JAMIESON COOTE BONDS

Fund Update as at 30 September 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 $1263 million

Fund Performance

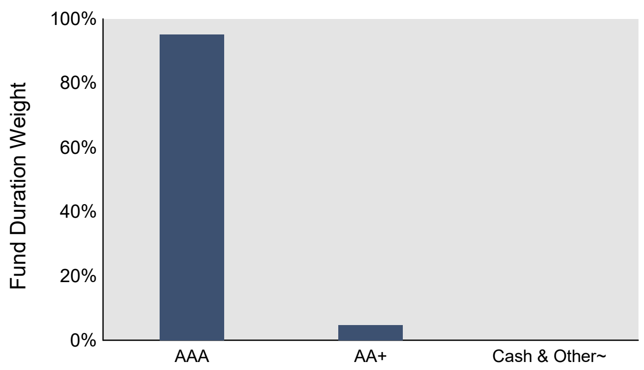
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	1.30%	1.28%	0.02%
3 Months	1.00%	0.78%	0.22%
FYTD	1.00%	0.78%	0.22%
1 Year	3.33%	2.70%	0.63%
3 Years p.a.	6.28%	6.41%	-0.13%
Inception p.a.	4.41%	4.12%	0.29%

Fund Overview

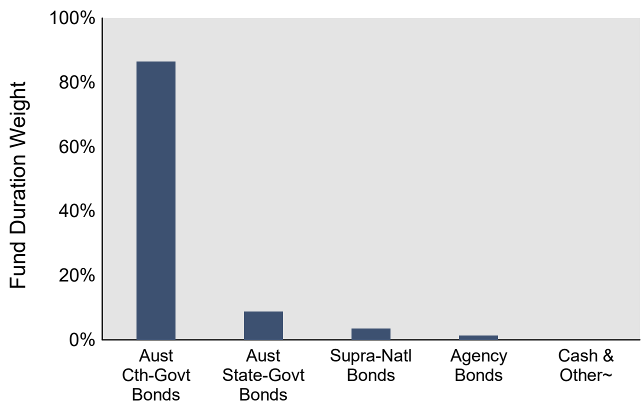
Characteristics***	Fund	Benchmark**
Modified Duration (yrs)	6.97	6.88
Yield to Maturity (%)	0.76	0.59
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	1.02	n/a

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

Strong returns for fixed income in September

September delivered a wobble in risk markets combined with growing expectations of further RBA policy support delivering positive returns for fixed income investors. Risk market momentum turned negative for the first time since the violent sell off of in March, seeing key reversals in many market darlings of the last six months. The US technology sector lead equities lower, turning over the Australian dollar, which now looks to have a top in place as we head into the binary US election period come 3 November. Bond markets maintained solid negative correlations to equities, but the addition of further policy support from the RBA into Q4 further supported fixed income, whilst also being an additional drag on the AUD currency.

Will negative interest rates fix the economy?

The focus of the RBA seems to have shifted to additional support via small interest rate cuts, and possible additional bond buying in longer maturities to stimulate the economy still beset by ongoing Covid-19 lockdowns in Victoria. This also seems targeted at lowering the currency to foster growth once the lockdowns end and the disaster relief funding of generous job keeper programs starts to wind down, with the first of these moves occurring on 28 September. The RBA remains a highly reactive Central Bank, with a very poor record around recent communications of medium term monetary policy. Not long ago it was telling markets the neutral rate of interest was around 3.00% in the Australian economy – in a world of essentially zero interest rates, this looks like commentary from a parallel universe. The RBA kept rates at 1.50% for three years (mid-2016 to mid-2019) telling markets they didn't envisage going any lower, but alas here we are at a 0.25% cash rate which is likely headed lower still, come the November meeting. Covid-19 is clearly the reasoning for such moves, but JCB believes Covid-19 is just a rapid accelerator of prevailing slow burning secular themes.

