JAMIESON COOTE BONDS

Fund Update as at 31 August 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 $807 million

Fund Performance

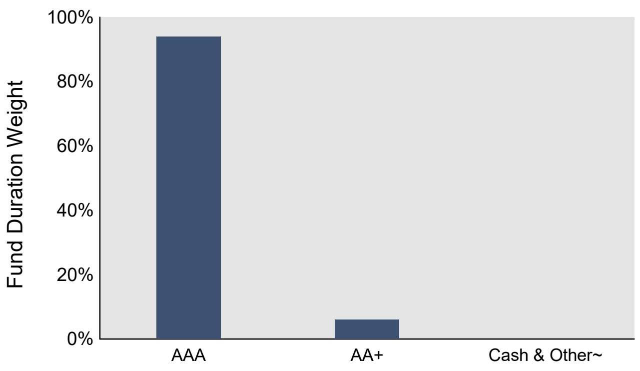
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	1.87%	1.95%	-0.07%
3 Months	4.10%	4.08%	0.02%
FYTD	2.85%	2.93%	-0.08%
1 Year	12.46%	13.03%	-0.57%
2 Years p.a.	7.94%	8.43%	-0.49%
Inception p.a.	5.11%	4.93%	0.18%

Fund Overview

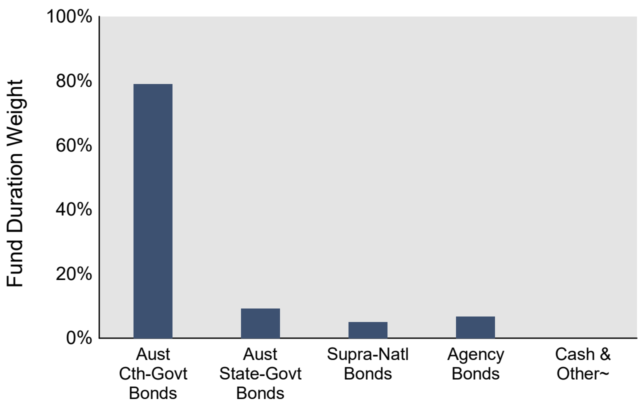
Characteristics***	Fund	Benchmark**
Modified Duration (yrs)	6.17	6.62
Yield to Maturity (%)	1.00	0.86
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	0.20	n/a

Source: JamiesonCooteBonds Pty Ltd.

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



Asset Allocation by Sector (Duration Weight)***



Platform Availabilty

AMP North	Asgard	Ausmaq
Aust Money Market	BT Panorama	BT Wrap
Colonial First Wrap	HUB24	Linear
Macquarie Wrap	Mason Stevens	Netwealth
PowerWrap	Mason Stevens	Netwealth

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

•Trade War enters new prolonged phase as both sides escalate keeping macro data weak.
•US Treasury curve deeply inverted signaling severe recession risk, with the US Federal Reserve (US Fed) Fed funds now the highest interest rate in the developed world ex Italy.
•Negative yielding bonds deliver best returns
•RBA Governor Lowe suggests flexibility in inflation outcomes at Jackson Hole, suggesting a pause in rate cuts for domestic only reasoning. JCB still expects additional rate cuts from global factors.

•Trade War enters new prolonged phase as both sides escalate keeping macro data weak.

President Trump's announcement of additional tariffs imposed on Chinese goods early in August set the tone for a material flight to quality rally across global bond markets. China responded by adding tariffs to US goods, continuing to operate in a 'tit for tat' exchange that will further prolong the trade war and depress global economic sentiment. Seemingly a period of negotiation and compromise in the trade war has now ended and with these additional developments a likely acknowledgment from both sides that they are prepared to endure a protracted fight.

