Colchester Global Government Bond Fund - Class I
APIR Code ETL5525AU
As at 30 September 2020

Investment Objective

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

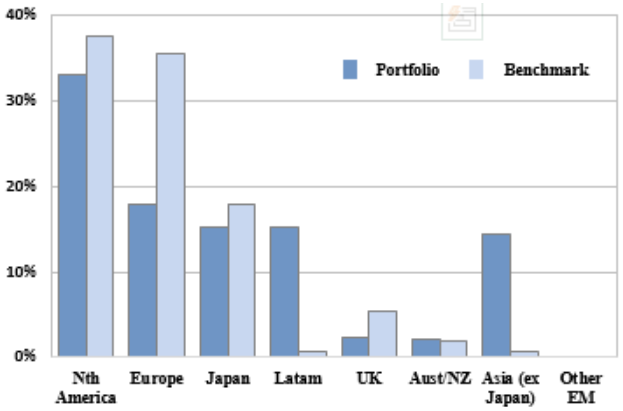
Investment Philosophy & Process

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.

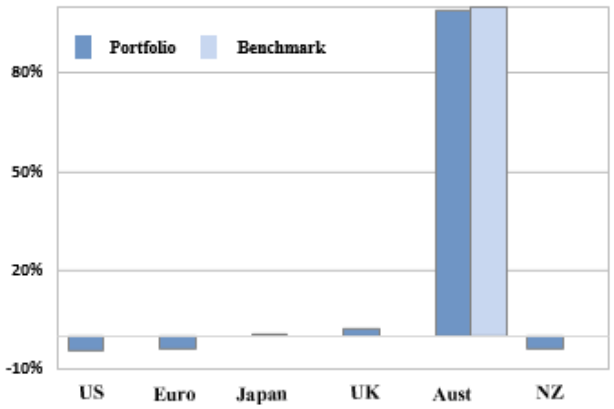
Fund Facts

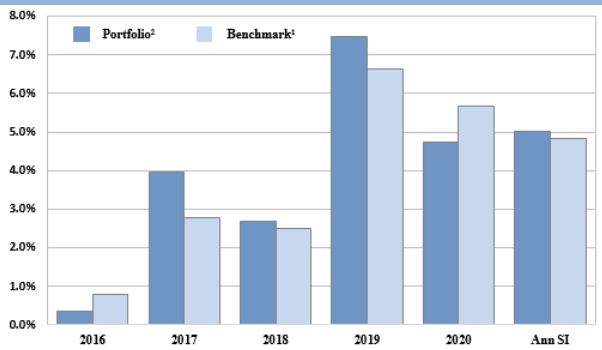
Benchmark[1]	FTSE World Government Bond Index AUD Hedged
Target	Outperform the benchmark by 2% p.a. gross of fees over full economic cycle 5-7yrs in length.
Fund Inception	9 December 2016
Management Fee	0.60% p.a.
Distributions	Quarterly
Liquidity	Daily
Application:	$1million or as per platform minimum
Platforms:	AMP North & Portfolio Care, Asgard, Ausmaq, BT Panorama, BT Wrap, CFS FirstWrap, Grow Wrap, HUB24, IOOF Pursuit, Macquarie Wrap, Mason Stevens, MLC Wrap, Navigator, Netwealth, Oasis, PowerWrap, Praemium, Symetry, uXchange, WealthO2Super, Xplore Wealth

Country Exposure (%)



Currency Exposure (%)





Total Return[3]	2016[2]	2017	2018	2019	2020	Ann SI[4]
Gross Returns	0.36%	3.95%	2.68%	7.46%	4.74%	5.03%
Benchmark[1]	0.78%	2.79%	2.51%	6.63%	5.66%	4.82%
Relative Gross	-0.42%	1.16%	0.17%	0.84%	-0.93%	0.21%

Fund Characteristics

	Portfolio[2]	Benchmark[1]
Duration	7.76	8.70
Flat Yield (unhedged)	2.32	1.74
Yield to Maturity (unhedged)	1.10	0.26
Average Coupon	2.67	2.18
Average Credit Rating	AA-	AA

Top 5 Bond Holdings

1	US Treasury 1.5% 15 Aug 2026
2	US Treasury 1.625% 15Nov2022
3	US Treasury Inflation IX 2.125 15Feb2041
4	US Treasury 2% 15Feb2025
5	Japanese Government 0.3% 20Jun2039

