Colchester Emerging Markets Bond Fund - Class I
APIR Code ETL3065AU
As at 31 March 2021

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.

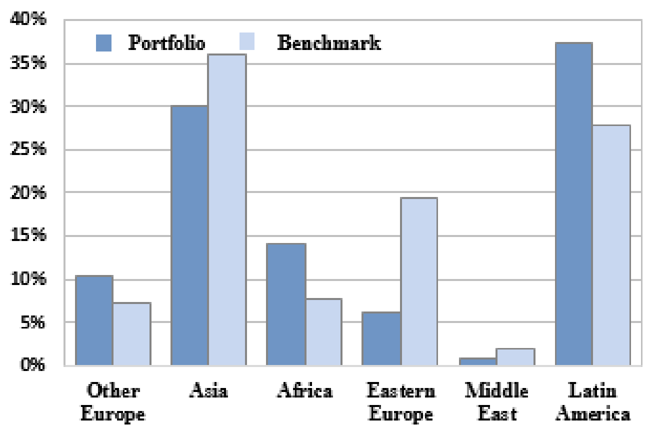
Investment Philosophy & Process

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.

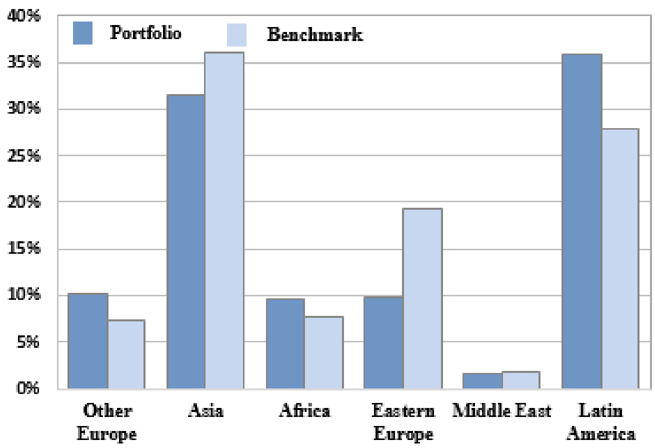
Fund Facts

Benchmark[1]	JPMorgan Government Bond Index Emerging Markets Global Diversified AUD 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	FUM	$25.7m
Distributions	Quarterly	Liquidity	Daily
Management Fee	0.75% p.a.	Buy/Sell	+/- 0.16% (as at 5 Mar 21)
Application:	As per platform minimum or $1million wholesale direct		
Platforms:	Ausmaq, BT Panorama, HUB24, Netwealth, Praemium & uXchange.		

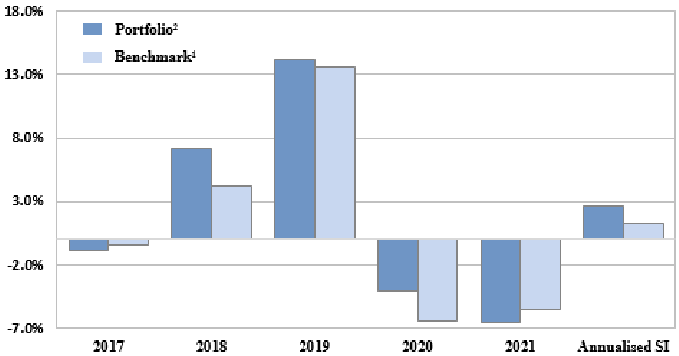
Country Exposure (%)



Currency Exposure (%)



Gross Performance



Total Return[3]	2017[2]	2018	2019	2020	2021	Ann SI[4]
Gross Returns	-0.84%	7.19%	14.19%	-4.04%	-6.56%	2.62%
Benchmark[1]	-0.46%	4.20%	13.64%	-6.45%	-5.45%	1.28%
Relative Gross	-0.38%	2.99%	0.55%	2.41%	-1.11%	1.33%

Fund Characteristics

	Portfolio [2]	Benchmark [1]
Duration	5.65	5.29
Flat Yield (unhedged)	7.09	5.12
Yield to Maturity (unhedged)	6.21	4.81
Average Coupon	7.18	5.32
Average Credit Rating	BBB	BBB+

Top 5 Bond Holdings

1	Mexican Bonos 10% 5Dec2024
2	Republic of South Africa 8.75% 28Feb2048
3	Nota Do Tesouro Nacional 10% 01Jan2023
4	Indonesia Government Bond 8.25% 15May2029
5	Mexican Bonos 7.5% 3 Jun 2027

