COLCHESTER®
GLOBAL INVESTORS

Colchester Global Government Bond Fund - Class I
APIR Code ETL5525AU
As at 29 February 2020

Investment Objective

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

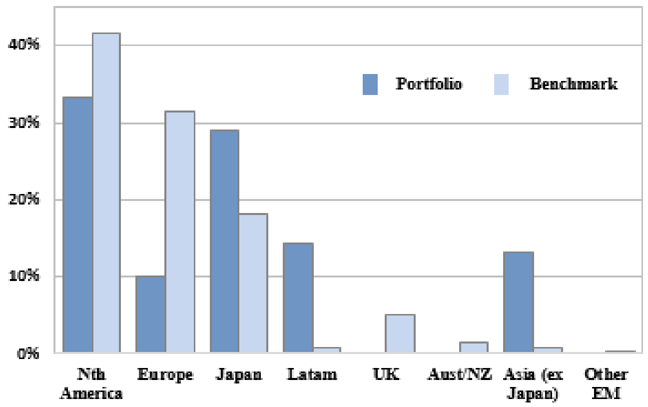
Investment Philosophy & Process

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.

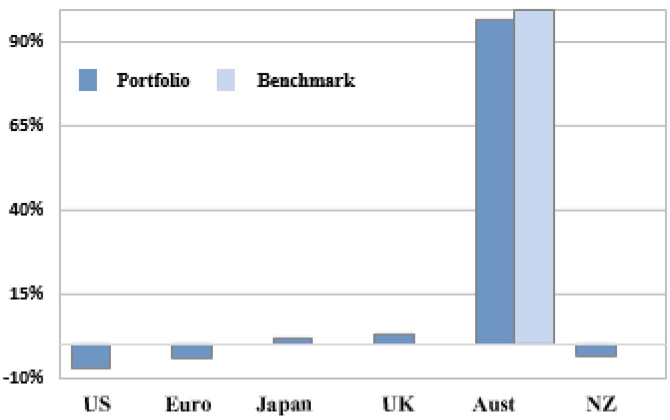
Fund Facts

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.

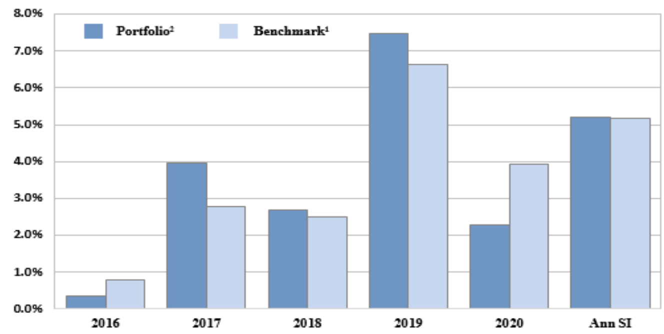
Country Exposure (%)



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%	2.29%	5.20%
Benchmark[1]	0.78%	2.79%	2.51%	6.63%	3.92%	5.18%
Relative Gross	-0.42%	1.16%	0.17%	0.84%	-1.63%	0.02%

Fund Characteristics

	Portfolio [2]	Benchmark [1]
Duration	6.76	8.49
Flat Yield	2.34	1.95
Yield to Maturity (Unhedged)	1.44	0.60
Average Coupon	2.59	2.39
Average Credit Rating	AA-	AA

Top 5 Bond Holdings

1	Japanese Govt 0.1% 20Jun2029
2	Japanese Govt 0.1% 20Dec2021
3	US Treasury Inflation IX 2.125 15Feb2041
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	Japan	+10.86	29.13
2	Mexico	+9.25	9.94
3	Singapore	+9.16	9.50
Underweights			
1	Europe	-23.66	6.51
2	United States	-9.47	30.75
3	UK	-5.14	0.00

Top Active Currency Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Norwegian Krone	+4.33	4.33
2	Malaysia Ringgit	+3.88	3.88
3	Swedish Krona	+3.79	3.79
Underweights			
1	United States Dollars	-7.15	-7.15
2	Euro	-3.90	-3.90
3	Swiss Franc	-3.64	-3.64

Monthly Performance Commentary

The fund returned 0.80% over the month, underperforming the benchmark which returned 1.60%. Bond selection detracted -0.54% from relative returns and currency selection detracted -0.26%. The top three bond detractors from relative returns were the underweight positions in United States and Europe and the overweight position in Mexico. The top three currency detractors from relative returns were the short positions in United States Dollars, Swiss Franc and Euro.

