December 2018

Challenger Absolute Return Global Bond Strategies Fund

Quarterly 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 months (%)	1 year (%)	3 years (%)	5 years (%)	Since inception (%)
Total returns (gross)	-0.09	-0.49	-0.97	0.78	1.87	3.15
Bloomberg AusBond Bank Bill	0.15	0.48	1.92	1.91	2.15	2.75
Relative performance	-0.24	-0.96	-2.83	-1.11	-0.27	0.39

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 months (%)	1 year (%)	3 years (%)	5 years (%)	Since inception (%)
Fund return (net)	0.03	-0.41	-0.59	–	–	0.07
Bloomberg Ausbond Bank Bill Index	0.15	0.48	1.92	–	–	1.84
Active Return	-0.12	-0.89	-2.51	–	–	-1.77

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	+0.31%/-0.31%
Underlying Fund size	(AUD) $3.5bn
Exit price	$0.9845
Distribution frequency[1]	Quarterly

1 The target distribution rate for the 2017/2018 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.

Underlying Fund Information

The following information relates to the investments of the Underlying Fund in its base currency (GBP). Due to rounding, sections may not add up to the total.

Stand-alone risk contribution by strategy grouping

	Stand-alone Vol %
Credit	1.30%
Inflation	0.85%
Duration	0.57%
Cross Market	0.47%
FX	0.44%
Curve	0.22%
Cash	0.14%
Volatility	0.06%
Total Stand alone vol	**4.04%**
Diversification:	**2.14%**
Overall Volatility:	**0.02**

Top 10 risk contributions by strategy

	Stand alone Vol %
Short UK Inflation	0.86%
Short US interest rates	0.75%
Short-dated credit	0.52%
Swedish flattener v Canadian steepener	0.51%
Brazilian government bonds	0.40%
Long NOK v EUR	0.36%
Canadian interest rates	0.33%
European v Swedish interest rates	0.29%
Long US Inflation	0.26%
Long USD v KRW	0.25%

Return contribution by strategy grouping

	Q4 Contribution %
Credit	0.04
Cross Market	0.20
Curve	0.09
Duration	-0.17
FX	-0.02
Inflation	-0.36
Volatility	0.13
Cash	0.05
Residual	-0.59
Total	**-0.64**

Top 5 Return Contributors by strategy

Top Contributors	Q4 Contribution (%)
Brazilian government bonds	0.47
Canadian interest rates	0.43
Swedish flattener v Canadian steepener	0.29
Long interest rate volatility	0.13
Short-Dated Credit	0.11

Bottom Contributors	Q4 Contribution (%)
Short US interest rates	-0.60
High Yield Credit	-0.19
Long US inflation	-0.18
Contingent capital bonds	-0.17
Short UK Inflation	-0.13

As at 31 December 2018, the Fund does not have any material liabilities.

Fund statistics	
Duration	0.80
Leverage ratio	677%

Liquidity profile and maturity profile of the Fund

The Fund is predominantly invested in the Underlying Fund, which is a Luxembourg domiciled SICAV that manages its liquidity in accordance with UCITS Regulations, and cash. The following table sets out the liquidity profile of the Fund's assets as at quarter end:

Liquidity profile	
Time to liquidate[1]	% of assets
Within 10 days	100%
Between 10 and 30 days	100%
Over 30 days	100%

1 The estimated time required to sell an asset at the value ascribed to that asset in the fund's most recently calculated net asset value.

As the Fund holds shares in the SICAV and does not directly invest in physical assets or derivatives, does not short sell derivatives or short sell and only borrows for short-term purposes, the liabilities of the Fund are not significant. As at 30 June 2018, the Fund does not have any material liabilities.

Liquidity profile and maturity profile of the Underlying Fund

The Underlying Fund invests in a board range of assets, including derivatives, equities, fixed interest securities and cash. The following table sets out the liquidity profile of the Underlying Fund's assets as at quarter end:

Liquidity profile	
Time to liquidate[1]	% of assets
Within 10 days	94.37%
Between 10 and 30 days	98.05%
Over 30 days	100.00%

1 The estimated time required to sell an asset at the value ascribed to that asset in the fund's most recently calculated net asset value.

When considering the maturity profile of the assets of the Underlying Fund, the investment manager does not take into consideration derivative or short selling positions. As these make up a large portion of the portfolio, any maturity profile calculated based on just the physical fixed income securities held would not be an accurate representation of the Underlying Fund's maturity profile. Additionally, the Underlying Fund has not entered into any borrowing arrangements and, as such, from a liability perspective, calculating a maturity profile of liabilities is not applicable.