Top Active Bond Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Indonesia	+8.25	17.90
2	South Africa	+6.49	14.19
3	Colombia	+6.41	11.33
Underweights			
1	China	-10.00	0.00
2	Thailand	-8.78	0.00
3	Czech Republic	-4.12	0.00

Top Active Currency Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Colombian Peso	+5.35	10.28
2	Malaysia Ringgit	+4.89	12.27
3	Mexican Peso	+4.53	13.97
Underweights			
1	Thai Baht	-7.81	0.97
2	Czech Koruna	-4.06	0.07
3	Indonesian Rupiah	-3.14	6.51

Monthly Performance Commentary

The fund returned -1.43% over the month, outperforming the benchmark which returned -1.47%. Bond selection detracted -0.53% from relative returns, while currency selection added 0.57%. The top three bond detractors from relative returns were the overweight positions in South Africa, Mexico and Colombia. The top three positive currency contributors to relative returns were the underweight positions in Polish Zloty and Turkish Lira and the overweight position in Mexican Peso.

Market Commentary

A positive outlook for the year on both the growth and inflation fronts boosted stock markets but also sent bond yields higher over the first quarter of 2021. This rise in bond yields meant the return on the JP Morgan GBI-EM Global Diversified Index was -3.7% in USD hedged terms over the quarter. In unhedged USD terms, returns were slightly lower at -6.7% as the US dollar strengthened on a relatively brighter outlook compared to many other countries.

In Latin America, returns from government bond markets were largely negative. Brazil was amongst the relative outperformers in the region with its government bond market returning -5.4% over the quarter. Whilst inflation has remained largely below 4% over the past 12 months, it has continued to surprise to the upside recently hitting a high of 5.2%, as well as the Central Bank's inflation survey suggesting market participants have shifted their inflation expectations higher. All this gave the Central Bank a strong rationale to hike the Selic rate by 75bps to 2.75% in March. In Mexico, despite inflation remaining contained, core inflationary pressures are persisting there. Banxico released its quarterly inflation report, raising its forecasts for both economic growth and inflation, implying that average inflation for this year will be above the central banks 3% target. Mexican bonds fell -4.9% over the quarter. Noticeable laggards in the region included Colombia and Peru which were down -5.9% and -7.9% respectively.

Turkey was the worst performing market for the quarter down -10.9%. Towards the end of March, the head of the Central Bank was abruptly fired by President Erdogan after a larger-than-expected 200bps hike in the bank policy rate to 19%. The new Governor, Sahap Kavcioglu, is a party loyalist and banking professor, and will be the fourth central bank governor since July 2019. Inflation in the country continues to trend higher, most recently hitting 15.6%, an 18-month high. Turning to South Africa, the bond market returned -1.8% for the quarter. The Central Bank kept rates at 3.5%, where it has been since July 2020. Inflation remains well contained with the latest print coming in at 2.9%, below the lower band of the target range for inflation of 3-6%. Elsewhere, Poland returned -0.9%, Hungary fell -2.2% and the Czech Republic also fell -3.8% over the quarter.

Asia was the best performing region for the first quarter, falling -2.1%. China was the best performing market, showing a positive return of 0.5%. Inflation in China has hovered below 0% for the last several months, with the latest reading being -0.2%. China's National People's Congress took place in March, and amongst many things discussed the government set a conservative growth target of above 6%, and the inflation target was re-set at 3.0%, down from 3.5% last year. Malaysia returned -2.5% as the Central Bank continued to keep interest rates unchanged at 1.75%. In the Philippines, the BSP kept the policy rate kept unchanged at 2.00% despite inflation breaching the Central Bank's 2-4% target range recently. However, this was largely driven by transitory supply side factors, with the Central Bank expecting inflation to return to within the target band in 2022. Philippines government bonds returned -0.8%. In Thailand, government bonds lost -4.6%.

Against the strength of the US dollar, many emerging market currencies lost ground over the first quarter of 2021. The three worst performing currencies were the Turkish lira, Brazilian real and Colombian peso returning -10.2%, -8.0% and -6.9% respectively. All three currencies were impacted by domestic political issues which add to concerns about the path to recovery from the coronavirus pandemic. The Chinese yuan was the best performer, falling only -0.2% over the quarter, followed by the South African rand which only fell -0.5% as the country continues to show a positive trade balance as export growth exceeds imports. The Chilean peso was also a relative outperformer, falling only -1.1% over the quarter as copper prices, the country's largest export, continued to appreciate for the fourth consecutive quarter.

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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.