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

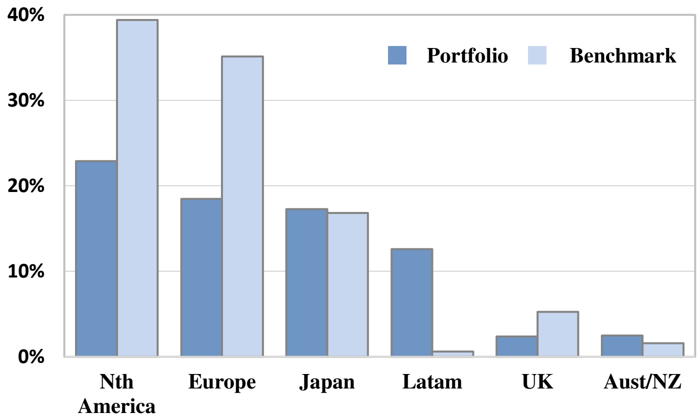
Benchmark[1]: FTSE World Government Bond Index AUD Hedged
Target: Outperform the benchmark by 2% p.a. gross of fees over full economic cycle 5-7yrs in length.

Fund Inception: 9 December 2016 | FUM: $668.1m
Management Fee: 0.60% p.a. | Distributions: Quarterly
Buy/Sell Fee: Nil | Liquidity: Daily
Application: As per platform minimum or $1million wholesale direct

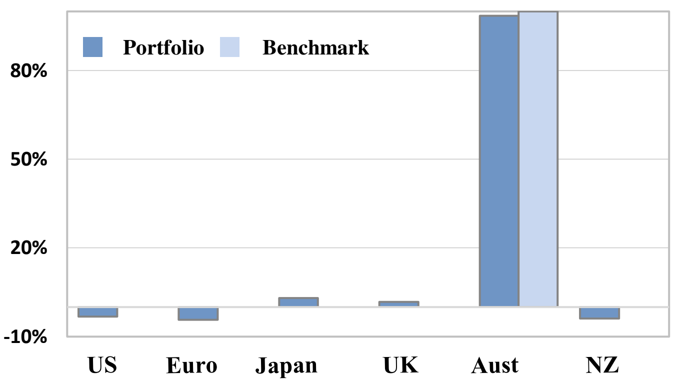
Platforms:

AMP North, MyNorth, 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, uXchange, WealthO2Super, Xplore Wealth.

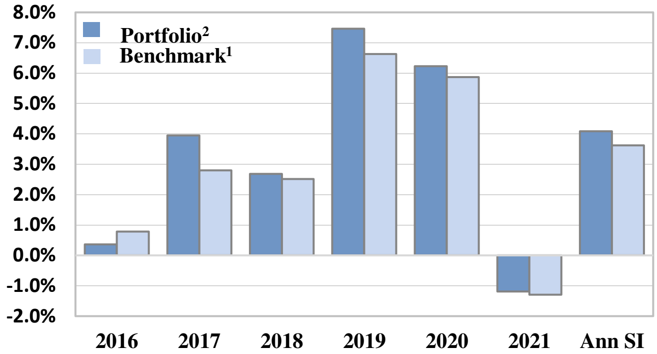
Country Exposure (%)



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%	-1.19%	4.08%
Benchmark[1]	0.78%	2.79%	2.51%	6.63%	5.87%	-1.29%	3.62%
Relative Gross	-0.42%	1.16%	0.17%	0.84%	0.37%	0.10%	0.46%

Fund Characteristics

	Portfolio [2]	Benchmark [1]
Duration	7.29	8.70
Flat Yield	2.55	1.56
Yield to Maturity (Unhedged)	1.65	0.45
Average Coupon	2.76	1.89
Average Credit Rating	AA-	AA

Top 5 Bond Holdings

1	US Treasury Inflation IX 2.125 15Feb2041
2	Japanese Government 0.3% 20Jun2039
3	Japanese Government 0.1% 20Sep2029
4	US Treasury 2.75 15Feb2024
5	Singapore Government 3.5 1Mar 2027

Top Active Bond Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Singapore	+9.43	9.80
2	Mexico	+8.29	8.90
3	Indonesia	+5.41	5.41
Underweights			
1	Europe	-20.34	13.42
2	United States	-16.83	20.88
3	UK	-2.92	2.35

