Colchester Emerging Markets Bond Fund - Class I

APIR Code ETL3065AU

As at 31 March 2019

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.

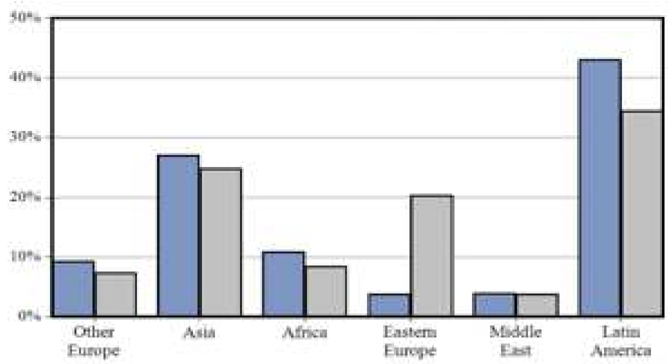
Investment Philosophy & Process

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.

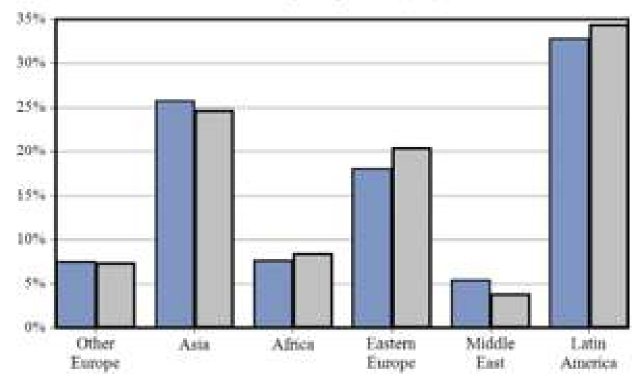
Fund Facts

Benchmark[1]	JPMorgan 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:	Ausmaq (ready for trade)

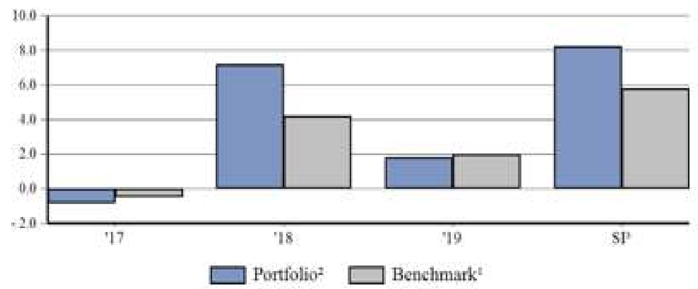
Country Exposure (%)



Currency Exposure (%)



Gross Performance



Total Fund Return[3]	2017	2018	2019	Total SI[4]
Gross Returns	-0.84%	7.19%	1.82%	8.23%
Benchmark[1]	-0.46%	4.20%	2.00%	5.80%
Relative Gross	-0.38%	2.99%	-0.18%	2.43%

Fund Characteristics

	Portfolio [2]	Benchmark [1]
Duration	5.10	5.21
Flat Yield	7.08	6.01
Yield to Maturity	6.73	6.26
Average Coupon	6.89	6.10
Average Credit Rating	BBB	BBB+

Top 5 Bond Holdings

1	Republic of South Africa 10.5% 21Dec2026
2	Titulos De Tesoreria B 7% 4May2022
3	Mexican Bonos 10% 5Dec2024
4	Nota Do Tesouro Nacional 10% 01Jan2021
5	Titulos De Tesoreria B 7.5% 26Aug2026

Top Active Bond Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Mexico	+5.67	15.67
2	Colombia	+4.50	11.95
3	Malaysia	+4.44	10.41
Underweights			
1	Poland	-5.13	3.88
2	Hungary	-4.56	0.00
3	Czech Republic	-4.35	0.00

Top Active Currency Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Mexican Peso	+5.64	15.64
2	Malaysian Ringgit	+4.49	10.46
3	Polish Zloty	+2.49	11.51
Underweights			
1	Thai Baht	-7.26	1.27
2	Hungarian Forint	-4.32	0.24
3	Peruvian Sol	-3.36	0.09

Monthly Performance Commentary

The fund returned -1.47% over the month, underperforming the benchmark which returned -1.17%. Bond selection detracted -0.33% from relative returns, while currency selection added 0.04%. The top three bond detractors from relative returns were the underweight positions in Turkey, Hungary and Peru. The top three positive currency contributors to relative returns were the underweight positions in Brazilian Real, Hungarian Forint and Chilean Peso.