This is likely to further depress capital spending intensions, as companies struggle to identify which jurisdictions may be subject to tariffs when forward planning. JCB's central expectation remains that the trade war is a complex fight over not only trade, but technology and the control of artificial intelligence, a fight neither side can afford to lose. Trump's plans may well be to broker a deal ahead of his November 2020 re-election campaign to try and slingshot the US economy ahead of election day, but it was China who rolled on the first version of the deal in May at the 11th hour when it came down to changing Chinese domestic law and making the deal enforceable.

•US Treasury curve deeply inverted signaling severe recession risk, with the US Federal Reserve (US Fed) funds now the highest interest rate in the developed world ex Italy.

The US Treasury bond curve finally inverted in the month of August between the 10 year and 2 year Government Bond yields (i.e. 10 year Government Bonds now yield less than 2 year bonds). Such previous episodes have historically had exceptional predictive ability at forecasting US recessions shortly thereafter with only one false negative in 1967. JCB actually favours monitoring the 3 month rate versus the 10 year bond rate, noting that this curve has been inverted since 23 May 2019. JCB have written previously at length about the flattening term structure curve and why you would likely hear more about this in time.

At the time of writing, the rate of short-term funding in the US is higher than every bond of all maturities (long and short dated) in the G7, except for long dated Italian bonds, which are currently subject to significant political risk. That is quite extraordinary given the hugely powerful signaling from global bond markets that future expected growth and inflation remains deeply depressed, whilst also suggesting that the US Fed is badly behind the curve and needs to cut rates aggressively to avoid recession.

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•Negative yielding bonds deliver best returns.

As global central banks continue to experiment with negative interest rates, it's ironic that some of the best performing bond markets this year have also been the most negative in yield. This is a difficult notion to fathom, that a bond already delivering a slightly negative return, if held to maturity, can produce significant positive returns – Switzerland's bond markets are the most negative and the year to date return is around +12.5%. Negative yielding bonds have been around for more than 5 years now, ever since the European Central Bank and the Bank of Japan took their policy rates below zero. An extension of those negative interest rate policies coupled with depressed inflation expectations is redefining investors' expectations of the performance of fixed income as an asset class. Thankfully, Australia looks some way off needing to embark on any such negative interest rate policy, but the actions of others continue to make Australian Government Bonds highly desirable on a global scale given their excellent liquidity and highest AAA rating.

•RBA Governor Lowe suggests flexibility in inflation outcomes at Jackson Hole, suggesting a pause in rate cuts for domestic only reasoning. JCB still expects additional rate cuts from global factors.

JCB has long argued that the RBA would cut rates from 1.50% to 1.00% on domestic factors, and then additionally cut rates from 1.00% to 0.50% due to global factors. They expect those additional rate cuts either very late this year or in the early part of 2020. JCB found a recent speech from RBA Governor Lowe at Jackson Hole (a Central Banking conference in Wyoming USA) of interest as he suggested the RBA may use 'flexibility' in judging its inflation outcomes. JCB sees this as allowing for a pause in the interest rate cutting cycle as expected, where the RBA will not be wedded to below target inflation to further cut the policy rate.

JCB expect the RBA to remain firmly focused on achieving full capacity in the economy, in line with additional reductions in the unemployment rate below 4.50% (currently 5.20%) as telegraphed by the RBA's Lucy Ellis earlier this year.

Fund Review

For the month ending August, the CC JCB Active Bond Fund - Class A units (the Fund) returned 1.87% (after fees), underperforming the Bloomberg AusBond Treasury (0+Yr) Index by 0.07%.

The Fund added some exposure in the belly of the curve to some semi-government and green bonds as well as increasing holdings in the longer end of government bond curve to capitalise on the global flattening theme. JCB positioned the Fund slightly defensively into month-end as they enter a seasonally challenging period into the quarterly futures roll. JCB is cognisant that financial conditions remain accommodative, there has been tax cuts, continued infrastructure spending and an uptick in the housing market – which have the potential to provide a short term correction in Australian rates. However, JCB still believe the secular backdrop is extremely supportive for the rates market and will be looking to add duration on any pullbacks.

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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