Top Active Bond Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Mexico	+10.33	10.96
2	Singapore	+9.63	10.00
3	Colombia	+3.83	3.83
Underweights			
1	Europe	-16.67	17.39
2	United States	-7.20	28.75
3	UK	-3.17	2.20

Top Active Currency Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Malaysia Ringgit	+4.04	4.04
2	Swedish Krona	+2.95	2.95
3	Norwegian Krone	+2.48	2.48
Underweights			
1	United States Dollars	-4.34	-4.34
2	Swiss Franc	-4.06	-4.06
3	Euro	-3.90	-3.90

Monthly Performance Commentary

The fund returned 0.35% over the month, underperforming the benchmark which returned 0.77%. Bond selection detracted -0.16% from relative returns and currency selection detracted -0.26%. The top three bond detractors from relative returns were the underweight positions in Europe and United Kingdom and the overweight position in Mexico. The top three currency detractors from relative returns were the short positions in United States Dollars and Euro and the long position in Norwegian Krone.

Market Commentary

The third quarter saw reasonable performance from global bonds as concerns over the strength and sustainability of the economic recovery boosted bond markets in September. The quarter had looked to be shaping up well for risk assets until the final weeks when rising anxiety around the coronavirus and the upcoming US election led to a decline in equity markets. This also boosted the US dollar in September after recent underperformance. The FTSE World Government Bond Index returned 0.8% in US dollar hedged terms over the month and 0.7% over the quarter. In unhedged terms, the return for September was -0.2% as the US dollar strengthened, however over the quarter the return was a healthy 2.9%.

In September, US government bonds returned 0.1%, and over the quarter the market returned a modest 0.2% as yields remained relatively stable. As the US Presidential race heated up, the stock market began to falter in September after a strong run, but the underlying economy is showing signs that it continues to recover from the lockdown earlier this year. In April, unemployment peaked at 14.7% but has now fallen to 8.4%. Although it is still much higher than the 3.5% which prevailed at the beginning of the year, the progress is encouraging. Inflation bottomed in May at 0.1%, but it has now increased to 1.3% as the economy has picked up and oil prices have risen. The core rate is even higher at 1.7%. In Canada, the bond market returned 0.5% in September but was still down for the quarter at -0.1%.

Yoshihide Suga became the new Prime Minister of Japan in September. His predecessor Shinzo Abe stood down owing to ill health which led to a leadership contest within the ruling LDP party that Suga comfortably won with 70% of the vote. Suga was considered very close to Prime Minister Abe, having served as Cabinet Secretary, meaning that there are no major changes expected in the country's economic policy. Over the quarter, Japanese bonds returned 0.2% with a return of 0.3% in September. In Singapore, the bond market returned 0.7% over the quarter with September being a strong month delivering a return of 0.9%. In July, the People's Action Party were returned to power in a general election. This continues the PAP's winning streak having formed every government since the foundation of the nation in 1965.

The Australian bond market performed well over the quarter as the market has increasingly priced in further rate cuts from the Reserve Bank of Australia. Currently, the RBA has rates at 0.25% but it is widely expected that more stimulus may be needed to support the economy. The Australian market generated a return of 1.3% in September and 0.9% over the quarter. In Europe, bonds also performed well as a number of countries have struggled to keep coronavirus infection rates under control, leading to further localized restrictions. Euro area government bonds returned 1.7% over the quarter. Further restrictions have also been announced in the UK and the gilt market rallied 1.6% in September as the Bank of England considers how it might be able to implement negative rates if needed. Over the quarter, the UK market underperformed however generating a negative return of -1.4%. Brexit negotiations continue between the British government and the EU but any trade deal agreed is likely to be a narrow one.

On global currency markets during September, the US dollar gained back some of the ground it lost over recent months as risk assets faltered but it was weaker against most currencies over the quarter. The Euro was up 4.4% over the three months but fell -1.9% in September. The same pattern was repeated with the British pound which gained 4.6% over the quarter but fell by -3.4% in September. One of the weaker currencies in September was the Norwegian krone, falling by -7.3% over the month but it still gained 3.1% over the full quarter. The Japanese yen was one of the few currencies to gain against the US dollar during September, rising 0.5%, and gaining 2.2% over the quarter.

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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 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.