



**Things are looking much better.**

|                              |  |
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| <b>Company/ASX Code</b>      | <b>Challenger Limited (CGF)</b>  |
| <b>AGM date</b>              | <b>Thursday 28 October 2021</b>  |
| <b>Time and location</b>     | 9.30 AM (Sydney Time) <a href="http://web.lumiagm.com/392995787">web.lumiagm.com/392995787</a>   |
| <b>Registry</b>              | Investor Centre  |
| <b>Webcast</b>               | Yes  |
| <b>Poll or show of hands</b> | Poll on all items  |
| <b>Monitor</b>               | Elizabeth Fish assisted by Nick Bury   |
| <b>Pre AGM Meeting?</b>      | Yes with Chair Peter Polson and with Chair of the Group Remuneration Committee JoAnne Stephenson and Stuart Kingham, Head of Investor Relations. |

Please note any potential conflict as follows: The individuals involved in the preparation of this voting intention have shareholdings in this company.

**Summary of issues for meeting.**

The most pressing issue was the businesses recovery from the poor result from the previous year.

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| <b>Item 1</b>   | <b>Consideration of accounts and reports</b> |
| <b>ASA Vote</b> | No vote required                             |

**Summary of ASA Position**

**Governance and culture**

Challengers 2020 Corporate Governance Report and Sustainability Report are available online at [challenger.com.au/corporategovernance2021](http://challenger.com.au/corporategovernance2021) and [Challenger.com.au/sustainabilityreport2021](http://Challenger.com.au/sustainabilityreport2021).

**Financial performance**

Challenger had a much improved outcome this year, reporting a Statutory NPAT of \$592.3m to June 2021. There was a slight increase in the share price from \$4.4 to \$5.4 compared to recent prices and an increase in dividends paid. Funds under management have increased by \$22.6b or 36.3% over the previous year and life annuity sales increased by 46% to \$4.6m. It should be noted that in Fy20 many superannuation funds needed to withdraw funds to meet members drawing-down on their balances to meet living expenses.

The ASA notes from the Management Analysis of Normalised Results, a table that removes unrealised losses and gains from statutory profit, (page 18 of the AR) that in this year the Investment Experience of \$318.6m has only eliminated 42% of the investment losses occurring in Fy20. Aggregate losses from the investment experience for the last six years remain at \$639.4m.

At the Pre AGM meeting the chair confirmed Challenger's 2021-22 guidance of about \$455M profit before tax. The monitors extrapolated that given a tax rate of about 28%, and a stated policy of

paying out 40-50% of NPAT then the total fully franked dividend to be paid to shareholders during the combined 2 halves of 2021-22 might be about 24c, which would be a 20% improvement on the 20c paid in 2021, though far short of immediately preceding years prior to 2021. The Chair did not confirm the expected dividend.

### **Key events**

Challenger issued Capital Notes 3 (CGFPC) on 25<sup>th</sup> November 2020. The notes paying a margin of 4.6% over the 3 month bank-bill rate. Proceeds from the issue less associated costs was \$378.3m. Capital Notes 1 (CCN1) were repaid in May 2021 at \$1.20 each, for a total of \$317.3m.

The Company conducted a share purchase plan (SPP) for retail shareholders in July 2020 raising \$35.0m, issuing 8.1m shares at \$4.32 per share. This followed an offer made to institutions in June 2020 for 55m new shares at \$4.89 per share.

The acquisition of “MyLifeMyFinance Limited”, a digital bank was completed in July 2021. At the Pre AGM meeting the ASA asked how the acquisition would fit with Challenger’s business. The Chairman responded saying that it is a very small bank and post the disruption caused by the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry it would allow Challenger to connect with its customer base. Offering a broader range of services to customers, for example fixed term deposits. He thought interaction with the customer would be more direct. The Bank will be run separately from Challenger, with two additional directors and new CEO. Subject to APRA requirements for a separate company as protection against contagion risk, to ensure a regulatory matter in one organisation would not impact on the other.

More recently Challenger have announced that Apollo Global Management and Athene Life Reinsurance bought 121.8m shares in July, which is 18.2% of issued capital. The ASX announcement was made on 7<sup>th</sup> July 2021.

