Fund Update as at 31 December 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 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 $906 million

Fund Performance

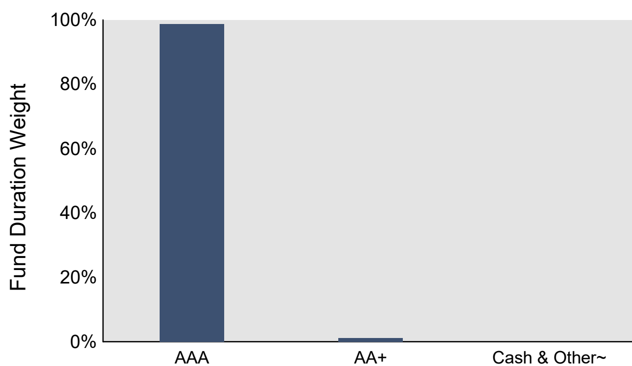
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	-2.10%	-2.07%	-0.03%
3 Months	-1.84%	-1.87%	0.03%
FYTD	0.30%	0.32%	-0.02%
1 Year	7.86%	7.84%	0.02%
3 Years p.a.	5.29%	5.46%	-0.17%
Inception p.a.	3.83%	3.66%	0.17%

Fund Overview

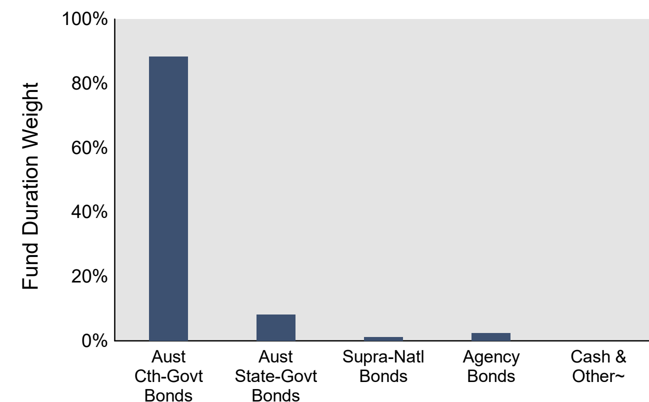
Characteristics***	Fund	Benchmark**
Modified Duration (yrs)	7.44	6.58
Yield to Maturity (%)	1.33	1.22
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	0.78	n/a

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	

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

Why you should care about an obscure funding market in 2020 as the US Federal Reserve has no plan how to 'normalise' a $400+ billion emergency program.

Has it really been 20 years since Y2K fears gripped global markets? To combat the turn of the century and fears around potential technology issues (as computers rolled from 1999 to 2000), the US Federal Reserve (the Fed) flooded markets with excess liquidity to help the plumbing of financial markets to the tune of $120 billion, which in the day was a very large amount – more so than the support it provided after September 11th terrorist attacks. This special lending facility ran from October 1999 through to April 2000, during which time some risk assets had an almost exponential rise in value. When the program ended in April 2000, the NASDAQ crashed 25% the following week.

This may be almost a story for the grandkids some 20 years later, but it matters because it highlights how difficult it has been for policy makers to extract themselves from markets. We have just experienced a significant, but obscure policy intervention again from the Fed that many investors have never heard of, but it is due to end in Q 2, 2020 and there are material parallels in recent market behaviours. So how did we get here?

When the Fed hinted in late 2018 that it was going to increase interest rates several more times in 2019, and the balance sheet reduction was on automatic pilot' in order to unwind the excess of multiple QE programs, the S &P 500 Index plunged almost 20% and recession fears became prevalent. This forced the Fed to flip in early 2019 to being 'patient' in response (code for the end of rate hikes and start of a possible cutting cycle) and risk markets took off and haven't really looked back. Ironically, until the middle of the year more than half of 2019 equity gains were delivered on two days, when Fed Chair Powell delivered material policy support, being January 4th (Fed is 'patient') and June 4th (the Fed will 'act as appropriate'), on both days equity markets gapped significantly higher. Whilst we did see multiple rate cuts starting in July 2019, the balance sheet reduction had continued, but by September 2019 markets had a mini seizure, with overnight repurchased funding rates (repo) blowing out to more than 10%.

This caused the Fed to immediately step into funding markets and launch a blistering program of support and balance sheet expansion. In doing so, it added more than $400+ billion USD to calm repo markets, with the focus being on the year end period due to heightened concerns around liquidity. The Fed's reaction to the disruption in repo markets shows how hard it will be for policy makers the world over to reverse their money printing. This policy is due to run until April, but as yet no communication has been delivered on how this might be wound down, or if it may extend. The Fed could let the repo program expire if it believes the risks to funding have subsided, or they could keep it running but add some flexibility by charging higher rates to access such a facility. Either course would essentially make the market end its liquidity fix, risking an abrupt turn in market sentiment. Alternatively, the Fed could hold its balance sheet steady or continue to add liquidity, providing risk markets with further tailwinds. You may not have heard of 'repo', but it is a critical piece in the jigsaw to watch in 2020.

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December bond market moves are significantly out of line with our Australian RBA view.

In many respects Australia seems out of sync with global economies (multi-year laggard) and may be suffering a mild but silent private sector recession.

Over 2019 the economy enjoyed three RBA interest rate cuts, significant tax cuts, status quo property and equity market investor policies (negative gearing and franking) and surging terms of trade, and yet the economy is just only limping forward, well below the RBA stated policy objectives. In fact, ex-Government expenditure private sector numbers look pretty woeful in Q3 GDP numbers, with equally weak numbers so far in Q4 partials data releases. Added to this is crippling drought conditions in much of the agricultural heartlands and material fire threats coming into summer. JCB believes the RBA will likely cut again in February 2020 and again by end of the first half of this year before our own Australian QE conversations start in the second half.

This makes the underperformance of Australian fixed income markets somewhat head scratching in December, and JCB believes there will be a material buying opportunity coming into a fresh investment year, one that still faces significant economic challenges and is likely to garner additional RBA policy support. No doubt poor year end liquidity and lack of risk appetite contributed to much of the December moves, helped along by an offshore momentum community looking for a quick profit. At the time of writing, around half of this move has already been reversed in the opening few days of 2020.

Fund Review

For the quarter ending December, the CC JCB Active Bond Fund - Class A units (the Fund) returned -1.84% (after fees), outperforming the Bloomberg AusBond Treasury (0+Yr) Index. Over the month, the Fund returned -2.10% (after fees), underperforming its benchmark by 0.03%.

The Fund finished the year with a draw down, following other bonds markets to slightly higher yields. Offshore momentum accounts used the lack of liquidity and low risk appetite of market participants to drive yields higher into the end of year. These moves are usually quickly self-correcting once market participation returns (at the time of writing January 8th more than half of the move has been recovered). JCB added material AUD rates risk for all portfolios into this move, as they believe the fundamentals remain poor in the Australian economy and the RBA will be required to deliver additional policy support early in the new year, hence JCB sees this cheapening as an attractive location to add additional risk.

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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