Colchester Global Government Bond Fund - Class I
APIR Code ETL5525AU
As at 31 October 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.

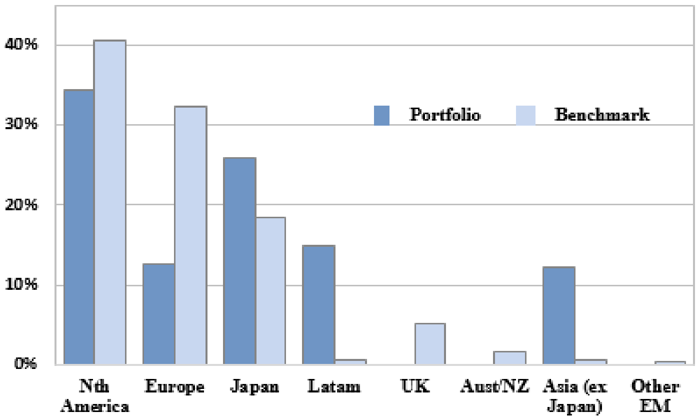
Fund Facts

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

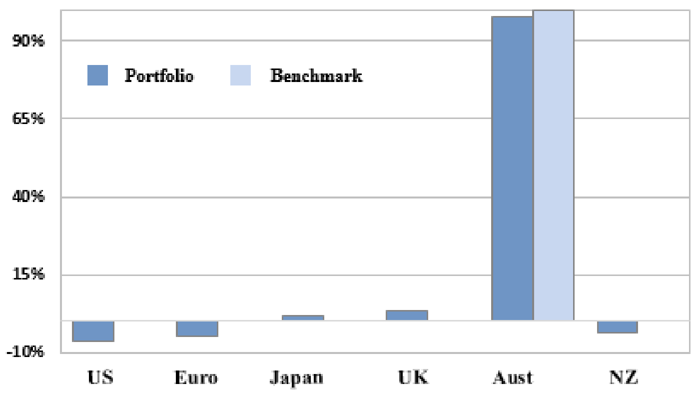
Platforms:

AMP North & Portfolio Care, BT Panorama & BT Wrap, CFS FirstWrap, HUB24, IOOF Pursuit, Macquarie Wrap, Mason Stevens, Netwealth, PowerWrap, Praemium, Symetry, uXchange, WealthO2Super, OneVue & Ausmaq (ready for trade)

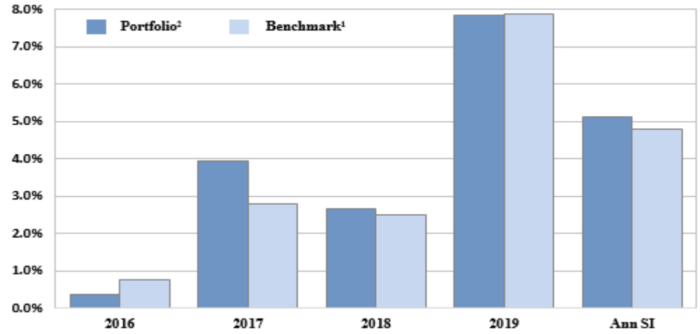
Country Exposure (%)



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%	5.11%
Benchmark[1]	0.78%	2.79%	2.51%	7.88%	4.81%
Relative Gross	-0.42%	1.16%	0.17%	-0.04%	0.30%

Fund Characteristics

	Portfolio [2]	Benchmark [1]
Duration	6.83	8.30
Flat Yield	2.41	2.03
Yield to Maturity (Unhedged)	1.70	0.85
Average Coupon	2.77	2.43
Average Credit Rating	AA-	AA

Top 5 Bond Holdings

1	Japanese Govt 0.1% 20Jun2029
2	US Treasury 5.375% 15Feb2031
3	US Treasury 2% 31Aug 2021
4	Japanese Govt 0.1% 20Dec2021
5	US Treasury 5.5% 15Aug2028

Top Active Bond Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Mexico	+9.30	9.99
2	Singapore	+7.40	7.72
3	Japan	+6.59	25.06
Underweights			
1	Europe	-24.15	6.85
2	USA	-7.81	31.16
3	UK	-5.20	0.00

