JCB

JAMIESON COOTE BONDS

Fund Update as at 31 August 2020
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 and Income
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. 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 $1235 million

Fund Performance

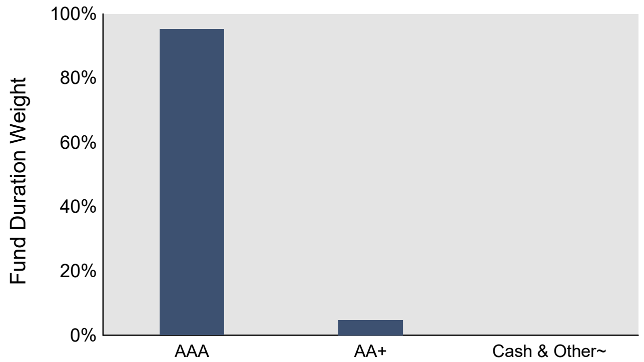
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	-0.84%	-0.81%	-0.03%
3 Months	-0.09%	-0.38%	0.29%
FYTD	-0.29%	-0.49%	0.20%
1 Year	1.34%	0.72%	0.62%
3 Years p.a.	5.69%	5.80%	-0.10%
Inception p.a.	4.17%	3.88%	0.29%

Fund Overview

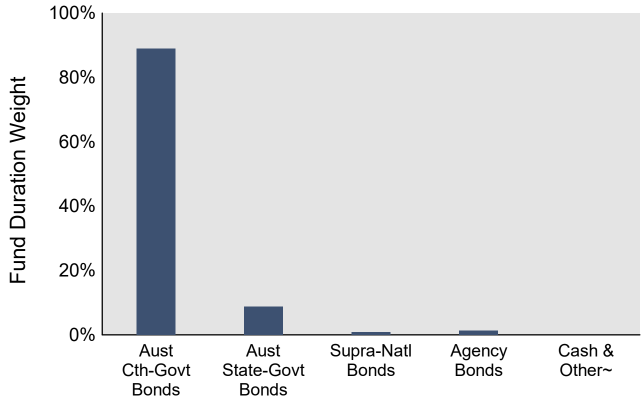
Characteristics***	Fund	Benchmark**
Modified Duration (yrs)	6.80	6.78
Yield to Maturity (%)	0.97	0.73
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	0.77	n/a

Source: JamiesonCooteBonds Pty Ltd.

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



Asset Allocation by Sector (Duration Weight)***



Platform Availabilty

AMP MyNorth	Asgard	Ausmaq
Aust Money Market	BT Panorama	BT Wrap
Colonial First Wrap	HUB24	Linear
Macquarie Wrap	Mason Stevens	MLC Navigator
MLC Wrap	Netwealth	PowerWrap
Praemium	U-Exchange	Xplore Wealth

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. Individual Investor level taxes are not taken into account when calculating returns.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

The high demand for Australian Government Bonds continues

Markets performed strongly in August with risk assets enjoying continued healthy returns. Inside of this, pockets of the equity market enjoyed insatiable demand around technology, in a narrow but almost exponential rally. Fixed income valuations slipped back on heavy Government bond supply late in the month, maintaining a broad negative correlation to risk market performance. Australia issued a new 10 year bond in a Australian Commonwealth Government Bond (ACGB) 1% of November 2031 maturity which drew a record A$66 billion order book, with only A$21 billion being satisfied at new issue and leaving a staggering A$45 billion of demand unsatisfied. This followed the new Australian 30 year bond issued earlier in July which also had significant demand and had to turn away A$36.8 billion orderbook with only a A$15 billion transaction. With central banks around the world further committing to 'lower for longer' interest rate policies, these supply concessions should continue to be well supported moving forward.

Will more policy action lead to inflation?

