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July 2017

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 (%)	5 year (%)	Since inception (%)
Total returns (gross)	0.78	0.87	3.01	3.57	4.67	4.97
Bloomberg AusBond Bank Bill	0.15	0.44	1.79	2.19	2.49	2.95
Relative performance	0.64	0.43	1.20	1.35	2.13	1.96

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)	0.72	0.68	–	–	–	1.41
Bloomberg Ausbond Bank Bill Index	0.15	0.44	–	–	–	0.64
Active Return	0.57	0.24	–	–	–	0.77

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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	+0.38%/-0.38%
Underlying Fund size	(GBP) $2.8bn
Exit price	$1.0038
Distribution frequency[1]	Quarterly

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.

Investment Review and Outlook

Market Review

There were favourable indicators from the US labour market and manufacturing sector during July. Similarly, economic momentum in Europe continued on an upward track, with France and Germany reporting robust manufacturing data, and a key German business climate indicator reaching an all-time high. Despite these positive signs of growth, central banks in the US, Europe and Japan opted to leave interest rates unchanged. The exception was the Bank of Canada, which raised rates for the first time in seven years. In the UK, inflation (as measured by the Consumer Price Index) was slightly lower than had been expected, coming in at 2.6% rather than the forecast 2.9%, its first decrease in over a year.

While global equities delivered positive returns in July, global bond markets also gained (yields fell), driven by lower-than-expected inflation and investor worries around the US government's ability to enact its stimulus plans. Corporate bonds outperformed government issues as investors continued to search for yield.

Activity

During the period, we opened a US strategy which positions the portfolio to benefit in the event of higher-than-expected US growth and inflation. The strategy would also profit if the US Treasury extends the duration of its portfolio of bonds (by issuing longer-dated bonds) in order to take advantage of the low-yield environment. This would likely push up longer-term US interest rates.

Performance

Inflation expectations retreated in the UK, boosting our UK inflation strategy. Conversely, inflation expectations in France rose, penalising our French inflation strategy. The Bank of Canada raised interest rates for the first time in seven years. Consequently, our currency pairs seeking to profit from weakness in the Canadian dollar detracted from performance. However, our strategy preferring the Indian rupee to the Swiss franc delivered positive returns – the safe-haven status of the Swiss franc became relatively less attractive as investor confidence grew. Meanwhile, the US dollar weakened on concerns that lower-than-expected inflation may prompt the US Federal Reserve to raise interest rates more slowly. At the same time, the British pound strengthened. This meant that our currency pair preferring the US dollar to the British pound contributed negatively.

The positive performance of global government bond markets was advantageous for our Australian interest rates exposure. However, the environment of falling bond yields hurt our position designed to benefit from rising US interest rates. Other positive contributors included our credit risk-orientated strategies, which were buoyed by continued demand for yield.

Outlook

Our central expectation is for a continued modest global recovery, albeit with regional variations. Fiscal policy and the divergence in 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 policy environment, albeit on a gradual incline. Given the improving economic picture in Europe, the European Central Bank's appetite for monetary easing may lessen. However, it is likely to remain cautious in the near term given the elevated uncertainty surrounding 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 heightened and, on many metrics, asset prices look expensive. We will seek to exploit the opportunities 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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