

The Colchester Global Government Bond Fund - Class A

APIR Code ETL0409AU

As of 30/06/2023



Fund Overview

The Colchester Global Government Bond Fund seeks to deliver growth and income to investors whilst offering the defensive characteristics of a global sovereign bond portfolio over the medium term. 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.

CUM Unit Price (30/06/2023)	Net Annual Return Since Inception p.a.	Net Total Return Since Inception	Fund Size (\$million)
0.9673	1.69%	15.86%	28.57 AUD

Colchester Overview

- Privately owned specialist sovereign bond and currency asset manager.
- Founded by Chairman & CIO Ian Sims in 1999.
- Time proven value-oriented fixed income strategies.
- Highly experienced and stable team with a globally recognised track record.
- Strong client alignment with the investment team investing in the strategies & the company.

Growth of 1,000 AUD Invested at Inception



Net Performance (%)

	1M	3M	6M	YTD	1Y	Annualised		
						3Y	5Y	S.I.
Fund	0.12%	-0.15%	2.28%	2.28%	-0.10%	-2.93%	0.35%	1.69%
Benchmark	-0.36%	-0.71%	2.11%	2.11%	-2.89%	-4.67%	-0.28%	1.66%
Relative	0.48%	0.56%	0.17%	0.17%	2.79%	1.74%	0.63%	0.03%

Calendar Year Net Performance (%)

	2016	2017	2018	2019	2020	2021	2022	YTD
Fund	5.56%	3.35%	2.06%	6.82%	5.59%	-3.35%	-9.60%	2.28%
Benchmark	5.02%	2.79%	2.51%	6.63%	5.87%	-2.38%	-13.85%	2.11%
Relative	0.53%	0.56%	-0.46%	0.20%	-0.28%	-0.97%	4.25%	0.17%

Key Information

Fund Inception	19/09/2014
Benchmark	FTSE World Government Bond Index (AUD Hedged)
Management Fee	0.60%
Buy/Sell Fee	Nil
Distributions	Annual Distribution
Liquidity	Daily
Min Application	\$1m or as per platform
Min Additional	\$100k or as per platform

Platform Listings

AMG Freedom of Choice

Fund Characteristics

	Fund	Benchmark
Yield to Maturity (Unhedged)	4.77%	3.50%
Running Yield (Unhedged)	3.52%	2.20%
Modified Duration (Years)	6.67	7.39
Average Coupon	3.31%	2.13%
Average Credit Quality	AA-	AA

Top 5 Securities Holdings

	Currency	Weight (%)
1. United States 0.25% Jun '25	USD	3.07%
2. Singapore 3.5% Mar '27	SGD	3.01%
3. Mexico 7.5% Jun '27	MXN	2.14%
4. Mexico 7.75% Nov '42	MXN	2.06%
5. Indonesia 6.5% Feb '31	IDR	1.97%

5 Largest Active Positions - Bonds (%)

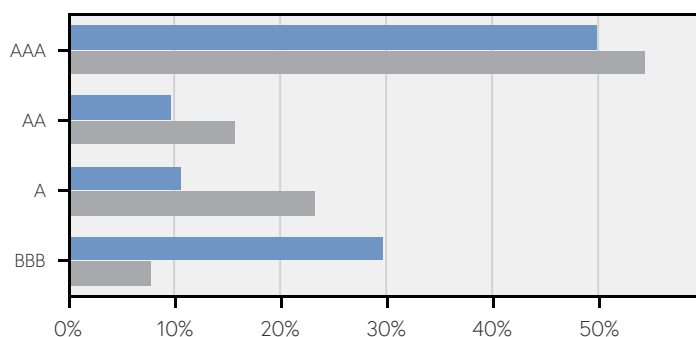
Country	Fund	Versus Benchmark (%)
United States	20.92%	-21.84%
Europe	15.86%	-13.32%
Mexico	12.87%	12.02%
Singapore	11.03%	10.64%
Japan	3.22%	-9.62%

5 Largest Active Positions - Currency (%)

Currency	Fund	Versus Benchmark (%)
Euro	-7.63%	-7.63%
Swedish Krona	5.39%	5.39%
United States Dollar	-5.12%	-5.12%
New Zealand Dollar	-4.59%	-4.59%
Norwegian Krone	4.24%	4.24%

Credit Quality

■ Fund ■ Benchmark



Commentary

The fund returned 0.17% (gross of fees) over the month, outperforming the benchmark which returned -0.36%. Bond selection added 0.42% to relative returns and currency selection added 0.11%. The top three positive bond contributors to relative returns were the overweight positions in Colombia and Mexico and the underweight position in United States. The top three positive currency contributors to relative returns were the short positions in United States Dollars and Thai Baht and the long position in Colombian Peso.

