JCB

JAMIESON COOTE BONDS

Fund Update as at 31 August 2020
CC JCB Dynamic Alpha Fund (APIR: CHN8607AU)

Fund Benefits

Active Management

The CC JCB Dynamic Alpha Fund is designed as an absolute return product, that aims to deliver stable and consistent returns over time - regardless of share and bond market movements. JCB applies a range of hand-picked risk-controlled investment strategies to a universe of global high grade sovereign bonds (i.e. anchored by G7 nations, as well as Australia). It offers a high level of liquidity in Government issued instruments, without corporate credit exposure.

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
Portfolio Manager	Charles Jamieson & Chris Manuell CMT
Style	Global absolute return bond fund - concentrating on actively managing global high grade sovereign bonds
Objective	Outperform the RBA Cash Rate by 2.50% p.a. (after fees) over rolling 3 year periods.
Inception Date^	30 December 2019
Index	RBA Cash Rate Total Return Index
Management Fee#	0.58% p.a.
Administration Fee#	0.10% p.a.
Buy / Sell Spread	0.05% / 0.05%
Distributions	Semi-annual
Fund Size+	AUD $29 million

Fund Performance

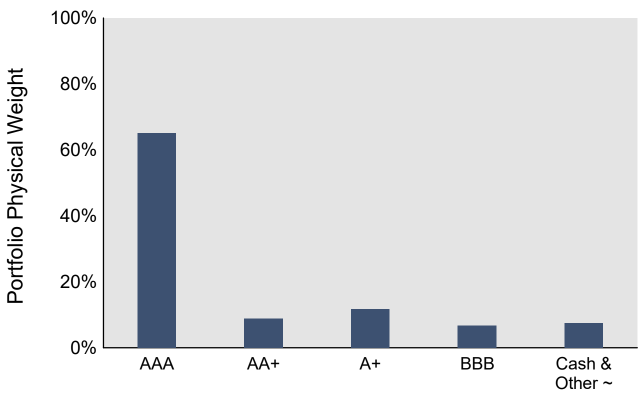
Returns (After fees)	Fund*	Index**	Excess
1 Month	0.05%	0.01%	0.04%
3 Months	0.83%	0.03%	0.80%
FYTD	0.68%	0.02%	0.66%
1 Year	-	-	-
2 Years p.a.	-	-	-
Inception	4.02%	0.22%	3.80%

Fund Overview

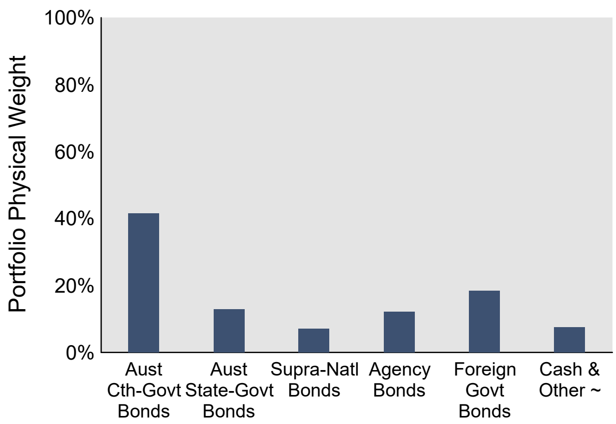
Characteristics	Fund
Modified Duration (yrs)	1.33
Yield to Maturity (%)	0.04
Weighted Ave. Credit Rating	AA+

Source: JamiesonCooteBonds Pty Ltd.
See Definition of Terms.

Asset Allocation by Credit Rating (Physical Weight)



Asset Allocation by Sector (Physical Weight)



Platform Availabilty

Ausmaq	Aust Money Market	HUB24 IDPS
Mason Stevens	Netwealth IDPS	Powerwrap

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 Dynamic Alpha Fund ARSN 637 628 918. * Performance is for the CC JCB Dynamic Alpha Fund (APIR: CHN8607AU), 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. ** Index refers to the RBA Cash Rate Total Return Index.

