

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

Benchmark¹: 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 FUM: \$643m

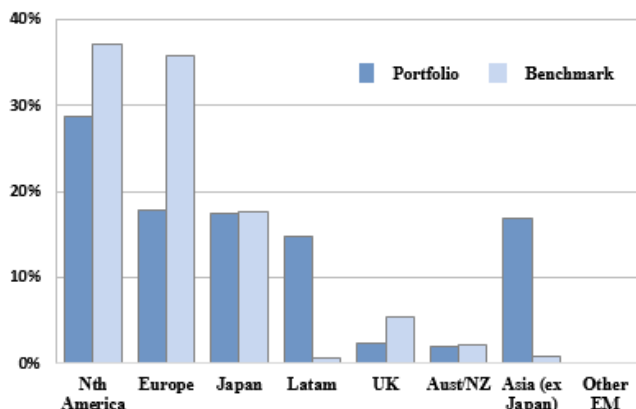
Management Fee: 0.60% p.a. Distributions: Quarterly

Buy/Sell Fee: Nil Liquidity: Daily

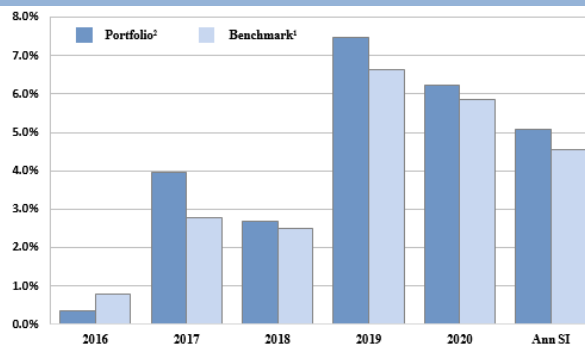
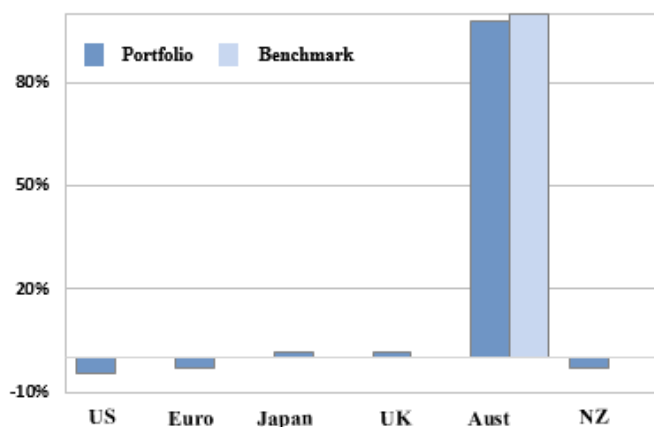
Application: \$1million or as per platform minimum

Platforms: AMP North, Portfolio Care, Summit & iAccess, Asgard, Ausmaq, BT Panorama & BT Wrap, CFS FirstChoice & FirstWrap, Grow Wrap, HUB24, IOOF Pursuit, eXpand & FinHQ, Macquarie Wrap, Mason Stevens, MLC Wrap & Navigator, Netwealth, Oasis, Portfolio One, 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%	6.23%	5.08%
Benchmark ¹	0.78%	2.79%	2.51%	6.63%	5.87%	4.56%
Relative Gross	-0.42%	1.16%	0.17%	0.84%	0.37%	0.51%

Fund Characteristics

	Portfolio ²	Benchmark ¹
Duration	7.56	8.78
Flat Yield (unhedged)	2.35	1.66
Yield to Maturity (unhedged)	1.13	0.25
Average Coupon	2.71	2.09
Average Credit Rating	AA-	AA

Top 5 Bond Holdings

1	US Treasury 1.5% 15 Aug 2026
2	Japanese Government 0.1% 20Sep2029
3	US Treasury 1.625% 15Nov2022
4	Japanese Government 0.3% 20Jun2039
5	US Treasury Inflation IX 2.125 15Feb2041

Top Active Bond Positions

Portfolio Exposure	% Relative to Benchmark	Current % of Portfolio
Overweights		
1 Mexico	+9.50	10.23
2 Singapore	+9.18	9.54
3 Colombia	+3.97	3.97
Underweights		
1 Europe	-17.12	17.27
2 United States	-9.77	25.45
3 UK	-3.46	2.15

