Colchester Emerging Markets Bond Fund - Class I
APIR Code ETL3065AU
As at 30 September 2019

Investment Objective

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

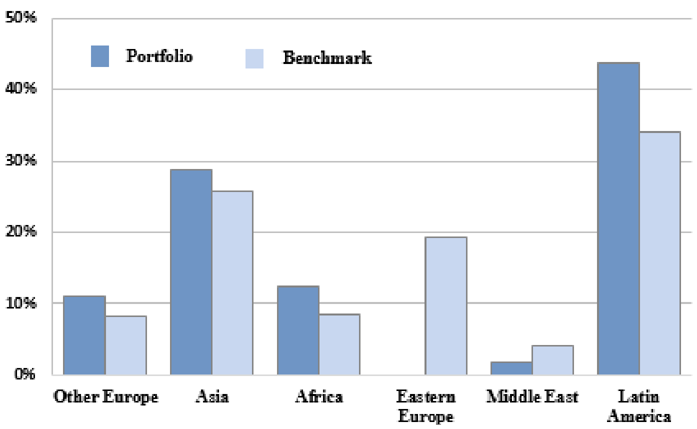
Investment Philosophy & Process

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.

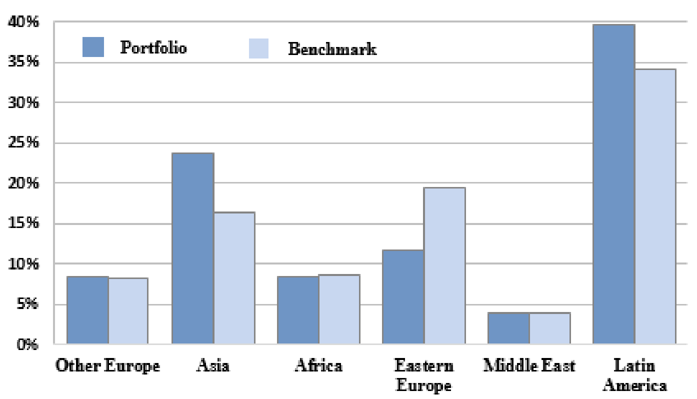
Fund Facts

Benchmark[1]	JPMorgan Government Bond Index Emerging Markets Global Diversified Australian Dollar Unhedged
Target	Outperform the benchmark by 2% p.a. gross of fees over full economic cycle 5-7yrs in length.
Fund Inception	21 December 2017
Management Fee	0.75% p.a.
Buy/Sell Spread	+/- 0.15%
Distributions	Quarterly
Liquidity	Daily
Application:	$1million or as per platform minimum
Platforms:	Netwealth, HUB24, Ausmaq (ready for trade)

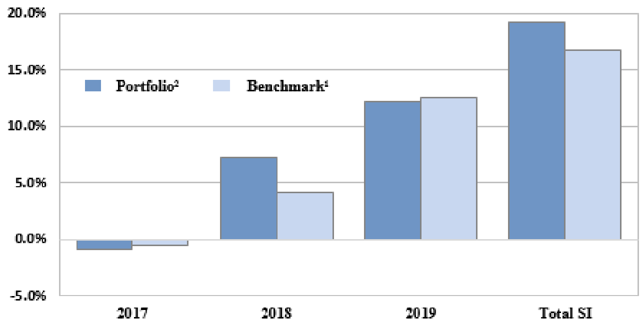
Country Exposure (%)



Currency Exposure (%)



Gross Performance



Total Fund Return[3]	2017	2018	2019	Total SI[4]
Gross Returns	-0.84%	7.19%	12.20%	19.26%
Benchmark[1]	-0.46%	4.20%	12.59%	16.78%
Relative Gross	-0.38%	2.99%	-0.39%	2.48%

Fund Characteristics

	Portfolio [2]	Benchmark [1]
Duration	5.32	5.50
Flat Yield	6.98	5.78
Yield to Maturity	6.04	5.32
Average Coupon	7.30	6.14
Average Credit Rating	BBB	BBB+

Top 5 Bond Holdings

1	Republic of South Africa 10.5% 21Dec2026
2	Titulos De Tesoreria B 7% 4May2022
3	Nota Do Tesouro Nacional 10% 01Jan2021
4	Mexican Bonos 10% 5Dec2024
5	Nota Do Tesouro Nacional 10% 01Jan2023

Top Active Bond Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Mexico	+8.45	18.45
2	Indonesia	+5.13	15.13
3	Colombia	+5.00	11.45
Underweights			
1	Poland	-8.69	0.00
2	Thailand	-5.78	3.65
3	Hungary	-4.19	0.00