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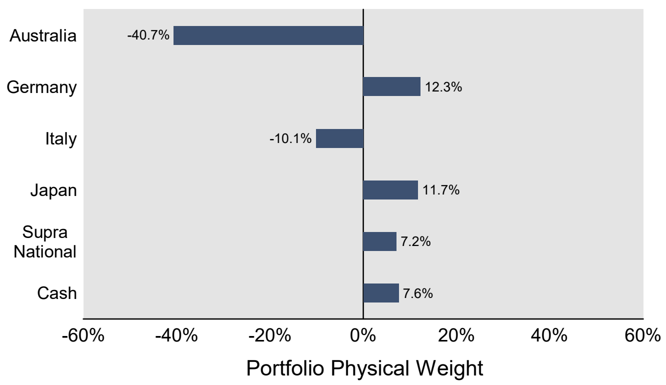
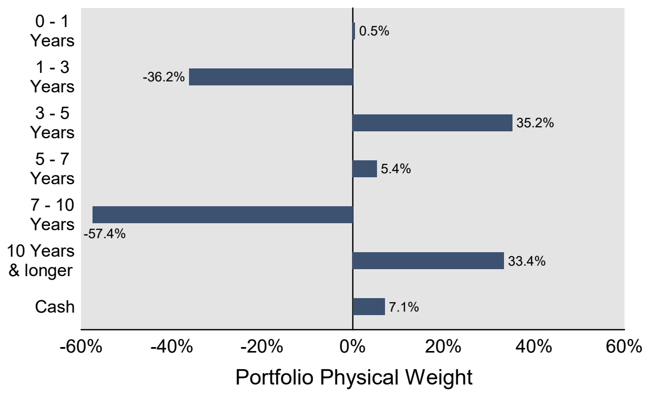
Asset Allocation by Country (Physical Weight)*

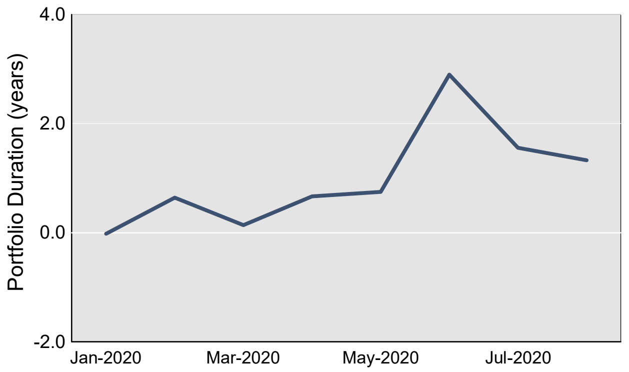


Asset Allocation by Duration Band (Physical Weight)*



*Asset allocation totals (Country and Duration Band) are the net position of physical bond and bond futures exposure and will be positive or negative depending on the portfolio positioning as selected by JCB.

Historic Portfolio Duration



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Fund Review

For the month ending August, the CC JCB Dynamic Alpha Fund (the Fund) returned 0.05% (after fees), outperforming the RBA Cash Rate of 0.01%.

The global sovereign rates markets started the month in bullish fashion as the gridlock in Capitol Hill with regards to further U.S. stimulus and geopolitical concerns between U.S. & China over the TikTok controversy allowed US 10-year yields to close at its lowest yield level for the year. Real yields also continued to push lower which was also expressed in the gold market as the precious metal recorded all-time highs early in the month.

The Fund actively exploited the pickup in bond volatility to benefit from navigating the ranges of the US and German bond markets.

The portfolio encountered a drag in performance into month end following the Nov 2031 syndication as global rates were caught offside following the Jackson Hole Economic Policy Symposium after the U.S. Federal Reserve Board unveiled a change to its monetary policy framework where they will target an average annual rate of inflation of 2%. JCB were cognisant that this was another episodic positioning unwind scenario driven by the CTA community, however, maintained its risk management process and unwound some long duration positions on a break of the 1.00% level in Australian 10yr and as the impending larger September issuance calendar approached.