Top Active Currency Positions

Portfolio Exposure	% Relative to Benchmark	Current % of Portfolio
Overweights		
1 Malaysia Ringgit	+4.32	4.32
2 Swedish Krona	+2.70	2.70
3 British Pound	+2.64	2.64
Underweights		
1 United States Dollars	-4.54	-4.54
2 Euro	-4.22	-4.22
3 Swiss Franc	-3.79	-3.79

Monthly Performance Commentary

The fund returned 0.67% over the month, outperforming the benchmark which returned 0.10%. Bond selection added 0.40% to relative returns and currency selection added 0.16%. The top three positive bond contributors to relative returns were the overweight positions in Mexico, Indonesia and Malaysia. The top three positive currency contributors to relative returns were the short positions in United States Dollars, Euro and Swiss Franc.

Market Commentary

Unfortunately, 2020 will be best remembered for the Covid-19 pandemic, which generated a global public health emergency and an economic and financial crisis. Risk assets sold off dramatically in March, before large scale intervention from central banks and governments stabilized the market. Once this stabilization was achieved risk assets recovered, the rally continuing through December as there has been increasingly positive news about vaccines. As would be expected through such volatile markets, global bonds performed well in 2020 with the FTSE World Government Bond Index returning 6.1% in US dollar hedged terms, although the return over past month was a modest 0.1%. The unhedged return on the index was 10.1% over the full year as the US dollar lost ground, and 1.4% in December.

The US Federal Reserve reacted to the crisis by cutting its target rate to 0-0.25% in March, a cumulative cut of 150bps from the start of the year. It also re-started its quantitative easing program, with securities held by the Federal Reserve at the end of December 2020 reaching USD6.7 trillion, up from USD3.1 trillion a year before. The variety of programs also increased, with support offered to businesses through direct lending, as well as the purchasing of corporate bonds in the secondary market. Not only did the monetary authorities take large actions, but the federal government also increased spending significantly. The budget deficit for 2020 is estimated at 19% of GDP, well in excess of the deficits throughout the GFC. With the Democratic candidate winning the Presidential election in November there could be even more fiscal stimulus to come. US Treasuries weakened towards the end of the year but returned 8.0% over the past twelve months.

Over the year certain European countries were amongst the hardest hit by the virus. Widespread lockdowns in many nations led to a collapse in GDP, mainly in the second quarter, which then rebounded later in the year. Once again both the monetary and fiscal authorities provided substantial support to the economy. Both the ECB and the Bank of England increased their quantitative easing programs, with the Bank of England also cutting interest rates to a record low of 0.1%. Although Covid cases have picked up with the onset of winter in the region, immunization programs have started across Europe. Towards the end of December, the EU and the UK finally agreed on a trade deal to help smooth the Brexit process. UK government bonds returned a robust 9.7% over the year whereas in the Eurozone they returned 5.0%.

It was not just the largest global central banks that implemented quantitative easing programs in 2020, with both New Zealand and Australia initiating their own purchase programs. The RBA in Australia reduced interest rates to 0.1% with the latest cut coming in November and also implemented 'Yield Curve Control' to keep the three-year bond yield at just 0.25%. With yields already low in Australia the market returned 4.4% over the year. New Zealand also saw interest rates cut to 0.25% along with large buying of domestic government bonds by the central bank. By the end of October, the RBNZ had bought 24% of the total government bond market, a higher percentage than the Federal Reserve held of the US Treasury market. New Zealand bonds gave a return of 5.4% through the year.

Over the course of 2020 the US dollar fluctuated hugely with the currency being one of the strongest through the first quarter, benefiting from its reserve currency status and liquidity, before then giving back these gains through the remainder of the year. Amongst the top performers over the year were the Swedish krona which strengthened 14% against the US dollar, and the Australian dollar which gained 9.8%. The Euro also performed strongly, rising 9% whilst the Japanese yen gained 5.3%, and the British pound 3.2%. Amongst the weaker currencies were the Canadian dollar which rose a modest 1.8% and the Mexican peso which weakened by 5%.

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

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

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 trademark of the relevant LSE Group companies and is used by any other LSE Group company under license. "TMX®" is a trademark 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. 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 Global Government 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/>.

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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.