Colchester Global Government Bond Fund - Class I
APIR Code ETL5525AU
As at 31 August 2019

Investment Objective

To generate income and increase the amount invested by investing in a globally diversified portfolio of government bonds and currencies.

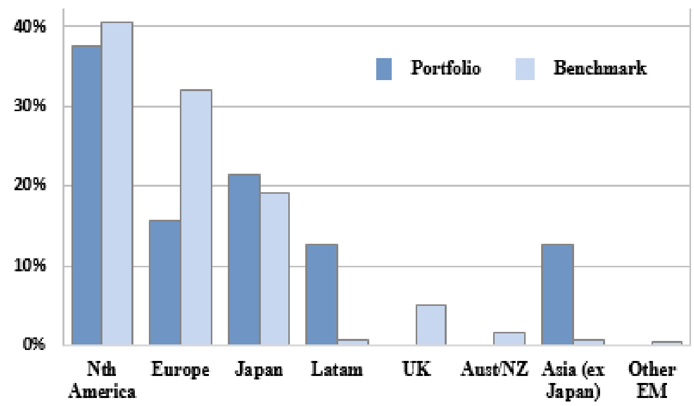
Investment Philosophy & Process

We believe that if we hold a portfolio of high real yielding bonds and currencies that are undervalued according to their real exchange rate that over time this will prove rewarding. At the heart of Colchester's value-oriented philosophy is the belief that investments should be valued in terms of the income they will generate in real terms. Our approach is based on the analysis of inflation, real interest rates and real exchange rates supplemented by an assessment of sovereign financial balances. Portfolios are constructed to benefit from those opportunities with the greatest relative investment potential for a given level of risk.

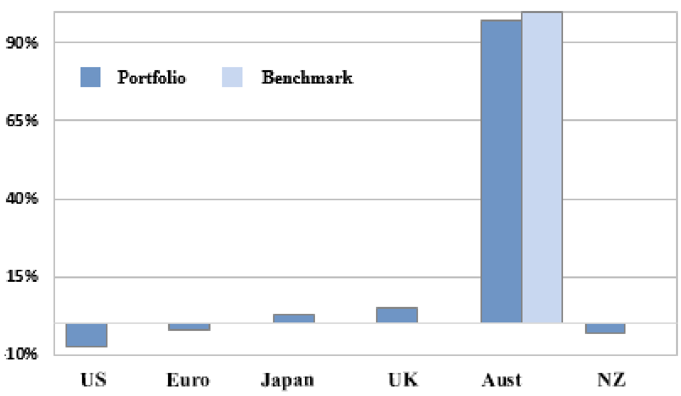
Fund Facts

Benchmark[1]	FTSE World Government Bond Index Australian Dollar Hedged.
Target	Outperform the benchmark by 2% p.a. gross of fees over full economic cycle 5-7yrs in length.
Fund Inception	9 December 2016
Management Fee	0.60% p.a.
Distributions	Quarterly
Liquidity	Daily
Application:	$1million or as per platform minimum
Platforms:	AMP North & Portfolio Care, BT Panorama & BT Wrap, CFS FirstWrap, HUB24, IOOF Pursuit, Macquarie Wrap, Mason Stevens, Netwealth, PowerWrap, uXchange, WealthO2 Super, OneVue & Ausmaq (ready for trade)

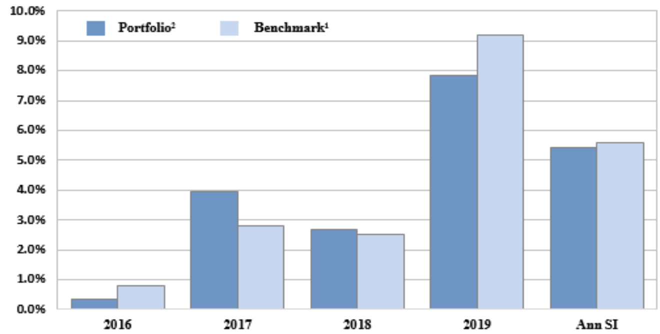
Country Exposure (%)



Currency Exposure (%)



Gross Performance



Total Fund Return[3]	2016[2]	2017	2018	2019	Ann SI[4]
Gross Returns	0.36%	3.95%	2.68%	7.84%	5.44%
Benchmark[1]	0.78%	2.79%	2.51%	9.21%	5.59%
Relative Gross	-0.42%	1.16%	0.17%	-1.36%	-0.15%

Fund Characteristics

	Portfolio [2]	Benchmark [1]
Duration	6.68	8.42
Flat Yield	2.41	2.01
Yield to Maturity (Unhedged)	1.63	0.72
Average Coupon	2.79	2.44
Average Credit Rating	AA-	AA

Top 5 Bond Holdings

1	US Treasury 2% 31Aug 2021
2	US Treasury 5.375% 15Feb2031
3	US Treasury 2.375% 15 Aug2024
4	US Treasury Inflation IX 2.125 15Feb2041
5	Japanese Govt 0.1% 20Dec2021

