JCB

JAMIESON COOTE BONDS

Fund Update as at 30 November 2019
CC JCB Global Bond Fund - Hedged Class (APIR: CHN4711AU)

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	Channel Investment Management Ltd
Underlying Fund Investment Manager	JamiesonCooteBonds Pty Ltd or JCB (Portfolio Manager: Charles Jamieson)
Structure / Underlying Fund	The Fund invests into the CC JCB Active International Bond SP (in USD)
Inception Date^	25 February 2019
Benchmark	Bloomberg Barclays Global G7 TRI Value Hedged AUD
Management Fee#	0.15% p.a.
Administration Fee#	0.10% p.a.
Indirect Costs#	0.34% p.a.
Buy / Sell Spread	0.05% / 0.05%
Distributions	Semi-annual
Fund Size+	AUD $78.9 million

Fund Performance

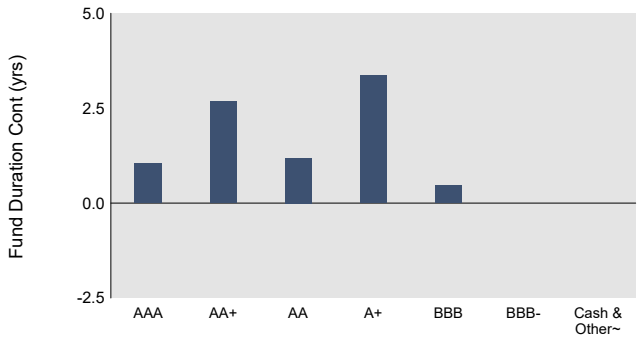
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	-0.48%	-0.49%	0.01%
3 Months	-1.36%	-1.65%	0.29%
FYTD	1.41%	1.59%	-0.19%
1 Year	-	-	-
2 Years p.a.	-	-	-
Inception	5.99%	5.50%	0.49%

Fund Overview

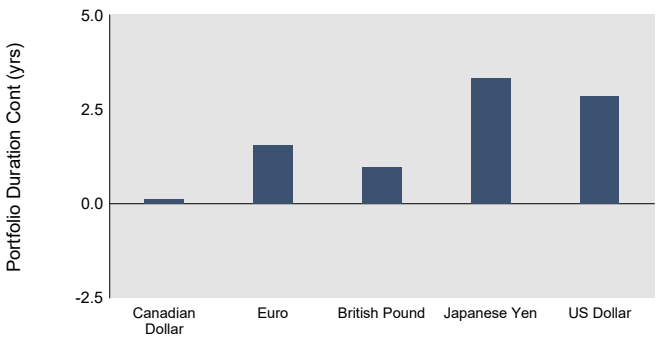
Characteristics	Fund	Benchmark
Modified Duration (yrs)***	8.77	8.51
YTM + Hedging Effect^^	1.14	1.22
Weighted Ave. Credit Rating***	AA	AA

^^ Data refers to CC JCB Global Bond Fund - Hedged Class (APIR: CHN4711AU) and Bloomberg Barclays Global G7 TRI Value Hedged AUD.
Source: JamiesonCooteBonds Pty Ltd.
See Definition of Terms.

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



Asset Allocation by Currency (Duration Contribution)***



Platform Availabilty

Asgard	Ausmaq	Aust Money Market
BT Panorama	BT Wrap	HUB24 Super & IDPS
Mason Stevens	Netwealth IDPS	Powerwrap
Praemium	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 Global Bond Fund ARSN 631 235 553. * Performance is for the CC JCB Global Bond Fund - Hedged Class (APIR: CHN4711AU), 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 Barclays Global G7 TRI Value Hedged AUD. *** Data refers to Underlying Fund, CC JCB Active International Bond Segregated Portfolio (in USD); and where applicable, Underlying Benchmark, Bloomberg Barclays Global G7 TRI Value Hedged USD. ~ Cash & Other includes cash at bank, outstanding settlements and futures margin accounts.

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Market Review & Outlook

- Unconventional policy will likely arrive in Australia in 2020.
- Optimism reaches fever pitch in some markets, but sadly the secular environment doesn't move that fast as some green shoots are turning brown.
- The December 15th date for additional tariffs on China will likely be a binary moment for markets into Christmas and year end illiquidity.

Unconventional policy will likely arrive in Australia in 2020.

RBA Governor Lowe has detailed his preference for a possible RBA Quantitative Easing (QE) program after further RBA rates cuts. Lowe suggests "if'" the RBA was to undertake such a program of QE, it would target "risk-free assets of Government Bonds by buying these securities in the secondary market", as such a program of lowering risk-free asset yields seeps into all parts of the economy.

