



JAMIESON COOTE BONDS

## Fund Update as at 30 June 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 <sup>^</sup>	3 August 2016
Benchmark	Bloomberg AusBond Treasury (0+Yr) Index
Management Fee <sup>#</sup>	0.45% p.a.
Administration Fee <sup>#</sup>	0.10% p.a.
Buy / Sell Spread	0.05% / 0.05%
Distributions	Semi-annual
Fund Size <sup>*</sup>	AUD \$1112 million

#### Fund Performance

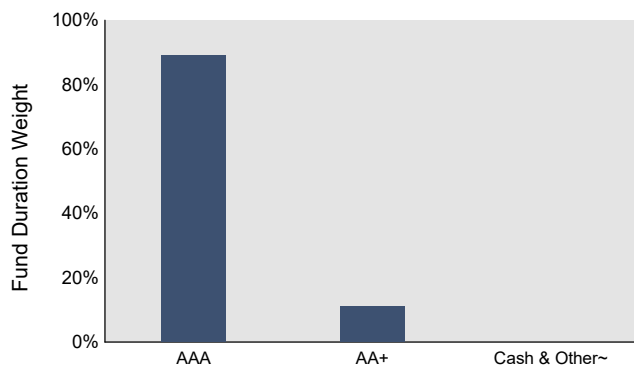
Returns (After fees)	Fund <sup>*</sup>	Benchmark <sup>**</sup>	Excess
1 Month	0.19%	0.11%	0.08%
3 Months	0.15%	-0.23%	0.37%
FYTD	4.53%	4.18%	0.35%
1 Year	4.53%	4.18%	0.35%
3 Years p.a.	5.92%	5.99%	-0.07%
Inception p.a.	4.44%	4.18%	0.25%

#### Fund Overview

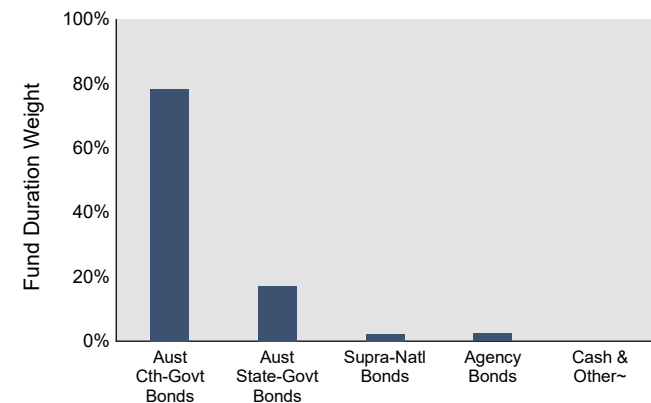
Characteristics <sup>***</sup>	Fund	Benchmark <sup>**</sup>
Modified Duration (yrs)	6.64	6.67
Yield to Maturity (%)	0.81	0.67
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	0.74	n/a

Source: JamiesonCooteBonds Pty Ltd.

#### Asset Allocation by Credit Rating (Duration Weight)<sup>\*\*\*</sup>



#### Asset Allocation by Sector (Duration Weight)<sup>\*\*\*</sup>



#### Platform Availability

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. Individual Investor level taxes are not taken into account when calculating returns. 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

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##### **Mid-year review of the economy and markets - a year of expecting the unexpected**

Reading the kids' half year school reports is a salient reminder how far we have collectively come so far in 2020. The little ones have adapted quickly to the upheaval of lockdown and home learning, and in many respects, markets have also learned to adapt quickly to life with Covid induced Central Bank liquidity.

