JCB

JAMIESON COOTE BONDS

# Fund Update as at 31 October 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 $1280 million |

## Fund Performance

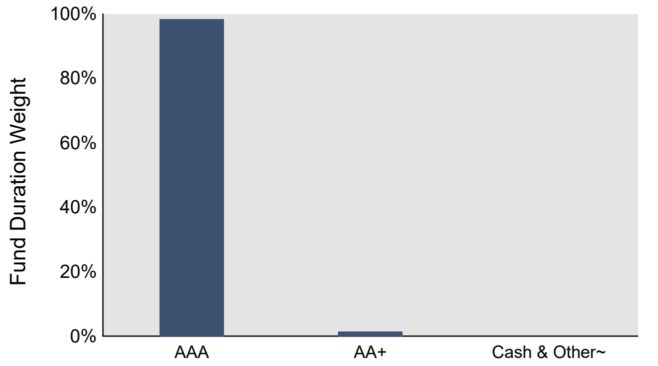
| Returns (After fees) | Fund* | Benchmark** | Excess |
|---|---|---|---|
| 1 Month | 0.09% | 0.12% | -0.03% |
| 3 Months | 0.54% | 0.58% | -0.04% |
| FYTD | 1.10% | 0.90% | 0.20% |
| 1 Year | 4.09% | 3.51% | 0.58% |
| 3 Years p.a. | 5.97% | 6.02% | -0.05% |
| Inception p.a. | 4.34% | 4.07% | 0.27% |

## Fund Overview

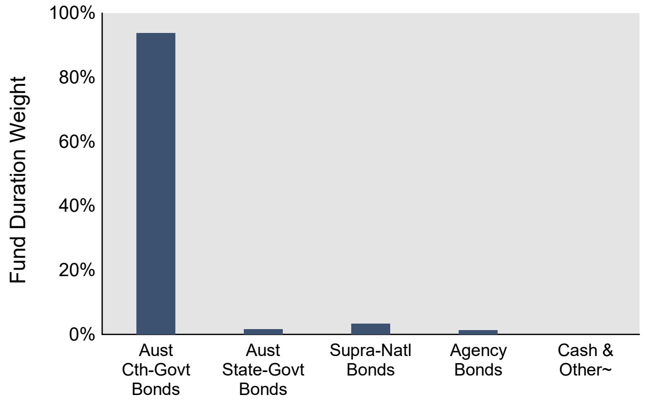
| Characteristics*** | Fund | Benchmark** |
|---|---|---|
| Modified Duration (yrs) | 6.87 | 6.79 |
| Yield to Maturity (%) | 0.69 | 0.56 |
| Weighted Ave. Credit Rating | AAA | AAA |
| Cash Weighting (%) | 0.70 | n/a |

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

**October market overview**

October markets were dominated by two major themes, domestically the additional RBA stimulus, and US elections on the global stage. Covid-19 remains an ongoing concern in the background, with Northern Hemisphere numbers continuing to spike leading to lockdowns in Europe (but not yet in the US), whilst domestically as the warmth of summer approaches combined with material public sacrifice in Victoria, case numbers continue to abate.

**More QE on the horizon**

As Australian life ramps up into the summer months, adding Melbourne (roughly 25% of Australian GDP) back to the data - economic numbers will likely be turbo charged on a rate of change basis, whilst remaining lower than that of 2019 economy. The RBA is acutely aware of the damage that has occurred to the economy over 2020 and the difficulty in finding a stable platform into 2021, which will face sluggish growth after the slingshot of post lockdown Melbourne and an insolvency phase as public disaster relief funding programs, such as Job Keeper, are further wound down. The RBA's speeches over October suggest more stimulus to the economy via and additional rate cut to 0.10% and extension of the quantitative easing (QE) program. The timing of QE remains uncertain (November 2020 or February 2021), but the RBA acknowledged the need for additional programs to foster growth and employment, and have finally conceded that they must follow where other Global Central Banks have led with stimulus in the form of additional QE. These programs are designed to lower bond yields, and lower the AUD currency over time to make borrowing for governments, business and consumers cheaper, and make AUD assets less appealing to foreigners, driving the currency lower and helping Australia become more competitive on the global stage.