The RBA further commented that it would study Quantitative Easing (QE) but assumed it would be unlikely to utilise such a program. Here we are in the throes of an active QE program that is also likely to further swell. Which brings us to negative interest rate policy. Again, we are being told this is unlikely and not preferred. JCB firmly believes that the RBA has had to reluctantly embark on these major policy changes in response to a global environment that continues to draw many economies into dangerously low growth outcomes, and whilst it remains reluctant on negative rates, recent history is a poor guide for taking the RBA at their word. Other Central Banks with similar mandates such as the Bank of England and Reserve Bank of New Zealand are now openly exploring negative interest rate policy, with most of these domestic bond markets now trading at negative yields.

Australian bonds continue to look cheap and steep in a global context. Given the global appeal of Australian fixed income, it remains little surprise to see further records for Australian Bond issuance. In September, the Australian office of Financial Management (AOFM) issued a new syndicated six year bond which received an initial $86 billion of bids (this dropped to just over $60 billion when pricing was revised tighter during the book building process). This issue printed with a size of $25 billion only, again leaving material demand unsatisfied.

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Outlook for markets in this election year

The outlook for markets remains clouded by significant binary events, namely the US election and the uptick in second wave Covid-19 cases coming into the Northern Hemisphere winter. The US election seems unlikely to be resolved around the November election day with a significant chance of a Supreme Court challenge should the Trump administration lose the election, as current polling would suggest. The appointment of a new Supreme Court justice in Amy Coney Barrett, which we expect before election day, will tip the court to a 6-3 conservative majority which will give Trump a springboard for legal escalations. We needn't look further than the recent first presidential debate to see the circus of US politics in action with Trump seemingly willing to do anything to maintain his grip on power.

European Covid-19 cases continue to spike into a second wave, with isolated restrictions and lockdowns now occurring. This places additional drag on economies which are only just semi-normalising after the knock-on effects from the March and April lockdowns. European Covid-19 cases lead the US case count by two to four weeks in the first wave, and a material second wave would also complicate the US election process. Trumps approval rating shows a high correlation to US case counts, should this relationship hold into November with escalating US cases at that time, it would likely be viewed as negative for Trump and the outlook for the US dollar, which has closely followed Trumps popularity.

Fund Review

For the quarter ending September, the CC JCB Active Bond Fund - Class A units (the Fund) returned 1.00% (after fees), outperforming the Bloomberg AusBond Treasury (0+Yr) Index by 0.22%.

The Australian rates market started the month on the defensive with compelling valuations. This was following the release of the Fed's new policy framework which triggered momentum style positioning to unwind flows through global rates in the last week of August. The weakness was short-lived, marking the low of the month. More dovish messaging emerged from the RBA on September 1 as they reinforced their desire to remain "highly accommodative as long as is required". A weaker than expected Q2 GDP of -6.3% and the lockdown status of Victoria underscored the bearish economic sentiment.

JCB adjusted the Fund's yield curve positioning through the month in anticipation of longer end supply. JCB remain confident that the RBA will continue anchoring front-end yields and supporting the ACGB and semi-government bond market. The belly of the curve remains very compelling. The Fund participated in the $25 billion 2026 Australian Government Bond syndication, although the pricing was revised tighter following the RBA's oracle Bill Evans call for a rate cut in October on the day of the pricing, which triggered an ill-timed short squeeze.

JCB still believes the bullish secular forces underpinning the global bond markets will remain as a second wave of Covid-19 intensifies in the Northern Hemisphere. JCB anticipate the RBA to support the government's effort to stimulate the economy by lowering the cash rate further and participating in their buyback program with the need to move further out the curve. JCB remain mindful of the myriad of potential event risks that remain on the calendar going forward. US fiscal stimulus talks and the progress of US presidential election could change the direction of the rates market quickly and forcefully, which will provide the Fund tactical opportunities to harvest alpha.

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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