Change has been rapid in 2020, with Covid being the obvious accelerant, speeding up the inevitable. Some of this has been positive. Technological uptake has jumped years forward with Zoom, Teams and Facetime meetings our new normal, providing more time avoiding long commutes and creating a better work/life balance for those lucky folks who can work from home. Generally, however, this speed of progress can be destructive and destabilising in a system based on order and status quo, where the masses are placated by prosperity (even if that prosperity is falling in real terms in the western world. Governments hope that if it happens slowly, the masses don't notice). These changes are moving the West to a more chaotic world. Covid is ripping back the band aid of stable prosperous lives, where political change happens faster and is more polarised as the injustice of the virus responses drives bitter resentment. The anger is fermenting daily, bubbling like a cauldron with obvious physical flashpoints in the streets, but also in written opinions and social media.

A world with Covid as the accelerant brings weak companies to the ground of insolvency driving structural unemployment, further driving the wealth divide, feeding the negative spiral feedback loop of injustice. Geo-political tensions escalate and strain faster and sadly for 500,000 global citizens, their lives have been abruptly ended from this evil virus.

##### **Predicting the unpredictable**

JCB has compiled a set of bold predictions and possibilities for the second half of 2020 that continues the theme of 2020 as a year of expecting the unexpected.

##### **Negative Scenarios**

Trump refuses to acknowledge the election result claiming 'post in' electoral mail fraud and surrounds himself with loyal generals inside the White House. Not only does Biden win the White House, but the Democrats take control of the Senate as well as the House – markets anticipate that Trump's personal and company income tax cuts, and at least some of his deregulation, will be reversed.

The \$700 billion Collateralised Loan Obligations (CLO) market finally comes unstuck amidst the solvency pressures permeating with the surge in solvencies and a too big to fail bank/asset manager goes to the edge of bankruptcy.

North Korea, the Russians and/or the Chinese do something to 'test' Biden's/Trump's resolve (North Korea steps up its aggressive set up with missile firing, Russia invades the Ukraine again, or China does something in either Hong Kong or Taiwan).

Australia lifts restrictions on international travel from 1 July next year, but cuts the immigration intake for 2021-22 to 100,000.

##### **Positive Scenarios**

A vaccine is produced surprisingly early, and risk assets explode to the upside and central banks are caught offside with too longer pre-set policy of low rate positioning. Renewed push for global climate deal to capitalise on "gains" made due to industrial shutdown.

Brexit gets completed earlier than expected and is a seamless transition for all parties.

The European Recovery Fund is wholeheartedly embraced by the Frugal Four (Netherlands, Sweden, Denmark and Austria), kickstarting the European economy.

The Australian economy and the property market benefit from the flight-to-quality destination as it becomes a sanctuary for expatriates and a domestic tourism boom as the global pandemic persists.



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#### **Mid-year report - reviewing - core themes and secular framework**

The investment team at JCB conducts a series of scenario analysis outcomes for markets looking forward over multiple time frames which are shared in various forms such as monthly market and performance update videos and historical performance commentaries. The investment team continues to believe the economy operates below its potential, caught in a low growth trap due to high historical debt levels. This constrains the economy via "escape velocity" inside the cycle, as economic recoveries lead to higher interest rates which choke off the economic recovery due to high indebtedness and increase in funding costs. The overarching secular theme running through this is disinflation, which has been fostered by a number of significant global factors including demographics, technology, robotics, automation and lack of unionisation and of course globalisation itself.

2020 has not been an easy year to manage so far, and no doubt it will have plenty of twists and turns yet, but JCB suggests that its broad framework has remained on track into the Covid extremes of March. Clearly Covid has accelerated JCB's longer term thinking - that many economies would have little choice but to continue to cut rates and provide continued monetary support to maintain the status quo.

For JCB, the best case scenario for global growth in 2020 ahead of Covid was tepid growth, a far cry from the reflationist and high growth narrative that was popular in some market circles into late 2019. JCB felt these moves were an optimistic over reaction to the announced Trade deal between US/China that was unlikely to deliver anything of economic substance, but did however provide both Trump and Xi with the necessary photo opportunities required for their own domestic political purposes. Instead JCB believed the combined US Federal Reserve (US Fed) hiking cycle of 2016 to 2018 was still feeding through into economic activity with a drag (traditional monetary policy operates with a 12-18 month delay) and it was likely the economy would struggle to foster higher growth as a result.

