Colchester Emerging Markets Bond Fund - Class I

APIR Code ETL3065AU

As at 30 June 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.

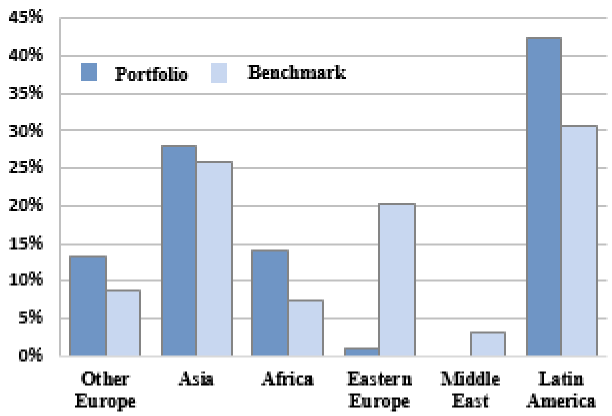
Investment Philosophy & Process

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.

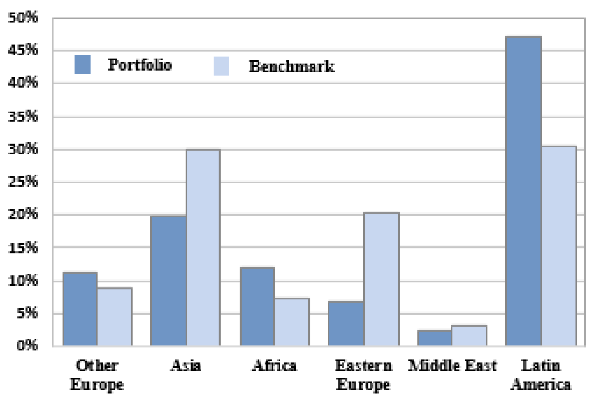
Fund Facts

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.

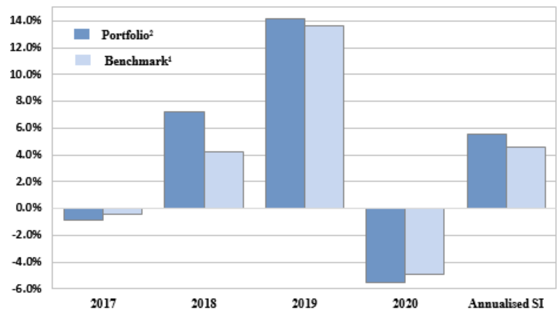
Country Exposure (%)



Currency Exposure (%)



Gross Performance



Total Return[3]	2017	2018	2019	2020	Ann SI[4]
Gross Returns	-0.84%	7.19%	14.19%	-5.58%	5.55%
Benchmark[1]	-0.46%	4.20%	13.64%	-4.94%	4.61%
Relative Gross	-0.38%	2.99%	0.55%	-0.64%	0.94%

Fund Characteristics

	Portfolio [2]	Benchmark [1]
Duration	5.85	5.43
Flat Yield	7.10	5.28
Yield to Maturity (unhedged)	5.36	4.28
Average Coupon	7.60	5.75
Average Credit Rating	BBB	BBB+

Top 5 Bond Holdings

1	Republic of South Africa 10.5% 21Dec2026
2	Indonesia Government Bond 8.25% 15May2029
3	Mexican Bonos 10% 5Dec2024
4	Russian Government Bond OFZ 6.9% 23May2029
5	Titulos De Tesoreria B 7.5% 26Aug2026

Top Active Bond Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Indonesia	+8.77	18.42
2	Mexico	+8.13	17.95
3	South Africa	+6.68	14.07
Underweights			
1	Thailand	-9.16	0.00
2	Poland	-7.42	1.13
3	Czech Republic	-5.00	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	0.00
2	Polish Zloty	-6.62	2.10
3	Czech Koruna	-4.60	0.07

Monthly Performance Commentary

The fund returned -3.53% over the month, underperforming the benchmark which returned -3.13%. Bond selection added 0.38% to relative returns, while currency selection detracted -0.78%. The top three positive bond contributors to relative returns were the overweight positions in Mexico and Indonesia and the underweight position in Chile. The top three currency detractors from relative returns were the overweight positions in Mexican Peso, Brazilian Real and Colombian Peso.

Market Commentary

The second quarter of 2020 has been characterised by a substantial recovery in many financial markets after the Covid-19 shock of the first quarter. This was underpinned by strong policy responses, both fiscal and monetary. However, the rally in risk assets continues to be set against a very uncertain economic backdrop with the IMF's World Economic Outlook now projecting growth for 2020 at -4.9 percent, just under two percentage points lower than the April 2020 forecast. While the major developed economies have been effective at containing the virus allowing for some easing of restrictions, the epicentre of the pandemic has rapidly moved to the emerging markets, in particular South America and South Asia. The JP Morgan GBI-EM Global Diversified Index of local currency emerging market government debt rose 5% in US dollar hedged terms over the quarter as central banks cut interest rates and bond yields declined. The US dollar weakened over the period hence the unhedged index return was 9.8%.

In Latin America, Chile was the best performing bond market generating 11.2% over the quarter with the central bank reducing the overnight rate to settle at 0.5% from 1.75% earlier in the year. Colombia and Mexico followed suit staging a strong recovery to generate returns of 8.7% and 8.6% on the quarter respectively. In Colombia the policy rate is now down to 3.25% having started the year at 4.25% and the 2020 Mid Term Financial Plan announced in June reinforced the government's decision to suspend the fiscal rule for 2020 and 2021 with the deficit forecast to amount to 8.2% of GDP in 2020. In Mexico, Banxico cut interest rates by a further 1.5% over the quarter to 5.0% based on weaker growth concerns and muted inflationary pressures. In Brazil, rates are now down to a historical low of just 2.25% supporting a positive return of 4.7% for the local bond market over the quarter.

The South African bond market also recovered strongly in the second quarter, generating a large positive return of 10% for the three-month period. The government released its revised budget for fiscal year 2020/21 outlining a ballooning budget deficit of 14.6% of GDP for the year, versus the 6.8% of GDP expected back in February and targeting a peak debt-to-GDP ratio below 90%. In Turkey, the bond market staged a decent rally in June resulting in a quarterly return of 9.4%. The Central Bank of Turkey held its policy rate steady at 8.25% in June, citing the main reason for the pause as a rise in both core and food inflation, which the bank views as temporary in nature. This marked the first pause in rate cuts since President Erdogan appointed the central bank's current governor last summer. The Russian bond market has been supported by a trend higher in oil prices and produced a return of 6.8% over the quarter.

Turning to Asia, the Philippine bond market was the best performer in the region over the second quarter returning 8.1% as the central bank cut interest rates by 1.75%. The Indonesian bond market returned 6.4% as the central bank continues to support the bond market and inflation easing persists on stable food prices and subdued consumer demand. Bank Indonesia cut rates to 4.25% and highlighted scope for further policy cuts aimed at supporting growth. Elsewhere in the region, Malaysia and Thailand registered returns of 3.4% and 2.4% respectively.

Turning to currency markets, the rally in the US dollar faded after a very strong first quarter. The Indonesia rupiah was the strongest performer for the quarter by some distance, appreciating by 14.2% against the US dollar. Other notable risers were the Russian ruble strengthening by 9.7% and the 8.6% rise in the Colombian peso. The laggards were the Brazilian real and the Turkish lira, depreciating 5.5% and 3.9% against the US dollar respectively.

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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.

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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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