

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: \$630.9m

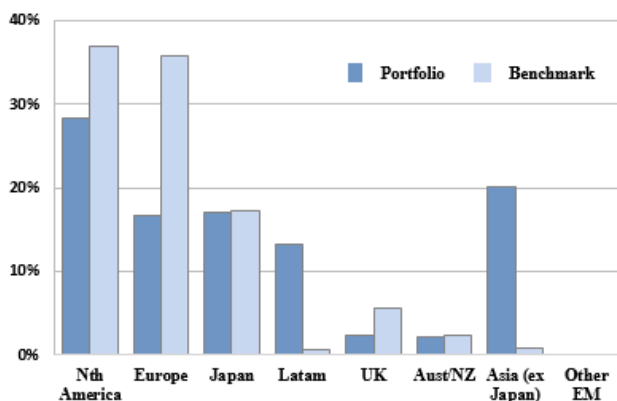
Management Fee: 0.60% p.a. Distributions: Quarterly

Buy/Sell Fee: Nil Liquidity: Daily

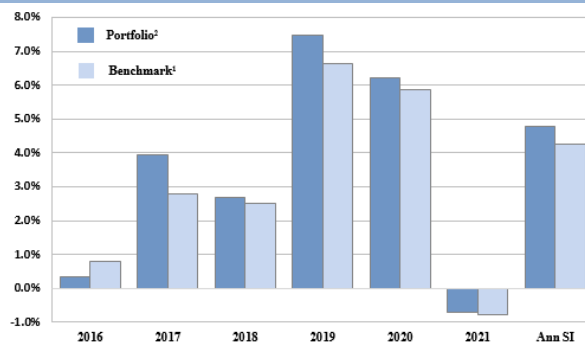
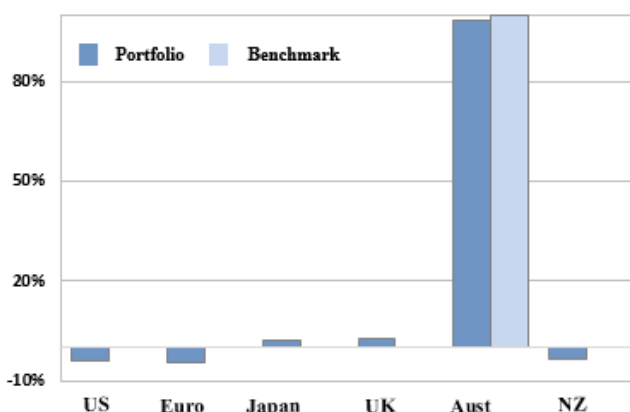
Application: \$1million or as per platform minimum

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	2021	Ann SI ⁴
Gross Returns	0.36%	3.95%	2.68%	7.46%	6.23%	-0.70%	4.80%
Benchmark ¹	0.78%	2.79%	2.51%	6.63%	5.87%	-0.78%	4.27%
Relative Gross	-0.42%	1.16%	0.17%	0.84%	0.37%	0.09%	0.52%

Fund Characteristics

	Portfolio ²	Benchmark ¹
Duration	7.66	8.72
Flat Yield (unhedged)	2.40	1.67
Yield to Maturity (unhedged)	1.23	0.31
Average Coupon	2.73	2.08
Average Credit Rating	AA-	AA

Top 5 Bond Holdings

1	US Treasury 1.5% 15 Aug 2026
2	Japanese Government 0.1% 20Sep2029
3	Singapore Government 3.5 1Mar 2027
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 Singapore	+9.57	9.93
2 Mexico	+8.53	9.21
3 Indonesia	+4.29	4.29
Underweights		
1 Europe	-17.89	16.57
2 United States	-9.23	26.17
3 UK	-3.37	2.28

