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# Colchester Global Government Bond Fund – Class N

*Monthly Report: July 2019*

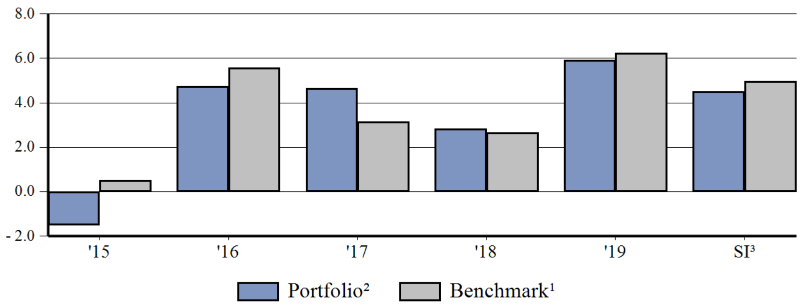
**ESTABLISHED 1999**

**CURRENT ASSETS OVER $45BN**

**VALUE ORIENTATED**

| | |
|---|---|
| Global Bonds | Emerging Market Debt |
| Global Inflation | Alpha |

## GROSS PERFORMANCE AS AT END OF JULY 2019




## MARKET COMMENTARY

Global bond markets remained supported in July by the actions and statements of major central banks such as the Federal Reserve and the European Central Bank. The FTSE World Government Bond Index returned 0.8% in US dollar hedged terms driven by a rally in European bonds. The generalised appreciation of the US dollar led to a modest negative return however on the unhedged index of -0.5%.

As the month came to end, the Federal Reserve announced the first reduction in interest rates for over 10 years, reducing the target range for the Fed Funds rate by 0.25%. A reduction in rates had been broadly expected, but some commentators had suggested a larger reduction may have been forthcoming. The statement from the Fed acknowledged that the labour market remains strong and Chairman Powell characterised the move as “a mid-cycle adjustment to policy” dampening expectations of further significant cuts to interest rates. In other developments, the White House and Congress reached a deal to increase federal spending and suspend the debt ceiling until the end of July 2021. The US Treasury market was broadly flat over the past month with 10yr yields hovering around the 2% level. The return on the market came to -0.1% for July.

Concerns around trade and global growth remained to the fore during July although sentiment has improved since the G20 summit in Japan in June. Towards the end of July, a team from the US visited China for trade talks but little progress yet appears to have been made. The IMF meanwhile published its latest global growth forecasts, downgrading expectations for 2019 and 2020 slightly to 3.2% and 3.5%. In their outlook the IMF notes that the ultimate form of Brexit remains highly uncertain. This uncertainty has increased over the month as Boris Johnson was confirmed as the new Prime Minister of the UK and he promised to leave the EU on the 31st October, with or without a deal. The uncertainty appeared to fuel demand for UK government debt, which returned 2.0% in the month, although the impact on the value of sterling was negative.

Euroarea government debt also performed strongly with yields pushing further below zero in many markets. ECB President Mario Draghi gave some clear hints that monetary policy will be eased when the governing council meets again in September. The ECB was, according to Draghi, standing “ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner.” This language suggests the ECB may announce both a lowering of its interest rates, and a restarting of the asset purchase programme. The Euroarea economy continues to expand but second quarter growth slowed to 0.2%. Core inflation continues to however around 1.0% with the latest monthly reading coming in at 0.9%. The prospect of ECB policy loosening underpinned demand for the higher yielding markets with Italy outperforming by returning 3.3%. Given the extremely low level of yields in Germany, returns were muted at 1.0%.

With inflation remaining low in almost all economies, the majority of government bond markets generated positive returns. The Brazilian market rallied 1.4% as interest rates were cut to a record low of 6%, from 6.5%, and as a key pension reform makes its way through Congress. In Colombia, rates were maintained at 4.25% but bonds still generated a return of 1.1%. The Singapore economy meanwhile is highly exposed to trade, and a slowdown in exports has weighed on GDP growth. Government bonds in Singapore returned 0.9% in July.

On the currency markets the British pound has lagged amid rising uncertainty around Brexit. Sterling dropped 3.8% against the US dollar over the month. Other major currencies also weakened against the dollar with the euro declining 2.2% and the Japanese yen down a modest 0.8%. The Mexican peso outperformed however, rising 1.2% against the US dollar, whilst the Malaysian ringgit was broadly flat, gaining 0.1%.

1. The FTSE World Government Bond Index 100% hedged in New Zealand dollars (NZD), formerly, The Citigroup World Government Bond Index 100% hedged in New Zealand dollars (NZD).

2. Colchester Global Government Bond Fund – Class N whose inception date was 03 December 2015. Please see further footnotes on following pages for more details.