Late in the month the US Federal Reserve (the Fed) increased its commitment to a low rate policy having changed the goal posts on its own inflation mandate, now targeting an average inflation rate over time. "Average Inflation Targeting" implies the Fed will keep interest rates on hold for years, and indeed the near-term outcomes are likely to be severe. No doubt a lot of commentary will be penned about how this is ''inflationary'' in the medium term.. Sadly, the Fed's own personal consumption expenditures price index (PCE) targets have been infrequently delivered, in a world which enjoyed much higher structural inflation, let alone the newer secular forces driving disinflation currently (such as debt loads, demographics, zombie corporations, technology, robotics, automation, lack of unionisation, and of course globalisation). One of the best quotes JCB has seen recently is "2020 is the year to be short humans and long AI/Tech". Looking at equity performance, the bigger your work force, generally the weaker your equity price in 2020. Covid-19 has only accelerating parts of this disruption. Given the slack in economies from substantially higher unemployment, it is hard to pinpoint where the inflation pulse will emanate in the short to medium term.

Dallas Fed President Robert Kaplan was also in the media suggesting inflation could rise to 2.25% to 2.375% without a change in policy. Assuming a 6-month average of Core PCE (a measure of the prices paid by people for domestic purchases of goods and services, excluding the prices of food and energy, the Fed prefers PCE over CPI) of 2.25% to 2.375% has occurred only once in the last 26 years, which was 2006/2007.

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What about 2.5% inflation? It has been 28-years since core PCE reached 2.5% (1993). Structural inflation pressures were far greater back in these times. To suggest that changing the goal posts will do anything to change short to mid run inflation seems a very long bow indeed.

Given these numbers, and the anchoring of funding rates, JCB believes it will take years and years for inflation (PCE, headline or Core) to reach some level above 2% and even entertain the Feds newfound flexibilities. With the insolvency phase of the crisis still ahead (assuming we wind down the generous disaster relief funding programs over balance of 2020) we are more likely to have further deflationary forces at work, adding to the secular slow burning forces that continue to drive inflation outcomes lower.

This US election result set to be more meaningful for markets

Looking ahead to September, JCB continues to monitor a possible second wave of Covid-19 cases currently growing quickly in Europe, however, the major focus of markets – exhausted by Covid-19 news headlines – will turn to the US election news flow and debate as we are now within 60 days to the US election. Polls continue to favour Biden, which historically would suggest the Democrats will also take the Senate, giving them sweeping powers in Washington to repeal the Trump administration tax cuts and re-instate a higher regulatory environment cut by the Trump administration. The polls are tightening quickly however, with Trump gaining ground in the last few weeks. JCB believes the US election will be a tightly fought contest, it is worth noting the seemingly strong correlation between Trump's approval ratings and the recent performance of the US dollar.

Fund Review

For the month ending August, the CC JCB Active Bond Fund - Class A units (the Fund) returned -0.84% (after fees), underperforming the Bloomberg AusBond Treasury (0+Yr) Index.

The Australian rates market opened the month at the top of the recent range as the RBA announced their intentions by resuming their buying program, albeit in the shorter end of the market, after a hiatus since early May. JCB continued to feel the market would remain in its well-defined ranges as the countering forces of supply against the RBA backstop and attractiveness of AUD bonds on a global basis would continue to provide tactical opportunities from both sides of the market.

JCB also altered the Fund with an underweight bias after the ACGB Nov 2031 syndication was announced which the portfolio participated in. The Fund underperformed into month end following the Nov 2031 syndication as global rates were caught offside following the Jackson Hole Economic Policy Symposium after the U.S. Federal Reserve Board unveiled a change to its monetary policy framework where they will target an average annual rate of inflation of 2%. JCB were cognisant that this was another episodic positioning unwind scenario driven by the CTA community however maintained its risk management process and unwound some long positions on a break of the 1.00% level in Australian 10yr and as the impending larger September issuance calendar approached. The Fund ended the month closer to home, with underweights in the shorter part of the ACGB curve and a slight overweight bias in the longer end of the ACGB curve.

Going forward the portfolio will look to lighten its exposure in the long end and trim EFP positionings into the SFE quarterly rolls. Tactically the portfolio will look to take advantage of any overshoots in price action as volatility picks up with the Northern Hemisphere summer winding down, the historical turning points evident in the September SFE quarterly futures roll. JCB still maintain the bullish secular forces underpinning the global bond markets will remain, although anticipate greater volatility into year-end given the performance of risk markets, the heavy September supply issuance, the U.S. election and the potential for further lockdowns in a covid world.

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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), as a percentage of overall portfolio duration. 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