Top Active Currency Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Malaysian Ringgit	+4.21	4.21
2	Norwegian Krone	+4.01	4.01
3	British Pound	+3.34	3.34
Underweights			
1	United States Dollars	-6.05	-6.05
2	Euro	-4.65	-4.65
3	Thai Baht	-3.85	-3.85

Monthly Performance Commentary

The fund returned 0.12% over the month, outperforming the benchmark which returned -0.53%. Bond selection added 0.55% to relative returns and currency selection added 0.10%. The top three positive bond contributors to relative returns were the underweight positions in Europe and United Kingdom and the overweight position in Mexico. The top three positive currency contributors to relative returns were the long positions in British Pound and Polish Zloty and the short position in United States Dollars.

Market Commentary

Global bond yields generally rose in October as risk appetite returned to markets amid signs of an easing in geopolitical tensions. The US and China moved closer towards agreement on a trade deal, the UK once again edged back from the precipice of a "no-deal" Brexit, and the US Federal Reserve cut interest rates, all of which combined to boost sentiment. The FTSE World Government Bond Index returned -0.4% in US dollar hedged terms as a result of the increase in yields. Overseas currencies generally outperformed the US dollar however such that the US dollar unhedged index return was 0.5%.

Signs of progress in the US-China trade negotiations fuelled a rising sense of optimism in October. With the announcement that negotiations over what President Trump has called "Phase One" of a trade deal advancing, expectations are building that an agreement could be reached as soon as November when the leaders were due to meet in Chile. Whether talks go beyond this initial phase however remains uncertain as Chinese officials are cautious about reaching a comprehensive long-term trade deal with the US. While the markets welcomed the announcement of a preliminary agreement, data published in the US continue to suggest a slowdown in the manufacturing sector amid global trade uncertainties. This uncertainty over the economic outlook led the Federal Reserve to reduce its target rate for the third time this year to a range of 1.50-1.75% but the statement also pointed to the strong labour market and robust consumption. This was aptly demonstrated by the unemployment rate reaching 3.5% in September, the lowest rate in 50 years.

The effects of the trade tensions continue to weigh heavily in the Euro-area, particularly in Germany due to that country's larger dependence on manufacturing exports and global trade. For the European Central Bank, where Christine Lagarde has taken over as President from Mario Draghi, inflation remains a concern. The headline rate for the Euro-area dropped to 0.7% in October, slipping further from the target of below, but close to 2%. Despite the low inflation backdrop bond yields pushed higher during the month leading to negative returns on the major markets. German bonds returned -1.4% as yields edged back to the highest level since July, whilst Austrian and Belgian bonds returned -1.8%. In the UK, Prime Minster Boris Johnson secured a new Brexit deal with the European Union after agreeing that Northern Ireland would remain more closely tied to the EU's regulations and customs. Under this new deal, the whole of the UK would leave the customs union, but Northern Ireland would remain an entry point into the EU's custom zone. Despite the new deal gaining majority support in the House of Commons, Parliament refused to approve the legislative timeline necessary to meet the 31st October deadline. This resulted in an extension to the departure deadline to the 31st January 2020 and precipitated the calling of a general election to be held on 12 December. The UK bond market was the weakest of the major bond markets over the month as it produced a negative return of -1.9%.

In other developed markets, Australia's central bank (the RBA) lowered the official cash rate by 0.25% to a new record of 0.75%. The recent cut marked the third reduction in the cash rate in five months as the prospect of slower jobs growth and low inflation compelled the RBA to act. Nonetheless, bond yields rose in line with the global trend, leading to a negative return for Australian government debt. The Mexican and Brazilian bond markets outperformed in October returning 1.4% and 2.2% respectively amid declining inflation in Mexico and progress on pension reform in Brazil.

In currency markets, the US dollar generally weakened over the month. The British pound was the leading performer rising 5.0% in October as the probability of a "no-deal" Brexit on the 31st October faded, whilst the Mexican peso gained 3.0% and the Korean won 2.8%.

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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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