Colchester Global Government Bond Fund - Class I
APIR Code ETL5525AU
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.

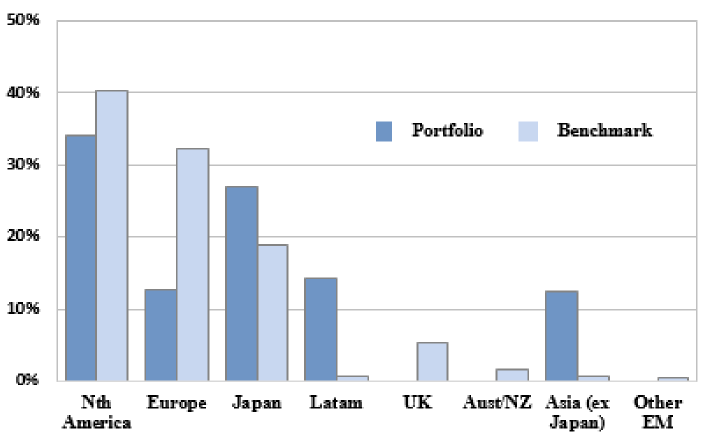
Investment Philosophy & Process

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.

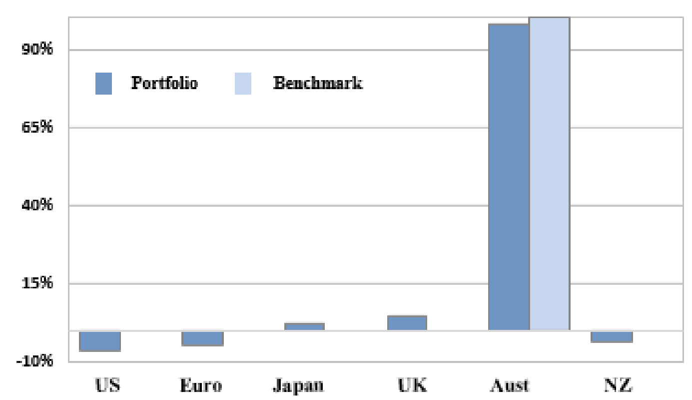
Fund Facts

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)

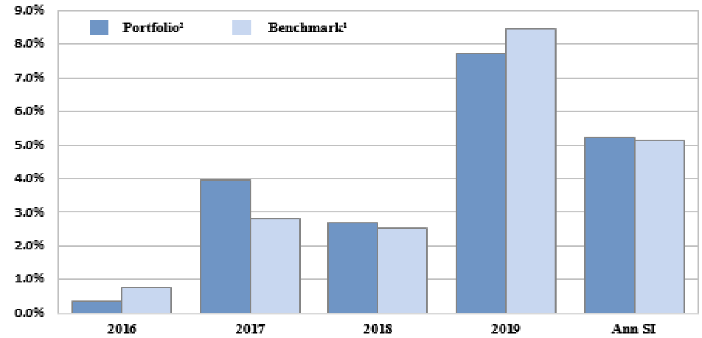
Country Exposure (%)



Currency Exposure (%)



Gross Performance



Total Fund Return[3]	2016[2]	2017	2018	2019	Ann SI[4]
Gross Returns	0.36%	3.95%	2.68%	7.71%	5.23%
Benchmark[1]	0.78%	2.79%	2.51%	8.45%	5.16%
Relative Gross	-0.42%	1.16%	0.17%	-0.75%	0.06%

Fund Characteristics

	Portfolio [2]	Benchmark [1]
Duration	6.75	8.34
Flat Yield	2.36	2.02
Yield to Maturity (Unhedged)	1.66	0.81
Average Coupon	2.70	2.44
Average Credit Rating	AA-	AA

Top 5 Bond Holdings

1	US Treasury 2% 31Aug 2021
2	Japanese Govt 0.1% 20Jun2029
3	US Treasury 5.375% 15Feb2031
4	Japanese Govt 0.1% 20Dec2021
5	US Treasury 2.375% 15 Aug2024

