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Colchester Global Government Bond Fund – Class A

Monthly Report: August 2018

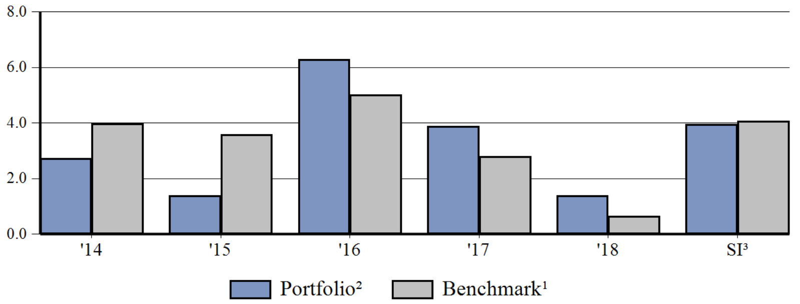
ESTABLISHED 1999

FIRMWIDE ASSETS OVER $35BN

VALUE ORIENTATED

Global Bonds	Emerging Market Debt
Global Inflation	Alpha

GROSS PERFORMANCE AS AT END OF AUGUST 2018



MARKET COMMENTARY

The absence of inflationary concerns, ongoing trade tensions and volatility in Emerging Markets in the past month supported lower yields across most of the major developed bond markets. The FTSE World Government Bond Index returned 0.1% over the month in US dollar hedged terms as positive returns in the US were offset by weakness in Japan and Italy. The unhedged return was -0.2% as the US dollar appreciated against most global currencies.

In the USA, investor focus was on the Jackson Hole meeting of policymakers where Federal Reserve Chairman Jerome Powell signalled that the Fed's "gradual process of normalisation remains appropriate". He noted that inflation is around the Fed's target and is not showing signs of accelerating despite strong macroeconomic data. Unemployment in July dipped to 3.9% amid ongoing rises in employment whilst second quarter GDP growth was reported at a better than expected 4.2%. The US Treasury market focused on the benign inflation backdrop as well as global concerns around Emerging Markets to produce a strong return of 0.8% in August. New Zealand bonds performed even better returning 1.4% as the Reserve Bank of New Zealand pushed back its forecast for a rate increase to late 2020.

Japanese bonds however declined over the month as the market digested a small shift in the Bank of Japan's monetary policy. While some analysts had been expecting an increase in the BoJ's target for the 10-year bond, the Bank maintained the zero target but stated that "yields may move upward and downward to some extent" around zero percent. This led longer dated yields to rise somewhat, steepening the yield curve and resulting in a negative return on the market of -0.5%.

Developed market bonds were generally insulated from the turmoil in Turkey and Argentina over the month, but there was some impact on vulnerable sovereigns in the Eurozone. Italian yields in particular jumped higher as investors remain nervous about the fiscal policies of the relatively new government. The populist government have adopted a confrontational stance with the European Commission regarding the Eurozone's budget rules and its new budget is due to be released by the end of September. The government want to loosen fiscal policy to meet election commitments including both lower taxes and higher spending. As the month came to an end, the rating agency Fitch put Italy's credit rating on negative outlook as the country's leaders opened discussions on the 2019 budget. The rise in yields in August resulted in a negative return of -3.0% for the Italian bond market. The German bund market meanwhile rallied to generate a return of 0.9%, potentially benefiting from a flight to quality.

Trade tensions continue to concern markets and in recent weeks the US administration announced that an agreement had been reached with Mexico on a trade deal; essentially a renegotiation of NAFTA although Canada has not yet been part of the new agreement. The US-Mexico deal met with mixed reaction from analysts and did not prevent the Mexican bond market from declining over the month. Returns from Mexican bonds were -0.5% for August, whilst Canadian bonds rallied to produce a return of 0.9%.

The US dollar generally strengthened in August, although the Japanese yen did appreciate by 1.0% underpinned by its safe haven status and the modest shift in policy by the Bank of Japan. The British pound dropped over the month by -0.9% despite the Bank of England increasing interest rates by 0.25% to 0.75% as Brexit negotiations continue to dominate the headlines. The Euro also weakened on the month, dropping -0.6%. Despite the agreement on a trade deal with the US, the Mexican peso sold off by -2.4% in August although this only partially reversed the 5% appreciation in July.

1. The FTSE World Government Bond Index 100% hedged in Australian dollars (AUD), formerly, The Citigroup World Government Bond Index 100% hedged in Australian dollars (AUD).

2. Colchester Global Government Bond Fund – Class A whose inception date was 19 September 2014. Please see further footnotes on following pages for more details.

3. Annualized returns since inception.

Monthly Report: August 2018

Gross Attribution of Total Returns			
	Portfolio [2]	Benchmark [1]	Relative Return
Monthly	-0.13%	0.09%	-0.22%
Bonds	0.21%	0.09%	0.12%
Currency	-0.34%	0.00%	-0.34%

MONTHLY PERFORMANCE COMMENTARY

The fund returned -0.13% over the month, underperforming the benchmark which returned 0.09%. Bond selection added 0.12% to relative returns, while currency selection detracted -0.34%.The top three positive bond contributors to relative returns were the overweight positions in US inflation-linked bonds and New Zealand inflation-linked bonds and the underweight position in Japanese nominal bonds. The top three currency detractors from relative returns were the short positions in Swiss Franc and United States Dollars and the long position in Colombian Peso.

