Colchester Global Government Bond Fund - Class I
APIR Code ETL5525AU
As at 31 May 2020

Investment Objective

To generate income and increase the amount invested by investing in a globally diversified portfolio of government bonds and currencies.

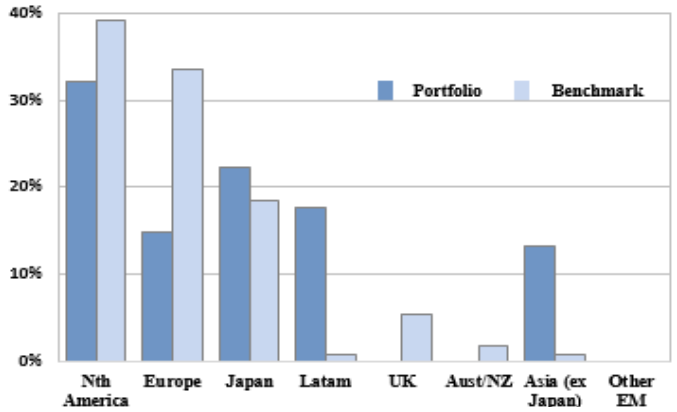
Investment Philosophy & Process

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.

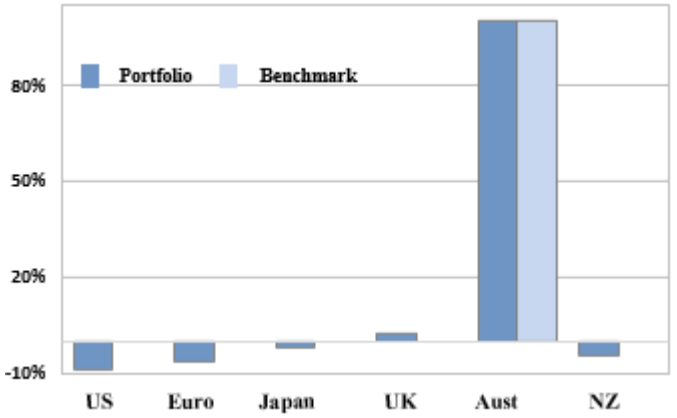
Fund Facts

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
Management Fee	0.60% p.a.
Distributions	Quarterly
Liquidity	Daily
Application:	$1million or as per platform minimum
Platforms:	AMP North & Portfolio Care, ANZ Grow Wrap, Asgard, Ausmaq, BT Panorama, BT Wrap, CFS FirstWrap, HUB24, IOOF Pursuit, Macquarie Wrap, Mason Stevens, MLC Wrap, Navigator, Netwealth, Oasis, PowerWrap, Praemium, Symetry, uXchange, WealthO2Super.

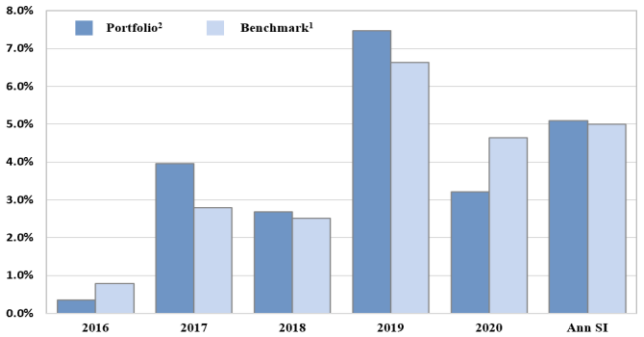
Country Exposure (%)



Currency Exposure (%)



Gross Performance



Total Return[3]	2016[2]	2017	2018	2019	2020	Ann SI[4]
Gross Returns	0.36%	3.95%	2.68%	7.46%	3.22%	5.09%
Benchmark[1]	0.78%	2.79%	2.51%	6.63%	4.64%	5.00%
Relative Gross	-0.42%	1.16%	0.17%	0.84%	-1.42%	0.08%

Fund Characteristics

	Portfolio [2]	Benchmark [1]
Duration	7.51	8.61
Flat Yield	2.39	1.86
Yield to Maturity (Unhedged)	1.33	0.36
Average Coupon	2.70	2.31
Average Credit Rating	AA-	AA

