

Will a new Chairman makes a difference?

Company/ASX Code	Challenger Group Limited (CGF)
AGM time and date	9.30am AEDT Thursday, 26 October 2023
Location	Wesley Conference Centre, 220 Pitt Street, Sydney 2000 and online at https://meetnow.global/MHCZ744
Registry	Computershare Investor Services.
Type of meeting	Hybrid
Monitor	Elizabeth Fish
Pre-AGM Meeting	Yes, with Chair Duncan West, JoAnne Stephenson Chair of the Group Remuneration Committee, Mark Chen GM Investor Relations

Monitor Shareholding: The individual(s) involved in the preparation of this voting intention have a shareholding in this company.

1. How we intend to vote

No.	Resolution description	
2(a)	Re-election of Duncan West as Non-Executive Director	For
2(b)	Re-election of Melanie Willis as Non-Executive Director	For
3	Remuneration Report	For
4	Grant of long-term hurdled performance rights to the Chief Executive Officer	For
5	Renewal of Proportional take-over provisions	For
6	Refresh the Company's 15% placement capacity under the ASX's listing rules	For

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

There were no significant issues to be addressed.

See [ASA Voting guidelines](#) and [Investment Glossary](#) for definitions.

3. Matters Considered

Accounts and reports

Financial performance

Statutory after-tax ROE of 7% is 0.6% higher than last year' number. Statutory profit at \$287.5m increased over the previous year by 13.3%.

(As at FYE)	2023	2022	2021	2020	2019
NPAT (\$m)	287.5	253.7	592.53	(421.4)	310.7
UPAT (\$m)	364.0	321.5	278.5	343.7	396.1
Share price (\$)	6.48	6.84	5.41	4.41	6.64
Dividend (cents)	24.0	23.0	20.0	17.5	35.5
Simple TSR (%)	(1.75%)	27%	(8%)	(41%)	(8%)
EPS (cents)	42.1	37.5	88.2	(68.4)	50.9
CEO total remuneration, actual (\$m)	2.1	2.2	2.5	5.4	11.6

Simple total shareholder return (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).

ASA notes that some figures relating to previous years have been restated in the FY23 AR, in particular NPAT, stated in FY22 to be \$253.7m now shown as \$265.2m. ASA understands that following the announcement of the sale of Challenger Bank to Heartland, the bank has been re-classified as held for sale and as a discontinued operation for statutory purposes. Due to this change in classification the Statement of Comprehensive Income has been restated. Additional information is shown in note 3.

Governance and culture

ASA has also asked how the Chairman ensured members of the Board had the requisite skills.

The Chairman responded saying that a detailed assessment of Board skills was completed late in 2022. The assessor was Blackhall and Pearl. He said, the particular skills needed are digital and insurance industry expertise.

Key events

No significant events took place in the last year: There were no material acquisitions. The sale of Challenger Bank is still waiting approval, from October 2022. ASA understands approval is required from both APRA and a NZ body and it appears there is some delay from New Zealand authorities.

ASA noted the announcement of a group lifetime annuity policy agreement with Aware Super, and asked if this is this the first of many such de-risking products. The Chairman responded saying; It is a first, but the Board considers there may be more over time. It makes sense for super funds to have ways to provide for a steady income stream. This is very much in line with the Challenger's 2021 submission to the Retirement Income Covenant exposure draft legislation to address risks of sequencing and longevity.

Key board or senior management changes

Mr Peter Polson resigned from the Board in October 2022, after 19 years as a director and Chair. Mr Duncan West has replaced Mr Polson as Chairman. Mr Steven Gregg, a director since 2012, has announced he will step down as a director at the 2023 AGM.

The CFO Mr Anton Kapel resigned in January and was replaced by Mr Lanh Nguyen.

Sustainability/ESG

When ASA asked what ESG areas are material to the core strategy of the company, and if we could be given an example, we were referred to the risk management and material topics of the Annual Report, pages 30-61 that outlines the Boards Risk Appetite Statement, an extensive and detailed report, covering areas of risk management, sustainability, responsible investment, sustainability strategy and governance and includes detailed metrics and targets.

ASA focus issues

At the pre-AGM meeting the monitor asked how the board fulfils its obligation to oversee cybersecurity. The Chairman responded saying while Challenger has suffered no material cyber security events in the last 12 months, the board has spent a lot of time with external experts and the company's own cyber security team on the question of maintaining data security. The company has tested various scenarios of attacks on what data they have and have met with Medibank Private people to discuss possible strategies to prevent attacks. The Chairman continued saying, our focus is around data, we have reviewed what data we need to hold and how it is being held.

4. Rationale for Voting Intentions

Resolution 1 Re-election of Duncan West as non-executive Director (for)

Mr West joined the Board in September 2018 and was appointed Chairman in 2022. 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. He has extensive experience in financial services in Australia and the UK. Mr West is also Non-Executive Director of Helia Group Limited (formerly Glenworth Mortgage Insurance Australia) and Suncorp Group Limited. He is chair of Challenger's Nomination committee, a member of the Group Audit, the Group Risk and the Remuneration committees. Mr West holds 41901 shares valued at \$271,518 at 30 June 2023. ASA will vote un-directed proxies in favour of Mr West's re-election. We hope that Mr West will speak to the meeting.

