Fund Update as at 31 July 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	0.10% / 0.10%
Distributions	Semi-annual
Fund Size+	AUD $195 million

Fund Performance

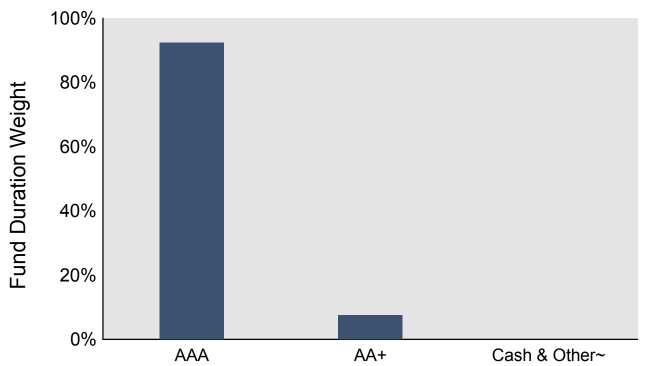
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	0.14%	0.11%	0.03%
3 Months	1.29%	1.45%	-0.16%
FYTD	0.14%	0.11%	0.03%
1 Year	2.90%	2.99%	-0.09%
2 Years p.a.	-	-	-
Inception p.a.	1.40%	0.82%	0.59%

Fund Overview

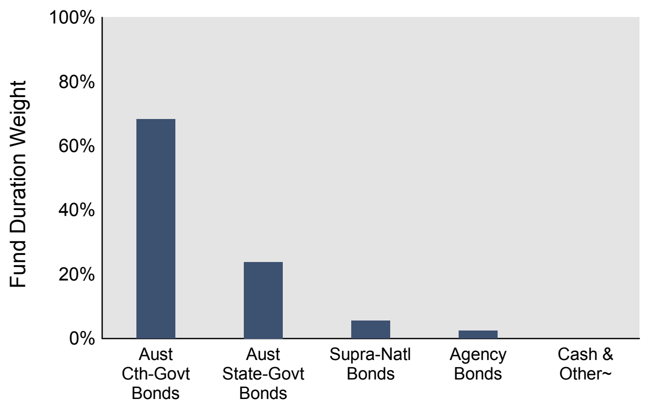
Characteristics***	Fund	Benchmark**
Modified Duration (yrs)	5.46	6.09
Yield to Maturity (%)	2.61	2.41
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	0.82	n/a

Source: JamiesonCooteBonds Pty Ltd.

Credit Rating Allocation (by Duration Weight)***



Sector Allocation (by Duration Weight)***



Platform Availabilty

Asgard	BT Panorama	BT Wrap
HUB24	Macquarie Wrap	Mason Stevens
Netwealth	PowerWrap	

Further Information

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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.

JCB

Jamieson Coote Bonds

Recommended
Lonsec Research

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Market Review & Outlook

• Asset quality matters – especially in fixed income
• Another signpost passed as $15 billion fund freezes, equity darling falls
• Bank of Japan re-adjusts a key global fixed income anchor– why you should care
• Housing slowdown is global as the cost of capital rises, second round effects are building

ASSET QUALITY MATTERS – ESPECIALLY IN FIXED INCOME

A prominent Swiss-based asset manager has frozen its CHF 11 billion (AUD15 billion) unconstrained and absolute return strategy due to a flood of redemption requests, after its head portfolio manager had been suspended due to ‘failed risk management procedures and record keeping’. In Australia, the firm has been actively raising funds, with some estimates topping $5 billion of local capital invested in the strategies.

This comment is not about schadenfreude (the pleasure derived by someone from another person's misfortune), but about highlighting the hidden risks associated with strategies that are less transparent, overly sophisticated, or hold complex derivatives. In the bond space, such absolute return fixed income strategies have been popular with investors in a post-crisis environment of low rates and lower expected returns. In recent years, many fund managers have had to invest in less liquid assets or lower credit quality assets to drive the yields demanded by clients. In seeking returns, some managers are compounding the risk profile of an allocation traditionally regarded as defensive, and introducing significant additional illiquidity and credit risks in lower quality instruments. Chasing higher returns with disregard for risk management and liquidity can inject additional risk. This is just one case that highlights asset quality always matters.

ANOTHER SIGNPOST PASSED AS $15 BILLION FUND FREEZES, EQUITY DARLING FALLS

Last month JCB wrote about how the financial dominoes are lined up, the signposts are clear, and now it is just a matter of sequencing towards the slowdown. Rewind to 2007, the Bear Stearns problems came seemingly out of the blue. The issues it raised (illiquidity in many credit-related products) started the process that eventually snowballed into the global financial crisis of 2008. Add to that, equity darling Facebook’s large earnings miss (which has parallels with Intel’s earnings miss in 2000 – marking the top of the market), and seemingly investors are well on the road to an unpleasant destination. JCB wonder whether the world will look back on these events as having been a stark warning sign.

BANK OF JAPAN RE-ADJUSTS A KEY GLOBAL FIXED INCOME ANCHOR – WHY YOU SHOULD CARE?

The Bank of Japan surprised markets by changing the boundaries of its yield curve control policy. In what may seem like a boring technical change that only fixed income managers should care about, this should be more meaningful to investors. Low Japanese and European interest rates have been the global anchors that have forced countless global investors into other markets, in search of a better return. In a similar analogy to the illiquid credit example above, if local Japanese and European rates rise due to a reversal of higher accommodative policy by the Bank of Japan or the European Central Bank, demand for U.S. Treasuries and other fixed income markets including Australia, will likely fall. This has the potential to raise the cost of borrowing, in addition to the higher borrowing costs already inflicted on markets by the U.S. Federal Reserve’s current hiking cycle.

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HOUSING SLOWDOWN IS GLOBAL AS THE COST OF CAPITAL RISES, SECOND ROUND EFFECTS ARE BUILDING

It comes as no surprise that higher funding costs and tighter lending conditions are having a negative impact on Australian housing values. Second round effects are now permeating into the economy: Australia just recorded its weakest annual car sales growth since 2011 – as the credit mechanism becomes impaired, smaller issues have a larger impact.

Similar events are playing out around the globe in other western economies. Property values in both the U.K. and Canada have experienced volatility and decay since their Central Banks have raised interest rates, lifting the cost of capital. Now the U.S. housing market is also cooling rapidly (along with U.S. auto sales).

Fund Review

For the month of July, the CC JCB Active Bond Fund (the Fund) returned 0.14%, outperforming the Bloomberg AusBond Treasury (0+Yr) Index by 0.03%.

The Fund outperformed positive index returns inside a choppy month of fixed income price action. Trade war headlines continue to dominate global markets coupled with anticipation surrounding the Bank of Japan policy action which has lifted global fixed income volatility. Domestically, CPI again failed to materialise for the Australian economy, despite a lift in tradeables inflation, which helped firm bond prices in longer dated maturities. JCB maintain long dated flattening as a core position for the portfolio, as we expect the U.S. yield curve to continue to flatten as the U.S. Federal Reserve Bank continues to lift short dated U.S. interest rates.

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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