Market Commentary

Heightened concerns surrounding the economic impact of the outbreak of the novel coronavirus (Covid-19) have led investors to seek safety in government bonds and "safe haven" type currencies in February, while many stock markets around the world fell sharply over the month. Yields fell sharply in most of the major government bond markets fuelling positive returns. The FTSE World Government Bond Index gained 1.0% in US dollar unhedged terms. With the US dollar appreciating over the month, the hedged return was higher at 1.6%, bringing the year-to-date return to 3.9% as at the end of February.

While the overall impact on global growth from the coronavirus is still highly uncertain, there has clearly been a material disruption to production and economic activity in China where the virus first appeared. In recent weeks fears have risen that the disruption to activity outside of China will be worse than initially thought as outbreaks of the virus spread to countries such as South Korea and Italy. In the US, the S&P 500 equity index fell -8.4% over the month and the 10-year US Treasury yield fell to a historical low of 1.15% at the end of the month. Perhaps unsurprisingly, US Treasuries were the best performing government bond market with a return of 2.6% in February.

Core European bond markets followed a similar trend to the US during this period of volatility and risk aversion. The German and Dutch bond markets both returned 1.4% whilst the French market rallied by 1.2% over the month. Yields in Italy did spike towards the end of the month as the coronavirus spread in the North of the country. The impact raises fears that the Italian economy will enter recession and the Italian government has responded by announcing a 3.6bn Euro support package. Italian government bonds generated a negative return of -1.2% over the past month as a consequence of the rise in yields. In Singapore meanwhile the government bond market performed strongly, returning 2.1%. The Singapore economy is one of the most open in the world and is likely to be materially affected by the decline in activity in China.

Returns in Latin America were mixed over the month. Oil exporters such as Mexico and Colombia will be impacted by the sharp decline in the oil price. Over the past month the price of a barrel of crude has fallen from $52 to $45 amid concerns over falling demand. The Mexican government bond market returned -0.5% in February and the Colombian market declined by -0.4%. In Brazil the bond market bucked the regional trend with a positive return of 0.8% over the month. The Brazilian central bank cut its policy rate to a record low during February, from 4.5% to 4.25% as the economy continues a gradual recovery and underlying inflation remains low.

On currency markets the US dollar generally strengthened in the past month with only the Japanese yen performing better. The yen rose 0.5% in February supported by its status as a relative "safe haven". The worst performing currencies tended to be those of economies exposed to declining commodity prices and/or those with close trade links to China. Hence the South African rand sold off by -4.7% and the Mexican peso by -4.4% against the US dollar. The New Zealand dollar and Australian dollar also performed poorly declining by -4.2% and -3.7% respectively. The British pound weakened by -3.1% as trade talks are about to commence between the UK and the European Union. The transition period agreed as part of the UK's withdrawal from the EU expires at the end of 2020 hence some commentators are expressing concern that a trade deal can be struck in time.

Contact

Administration & Client Servicing Enquiries:

Colchester Global Client Services
GPO Box 804, Melbourne, VIC 3001
Phone: +61 3 9046 4040
Email: colchester@onevue.com.au

Sales & Marketing Enquiries:

Angela MacPherson
Head of Distribution Australia
Phone: +61 431 075 024

James Archer
Business Development Manager
Phone +61 432 273 335

Email: MarketingClientServiceAPAC@colchesterglobal.com
Web: www.colchesterglobal.com.au

Disclaimers