May 2017

Challenger Absolute Return Global Bond Strategies Fund

Monthly Report

The Challenger Absolute Return Global Bond Strategies Fund (**Fund**) aims to deliver a positive absolute return over the medium to long term in all market conditions, and provide a steady stream of income. In order to achieve this, the Fund invests in the Standard Life Investments Global SICAV Absolute Return Global Bond Strategies Fund (**Underlying Fund**). In this report, where we refer to the Fund's investments we generally do so on a 'look-through' basis; that is, we are referring to the underlying assets that the Fund is exposed to through its investment in the Underlying Fund.

Underlying Fund Performance[1]

	1 month (%)	3 month (%)	1 year (%)	3 year (%)	5 year (%)	Since inception (%)
Total returns (gross)	0.46	1.38	3.02	3.65	4.65	5.03
Bloomberg AusBond Bank Bill	0.15	0.45	1.84	2.25	2.55	2.98
Relative performance	0.31	0.92	1.16	1.37	2.05	1.99

Past performance is not a reliable indicator of future performance. Numbers may not add due to rounding.

1. The Challenger Absolute Return Global Bond Strategies Fund (ARSN 617 502 753) commenced on 21 March 2017. For information purposes, we have provided the historical performance of the Underlying Fund (GBP share class converted from Sterling to Australian Dollar) since its inception (30 March 2011) to 18 October 2012; then the Australian Dollar Share class from 18 October 2012.

Fund Performance[1]

	1 month (%)	3 month (%)	1 year (%)	3 year (%)	5 year (%)	Since inception (%)
Fund return (net)	0.40	–	–	–	–	1.12
Bloomberg Ausbond Bank Bill Index	0.15	–	–	–	–	0.35
Active Return	0.25	–	–	–	–	0.78

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1. Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

Fund Details

Fund facts	
APIR code	HOW0314AU
Inception date	21 March 2017
Investment objective	To deliver positive absolute return over the medium to long term in all market conditions, whilst providing a steady stream of income.
Benchmark	Bloomberg Ausbond Bank Bill Index
Management Fee	0.75% p.a.
Buy/sell spread	+0.38%/-0.38%
Underlying Fund size	(GBP) $2.8bn
Exit price	$1.0075
Distribution frequency[1]	Quarterly

The target distribution rate for the 2016/2017 financial year is 2.5% p.a. Actual distributions, however, can differ from this setting because of future matters which are not known or able to be presently identified.

Fund features
Regular income The Fund aims to provide investors with a reliable income stream paid on a quarterly basis.
Highly diversified The Fund has exposure to a wide range of fixed income opportunities in both traditional assets (such as bonds and cash) and investment strategies based on advanced derivative techniques.
Low volatility A risk based approach to portfolio construction ensures low volatility and protects against downside risk.
Experienced investment team Managed by Standard Life Investments – a dedicated team of over 100 portfolio managers and analysts who are highly experienced across market cycles and asset classes.

Investment Review and Outlook

Market Review

Investors seemed to overlook the 'Wannacry' cyber-attack, as well as mounting tensions between North Korea and the West, and focused instead on market-friendly developments. These included China's massive $124 billion worldwide infrastructure spending plan and the election of pro-EU Emmanuel Macron as the new French president. Government bonds in the UK and the US delivered positive returns (yields fell). Those in the Eurozone were largely unchanged, albeit this masked country differences. Japanese government bonds posted negative returns (yields rose). Global credit also posted gains (yields fell), on persistent demand from income-seeking investors.

Economic newsflow was generally encouraging. In the broader Eurozone, unemployment again fell while consumer confidence hit a post-2008 high.
UK economic figures were mixed, with strong business surveys and a recovery in consumer spending at odds with declining industrial production and manufacturing. Meanwhile, the US corporate results season drew to a close, with robust earnings growth recorded across all sectors.

Activity

We closed our UK versus French interest rate strategy as the second round of French elections concluded with the victory for Emmanuel Macron. Our aim had been to manage risk within the portfolio and to lock in previous performance ahead of the first round of the French presidential elections.

We also closed our UK relative inflation rate strategy. We are now expressing the view that we expect UK inflation to decrease over the medium term through a more direct position in the portfolio. Finally, within our currency strategies, we closed our Indonesian rates versus US dollar strategy and opened an emerging markets income position instead. In our view, this is a more efficient way to position for the improvement we expect in the sentiment towards emerging market currencies and their local currency sovereign bonds. We also expect these assets to benefit from increased demand from yield-seeking investors in the medium term.

Performance

Eurozone inflation expectations retreated on the back of new data pointing to a greater than expected fall in the inflation rate in May. This environment was beneficial for our strategy which is designed to benefit from higher real interest rates in Europe. The European long end steepener strategy, which seeks to benefit from an increase in the difference between long-term and short-term interest rates, also delivered positive returns because long-term interest rates increased at a faster pace. Our UK inflation strategy which seeks to benefit from lower inflation expectations also contributed positively to performance this month as UK inflation expectations closed the month lower.

Peripheral European government bonds and the euro had a positive month, emerging as chief beneficiaries of the receding political risks following the conclusion of the French elections and signs of economic recovery in the Eurozone. Consequently, our Italian government bonds strategy detracted from performance, as did the portfolio's currency pair, which seeks to benefit from a weaker euro. In addition, our Indian rupee versus Swiss franc currency exposure that looks to profit from a stronger rupee, also contributed negatively. The rupee experienced some profit-taking activity following its recent strong performance.

Our US interest rate exposure designed to benefit from rising interest rates (a decrease in bond prices) struggled as Treasury yields fell (prices rose). This was driven partly by weaker US inflation data, which reignited speculation that the US Federal Reserve may raise interest rates at a slightly slower pace than previously expected.

Our Australian interest rates exposure contributed positively as it benefited from upbeat sentiment to bonds globally and robust investor demand for Australian government bonds. This was amid signs that the slowly improving budget position should enable the country to reduce its borrowing requirements in the next financial year. Credit markets also enjoyed a good month, resulting in positive returns from the portfolio's contingent capital bonds position.

Outlook

The global economy is showing signs of strengthening. Nevertheless, we expect growth to remain sub-trend and patchy by historical standards, with regional variations. Growth in the US is on an upward path and may be further boosted by President Trump's pro-growth agenda. Activity in Europe is also showing signs of picking up and unemployment has been falling rapidly across the Eurozone. In the UK, we expect the rise in inflation to have an impact on consumption patterns and this will tend to slow the momentum of the economy. Recent political developments, particularly in the US and the UK, have increased the level of uncertainty. For instance, should the US adopt more protectionist trade policies, global growth would be adversely impacted. For a portfolio that is built to be durably diversified, we expect this environment of heightened change to present additional opportunities for our managers, given the flexibility of our mandate and our long investment timeframe.

During the period there have been no changes to key service providers for the Fund including any changes to any related party arrangement. Additionally, there have been no material changes in the Fund's investment team, risk profile, or strategy, nor to the individuals who play a key role in the investment decisions for the Fund.

For more information, please contact Challenger Adviser Services on 1800 621 009 or the Investor Services Team on 13 35 66, or visit www.challenger.com.au

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