COLCHESTER GLOBAL INVESTORS

Colchester Global Government Bond Fund - Class I
APIR Code ETL5525AU
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.

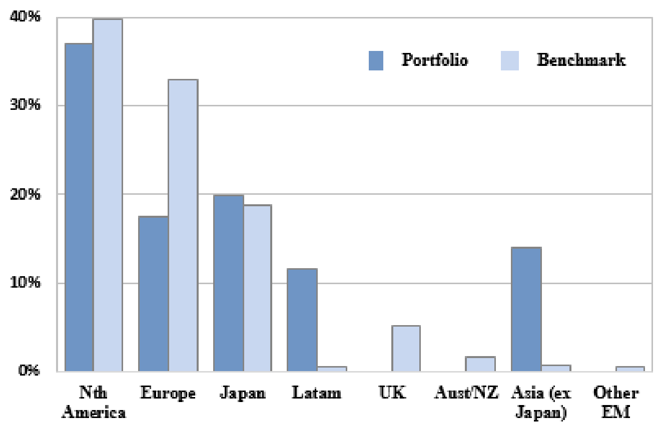
Investment Philosophy & Process

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.

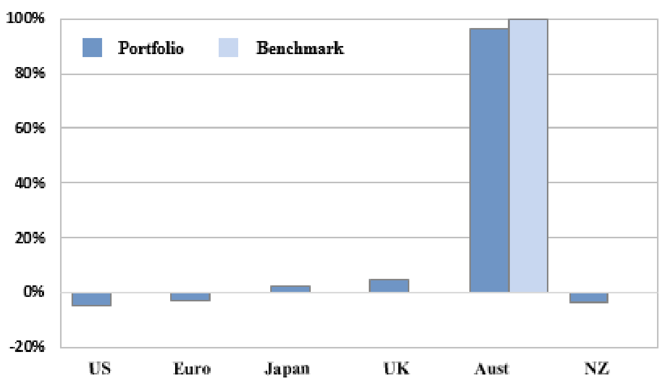
Fund Facts

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:	AMP North & Portfolio Care, BT Panorama & BT Wrap, CFS FirstWrap, HUB24, IOOF Pursuit, Macquarie Wrap, Mason Stevens, Netwealth, PowerWrap, uXchange, WealthO2 Super, OneVue & Ausmaq (ready for trade)

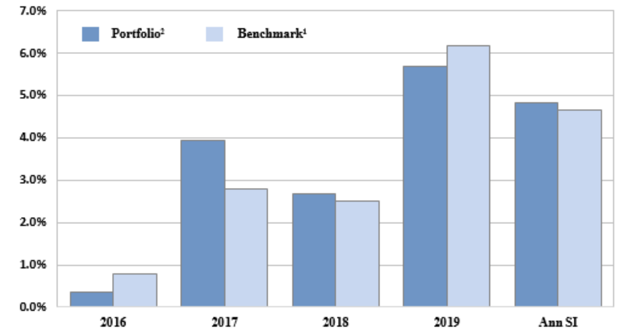
Country Exposure (%)



Currency Exposure (%)



Gross Performance



Total Fund Return[3]	2016[2]	2017	2018	2019	Ann SI[4]
Gross Returns	0.36%	3.95%	2.68%	5.70%	4.82%
Benchmark[1]	0.78%	2.79%	2.51%	6.19%	4.66%
Relative Gross	-0.42%	1.16%	0.17%	-0.49%	0.16%

Fund Characteristics

	Portfolio [2]	Benchmark [1]
Duration	6.69	8.15
Flat Yield	2.49	2.08
Yield to Maturity (Unhedged)	1.86	1.00
Average Coupon	2.91	2.46
Average Credit Rating	AA-	AA

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 Bond Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Singapore	+7.53	7.87
2	Mexico	+7.06	7.68
3	Malaysia	+5.47	5.85
Underweights			
1	Europe	-19.12	12.35
2	UK	-5.11	0.00
3	USA	-3.94	34.28

Top Active Currency Positions

Portfolio Exposure		*% Relative to Benchmark*	*Current % of Portfolio*
Overweights			
1	Malaysian Ringgit	+5.95	5.95
2	British Pound	+4.44	4.44
3	Mexican Peso	+3.58	3.58
Underweights			
1	United States Dollars	-5.90	-5.90
2	Australian Dollars	-4.24	95.76
3	New Zealand Dollars	-3.51	-3.51

Monthly Performance Commentary

The fund returned 0.48% over the month, underperforming the benchmark which returned 0.68%. Bond selection detracted -0.14% from relative returns and currency selection detracted -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 currency detractors from relative returns were the long positions in British Pound and Swedish Krona and the short position in Thai Baht.

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%.

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Disclaimers

1. FTSE World Government Bond Index 100% hedged in Australian dollars (AUD) formerly Citigroup World Government Bond Index 100% hedged in AUD. Source: London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2018. FTSE Russell is a trading name of certain of the LSE Group companies. "FTSE®" is a trade mark of the relevant LSE Group companies and is used by any other LSE Group company under license. "TMX®" is a trade mark of TSX, Inc. and used by the LSE Group under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.
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. Annualised 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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