Colchester Emerging Markets Bond Fund - Class I

APIR Code ETL3065AU

As at 31 May 2020

Investment Objective

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

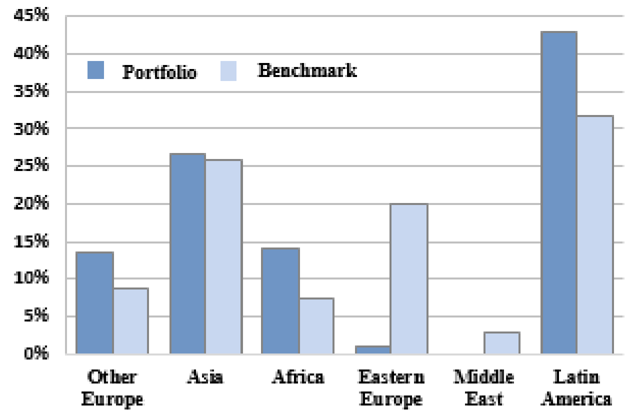
Investment Philosophy & Process

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.

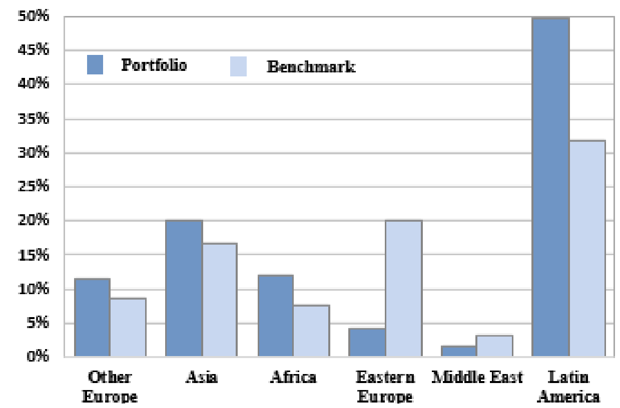
Fund Facts

Benchmark[1]	JPMorgan Government Bond Index Emerging Markets Global Diversified Australian Dollar Unhedged
Target	Outperform the benchmark by 2% p.a. gross of fees over full economic cycle 5-7yrs in length.
Fund Inception	21 December 2017
Management Fee	0.75% p.a.
Buy/Sell Spread	+/- 0.25%
Distributions	Quarterly
Liquidity	Daily
Application:	$1million or as per platform minimum
Platforms:	Ausmaq, BT Panorama, HUB24, Netwealth, Praemium.

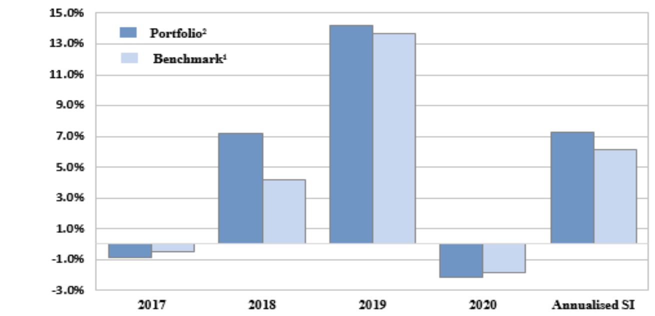
Country Exposure (%)



Currency Exposure (%)



Gross Performance



Total Return[3]	2017	2018	2019	2020	Ann SI[4]
Gross Returns	-0.84%	7.19%	14.19	-2.12%	7.31%
Benchmark[1]	-0.46%	4.20%	13.64	-1.86%	6.14%
Relative Gross	-0.38%	2.99%	0.55%	-0.26%	1.17%

Fund Characteristics

	Portfolio[2]	Benchmark[1]
Duration	5.85	5.39
Flat Yield	7.08	5.25
Yield to Maturity (unhedged)	5.40	4.33
Average Coupon	7.59	5.76
Average Credit Rating	BBB	BBB+

Top 5 Bond Holdings

1	Republic of South Africa 10.5% 21Dec2026
2	Mexican Bonos 10% 5Dec2024
3	Indonesia Government Bond 8.25% 15May2029
4	Russian Government Bond OFZ 6.9% 23May2029
5	Mexican Bonos 8.5% 31May2029

Top Active Bond Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Mexico	+8.77	18.77
2	Indonesia	+7.81	17.50
3	Colombia	+6.61	12.46
Underweights			
1	Thailand	-9.15	0.00
2	Poland	-7.60	1.12
3	Czech Republic	-4.67	0.00

Top Active Currency Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Mexican Peso	+8.56	18.56
2	Brazilian Real	+6.06	15.65
3	Colombian Peso	+4.70	10.55
Underweights			
1	Thai Baht	-9.15	-
2	Polish Zloty	-6.62	2.10
3	Czech Koruna	-4.60	0.07

Monthly Performance Commentary

The fund returned 5.81% over the month, outperforming the benchmark which returned 3.74%. Bond selection added 1.20% to relative returns and currency selection added 0.87%. The top three positive bond contributors to relative returns were the overweight positions in South Africa, Mexico and Colombia. The top three positive currency contributors to relative returns were the overweight positions in Mexican Peso, Colombian Peso and South African Rand.

