Colchester Global Government Bond Fund - Class I
APIR Code ETL5525AU
As at 31 August 2018

Investment Objective

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

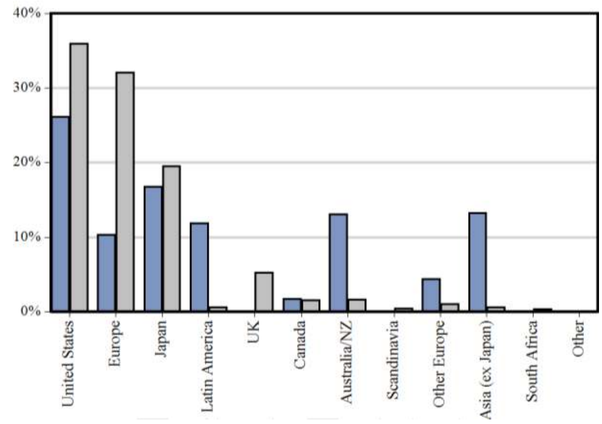
Investment Philosophy & Process

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.

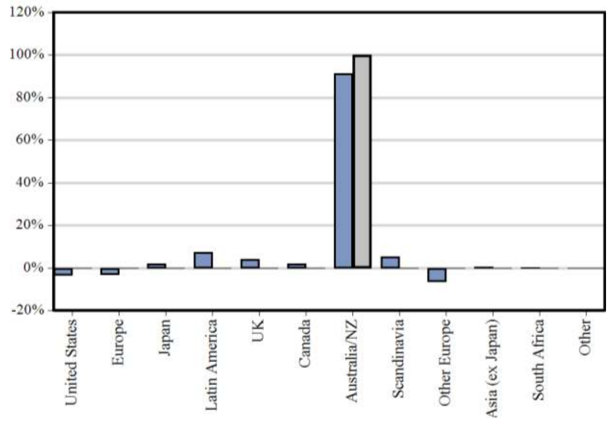
Fund Facts

Benchmark[1]	FTSE World Government Bond Index Australian Dollar 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:	BT Wrap, BT Panorama, HUB24, Macquarie Wrap, Netwealth, OneVue, PowerWrap, Ausmaq (ready for trade)

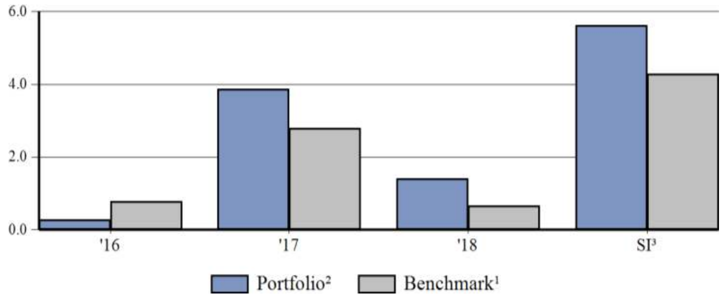
Country Exposure (%)



Currency Exposure (%)



Gross Performance



Total Fund Return[3]	2016	2017	2018	SI[4]
Gross Returns	0.28%	3.88%	1.40%	5.62%
Benchmark[1]	0.78%	2.79%	0.66%	4.28%
Relative Gross	-0.51%	1.08%	0.74%	1.34%

Fund Characteristics

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

Top 5 Bond Holdings

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

Top Active Bond Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	New Zealand	+8.48	8.48
2	Singapore	+7.23	7.55
3	Mexico	+7.11	7.79
Underweights			
1	Europe	-21.81	10.38
2	USA	-9.80	26.25
3	UK	-5.38	0.00

Top Active Currency Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Malaysian Ringgit	+5.90	5.90
2	British Pound	+4.25	4.25
3	Mexican Peso	+3.90	3.90
Underweights			
1	New Zealand Dollars	-4.31	-4.31
2	Australian Dollars	-4.27	95.73
3	Hungarian Forint	-4.02	-4.02

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.

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.

Contact

Administration & Client Servicing Enquiries:
Colchester Global Client Services
GPO Box 804, Melbourne, VIC 3001
Phone: +61 3 9046 4040
Email: colchester@onevue.com.au
Fax: +61 3 8672 7741

Sales & Marketing Enquiries:
Colchester Global Investors
Angela MacPherson
Head of Distribution Australia
Phone: +61 431 075 024
Email: amacpherson@colchesterglobal.com
Web: www.colchesterglobal com.au

Disclaimers

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