Market Commentary

The first quarter of 2019 was a positive start to the year for local currency emerging government bond markets with the JPM GBI-EM Global Diversified index returning 2.0% in hedged dollar terms. This builds upon the positive gains made in the last quarter of 2018. The return for March was 0.4% in hedged dollar terms. Emerging market currencies also appreciated against the US dollar over the quarter resulting in an unhedged index return of 2.9%.

The return for Emerging Europe was reduced by poor performance of Turkish bonds in March although the region posted positive returns over the quarter. Investor sentiment in Turkey fell ahead of the local elections which were held on the last day of March. A few weeks before the election an investment bank had published a downbeat report on the currency to which the President had responded by threatening foreign sellers of the Turkish lira with “a heavy price” for their “provocative acts”. Turkey’s banking regulator also opened an investigation into this “misleading and manipulative” research. The cost of overnight funding for offshore banks temporarily rose ahead of the election to prevent currency outflows. Meanwhile the upward path of consumer prices eased slightly with inflation reducing from the high of 25.2% in October 2018 to 19.7% in February. The return for Turkey’s bonds was -4.6% over the quarter.
Poland’s inflation increased from a low of 1.2% earlier this year to 1.7% in March. The slowdown in economic performance of the Eurozone is having little effect on prices in Poland due to the increasingly tight conditions of their local labour market, which is driving wage prices higher. The return from Polish government bonds was 0.6% for both March and for the quarter.

In March Thailand held its first general election since the 2014 military coup. A new government will form in May however the official result is not yet known so it is not yet clear which of the main parties will come to power. Economic performance has remained upbeat during the military rule, with annual GDP growth at 3.7% at the last print. Annual inflation is steady at 1.2% and the return from Thai government bonds was 0.6% in March and 1.2% over the quarter. In the Philippines, while the country continues to enjoy annual economic growth rates above 6%, inflation has fallen sharply from the high of 6.7% in October of last year to 3.8% last month. This is due to the falling cost of food in the country which represents 35% of the overall CPI basket. The removal of the ban on rice imports partially explains the reduction in overall prices. The return from the Philippine bonds was 1.9% in March and a very healthy 7.4% over the quarter.

Latin America had the strongest regional returns over the quarter. Despite Argentinean government bonds returning a negative -5.5% in March the return from the country’s bonds over the whole quarter was 3.2%. Pension System Reform in Brazil continues to advance although the recently announced proposals still need to pass the protracted legislative process. Reform in this area is much needed in Brazil to protect the future fiscal position of the country. Investors took the news as a positive with Brazilian government bonds returning 0.7% over March and 2.8% over the first quarter. Returns in Mexico and Colombia were both supported by the increase in oil price. The return from Mexico was 1.7% in March and 5.2% in the quarter. For Colombia the returns were 1.7% and 3.3% over the same respective periods.

The US dollar gave back some performance in the first quarter with most emerging market currencies appreciating over the period. Notable under performers were the Argentinean peso and the Turkish lira. Inflation in Argentina remains close to 50% while the peso lost 13.2% over quarter. Pre-election concerns in Turkey led the currency to depreciate by 5.8% against the US dollar over the period. The baht held firm over the election period in Thailand by appreciating by 1.9% over the quarter. The price of oil increased by over 30% over the quarter, supporting oil exporting currencies such as the Russian rouble which rose by 5.6% and the Colombian peso by 1.9%.

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Disclaimers

1. JPMorgan 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 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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