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Anna Schofield
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manager, Challenger



02:
Matthew Newham
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Aberdeen Standard

Income in all market conditions

The Challenger Absolute Return Global Bond Strategies Fund can help diversify investment portfolios with low correlation to traditional fixed income and equity markets.

Finding reliable income is an increasingly difficult proposition in a low interest rate environment. And Australian retirees are in need of solutions that provide stable capital growth while mitigating the sequencing problems inherent to volatile markets. That's why Challenger, one of Australia's pre-eminent income specialists, has found such a perfect fit in Aberdeen Standard Investments, the major active management player formed through the merger of Standard Life Investments and Aberdeen Asset Management.

In this edition, we examine how the two groups have come together to deliver an outcomes-based approach to retirement income.

Michelle Baltazar

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Director of Media & Publishing

In February this year Australia's predominant retirement brand partnered with a leading UK retirement specialist to implement and distribute a new income fund in to the local Aussie market.

Challenger and Aberdeen Standard Investments matched their respective strengths to launch a fixed income product that aims to provide Australian investors with stable returns and a steady stream of income in all market conditions.

Challenger national key accounts manager Anna Schofield⁰¹ says the genesis of the Challenger Absolute Return Global Bond Strategies Fund was a common interest to meet an increasing demand from Australian investors, particularly retirees.

"In an environment where interest rates are at historic lows, finding steady, reliable income is actually quite hard to come by," she says.

"There's a strong demand from investors for products that offer income and provide an opportunity for capital uplift but at the same time are not too risky."

Aberdeen Standard investment director Matthew Newham⁰² says the fund was developed on the back of the UK manager's strong performance track record, a growing desire to enter the Australian retail market, and Challenger's extensive distribution capability.

"Between the two firms we have some really good investment capabilities and if we work together we can develop some innovative solutions for Australian retirees," he says.

Why absolute return makes sense

Newham says traditional funds rely on stock markets or bond markets going up or down to generate returns. However the Challenger Absolute Return Global Bond Strategies Fund takes a different approach.

As investment manager, Aberdeen Standard begins on a blank canvas and builds a diversified group of liquid strategies. It gives the fund several levers to use and advanced strategy techniques that can generate absolute returns in all market environments.

An example, Newham says, is relative value. This is where the fund holds a long position on bond markets that are undervalued and shorts bond markets that are overvalued.

"The outcome here is that it doesn't matter whether the bond markets go up or down, but the returns are generated by relativity between those bond markets – and in a world of low interest rates, these types of strategies are beneficial to use to generate returns," he says.

"The fund is unique. I think most investors aren't really interested in beating a stock or bond benchmark, what they are really interested in is an absolute level of return."

The investment style works for an outcome-based portfolio, one where managing risk or managing the downside to reduce potential losses is the focus. Newham adds the strategy allows retirees to have a growth profile in retirement and not have to worry about downside losses.

Performance comfort

The fund has an objective to generate cash plus 3% and since inception returns have largely been in line with that objective. Investors can take comfort that risk control is really at the heart of the process of the Challenger fund, Newham says.

It underlines the partnership between the investment firms. At the time of the fund's launch, and prior to the Standard Life Investments and Aberdeen Asset Management merger, Standard Life Investments head of Australasia Simone Bouch noted the fund had already been well received by institutional investors in Australia.

She says with more than \$2 billion in assets under management globally and a strong performance track record behind it, "we are confident that the strategy will attract a growing Australian retail investor base."

Challenger chief executive distribution, product and marketing Richard Howes also noted at the fund launch that retirees are looking for low risk products that can provide them with a steady stream of income that's not linked to the market cycle, with some capital growth.

Working for retirees

Challenger's Schofield says the low-risk absolute return fixed income fund targets absolute returns in all market environments over the medium to long-term.

With an investment objective of cash plus 3% (gross of fees over rolling three-year periods) Schofield says the fund is most suited to clients requiring regular cashflow as well as those who want to protect their portfolio from market volatility – and retirees are commonly after both of those characteristics.

The fund targets an initial distribution rate of 2.5% a year to investors with distributions paid quarterly.

"This fund also makes sense from an income layering perspective, allowing investors to access a layer of steady reliable income to their portfolios," she says.

"The fund's main characteristics are consistent income and diversification which also allows for return stability."

She adds the outcome-based portfolio construction technique is really relevant for retirees. As people move towards retirement the variability towards their return can have significant impacts on their financial health or the significant goals of the retiree.

"I think there are a number of benefits to a client's portfolio. The fund aims to deliver investment returns that are uncorrelated to traditional fixed income asset classes and also to other asset classes. The fund has strong diversification benefits and has a wide investment remit that the investment manager can seek returns from," Schofield says.

The endgame is delivering strong income which is great for retirees. **FS**



The quote

We can develop some innovative solutions for Australian retirees.



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