The second quarter got off to an uncertain start, as investors worried about the health of the US banking system after a number of regional bank failures in March and the emergency takeover of Credit Suisse fueled concerns in Europe. As concerns over banks eased, markets had the US debt ceiling negotiations to contend with but this issue was resolved, at least for now. The macroeconomic backdrop over the quarter continues to centre on inflation and monetary policy. Despite headline inflation rates generally falling, core inflation remains 'sticky' leading central bankers in the US, the Eurozone, and the UK to continue to raise interest rates. Against this backdrop, the FTSE World Government Bond Index returned -0.4% in US dollar hedged terms whilst the unhedged return for the index fared worse at -1.8% over the quarter given the strengthening of the US dollar against currencies like the Japanese yen.

Despite the banking sector turmoil and the debt ceiling deliberations, the US economy continues to expand, at least for now. Whilst headline inflation has dropped rapidly to 4% in May, core inflation remained stubbornly high at 5.3%. Given this environment of elevated inflation and resilient growth the Federal Reserve hiked rates by 25bps in May before pausing in June for the first time in over a year. Indications are that the Fed will push rates higher again in the coming months and bond yields rose over the quarter. The US Treasury market returned a negative -1.4% over the period and the Colchester global bond programme remains underweight.

As in the US, headline inflation in the Eurozone in May fell to its lowest level since the beginning of the war in Ukraine, down from 7% in April to 6.1%. Of concern to policymakers at the ECB however is the rate of core inflation, excluding the impact of food and energy, which stood at 5.4% in June, only slightly below the rate at the end of the first quarter. The ECB increased its policy rate by 25bps in both May and June bringing their deposit rate up to 3.5% – its highest level in 22 years. Notwithstanding this, Eurozone government bonds held steady over the quarter with German bonds recording a modest negative performance of -0.4% and Italian bonds generating a positive 0.9% over the quarter. In contrast, the UK was amongst the worst performing bond markets over the quarter with a negative return of -6.2%, as inflation surprised to the upside several times. The Bank of England surprised markets somewhat with a 50bps rate hike in June whilst remaining hawkish as inflation stands at 8.7% in May, the highest amongst the G7 economies.

Turning to Asia, Japan's CPI dropped back to its March level of 3.2% in May and the economy recorded strong growth for Q1 of 1.6% annualised. This backdrop coupled with the unchanged policy of the Bank of Japan, led the government bond market to a positive return of 0.5%. The Singaporean bond market generated the same return over the quarter and remains a significant overweight in the Colchester global bond programme. In contrast, the Australian bond market sold off over the quarter, returning -4.0%. This comes amidst the Reserve Bank decision to restart interest rate increases after a pause in April. Moreover, Australia is set to raise the minimum wage by 5.75% on the back of soaring living costs, a decision that risks further stoking inflation.

On the currency markets the US dollar recovered strongly on the back of resilient economic data, particularly relative to other developed markets. The Japanese yen was the worst performing currency over the quarter, depreciating by over 7% against the US dollar. The Swedish krona and Norwegian krone also recorded negative returns of -4.0% and -2.2% respectively over the same period, but the British pound gained 2.8%. Latin American currencies fared even better however with the Colombian and Mexican peso rising 11.6% and 5.3% respectively, benefiting our overweight position in both.

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Fund Shareclass Research Ratings



Analyst-Driven %
100

Data Coverage %
100

Colchester Fund Awards



Colchester Global Government Bond Fund - Class A



Global and Diversified Fixed Interest



Colchester Global Government Bond Fund - Class I



Colchester Global Government Bond Fund - Class A



Colchester Global Government Bond Fund - Class A

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The Fund can invest in bonds (which may include inflation linked bonds) issued by governments, government agencies and supra-national agencies (such as the World Bank), irrespective of whether such bonds are included in the benchmark. The Fund will tend to purchase bonds with characteristics similar to those in the benchmark however, the investment strategy can lead to significant deviation from the benchmark in terms of country and currency weightings and duration, which can cause the return of the Fund to differ significantly from that of the benchmark. The Fund can invest in currencies using contracts on the spot and forward market, such as forward currency contracts (contracts to buy or sell a currency at a specified future time at an agreed price)

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The Colchester Global Government Bond Fund, Colchester Emerging Markets Bond Fund and Colchester Green Bond Fund's Target Market Determination is available at <https://colchesterglobal.com.au/invest-with-colchester-global/>. A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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