Colchester Emerging Markets Bond Fund - Class I
APIR Code ETL3065AU
As at 30 June 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.

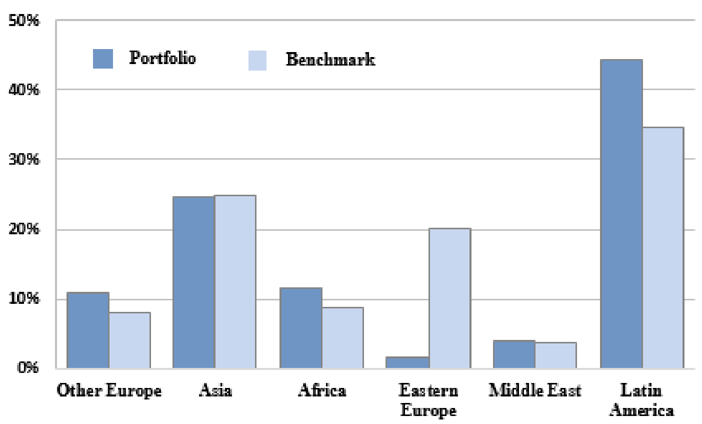
Investment Philosophy & Process

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.

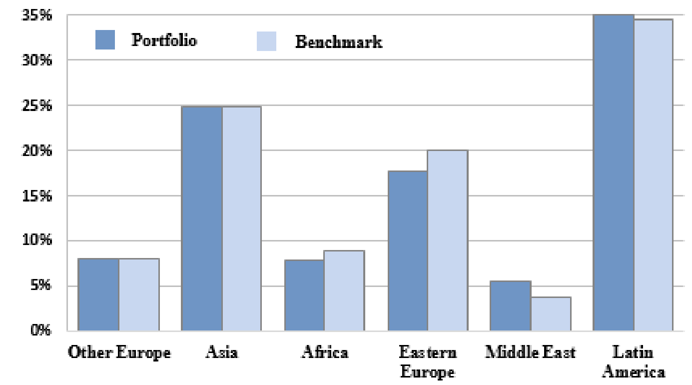
Fund Facts

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)

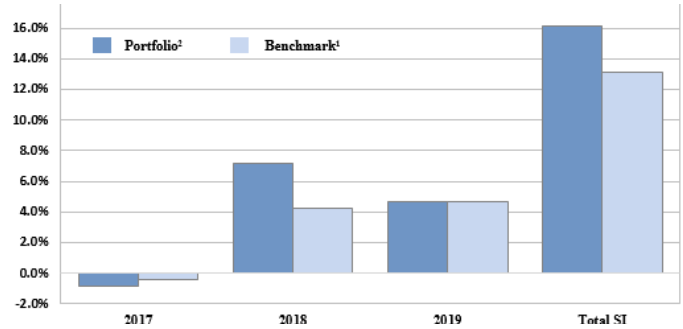
Country Exposure (%)



Currency Exposure (%)



Gross Performance



Total Fund Return[3]	2017	2018	2019	Total SI[4]
Gross Returns	-0.84%	7.19%	9.24%	16.12%
Benchmark[1]	-0.46%	4.20%	9.07%	13.13%
Relative Gross	-0.38%	2.99%	0.17%	2.99%

Fund Characteristics

	Portfolio [2]	Benchmark [1]
Duration	5.08	5.43
Flat Yield	7.07	5.93
Yield to Maturity	6.38	5.76
Average Coupon	7.16	6.18
Average Credit Rating	BBB	BBB+

Top 5 Bond Holdings

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

Top Active Bond Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Mexico	+6.32	16.32
2	Colombia	+5.27	12.14
3	Brazil	+4.70	14.70
Underweights			
1	Poland	-7.26	1.66
2	Thailand	-5.23	3.37
3	Hungary	-4.39	0.00

Top Active Currency Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Mexican Peso	+5.78	15.78
2	Malaysian Ringgit	+4.00	9.91
3	Colombian Peso	+2.69	9.57
Underweights			
1	Thai Baht	-7.20	1.40
2	Hungarian Forint	-4.39	0.00
3	Peruvian Sol	-3.39	0.10

Monthly Performance Commentary

The fund returned 4.33% over the month, outperforming the benchmark which returned 4.17%. Bond selection added 0.23% to relative returns, while currency selection detracted -0.07%. The top three positive bond contributors to relative returns were the overweight positions in Indonesia, Mexico and Russia. The top three currency detractors from relative returns were the underweight positions in Thai Baht, Brazilian Real and Chilean Peso.

