Colchester Global Government Bond Fund - Class I
APIR Code ETL5525AU
As at 30 April 2020

Investment Objective

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

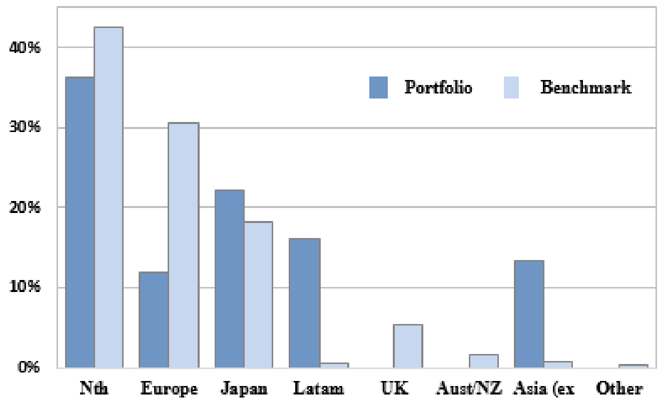
Investment Philosophy & Process

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.

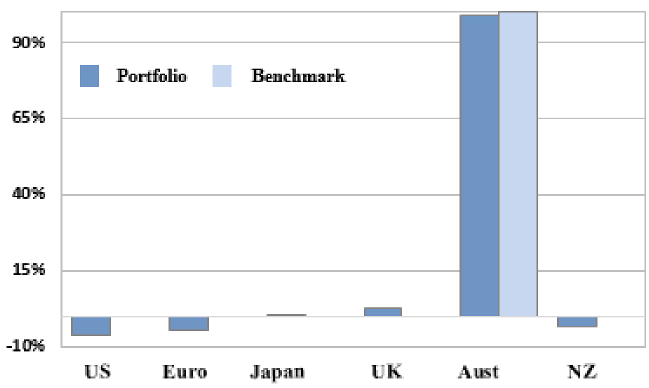
Fund Facts

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.

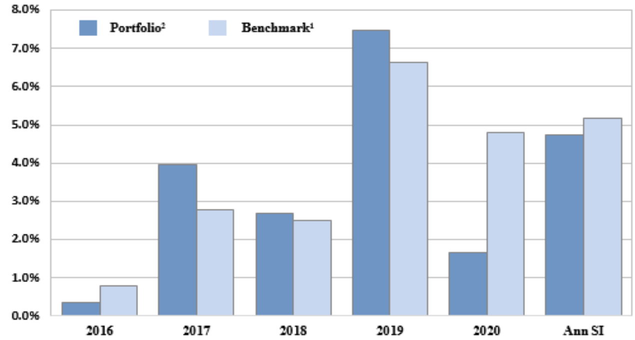
Country Exposure (%)



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%	1.66%	4.74%
Benchmark[1]	0.78%	2.79%	2.51%	6.63%	4.78%	5.17%
Relative Gross	-0.42%	1.16%	0.17%	0.84%	-3.13%	-0.43%

Fund Characteristics

	Portfolio [2]	Benchmark [1]
Duration	7.19	8.51
Flat Yield	2.41	1.92
Yield to Maturity (Unhedged)	1.36	0.41
Average Coupon	2.73	2.36
Average Credit Rating	AA-	AA

Top 5 Bond Holdings

1	US Treasury Inflation IX 2.125 15Feb2041
2	US Treasury 2% 15Feb2025
3	US Treasury 1.625% 15Nov2022
4	Japanese Govt 0.1% 20Jun2029
5	US Treasury 5.5% 15Aug2028

Top Active Bond Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Mexico	10.96	11.55
2	Singapore	9.22	9.56
3	Norway	3.52	3.71
Underweights			
1	Europe	-21.65	7.77
2	United States	-9.02	31.99
3	UK	-5.36	0.00

Top Active Currency Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Norwegian Krone	5.30	5.30
2	Mexican Peso	4.21	4.21
3	Swedish Krona	4.02	4.02
Underweights			
1	United States Dollars	-7.61	-7.61
2	Euro	-6.19	-6.19
3	Swiss Franc	-4.57	-4.57

Monthly Performance Commentary

The fund returned 1.25% over the month, outperforming the benchmark which returned 0.83%. Bond selection added 0.29% to relative returns and currency selection added 0.13%.The top three positive bond contributors to relative returns were the overweight positions in Mexican nominal bonds, US inflation-linked bonds and Singaporean nominal bonds. The top three positive currency contributors to relative returns were the short positions in United States Dollars, Euro and Swiss Franc.