### **Key Board or senior management changes**

On the 10<sup>th</sup> August, it was announced that the CEO Mr Richard Howes will retire in March 2022. Mr Howes has been with Challenger since 2003 and was CEO from January 2019. The Chairman said the search for a replacement is presently underway both internally and externally and he hopes to make an announcement soon.

Other movement in KMP roles; Ms Murphy was appointed Chief Executive, Life in March 21 and Mr Plater has stepped into her previous role of Chief Executive, Operations and Technology. Ms Grimes was appointed Chief Financial Officer in May 2021 when Mr Tobin left the organisation.

## Summary

| (As at FYE)                          | 2021  | 2020    | 2019  | 2018  | 2017  |
|--------------------------------------|-------|---------|-------|-------|-------|
| NPAT (\$m)                           | 592.3 | (421.1) | 310.7 | 322.5 | 397.6 |
| UPAT (\$m)                           | 278.5 | 343.7   | 396.1 | 406.1 | 384.7 |
| Share price (\$)                     | 5.41  | 4.41    | 6.64  | 11.83 | 13.34 |
| Dividend (cents)                     | 20.0  | 17.5    | 35.5  | 35.5  | 34.5  |
| Simple TSR (%)                       | 27%   | (8%)    | (41%) | -8%   | 58.6% |
| EPS (cents)                          | 88.2  | (68.4)  | 50.9  | 54.0  | 70.7  |
| CEO total remuneration, actual (\$m) | 2.2   | 2.5     | 5.4   | 11.6  | 7.2   |

For 2021, the CEO's total actual remuneration was 24 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2021 data from the Australian Bureau of Statistics).

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| <b>Item 2a</b>  | <b>Re-election of Duncan West as a Director</b> |
| <b>ASA Vote</b> | <b>For</b>                                      |

### Summary of ASA Position

Mr West joined the Board in September 2018. He holds a Bachelor of Science in Economics (University of Hull, United Kingdom) and he is a Fellow of the Chartered Insurance Institute, a member of the Australian Institute of Company Directors and a Senior Associate of the Australian and New Zealand Institute of Insurance and Finance. Mr West is also Non-Executive Director of Glenworth Mortgage Insurance Australia. He is chair of Challenger's Audit committee and a member of the Risk and Nominations committees. Mr West holds 25901 shares valued at \$140,124 at 30 June 2021. As the Directors skills matrix shown page 26 of the AR does not show how well each NED fulfils the requisite skills we hope that Mr West will speak to the meeting

|                 |   |
|-----------------|---|
| <b>Item 2b</b>  | <b>Re-election of Ms Melanie Willis as a Director</b> |
| <b>ASA Vote</b> | <b>For</b>  |

M Willis joined the Board in December 2017. She holds a Bachelor of Economics (University of Western Australia), Master of Law, Tax (University of Melbourne) and is a Fellow of the Australian Institute of Company Directors. Ms Willis is also an Non-executive Director of Southern Cross Media Group Limited and of Property Exchange Australia Ltd. She is Chair of Challenger's Risk Committee and a member of the Audit and Nominations Committees. Ms Willis holds 156,836 shares valued at \$848,482 at 30 June 2021. As the Directors skills matrix shown on page 26 of the AR does not show how well each NED fulfils the requisite skills, we hope Ms Willis will speak to the meeting.

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| <b>Item 2c</b>  | <b>Re-election of Mr John Green as a Director</b> |
| <b>ASA Vote</b> | <b>For</b>  |

Mr Green joined the Board in December 2017. He holds a Bachelor of Law and Bachelor of Jurisprudence (University of New South Wales) and he is a Fellow of the Australian Institute of Company Directors and Life Member and Senior Fellow of FINSIA. Mr Green holds one other NED position as deputy chair of QBE Insurance Group and as member of Cyber Security Cooperative Research Centre. He sits on Challengers Audit, Risk, Remuneration and Nomination committees.

Mr Green holds 16,944 shares valued at \$91,667 at 30 June 2021. As the Directors skills matrix shown on page 26 of the AR does not show how well each NED fulfils the requisite skills we hope Mr Green will speak to the meeting.

