JCB

JAMIESON COOTE BONDS

Fund Update as at 31 December 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 $1207 million

Fund Performance

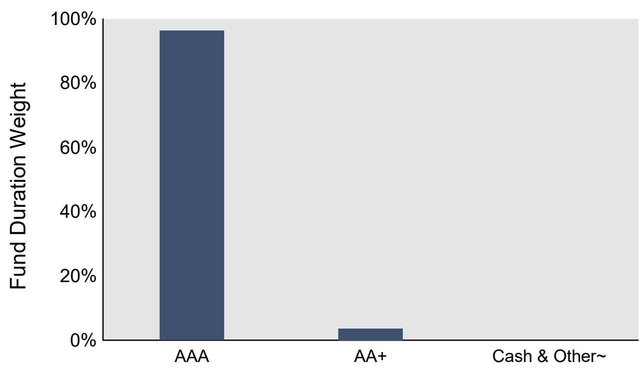
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	-0.35%	-0.36%	0.01%
3 Months	-0.61%	-0.57%	-0.04%
FYTD	0.39%	0.20%	0.18%
1 Year	4.62%	4.06%	0.57%
3 Years p.a.	5.55%	5.65%	-0.10%
Inception p.a.	4.01%	3.74%	0.27%

Fund Overview

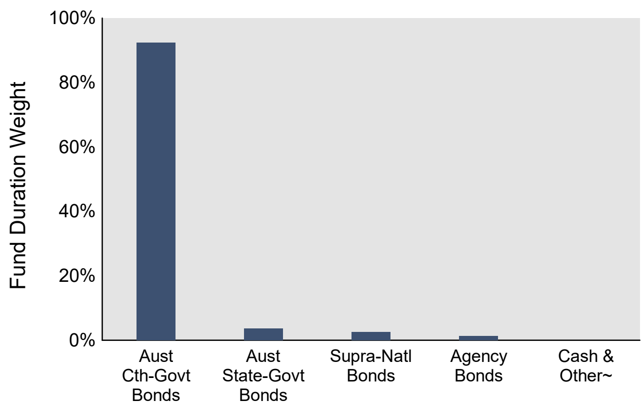
Characteristics***	Fund	Benchmark**
Modified Duration (yrs)	6.80	6.91
Yield to Maturity (%)	0.83	0.66
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	0.83	n/a

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

December market review

Markets in December drifted to slightly higher yields as the broader risk complex pushed higher in expectation of continued economic recovery into 2021. This capped an extraordinary year for investors who faced extreme unknowns over the year as they faced the pandemic. Thanks to generous fiscal programs and a final exhaustive use of conventional monetary policy plus quantitative easing from Central Bankers, markets have screamed higher with risk assets and low quality assets enjoying substantial support of low rates and excess liquidity. Higher quality Government Bonds did a remarkable job of defending and protecting portfolios once again, whilst also offering significant liquidity optionality in the March and April period which many JCB investors used to great effect – selling bonds at a premium to buy deeply discounted equities.

Interest rates remain the virus that affects all things - which leaves us baffled that many forecasters expect continued risk performance into 2021 coupled with higher bonds yields. In JCB's view, this presents a problem of the plumbing of markets, with a significant threat to risk market performance being any disruption to the lower for longer thesis combined with excess liquidity which has validated the enormous disconnect between fundamentals and many asset valuations. Opinion seems almost universal that nothing can go wrong as the vaccine defeats Covid-19 over the year – but JCB remains cautious on herding and clustering of opinion and positioning as markets just love to hunt the crowded trades and themes.

Market outlook

There is no question that 2021 presents significant challenges for forecasting market outcomes. JCB believes the possible outcomes over the year are as wide as we have recently experienced. The Covid-19 virus is mutating ahead of the vaccine roll out program, making the vaccine forever in the rear view mirror as new Covid-19 strains infect with increased pace. Regardless, investors are starting the year seemingly drunk on liquidity and high on optimism. Who can really blame them, as Central Bankers and Governments the world over have suppressed natural volatility and curtailed countless insolvencies. The recency bias of powerful momentum moves in many markets suggests risk can continue to grind further still, but with each passing day the markets are moving towards a priced for perfection outcome.

Nothing seems as permanent as temporary stimulus. Looking at the fiscal deficits and continuous QE programs run since the GFC suggests that these programs and extraordinary measures will continue well after Covid-19 hopefully fades. Any retreat from policy makers will likely be met by a market haemorrhage which will only encourage further continued stimulus. In fact, the game theory almost suggests that such anti risk periods will be required to motivate short term politicians and Central Bankers into continuously providing more. There are some obvious periods to navigate. Inflation is a rate of change function, and as such, inflation base effect will rise into the April/May period as the higher deflationary period of the first global lockdown will fall out of the basket data. The narrative machine will be in overdrive by here, however, JCB continues to believe that the overarching secular forces of disinflation will continue to be the medium to longer term driver of pricing and that such a blip in inflation data will be short term and temporary. Markets have already made significant adjustments in expectation of this short term rise, with inflation expectations rising significantly. JCB will happily add to its positioning in the expectation of significant mid-term value that could possibly present around these outcomes. JCB continues to expect bond markets to trade in a range bound environment, notwithstanding some usual volatility in the pricing cycle but anchored by dormant front end yields, with long end yields suppressed by active QE programs. 10 year US Treasury yields - the benchmark bond rate the world over - remains around 1.00% (in December 2020) despite significant optimism, high inflation expectations and screaming risk markets. This is up from a low of 0.39% in March, and 0.49% in August of 2020.

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Fund Review

For the quarter ending December, the CC JCB Active Bond Fund - Class A units (the Fund) returned -0.61% (after fees), underperforming the Bloomberg AusBond Treasury (0+Yr) Index.

The Australian rates market started the month in the middle of the recent range, as it waited for the US FDA vaccine approval and fiscal deal negotiation. The disappointment of US labour data raised the expectations of another stimulus package. Global rates markets sold off and Australian government yields reached the intra-month high following the data release. As the Northern Hemisphere entered the peak of winter and mobility increased during the festival season, the virus infection also accelerated. Bond yields fell slightly in the second half of the month but still ended higher than where they were at the beginning of the month. Domestically the market remained subdued with the SFE quarterly bond futures roll mid-month and the AOFM and RBA also resting on the sidelines providing little impetus for a decisive move away from the 1.00% level in 10 years.

The Fund will maintain the duration neutral stance with flattening bias into January as markets remain on hold for the eventual finale of the 2020 election with a "Blue Wave" still in the offing on the outcome of the Georgia Senate run-offs. JCB remains cautious on the hype around the vaccine news in the near term. Logistic issues as well as the lack of confidence could drag out the vaccination program. The surge of infection cases and tightening of social distancing measures would further delay the economic recovery.

JCB is happy to express the long bond view via the flattening trade and is looking for tactical opportunities to add alpha in the coming months. The long-end still offers great value with a short-end anchored by the lower for longer edict of the RBA and the compelling currency adjusted returns for the offshore investor in a world starved of yield. The return of the RBA buy program next month and market expectations of another 100bln QE to be announced prior to mid-year should limit corrections.

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