April 2019

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 (%) p.a.	5 year (%) p.a.	Since inception (%) p.a.
Total returns (gross)	0.16	1.64	1.73	1.53	2.11	3.45
Bloomberg AusBond Bank Bill	0.16	0.50	2.02	1.88	2.12	2.72
Relative performance	0.00	1.13	-0.28	-0.35	0.00	0.71

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)	0.16	1.74	2.24	–	–	1.78
Bloomberg Ausbond Bank Bill Index	0.16	0.50	2.02	–	–	1.88
Active Return	-0.01	1.24	0.23	–	–	-0.10

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

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	+0.30%/-0.30%
Underlying Fund size	(AUD) $3.2bn
Exit price	$1.0205
Distribution frequency[1]	Quarterly

The target distribution rate for the 2018/2019 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 remained generally optimistic, buoyed by strong US corporate results and hopes for a resolution of the US-China trade impasse. US economic data was positive and inflation remained benign. This should allow the Federal Reserve (Fed) to suspend further interest rate hikes this year. The UK and European Union (EU) agreed a flexible extension to Brexit until the end of October. This avoids a 'no deal' scenario for the time being, lifting sentiment. Despite uncertainty surrounding Brexit, the UK economy is proving surprisingly resilient, largely thanks to the healthy labour market and rising real wages.

Above-forecast EU economic data provided welcome relief. Growth in France showed signs of stabilising. Growth in Spain and Italy exceeded expectations, with Italy emerging from a six-month-long recession. Sentiment towards Asian and emerging markets (EM) was boosted by better-than-expected Chinese data, a result of the authorities' latest stimulus efforts. Optimism that the US and China would strike a trade deal added further impetus.

Emboldened by improving prospects for global growth, investors shifted away from perceived defensive assets. Consequently, most government bonds fell (yields rose). Notably, 10-year German government bond yields moved into positive territory, rising from -0.07% to 0.01%. Corporate bonds generally outperformed government issues and delivered positive returns (yields fell).

Oil prices continued to track higher. This reflected the sustained supply squeeze. Also, the US cancelled waivers permitting other countries to import Iranian oil. Brent crude gained 4.5% during April, closing the month at US$71.60 a barrel.

Activity

We sought to complement our existing European interest rates exposure by adding a European yield curve flattener position. This is designed to profit from a narrowing difference between long-term and short-term interest rates in the Eurozone. We opened a second position that aims to benefit from changes in the shape of the German yield curve, as Eurozone economic data improves.

We closed the position preferring the Japanese yen over the Australian dollar. We opened an EM income position, which we implemented through a basket of currencies. This positions the portfolio to benefit from demand for higher-yielding assets and improving sentiment towards EM currencies. We closed our New Zealand real interest rates position, booking profits.

Performance

Rising oil prices pushed up US inflation expectations. Consequently, our US real yields and US inflation strategies contributed positively. However, our interest rate volatility strategy delivered a negative return. Volatility declined as supportive rhetoric from major central banks allayed fears of a global recession. Our European forward-start interest rates strategy gave back some of its earlier gains. This followed the release of better-than-expected Eurozone growth data and German inflation data, which caused European government bonds to fall (yields rose). Conversely, this environment benefitted our exposure to contingent capital bonds (also called contingent convertible bonds or 'CoCos'). The position was further buoyed by investors' quest for yield, which fuelled demand for corporate bonds.

The Korean won fell to its lowest level in two years, amid concerns about the country's economy. As a result, our currency pair favouring the US dollar over the won made a positive contribution. This was partially offset by the negative contribution from our yen versus Australian dollar position, which we closed. Our Mexican government bonds position, which is also designed to benefit from a strong peso, gained ground. The peso appreciated against most major currencies on the back of rising oil prices and demand for higher-yielding assets.

Outlook

Our central view is that global growth has peaked and headwinds are building. However, we believe modest broad-based global growth will continue, albeit with regional variations. Government tax policy and spending plans, and the changing monetary policies of central banks, will be important drivers of asset returns – especially as the pace of change remains unclear. The European Central Bank ended its monetary support programme in December. However, we believe it will remain cautious about raising rates in the near term, given the uncertainty around Brexit and signs of weakness in the Eurozone economy. Japan, meanwhile, is likely to maintain a supportive monetary path.

Geopolitical tensions are elevated and many asset prices still look expensive, despite the recent sell-off. Valuations look vulnerable in sectors where corporate earnings growth appears to have peaked. In other areas, such as EM, valuations appear less demanding. We seek to benefit from the opportunities these conditions present by implementing a diversified range of strategies across multiple asset classes.

During the period there have been no changes to key service providers for the Fund including any changes to any related party arrangement. Whilst there have been some changes to the investment manager's broader investment team, at present, none of these changes affect the individuals who play a key role in the investment decisions for the Fund and there has been no change to the risk profile or overall strategy.

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

37457/0519