# Fund Update as at 30 April 2019
# 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 $592 million |

## Fund Performance

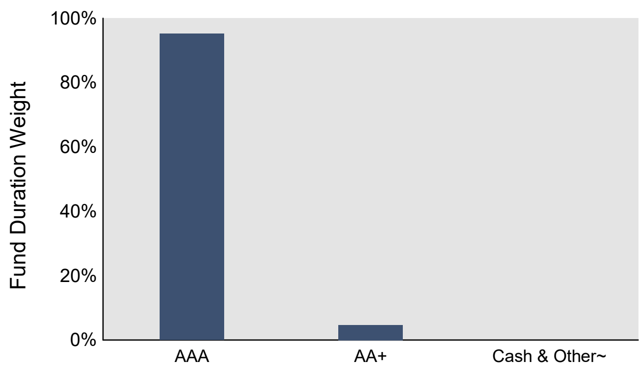
| Returns (After fees) | Fund* | Benchmark** | Excess |
|---|---|---|---|
| 1 Month | 0.16% | 0.19% | -0.03% |
| 3 Months | 3.38% | 3.39% | -0.02% |
| FYTD | 6.75% | 7.49% | -0.74% |
| 1 Year | 7.97% | 8.93% | -0.95% |
| 2 Years p.a. | 4.91% | 5.33% | -0.42% |
| Inception p.a. | 3.40% | 3.24% | 0.16% |

## Fund Overview

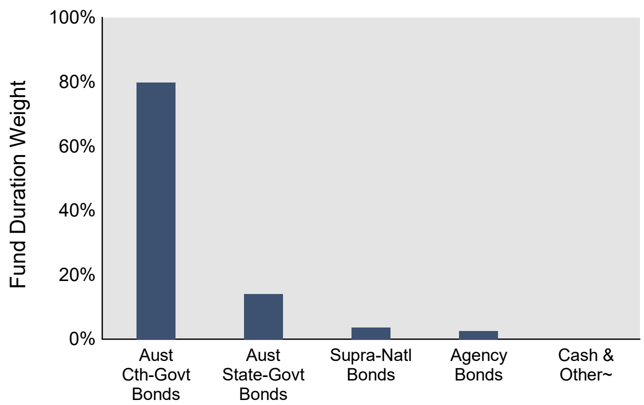
| Characteristics*** | Fund | Benchmark** |
|---|---|---|
| Modified Duration (yrs) | 6.53 | 6.46 |
| Yield to Maturity (%) | 1.75 | 1.62 |
| Weighted Ave. Credit Rating | AAA | AAA |
| Cash Weighting (%) | 1.04 | n/a |

Source: JamiesonCooteBonds Pty Ltd.

## Credit Rating Allocation (by Duration Weight)***




## Sector Allocation (by Duration Weight)***




## Platform Availabilty

| | | |
|---|---|---|
| Asgard | Ausmaq | Aust Money Market |
| BT Wrap/Panorama | Colonial First Wrap | HUB24 |
| Linear | Macquarie Wrap | Mason Stevens |
| Netwealth | PowerWrap | U-Exchange |

## 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.

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## Market Review & Outlook

- Weak global inflation data pushes most Central Banks towards rate cuts
- RBA expected to cut by August
- China/US "green shoots" are not green enough
- "Sell in May and go away" – volatility likely to lift into Northern Summer

• Weak global inflation data pushes most Central Banks towards rate cuts

Inflation remains weak the world over, driving Central Bankers towards rate cut expectations in many developed markets. Central Bankers are being forced to acknowledge that a decade of Quantitative Easing and low interest rates have not delivered on their promised inflation path, citing technology as being the major secular force restraining realised global inflation. The recent 2018 dip in oil markets has caused more anxiety as Q1 data rolls in, with many economies recording material sub-target inflation readings. Some of this can be dismissed as transient – a term recently used by US Federal Reserve Chair Powell – however, the size of undershoot looks likely to direct interest rate policy toward rates cuts and policy stimulus, which has been interpreted as good news for most asset classes.

