

October 2018

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 Performance¹

	1 month (%)	3 month (%)	1 year (%)	3 year (%)	5 year (%)	Since inception (%)
Total returns (gross)	0.30	-0.40	-0.63	1.20	2.33	3.33
Bloomberg AusBond Bank Bill	0.17	0.49	1.89	1.93	2.18	2.77
Relative performance	0.13	-0.89	-2.48	-0.72	0.15	0.54

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 Performance¹

	1 month (%)	3 month (%)	1 year (%)	3 year (%)	5 year (%)	Since inception (%)
Fund return (net)	0.26	-0.33	-0.43	–	–	0.50
Bloomberg Ausbond Bank Bill Index	0.17	0.49	1.89	–	–	1.84
Active Return	0.09	-0.83	-2.32	–	–	-1.34

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	+0.29%/-0.29%
Underlying Fund size	(AUD) \$3.6bn
Exit price	\$0.9912
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.

Investment Review and Outlook

Market review

October was a challenging month for capital markets, which were buffeted by fears over global economic growth, slowdown in China, elevated global trade tensions and – to some extent – rising interest rates. In the US, with a generally favourable US corporate results season so far, investors are starting to question the sustainability of earnings growth, especially as the benefit of tax cuts fades.

Government bond markets posted mixed returns. US 10-year Treasury yields rose to their highest level in seven years (bond prices fell) as strong economic data bolstered expectations that the Federal Reserve (Fed) would continue raising interest rates. Conversely, government bond yields in the UK and Germany fell (prices rose), as the growing likelihood of a 'no deal' Brexit and political upset in Italy stoked appetite for perceived safe-haven assets. Corporate bonds generally delivered negative returns and underperformed government issues.

Oil prices slipped lower amid mounting concern that US/China trade tariffs would stifle global growth and curb oil demand. Brent crude ended October down almost 9%, at US\$ 75.71 per barrel.

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.

Activity

We closed our long US dollar versus Canadian dollar strategy. Hawkish comments from the Reserve Bank of Canada are likely to provide continued support for the Canadian dollar, driving further negative returns from this position in the short-to-medium term.

Performance

The environment of rising US interest rates was negative for our US real yields strategy. However, our long interest rate volatility position delivered positive returns. The strategy benefited from rising volatility after the Fed highlighted that US interest rates had a long way to go before they reached neutral levels. In Canada, the central bank raised policy interest rates for the third time this year and reiterated the importance of setting rates at levels that would help bring inflation to target. This environment hurt our Canadian interest rates strategy. Our short UK inflation position also lost further ground over the period, after UK inflation fell more than expected.

The steady US macro-economic environment lifted the US dollar during the month. Conversely, the Australian dollar weakened as below-forecast inflation data gave credence to expectations that monetary policy would remain supportive in the medium term. As a result of these moves, our long US dollar versus Korean won and long Japanese yen versus Australian dollar strategies delivered positive returns.

Turning to credit strategies, our high-yield credit exposure detracted from performance, as the asset class delivered negative returns in October. Similarly, our position in contingent capital bonds (also called contingent convertible bonds, or 'CoCos') dragged on performance. The Eurozone banking sector came under pressure against a backdrop of disappointing Eurozone growth data and a stand-off between Italy and the European Commission over Italy's budget proposals. This was partly offset by positive returns from our short-dated credit position, which aims to complement and enhance the way we manage portfolio liquidity.

Emerging market assets suffered pronounced losses in the month. However, Brazil was a notable stand-out, posting impressive returns after the election of controversial far-right candidate Jair Bolsonaro as president. Mr Bolsonaro has vowed to open up the economy to private investments, strengthen ties with the US and control crime. This led to a positive contribution from our Brazilian government bonds strategy.

Outlook

Our central expectation is for continued modest broad-based global growth, albeit with regional variations. Fiscal policy and the changing monetary policies of central banks will be important drivers of asset returns, especially as the pace of change in policies remains uncertain. The US is moving to a tighter monetary environment, albeit on a gradual incline. Improving data in Europe may reduce the European Central Bank's appetite for monetary easing. However, it will likely remain cautious in the near term given the elevated levels of uncertainty around the process of the UK's withdrawal from the European Union. Japan, meanwhile, is likely to remain on a loose monetary path. Geopolitical tensions remain elevated and, on many metrics, asset prices look expensive. We will seek to exploit the opportunities that these conditions present by implementing a diversified range of strategies using 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.

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