Colchester Global Government Bond Fund - Class I
APIR Code ETL5525AU
As at 31 January 2020

Investment Objective

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

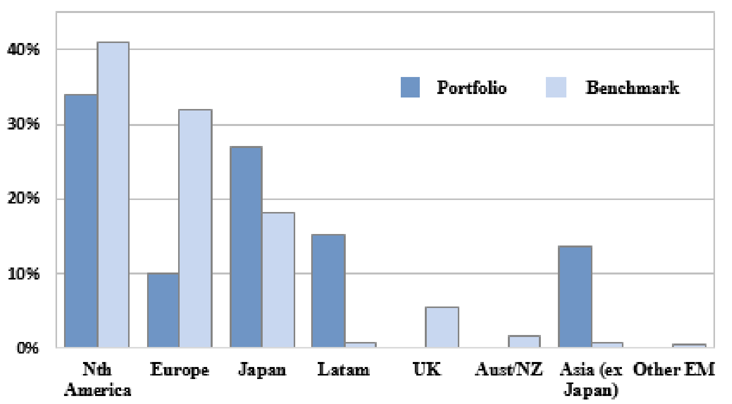
Investment Philosophy & Process

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.

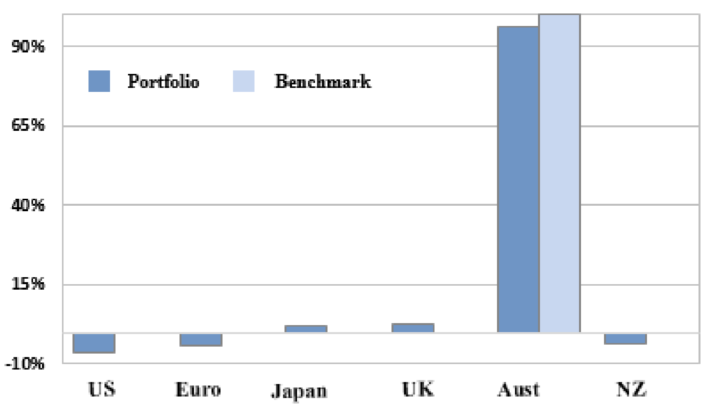
Fund Facts

Benchmark[1]	FTSE World Government Bond Index AUD 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, ANZ Grow Wrap, Asgard, Ausmaq, BT Panorama, BT Wrap, CFS FirstWrap, HUB24, IOOF Pursuit, Macquarie Wrap, Mason Stevens, MLC Wrap, Navigator, Netwealth, Oasis, PowerWrap, Praemium, Symetry, uXchange, WealthO2Super.

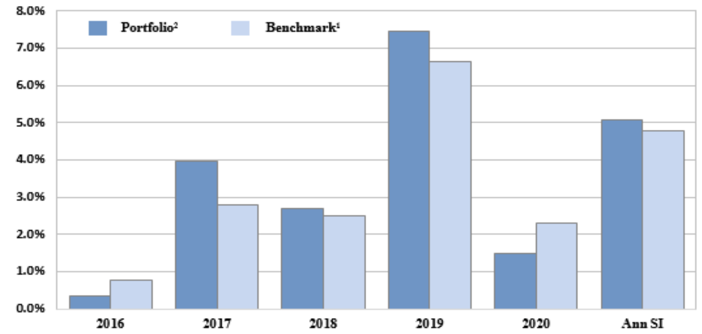
Country Exposure (%)



Currency Exposure (%)



Gross Performance



Total Return[3]	2016[2]	2017	2018	2019	2020	Ann SI[4]
Gross Returns	0.36%	3.95%	2.68%	7.46%	1.48%	5.07%
Benchmark[1]	0.78%	2.79%	2.51%	6.63%	2.29%	4.78%
Relative Gross	-0.42%	1.16%	0.17%	0.84%	-0.82%	0.28%

Fund Characteristics

	Portfolio [2]	Benchmark [1]
Duration	6.74	8.40
Flat Yield	2.40	2.00
Yield to Maturity (Unhedged)	1.62	0.79
Average Coupon	2.68	2.41
Average Credit Rating	AA-	AA

