July 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 (net)	0.65	1.34	3.60	1.69	2.24	3.51
Bloomberg AusBond Bank Bill	0.12	0.40	1.90	1.84	2.06	2.69
Relative performance	0.53	0.94	1.67	-0.15	0.18	0.80

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)	0.67	1.49	4.14	–	–	2.22
Bloomberg Ausbond Bank Bill Index	0.12	0.40	1.90	–	–	1.85
Active Return	0.55	1.09	2.24	–	–	0.37

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	+0.18%/-0.18%
Underlying Fund size	(AUD) $3.0bn
Exit price	$1.0357
Distribution frequency[1]	Quarterly

1 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

After a strong first-half performance this year, most asset classes delivered more modest returns in July. Central bank actions and rhetoric remained a focal point. The US Federal Reserve (Fed) trimmed interest rates by 0.25% at month-end, while the European Central Bank (ECB) indicated that fresh stimulus was on the way.

Most government bond markets delivered modest positive returns (yields fell). The prospect of further interest rate cuts and fresh ECB stimulus propelled European government bonds higher. UK government bonds also rose, while US government bonds fell slightly. Corporate bonds edged up, with high-yield issues faring better than investment-grade bonds.

US manufacturing remained weak but the jobs market improved and second-quarter growth was above expectations. Additionally, US company second-quarter results were upbeat, with about 75% of firms exceeding market forecasts. The European economy deteriorated further. Disappointing manufacturing figures from Germany – Europe's export engine – were of particular concern, and business sentiment dropped to a six-year low. Economic activity in China continued to slow. The UK economy remained hamstrung by Brexit uncertainty, and the mounting prospect of a 'no-deal' Brexit under new Prime Minister Boris Johnson caused the sterling to fall. While UK data released in early July appeared fairly robust, it had been flattered by car manufacturers restarting production. This followed a temporary shutdown timed to coincide with the original Brexit deadline of end-March.

The price of Brent crude oil fell about 3%, reflecting worries about the impact of slowing global growth on oil demand.

Activity

We closed our US real yields strategy and opened a Canadian interest rates position. Economic data from Canada has recently been strong. As such, investors are not expecting much in the way of interest rate cuts compared with other regions. However, we believe that this divergence from global interest rate cycles, particularly the US, is not sustainable. We therefore took the opportunity to move some of our interest rate exposure into this market.

In light of political developments in the UK and anticipated volatility around ongoing Brexit negotiations, we reduced our short UK inflation exposure, which seeks to profit from falling UK inflation expectations. We hedged our European high-yield corporate bond position as, in our view, long-term valuations were not correctly reflecting the underlying economic fundamentals. Although the ECB's supportive rhetoric should help underpin riskier assets like corporate bonds, we believe the influence of this technical driver of returns will fade in the medium term.

Performance

The Fund returned 0.67% (net of fees) during the month. The benchmark Bloomberg AusBond Bank Bill All Maturities returned 0.12%.

Our US yield curve steepener strategy delivered a negative return. We designed the position to benefit from a widening difference between short-term and long-term rates. In fact, the rates moved closer together following the

Fed's interest rate cut. Conversely, our European forward-start interest rates and European yield curve flattener positions made positive contributions after the ECB set the stage for renewed monetary support measures.

Our currency pair preferring the Indian rupee over the Korean won also benefited from central bank activity. The won weakened after the Bank of Korea unexpectedly cut interest rates and downgraded the country's economic growth and inflation outlook. Corporate bond markets, too, responded favourably to the promise of supportive monetary policy, resulting in positive returns from our corporate bond positions.

Interest rate movements in the UK benefited our UK forward-start interest rates position. However, our short UK inflation position suffered, as sterling weakness boosted inflation expectations. Our strategy aiming to generate returns from changing inflation expectations in the UK and European markets also delivered a negative return.

Outlook

We position the portfolio based on our three-year outlook and the opportunities we see in markets. While our central view is one of continued moderate economic growth, we have downgraded our expectations amid subdued activity data and rising risks. The policies of central banks have become more supportive and therefore provide a degree of confidence to investors that they will act to promote growth if necessary. However, the extent to which markets are now pricing in interest rate cuts presents further challenges over the medium term. Moreover, the risks to markets posed by geopolitics remain elevated. Overall, we have positioned the portfolio for an environment of more modest growth with potential for periods of heightened volatility, while making use of diversification in order to better balance the risks as we see them.

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

38746/0819