The data now shows that the US likely entered recession in February 2020, but that will never matter, it will always be that Covid killed the expansion and collapsed the economy as we know it. Much debate continues about what the economy may look like going forward. Certainly, in the near term until either a vaccine or herd immunity is reached, we know the economy will be highly constrained, operating as a shadow of its former self. A 2008 economy at 96% of 2007 was enough to crush credit markets and send off a death spiral of loan delinquency. This is far, far worse. In the US Fed's Chairman Powell's own words, "the path forward is extraordinarily uncertain."

#### **Diversification warranted. Liquidity and asset quality remain paramount**

Another year as a specialist bond manager, and another year of commentary from many Australian investors and the naysayers, that there is no useful purpose in defending and protecting portfolios.. JCB believes that secular forces are accelerating and could generate a crescendo at some future point, but in the near term, portfolio diversification remains warranted and asset quality and liquidity will always matter.

Common across the longer-term and nearer-term considerations is that high grade sovereign bonds will continue to add value to portfolios by driving diversification in the most liquid, high grade form. The reality is that even with low yields pervading the world, high grade sovereign bonds still remain a strong protector and defender of portfolios. This is not just an assertion (or, put another way, this is not a prediction, but an observation): there is real market evidence to more than support this hypothesis that high grade sovereign bonds have performed this role. For more than twenty-five years in Japan, cash rates have been 0.50% or lower, and cash rates similarly in Europe – across key developed markets such as Switzerland, Germany, Sweden and Denmark – have been low to negative since 2012. In environments of low yields, local treasury bond markets have provided solid accretive returns partnered with continued muted volatility. In environments of low yields, local treasury bond markets have provided solid accretive returns partnered with continued muted volatility, for example Japanese sovereign bonds returned 3.6% with volatility of 2.2% from January 2016 to present, and German sovereign bonds have delivered 20% with volatility of 3.8% from July 2012 to present (based on data from Bloomberg).



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As far as correlations are concerned, high grade sovereign bonds have retained their diversifying qualities against key risk assets on a rolling three year basis. Correlations for this defensive exposure have not “gone to one” and are, in fact, a long way from that place. This supports the idea that high grade sovereign bonds can help fortify portfolios. The focus by many multi-asset investors purely on a return maximisation without due focus on risk management in an increasingly stretched environment which defies fundamentals, laced with uncertainty, can be dangerous.

### Fund Review

For the quarter ending June, the CC JCB Active Bond Fund - Class A units (the Fund) returned 0.15% (after fees), outperforming the Bloomberg AusBond Treasury (0+Yr) Index by 0.37%. Over the month, the Fund returned 0.19% (after fees), outperforming its benchmark by 0.08%.

The Fund closed out the financial year with another respectable outperformance of the index for the month of June. The bond market commenced the month escaping its tight ranges with momentum sellers forcing the Australian 10yr above 1% as the ECB unveiled an expanded asset purchase programme and the U.S. employment report surprised massively to the upside giving risk sentiment a boost. The foray lower in bond prices was short lived as the market rebounded following equities experiencing a 5.9% fall in a day providing a salient reminder that the fixed income dips will be shallow in the foreseeable future as short ends remain anchored and the uncertainties from the pandemic linger. The Fund benefitted from tactically playing the ranges and increasing its exposure in the intermediate tenors of the semi-government curve as well as reducing some exposure in the longer end of the government curve. Into month end the Fund added Supra exposure which provided an additional source of alpha. The Fund will continue to hold positions in the intermediate sector of the semi curve going forward in a belief that curve should steepen under the weight of longer end semi issuance and is looking to add government bond duration on any pullbacks given the positive July-August seasonals and as the lagged effects of the pandemic start to intensify.

#### 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), as a percentage of overall portfolio duration. 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

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