Australian Shareholders' Association Limited
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They say it's the effect of AASB17

Company/ASX Code	Challenger Group Limited/CGF
AGM time and date	9.30 am AEDT Thursday, 24 October 2024
Location	Wesley Conference Centre, 220 Pitt Steet, Sydney NSW
Registry	Computershare Investor Services
Type of meeting	Hybrid
Monitor	Elizabeth Fish, Nick Bury
Pre-AGM Meeting	Elizabeth Fish with Duncan West (Chairman), JoAnne Stephenson (Chair of the Rem Committee)

Monitor Shareholding: The individual involved in the preparation of this voting intention has a shareholding in this company.

1. How we intend to vote

No.	Resolution description	
2a	Re-election Mr John M Green	For
2b	Re-election Dr Heather Smith	For
2c	Re-election Ms Lisa Gray	For
3	Adoption of the Remuneration Report	Against
4	Grant of long-term hurdled performance share rights to the CEO	Against

2. Summary of Issues and Voting Intentions for AGM/EGM

- Impact of Accounting Standard AASB17 on Insurance Contracts. The standard came into effect for Challenger on 1 July 2023, and is only applicable to insurance contracts, it replaces the previous standard AASB1038 for life insurance.
- Apollo selling down its CGF shares.
- Finalisation of Bank sale to Heartland Group Holdings New Zealand subsidiary.

See ASA Voting guidelines and Investment Glossary for definitions.

3. Matters Considered

Accounts and reports

It was another disappointing year for CGF shareholders, with statutory earnings per share (eps) of just 19 cents, down from 25 cents. Statutory profit of $129.9m was $24.2m less than in FY23. This was mostly due to a reduction in commercial property valuations and Life Risk mortality assumption changes. There was some offset due to gains in fixed income investments. And on the positive side, the share price was up on the prior year, though below its high points.

The effect of AASB17

The new accounting standard changes the timing of recognition of insurance earnings, not the quantum. There is no impact on normalised profit reporting, cash generation or dividend policy and has no impact on Challenger Life's capital position, other than through second order tax benefits. AASB17 introduces several accounting mismatches that can create volatility in statutory profits. In particular, this impacts the life risk business where the liability includes the present value of future cash flows (PVFEF) which is measured at current interest rates, and a contractual service margin (CSM) which is measured at the interest rate on the date the business was written (locked in rates). This means that the policy liability for the Life Risk business is sensitive to interest rate changes in the UK, the value of the British pound against the Australian dollar and UK mortality rate assumptions, all creating ongoing profit volatility. In 2HFY24 a review into UK mortality assumptions was conducted that showed a decline in mortality improvements, with a consequential increase in expected future net inflows to Challenger Life in relation to the UK Life Risk business. The Chairman seemed to consider this an economically positive outcome for Challenger Life. At our pre-AGM meeting, the Chairman said the changes to the standard had been really complicated and time consuming for staff. In FY24, the liability experience (p22) included a non-cash loss of $150m as a result of how the new standard has affected the valuation of the Life Risk business following the actuarial mortality assumption change.

Financial performance

(As at FYE24)	**2024**	**2023**	**2022**	**2021**	**2020**
NPAT ($m)	129.9	287.5	253.7	592.53	(421.4)
UPAT ($m)	416.6	364.0	321.5	278.5	343.7
Share price ($)	7.01	6.48	6.84	5.41	4.41
Dividend (cents)	26.5	24.0	23.0	20.0	17.5
Simple TSR (%)	12.3%	(1.75%)	27%	(8%)	(41%)
EPS (cents)	19.0	42.1	37.5	88.2	(68.4)
CEO total remuneration, actual ($m)	2.4	2.1	2.2	2.5	5.4

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year.

Key events

A key event was the adoption of AASB17 on 1 July 2024. The effect of the adoption is covered above.

ASA also asked about media reports of Apollo selling down its holding in September. The chairman said the relationship with Apollo has expanded and Apollo still holds 9.9% (down from 20.12%) of CGF shares and that that the sale would allow Apollo to allocate funds elsewhere. Mr Matthew Michelini, the Apollo representative, stepped down from the Board on 20 September.

Finalisation of the Challenger Bank sale was announced in April 2024. The sale was to Heartland Group Holdings Limited's subsidiary Heartland Bank Limited. The sale generated a pre-tax net gain of $11 million, which was reported as a significant item in FY24.

Key board or senior management changes

As mentioned above, non-executive director, Matthew Michelini, stepped down from the board on 20 September 2024.

Rationale for Voting Intentions

Resolution 2a Re-election Mr John M Green - For

Mr Green was first elected to the Board in January 2017. He holds a Bachelor of Laws and Bachelor of Jurisprudence from the University of NSW. He is a fellow of the Australian Institute of Company Directors and senior fellow of FINSIA. He has extensive management experience gained as executive director at Macquarie Group and was deputy chair of the QBE insurance Group. He has no other directorships with listed companies but is the chair of the PWC Governance board, is a director of the Cyber Security Cooperative Research Centre and Chair of UOW global enterprises. He sits on five of Challenger's Board sub committees. ASA will vote undirected proxies in favour of this resolution.

