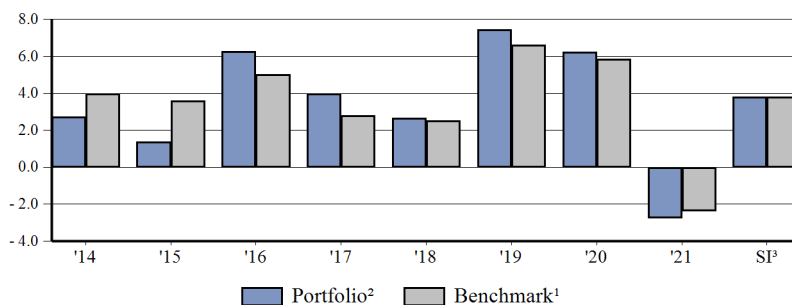


## Colchester Global Government Bond Fund – Class A ISIN: AU60ETL04099

Monthly Report: December 2021

ESTABLISHED 1999	
CURRENT ASSETS OVER \$40BN	
VALUE ORIENTATED	
Global Bonds	Emerging Market Debt
Global Inflation	Alpha

### GROSS PERFORMANCE AS AT END OF DECEMBER 2021



### MARKET COMMENTARY

Although the year ended with record Covid-19 cases attributable to the rapid spread of the omicron variant, investors sought encouragement in that the impact to global health and economic disruption may be less severe than originally feared. This shifted attention to the prospect of an improving global economic outlook and the policy reaction of global central banks to persistently higher inflation prints. For global bond markets, the rise in yields in December, and over the past year, reflected this backdrop. The FTSE World Government Bond Index returned -0.9% in US dollar hedged terms over the month, leaving the return for the year at -2.3%. In unhedged terms the index did slightly better for the month with a return of -0.6%, but the strength of the US dollar resulted in a full year return of -7.0%.

The US Federal Reserve announced in December a doubling of the rate of tapering per month, essentially ending their Quantitative Easing programme in March 2022, two months earlier than expected. Projections are now for three interest rate increases in 2022, rather than one from September's forward guidance. In the post-meeting statement the term "transitory", which had been used to describe the increase in inflation, was removed. Inflation in the year to November was 6.8%. While the US Treasury market posted a modest gain of 0.3% for the quarter, performance for the year was negative at -2.3%. Even with a rise in nominal yields, our prospective real yield valuation for the US 10 year is at -1.3% and it remains one of the most unattractive bond markets in our global opportunity set.

Eurozone inflation has also risen, from 1.3% in March 2021 to 4.9% in November, but economic recovery has been slower. Although the European Central Bank has argued for a more cautious approach in withdrawing stimulus it has indicated it will end its Pandemic Emergency Purchase Programme by March 2022. Meanwhile, Germany's "traffic light" coalition government was finally formed. Fiscal policy will be closely observed as the coalition agreement contains an ambitious agenda for long term investment spending to modernise the economy in areas such as digital infrastructure and energy transition. While this suggests some openness to adjusting its self-imposed fiscal rules, debt discipline remains the primary principle. Eurozone bond markets sold off in December to generate a negative return over the quarter of -0.6% and a return of -3.5% for the year. Prospective real yields remain deeply negative in the region however, underpinning our underweight exposure. In the UK, the Bank of England hiked interest rates by 0.15% as inflation reached 5.1%, but gilts were the best performer in the index over the quarter, delivering returns of 2.8%, the UK market was the worst performer in the G7 over the full year however, returning -5.4%.

Elsewhere, central banks in countries such as Mexico and Colombia raised interest rates multiple times in 2021. Their respective bond markets both suffered negative returns of -4.1% and -7.6% over the period. In contrast however, inflation pressures in Asia have been muted and bond markets in Indonesia and China registered strong returns of 5.1% in 2021. The Japanese market meanwhile was broadly unchanged over the year. Colombia, Mexico, and Indonesia remain attractively valued and we are generally overweight these bond markets across our investment programmes.

The strength of the US dollar has been a theme for much of 2021 despite the currency's relative overvaluation according to our real exchange rate analysis. Amongst the majors, the British pound performed relatively well, depreciating a modest -0.9% over the year whilst the Euro fell -7.1% and the Japanese yen performed poorly, down -10.1%. The Mexican peso and Malaysian ringgit, two material overweight positions in the programme, held up relatively well. They rallied by 0.4% and 0.5% respectively over the fourth quarter and over the full year weakened by -2.4% and -3.6%.

1. The FTSE World Government Bond Index 100% hedged in Australian dollars (AUD), formerly, The Citigroup World Government Bond Index 100% hedged in Australian dollars (AUD).

2. Colchester Global Government Bond Fund – Class A ISIN: AU60ETL04099 whose inception date was 19 September 2014. Please see further footnotes on the following pages for more details.

