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

Investment Objective

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

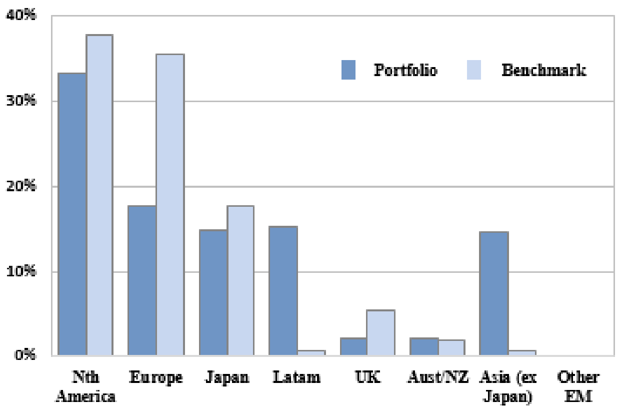
Investment Philosophy & Process

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.

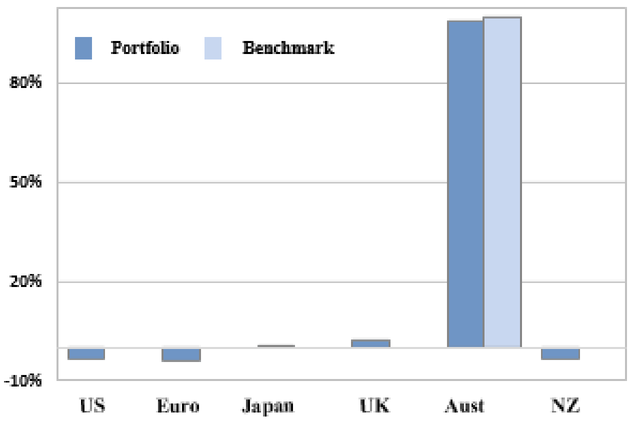
Fund Facts

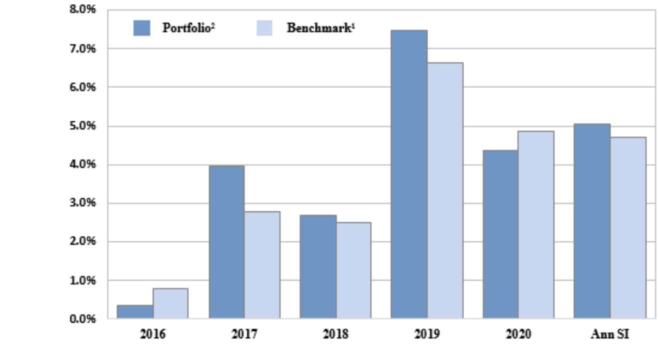
Benchmark[1]	FTSE World Government Bond Index AUD Hedged
Target	Outperform the benchmark by 2% p.a. gross of fees over full economic cycle 5-7yrs in length.
Fund Inception	9 December 2016
Management Fee	0.60% p.a.
Distributions	Quarterly
Liquidity	Daily
Application:	$1million or as per platform minimum
Platforms:	AMP North & Portfolio Care, Asgard, Ausmaq, BT Panorama, BT Wrap, CFS FirstWrap, Grow Wrap, HUB24, IOOF Pursuit, Macquarie Wrap, Mason Stevens, MLC Wrap, Navigator, Netwealth, Oasis, PowerWrap, Praemium, Symetry, uXchange, WealthO2Super, Xplore Wealth

Country Exposure (%)



Currency Exposure (%)





Total Return[3]	2016[2]	2017	2018	2019	2020	Ann SI[4]
Gross Returns	0.36%	3.95%	2.68%	7.46%	4.37%	5.05%
Benchmark[1]	0.78%	2.79%	2.51%	6.63%	4.86%	4.71%
Relative Gross	-0.42%	1.16%	0.17%	0.84%	-0.49%	0.33%

Fund Characteristics

	Portfolio [2]	Benchmark [1]
Duration	7.63	8.61
Flat Yield (unhedged)	2.30	1.77
Yield to Maturity (unhedged)	1.12	0.32
Average Coupon	2.64	2.21
Average Credit Rating	AA-	AA