• RBA expected to cut by August

Domestically, Q1 inflation readings have pushed the RBA into a corner where they must now respond. JCB has been consistent in its expectation that the RBA will cut rates, and the expectation remains that this will commence by August of this year. Such a move will likely deliver a 50 basis points or 0.50% reduction in the cash rate to 1.00% by year-end, which will achieve three key stimulus measures. Rate cuts would help those with existing debt obligations, lowering their existing funding burdens. Such funding relief would also likely lift consumer confidence, whilst also pushing the currency lower, thereby making the Australian economy more competitive and allowing for higher growth in currency sensitive areas of the economy such as tourism, education and agriculture.

Whilst all the above measures will help the Australian housing market at the margin, JCB do not expect that such moves alone will re-energise property prices. Clearly this can help address some of the catalyst of the falls, however the price of money is not the major issue domestically, but rather the availability of credit which rate cuts do not address.

• China/US "green shoots" are not green enough

Incoming data for the Chinese economy in March popped higher (delivered to markets in early in April) after vast stimulus by Chinese authorities spurred the economy forward. This generated a "green shoots" narrative for global markets which was also supported by better than expected US economic data. Given the shocking state of global trade and weak manufacturing data, such leadership was uniformly welcomed at first pass. JCB would caution against such optimism.

The Chinese politburo has already confirmed it does not plan on continuing such stimulus programs, meaning the temporary bounce will likely decay and cool again around mid-year. This big lift in China data was also helped by significant Chinese Lunar New Year seasonality, which usually suggests a giveback in the coming months.

Looking at US data, again whilst headline numbers seemed solid, the devil is very much in the detail. Consumption and expenditure which makes up ~70% of US economy fell to some of the weakest levels since 2014. Data remains patchy at best, with many leading data points like housing and auto sales continuing to show weakness, whilst lagging indicators are holding on.

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• "Sell in May and go away" – Volatility likely to lift into Northern Summer

Looking ahead, JCB believe there are a number of issues for markets to deal with through the dreaded Northern Hemisphere summer months. Volatility has returned to ultra-low levels ahead of several possible trigger points. Investors made similar mistakes in early 2018 and paid dearly for such dismissal of risks. Could it be European elections, European auto tariffs, the geopolitics of Iran or Gaza, or failed expectations of a positive US/China trade deal that could ignite the market from their seeming complacency? JCB feels the market is tinder dry, compensation for risk has been diminished by strong performance. Should a global spark arrive into mid-year markets things could heat up quite a bit.

## Fund Review

For the month ending April, the CC JCB Active Bond Fund - Class A units (the Fund) returned 0.16% (after fees), underperforming the Bloomberg AusBond Treasury (0+Yr) Index by 0.03%.

Risk markets continued their ascent over April, with S&P500 breaking through the record high from previous September and credit spreads continuing to tighten as the Central Banks maintained their dovish stance. Equities also were supported by positive earnings reports with around 80% of S&P500 companies providing positive surprises. Bond markets encountered some selling into the middle of the month as Chinese data stabilised, providing some "green shoots" narrative. Australian bonds rallied sharply into month end, reversing early month weakness following weaker than expected core inflation which continues to tread water beneath the RBA's inflation band and resulted in the market pricing that the RBA will cut rates in 2019. The Fund delivered another solid month of absolute returns in excess of cash returns as the spectre of the RBA moving into a cutting cycle provided a solid footing and JCB anticipate this to continue through 2019 as the domestic economy continues to feel the effects of a slowing housing market and on-going trade war concerns.

JCB took advantage of the rally into month end to lighten exposure in the intermediate sector which improved aggressively and moved down the curve into the 2-year bucket where JCB see more appealing risk adjusted valuations. Looking ahead JCB continue to favour curve flattening exposures into the summer months as it is expected strong seasonality will provide solid footing for long duration assets.

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.

JAMIESON COOTE BONDS

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