JCB

JAMIESON COOTE BONDS

Fund Update as at 31 December 2020
CC JCB Dynamic Alpha Fund (APIR: CHN8607AU)

Fund Benefits

Active Management

The CC JCB Dynamic Alpha Fund is designed as an absolute return product, that aims to deliver stable and consistent returns over time - regardless of share and bond market movements. JCB applies a range of hand-picked risk-controlled investment strategies to a universe of global high grade sovereign bonds (i.e. anchored by G7 nations, as well as Australia). It offers a high level of liquidity in Government issued instruments, without corporate credit exposure.

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
Portfolio Manager	Charles Jamieson & Chris Manuell CMT
Style	Global absolute return bond fund - concentrating on actively managing global high grade sovereign bonds
Objective	Outperform the RBA Cash Rate by 2.50% p.a. (after fees) over rolling 3 year periods.
Inception Date^	30 December 2019
Index	RBA Cash Rate Total Return Index
Management Fee#	0.58% p.a.
Administration Fee#	0.10% p.a.
Buy / Sell Spread	0.05% / 0.05%
Distributions	Semi-annual
Fund Size+	AUD $72 million

Fund Performance

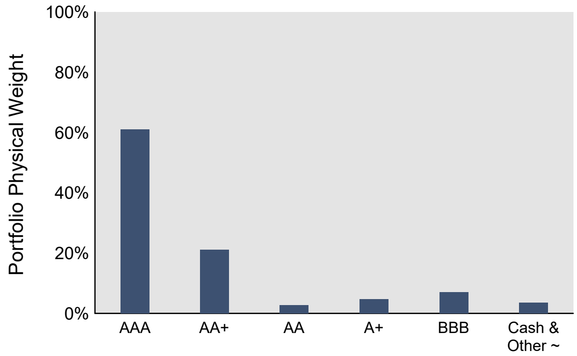
Returns (After fees)	Fund*	Index**	Excess
1 Month	0.09%	0.00%	0.08%
3 Months	0.56%	0.02%	0.54%
FYTD	1.71%	0.05%	1.66%
1 Year	5.08%	0.25%	4.83%
2 Years p.a.	-	-	-
Inception p.a.	5.06%	0.25%	4.81%

Fund Overview

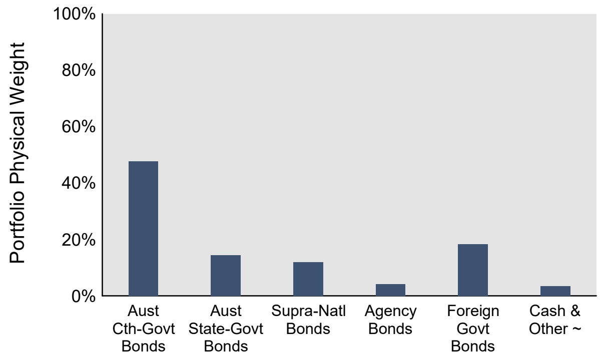
Characteristics	Fund
Modified Duration (yrs)	0.28
YTM + Hedging Effect	0.70
Weighted Ave. Credit Rating	AA+

Source: JamiesonCooteBonds Pty Ltd.
See Definition of Terms.

Asset Allocation by Credit Rating (Physical Weight)



Asset Allocation by Sector (Physical Weight)



Platform Availabilty

Ausmaq	Aust Money Market	BT Panorama
BT Wrap	HUB24	Mason Stevens
Netwealth IDPS	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 Dynamic Alpha Fund ARSN 637 628 918. * Performance is for the CC JCB Dynamic Alpha Fund (APIR: CHN8607AU), 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. ** Index refers to the RBA Cash Rate Total Return Index.

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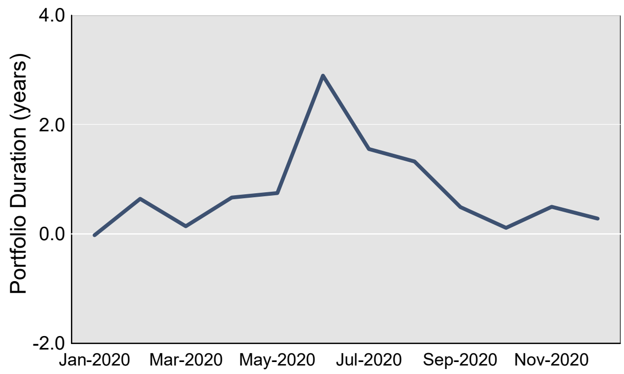
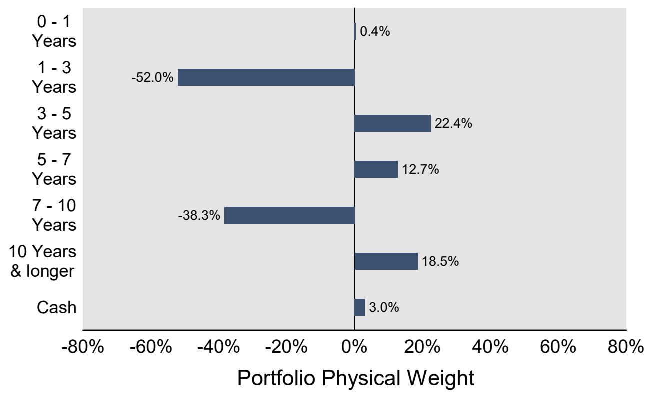
Historic Portfolio Duration



Asset Allocation by Duration Band (Physical Weight)*



*Asset allocation totals (Duration Band) are the net position of physical bond and bond futures exposure and will be positive or negative depending on the portfolio positioning as selected by JCB.