Top 5 Bond Holdings

1	US Treasury 2% 15Feb2025
2	US Treasury Inflation IX 2.125 15Feb2041
3	Mexican Bonos 8.5% 31May2029
4	US Treasury 1.625% 15Nov2022
5	Japanese Govt 0.1% 20Jun2029

Top Active Bond Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Mexico	+12.44	13.11
2	Singapore	+9.36	9.73
3	Colombia	+3.49	3.49
Underweights			
1	Europe	-19.21	13.05
2	United States	-8.79	28.73
3	UK	-5.42	0.00

Top Active Currency Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Norwegian Krone	5.25	5.25
2	Mexican Peso	4.75	4.75
3	Swedish Krona	3.92	3.92
Underweights			
1	United States Dollars	-8.32	-8.32
2	Euro	-6.00	-6.00
3	Swiss Franc	-4.32	-4.32

Monthly Performance Commentary

The fund returned 1.53% over the month, outperforming the benchmark which returned -0.14%. Bond selection added 0.90% to relative returns and currency selection added 0.77%. The top three positive bond contributors to relative returns were the overweight positions in Mexico and Colombia and market selection in Europe. The top three positive currency contributors to relative returns were the long positions in Mexican Peso and Norwegian Krone and the short position in United States Dollars.

Market Commentary

Over the month of May, countries have started to gradually ease their self-imposed lockdowns, or made plans to do so. As economic activity picked up on the back of this, the expectation of further recovery in the global economy led to growth assets performing strongly during the month. Global bonds on the other hand, were broadly stable on the month with the FTSE World Government Bond Index returning -0.1% in US dollar hedged terms over the month. The dollar gave back a little more ground over the month after the very strong performance of the first quarter, meaning the unhedged return was slightly positive, 0.2% over the past month.

The United States bond market returned -0.3% over the month as the equity market in the country continued to perform well. This was despite the fact that labour market statistics released during May showed the unemployment rated had risen to 14.7% in the country. Although this was slightly better than had been expected the sheer pace of the rise in unemployment is staggering, in February it was just 3.5%. Not surprisingly with the bad news on the jobs front the US administration has moved to end the lockdown, although a lot of the decisions will be made at state level. There is also pressure building in the administration for further trade action to be taken against China over proposed security laws in Hong Kong, this could undo some of the bilateral trade negotiations of last year.

Ursula von der Leyen, the European Union Commission President announced plans for a €750 billion recovery fund to help countries that have been affected by the coronavirus. The package will be made up of grants and loans for every EU country, with the Commission raising some of the money on capital markets. In the past the EU has been reluctant to take on debt that is shared collectively. The French and German government has approved this fund, so it now just needs to approved by the European Council, the Multiannual Finance Framework which is the EU's budget, the European Parliament, and then all 27 national parliaments. It is hoped that this can be done quickly and may even be achieved by the end of 2020. European bond markets had mixed returns over the month with the German market falling -1.4% whilst peripheral countries performed well, Italy returned 1.6% and Spain 1.5%.

In Asia, the Japanese government outlined details of what will be the second supplementary budget this year. Prime Minister Shinzo Abe announced plans to spend an additional $296 billion which will be the largest ever package outside of the formal budget. The money is being targeted to help small business who have been affected by the lockdown in the country. It will also give extra money to front-line medical workers. The funding of the package will be largely done through the bond markets. Japanese bonds returned -0.5% over the month. Another country that had a supplementary budget was Singapore where Deputy Prime Minister Heng Swee Keat announced an extra spending package of SGD33 billion. This has already been approved by President Halimah Yacob and the money is once again mainly being aimed at helping small businesses and those made unemployed by the crisis. In fact, the deputy prime minister pointed to the rise in the resident unemployment number to 3.3%, which is the highest it has been in over a decade, as part justification for the additional spending. Singaporean bonds returned 0.8% in May.

In the currency markets, the US dollar weakened a little as those currencies that had suffered earlier in the year continued to gain back some lost ground. The Norwegian krone rose 5.1%, the Colombian peso was up 5.6% and the Mexican peso gained 7.6% over the month. All of these countries are oil producers and as the oil price rose over the month, ending at over $35 a barrel, it helped boost their currencies. Amongst the currencies which lost ground against the US dollar over the month were the Japanese yen which fell -0.7% and the British pound that returned -2.0%.

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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 trade mark of the relevant LSE Group companies and is used by any other LSE Group company under license. "TMX®" is a trade mark 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.