Resolution 2 Re-election of Melanie Willis as non-executive Director (for)

Ms 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 has held several senior executive positions including, CEO of NRMA Investments, and senior executive roles at Deutsch Bank and Bankers Trust. Ms Willis is also a Non-executive Director of PayPal Australia, QBE Australia Pacific Limited and PEXA Group Limited. 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 \$1.016m at 30 June 2023. ASA will vote un-directed proxies in favour of Ms Willis's re-election. We hope she will speak to the meeting.

Resolution 3 Adoption of Remuneration Report

There has been little change to the remuneration philosophy from previous years, but some changes are planned to comply with APRA's new prudential standard CPS 511. The short-term incentive (STI) structure is still based on a balanced scorecard outcomes. The CEO's scorecard and outcomes are shown on page 69 of the AR. We note that 40% of the measures are financial, 10% strategic, 30% relate to people, culture and 20% relate to customer satisfaction. We find that two of the financial measures are based on normalised targets, a measure that does not take into account un-realised losses on investments. 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 seeing the % of target and of maximum (stretch) achieved, ranging between 84% and 100%.

In FY21, CGF introduced a calculation termed an STI modifier. The modifier reduces the awarded % of target by whichever % 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 or FY23.

Presently, 50% of awarded STI is paid as cash with the remaining 50% paid as equity, delivered as restrictive shares, with 30% vesting in at the end of years 1 and 2, and 20% vesting at the end of years 3 and 4, subject to continuous service. The number of restricted shares awarded is based on the volume weighted average price (VWAP) methodology used for Hurdled Performance Share Rights (HPSRs).

The Board proposes that for the FY24 STI there will be changes to the balanced scorecard of the CEO and other KMP that will increase the weighting of financial measures to 50%, introduce sustainability as a measure and reduce the weighting of measure for Risk and People. Deferral of STI equity will change from 4 to 2 years. Post vesting restrictions will apply to these shares.

From 2019, the long-term equity-based incentive plan, (HPSR) uses a 5-day VWAP methodology to calculate the number of performance rights allocated. Long-term incentive plan (LTI) has only one hurdle; absolute TSR compounded annually, set at target of 10% p.a. over 4 years. From 2017 onwards 50% of HPSR awards vest at 7%, then on a straight line until 10% is reached. 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. No HPSRs vested to KMP at September 2021 or 2022 or 2023 due to poor TSR performance with the share price in 2023 less it was in 2019.

ASA notes that CGF's Remuneration Committee is aware of shareholders concern regarding the single LTI hurdle and has proposed significant changes for FY24, introducing an additional performance measure of culture, comprising 25% of the LTI award value. At the pre-AGM meeting the Chair of the Remuneration Committee stressed the importance of an employee's engagement with the business. She went on to say that these metrics have been measured internally for some years, are quantifiable and can be benchmarked against other Australian Financial Services Organisations. There are more

details of this proposal on P72 FY23AR. There were no fixed remuneration increases for KMPs in FY23. ASA will vote open proxies in favour of this resolution.

Resolution 4 Proposal to grant of Long-Term Hurdled Performance Share Rights (HPSRs) to The Chief Executive Officer.

Mr Hamilton is eligible for a long-term incentive each year. Currently this award is set at 225% of total fixed remuneration, that is \$2,418,750 and is awarded in the form of a single HPSR tranche. It is proposed to grant 376,752 HPSRs, valued at \$2,418,750. The quantity issued is calculated by using the 5-day weighted average of CGF shares over the five trading days from the 2nd of September 2023 to Thursday 8 September 2023. Performance testing is over 4 years, although where absolute TSR performance targets are not satisfied, a higher cumulative test is applied in the fifth year. For any HPSRS that will vest after 4 years an additional 2-year disposal restriction will apply to the vested HPSRs. Performance hurdles are covered in the Remuneration Report. ASA will vote open proxies in favour of this resolution.

Resolution 5 Renewal of Proportional take-over provisions

That the proportional takeover provisions of the company in rule 6 of the company's constitution be renewed for a further period of three years from the date of the AGM. ASA will vote open proxies in favour of this resolution.

Resolution 6 Refresh the Company's 15% placement capacity under the ASX's listing rules

That the issue of 3,500,000 Challenger Capital (Notes 4) on the 5 April 2023 on the terms set out in the replacement prospectus and summarised in the Explanatory Notes to the Notice of Meeting be approved. ASA will vote all undirected proxies in favour of this resolution.

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Appendix 1 Remuneration framework detail

CEO rem. Framework for FY23	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.075	22%	1.075	19%
STI – Cash	0.708	14.5%	1.075	19%
STI – Equity	0.709	14.5%	1.075	19%
LTI	2.394	49%	2.433	43%
Total	4.886	100.0%	5.658	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.