Top Active Currency Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Malaysia Ringgit	+5.08	5.08
2	Japanese Yen	+3.01	3.01
3	Swedish Krona	+2.45	2.45
Underweights			
1	Euro	-4.34	-4.34
2	New Zealand Dollars	-3.82	-3.82
3	Swiss Franc	-3.75	-3.75

Monthly Performance Commentary

The fund returned 0.02% over the month, outperforming the benchmark which returned -0.33%. Bond selection added 0.25% to relative returns and currency selection added 0.10%. The top three positive bond contributors to relative returns were the underweight positions in Europe and United States and the overweight position in Indonesia. The top three positive currency contributors to relative returns were the long positions in Malaysia Ringgit, Colombian Peso and Norwegian Krone.

Market Commentary

Financial markets looked to the Federal Reserve's annual symposium in Jackson Hole, Wyoming this month, hoping to get a clearer picture of the road map for US monetary policy. Although little was given away in terms of clear policy direction, it appears that tapering of the USD120bn per month quantitative easing program will start later this year. Chair of the Federal Reserve Jerome Powell was at pains to stress however that the reduction in asset purchases was not a direct signal regarding the timing of increases to the policy rate. The FTSE World Government Bond Index was down -0.3% in USD hedged terms, with the unhedged index down -0.6% as the US dollar gained a little over the month.

Although financial markets may have been focussed on Jackson Hole, the real economy in the United States continues to strengthen. Unemployment fell from 5.9% to 5.4% during the month as hiring continues to be strong. There are now signs that there could be shortages of labour in sectors that laid off large numbers of workers last year such as the hospitality sector, whilst there are also shortages in the transportation industry. The negative side of the economic recovery is that the inflation rate remains elevated, this was the second month that inflation came in at 5.4%, although the core inflation rate did fall slightly to 4.3%. Both readings are considerably above the Federal Reserve's medium-term target but US Treasuries remained relatively stable, returning -0.1% over the month. In Canada political events took centre stage with Prime Minister Trudeau calling an election two years ahead of schedule. Initially this was viewed as a smart political move with Trudeau expected to win comfortably, but it now seems the vote may be much closer than expected and the gamble may not pay off. Canadian bonds were flat over the month.

In Europe there is less pressure on the European Central Bank (ECB) to start tightening monetary policy, but inflation is rising and the more hawkish policy makers have become more vocal. Inflation in the Eurozone rose to 3%, this is the highest rate since 2011. So far, the ECB has taken a similar view to US policymakers that the rise in inflation is likely to prove transitory. Although not as strong as the US labour market, unemployment is falling, and the Eurozone rate has now reduced to 7.6%. German bonds fell over the month, returning -0.6%. In the UK, Covid-related restrictions have largely been removed, and the economy has recovered strongly. The vaccination program has helped to keep hospitalisation rates at relatively low levels. The bond market in the UK sold off by -0.9% in August.

Whilst the UK was coming out of social distancing measures, parts of Australia and New Zealand were forced back into lockdowns. After both countries had handled the first wave of the virus last year very well, the respective economies had been growing strongly. It was expected that New Zealand would be the first developed country to raise interest rates in August, but with restrictions renewed, this has been delayed. New Zealand bonds returned -1.3% whereas Australian bonds generated a positive return of 0.2%. Although many central banks are still on hold, in emerging markets there have been rate rises over the last few months as inflation picked up. The Mexican central bank increased rates for the second time this year to bring rates to 4.5%. The Mexican bond market reacted positively, returning 0.5%.

Overall, the US dollar gained against the benchmark currencies in August. Some of the weaker currencies included the Canadian dollar, down -1.2% along with the Australian dollar which fell by 0.6%. Currencies that gained over the month included the Norwegian krone, up 1.5% and the Colombian peso which rose 2.7%. In Malaysia the fact that Ismail Yaakob took over as prime minister did not worry the currency markets and the ringgit gained 1.5%. The Japanese yen was flat against the US dollar this month.

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

Monica Hood
Business Development Manager
Phone +61 431 478 780

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

Disclaimers

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.