



Private CEO Luncheon Panel Briefing

“Opportunities for Cooperation between the Australian and
Japanese Financial Sectors “

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Introduction

Good Afternoon

I am delighted to be here today and thank you for the opportunity to speak with you today.

The trade relationship between Asia and Australia has made an important contribution to the Australian economy for many years. A Commerce Agreement has been in place between Australia and Japan for fifty years and during this period both Australia and Japan has enjoyed a strong trading relationship. It has been this relationship which has formed the framework for other relationships since then especially more recently with China. Historically these relationships have been based on the export of Australian raw materials and agricultural products to fuel extraordinary post-war growth. Japan the world's second largest economy has been Australia's largest trading partner, and although the nature of this relationship may be evolving and other countries increasing their relevance to Australia, the importance of the relationship between Australia and Japan is by no means diminishing.

Personally, I have had the good fortune to have been actively involved in business in Asia especially involving Japanese corporations for more than 25 years

This has involved working with companies investing in the development of Australian rural and resource opportunities. The

opportunities that were available for Asian investors at that time were so significant, that in fact Asia, primarily via Japan, became Australia's third largest source of foreign direct investment.

My involvement in business in the region, also extended to working with Asian companies. These businesses saw Australia as an important market to distribute their manufactured goods, whether that be to Australian corporates, or to Australian consumers, and I worked with a number of these firms as they looked to expand their exports to Australia or to source raw materials and foodstuffs from Australia.

Resources – an historical reliance

Over the past 50 years or so, agriculture and resources were a growing and important part of the Australian economy, in the same way that manufacturing was a growing and important part of Asian economies. Australia's national interest in developing resource projects was complementary to Asia's interest in securing access to resources for its manufacturing sector and agricultural products for its growing middle classes.

Australia needed capital partners and project finance to develop its assets. This was particularly important for huge projects like the iron ore mines in the Pilbara, the coal mines in the Bowen Basin and the North West Shelf natural gas project. Fortunately, Asian corporations, primarily Japanese recognised the investment potential of these projects and so emerged a number of extremely successful partnerships.

Services – key to future economic success

Times change and with them economies develop and grow. While agriculture and resources remain important sectors for Australia Asia like the rest of the world is seeing rapid growth in its services economy.

All countries within the region are dealing with significant changes to their economies, and with these changes come opportunities - particularly for the services sector. Mining and agriculture which used to account for more than 16% of Australian GDP in 1980, now account for less than 8% of Australia's economy, while the services sector has grown from about 25% to more than 60% of GDP in the same period.

Australia's rapidly growing services sector is generating export opportunities as it continues to develop. Australian providers of services such as research and development education, information technologies and of course financial services, all have identified Asia as a key potential market.

These changes provide great new opportunities for cooperation and partnership between Asian and Australian corporations. More than ever before, there are opportunities to work in strategic partnerships and to create alliances that will meet the needs of a growing global service based economy.

Financial Services – a global opportunity

Challenger is a small diversified financial services company, listed on the Australian Stock Exchange because of our size we have chosen to focus our efforts initially on one country in Asia. Our business has ambitious growth plans and in the same way that Japanese business culture recognises the importance of relationships to achieving business success, Challenger also seeks to develop strong and productive relationships with external parties. In fact Challenger has chosen to create two long term strategic partnerships in Asia, with respected Japanese companies.

The first is with Bank of Tokyo-Mitsubishi UFJ and Mitsubishi UFJ Securities. The Bank of Tokyo-Mitsubishi UFJ, was created by the January 2006 merger of The Bank of Tokyo-Mitsubishi. and UFJ Bank. It is the core commercial bank of the Mitsubishi UFJ Financial Group, with over 670 branches in Japan, and over 110 branches in other parts of the world. Mitsubishi UFJ Securities is the core securities company of Mitsubishi UFJ Financial Group, offering a broad range of domestic and foreign securities and investment banking products and services.

Challenger has entered into a partnership with this organisation and we plan to work together throughout Asia to pursue opportunities in real estate, funds management products and other investment banking products.

Challenger also has a long term strategic partnership with another respected Japanese corporation, Kenedix. Kenedix, is a leading provider of real estate advisory, property management and asset management services in Japan. Kenedix has a strong track record of acquiring and managing retail, office, residential and logistics facilities, being one of the first Japanese public companies to focus on real estate funds management since listing in 2002.

Challenger and Kenedix have created a Japanese Real Estate Investment Trust which is listed on the Australian Stock Exchange. This trust offers global investors an opportunity to invest in prime quality Japanese real estate in a worlds best practise compliance require.

Challenger believes that long term strategic partnerships, where partners bring their respective strengths and skills to work together to achieve success, is the modern model for success in global business. Our experience with Kenedix has been that we were able to accumulate a high quality portfolio of Tokyo based properties and bring them to global investors in a very short period of time.

Kenedix was able to bring local knowledge, excellent regional relationships and property management skills to ensure the success of our venture. Challenger was able to bring investment management skills, structuring and local knowledge of the needs of global investors to bear; the outcome is a strong partnership which has delivered excellent results.

Challenger believes its newly formed partnership with Bank of Tokyo - Mitsubishi UFJ and Mitsubishi UFJ Securities will work in a similar fashion, delivering value to customers of both corporations. At its core is the enormous opportunity to distribute quality investment products in Japan.

A sizeable opportunity

Australia has a very small population compared with Japan; 20 million compared to 127 million. Yet despite the small population, it has the fourth largest funds management industry in the world, estimated at circa US\$864 billion. Only the US, Luxembourg and France have larger funds management sectors than Australia.

Growth in funds management in Australia has been driven by government intervention, by way of a scheme requiring compulsory saving for retirement. Inflows of funds have grown by 12% or more every year for the last decade. In many ways, demand can be seen to be outstripping supply, with the industry having difficulty offering enough different investment product to meet ever increasing demand.

It is widely acknowledged that the funds management industry in Australia is highly sophisticated and cost competitive. It is therefore surprising that an industry that has these attributes – and is so large – earns very little of its revenue from exports.

During 2007 IFSA produced a report on the opportunity to export investment services which highlighted the real impediments in Australia's taxation system to attracting opportunities.

In May 2007, then opposition leader and now Prime Minister, Kevin Rudd, announced a proposal to come into effect in July this year, which will modify the tax regime and assist with increasing Australia's competitiveness in export of investment services from a foreign investor's perspective

Clearly these are positive moves for the Australian financial services industry and the Australian economy more broadly.

Japan is exciting as an opportunity as both have a similar profile of ageing populations. Challenger is the leading provider in Australia for post retirement products and services. We believe the industry often fails to recognise that retired citizens have different investment needs and risk profiles to those citizens who are still in the capital accumulation phase of their lives.

This shortage of traditional investment products in Australia in the face of massive growth in funds under management, coupled with the changing needs of investors as they approach retirement, has seen the development of new alternative investment products. These products are specifically designed to meet the need of this new growing class of investor.

Challenger has developed expertise in this area growing its assets under management from AU\$7 billion in June 2003 to almost AU\$85 billion today. Challenger and Bank of Tokyo - Mitsubishi UFJ and Mitsubishi UFJ Securities, plan to work together to pursue similar opportunities initially in Japan and subsequently other Asian countries where Mitsubishi has significant distribution capabilities

The opportunities for distribution of investment products in Asia are limited only by our own capacity. Unfortunately there are only a limited number of opportunities we can simultaneously pursue and we are greatly excited by the opportunity to work with such a credible and successful organisation.