Top 5 Bond Holdings	
1	New Zealand Government 6% 15May2021
2	US Treasury 2% 31Aug 2021
3	Japanese Govt 0.1% 20Mar2020
4	US Treasury 5.375% 15Feb2031
5	US Treasury Inflation IX 2.125 15Feb2041

Top Active Currency Positions		
	Portfolio Exposure relative to Benchmark	*% of Portfolio*
Overweights		
1	Malaysia Ringgit	5.9%
2	British Pound	4.3%
3	Mexican Peso	3.9%
Underweights		
1	New Zealand Dollars	-4.3%
2	Australian Dollars	-4.3%
3	Hungarian Forint	-4.0%

Portfolio Characteristics		
	Portfolio [2]	**Benchmark [1]**
Duration	6.18	7.72
Yield	2.98	2.17
Yield to Maturity	2.36	1.60
Average Coupon	3.27	2.45
Average Credit Rating	AA-	AA

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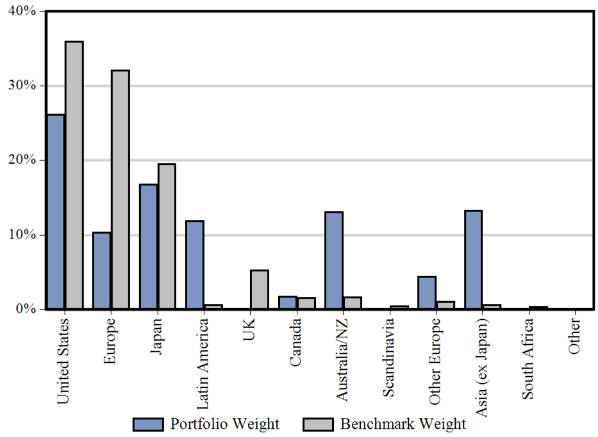
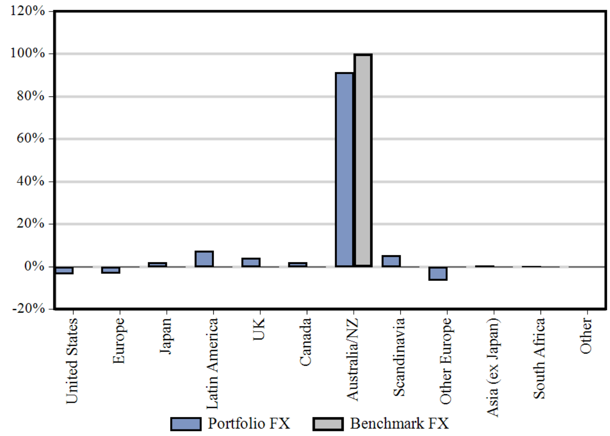
MONTH END POSITIONING

Country Exposure (%)



Currency Exposure (%)



PERFORMANCE SINCE INCEPTION

Portfolio	2014	2015	2016	2017	2018	SI[23]
Gross Returns	2.73%	1.38%	6.30%	3.88%	1.40%	3.97%
Benchmark[1]	3.99%	3.59%	5.02%	2.79%	0.66%	4.07%
Relative Gross	-1.25%	-2.22%	1.27%	1.09%	0.74%	-0.10%

YTD Returns	Q1:18	Q2:18	Jul	Aug	YTD
Gross Returns	1.47%	-0.05%	0.11%	-0.13%	1.40%
Benchmark[1]	0.64%	0.16%	-0.23%	0.09%	0.66%
Relative Gross	0.83%	-0.21%	0.34%	-0.22%	0.74%

- 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.
- Past performance is no guarantee of future performance and the value of any investment may fall as well as rise. This information is provided for indicative purposes only, and is supplied in good faith based on sources which we believe, but do not guarantee, to be accurate or complete as of the date of this document. Such information is current as of the date of this document and may be subject to change without notice. This document is not to be used or considered as an offer to sell or solicitation of an offer to buy any securities. Nothing in this document should be construed as providing any type of investment, tax or other advice. A full performance presentation in compliance with the Global Investment Performance Standards (GIPS ®) is available upon request. Additional information regarding policies and procedures for calculating and reporting returns is also available on request.
- The portfolio's guidelines are set out in PDS of the fund. Investment management fees are described in PDS of the fund.
- The gross performance record presented above does not reflect the deduction of management and custody fees, which will reduce overall client returns. As an example of the impact of investment management fees on the net return to investors: the value of a $10 million investment at inception of 19 September 2014 on which the highest 60 basis points was payable, would be worth $11.661 million gross of investment management fees and $11.357 million net of fees as at the end of August 2018. The basis for calculating this example is to start with an investment amount, apply the monthly gross performance to the previous computed month end value, and deduct the highest fees payable (60.0 basis points) to compute the new month end value net of fees.Investment management fees are described in the current prospectus.
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