Market Commentary

Markets and investor sentiment improved in May as some countries began the first phase in easing their lockdown measures. While the global economic recovery from the coronavirus crisis will be slow and uncertainties remain, with the first signs that the recovery has started or is near, risk assets have enjoyed some cheer over the month. JP Morgan GBI-EM Global Diversified Index rose 2.3% in US dollar hedged terms over the month. Emerging market currencies appreciated against the US dollar in May, pushing the unhedged index return for the month to 5.2%.

Despite Latin America being one of the last regions to be materially impacted by the coronavirus, reginal returns were positive for the month at 3.2%. The best performing bond market in the region was Colombia, with a return of 5.9%. The price of oil recovered from historical low levels which has supported oil producing economies. Turning to Peru, the bond market returned 3.9%, partially due to the recovery in the price of copper, one of the country's main exports. Demand for copper has improved due to the steady increase in economic activity in Asia. In Mexico, returns were also positive at 2.7%. At the latest central bank meeting, the interest rate was reduced by a further 0.5% to 5.5%. The Board has deliberately taken a measured approach to easing policy, reducing rates gradually. Finally, in Brazil newspaper headlines were dominated by politics, as the second health minister in a month resigns over the government's handling of the coronavirus. The President is also facing a trail for his involvement in a police probe involving his family. Despite this, economic fundamentals in Brazil remains stable and the bond market returned 2.0% over the month.

South Africa was the best performing market this month. The central bank cut interest rates again, this time by 0.5% to 3.75%. The Reserve Bank foresees further rates cuts during 2020 to further help ease financial conditions helping support the recovery from the coronavirus. The bond market returned a healthy 7.2% in May. The Central Bank of Russia left interest rates on hold for a second consecutive month with short term inflation lower than they had previously expected. The return for Russia was buoyed by higher oil prices, which was 3.2% over the month. In Turkey, there is a general concern over the external balances of the country due to reduced tourism and the countries sensitivity to higher oil prices. The return from Turkish government bond market was -0.8%.

Turning to Asia, the Philippine bond market was the best performer in May. Even after cutting interest rates by 1.25% so far this year, inflationary pressures remain muted. However, lockdown restrictions have been relaxed and the bond market returned 5.0%. In Indonesia, an additional fiscal stimulus package is expected due to the ailing economic recovery. Further quantitative easing was also enacted in the month, with the purchase of local government bonds, thus helping support the bond market return of 3.0% in the month. Elsewhere in the region, Malaysia and Thailand registered returns of 0.5% and 0.0% respectively. In Thailand, the central bank cut the interest rate to 0.5% to help support the economy while, for example, tourist arrivals remain low.

Emerging market currencies had a strong month of returns compared to the US dollar. The increase in oil process improved sentiment in oil producing countries such as Mexico, Colombia and Russia with returns of 7.6%, 5.6% and 4.7% respectively. Other markets which had significantly depreciated in March also benefited this month. The South African rand gained 4.2% and the Polish zloty and Hungarian forint both returned in excess of 3%. While the Turkish lira returned a positive 2.5%, the Korean won, and Peruvian sol depreciated against the US dollar with returns of -1.6% and -1.7% respectively.

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

1. JPMorgan Government Bond Index Emerging Markets Global Diversified 100% Unhedged in Australian Dollars (AUD Unhedged).
2. Colchester Emerging Markets Bond Fund – Class I whose inception date was 21 December 2017.
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.

This document is prepared by Colchester Global Investors (Singapore) Pte. Ltd (ABN 58 159 947 583). Equity Trustees Limited (ABN 46 004 031 298, AFSL 240975), a subsidiary of EQT Holdings Limited, a publicly listed company on the Australian Securities Exchange (ASX: EQT), is the Responsible Entity of the Colchester Emerging Markets Bond Fund (ARSN 168 909 671) (the"Fund"). This document is not intended to be securities or financial product advice and should not be relied upon as such. To obtain a copy of the Fund's PDS please contact Colchester. The PDS should be considered in deciding whether to acquire, or continue to hold, an investment in the Fund. This information is of a general nature only and does not take into account the investment objectives, financial situation or particular needs of any investor and should not be taken as a securities or stock recommendation. These factors should be considered before any investment decision is made in relation to the Fund. The performance of the Fund is not guaranteed. Colchester, Equity Trustees Limited and their related parties, their employees and directors make no representation (express or implied) and shall have no liability in any way arising from the provision of this document for any loss or damage, direct or indirect, arising from the use of this document.

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/.

Colchester Global Investors (Singapore) Pte. Ltd is registered in Singapore, Company Registration No: 201202440M. Registered Office: 6 Battery Road #40-02A, Six Battery Road, Singapore 049909. Colchester Global Investors (Singapore) Pte. Ltd holds a capital markets services licence in fund management issued by the Monetary Authority of Singapore pursuant to the Securities and Futures Act, Chapter 289 of Singapore. Colchester Global Investors (Singapore) Pte. Ltd is exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 (Cwlth) in respect of financial services provided to wholesale clients in Australia. Colchester Global Investors (Singapore) Pte. Ltd. is regulated by the Monetary Authority of Singapore under Singaporean laws which differ from Australian laws. Therefore, Australian wholesale clients are not necessarily subject to the same types of legal protections or remedies that they would enjoy if Colchester was directly subject to the Corporations Act. Colchester is entitled to offer its financial services in Australia pursuant to an exemption from the requirement to hold an Australian Financial Services Licence under the Corporations Act, on the basis, among other things, that the clients are "wholesale clients" within the meaning of the Corporations Act.