Top Active Currency Positions

Portfolio Exposure	% Relative to Benchmark	Current % of Portfolio
Overweights		
1 Malaysia Ringgit	+4.41	4.41
2 Swedish Krona	+2.48	2.48
3 British Pound	+2.45	2.45
Underweights		
1 Euro	-4.33	-4.33
2 United States Dollars	-4.08	-4.08
3 Swiss Franc	-3.79	-3.79

Monthly Performance Commentary

The fund returned -0.70% over the month, outperforming the benchmark which returned -0.78%. Bond selection added 0.24% to relative returns, while currency selection detracted -0.16%. The top three positive bond contributors to relative returns were the underweight positions in United States, Europe and United Kingdom. The top three currency detractors from relative returns were the long positions in Colombian Peso and Korean Won and the short position in United States Dollars.

Market Commentary

New year optimism and rising equity markets pushed bond yields higher in early January, before concerns over the rollout of Covid vaccines and gyrating stock markets, tempered the positive sentiment and boosted government bonds. The return on the FTSE World Government Bond Index was -0.7% in USD hedged terms over the month, dragged down by the early month spike in yields. In unhedged USD terms, returns were slightly lower at -1.3% as the uncertain backdrop provided some support for the US dollar against other major currencies.

The eyes of the world were focused on Washington in the early days of 2021, as a new administration prepared to take power. Before the inauguration of President Biden, the world witnessed the remarkable scenes of the Capitol building being stormed by protesters, as well as the Democrats' victory in the senate run-off election in Georgia, which gave them effective control of both houses of Congress. US Treasury yields rose to their highest levels since March 2020 as the prospect of a larger fiscal support programme was contemplated by investors. As the month developed, the prospects of a USD1.9trn package receded amid opposition from Republicans, but a compromise package remains likely. The Treasury market recovered somewhat in the second half of the month, but returns were still negative at -1.1% for January.

As 2021 dawned, Britain and the EU's post-Brexit trading arrangements began with relatively little fuss. The attention of financial markets was more closely focused on the economic impact of renewed lockdown in Britain and elsewhere as cases and deaths from Covid-19 jumped. The Bank of England is due to publish the results of its consultation on negative interest rates in early February. Although inflation remains low at 0.6% in the 12 months to December 2020, analysts are not expecting the Bank to implement negative rates in the near term. The outlook has brightened somewhat this month as the speed of the Covid vaccine rollout has been impressive. In the EU however, tensions have risen around a comparatively slower vaccination rollout, undermined by supply problems. Returns from government bonds across the region were negative, with UK gilts returning -1.8%, and the German market -0.4%. In Italy, the government was plunged into crisis as a small party led by former prime minister Matteo Renzi, withdrew support for the coalition. Bond markets were relatively sanguine about developments however, and Italian bonds declined modestly, returning -0.6%.

Few government bond markets produced positive returns this month but Mexico and Colombia were exceptions, both returning 0.2%. Relatively low inflation in each market, and the potential for the respective central banks to reduce interest rates further have underpinned bonds in each country. In Colombia for example, inflation is running at only 1.6% in December 2020, compared to the central bank's target of 3%. In Mexico, official interest rates remain relatively high compared to peers at 4.25% but lower rates are widely expected in the coming months. A policy framework of relatively tight monetary and fiscal policy has constrained economic activity in Mexico, but it has generated a relatively low fiscal deficit of only 2.9% of GDP in 2020, and stable inflation expectations.

Despite dramatic headlines around politics and equity markets during the past month, exchange rate changes were relatively muted amongst the major currencies. Having weakened in the second half of 2020, the US dollar made something of a modest recovery in January gaining slightly against the Euro, which fell -0.7%, and the Japanese yen, which dropped -1.4%. The Norwegian krone strengthened fractionally, up by 0.1% against the US dollar over the month, perhaps supported by the stronger oil price. Emerging Market currencies gave back some of the gains of the last quarter of 2020, with the Mexican peso for example depreciating -1.5%. The British pound meanwhile outperformed, rising 0.5%.

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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 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.

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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.