Top Active Bond Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Mexico	+7.79	8.39
2	Singapore	+7.48	7.81
3	Malaysia	+4.03	4.40
Underweights			
1	Europe	-20.65	10.07
2	UK	-5.03	0.00
3	USA	-4.51	34.46

Top Active Currency Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	British Pound	+5.08	5.08
2	Malaysian Ringgit	+4.45	4.45
3	Mexican Peso	+4.20	4.20
Underweights			
1	United States Dollars	-7.47	-7.47
2	Swiss Franc	-3.63	-3.63
3	Thai Baht	-3.34	-3.34

Monthly Performance Commentary

The fund returned 2.03% over the month, underperforming the benchmark which returned 2.84%. Bond selection detracted -0.66% from relative returns and currency selection detracted -0.16%. The top three bond detractors from relative returns were the underweight positions in Europe, United States and United Kingdom. The top three currency detractors from relative returns were the short positions in United States Dollars and Thai Baht and the long position in Mexican Peso.

Market Commentary

Global bond markets rallied in August as the risk-off mood across global markets deepened. US-China trade tensions escalated, whilst Brexit risks increased and political upheaval continued in Hong Kong and Italy, causing developed market government bond yields to drop to historical lows. The FTSE World Government Bond Index returned 2.9% in US dollar hedged terms driven by the strong rally. On balance, the US dollar remained broadly stable against global currencies such that the unhedged index delivered 2.7%.

Trade tensions between the US and China escalated in August. The start of the month saw President Trump announce an additional 10% tariff on $300 billion in imports from China. In response, China halted purchases of agricultural products and allowed the yuan to weaken beyond 7 per dollar for the first time since 2008. Whilst President Trump conceded to pressure from U.S. businesses and delayed the imposition of new tariffs on a wide variety of consumer products including toys and laptops until December, this did not stop China's announcement of retaliatory tariff measures on $75 billion of American goods including soybeans, automobiles and oil.

The US Treasury market returned 3.4% as 10yr yields dropped to the lowest level in three years, ending the month at 1.5%. Fed Reserve Chair Jerome Powell's address at the Fed's Jackson Hole symposium hinted that the major drivers of the Fed's decision to trim rates in July remain present and have possibly even increased.

Euro-area government debt also performed strongly with yields pushing further below zero in many markets. Concerns about a potential global downturn are deepening, as Germany's traditionally export-reliant economy contracted in the second quarter (GDP fell 0.1%) while GDP growth in the Eurozone slowed to 0.2%. The ECB is already expected to announce stimulus measures when policy makers meet in September. President Mario Draghi signalled last month that all options are on the table, including a lowering of its interest rates, and a restarting of the asset purchase programme. The German bond market returned 2.3% as 10yr yields dropped deeper into negative territory, ending the month at -0.7%. Despite the political upheaval in Italy, with the resignation of Prime Minster Giuseppe Conte (after Matteo Salvini, the hard-right leader of the League, withdrew his support from the government) and current negotiations between the anti-establishment Five Star Movement and centre-left Democratic Party for a possible coalition, the search for higher yielding markets resulted in Italian BTPs returning 3.6%. UK Gilts outperformed by returning 4.4% as the odds of a no-deal Brexit outcome were boosted by Prime Minister Boris Johnson's move to suspend Parliament for a month from 12th Sept. The timing of the move was perceived as an attempt to squeeze the already tight timetable for MPs who want to block a no-deal Brexit ahead of the 31st Oct deadline.

In other developed markets, New Zealand's central bank cut its key interest rate by 0.5% to an all-time low (and by double the amount expected). The move was interpreted as a defensive effort to cushion a sluggish export-oriented economy and to combat low inflation.

In currency markets the US dollar performed well against the pound and the euro which fell by -0.5% and -1.1% respectively as both currencies are challenged by the ongoing political uncertainties. On the other hand, the Japanese Yen rallied 2.3% and was one of the best performing currencies in the month. Both the Australian dollar and the New Zealand dollar fell in value, -2.2% and -4.4% respectively. The fall in the New Zealand dollar was driven by the rate cut, and similarly it is expected that Australia's central bank may be next to act.

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Disclaimers

1. FTSE World Government Bond Index 100% hedged in Australian dollars (AUD) formerly Citigroup World Government Bond Index 100% hedged in AUD. Source: London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2018. FTSE Russell is a trading name of certain of the LSE Group companies. "FTSE®" is a trade mark of the relevant LSE Group companies and is used by any other LSE Group company under license. "TMX®" is a trade mark of TSX, Inc. and used by the LSE Group under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication. **2.** Colchester Global Government Bond Fund – Class I whose inception date was 9 December 2016. **3.** Total Fund Return comprises Growth and Income Return; and is reported gross of fees. **4.** Annualised returns since inception. Past performance is not a good indicator of future performance.

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Valuation and returns have been calculated in AUD as at month end. The WM-Reuters exchange rate used by the index provider in compiling their index is the predominant exchange rate used in valuing the Portfolio.

The portfolio's guidelines and investment management fees are set out in PDS of the fund. Please refer to Equity Trustees (EQT) for further details https://www.eqt.com.au/.

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