JCB

JAMIESON COOTE BONDS

Fund Update as at 30 November 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 $1215 million

Fund Performance

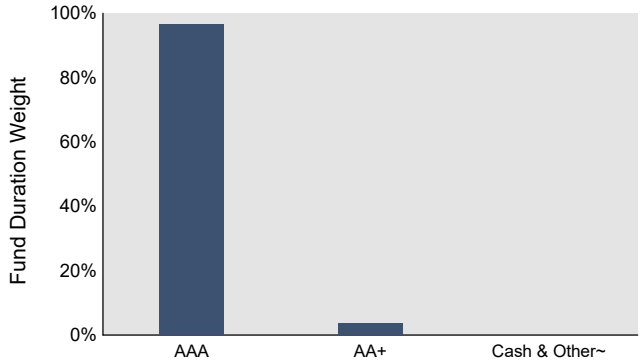
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	-0.36%	-0.33%	-0.03%
3 Months	1.03%	1.06%	-0.03%
FYTD	0.74%	0.57%	0.17%
1 Year	2.78%	2.27%	0.50%
3 Years p.a.	5.50%	5.52%	-0.02%
Inception p.a.	4.17%	3.91%	0.27%

Fund Overview

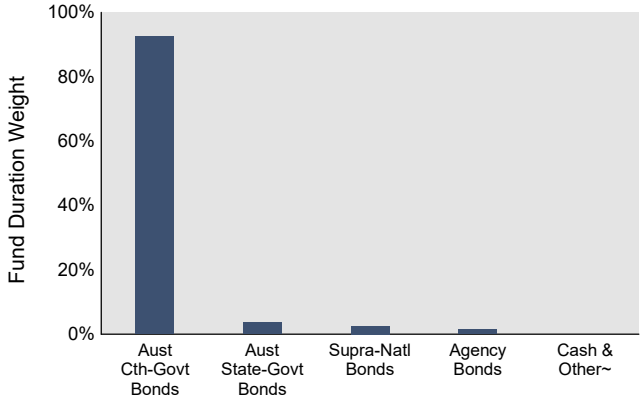
Characteristics***	Fund	Benchmark**
Modified Duration (yrs)	6.92	6.91
Yield to Maturity (%)	0.77	0.60
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	0.85	n/a

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	Xplore Wealth

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

November market review

After all the anticipation of the US election, November's result delivered many twists and turns capturing the market's attention in the early part of the month. Initially a possible Trump victory saw an unwinding of the ''Blue Wave'' expectations – a term describing an all Democratic White House and Congress which could pass sweeping and generous stimulus programs requiring large amounts of US Government Bond issuance (leading to higher yields to encourage demand). As vote counting continued, Biden claimed the victory, but with a likely Republican Senate, although the final result requires a ''run off' of two Georgia Senate seats to be conducted on 5 January 2021, which are expected to remain in firm Republican Control. This is important as it will crimp the Biden administration, delivering a ''lame duck'' president and all but guarantees the US Federal Reserve (the Fed) will maintain its central role as the driver of asset market performance, charged with keeping assets markets elevated. This likely leads to an environment known as ''financial repression'' where interest rates remain very low, hurting savers and conservative investors. It encourages risk seeking for return and embarks on a ''hunt for yield'', as asset incomes are low. This should keep credit spreads tight, despite growing insolvencies. It should also diminish much of the natural volatility which in turn is supportive for risk markets.

The announcement of a number of Covid-19 vaccines is welcome news for humanity, as was greeted with joy by investors who can now build a pathway to a sustained economic recovery in a post Covid-19 world. This further encourages politicians to 'lockdown' populations in the near term to buy time until the most vulnerable can be vaccinated into 2021. This will continue to see much of the incoming economic data remaining very volatile and JCB expects markets to look through many data points, similar to much of the first half period.

Don't fight Central Bankers

With all of these major developments occurring offshore, the release of additional Quantitative Easing (QE) by the RBA garnered little market attention. The RBA is extraordinary, back peddling on reams of commentary over the years about why they wouldn't get to this place, but Covid-19 has accelerated the secular moves of our time and delivered the RBA to a policy of ongoing support. History has not been kind for QE outcomes, once started there isn't a program that has ever fully concluded. One must question the market timing of this release – the day before the US election – as the stated objectives where to lower bond yields and lower the Australian dollar. Both are higher by month end.

JCB believes the RBA QE program will be significantly bigger than $100 billion for a number of reasons, notwithstanding that no Central Bank has ever been able to stop QE. When we go down this rabbit hole there is no coming back. The major lesson of modern day markets is 'don't fight the Central Bankers' and in this instance it would be unwise to bet against them. We would certainly run the program very differently and choose our moments to get maximum market impact. The RBA could learn a lesson or two from the RBNZ's Governor Orr, who achieved much of his stated objectives by talking to market participants and threatening huge programs and negative rates, thereby letting market participants do his bidding for him under the threat of large actions. For now the RBA's QE program is looking like its own mini goal, and hence we can expect the powers that be in Martin Place to flood the system with more of our money.

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Fund Review

For the month ending November, the CC JCB Active Bond Fund - Class A units (the Fund) returned -0.36% (after fees), underperforming the Bloomberg AusBond Treasury (0+Yr) Index by 0.03%.

The Australian rates market opened the month in the middle of its well-defined range that JCB have encountered since March, with global markets staring down the barrel of the US election and domestically an RBA meeting where QE was to be unveiled in greater detail.

The RBA cut rates to 0.1% and announced an expansion of QE by 100bn which supported the market initially, although Governor Lowe's comments that negative rates were "unlikely" and a buy-the-fact-sell-the-rumour theme kept the rally in check. The US election also triggered some market volatility as the consensus view of a "Blue Wave" failed to materialise although Biden eventually got across the line. Volatility resurfaced again into mid-month as fixed income sold off aggressively on "Medical Monday" where it was announced that Pfizer had efficacy rates above 90%. This prompted a move to the lows of the month where the obligatory buying surfaced in the 1% region for Australian 10yrs. The market stabilised from there and gravitated back to the vicinity of where it opened the month.

The Fund participated in the 2041 syndication mid-month, which saw a robust 18.5 billion bids, this was funded with a reduction away from 10yr basket bonds and the intermediate sector of the portfolio. Long end exposure was trimmed into month end into the large month end index extension.

Heading into year-end JCB are cognisant of the volatility that should surface as liquidity dissipates, the market awaits on any decision from the US Fed on its plans to alter the composition of its asset purchases and the December SFE quarterly roll occurs. JCB will endeavour to keep the portfolio moderately underweight with streamlined bucket risk and take advantage of the overshoot in price action which historically occurs into the festive season.

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