JCB

JAMIESON COOTE BONDS

Fund Update as at 31 March 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 $964 million

Fund Performance

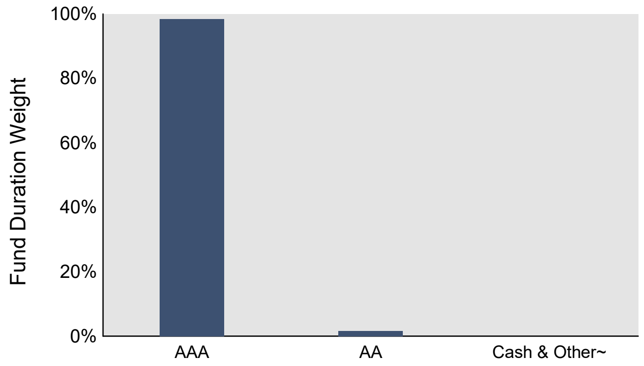
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	0.10%	0.23%	-0.13%
3 Months	4.07%	4.08%	-0.01%
FYTD	4.38%	4.42%	-0.04%
1 Year	8.11%	8.00%	0.11%
3 Years p.a.	6.09%	6.45%	-0.35%
Inception p.a.	4.70%	4.54%	0.16%

Fund Overview

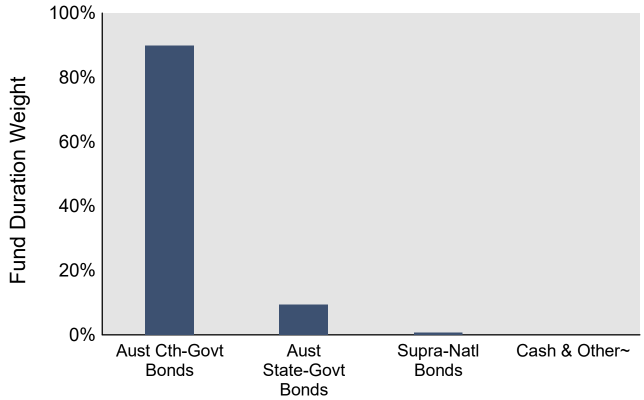
Characteristics***	Fund	Benchmark**
Modified Duration (yrs)	6.39	6.60
Yield to Maturity (%)	0.78	0.61
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	9.55	n/a

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

Phone: 1800 940 599
Email: distribution@channelcapital.com.au
Web: www.channelcapital.com.au

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.

JAMIESON COOTE BONDS

Fund Update as at 31 March 2020
CC JCB Active Bond Fund (APIR: CHN0005AU)

Market Review & Outlook

Could this be a global depression?

After talking to investors about Coronavirus for some time and noting a high level of complacency within financial markets, March has been an abrupt awakening to the realisation that this virus will vastly change our lives. 2020 is therefore certain to be a difficult year on all fronts. Isolation, health concerns, vulnerable family and friends, weak economy, job losses, home schooling…the list rolls on. Thankfully, in comparison to many other developed places, Australia is doing a good job of "flattening the curve", and as a people we should be thankful that our hospitals are currently functional and sick folks are still receiving treatment as required. Sadly, this isn't the case in Italy or New York.

How long we stay in this state remains, JCB says, a medical question, not an economic one, but almost certainly the self-isolation restrictions and shuttering of many businesses will have already caused a deep global recession to this point. Should they continue on for the remainder of the year as some estimate, JCB warns we could be looking at a global depression. JCB believes that we are making history in suspending economic activity in this manner. At the height of the GFC, the single largest jobless claims numbers in any given week was 665,000 in the United States, the engine room of the global economy. Last week the jobless claims number was 6,648,000 (10 times worse than the GFC), following on from 3,283,000 the week before. Ten million Americans jobless in a fortnight, and those numbers will almost certainly continue to rise. For this reason, JCB sees no ''V'' shaped recovery in any form. A mixture of ''U'' and "L'' is most likely, but it fears there has been such significant damage to the economy already that the pre-crisis highs cannot be recovered given the joblessness, the credit problems, the vast number of business that will simply never reopen.

