Portfolio Update: Purchase of CGF and Repositioning for February Reporting Season Dividends

Across the Australian Equity component of investor portfolios we have bought Challenger Group Limited (CGF.ASX).

Challenger Group has 2 main divisions:

- Challenger life – which provides a variety of annuity products to retail and institutional investors.
- And The funds management division which operates 2 main brands – Fidante and Challenger Investment Management (CIM).

We are attracted to Challenger for the following reasons:

- Their dominant market position in Australian retail annuities
- The abundant future opportunities and demographic tailwinds for annuity products
- And Challenger's strong funds management business.

Challenger has three key levers for value creation:

- An improving rate of return on annuities
- Growth in the funds management business
- and the federal government's support for annuities in retirement

Firstly as global interest rates and bond yields have increased, the rate of return offered on Challenger annuities has improved significantly.

Secondly, the ongoing growth in funds management and expansion of products will drive earnings growth and generate capital to invest in the annuities business. And finally the Australian government is pushing for increased use of annuities as Australians transition into retirement. This should expand the market and drive innovation in income stream products over the long term.

We have funded the purchase of Challenger via sale of Transurban (TCL.ASX).

In addition to this we are repositioning the portfolio to increase income generation in the upcoming reporting season. We are increasing your holdings in Rio Tinto (RIO.ASX), Sonic Healthcare (SHL.ASX), Telstra (TLS.ASX) and Woodside (WDS.ASX). This will be funded by reducing the weight of APA (APA.ASX), Dexus (DXS.ASX) and Mirvac (MGR.ASX) which paid dividends in December.