having formalised ESG Policy and governance structure;
  - Effectively assessing, measuring, and monitoring climate risks and opportunities at an entity and portfolio level; and
  - Demonstrating that modern slavery risks are considered as part of the ESG integration process.
- Apply principles of active ownership and investment stewardship, particularly in relation to proxy voting and engagement, in a manner that is aligned with Challenger's Responsible Investment Policy.

5. Engagement on ESG

We believe that sustainability is a long-term driver of future performance and that companies and issuers with strong sustainability and governance practices are in a better position to mitigate risks and capture opportunities. We believe that company and issuer engagement is an opportunity for value creation across our investments.

We engage with the companies and third-party investment managers in which we invest, or are considering for investment, in relation to their ESG risk management policies, strategies, performance, disclosure and management capabilities. The level of engagement is dependent on the asset class and nature of the investment as well as the materiality of the risk. We may not elect to proceed with investments where ESG risks are deemed to be high or may choose to divest some investments where it deems ESG risk falls outside of its risk appetite. CLC does not undertake any ESG screening on passive (index) exposures.

The intent of the engagement is to reduce the risk of the underlying investment or sector, with the objective of improving investment outcomes for our stakeholders.

6. Material ESG Considerations

Climate Change

CLC is cognisant of the world which our current and future customers will retire into. We integrate ESG considerations in our investment process because we believe ESG factors have an impact on the long-term performance of markets, countries and companies and that ESG integration should improve risk adjusted returns over time and this includes the consideration of climate risks and opportunities. CLC believes climate change will impact every part of the economy. We recognise the role we can play in managing the potential risk exposures and opportunities related to climate change across our value chain.

Our investment teams assess the potential impacts of climate change-related physical and transition risks on the value of their investments. Investment teams also take into account how resilient investee companies are to such risks and if they are well positioned to benefit from such a transition. The approach to climate-risk assessment in investment analysis varies between asset classes. We recognise that the physical and transition risks related to climate change, if not considered, will have financial impacts. We also consider how third-party managers consider climate risks and opportunities in their investment processes and this forms a key part of the due diligence we complete on third party managers.

We also acknowledge the recently published standards of the International Sustainability Standards Board (ISSB) on sustainability and climate change, in particular the IFRS S2 Climate Related Disclosures, along with the Treasury Consultation on Climate Risk Disclosure and the Australian

Accounting Standards Board (AASB) requirements which will govern the content of climate reporting. The new standards consolidate and build on the TCFD framework. We are working to align our climate risk framework with the ISSB standards and report accordingly in the timeframes set by the Australian Government.

Modern Slavery and Human Rights

CLC recognises that no industry is immune to the risk of modern slavery, and we are committed to upholding the highest possible standards of ethics in all aspects of our business, as well as playing our part to prevent, detect and remediate instances of modern slavery.

CLC recognises the importance of companies and issuers respecting and protecting human rights, in accordance with the UN Guiding Principles of Business and Human Rights (UNGPs), and upholding labour rights in its own business and those within its supply chain. We believe all people are entitled to basic rights and freedoms.

When assessing potential or existing investment opportunities, CLC will undertake due diligence to assess any potential modern slavery risks in accordance with the specific entity and asset class approach to ESG integration. CLC is committed to ensuring that its investment managers are aware of the risks of modern slavery within their investment portfolios and supply chain, ensuring adequate policies are in place to mitigate and manage modern slavery risks caused by, contributed or directly linked to an investment activity.

At Challenger, we respect and support internationally recognised human rights as set out in the Universal Declaration of Human Rights and the Fundamental Conventions of the International Labour Organisation and we follow the UNGPs when undertaking investment and business activity.

We also understand that modern slavery is a serious social issue that corporate Australia must work to address. Challenger recognises that there are still instances of modern slavery, particularly in high-risk jurisdictions and high-risk industries.

Challenger Limited is required to comply with Australian Modern Slavery Act 2018 (Cth). Under this Act, it has an obligation to report annually on the risks of modern slavery in its operations and supply chains, including investment activities.

Diversity, Equity and Inclusion

CLC believe that the presence of strong diversity, equity, and inclusion (DE&I) frameworks, inclusive practices, and diverse teams within the companies is an indicator of strong governance, workplace culture and can contribute to long-term financial success of the company.

DE&I is also important to CLC as an investment team and we believe that all forms of diversity create diversity of thought and better outcomes for investors.

At the Challenger Group level, Challenger's employee value proposition includes an overarching pillar to embed a stronger together, supporting each other culture. Our people first approach means employees work collaboratively with people who bring diverse backgrounds for a smarter outcome. Challenger inspires a diverse and inclusive workplace where employees can succeed regardless of their life circumstances and experiences including, but not limited to, gender identity, age, cultural background, religious beliefs, marital or family status, disability, sexual orientation, socio economic background or carer responsibilities.

Challenger's diversity and inclusion strategy is endorsed by the Board and Chief Executive Officer and has three key areas of focus:

- Diverse and inclusive culture – where differences are valued and employees have a strong sense of belonging;
- Gender equality through equitable practices – Improving business outcomes through equitable representation, opportunities and reward for women and men and other recognised genders; and
- Diversity beyond gender– Supporting employment outcomes for people over 50 and other diversity groups represented by the employee networks.

7. Challenger Group Responsible Investment Governance

CLC falls under the overall Challenger group structure on responsible investment, with common objectives to CLC in respect of ESG considerations. Incorporating these common ESG beliefs into investment decision-making and portfolio construction also helps Challenger to build a more resilient organisation and protects both the business and customers from financial and non-financial risks.

The Challenger Board bears the ultimate responsibility for setting and approving Challenger's approach to ESG integration. The ESG Steering Committee provides executive management focus on the development and implementation of the ESG risk management framework. The investment teams have responsibility for integrating ESG considerations into the investment process, with senior investment leaders across CLC and Challenger Funds Management having Key Performance Indicators linked to responsible investment and ESG integration.

Challenger's Responsible Investment Policy is the overarching policy that governs ESG at Challenger. This Policy provides the principles with which ESG is integrated across the firm. The CLC Responsible Investment Statement sits underneath this overarching policy, providing asset class specific guidance to the CLC team. The Challenger Responsible Investment Policy is reviewed annually and applies to all relevant employees of Challenger who are responsible for making active investment decisions.

ESG GOVERNANCE

The Challenger Group collaboratively engages across the industry to effect change and advocate for our Investment Managers through our ESG, Sustainability and Distribution teams. The ESG team actively engages with the Principles for Responsible Investment (PRI), Financial Services Council ESG Working Group, Responsible Investment Association of Australasia (RIAA) and the Investors Against Slavery and Trafficking Initiative (IAST). Challenger has been a signatory to the PRI since 2015 and is committed to its six principles.

8. Resources

Our investment teams utilise external ESG research and data, the insights and expertise of Challenger Group's Senior ESG Specialist and their deep understanding of their investee companies, to inform their engagement activity.

CLC subscribe to an external ESG data provider to enable investment teams to access additional ESG metrics, insights, and reporting capability.

9. Scope

This Responsible Investment Statement applies to all relevant employees of the CLC team responsible for making active investment decisions.

10. Oversight

The Responsible Investment Statement is reviewed annually by the Senior ESG Specialist and Chief Investment Officer of CLC. The statement is ultimately authorised by the Chief Executive of CLC.

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