Top Active Bond Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Mexico	+8.94	9.58
2	Singapore	+7.23	7.56
3	Japan	+6.94	25.78
Underweights			
1	Europe	-23.96	6.92
2	USA	-8.11	30.66
3	UK	-5.19	0.00

Top Active Currency Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	British Pound	+4.33	4.33
2	Malaysian Ringgit	+4.32	4.32
3	Norwegian Krone	+3.24	3.24
Underweights			
1	United States Dollars	-6.23	-6.23
2	Euro	-4.71	-4.71
3	Thai Baht	-3.99	-3.99

Monthly Performance Commentary

The fund returned -0.13% over the month, outperforming the benchmark which returned -0.69%. Bond selection added 0.36% to relative returns and currency selection added 0.21%.The top three positive bond contributors to relative returns were the overweight positions in Japan and Mexico and market selection in Europe. The top three positive currency contributors to relative returns were the short positions in Hungarian Forint and New Zealand Dollars and the long position in Mexican Peso.

Market Commentary

Global bonds performed positively over the third quarter, due to rising risk aversion across global markets. Ongoing US-China trade tensions and simmering geopolitical issues, coupled with most major central banks remaining dovish due to the low inflation environment created a positive backdrop for global bond markets. In US dollar hedged terms, the FTSE World Government Bond Index returned 3.1% over the third quarter. Overseas currencies underperformed the US dollar such that on an unhedged basis the index return was 0.8% over the quarter.

The Sino-U.S. trade tensions escalated mid-quarter, with the US announcing an additional 10% tariff on $300 billion in imports from China, leading China to retaliate by not purchasing agricultural products and allowing the yuan to weaken beyond 7 per dollar for the first time since 2008. In response, concerns over slowing global growth rose and kept most major central banks accommodative over the quarter, with the exception of the Norges Bank, which increased rates to 1.5% in September. In contrast, the Federal Reserve cut rates twice during the quarter, in July and September, leaving the upper bound of the federal funds rate target at 2% at the end of the quarter. Outside of the US, the European Central Bank relaunched its stimulus program, the Australian central bank cut rates to boost a lacklustre economy, whilst China cut lending rates for the second time in September. The Bank of England also hinted at possibly cutting rates given the uncertainty surrounding Brexit.

On the political front, the situation over Brexit remains unpredictable with the odds of a no-deal Brexit having been boosted mid-quarter by Prime Minister Boris Johnson's move to suspend Parliament for a month from 12th September; a decision which was subsequently overturned by the supreme court towards the end of the quarter. This left UK gilts almost unchanged for September but up for the quarter. Italy's political turmoil was resolved relatively quickly over the quarter after Matteo Salvini, the hard-right leader of the League, withdrew his support from the government. The anti-establishment Five Star Movement and centre-left Democratic Party formed a new government, with the new government having been sworn in on 5th September. This allowed for Italian bond yields to fall significantly and make it one of the best performing developed bond markets over the quarter. Elsewhere, oil prices spiked, and stocks fell briefly after the Saudi oil attack in September.

Turning to emerging markets, the two biggest bond markets in Latin America performed well over the month and the quarter. The Mexican central bank cited a slowing domestic and global economy, coupled with slowing inflation as reasons to cut rates for the second consecutive month in September - the official overnight rate ending the quarter at 7.75%. Mexican bonds recorded strong positive returns over the quarter, rallying by 5.3%. Brazilian bonds also performed strongly, returning 3.5% over the quarter as the central bank reduced interest rates by 50bps during their September meeting. The Brazilian economy is struggling to generate growth, and annual inflation declined to 3.4% in August. Positive news in Brazil came from a review of the pension reform package advancing to its final stages according to Roero Marinho, the government's social security secretary. The reform represents a vital effort to stabilise Brazil's long-term fiscal position.

The US dollar strengthened against most major currencies over the third quarter. The worst performing currencies over the quarter were the New Zealand dollar, Norwegian krone and Swedish krona, each falling around 6% against the US dollar over the quarter. The best performing currency was the Japanese yen which was broadly unchanged against the US dollar over the period.

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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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