Going forward the portfolio will look to lighten its exposure in the long end and trim EFP positionings into the SFE quarterly rolls as well as exploiting differentials in the global yield curves which will start to diverge under different issuance profiles. Tactically the portfolio will look to take advantage of any overshoots in price action as volatility picks up with the Northern Hemisphere summer winding down and the historical turning points evident in the September SFE quarterly futures roll. JCB still maintain the bullish secular forces underpinning the global bond markets will remain, although anticipate greater volatility into year-end given the performance of risk markets, the heavy September supply issuance, the U.S. election and the potential for further lockdowns in a Covid world.

Market Review & Outlook

The high demand for Australian Government Bonds continues

Markets performed strongly in August with risk assets enjoying continued healthy returns. Inside of this, pockets of the equity market enjoyed insatiable demand around technology, in a narrow but almost exponential rally. Fixed income valuations slipped back on heavy Government bond supply late in the month, maintaining a broad negative correlation to risk market performance. Australia issued a new 10 year bond in a Australian Commonwealth Government Bond (ACGB) 1% of November 2031 maturity which drew a record A$66 billion order book, with only A$21 billion being satisfied at new issue and leaving a staggering A$45 billion of demand unsatisfied. This followed the new Australian 30 year bond issued earlier in July which also had significant demand and had to turn away A$36.8 billion orderbook with only a A$15 billion transaction. With central banks around the world further committing to ‘lower for longer’ interest rate policies, these supply concessions should continue to be well supported moving forward.

Will more policy action lead to inflation?

Late in the month the US Federal Reserve (the Fed) increased its commitment to a low rate policy having changed the goal posts on its own inflation mandate, now targeting an average inflation rate over time. "Average Inflation Targeting" implies the Fed will keep interest rates on hold for years, and indeed the near-term outcomes are likely to be severe. No doubt a lot of commentary will be penned about how this is ‘’inflationary’’ in the medium term.. Sadly, the Fed’s own personal consumption expenditures price index (PCE) targets have been infrequently delivered, in a world which enjoyed much higher structural inflation, let alone the newer secular forces driving disinflation currently (such as debt loads, demographics, zombie corporations, technology, robotics, automation, lack of unionisation, and of course globalisation). One of the best quotes JCB has seen recently is “2020 is the year to be short humans and long AI/Tech". Looking at equity performance, the bigger your work force, generally the weaker your equity price in 2020. Covid-19 has only accelerating parts of this disruption. Given the slack in economies from substantially higher unemployment, it is hard to pinpoint where the inflation pulse will emanate in the short to medium term.

Dallas Fed President Robert Kaplan was also in the media suggesting inflation could rise to 2.25% to 2.375% without a change in policy. Assuming a 6-month average of Core PCE (a measure of the prices paid by people for domestic purchases of goods and services, excluding the prices of food and energy, the Fed prefers PCE over CPI) of 2.25% to 2.375% has occurred only once in the last 26 years, which was 2006/2007.

What about 2.5% inflation? It has been 28-years since core PCE reached 2.5% (1993). Structural inflation pressures were far greater back in these times. To suggest that changing the goal posts will do anything to change short to mid run inflation seems a very long bow indeed.

Given these numbers, and the anchoring of funding rates, JCB believes it will take years and years for inflation (PCE, headline or Core) to reach some level above 2% and even entertain the Feds newfound flexibilities. With the insolvency phase of the crisis still ahead (assuming we wind down the generous disaster relief funding programs over balance of 2020) we are more likely to have further deflationary forces at work, adding to the secular slow burning forces that continue to drive inflation outcomes lower.

This US election result set to be more meaningful for markets

Looking ahead to September, JCB continues to monitor a possible second wave of Covid-19 cases currently growing quickly in Europe, however, the major focus of markets – exhausted by Covid-19 news headlines – will turn to the US election news flow and debate as we are now within 60 days to the US election. Polls continue to favour Biden, which historically would suggest the Democrats will also take the Senate, giving them sweeping powers in Washington to repeal the Trump administration tax cuts and re-instate a higher regulatory environment cut by the Trump administration. The polls are tightening quickly however, with Trump gaining ground in the last few weeks. JCB believes the US election will be a tightly fought contest, it is worth noting the seemingly strong correlation between Trump's approval ratings and the recent performance of the US dollar .

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.