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August 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)	0.14	1.65	4.43	1.43	2.28	3.49
Bloomberg AusBond Bank Bill	0.08	0.34	1.82	1.81	2.03	2.67
Relative performance	0.06	1.31	2.57	-0.37	0.24	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)	0.14	1.80	4.87	–	–	2.21
Bloomberg Ausbond Bank Bill Index	0.08	0.34	1.82	–	–	1.82
Active Return	0.06	1.46	3.06	–	–	0.38

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	$1.0372
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

Investor sentiment soured in August, as the US-China trade spat simmered on, with neither party willing to cede ground. As the dispute re-escalated, investors flurried towards safe-haven assets such as developed market government bonds, the Japanese yen and gold. Towards month-end, President Trump announced a resumption of trade talks with China, expressing optimism a deal could soon be reached. However, this failed to assuage investors' concerns, given previous 'false dawns'.

Poor economic data added to the general malaise, particularly in Europe, where exports slumped and Germany teetered on the brink of recession. Figures showed the US economy was not immune to the trade war. For instance, the US manufacturing purchasing managers' index fell to its weakest reading since September 2009. However, US retail spending remained resilient, owing to the buoyant labour market and rising wages. In the UK, parliamentary ruptures over Brexit unnerved investors. Similarly, renewed political turmoil in Italy curbed appetite for risk.

In this environment, government bonds in the US, UK, Europe and Japan delivered positive returns, pushing yields down further. Corporate bonds also delivered positive returns, supported by demand for higher-yielding assets as interest rate expectations continued to drift lower. Investment-grade corporate bonds performed better than their riskier high-yield counterparts.

There were some notable movements in currency markets, including marked falls in the Chinese yuan, Australian dollar, euro and Argentinian peso. The yuan and Australian dollar suffered amid trade war concerns, as did several Asian emerging market (EM) currencies. The euro was hit by worrying economic figures and political upset in Italy. The Argentinian peso slumped 26% against the US dollar on fears the country would default on its US-denominated debt. This followed the defeat of market-friendly President Macri in primary elections. Brent crude oil shed 6.5%, reflecting concerns about weakening global growth and its effect on oil demand.

Activity

In light of the deteriorating economic outlook and worsening US-China trade relations, we closed our US Inflation position. Additionally, we closed our US yield curve steepener strategy, which we believed would struggle to achieve its return potential in the current environment. To complement these changes, we opened a currency position preferring the Japanese yen over the Canadian dollar. We expect this to help cushion against any further escalation of the trade war.

We closed our UK and European forward-start interest rate positions, taking profits after strong performance. We replaced these with a US interest rates strategy. In our view, this offered an attractive valuation and better return potential.

Performance

Overall, the portfolio benefitted from the more risk-averse environment. Our Canadian and US interest rates strategies delivered positive returns, after rates in both countries moved in our favour. Conversely, our US yield curve steepener position (closed during August) dragged on performance. We designed the position to profit when short-term and long-term US rates move further apart, but the difference narrowed in August. Similarly, our US inflation and UK versus European inflation strategies delivered negative returns. This reflected mounting concerns around the US-China trade dispute, which caused global inflation expectations to decline.

The positive performance of European government bonds resulted in strong gains for our European interest rates strategies. Our exposures to high-yield corporate bonds and global short-dated corporate bonds were also supportive, with the asset class benefitting from demand for yield. However, our Mexican government bonds position suffered in the environment of fading risk appetite. Weak Chinese economic data and news that Argentina had effectively defaulted on its debt exacerbated adverse sentiment.

Our recently added currency pair favouring the yen over the Canadian dollar performed well. The yen found solid support from risk-averse investors, while resource-sensitive currencies such as the Canadian dollar depreciated. However, falling oil prices also hurt the Norwegian krone, driving a negative return from our krone versus euro currency pair. Likewise, our preference for the Indian rupee over the Korean won made a negative contribution. A slowdown in Indian economic growth combined with profit-taking weighed on the rupee. This compounded pressures on Asian EM currencies caused by yuan weakness.

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 challenger.com.au

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