Derivative counterparties of the Underlying Fund

The Underlying Fund has entered into derivative contracts with the following counterparties:

Derivative counterparties of the Underlying Fund	
Counterparty name:	MORGAN STANLEY
Counterparty name:	BARCLAYS CAPITAL
Counterparty name:	JPM SECURITIES LTD
Counterparty name:	ROYAL BANK OF CANADA
Counterparty name:	HSBC BANK
Counterparty name:	UBS AG
Counterparty name:	BNP PARIBAS
Counterparty name:	CITIGROUP GLOBAL MARKETS INC.
Counterparty name:	DEUTSCHE BANK SECURITIES INC.
Counterparty name:	NATWEST MARKETS PLC
Counterparty name:	GOLDMAN SACHS
Counterparty name:	NOMURA
Counterparty name:	STATE STREET BANK AND TRUST CO.
Counterparty name:	LLOYDS BANK CORPORATE MARKETS PLC
Counterparty name:	CREDIT AGRICOLE CORP INV BANK
Counterparty name:	MERRILL LYNCH INTERNATIONAL
Counterparty name:	SOCIETE GENERALE PARIS

Changes to Key Personnel and Service Providers

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

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Activity

To reposition our exposure to the US market, we added a US interest rate steepener strategy and a short US interest rates strategy. Both aim to profit from movements in US interest rates. Specifically, while investors are likely to price in more hikes in short-term interest rates, we believe we are nearing the point when they will start focusing on medium-term interest rates.

We closed our US real yields position. Instead, we added outright exposure to US inflation. Inflation breakeven rates (the difference between the yield on a nominal bond and an inflation-linked bond of the same maturity) had fallen significantly. We were therefore able to take advantage of attractive pricing.

We also closed our European yield-curve flattener position. At the same time, we opened a European versus Swedish cross-market interest rates strategy, having reassessed longer-term interest rate expectations between these two markets.

Turning to currencies, we exited our long US dollar versus Canadian dollar strategy. The Reserve Bank of Canada has hinted at further interest rate increases. This will provide continued support for the Canadian dollar, which would adversely affect this position. We closed our position preferring the US dollar over the Korean won. This had performed well following the dollar's strong performance. We added a position preferring the Norwegian krone to the euro. These currencies had moved to levels we deemed attractive. We expect Norway's relatively strong economy and favourable monetary policy outlook to support the krone over the medium term.

We closed our position preferring the Japanese yen over the Australian dollar. We replaced it with a position favouring the US dollar over the Korean won (a position we had closed in November after strong performance). We expect the dollar/won pair to provide better returns should global trade tensions continue. Additionally, the position offers an attractive 'carry' return (where we profit from the difference in interest rates between the US and Korea).

Performance

The positive performance of US Treasuries (falling yields) hurt our short US interest rates strategy, which aims to profit from rising yields. Helping offset this, Canadian government bonds moved higher, rewarding our Canadian interest rates position. Canada's economy is relatively reliant on oil and other commodities. As such, the weak oil price acted as a further incentive for investors to seek the relative safety of Canadian government bonds. The environment also proved favourable for our Swedish yield curve flattener versus Canadian yield curve steepener strategy.

Corporate bond markets stumbled over the period, as investors fretted over corporate debt levels and weakening global growth prospects. This resulted in negative returns from our high-yield corporate bond strategy. Our position in contingent capital bonds (also called contingent convertible bonds or 'CoCos') suffered too. The Eurozone banking sector came under scrutiny as Italy's populist government and the European Commission wrangled over Italian budget proposals. Disappointing Eurozone economic growth further weighed on sentiment.

Contrary to our view, US inflation expectations declined during the month owing to low oil prices. As a result, our long US inflation and US versus European inflation positions both delivered negative returns.

As expected, Brazil's central bank left interest rates unchanged. It also hinted that rates would likely remain low for a longer period than previously expected. This benefited our Brazilian government bonds position.

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 US is continuing to raise interest rates, albeit gradually. The European Central Bank ended its monetary support programme in December. 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 still elevated and asset prices still look expensive on many metrics, despite the recent sell-off. We seek to benefit from the opportunities these conditions present by implementing a diversified range of strategies across multiple asset classes.

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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