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|-----------------|---|
| <b>Item 2d</b>  | <b>Election of Dr Heather Smith as a Director</b> |
| <b>ASA Vote</b> | <b>For</b>  |

Dr Smith joined the Board in January 2021. She holds a Bachelor of Economics (Hons 1) (University of Queensland), PhD in Economics (Australian National University), and has completed the Advanced Management Program (Harvard Business School, Boston, United States). Dr Smith has had extensive senior Public Service experience with the Commonwealth Government. She holds a position as Professor at ANU National Security College and is Deputy Chair of the United States Studies Centre. She does not hold any other non-executive board positions, but sits on Challengers Audit, Risk and Nominations committees. Dr Smith holds 10,000 shares valued at \$54,100 at 30 June 2021. As the Directors skills matrix shown on page 26 of the AR does not show how well each NED fulfils the requisite skills we hope that Dr Smith will speak to the meeting.

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|-----------------|--|
| <b>Item 3</b>   | <b>Adoption of Remuneration Report</b> |
| <b>ASA Vote</b> | <b>For</b>                             |

### Summary of ASA Position

Although we were told that changes have been made to the remuneration structure STI is still based on a balanced scorecard outcomes, similar to previous years. As the report only shows the CEO's scores, we have to assume that similar measures apply to the other KMPS. We note that 40% of the measures are financial, 10% strategic, and 50% relate to people, culture and customer satisfaction. We find that two of the financial measures are based on normalised targets, and would argue that the Capital Position, another financial measure comes about due to decisions of the Board rather than Executives. Further the final 50% of measures do not offer quantifiable performance metrics to support the award decisions.

In FY21 Challenger has introduced a calculation termed a STI modifier, in this case 70%. The modifier reduces the awarded % of target by 30%. For example if a KMP achieves 80% of target they would receive 56% due to the modification process. The ASA is unclear how the 70% figure was arrived at but understand the Board has decided to reduce the STI outcomes in recognition of the impacts caused by Fy20 and the

flow-on impact into FY21. STI payments are considerably reduced on figures prior to FY20, while outcomes against target range between 89 and 140%. The KMP who received 140% of target (given his max is 200%) did so as a result of his exceptional business performance. Funds Management increased FUM by over 30% for the year and (they say) is the fastest growing asset manager in Australia. The ASA is pleased to find a table showing STI outcomes on page 36 of the FY21 AR.

There were no fixed remuneration increases for KMPs in FY21 apart from an increase Ms Murphy's fixed remuneration (rem) on her appointment as Chief Executive Life in March 2021. The Rem. report notes her fixed rem is 10% lower than her predecessor.

From 2019 the long term equity based incentive plan, (HPSRS) use a 5 day VWAP methodology to calculate the number of performance rights allocated. LTI has only one hurdle; absolute TSR compounded annually, set at target of 10% p.a. over 4 years. Prior to 2017 this target was 12% p.a. From 2017 onwards 50% of HPSR awards vest at 7%, then on a straight line until 10% is reached. Two thirds of HPSRs awarded are eligible to commence vesting on the third anniversary of the grant the remaining third on the fourth anniversary. HPSRS granted after 2019 will not vest until the 4<sup>th</sup> anniversary of the grant, and will be subject to retesting on the 5<sup>th</sup> anniversary. No HSPRS vested to KMP at September 2020 or at September 2021 due to deterioration of TSR performance. The ASA notes that Challenger's Remuneration Committee is aware of shareholders concern regarding the single LTI hurdle and is committed to undertaking a comprehensive review and consultation with shareholders once APRA's new standard is released.

Although the ASA has the impression that the STI's have been deliberately designed to be opaque, to avoid scrutiny the remuneration as a whole and in particular for the CEO is not excessive and we will support the remuneration vote. We would hope that the Remuneration Committee would work on providing more quantifiable STI performance metrics.

#### **A Disclaimer**

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## Appendix 1

### Remuneration framework detail

| CEO rem. Framework for FY21 | Target* \$m | % of Total | Max. Opportunity \$m | % of Total |
|-----------------------------|-------------|------------|----------------------|------------|
| Fixed Remuneration          | 1.278       | 22         | 1.278                | 19         |
| STI – Cash                  | .850        | 14.5       | 1.278                | 19         |
| STI – Equity                | .850        | 14.5       | 1.278                | 19         |
| LTI                         | 2.875       | 49         | 2.875                | 43         |
| Total                       | 5.853       | 100%       | 6.709                | 100        |

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.

\*Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

