JCB

JAMIESON COOTE BONDS

Fund Update as at 31 January 2021
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 $1186 million

Fund Performance

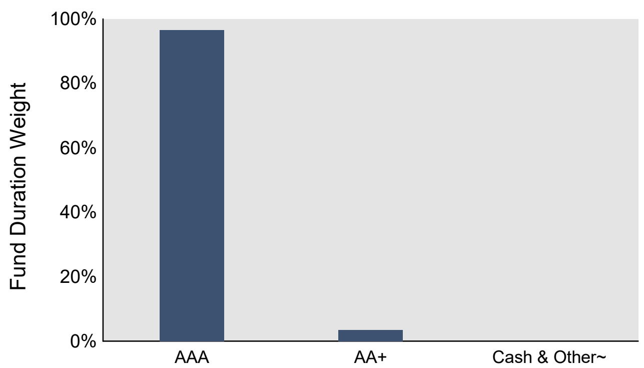
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	-0.68%	-0.64%	-0.04%
3 Months	-1.38%	-1.33%	-0.05%
FYTD	-0.30%	-0.44%	0.14%
1 Year	0.99%	0.59%	0.40%
3 Years p.a.	5.40%	5.58%	-0.18%
Inception p.a.	3.77%	3.52%	0.25%

Fund Overview

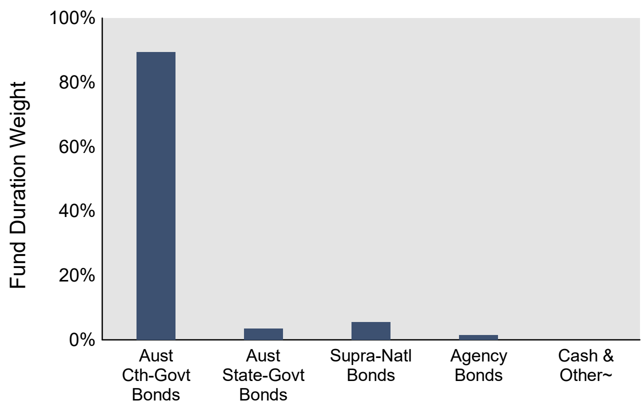
Characteristics***	Fund	Benchmark**
Modified Duration (yrs)	6.60	6.79
Yield to Maturity (%)	0.91	0.72
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	1.31	n/a

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

Phone: 1800 940 599
Email: distribution@channelcapital.com.au
Web: www.channelcapital.com.au

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.

Fund Update as at 31 January 2021
CC JCB Active Bond Fund (APIR: CHN0005AU)

Market Review & Outlook

Democratic spending, large, but not unbridled

Bonds started the year on the back foot in January with yields rising as fixed income markets built concessions for a "Blue Wave" US political outcome after the Democrats surprised by winning both Georgia Senate runoff seats on January 5th. Democratic Congressional control assumes large public spending programs financed by US Government bond issuance with estimations as high as USD $1.9 trillion. As a consequence, unsurprisingly US Government bond yields are backing up, making room for new issuance. This is a one-time spending deal, and hence the market is re-pricing to accommodate this new issuance. The Democrats do not continuously control the Senate at 50/50 with Vice President Harris casting the deciding vote as many media outlets have reported. They do have a singular passage for legislation annually under the US Congressional ''Reconciliation'' process. This is hugely important to understand for the US legislative agenda under a Democratic Congress.

Whilst the senate is currently split 50/50 between Democrats and Republicans, all legislation can be tied in knots in the US Senate by the use of 'Filibuster'. Filibuster is a tactic of obstruction used in the US Senate to prevent a measure from being brought to a vote. The most common form occurs when one or more senators attempt to delay or block a vote on a bill by extending debate on the measure. The Senate rules permit a senator, or a series of senators, to speak for as long as they wish, and on any topic they choose, unless "three-fifths of the senators duly chosen and sworn"[1] (currently 60 out of 100) vote to bring the debate to a close by invoking cloture under Senate Rule XXII.

So, the Democrats get one shot per annum at passing material legislation under 'Reconciliation' in the current 50/50 Senate or they have to persuade 10+ Republican senators to co-sponsor the bill by invoking cloture and thereby forcing a vote. The Democrats are rumored to use 'Reconciliation' for their COVID-19 relief bill – hence its one-off nature which will flood the US Treasury Bond market with additional bond supply as up to $1.9 trillion USD requires financing. Once the markets have made room for this supply, JCB expects US bond yields to return to a range bound environment.

QE extensions (endless QE) will solidify bond valuations over time

The QE genie doesn't easily go back into the lamp once unleashed – there isn't a QE program anywhere in the world that isn't currently still operating. So, it should be little surprise that the RBA has already extended its QE program – doubling in size to $200 billion running until November 2021. Governor Lowe has already suggested "we haven't ruled out further bond purchases after the current program."

