Colchester Emerging Markets Bond Fund - Class I
APIR Code ETL6035AU
As at 30 April 2018

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.

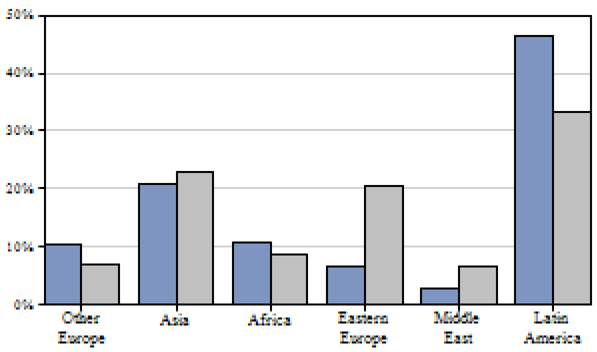
Investment Philosophy & Process

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.

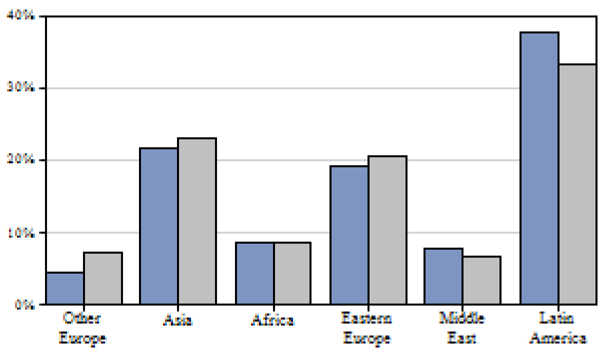
Fund Facts

Benchmark[1]	JP Morgan Government Bond Index Emerging Markets Global Diversified Australian Dollar 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
Management Fee	0.75% p.a.
Buy/Sell Spread	+/- 0.15%
Distributions	Quarterly
Liquidity	Daily
Application:	$1million or as per platform minimum
Platforms:	

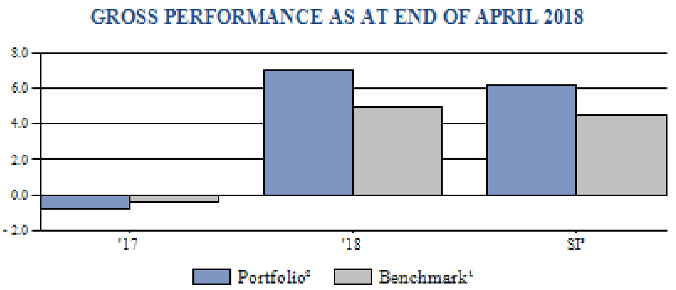
Country Exposure (%)



Currency Exposure (%)



Performance



Total Fund Return[3]	2017	2018	SI[4]
Gross Returns	-0.84%	7.10%	6.20%
Benchmark[1]	-0.46%	5.02%	4.54%
Relative Gross	-0.38%	2.08%	1.66%

Fund Characteristics

	Portfolio [2]	Benchmark [1]
Duration	5.30	5.10
Yield	6.85	5.88
Yield to Maturity	6.33	5.94
Average Coupon	6.69	6.18
Average Credit Rating	BBB	BBB+

Top 5 Bond Holdings

1	Nota Do Tesouro Nacional 10% 01Jan2021
2	Titulos De Tesoreria B 7% 4May2022
3	Mexican Bonos 10% 5Dec2024
4	Nota Do Tesouro Nacional 10% 01Jan2023
5	Republic of South Africa 10.5% 21Dec2026

Top Active Bond Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Brazil	+7.11	17.11
2	Mexico	+5.95	15.96
3	Malaysia	+5.76	11.40
Underweights			
1	Thailand	-4.95	2.97
2	Hungary	-4.79	0.00
3	Czech Republic	-4.20	0.00

Top Active Currency Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Mexican Peso	+7.36	17.36
2	Malaysian Ringgit	+5.86	11.49
3	Polish Zloty	+3.11	11.94
Underweights			
1	Thai Baht	-5.44	2.48
2	Indonesian Rupiah	-4.44	4.71
3	Czech Koruna	-4.20	0.00

Monthly Performance Commentary

The fund returned -1.04% over the month, outperforming the benchmark which returned -1.39%. Bond selection added 0.10% to relative returns and currency selection added 0.25%. The top three positive bond contributors to relative returns were the underweight positions in Indonesia and Argentina and the overweight position in Colombia. The top three positive currency contributors to relative returns were the underweight positions in Russian Ruble and Brazilian Real and the overweight position in Philippines Peso.

Market Commentary

The JPM GBI-EM Global Diversified index fell slightly over the month of April returning -0.3% in US dollar hedged terms whilst over the course of the year the index is up 1.3%. The US dollar has continued to strengthen against emerging market currencies which led to an unhedged index return of -3.0% for the month leaving a positive unhedged year to date return of 1.4%.

Latin American bond markets performed well over month by returning 0.2% on average. The top returning market was Colombia with a return of 1.0%. Annual inflation is 3.1%, close to the Central Bank's long-term target of 3%. Inflation was 9% only 18 months ago, so the precipitous decline allowed the central bank to lower its policy rate by 0.25% to 4.25%. The recent increase in oil prices will be beneficial for the economy as oil accounts for approximately one third of Colombia's export revenue. With continued political uncertainty ahead of elections later this year, Brazilian bonds returned a modest 0.2%. Also facing elections, Mexico fared less well returning -0.4% in US dollar hedged terms. This was despite the inflation rate slowing to 5.0% in the month after having peaked at 6.8% at the end of 2017. Peru had a negative return of -2.7% for the month following the resignation of the President in March under dubious circumstances.

Asia posted negative returns for the month of -0.5%. Within the region, the Philippines was the worst performing market with a return of -1.2%. Events on the Korean peninsula were dominated by the meeting between the North Korean leader Kim Jong-un and the President of South Korea, Moon Jae-in. The meeting could pave the way for a summit between Kim Jong-un and President Trump later in the year. The Korean bond market returned -0.3% over the month. In Malaysia, Prime Minister Najib announced that the general election would be held soon in May. It is widely expected that Najib's party, the United Malays National Organisation, would hold on to power but they are facing a strong challenge by the PPBM party led by the former prime minister Mahathir Mohamad. Malaysian bonds returned -0.8% in US dollar hedged terms whilst Thailand was flat for the month.

Within EMEA, Turkish bonds were broadly unchanged as the Central Bank lifted one of its main policy lending rates with the aim of bringing inflation back in line with its 5% target from the current rate of above 10%. The current account deficit is also approaching -6% of GDP, which relies on short term portfolio investment flows for financing of the deficit. Poland returned 0.3% for the month whilst Hungary and Romania returned 0.1% and -0.3% respectively. In South Africa, even though President Ramaphosa has made a number of cabinet appointments that appear to have revived investor confidence in the country, South African bonds returned -1.3% for the month. In Russia, the continuing political tensions have contributed to both a weakening of the currency and bond returns. The central bank of Russia held interest rates steady at 7.25% in the month and the return from bonds was -1.0%.

Over the month, the US dollar performed well against most emerging currencies. The Philippine peso was the only currency with a positive return against the dollar delivering 0.8%. The Russian ruble was the worst performing currency with a negative return of 8.7% over the month as external tensions continued to rise. The South African rand and Brazilian real returned -5.1% and -4.7% respectively. The Mexican peso returned -2.8% over the month as domestic politics takes center stage ahead of the forthcoming election.

Contact

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Disclaimers

1. JP Morgan 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. Total returns since inception.