Resolution 2b Re-election Dr Heather Smith - For

Dr Smith was first elected to the Challenger Board in January 2021. She holds a Bachelor of Economics from the University of Queensland and a PhD in Economics from the ANU. Her management experience was gained in the Federal Public Service, as secretary of the Australian Department of Industry, Innovation, and Science and communication and the Arts. Then as Deputy Secretary pf the Prime Minister and Cabinet and Foreign Affairs and Trade. And as Deputy Director General of the Office of National Intelligence. Dr Smith holds 2 other directorships with other listed companies; ASX limited and Qantas Airways Limited. She is also the National President of the Australian Institute of International Affairs and an independent director of The Reef Restoration and Adaption program. She sits on four of Challengers sub committees and Chairs the Group Audit committee. ASA will vote undirected proxies in favour of this resolution.

Resolution 2c Election Ms Lisa Grey – For

Ms Grey joined the Challenger Board in November 2023. She holds an MBA from the University of Melbourne, Graduate Diploma in Management from RMIT, Bachelor of Town and Regional Planning (hons) from the University of Melbourne. Her management experience comes from both private and public sector exposure. Private sector experience is mostly gained in the Banking sector as Chief Executive Officer of VFMC, roles with the National Australia Bank, then as Chief Executive with MLC Insurance and MD of Plum Financial Services. Presently she is Non-Executive Director of Bupa ANZ Group companies, Bupa Aged Care Australia Pty Ltd, ING Bank (Australia) Limited and the Victorian Funds Management Corporation. She sits on four of Challenger sub-committees. ASA will vote undirected proxies in favour of this resolution.

Resolution 3 Adoption of the Remuneration Report - Against

Some changes to the remuneration structure have taken place to comply with APRA's new prudential standard CPS511. The short-term incentive (STI) structure is still based on a balanced scorecard outcome. The CEO's scorecard and outcome are shown on page 72 of the AR. We note that 50% of the measures are financial, 15% risk and sustainability, 10% relate to people, culture, 10% relates to strategic partnerships and 15% relate to customer satisfaction. We find that four of the financial measures are based on normalised targets, a measure that does not take into account un-realised losses on investments. The difference between the two measures is $286.6m in FY24 and $192.6m in FY23, with the normalised figure greater for both years. Further, the final 50% of measures do not offer quantifiable performance metrics to support the award decisions. There is no information on how the other 4 key management personnel (KMPs) are assessed, apart from the % of target achieved; ranging between 80% to 110% and of maximum (stretch) achieved, ranging between 53% and 73%.

In FY21, CGF introduced a calculation termed an STI modifier. The modifier reduces the awarded % of target by the percentage the Board considers is appropriate. For example, if a KMP achieves 80% of target they would receive 56% due to the modification process. No modifier was applied in FY22, 23 or 24.

The Short-term Incentive (STI): Presently, 50% of awarded STI is paid as cash with the remaining 50% paid as equity, delivered as restrictive shares (DPSRs), with 30% vesting at the end of years 1 and 2, and 20% at the end of years 3 and 4, subject to continuous service. The number of restricted shares awarded is based on VWAP methodology. From 2024 onwards STI restrictive shares will vest over a two year period, with 50% vesting at the end of each year.

From 2019, the long-term equity-based incentive plan, (hurdled performance rights or HPSRs) uses a 5 day VWAP methodology to calculate the number of performance rights allocated.

The Long Term Incentive (LTI) had until recently only one hurdle; absolute TSR compounded annually, set at target of 10% p.a. over 4 years. In FY24 the Board introduced a new performance hurdle, Culture, comprising 25% of the LTI award value, reducing TSR to 75%, although the hurdle remains the same.

The absolute TSR portion of the LTI award vests nil below 7% pa, 50% at 7% pa with a straight line to 100% awarded when TSR =10%. HPSRs granted do not vest until the 4th anniversary of the grant and will be subject to retesting on the 5th anniversary, although with a higher hurdle applied in year five. Unvested awards lapse after 5 years. Some details of the culture performance conditions are shown on page 76 of the annual report. ASA understands that the culture metric will be assessed using eleven key metrics that comprise the results of two in house surveys, being a risk culture survey and an engagement survey, together with the responses to nine specific culture related questions included in the culture survey. The scorecard for this hurdle is not included in the remuneration report and ASA understands the Board will undertake the vesting outcomes once all the inputs have been considered.

No HPSRs vested to KMP at September 2021 or 2022 or 2023 due to poor TSR performance. The Annual Report notes that HPSRs granted in 2020 will vest in September 2024 due to an annualised TSR result of 14.07%.

There were no fixed remuneration increases for KMPs in FY24. ASA will vote open proxies against this resolution due to the use of normalised targets for STI incentives, the lack of quantifiable performance metrics for the non-financial STI targets and the lack of clarity on the Culture metrics utilised as a second LTI hurdle.

Resolution 4 Grant of long-term hurdles performance share rights to the CEO Mr Nick Hamilton - Against

The Board proposes to award 394,275 HPSRS to Mr Nick Hamilton. The number of HPSRS being calculated by dividing $2,532,250 (225% of total fixed remuneration) by the 5 day VWAP of Challenger shares trading over the 5 trading days from 2 September 2024 to 6 September 2024, being $6.42, as long as the conditions set down in the Remuneration report are reached and Mr Hamilton remains a permanent employee. ASA will vote open proxies against this resolution for the reasons detailed in resolution 3.

Appendix 1
Remuneration framework detail

CEO rem. Framework for FY24	Target* $	% of Total	Max. Opportunity $	% of Total
Fixed Remuneration	1,075,000	22%	1,075,000	19%
STI – Cash	714,875	14.5%	788,334	19%
STI – Equity	714,875	14.5%	788,334	19%
LTI	2,418,718	49%	2,418718	43%
Total	4,923,500	100.0%	5,643,750	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. Some remuneration framework set a maximum opportunity amount, but not all.