Top Active Currency Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Mexican Peso	+7.27	17.27
2	Colombian Peso	+4.93	11.38
3	Malaysian Ringgit	+4.16	10.20
Underweights			
1	Thai Baht	-7.90	1.53
2	Polish Zloty	-4.16	4.53
3	Peruvian Sol	-3.73	0.10

Monthly Performance Commentary

The fund returned 1.32% over the month, outperforming the benchmark which returned 0.86%. Bond selection added 0.13% to relative returns and currency selection added 0.33%. The top three positive bond contributors to relative returns were the overweight positions in Brazilian inflation- linked bonds and Mexican nominal bonds and the underweight position in Czech nominal bonds. The top three positive currency contributors to relative returns were the overweight positions in Mexican Peso and Argentina and the underweight position in Chilean Peso.

Market Commentary

The third quarter of 2019 was a positive one for emerging market local currency bonds, posting positive returns for both the quarter and month of September. The JPM GBI-EM Global Diversified Index returned 2.7% in US dollar hedged terms for Q3, including a 0.6% return for September. Emerging market currencies declined against the US dollar over the quarter, though currencies had a modest recovery in September. This has led to a lower return on the unhedged index of -0.8% for the quarter, but a slightly higher return of 1.0% for the month of September.

The Emerging European region returned 4.1% on the quarter. The best performing market was Turkey, returning 16.2% on the quarter. Turkey's new central bank governor, Murat Uysal, lowered the key interest rate from 24% to 16.5%. over the quarter. Inflation in Turkey has continued to fall from a high of 25% in 2018 to 15% in August, alongside an improvement in the balance of trade as import falls and exports pick up. The return from Russia was 0.9% for September and 3.9% for the quarter. Since the Russian central bank renewed its easing cycle in June, it has made two more rate cuts over the quarter. The most recent rate decision in September lowered its key policy rate to 7% as policymakers said more monetary easing is possible as inflation falls close to the 4% target.

Turning to Asia, the regional return was 3.8% on the quarter. Central banks in the region have cut interest rates this year to bolster their economies against the global slowdown and US-China trade tensions. Indonesia has been to the forefront lowering rates three times since July whilst the Philippines has eased twice this quarter; and Thailand has eased policy once this year. Inflation in the region remains benign with Thai inflation for example at just 0.5% in August. Thailand's low inflation coupled with its strong current account position has contributed to the market returning 8.7% on the quarter, the best performer in the region. Inflation in the Philippines is also low at 1.7%, helping to boost domestic consumption and contributing to the 3.3% return on the quarter. Sentiment in Malaysia has improved with Chinese companies relocating to the country due to the ongoing trade tensions with the US, supporting a positive return of 2.1% for the quarter.

The Latin America region returned 3.5% on the quarter. Argentinian assets experienced heightened volatility following the shock results of the primary elections in August. Market-friendly President Mauricio Macri lost by a bigger-than-expected margin to opposition candidate Alberto Fernandez. As a result, Argentinian assets experienced significant losses in August. Local currency government bonds fell by 40% in August alone, whilst the Argentinian peso depreciated by 26% versus the US dollar over the same period. This led the government to announce a series of measures including a reprofiling of short-term debt, and the imposition of capital controls in an attempt to stabilise the exchange rate and protect foreign exchange reserves. The Mexican bond market meanwhile returned 5.3% as the central bank reduced rates over the quarter. Inflation has slowed markedly in recent months while the economy remains weak. The Brazilian market returned 3.5% as interest rates were cut to a record low of 5.5%.

Emerging market currencies depreciated over the quarter. The Turkish lira was amongst the best performing currency in the third quarter, rallying 2.4% against the US dollar as declining inflation and attractive real interest rates have benefitted the currency. The worst performing currency for the quarter was the Argentinian peso which fell by 26.4%. Whilst the Argentinian peso may be an outlier, other big decliners over the quarter included the Brazilian real, Colombian peso, Hungarian forint and South African rand which all depreciated in the range of 7-8% relative to the US dollar.

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Disclaimers

1. JPMorgan Government Bond Index Emerging Markets Global Diversified 100% Unhedged in Australian Dollars (AUD Unhedged).
2. Colchester Emerging Markets Bond Fund – Class I whose inception date was 21 December 2017.
3. Total Fund Return comprises Growth and Income Return; and is reported gross of fees.
4. Total returns since inception.