November 2017

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 year (%)	5 year (%)	Since inception (%)
Total returns (gross)	-0.16	-0.45	2.18	3.27	4.22	4.64
Bloomberg AusBond Bank Bill	0.13	0.42	1.75	2.09	2.37	2.89
Relative performance	-0.29	-0.87	0.42	1.16	1.80	1.70

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)	-0.45	-0.50	–	–	–	0.78
Bloomberg Ausbond Bank Bill Index	0.13	0.42	–	–	–	1.20
Active Return	-0.59	-0.92	–	–	–	-0.42

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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	+0.41%/-0.41%
Underlying Fund size	(AUD) $3.3bn
Exit price	$0.9910
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.

Multi-Asset Investing Team

Market Review

US economic data were mixed but the underlying picture remained one of solid upward momentum, reinforcing expectations that the US Federal Reserve will raise interest rates again in December. Meanwhile, a fairly upbeat UK Budget, with promises of housing support and investment in infrastructure and technology, was tempered by greater-than-expected cuts in UK GDP growth forecasts, announced by Chancellor Philip Hammond. The Bank of England (BoE) announced its first interest rate rise since the financial crisis, increasing rates by 0.25% to 0.5%.

The Eurozone economy gathered pace, with Germany, France and Italy contributing to an upward revision in growth expectations. Unemployment in the region dropped below 9% and consumer confidence reached a multi-year high. However, investor confidence was largely eroded by political uncertainty. Germany's failure to secure a coalition government, the rising popularity of anti-establishment parties in Italy and the fallout from Catalonia's bid for independence from Spain all prompted renewed worries about stability in the Eurozone. In Japan, meanwhile, trade and labour market figures continued to improve and sentiment surveys were positive.

Fixed income markets delivered mixed performance. For instance, high-yield corporate bonds and emerging market debt posted negative returns (yields rose), while global investment-grade corporate bonds gained ground (yields fell). Oil prices continued to edge upwards, as a result of both supply cuts and growing global demand.

Activity

We closed our strategy designed to benefit from a decline in French inflation and we introduced a US versus UK real yields position. The difference between US and UK real interest rates ('real' meaning once inflation is taken into account) is currently at an extreme level compared with history. We believe this difference is likely to narrow. We also opened a strategy that seeks to benefit from higher US inflation. Elsewhere, we closed our European investment-grade bonds strategy after it had delivered positive returns in line with our expectations.

Performance

The difference between short-term and long-term interest rates in the US declined sharply, leading our US interest rate steepener strategy to detract from performance. Meanwhile, our German interest rate strategy benefited as German rates moved in our favour.

Expectations of Eurozone inflation rose as the economic recovery continued. This was negative for our position which does well on weaker inflation expectations in Europe. However, our US inflation strategy contributed positively as US inflation expectations moved in the direction of our position. Our Australian interest rate strategy, which profits when interest rate expectations fall, was lifted by comments from the Australian central bank which reduced the immediate prospect of higher rates. Our emerging market interest rate exposure, meanwhile, benefited from the continuing demand for higher-yielding assets.

The BoE's interest rate rise and a budget aimed at supporting the economy, proved positive for the British pound, as did signs of a possible Brexit deal towards month-end. In consequence, our currency pair preferring the US dollar to the pound lost ground. Our position preferring the Swedish krona to the euro also detracted from performance. The krona weakened as falling property prices and weak inflation reduced the prospects of an imminent interest rate rise. Elsewhere, the Bank of Korea raised interest rates for the first time in six years, in response to the country's export-driven economic recovery. This caused the Korean won to advance relative to its peers, despite heightened political tensions in the Korean Peninsula. Consequently, our currency pair that benefits from weakness in the won contributed negatively. However, our strategy favouring the Japanese yen over the Canadian dollar delivered positive returns. The Canadian dollar weakened as investors lowered their expectations of further interest rate hike.

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. Additionally, there have been no material changes in the Fund's investment team, risk profile, or strategy, nor to the individuals who play a key role in the investment decisions for the Fund.

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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