Zenith Investment Partners — Recommended

JCB
JAMIESON COOTE BONDS

Recommended — Lonsec Research

Fund Update as at 31 December 2018
CC JCB Active Bond Fund (APIR: CHN0005AU)

Fund Benefits

Active Management
JCB is a specialist fixed income manager with significant global investment management experience and expertise.

Access
The Fund provides access to investment knowledge, markets, opportunities and risk management systems that individual investors may not be able to obtain on their own.

Diversification
When bonds are held as part of a broader portfolio of different asset classes, diversification may assist in managing market volatility. Bond securities in general are considered a defensive asset class.

Income
The income generated by bond securities is consistent and regular (usually semi-annual).

Fund Facts

Investment Manager	JamiesonCooteBonds Pty Ltd or JCB
Portfolio Manager	Charles Jamieson
Structure	AAA or AA rated bond securities issued in Australian dollars
Inception Date^	3 August 2016
Benchmark	Bloomberg AusBond Treasury (0+Yr) Index
Management Fee#	0.45% p.a.
Administration Fee #	0.10% p.a.
Buy / Sell Spread	0.05% / 0.05%
Distributions	Semi-annual
Fund Size+	AUD $280 million

Fund Performance

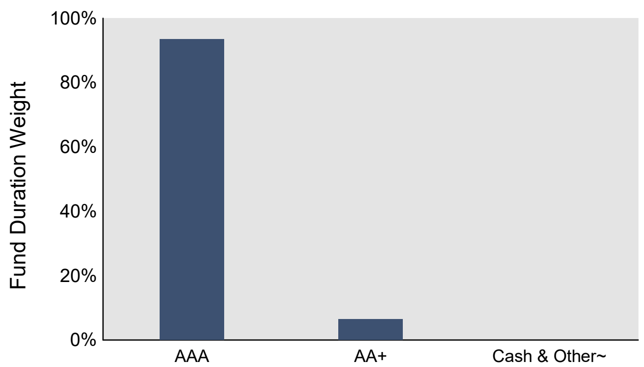
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	1.54%	1.92%	-0.38%
3 Months	2.23%	2.76%	-0.52%
FYTD	2.65%	3.23%	-0.57%
1 Year	4.19%	5.08%	-0.89%
2 Years p.a.	4.03%	4.28%	-0.25%
Inception p.a.	2.20%	1.96%	0.24%

Fund Overview

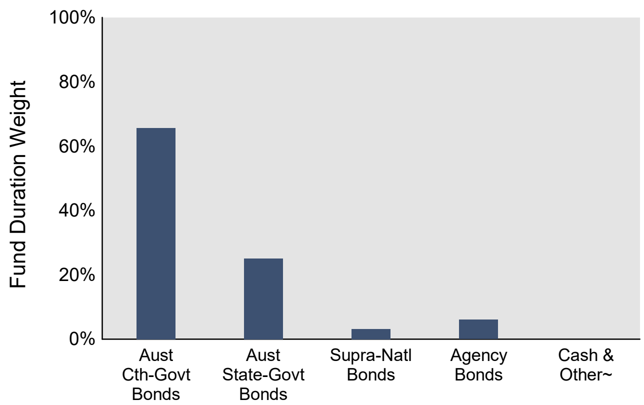
Characteristics***	Fund	Benchmark**
Modified Duration (yrs)	5.35	6.30
Yield to Maturity (%)	2.34	2.15
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	1.31	n/a

Source: JamiesonCooteBonds Pty Ltd.

Credit Rating Allocation (by Duration Weight)***



Sector Allocation (by Duration Weight)***



Platform Availabilty

Asgard	Aust Money Market	BT Panorama
BT Wrap	HUB24	Macquarie Wrap
Mason Stevens	Netwealth	PowerWrap

Further Information

Phone: 1800 940 599
Email: distribution@channelcapital.com.au
Web: www.channelcapital.com.au

All figures disclosed include the net effect of GST and RITC. ^ Inception Date for performance calculation purposes. + Fund size refers to the CC JCB Active Bond Fund ARSN 610 435 302. * Performance is for the CC JCB Active Bond Fund (APIR: CHN0005AU), also referred to as Class A units, and is based on month end unit prices before tax in Australian Dollars. Net performance is calculated after management fees and operating costs, excluding taxation. This is historical performance data. It should be noted the value of an investment can rise and fall and past performance is not indicative of future performance. ** Benchmark refers to the Bloomberg AusBond Treasury 0+ Yr Index. *** Refer to Definition of Terms. ~ Cash & Other includes cash at bank, outstanding settlements and futures margin accounts.