Top 5 Bond Holdings

1	US Treasury 1.625% 15Nov2022
2	US Treasury 1.5% 15 Aug 2026
3	US Treasury Inflation IX 2.125 15Feb2041
4	US Treasury 2% 15Feb2025
5	Japanese Government 0.3% 20Jun2039

Top Active Bond Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Mexico	+10.17	10.79
2	Singapore	+9.72	10.08
3	Colombia	+3.83	3.83
Underweights			
1	Europe	-17.03	17.10
2	United States	-7.62	28.59
3	Japan	-3.36	14.26

Top Active Currency Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Malaysia Ringgit	+3.99	3.99
2	Swedish Krona	+3.03	3.03
3	Norwegian Krone	+2.65	2.65
Underweights			
1	Euro	-4.21	-4.21
2	Swiss Franc	-4.11	-4.11
3	New Zealand Dollars	-3.62	-3.62

Monthly Performance Commentary

The fund returned -0.57% over the month, outperforming the benchmark which returned -1.00%. Bond selection added 0.24% to relative returns and currency selection added 0.19%.The top three positive bond contributors to relative returns were the underweight positions in Europe, United Kingdom and United States. The top three positive currency contributors to relative returns were the short positions in United States Dollars, Swiss Franc and Euro.

Market Commentary

Global bonds gave back a little of their gains from earlier in the year during the month of August, as the more positive sentiment pushed equity markets and commodity prices higher, and consequently "safe haven" assets dipped slightly. The FTSE World Government Bond Index returned -1.0% in US dollar hedged terms over the month as yields moved higher. The recent trend of a weaker US dollar continued in August however, mitigating some of the declines for US-based investors. The FTSE WGBI returned -0.5% in US dollar unhedged terms.

During August, the world's major central banks convened for an economic policy symposium, usually held at Jackson Hole, Wyoming, but this year moved to a virtual gathering of policymakers and academics. Investors' focus was largely on Federal Reserve chair, Jerome Powell and his speech outlining some of the conclusions of the Fed's review of its monetary policy framework. Powell outlined a shift in the Fed's inflation target, to the extent that inflation will be allowed to run moderately above the 2% target following a period when inflation has been running below the target. In other words, for inflation to average close to 2% over time, periods of below target inflation must be followed by periods of inflation overshooting the target. Such explicit acceptance of above target inflation may be a model that other central banks will look to emulate, and the ECB is itself conducting a strategic review of its policy. The US Treasury market returned -1.1% over the month, but inflation-linked bonds (TIPS) outperformed significantly, returning 1.0% as inflation expectations ticked up. US inflation dropped precipitously in the immediate aftermath of the pandemic but has since recovered somewhat. The German market performed similarly to Treasuries, declining by -1.3%. Other Euro area markets performed slightly better, for example Italian bonds returned -0.3%.

In Japan, news was dominated by the announcement that Prime Minister Shinzo Abe would step down for health reasons. Abe had become synonymous with Japan's shift in economic policy over his tenure, including the aggressive monetary easing by the Bank of Japan, an increase in its inflation target from 1% to 2%, large fiscal stimulus, and structural reform to support growth. The Japanese government bond market followed the trend of the other major markets in generating negative returns in August. The market declined by -0.6% as yields rose modestly.

Amongst the smaller government bond markets returns were mixed over the month but generally stronger than in the major markets. The Malaysian market was broadly flat for example, generating a return of -0.1%. The Malaysian central bank cut rates to 1.75% in July, a lower level than during the 2008/09 crisis. The Colombian market generated a positive return of 0.4% this month also supported by accommodative monetary policy – a theme across emerging as well as developed markets.

On global currency markets, the theme remains one of a weaker US dollar. The Norwegian krone was one of the prime beneficiaries of this, strengthening by 4.6% against the greenback. The Norwegian currency was also supported by the rally in the oil price over the month. Other commodity-oriented currencies also tended to perform well, with the Australian dollar gaining 3.1% and the Canadian dollar 2.8%. The British pound rallied by 2% despite a seeming lack of progress on Brexit negotiations with the EU. The more positive sentiment amongst investors also boosted the Mexican peso, which rallied by 1.4%. In keeping with the general underperformance of "safe haven" assets, the Japanese yen weakened slightly, falling by -0.3% against the US dollar.

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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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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.