Colchester Global Government Bond Fund - Class I
APIR Code ETL5525AU
As at 28 February 2021

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

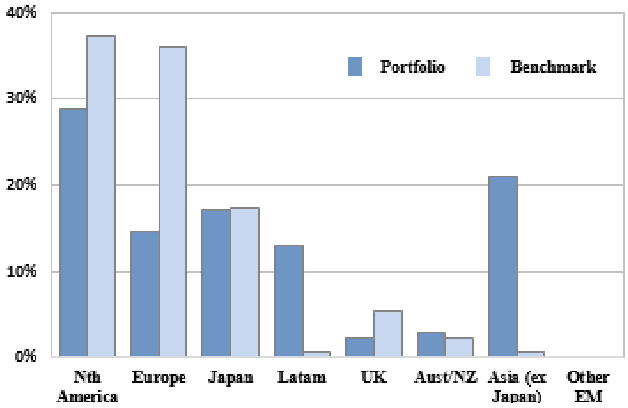
Benchmark[1]: FTSE World Government Bond Index AUD Hedged
Target: Outperform the benchmark by 2% p.a. gross of fees over full economic cycle 5-7yrs in length.

Fund Inception: 9 December 2016 | FUM: $629.9m
Management Fee: 0.60% p.a. | Distributions: Quarterly
Buy/Sell Fee: Nil | Liquidity: Daily
Application: As per platform minimum or $1million wholesale direct

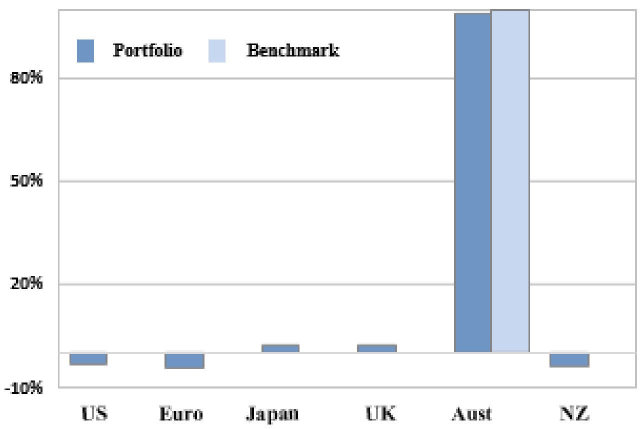
Platforms:

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, OneVue Wrap, Portfolio One, PowerWrap, Praemium, Symetry, uXchange, WealthO2Super, Xplore Wealth.

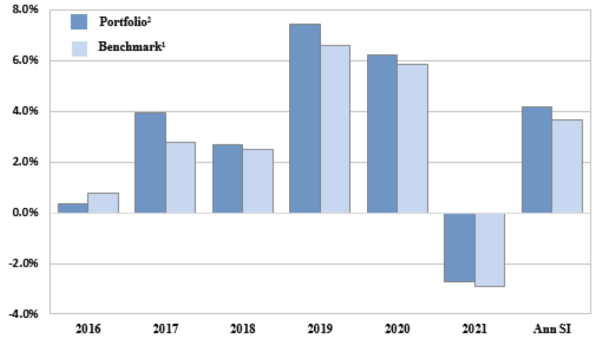
Country Exposure (%)



Currency Exposure (%)



Gross Performance



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%	-2.73%	4.20%
Benchmark[1]	0.78%	2.79%	2.51%	6.63%	5.87%	-2.93%	3.65%
Relative Gross	-0.42%	1.16%	0.17%	0.84%	0.37%	0.20%	0.54%

Fund Characteristics

	Portfolio [2]	Benchmark [1]
Duration	7.22	8.50
Flat Yield (unhedged)	2.36	1.69
Yield to Maturity (unhedged)	1.44	0.51
Average Coupon	2.60	2.04
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	US Treasury N/B 0.125% 15May2023
5	Japanese Government 0.3% 20Jun2039

Top Active Bond Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Singapore	+9.40	9.76
2	Mexico	+8.08	8.73
3	Indonesia	+4.05	4.05
Underweights			
1	Europe	-21.37	13.18
2	United States	-9.66	25.93
3	UK	-3.24	2.26