3. Annualized returns since inception.

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*December 2021*

Monthly Report: December 2021

Gross Attribution of Total Returns			
	Portfolio <sup>2</sup>	Benchmark <sup>1</sup>	Relative Return
Monthly	-0.46%	-0.93%	0.47%
Bonds	-0.44%	-0.93%	0.49%
Currency	-0.02%	0.00%	-0.02%

Quarterly	-0.61%	0.11%	-0.72%
Bonds	-0.29%	0.11%	-0.41%
Currency	-0.32%	0.00%	-0.32%

Top 5 Bond Holdings	
1	US Treasury Inflation IX 2.125 15Feb2041
2	Japanese Government 0.3% 20Jun2039
3	Japanese Government 0.1% 20Sep2029
4	Singapore Government 3.5 1Mar 2027
5	US Treasury 1.5% 15 Aug 2026

Top Active Currency Positions		
	Portfolio Exposure relative to Benchmark	% of Portfolio
<i>Overweights</i>		
1	Malaysia Ringgit	5.1%
2	Japanese Yen	3.5%
3	Swedish Krona	2.4%
<i>Underweights</i>		
1	United States Dollars	-4.2%
2	Euro	-3.9%
3	Swiss Franc	-3.8%

Portfolio Characteristics		
	Portfolio <sup>2</sup>	Benchmark <sup>1</sup>
Modified Duration	6.92	8.63
Flat Yield	2.58	1.54
Yield to Maturity	1.71	0.75
Average Coupon	2.71	1.83
Average Credit Rating	AA-	AA

## MONTHLY PERFORMANCE COMMENTARY

The fund returned -0.46% over the month, outperforming the benchmark which returned -0.93%. Bond selection added 0.49% to relative returns, while currency selection detracted -0.02%. The top three positive bond contributors to relative returns were the underweight positions in Europe, United States and United Kingdom. The top three currency detractors from relative returns were the long positions in Japanese Yen, Malaysia Ringgit and Swedish Krona.

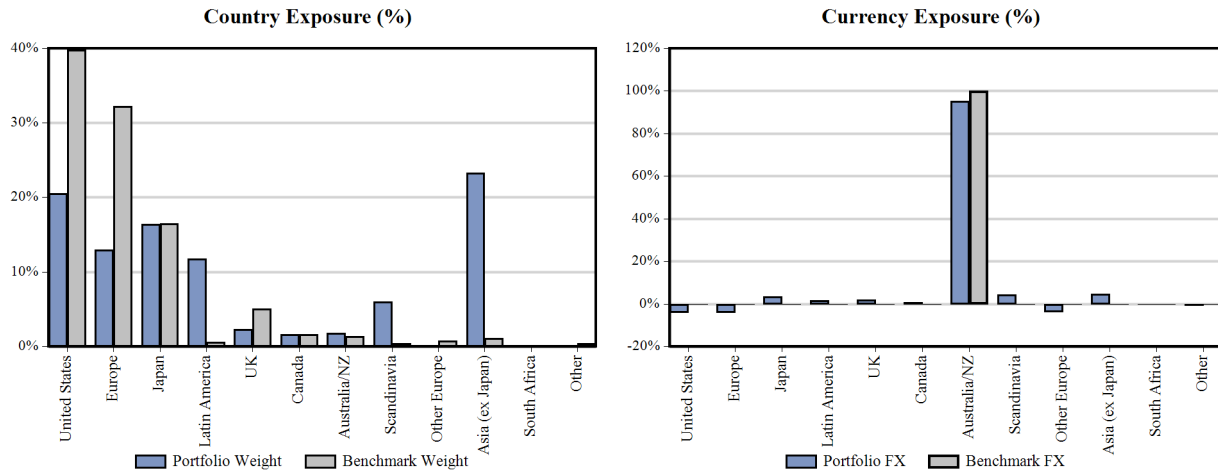
## QUARTERLY PERFORMANCE COMMENTARY

The fund returned -0.61% over the quarter, underperforming the benchmark which returned 0.11%. Bond selection detracted -0.41% from relative returns and currency selection detracted -0.32%. The top three bond detractors from relative returns were the underweight positions in United States and United Kingdom and the overweight position in Colombia. The top three currency detractors from relative returns were the long positions in Swedish Krona, Japanese Yen and Colombian Peso.

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Monthly Report: December 2021

**MONTH END POSITIONING**

**PERFORMANCE SINCE INCEPTION**

Portfolio	2014	2015	2016	2017	2018	2019	2020	2021	SI <sup>3</sup>
Gross Returns	2.73%	1.38%	6.29%	3.98%	2.67%	7.47%	6.23%	-2.76%	3.80%
Benchmark <sup>1</sup>	3.99%	3.59%	5.02%	2.79%	2.51%	6.63%	5.87%	-2.38%	3.82%
Relative Gross	-1.25%	-2.21%	1.27%	1.18%	0.16%	0.84%	0.36%	-0.38%	-0.02%

YTD Returns	Q1:21	Q2:21	Q3:21	Oct	Nov	Dec	Q4:21	YTD
Gross Returns	-3.07%	0.97%	-0.04%	-0.72%	0.58%	-0.46%	-0.61%	-2.76%
Benchmark <sup>1</sup>	-3.13%	0.71%	-0.05%	-0.19%	1.25%	-0.93%	0.11%	-2.38%
Relative Gross	0.06%	0.26%	0.01%	-0.53%	-0.67%	0.47%	-0.72%	-0.38%

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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 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's guidelines are set out in PDS of the fund. Investment management fees are described in PDS of the fund.
- 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 A\$10 million investment at inception of 19 September 2014 on which the highest 60 basis points was payable, would be worth A\$13.119 million gross of investment management fees and A\$12.553 million net of fees as at the end of December 2021. 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 (60.0 basis points) to compute the new month end value net of fees. Investment management fees are described in the current prospectus.
- Clients may request net performance results at fees agreed in the prospectus at any time.
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