JCB

JAMIESON COOTE BONDS

Fund Update as at 31 May 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 $1056 million

Fund Performance

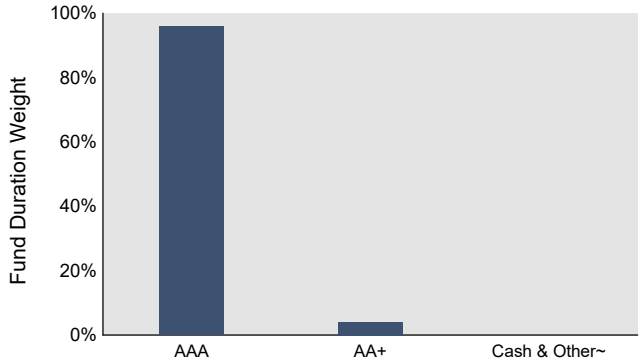
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	0.24%	0.09%	0.14%
3 Months	0.06%	-0.10%	0.16%
FYTD	4.33%	4.07%	0.26%
1 Year	5.59%	5.23%	0.36%
3 Years p.a.	5.53%	5.57%	-0.04%
Inception p.a.	4.48%	4.24%	0.23%

Fund Overview

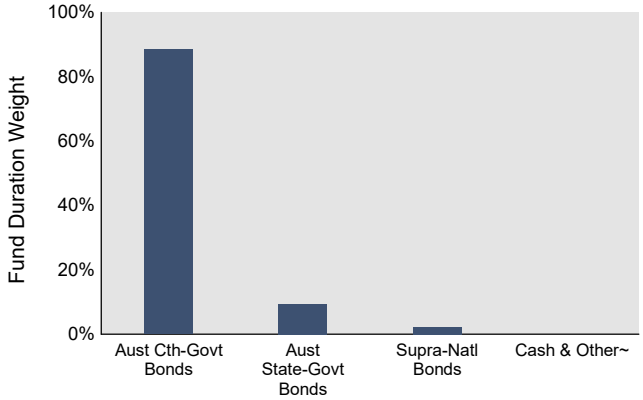
Characteristics***	Fund	Benchmark**
Modified Duration (yrs)	7.02	6.67
Yield to Maturity (%)	0.84	0.67
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	0.68	n/a

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

History tells bond markets not to buy into this financial optimism

May is a salient reminder that financial markets are made up of fundamentals, technicals and increasingly, liquidity. The amazing performance of risk assets during May is wildly out of line with the fundamentals, as economic growth will remain very poor with high levels of both domestic and global unemployment. Markets had been positioned on the cautious side coming out of the brutal volatility of March, acknowledging this material fundamental decay, but the huge liquidity injections from Central Bankers and Governments has triggered a momentum based rally in risk assets with little pullback leaving the fundamental economy a long way from current market pricing.

Risk markets have conquered all in their stride, dismissing tensions in the US-China relationship and further economic weakness in data and unemployment numbers. Bond markets are not buying into this financial optimism, having long memories of prior bear market rallies. After the initial sell-off in equity markets in early 2008, the market rallied most of the way back over a three month period before falling away again later that year.

Tough times ahead for the economy

The GFC period is worth considering, because the 2008 economy of the US was 96% of the 2007 economy, but that 4% swing triggered the deepest recession since the 1930's depression. 2020 will very likely be far worse for many economies than -4% of 2019, but the credit cycle takes significant time to complete.

The widely followed GDP now tracker from the Federal Reserve Bank of Atlanta suggests Q2 GDP is -53.8%! Clearly as the economy re-opens the growth rates from such low numbers will be powerfully positive, but we are unlikely to get anywhere near 2019 growth levels for quite some time yet. The generous Government programs designed to bridge the cashflow gaps (domestically Job Keeper and Job Seeker) will delay the economic pain of much higher unemployment, combined with moratorium on mortgage payments etc. The Government has already committed to wind down these programs, suggesting later in the year the reality of the fundamentals may be more evident. Amazingly in this crisis, officials have moved the bar on many financial and social issues faster than anyone could imagine the bar could ever hope to be raised or lowered. The Universal Basic Income and Modern Monetary Theory crowds have pushed for these types of social programs previously, with little acknowledgement from capitalist systems. Both of these are essentially now in full operation, once this ground is won or lost (depending on your politics), can it be easily retaken? History suggests that these programs are hard to put back in the box, just look at QE from the GFC which has been with us every day since, despite 10 years of economic recovery.

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When faced with COVID-19 economic closures and economic destruction on such a grand scale, many unelected Central Bank officials have committed trillions of dollars for the benefit of markets with little social discussion about how that might occur and who should ultimately benefit. For now, it seems Wall Street has been the major beneficiary, whilst Main Street has been left behind again. The US Federal Reserve and global Governments' response has reflated asset markets for the benefit of the few, but for the people, it is essentially a ''let them eat QE'' moment at a time when one in four Americans are reported to be skipping meals or relying on food donations during the COVID-19 closures. The potential flashpoints are so obvious. These are dangerous developments which can have far reaching economic and political consequences, driving the social divide further apart and fuelling extreme politics. The race riots and violence we are seeing around the world were triggered by race crimes, but a number of these issues are flaring here, in part fuelled by 42 million Americans who have become unemployed and let down by the system as a result of COVID-19. With the US election approaching in November, expect both sides of politics to manipulate this to their political advantage.

Fund Review

For the month ending May, the CC JCB Active Bond Fund - Class A units (the Fund) returned 0.24% (after fees), outperforming the Bloomberg AusBond Treasury (0+Yr) Index.

The Fund enjoyed a strong month with a handsome outperformance of the index despite the benign range in 10 year yields with global bond markets enjoying some respite from the wild moves in asset markets earlier in the year. The Australian bond market remained very robust despite the strong risk rally, limited RBA bond buying and a plethora of issuance. The Fund participated in the record-breaking syndication of a new December 2030 bond – where there was a total of $53.5 of bids – demonstrating the demand from global and offshore investors. Participation in this issue, and some accumulation of intermediate semi-government paper into month end were the key drivers of alpha for the month of May. JCB remain sceptical of the parabolic risk rally and disconnect from the economic data and will look to tactically add duration on any corrections as the bond market still remains statistically cheap with cash fund rates locked in at 0.25 and the RBA also a committed buyer on weakness.

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.