Fund Review

For the quarter ending December, the CC JCB Dynamic Alpha Fund (the Fund) returned 0.56% (after fees), outperforming the RBA Cash Rate of 0.02%.

The Fund provided decent returns for the month in what was an anti-climatic finish to an extraordinary year as the rates market spent the majority of the month in a tight range.

Domestically the Australian market remained subdued with the SFE quarterly roll mid-month and the AOFM and RBA also resting on the sidelines providing little impetus for a decisive move away from the 1.00% level in 10 years.

Globally US rates encountered some early weakness with the “risk-on” sentiment flowing through from November. The mood was elevated by the hopes resting on the vaccine roll-out and further economic stimulus. The tone was set early in the month with a disappointing US employment report which only emboldened the hopes of further stimulus to support risk markets The Fed meeting mid-month offered little new information as they stayed on course with their commitment of asset purchases of USD 120bln per month and keeping rates close to zero. The discovery of a new virus strain within the UK and impending increased lockdowns failed to rattle the markets and US fiscal support was finally delivered on December 22 as Congress pushed through a USD 900bln pandemic relief bill.

Rates markets were very subdued into year-end as they remained on hold as the crucial Georgia run-off Senate elections loomed early in January.

Market Review & Outlook

December market review

Markets in December drifted to slightly higher yields as the broader risk complex pushed higher in expectation of continued economic recovery into 2021. This capped an extraordinary year for investors who faced extreme unknowns over the year as they faced the pandemic. Thanks to generous fiscal programs and a final exhaustive use of conventional monetary policy plus quantitative easing from Central Bankers, markets have screamed higher with risk assets and low quality assets enjoying substantial support of low rates and excess liquidity. Higher quality Government Bonds did a remarkable job of defending and protecting portfolios once again, whilst also offering significant liquidity optionality in the March and April period which many JCB investors used to great effect – selling bonds at a premium to buy deeply discounted equities.

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Interest rates remain the virus that affects all things - which leaves us baffled that many forecasters expect continued risk performance into 2021 coupled with higher bonds yields. In JCB's view, this presents a problem of the plumbing of markets, with a significant threat to risk market performance being any disruption to the lower for longer thesis combined with excess liquidity which has validated the enormous disconnect between fundamentals and many asset valuations. Opinion seems almost universal that nothing can go wrong as the vaccine defeats Covid-19 over the year – but JCB remains cautious on herding and clustering of opinion and positioning as markets just love to hunt the crowded trades and themes.

Market outlook

There is no question that 2021 presents significant challenges for forecasting market outcomes. JCB believes the possible outcomes over the year are as wide as we have recently experienced. The Covid-19 virus is mutating ahead of the vaccine roll out program, making the vaccine forever in the rear view mirror as new Covid-19 strains infect with increased pace. Regardless, investors are starting the year seemingly drunk on liquidity and high on optimism. Who can really blame them, as Central Bankers and Governments the world over have suppressed natural volatility and curtailed countless insolvencies. The recency bias of powerful momentum moves in many markets suggests risk can continue to grind further still, but with each passing day the markets are moving towards a priced for perfection outcome.

Nothing seems as permanent as temporary stimulus. Looking at the fiscal deficits and continuous QE programs run since the GFC suggests that these programs and extraordinary measures will continue well after Covid-19 hopefully fades. Any retreat from policy makers will likely be met by a market haemorrhage which will only encourage further continued stimulus. In fact, the game theory almost suggests that such anti risk periods will be required to motivate short term politicians and Central Bankers into continuously providing more. There are some obvious periods to navigate. Inflation is a rate of change function, and as such, inflation base effect will rise into the April/May period as the higher deflationary period of the first global lockdown will fall out of the basket data. The narrative machine will be in overdrive by here, however, JCB continues to believe that the overarching secular forces of disinflation will continue to be the medium to longer term driver of pricing and that such a blip in inflation data will be short term and temporary. Markets have already made significant adjustments in expectation of this short term rise, with inflation expectations rising significantly. JCB will happily add to its positioning in the expectation of significant mid-term value that could possibly present around these outcomes. JCB continues to expect bond markets to trade in a range bound environment, notwithstanding some usual volatility in the pricing cycle but anchored by dormant front end yields, with long end yields suppressed by active QE programs. 10 year US Treasury yields - the benchmark bond rate the world over - remains around 1.00% (in December 2020) despite significant optimism, high inflation expectations and screaming risk markets. This is up from a low of 0.39% in March, and 0.49% in August of 2020.

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.
YTM + Hedging Effect - is the total return anticipated on the portfolio if the bond holdings were held until their maturity, including the cost or benefit associated with the currency hedge.
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.

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