JCB

JAMIESON COOTE BONDS

Fund Update as at 31 July 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 $1129 million

Fund Performance

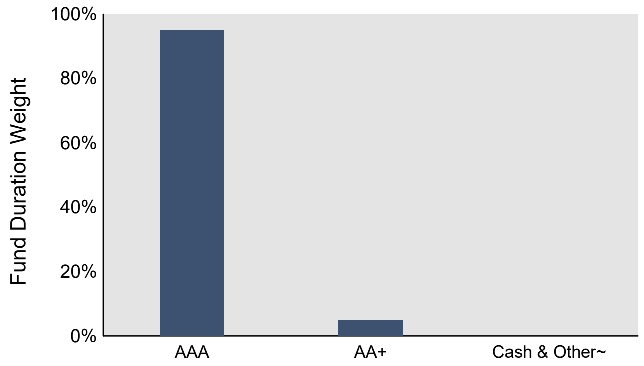
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	0.55%	0.32%	0.23%
3 Months	0.99%	0.53%	0.46%
FYTD	0.55%	0.32%	0.23%
1 Year	4.11%	3.53%	0.59%
3 Years p.a.	6.04%	6.06%	-0.02%
Inception p.a.	4.48%	4.18%	0.31%

Fund Overview

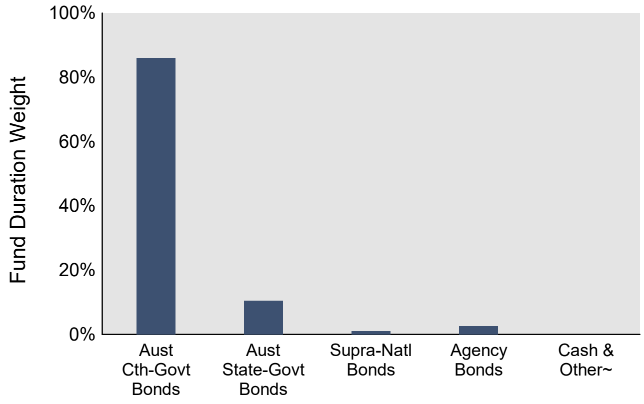
Characteristics***	Fund	Benchmark**
Modified Duration (yrs)	7.21	6.61
Yield to Maturity (%)	0.82	0.64
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	0.68	n/a

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. 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

The credit cycle is slow, up the staircase down the firepole

Ground hog day continued in markets over July, with many countries experiencing stop, start, stop outcomes on Covid-19 progress. Countries that are targeting suppression strategies will find this is likely to be the new normal until a vaccine can be fully tested and widely dispersed amongst its citizens, meaning we will stay in a 90% to 95% economy for a prolonged period where so many pre Covid-19 norms will be a dream (travel, holidays, restaurant meals, free movement etc). Sadly, for Australia, the Victorian outbreak and lack of containment thereafter will derail the Australian economy again in Q3, adding a significant drag to the rebound from a dire Q2 when the country was under collective shutdown.

Markets have taken all of this in their collective stride, enjoying the endless support of Government action via fiscal programs and Central Bankers who remain determined to bridge the cashflow gaps where possible, until such a health solution can be delivered. This generosity is necessary, and, combined with temporary suspension of director liability for insolvent trading and loan repayment holidays, is holding the economy from the far darker outcomes which would prevail with the economic realities of the day. We continue to believe that a major insolvency period cannot be avoided, although the realisation will be delayed by further disaster relief funding. These programs are not endless, making a significant day of reckoning at some point in the future which will likely deliver substantial negative feedback loops for many asset markets, employment and economic activity.

September 25th is currently listed as the date when the Coronavirus Economic Response Package Omnibus Act is due to no longer allow 'safe harbour' on two critical pieces of the capitalist system - allowing company directors to trade whilst insolvent, and statutory demands for payment can no longer be ignored. These measures will likely be extended as the Victorian second wave has swung a wrecking ball through any fragile recovery in the economy .

The credit cycle takes a long time to complete. If people stopped paying their mortgage at the start of the year, they are likely still sleeping under the same roof. No doubt the letters from the bank are getting more confrontational, but the actual timing of a forced realisation (mortgagee sale) drags on and on. Don't forget that old saying of 'How did you go broke?' Answer: 'Slowly, then really really quickly.' After the GFC insolvencies didn't peak until 2012. Business owners will try and hang on as long as possible, but the 90% to 95% economy will not sustain a leveraged system. Sadly, the worst is yet to come further down the road. In some asset classes, the firepole moment must occur. It is just a matter of time.

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Jamieson Coote Bonds

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Cheap and steep: We aren't predicting it, we are observing it

It is a rare occurrence that investors might discuss domestic equities without considering the movement of international markets, and yet we are still amazed that many folks in Australia speak strongly about domestic bond valuations with little regard for the bigger offshore bond markets. Many point out that Australian bonds have never been more expensive, which is absolutely true, but tells us little about future performance expectations in a world where cash rates are essentially zero, and many other bond markets are far lower in yield. Bonds have had lower incomes for some time now, but they still play a critical portfolio role of providing negative correlation with true liquidity, and have the potential to still generate powerful performance on capital gains (plus alpha from active management).

Statistically, Australian Government bonds are on the cheap side of fair value versus the cash rate, which is actually quite extraordinary given the depths of the recession we are currently experiencing. With yields on Australian Bonds substantially more than many other markets, plus a steep term structure curve, it is little wonder that Australian Bonds are drawing enormous demand from offshore investors. Recently the Australian Office for Financial Management (AOFM) issued bonds in a syndicated deal which has drawn exceptional support from investors, with many of the order books being in excess of $50 billion dollars, seeing significant demand go unsatisfied as the AOFM has printed small transactions. The recent new 30 year Australian Government bond saw an order book of $35 billion, with a final deal size being only $15 billion. Importantly, international investors took around two thirds of the deal, highlighting the appeal of our local bonds to foreign asset owners. At a yield of 1.94% at new issue, it is no surprise such support was evident, when the only other AAA rated 30 year bonds available to global investors include Canada at 0.94% or Germany at a yield of -0.11%. Australia remains cheap and steep which is also amazing given its superior credit rating to many other markets.

Fund Review

For the month ending July, the CC JCB Active Bond Fund - Class A units (the Fund) returned 0.55% (after fees), outperforming the Bloomberg AusBond Treasury (0+Yr) Index.

Early in the month JCB viewed the environment as range bound, although favouring a move to lower yields for Australian rates which continue to trade significantly cheaper than Global peers. Australia also enjoys a much steeper term structure which is also highly appealing for global bond investors. Economic uncertainty surrounding a second wave of COVID-19 infections in Victoria saw semi-government bonds underperform during July. JCB used this cheapening to add TCV (Victorian) risk in the middle of TCV curve in anticipation of the lockdown flattening the Victorian virus curve. These bonds did perform strongly after the snap widening, however the Victorian efforts to curtail the virus did not. The investment thesis was incorrect on virus outcomes and JCB's risk management deemed this position required exiting, so JCB exited this risk locking in the gains and used the proceeds to add ACGB and a small WATC exposure.

Late in the month JCB participated in the new ACGB 2051 syndication. JCB set up the Fund to be underweight AUD rates with curve steepening into this supply which was felt would garner a cross market and curve concession. The position enjoyed strong performance both outright and on the curve post issuance. JCB continues to see this point as cheap on global curves, although are mindful of potential poor liquidity once the syndicate support for the sector subsides in the coming weeks.

Looking ahead JCB favours further decline in yields over the northern summer holiday period, historically a time of strong performance for bonds assets.

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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 - 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