This leaves Australia with the opposite problem to US Government bonds. The RBA's additional second tranche of $100 billion of QE (taking the program size to $200 billion) will be removing $1.5 billion Australian Government bonds from the markets per week until November. That puts Australian Commonwealth Government bonds (ACGB's) in negative net supply, a state in which markets tend to do very well over time. Notwithstanding, the Australian bond market has followed US Government bonds to higher yields to open the year, but it is JCB's expectation that once the US bond complex stabilizes that Australian bonds will recover quickly, as has often been the case in recent market volatilities. Australian bonds will still move on the global tidal flow, but the anchor of QE has been increased, significantly increasing the likelihood of a range bound environment over 2021.

JAMIESON COOTE BONDS

Fund Update as at 31 January 2021
CC JCB Active Bond Fund (APIR: CHN0005AU)

COVID-19 complacency – the race to inject ahead of infect as winter is coming

Markets are still facing COVID-19 issues, with the race to inject populations ahead of infections from new super strains seen in UK and South Africa. All through the pandemic, societies have held the most optimistic view – ''it's only a flu, it'll be over by Easter (2020), it'll die out in (northern) summer, we will all be back to normal by Christmas, we will all be vaccinated and immune by early 2021.'' And yet here we are, with the northern hemisphere in an out of control spiral triggering European lockdowns and interruptions to lives and commerce. JCB believes that COVID-19 is a highly seasonal problem, and we should expect to face a second or third wave issue here in Australia in the coming winter months (particularly in the southern states) as vaccine deployment will not be uniformly distributed, making further lockdowns likely (example with Perth in lock-down after a hotel worker is infected with the UK super strain). This will likely lead to further stop-start-stop economic behaviours. JCB wishes to travel domestically to see its clients, but are rightfully reluctant to get caught locked down or face two week quarantines on return. The biggest risk to consensus thinking, regarding markets, is once again we are being too optimistic. It's feasible that it will take longer to get populations vaccinated and already there are noises that larger percentages than first thought won't take a vaccine for various reasons. What happens if it doesn't provide the herd immunity that markets assume and restricted lifestyles roll on for longer than expected?

COVID-19 entropy and unintended consequences

Governments and Central Bankers threw the kitchen sink at COVID-19 in March 2020, and it worked, halting a market rout and bridging the cashflow gaps for businesses and workers. Now they need to find a way to gently back out of emergency settings without created a 'fiscal cliff' or allowing the natural entropy of the COVID-19 episode to explode. So much volatility suppression has occurred that there remains an inherent danger of volatility bursts from unusual or little considered places. Take the Gamestop saga of late January, where an army of retail traders armed with their blogs and Robinhood trading accounts caused chaos for short sellers and derailed the global equity markets for a few days. JCB expects further volatility bursts in 2021 as excess capital has clustered, leaving a small change in the winds problematic for markets out of balance. Take credit as an example, if everyone is already long – as seems to be the case currently – who do the longs naturally sell their positions too if required?

Famed investor Jeremy Grantham told Bloomberg last week ''When confidence has reached these levels, history books are pretty clear. It's very difficult to increase your enthusiasm from a state of mild hysteria where we are today."

It looks like 2021 is absolutely a year of wide dispersion for possible portfolio outcomes.

JCB

JAMIESON COOTE BONDS

Fund Update as at 31 January 2021
CC JCB Active Bond Fund (APIR: CHN0005AU)

Fund Review

For the month ending January, the CC JCB Active Bond Fund - Class A units (the Fund) returned -0.68% (after fees), underperforming the Bloomberg AusBond Treasury (0+Yr) Index.

Australian rates market opened the year in familiar territory at the middle of the trading range since June 2020 gravitating around the 1% level in ten-year bonds. US Treasuries began on the defensive following the Georgia blue sweep and US Congress certifying Biden's win, expectations of reflation and Democrat's fiscal stimulus encouraging the bond bears. Australian government bond yields moved higher into the new ranges in sympathy with Treasuries. The rapid yield selloff resulted in an extreme oversold momentum condition – which became exhausted. The resultant pullback was partly offset by Biden's $2 trillion stimulus proposal, which continued to encourage the reflation crowd. Leading into month end, risk markets were jolted as the frenzied retail equity participation started to take hold and trigger some market dislocations, "Short squeeze" and "Wall Street Bets" occupied the front pages as Reddit users became the world's largest collective hedge fund. Government bonds rallied amid the correction in equities and concerns of a potential disruption to the financial system.

JCB added some green bond exposure to the Fund which also remained compelling on a carry and roll basis and continued to express a flattening bias in the long end of ACGB curve which continues to remain very steep on a global basis. The steepening of the yield curve over the month was a slight drag on performance.

JCB will monitor the outlook and tactically adjust the portfolio in the near term. JCB is still constructive on government bonds in the medium term, it is a long process for the economy to absorb the labour slack, especially in the service sector, as the social distancing measures are still tight. In the absence of meaningful wage growth, it is unlikely that we can achieve a sustainable inflation overshoot. Overall, JCB believes central banks will need to maintain the accommodative policy longer than market expectations given the debt overhang and demographic profile.

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