Top Active Currency Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Malaysia Ringgit	+4.29	4.29
2	Swedish Krona	+2.45	2.45
3	Japanese Yen	+2.44	2.44
Underweights			
1	Euro	-3.92	-3.92
2	New Zealand Dollars	-3.81	-3.81
3	Swiss Franc	-3.71	-3.71

Monthly Performance Commentary

The fund returned -2.04% over the month, outperforming the benchmark which returned -2.16%. Bond selection added 0.19% to relative returns, while currency selection detracted -0.07%. The top three positive bond contributors to relative returns were the underweight positions in Europe, United States and United Kingdom. The top three currency detractors from relative returns were the long positions in Mexican Peso, Japanese Yen and Colombian Peso.

Market Commentary

Government bond yields continued to climb higher in February, along with concerns that the rate of inflation may increase. Fiscal policy, in the form of government spending, continued to be supportive of economic activity and sentiment, highlighted by the proposed $1.9 trillion package in the US. Confidence is also recovering as it has become clearer that global vaccination programs are making progress and a return of economic normality has come into view. As a result, the return on the FTSE World Government Bond Index was again negative for the month. |The return in unhedged US dollar terms at -2.4% and in US dollar hedged terms at -2.2% as the US dollar gained slightly against other major currencies.

In the US there has been a gradual pick-up in economic activity as virus cases drop and businesses activity resumes. The Markit Services PMI indicator at 59.8 is materially above the 50 level, which signals stable activity levels, indicating expectations for a robust improvement in activity. Monetary policy remains highly accommodative and the Federal Reserve has indicated that it would be willing to let inflation rise higher than their target temporarily, rather than take pre-emptive action. Despite the recent rise in inflation concerns, high unemployment levels and high savings rates are likely to keep inflation contained for some time. The return on the US Treasury market was -2.2% for February. In Mexico, the central bank cut interest rates to 4.0% on the back of growth concerns, but the bond market returned -2.2% over the month in line with the global trend. In Colombia, inflation data announced in February showed that annual price changes remained steady at 1.6% to the end of January. Colombia also announced that GDP had contracted by 6.8% in 2020 and the local bond market produced a negative return of -2.0% over the month.

The MPC at the Bank of England voted unanimously to keep interest rates ultra-low at 0.1% at their February meeting but they did state that “CPI inflation is expected to rise quite sharply towards the 2% target in the spring” due to the rise in energy prices and certain taxes. Inflation remains well below the target at 0.6% currently, giving the Committee plenty of policy room. This did not stop UK gilt yields moving higher, resulting in a return of -6.4% for the month, the higher duration of the UK market contributing to its underperformance relative to peers. Government bond yields throughout Europe traded higher in February, with returns from German, French and Italian bonds being -2.0%, -2.3% and -0.9% respectively.

Over in Asia, Indonesian bonds generated a negative return of -1.9% in February. Bank Indonesia cut its policy rate to 3.5% whilst expressing the view that room for further policy cuts is limited, and lowered its growth forecast for 2021 to 4.3-5.3%, from a previous forecast of 4.8-5.8%. The central bank of Malaysia announced that full year GDP growth for 2020 recorded a contraction of -5.6% and further expressed some concerns around the prospects for a recovery in the near term. The rate of inflation fell in February, showing that prices had fallen by 0.2% over the year to the end of January. Despite this, the Malaysian bond market returned -1.7%.

Volatility in bond and equity markets was not matched in currency markets this month, with exchange rate changes relatively muted amongst the major currencies. Having mildly appreciated in January, the US dollar experienced mixed fortunes in February. The top performer was the British pound, which was buoyed by the faster than expected rollout of the Covid-19 vaccine, appreciating 1.8% relative to the US dollar. Both the Australian and New Zealand dollars also enjoyed gains of 0.9%. Emerging market currencies had relatively poor performance this month, with the Mexican peso depreciating by -3.3% to the US dollar and the Indonesian rupiah was down -1.5%.

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Disclaimers

 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.