Colchester Emerging Markets Bond Fund - Class I
APIR Code ETL3065AU
As at 31 July 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.

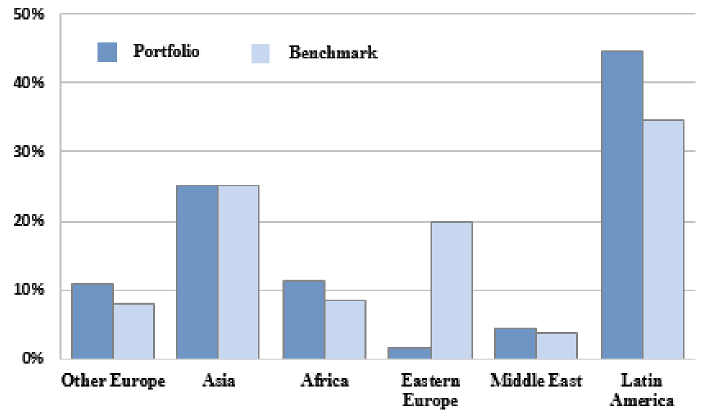
Investment Philosophy & Process

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.

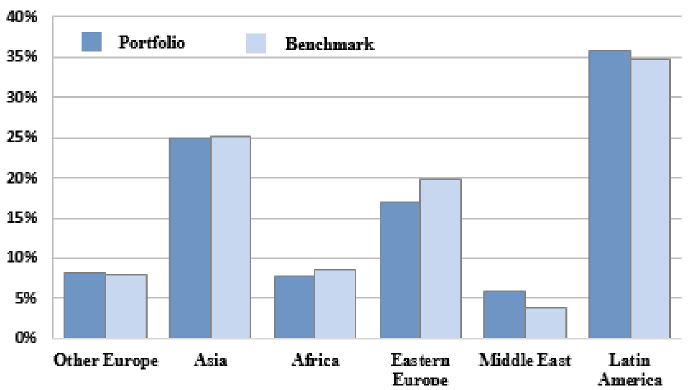
Fund Facts

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:	Netwealth, Ausmaq (ready for trade)

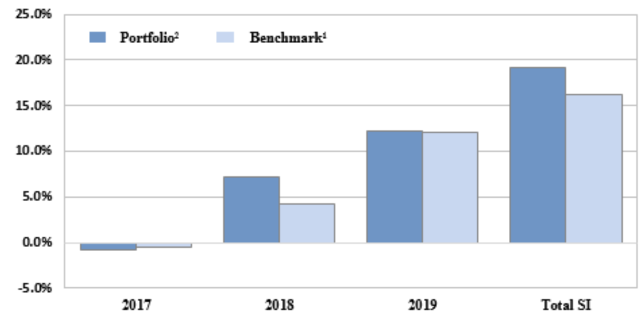
Country Exposure (%)



Currency Exposure (%)



Gross Performance



Total Fund Return[3]	2017	2018	2019	Total SI[4]
Gross Returns	-0.84%	7.19%	12.18%	19.24%
Benchmark[1]	-0.46%	4.20%	11.69%	16.25%
Relative Gross	-0.38%	2.99%	0.10%	2.99%

Fund Characteristics

	Portfolio [2]	Benchmark [1]
Duration	5.14	5.44
Flat Yield	7.10	5.87
Yield to Maturity	6.33	5.57
Average Coupon	7.20	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	+6.97	16.97
2	Colombia	+5.02	11.71
3	Brazil	+4.59	14.59
Underweights			
1	Poland	-7.17	1.58
2	Thailand	-5.43	3.44
3	Hungary	-4.35	0.00

Top Active Currency Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Mexican Peso	+5.97	15.97
2	Malaysian Ringgit	+3.97	9.89
3	Colombian Peso	+2.72	9.41
Underweights			
1	Thai Baht	-7.45	1.42
2	Peruvian Sol	-3.72	0.10
3	Chilean Peso	-3.14	0.24

Monthly Performance Commentary

The fund returned 2.69% over the month, underperforming the benchmark which returned 2.76%. Bond selection detracted -0.32% from relative returns, while currency selection added 0.26%. The top three bond detractors from relative returns were the underweight positions in Thailand, Chile and Peru. The top three positive currency contributors to relative returns were the overweight positions in Mexican Peso, Turkish Lira and Malaysia Ringgit.

Market Commentary

Emerging market local currency bonds continued to perform well in July albeit at a slower pace than in recent months. The JPM GBI-EM Global Diversified Index returned 1.1% in US dollar hedged terms whilst the unhedged index returned a slightly lower figure of 0.9%, due to the generalised appreciation of the US dollar over the month.

In Emerging Europe and Africa, positive returns continued with a return of 1.9% for the region in July. South African bonds underperformed however with a negative return of 0.7%. President Ramaphosa has come under increasing pressure as unemployment reached 29%, the highest rate in over a decade. Lesetja Kganyago has been reappointed as the governor of the South African Reserve bank during the month. His appointment has been well received as Mr Kganyago is fully committed to inflation targeting and upholding central bank independence. Elsewhere, Hungary performed well with a return of 1.4% and Poland returned 0.9%. The best performing market was Turkey with a positive return of 6.7%. At the beginning of the month, the Governor of the Central Bank of Turkey, Murat Cetinkaya, was removed from his position, reportedly due to differences between him and the government over the conduct of monetary policy. His successor Murat Uysal quickly implemented the largest interest rate cut since 2002 as the monetary policy committee reduced the one-week repo rate from 24% to 19.75%. Inflation has been falling from a high of 25% in 2018 and the current account deficit has all but disappeared due to a fall in imports and a pickup in exports after last year's currency crisis.

Turning to Asia, the regional return was 1.3% over the month. Thailand posted positive economic results for the second quarter of the year, indicating an increase in the country's trade surplus, which was surprising given the trade tensions in the region. Thai government bonds returned 2.5% in July. Inflationary pressures in the Philippines have continued to ease which has helped boost domestic consumption and contributed to the market returning 2.2% in July. The bond market of Indonesia returned 0.8%. Sentiment in Malaysia has improved recently with Chinese companies relocating to the country due to the ongoing trade tensions with the US. Malaysia had a positive return of 0.5% for the month.

Latin America experienced a regional return of 1.5% in July. The worst performing market was Argentina with a negative return of 1.7%. Inflation has been on a downward trajectory but is still very high at 55.8%. Along with inflation, other economic indicators are improving but investors remain cautious. Sentiment towards President Macri improved since the start of the year but risks prevail with general elections expected to be held in October 2019. Chile has been boosted by a more expansionary monetary policy stance and external developments. Commodity prices rose over the month, particularly copper which is a major export for the country increased in value by almost 3% over the month. This supported bond returns, posting 3.7% in July. Elsewhere, Peru had a positive return of 2.9% and Colombia 1.1%. Growth in Mexico was better than expected whilst inflation has been falling and currently stands at below 4%. The Mexican bond market returned 0.8%. The Brazilian market rallied 1.4% as interest rates were cut to a record low of 6%, from 6.5% and a key pension reform makes its way through Congress.

Emerging market currencies varied in their returns for July as the dollar recovered after experiencing weakness last quarter. The Turkish lira, which was the worst performing currency in the second quarter bounced back to be the best performing currency in July with a return of 4.0%. The Brazilian real returned close to 2% after markets reacted well to a reduction in inflation and progression in congress with pension reforms. Over in Mexico, the Peso returned 1.2% as President Lopez Obrador spoke of change and transformation to the economy. The Polish zloty had a negative return of 3.1% whilst the Argentine peso continued to underperform with a negative return of 3.3%.

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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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