Top 5 Bond Holdings

1	Japanese Govt 0.1% 20Jun2029
2	US Treasury Inflation IX 2.125 15Feb2041
3	US Treasury 5.375% 15Feb2031
4	US Treasury 2% 15Feb2025
5	US Treasury 2% 31Aug 2021

Top Active Bond Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Mexico	+9.59	10.31
2	Singapore	+9.13	9.46
3	Japan	+8.65	26.88
Underweights			
1	Europe	-24.15	6.46
2	USA	-8.39	30.98
3	UK	-5.44	0.00

Top Active Currency Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Norwegian Krone	+4.45	4.45
2	Malaysia Ringgit	+4.02	4.02
3	Swedish Krona	+3.85	3.85
Underweights			
1	United States Dollars	-6.24	-6.24
2	Euro	-3.92	-3.92
3	Swiss Franc	-3.69	-3.69

Monthly Performance Commentary

The fund returned 1.48% over the month, underperforming the benchmark which returned 2.29%. Bond selection detracted -0.86% from relative returns, while currency selection added 0.04%. The top three bond detractors from relative returns were the underweight positions in Europe, United States and United Kingdom. The top three positive currency contributors to relative returns were the long positions in Malaysia Ringgit, Mexican Peso and British Pound.

Market Commentary

Global Government bonds had a positive start to the year with the FTSE World Government Bond Index returning 2.3% in USD hedged terms. With the US dollar stronger over the month, the unhedged return was somewhat lower at 1.6%.

US Treasuries performed well over the month, up 2.4%, despite the continuing gradual rise in inflation, which registered 2.3% at the latest reading. Instead, markets became more concerned over the outlook for growth and inflation following the outbreak of the Coronavirus in China. Although the flu-like virus was noted as a possible downside risk by the Federal Reserve in its latest policy decision statement, the central bank decided to keep rates on hold at the current 1.50% to 1.75% range. They noted the low levels of unemployment, diminishing uncertainties around trade policy following the signing of the Phase 1 trade deal between the US and China, and their own forecast of inflation returning to target.

In the Euro area, the annual inflation rate in the bloc was 1.4% in January, still lower than the ECB's target of below, but close to 2%. Although the latest reading was higher than last month's, excluding volatile items such as energy and food, the core inflation level was actually lower than the previous month, falling from 1.3% to 1.1%. Italian bonds enjoyed a strong month as the risk of snap national elections was removed after the failure of the populist Lega party to win regional elections in Emilia Romagna. Although this gives a boost to the current ruling coalition, risks still remain given further regional votes in the coming year could tip the thin majority in the Senate against them. Italian bonds returned 3.3% for the month. In Germany, GDP growth for 2019 registered just 0.6%, the lowest in over 5 years. The ongoing slowdown in the country's manufacturing sectors, such as the car industry, was the main drag on growth. However, this growth rate still marks a decade of continuous positive annual growth for the country, something not seen since the reunification in the 1990's. German bonds returned 2.1% for January.

Turning to Asia, Japanese headline inflation moved up to 0.8%, higher than expectations of 0.7%, driven mainly by the higher sales tax increasing prices for a third month. Consumer prices excluding fresh food prices rose 0.7%, rising from 0.5% the previous month. Still, that did not stop the Bank of Japan trimming its inflation forecasts for the next two years to 1.0% and 0.6%, still shy of the bank's 2% target. Japanese government bonds returned 0.4%.

The Mexican bond market was up 1.9% over the month. Consumer prices rose at their slowest pace in four years in 2019, rising just 2.8%, in line with the central bank's target of 3%. Colombian bonds rallied 2.5% for the month of January, as inflation eased off from the recent rise over the past several months. The 3.8% reading for January was the lowest since September 2019, consistent with the policymaker's expectation that inflation will fall this year. This resulted in the central bank keeping rates on hold at 4.25% at their latest meeting. Elsewhere in Latin America, Brazilian bonds were up 1.2%.

The US dollar was stronger against most major currencies in January. The worst performing currencies were the South African rand and Chilean peso, falling by -6.8% and -6.1% respectively. The Brazilian real fell -5.9%, and the Australian dollar fell by -4.8%. As large commodity exporters, the aforementioned currencies suffered to a greater or lesser extent from the fears around the degree of impact on global growth due to the Coronavirus. The best performing currencies were the Swiss franc, which rose 0.4%, and the Japanese yen, which rose 0.3%.

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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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