Market Commentary

The second quarter of 2019 was another positive one for emerging market local currency bonds, posting positive returns for both the quarter and month of June. The JPM GBI-EM Global Diversified Index returned 3.2% in US dollar hedged terms for Q2, including a 2.6% return for June. Emerging market currencies strengthened against the US dollar, increasing the return of the unhedged version of the index to 5.6% for the quarter and 5.5% for the month.

The Emerging European region returned 4.0% on the quarter, despite a raft of electoral and geopolitical uncertainties. Turkish government bonds were the best performing in the region, returning 10.8% for the month and 12.7% overall for the quarter. This was achieved despite growing tensions, including threats of sanctions by the USA over Turkey's imminent delivery of a Russian built missile system and a re-run of local mayoral elections in Istanbul after the initial result was contested by the ruling AK Party. The country's current account deficit has declined to just below 2% of GDP, from over 6% a year ago, due in part to the much depreciated lira improving trade terms. In South Africa, Q2 saw the re-election of the ANC and President Ramaphosa, a newly restructured cabinet to reduce the number of governmental ministries and continued progress in the turnaround and streamlining of the state electricity company Eskom. The return from South Africa was 2.0% in June and 3.7% for the quarter. In Poland, inflation continued to surprise to the upside throughout the quarter, rising from 1.7% to 2.6%, just above the central bank's target of 2.5%. Despite the headwinds, Polish government bonds returned 1.6% over the quarter. Hungary also had good positive returns over the quarter, adding 1.5%.

Turning to Asia, the regional return was 3.1% for the quarter. The Philippines was the top performer, returning 4.2% over that period. The central bank cut rates by 25 basis points in May as inflation, despite appearing to have settled at around the 3% level over the quarter, is still down from where it started the year at 5.1%. Indonesia had the second best return for the quarter in Asia, rising 3.6%, helped by a strong return in June of 4.1%. The backdrop of governmental continuity with the re-election of Joko Widodo (known as Jokowi) following April elections, as well as the Indonesian central bank taking a cautious approach in unwinding some of their 175bps in policy tightening implemented last year, aided the positive return. The Thai government bond market had yet another quarter of positive returns, rising 3.3% in Q2. Headline annual consumer price inflation in Thailand remains low and stable at around 1% but the Bank of Thailand continues to view the outlook for the economy as one with risks to the downside, especially the external environment with the ongoing trade dispute between China and the US.

Latin America was the best performing region over the quarter, delivering 5.1% for the month, despite the negative returns from Argentina. Chile was the best performing market over the quarter, rallying 7.8%. The central bank surprised the market by reducing rates by 50bps on the back of weaker than expected growth and inflation. Argentina was the worst performer over the quarter, falling 7.2%. However, this masks a volatile period which saw a decline of nearly 15% in May followed by a positive return of 15.4% in June. The high level of inflation, hitting 57.3% year on year in May, interest rates above 60% and the uncertainty surrounding the Presidential election in November continue to weigh on the market. The return over the quarter from Mexico was 5.1%, Peru returned 5.3% whilst Brazil was a healthy 5.8%.

The US dollar fell over the quarter relative to emerging market currencies. The Russian ruble was the best performing currency in the second quarter, rallying 4.2% against the US dollar. Despite a fall in oil prices over the quarter, the declining inflation and attractive real interest rates have benefitted the currency. The Czech koruna also performed well, appreciating 3.0% as the central bank there raised rates and maintained a hawkish bias. The worst performing currency for the quarter was the Turkish lira which fell by 2.3%.

Contact

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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.