Colchester Emerging Markets Bond Fund - Class I
APIR Code ETL6035AU
As at 30 June 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.

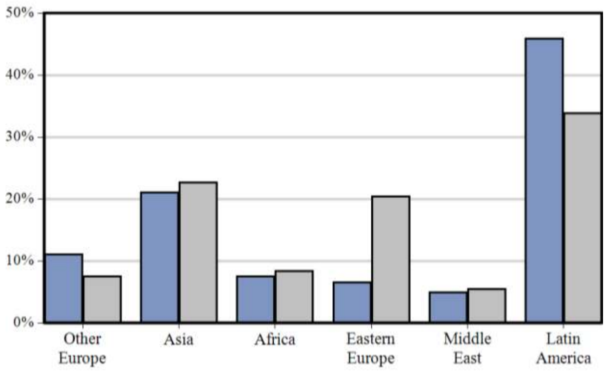
Investment Philosophy & Process

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.

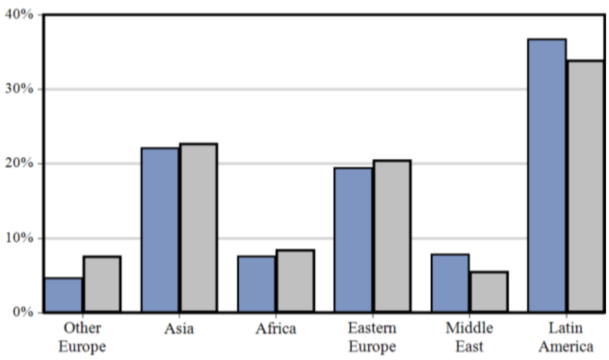
Fund Facts

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:	

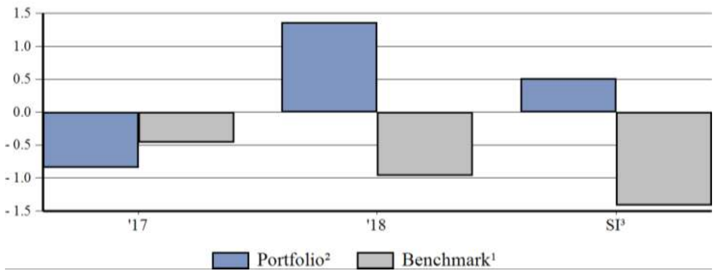
Country Exposure (%)



Currency Exposure (%)



Gross Performance



Total Fund Return[3]	2017	2018	SI[4]
Gross Returns	-0.84%	1.36%	0.51%
Benchmark[1]	-0.46%	-0.96%	-1.41%
Relative Gross	-0.38%	2.32%	1.92%

Fund Characteristics

	Portfolio [2]	Benchmark [1]
Duration	5.14	5.07
Yield	7.18	6.07
Yield to Maturity	7.07	6.64
Average Coupon	6.84	6.13
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	Malaysian Government Bond 3.882% 10Mar2022

Top Active Bond Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Brazil	+8.22	18.22
2	Malaysia	+6.35	11.95
3	Mexico	+5.12	15.12
Underweights			
1	Thailand	-4.83	3.06
2	Hungary	-4.48	0.00
3	Czech Republic	-4.47	0.00

Top Active Currency Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Malaysian Ringgit	+6.42	12.01
2	Mexican Peso	+5.41	15.41
3	Polish Zloty	+3.11	12.08
Underweights			
1	Thai Baht	-5.35	2.54
2	Indonesian Rupiah	-4.55	4.47
3	Czech Koruna	-4.47	0.00

Monthly Performance Commentary

The fund returned 0.13% over the month, outperforming the benchmark which returned -0.52%. Bond selection added 0.34% to relative returns and currency selection added 0.31%. The top three positive bond contributors to relative returns were the underweight positions in Turkey and Hungary and the overweight position in Mexico. The top three positive currency contributors to relative returns were the overweight positions in Mexican Peso and Malaysian Ringgit and the underweight position in Brazilian Real.

Market Commentary

Increased trade tension between China and the USA, a number of national elections and uncertainty regarding the short-term implications of rising US interest rates for emerging markets, all led to a volatile second quarter. In USD hedged terms the JP Morgan GBI EM diversified index returned -1.0% in June and -2.8% over the quarter. The US dollar performed strongly against nearly all emerging currencies, the unhedged return for June was -2.9% with the return for the quarter being -10.4%.

In Argentina the government of President Macri successfully negotiated a standby facility with the IMF in early June which gives the country access to $50 billion over the next three years. This came after sharp falls in the currency and Argentine asset prices as investors began to worry about the government's commitment to the market friendly reforms they had embarked upon. In return for the IMF funding this reform program has been accelerated with the government committing to further spending cuts. The Argentine bond market returned -2.9% in June and -12.1% over the quarter in US dollar hedged terms. The attention of the market in Mexico was on the Presidential elections that are taking place in July. Mexican bonds returned 1.0% in June with the return for the quarter being -0.9% in US dollar hedged terms. The Brazilian bond market was also down over the quarter returning -3.0%, this was driven by the government agreeing to meet striking truckers' demands for a reduction in the diesel price. It is feared that this will further weaken government finances as the reduction in price will be funded by government subsidies.

Asia also witnessed a major election with Malaysians ousting UMNO from power for the first time since the country's independence in 1957. The new government were helped to power by running on an anti-corruption ticket and since taking power have been investigating the former Prime Minister Najib Razak. In raids on the former minister's houses around $28 million in cash was seized by Malaysian police. In June the Malaysian bond market returned 0.2%, with the return for the quarter in US dollar hedged terms being -0.7%. The central bank in Indonesia increased rates by 50bps in June, the third tightening in the quarter with rates rising from 4.25% to 5.25% over the period. In June the bond market there returned -4.1% with the return for the quarter being -6.3%.

President Erdogan was returned to power in the Turkish presidential elections held in June. In conjunction with recent constitutional changes this has meant that power is now centred around the president. This has worried many investors who see Erdogan as increasingly autocratic. Inflation in the country has been persistently high, the latest reading was 15.4% and the recent weakness in the currency means inflation could rise further. All this led to Turkish bonds falling -6.4% in June with the US dollar hedged return over the quarter being -11.6%. In Poland despite inflation slowly increasing, it is currently a relatively modest 1.9% and accordingly bonds had positive returns over the quarter. The market returned 0.3% in June and 0.4% over the quarter in US dollar hedged terms.

In currency markets the broad appreciation of the US dollar continued. The worst performing currency was the South African rand which fell 7.5% as the new president's honeymoon period comes to an end and the economy slows. With the external environment combining with the presidential elections, the Colombia peso depreciated by 1.4% in June. The best performing currency was the Mexican peso which rose 0.4%.

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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.

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 are set out in PDS of the fund. Investment management fees are described in PDS of the fund.
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