Every day spent in isolation, travel and tourism is closed, restaurants and bars are empty, movie theatres, building sites are shut, wages are not earned, productivity is lost, it all compounds. Every day is that little bit longer, stretching the balance sheets or borrowing from the future. Mortgage interest holidays are not mortgage interest forgiven, they accrue and require repayment at a later date. JCB comments that we have simply never seen anything like this before.

Markets remained highly volatile in March

The optimists like to think that having now achieved a ''flattening of the curve'', the front door can be reopened and life can return to normal. Except, without a total eradication of the virus (vaccine or herd immunity) the virus will also re-enter day to day life, and we will only ever be as strong as our weakest link. As can be seen in South East Asia currently, there are significant secondary infections and a second curve that requires flattening. Singapore, a poster child of success in dealing with the initial threat of Coronavirus to date, has seen dramatic escalation of both traveller and community transmissions which has required a second highly draconian isolation phase. JCB's Singapore team has been working from home for the better part of two months now at request of the Government but the restrictions on day to day life are now growing.

Fund Update as at 31 March 2020
CC JCB Active Bond Fund (APIR: CHN0005AU)

For those reasons JCB expects all markets to remain in a higher volatility state, with plenty of significant counter trend rallies. If you are a speculator, there is likely tradable volatility ahead. For long term investors, deep consideration of the future state of economies and markets is required. Recency bias suggests buying the dip in risk, but what can be expected of the economy if we move through the peak of the virus only to fall into a rolling series of stop/starts in our economy? That requires a lot of thought. In JCB's opinion this cannot be 'V' shaped now (your opinion may differ strongly here) ''U and L'' are often discussed in media, but an 'I' shape is also possible, where markets cannot recover for a long period. Japan's Nikkei stock index went from circa 39,000 to 15,000 and stayed around that level for two decades. Even in the euphoria of the last few years it has never risen above 25,000 again, with most of that time since spent below 20,000, essentially half of its prior peak. 30 years later those lofty levels have never been seen again after its own bust in early 1990's.

To answer the questions of where this all lands, we need to know when the virus will peak, when will a vaccine be available or when can herd immunity allow for the resumption of normal day to day life. None of us can answer that right now, but every day in a compounding world of credit pain and forced bankruptcy, quality matters greatly. Find the solutions to the virus, and we can collectively work out which letter the future investing environment may bring.

In times of market stress, liquidity and quality matters

JCB has have long urged investors to consider asset quality in each allocation bucket, and plan or scenario model the inter-relationships between asset holdings. Building truly fortified portfolios requires quality and liquidity. Low quality and illiquid assets will remain highly problematic for a significant time, and JCB does not believe they are being marked anywhere near their realisable values. The vast increase in many sell spreads from some competitors highlights just how far they believe the funds are incorrectly valued from a realisable valuation point. Caveat emptor: let the buyer beware.

Fund Review

For the quarter ending March, the CC JCB Active Bond Fund - Class A units (the Fund) returned 4.07% (after fees), underperforming the Bloomberg AusBond Treasury (0+Yr) Index. Over the month, the Fund returned 0.10% (after fees), underperforming its benchmark by 0.13%.

The Fund commenced the month with a slight overweight bias which was expressed mainly in the 5yr and 20yr sector of the ACGB curve. JCB were acutely aware of the implications of the virus on the global fixed income market and as a result reduced semi-government and supra holdings at the start of the month which protected the Fund from the ensuing credit widening carnage that took place. Following the historic RBA meeting where bond buybacks and a 3yr yield target were announced the Fund traded with a flattening bias which was additive to the Fund into month end. Through the month the Fund traded with a defensive posture, which provided a slight underperformance against the index, given the magnitude of the financial market moves and as the RBA embarked on a new paradigm of accommodative policy.

<u>Definition of Terms:</u>

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.

JAMIESON COOTE BONDS

Fund Update as at 31 March 2020
CC JCB Active Bond Fund (APIR: CHN0005AU)