Market Commentary

As many countries started to outline plans towards the end of April for gradually re-opening their economies, and most governments have launched substantial economic support programs, market volatility generally declined over the month. Yields fell modestly in most of the major government bond markets, meaning the FTSE World Government Bond Index gained 0.9% in US dollar hedged terms over the month. As the US dollar was slightly weaker over the month, the unhedged return was 1.2%.

In the US, the more positive sentiment was best exemplified in the S&P 500 equity index, which rose 12.7% over the month. This was despite a backdrop of the largest increase in unemployment the country has ever seen, with more than 20 million people filing initial jobless claims in April alone. In part due to this, the 10-year US Treasury yield hovered just above its recent historical lows, closing the month at 0.64%. This meant a return of 0.7% over the month for the US market, still making it one of the highest returning bond markets for the year to date. Canadian government bonds outperformed Treasuries to return 1.5% over the month. The Bank of Canada has followed the lead of the Federal Reserve in announcing an increase in the scope and scale of its asset purchase program.

Core European bond markets also generated positive returns over the month of April, with the best performer being Austrian debt, rallying by 2.6%. The Italian market had another volatile month as fears mounted it could be downgraded to junk by one or more ratings agencies. S&P affirmed its rating at BBB but Fitch downgraded Italy to BBB-, only one notch above non-investment grade. The agency cited the expected jump in the country's debt/GDP ratio, which exacerbates debt sustainability risks. It did note, however, that the ECB's purchase program provides a significant support for the Italian market and maintains the government's funding costs at a very low level. This rating change brings Fitch and Moody's in line at the lowest investment grade rating with S&P rating Italy one notch higher at BBB. Italian government bonds returned -1.1% in April. Elsewhere in the Eurozone, the Spanish bond market returned 0.3% whilst German government bonds gained 1.3%.

Returns in Latin American bond markets were quite robust over the month. In oil producing economies such as Mexico and Colombia local bonds rallied even as oil prices briefly turned negative for the first time ever during the month. In Mexico the bond market returned 3.5% and in Colombia, 3%. The price of a barrel of oil reached an unprecedented intraday low of around -40 USD as the May futures contract came to expiry. Due to the large decline in end-user demand, oil storage facilities are close to full, and so holders of long positions in futures contracts scrambled to avoid taking delivery. As April drew to a close, oil prices were back in positive territory. In Brazil the bond market was up 1.4% as political headlines took centre stage once again towards the end of the month. The well-respected Justice Minister resigned over the firing and appointment of a new police chief and threatened to reveal incriminating text messages from the President.

In currency markets the rally in the US dollar waned after a very strong first quarter pushed the currency's valuation towards extreme levels. The Australian dollar was the strongest performer for the month, up 7.0%. This was followed by the 4.1% appreciation of the New Zealand dollar, and the 3.6% rise in the Colombian peso. All three benefitted from the improvement in risk sentiment as investors began to contemplate an easing of restrictions in a number of major economies. This backdrop also supported the Norwegian krone which rallied 2.8% after a tumultuous March. Amongst the worst performing currencies was the Brazilian real, down -4.2%, on the back of the aforementioned political headlines, and the Mexican peso which declined -1.5%.

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Disclaimers

The Average Coupon, as it relates to any inflation-linked bonds in the Portfolio or Benchmark, has not been adjusted for the impact of inflation on such coupons. From April 2020, the presentation of the Average Coupon of the Portfolio, which had previously incorporated the impact of the indexation factor, was amended to reflect this methodology.