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Market Review & Outlook

• Defying all precedent and using tools never before tested – Q4 2018 showcases a world without Quantitative Easing and excess liquidity
• Investors should get used to higher volatility ahead, as policy settings remain unfriendly
• Bonds perform for portfolios with strong negative correlation to equity markets
• Reasons to be upbeat in looking ahead

• Defying all precedent and using tools never before tested – Q4 2018 showcases a world without Quantitative Easing and excess liquidity

JCB believe what investors are currently experiencing is historic and totally without precedent. Quantitative Easing (QE), a wonder drug for asset prices, has globally reversed to Quantitative Tightening (QT) and risk markets are taking exception to this. Having become grossly accustomed to the benefits of QE, risk markets are reacting with such vehemence it is unpleasant to watch. The wonder drug of QE together with its somewhat depressive cousin QT have never been trialled before. Investors are collectively living this trial without a safety net not knowing how this may end.

According to JCB there is one certainty, the technical damage inflicted on markets in the December 2018 quarter will have consequences for 2019. Post the intoxication of Trump's ineffective tax cuts promising sustained growth, the resulting hangover is painful. As investors close the year, the entire Trump-fuelled tax cut equity rally is gone, as if it never happened. The promised growth is leaking away as housing and autos continue to decay under the burden of higher interest rates. Unfortunately, this hangover includes damage in the form of a trillion dollars of additional debt. From a technical perspective, markets have now reached material new highs and have experienced a colossal failure. Looking forward, JCB believes this doesn't bode well.

• Investors should get used to higher volatility ahead, as policy settings remain unfriendly

JCB considers 2019 will most likely be a highly volatile year and represent a year of regime change. Financial ecstasy has already flipped to anxiety so it is important for investors to be well prepared. Balanced portfolios should outperform and 'defend and protect' assets should ease the pain. There will likely be good opportunities inside powerful counter trend risk rallies. It is wise not to drink the Kool-Aid. Instead, these are chances to re-position portfolios as the major theme of QT and higher rates makes for difficult times under policy settings designed to cool financial markets. Until those policy settings swing to a more favourable position (rate cuts and more QE) the theme remains negative with no or little support.

• Bonds perform for portfolios with strong negative correlation to equity markets in Q4

JCB believes that the fourth quarter returns for fixed rate bonds has defeated any argument around asset market correlation under major stress periods. The performance of both domestic and international fixed rate bonds has been extremely powerful in contrast to many equity markets. No doubt the debate will continue, with plenty of debate from both sides and the typical 'cookie cutter' versions of the data set. Despite all the noise, JCB rests in the knowledge that an allocation to domestic and international fixed rate bonds delivers defence and protection to investor portfolios, particularly in times of great volatility.

• Reasons to be upbeat looking ahead

Whilst 2019 has its fair share of worries, there will also be excellent opportunities inside the macro environment. Domestically, JCB expect high levels of government spending ahead of the federal election, on areas such as infrastructure, which are needed to help stabilise an economy suffering from a property market correction.

Internationally, the U.S. Federal Reserve looks likely to be almost complete with their rate hiking cycle that has been well telegraphed and articulated with great transparency. Central bankers are acutely aware of the feedback loops that are created by their actions, so JCB expect this is about letting some air out of the tyres for an orderly and contained correction, rather than letting the 'kids run the candy store' where they walk away from supporting the markets altogether. Ultimately, if this asset deflation happens in an orderly way it sets up the structures of the market in a far stronger period for the next acceleration of growth, whenever that may be.

Fund Review

For the December quarter, the CC JCB Active Bond Fund (the Fund) returned 2.23%, underperforming the Bloomberg AusBond Treasury (0+Yr) Index by 0.52%.

The Fund generated strong absolute returns in December, as fixed income markets rallied aggressively on the back of equity volatility. JCB lowered durations mid-month, after the strongest performance on an intra month basis since January 2015, locking in strong absolute returns for investors. With low liquidity and poor year end risk appetite the markets pushed on, generating further gains into yearend, leading the portfolio to underperform on a versus index basis.

The extent of the fixed income rally without any material pullback looks overdone to JCB. Therefore, JCB prefer underweight durations, positioning for mildly higher rates into early 2019 as the liquidity and risk appetite returns to markets. JCB's conviction for a material sell-off is low given that data velocity remains poor (whilst absolute global data is still strong) and have consequently entered 'softer' short positions being underweight 5yrs. The belly of the U.S. Treasury curve has led the global rally, both outright and on the curve. JCB expect some concession here into early 2019 allowing global markets to follow, normalising the huge outperformance of the belly over November and December.

Looking ahead JCB expect markets to remain volatile, led by equity moves, developments in trade war, the U.S. government shutdown and performance of credit markets.

Definition of Terms:

Modified Duration - is a systematic risk or volatility measure for bonds. It measures the bond portfolio's sensitivity to changes in interest rates.
Yield to Maturity - is the total return anticipated on the portfolio if the bond holdings were held until their maturity.
Weighted Average Credit Rating - is a measure of credit risk. It refers to the weighted average of all the bond credit ratings in a bond portfolio.
Duration Weight - refers to the portion of the overall duration attributable to the segment (i.e. credit rating or sector). Contribution to duration is calculated by multiplying an instruments duration by the percentage weight of the instrument in the portfolio. This calculation includes the contribution to duration by holding futures contracts.

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