3. Annualized returns since inception.

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| Gross Attribution of Total Returns | | | |
|---|---|---|---|
| | Portfolio [2] | Benchmark [1] | Relative Return |
| Monthly | 0.60% | 0.72% | -0.13% |
| Bonds | 0.53% | 0.72% | -0.20% |
| Currency | 0.07% | 0.00% | 0.07% |

## MONTHLY PERFORMANCE COMMENTARY

The fund returned 0.60% over the month, underperforming the benchmark which returned 0.72%. Bond selection detracted -0.20% from relative returns, while currency selection added 0.07%.The top three bond detractors from relative returns were the underweight positions in Europe and United Kingdom and the overweight position in Japan. The top three positive currency contributors to relative returns were the overweight positions in Malaysia Ringgit, Mexican Peso and Peruvian Sol.

| Top 5 Bond Holdings | |
|---|---|
| 1 | US Treasury 2% 31Aug 2021 |
| 2 | US Treasury 5.375% 15Feb2031 |
| 3 | Japanese Govt 0.1% 20Dec2021 |
| 4 | US Treasury Inflation IX 2.125 15Feb2041 |
| 5 | US Treasury 2.375% 15 Aug2024 |

| Top Active Currency Positions | | |
|---|---|---|
| *Portfolio Exposure relative to Benchmark* | | *% of Portfolio* |
| *Overweights* | | |
| 1 | Malaysia Ringgit | 3.9% |
| 2 | Japanese Yen | 1.9% |
| 3 | Euro | 1.9% |
| *Underweights* | | |
| 1 | New Zealand Dollars | -19.4% |

| Portfolio Characteristics | | |
|---|---|---|
| | **Portfolio [2]** | **Benchmark [1]** |
| Modified Duration | 6.68 | 8.15 |
| Flat Yield | 2.49 | 2.08 |
| Yield to Maturity | 1.85 | 1.00 |
| Average Coupon | 2.90 | 2.46 |
| Average Credit Rating | AA- | AA |

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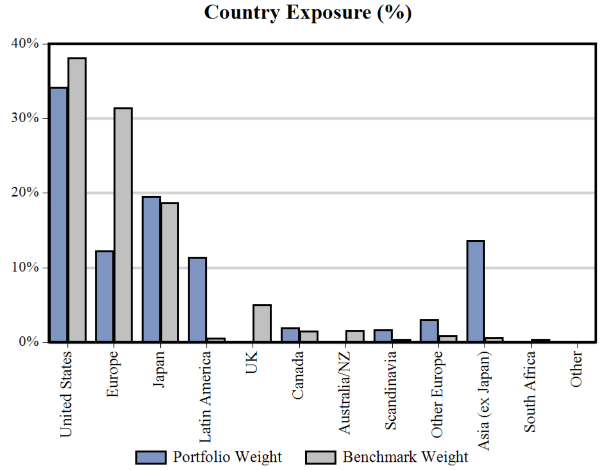
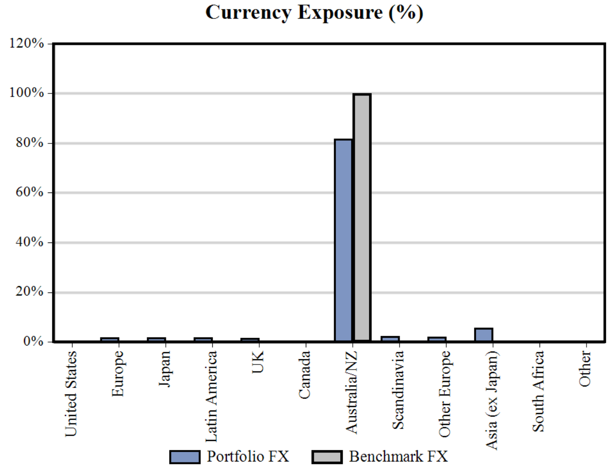
## MONTH END POSITIONING




## PERFORMANCE SINCE INCEPTION

| Portfolio | 2015 | 2016 | 2017 | 2018 | 2019 | SI[23] |
|---|---|---|---|---|---|---|
| Gross Returns | -1.50% | 4.73% | 4.64% | 2.82% | 5.92% | 4.52% |
| Benchmark[1] | 0.52% | 5.58% | 3.14% | 2.66% | 6.24% | 4.96% |
| Relative Gross | -2.02% | -0.85% | 1.50% | 0.16% | -0.32% | -0.44% |

| YTD Returns | Q1:19 | Q2:19 | Jul | YTD |
|---|---|---|---|---|
| Gross Returns | 2.03% | 3.21% | 0.60% | 5.92% |
| Benchmark[1] | 2.51% | 2.89% | 0.72% | 6.24% |
| Relative Gross | -0.49% | 0.31% | -0.13% | -0.32% |

## DISCLAIMERS

- Valuation and returns have been calculated in NZD 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 Fund.

- 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.

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- The portfolio was in compliance with applicable investment guidelines throughout July 2019. The portfolio's guidelines are set out in the current prospectus.

- 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 NZ$10 million investment at inception of 03 December 2015 on which the highest 70 basis points was payable, would be worth NZ$11.757 million gross of investment management fees and NZ$11.490 million net of fees as at the end of July 2019. 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 (70.0 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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