It is important to remember that countries that have started QE, have never successfully stopped. Once enacted and as traditional monetary policy becomes exhausted, these QE policies have remained in place the world over and there is no reason to suggest Australia will be any different over time. The RBA has made public comment on the unlikely nature of negative rates in Australia, maintaining a long recent history of public comment on expected policy that is later highly embarrassing (such as neutral rates are 3.00%, it won't go below 1.50%, 0.25% is lower bound, it won't do QE, etc).

In 2021 it is very likely that the Bank of England, Bank of Canada and Reserve Bank of New Zealand will have moved monetary policy to negative rates (as currently priced by markets and in keeping with their own commentaries), expect negative rates in Australia to be re-examined by the RBA and another round of backpedaling. By RBA edict bond markets will perform well into the future, at least for now. If we have learned anything from the last 10 years of policy response, it remains, investors should not fight the Central Banks.

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**Markets embrace a Biden victory**

Turning to the US election, markets had embraced a “blue wave” Biden victory in expecting control of Congress (House and Senate) to also be delivered to the Democrats. JCB believes the contest will be far closer, with the makeup of the Senate a hard-fought race, which may well deliver a lame duck term for Biden until 2022 Senate re-elections. This matters greatly for any stimulus expectations and supply in the US Treasury Bond market as a result of a large fiscal needs to fund an additional stimulus program for the US, again suffering under a heavy Covid-19 case load. Once the election is complete and new Congress starts the process of governing under Biden, a huge stimulus bill will be tabled in the ‘progressive’ House of Representatives, which will likely remain firmly in control of the Democrats, but any passage through the Senate is not a simple rubber stamping exercise. Some of the Democratic Senate candidates are very centric in their politics, a few actually ran as Republicans in prior elections. So assuming the Democrats gain the Senate – which in itself is a big ‘if’, the ’progressive’ nature of the Senate (versus a ’moderate’ middle road Senate outcome) is critical and this can be the basis for a significant reversal in the size of expected stimulus as the package could be watered down significantly. This will impede stimulus delivery, and again make the US Federal reserve the major game for investors. A Biden presidency and ‘moderate’ Democrat or outright Republican Senate will likely cause continued financial repression. This manifests in large Central Bank balance sheets providing huge liquidity, low interest rates and bond yields, tight credit spreads and low volatility which all translates to high equities prices.

## Fund Review

For the month ending October, the CC JCB Active Bond Fund - Class A units (the Fund) returned 0.09% (after fees), underperforming the Bloomberg AusBond Treasury (0+Yr) Index by 0.03%.

The Australian rates complex commenced the month at the higher end of the recent range, with Victoria remaining in strict lockdown continuing to provide a drag on the confidence and impulse of the national economy. President Trump tested positive for Covid 19 in the first week of October which triggered some volatile price action as the election window approached and uncertainty pervaded. US stimulus talks continued to dominate price action as they haggled over the details and size of the package with minimal tangible progress.

Governor Lowe's speech on 15 October paved the way for further easing. Australian Commonwealth Government Bonds (ACGB) 10 year yield reacted immediately with around a 10 basis points rally as Lowe noted Australia’s 10 year yields are higher than “almost everywhere in the world.” JCB, long advocating for further easing, took advantage of the exuberant price action and trimmed some risk. Given the ongoing US fiscal talks and improvement of the Covid-19 situation in Victoria, dialling down the duration was deemed prudent in preparation for any potential RBA disappointment.

Into month end, global rates softened as positions were unwound in anticipation of the RBA meeting and the consensus view for a stimulus friendly Democratic sweep of the US elections.

The portfolio closed the minor short duration trade which had performed and lightened exposure of semi-government bonds against ACGB in anticipation of a potential ‘buy-the-rumour, sell-the-fact” event on RBA day. The Fund will be well balanced into November with the US election outcome to set the tone for the near term. In the medium turn, we are still cautious on the global economy as recent data shows the recovery is losing momentum. Although Asia-Pacific has the virus under control, new waves are emerging in Europe and the US. The portfolio will look for tactical opportunities to generate alpha in the coming months with the spectre of quantitative easing (QE) in Australia looming.

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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