Whilst the RBA maintains a mildly constructive outlook for the Australian economy in the near term, sadly its recent forecasting history has been poor. Jamieson Coote Bonds (JCB) does not share this optimism looking forward into 2020. This time last year the RBA was forecasting ''the stance of monetary policy (then current as at December 2018) would continue to support economic growth and allow for further gradual progress to be made in reducing the unemployment rate" and this standout, "the next move in the cash rate was more likely to be an increase than a decrease". The RBA followed this forecast by cutting the cash rate three times shortly thereafter. JCB believes the economy remains vulnerable to a further slowdown in the South East Asian region which has suffered one of the worst macroeconomic years on recent record. JCB's core view remains that the U.S./China trade war remains firmly "on", but we may get some window dressing phase 1 type deal which will be form over substance and unlikely to spur material macro acceleration beyond a few days of positive market reaction.

JCB will write about QE in a multi-part series over the summer as they believe there is significant insight to be gained from looking at other iterations of QE policy in the U.S., Europe and Japanese markets. Throughout the prior investment careers of the JCB investment team, it has gained significant experience around managing assets through such periods and is driven to stimulate thought for not only fixed income investors but asset allocators and the portfolio construction process. There isn't a consistent playbook around QE but looking at other global QE programs does help suggest decent scenarios for Australia into 2020 and beyond.

The RBA is correct to point out that Australia has lots of positives including positive growth, positive demographics, lower currency, fiscal firepower, etc, but now that Lowe has given the Australian market its famous "put" moment, market participants will be screaming for more stimulus at the first bumps in the road.

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Optimism reaches fever pitch in some markets, but sadly the secular environment doesn't move that fast as some green shoots are turning brown.

Looking at equity and property markets of late you would naturally think that the economy is booming, and life is pretty grand for average folks in the economy. Sadly that is not the case, as the macro environment remains tepid. JCB acknowledges that the pessimism overshot to an extreme level into September with yield curve inversion and 'recession' searches on Google reaching peak readings. The argument for a turnaround in the economy was built on shallow ground as the receding of Brexit risks and thawing of trade war negotiations has provided hope that the economic slowdown is close to a bottom. Unfortunately for the green shoots to flourish we will need more substance from our dynamic political leaders in resolving trade wars, Brexit and fiscal expansion rather than the 'kicking the can down the road' mentality that is currently evident.

JCB believes that the markets have run hard looking for underlying improvement that is difficult to deliver without deleveraging and undertaking material structural reforms – both broadly missing in this economic cycle. No doubt a material and complete trade deal between the U.S. and China dealing with technology and Intellectual Property could spur some animal spirits, however, the best macroeconomic investors can hope for seems to be a mild acceleration in the economy. One caveat to this outlook remains massive fiscal support, although those programs take significant time to deliver. The secular environment remains that of highly-indebted, low-productivity economies with aging populations, which will continue to drag on economic outcomes.

The December 15th date for additional tariffs on China will likely be a binary moment for markets into Christmas and year end illiquidity.

Viewing from afar the playbook for U.S./China trade deal negotiations seems to be something like the following:

Constructive talks are held between both parties, some progress is made, and feel good factors run high in both camps. Trump then announces the ''deal'' and pumps the markets repeatedly, turning to twitter and other media outlets constantly repeating his amazing victory, whilst also sending his army of media mouthpieces onto CNBC, Bloomberg and Fox news hammering similar positive messages. In doing so the U.S. position is somewhat cornered.

Knowing this, at the 11th hour China seems to ask for ''just a little extra'' and the entire outcome collapses. This happened in May when China backed away from changing domestic laws around enforcement functions and seems to be happening again on a ''phase 1'' deal as China wants current tariffs rolled back, and future tariffs slated for December 15th avoided. It is very difficult to forecast how this will play out in the near term, other than to suggest we have volatility ahead around a binary outcome mid-month. JCB continues to believe that the entire process is governed by a ''no pain no progress'' mentality from Trump's side, and whilst U.S. equity markets remain high, the U.S. Federal Reserve is standing ready to support the weakening economy and Trump approval ratings are elevated, it is unlikely that material concessions will be made on the U.S. side. Trump is behaving increasingly erratic as impeachment process continues to build, and Trump may well need an enemy to fight against on behalf of the people come November 2020 elections. It looks like 2020 will continue to be dominated by further trade issues and tariffs.

Fund Review

For the month ending November, the CC JCB Global Bond Fund – Hedged Class (the Fund) returned -0.48% (after fees), outperforming the Barclays Global G7 Total Return Index Value Hedged AUD by 0.01%.

The Fund was overweight duration in US and German bonds in early November, and then took profit later in the month. In Europe, the Fund was underweight French bonds against German bonds to take advantage of seasonally wider spread towards year end.

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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 + 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.
Duration Contribution - 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.