Fund Update as at 31 January 2018
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:
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.

Income:
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#	Base Fee of 0.45% p.a.
Administration Fee#	Administration Fee of 0.10% p.a.
Buy / Sell Spread	0.10% / 0.10%
Distributions	Semi-annual
Fund Size+	AUD $141 million

Fund Performance

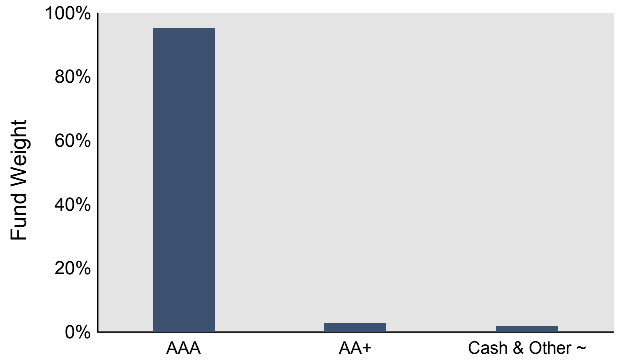
Returns	Fund*	Benchmark**	Active
1 Month	-0.28%	-0.43%	0.16%
3 Months	0.21%	-0.08%	0.30%
FYTD	1.17%	0.73%	0.44%
1 Year	3.02%	2.45%	0.57%
2 Years p.a.	-	-	-
3 Years p.a.	-	-	-
Inception p.a.	0.58%	-0.47%	1.05%

Fund Overview

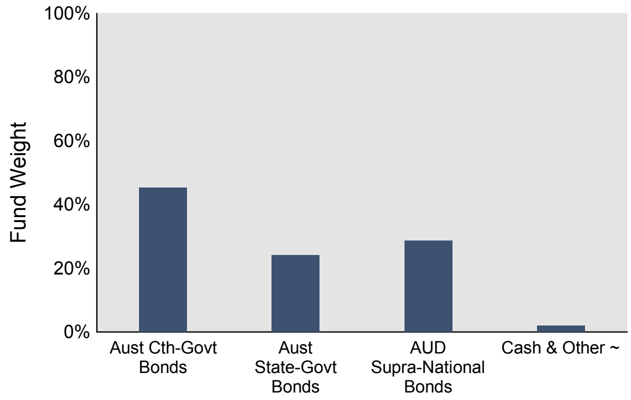
Characteristics***	Fund	Benchmark**
Modified Duration (yrs)	5.57	6.11
Yield to Maturity (%)	2.74	2.51
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	1.94	n/a

*** Refer to Definition of Terms.
Source: JamiesonCooteBonds Pty Ltd.

Credit Rating Allocation



Sector Allocation



Platform Availabilty

Asgard	BT Panorama	BT Wrap
HUB24	Macquarie Wrap	Mason Stevens
Netwealth	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 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, excluding taxation. 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. ~ Cash & Other includes cash at bank, outstanding settlements and futures margin accounts.

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Market Review & Outlook

• "If I could be reincarnated…I'd come back as the bond market, you can intimidate everybody" 1990's Democratic political adviser, James Carville;
• Is this 1987, 1994, 2000, 2007 or 2018? Extreme positioning and sentiment in bonds and equities;
• Interest rates are the virus that affect all asset classes;
• Global sell off drags Aussie bonds lower despite weak inflation data. RBA on hold;
• Scenario analysis for high grade bonds in 2018 – getting cheap in a rich world.

"I used to think that if there was reincarnation, I wanted to come back as the president or the pope or as a 400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody." James Carville, Democratic political advisor during 1990's.

• Is this 1987, 1994, 2000, 2007 or 2018? Extreme positioning and sentiment in bonds and equities:

The famed market crash years mentioned above all have one thing in common. Interest rate rises. U.S. markets were either in the middle of rate rises or had experienced rate rises in the immediate previous period, which tipped the markets and economy over the edge. The current set up is exactly the same this time, but for one notable difference. Extreme positioning and sentiment in bonds and equities are at record levels. This massive one way bet actually performed extremely well over January, with both products hitting many year-end targets. This was a winning position, however, much of this has been driven by momentum rather than fundamentals, and hence prone to a violent correction. It is highly likely that asset markets experience a significant lift in volatility over 2018 which will test these extreme positions and investor sentiment. Whilst the global economy is currently doing well, the seeds of the next downturn have been sown (rates have been rising since BREXIT in June 2016). Is 2018 to be added to the history books as a crash year? JCB believes this looks unlikely in the very short term, but later in the year it is possible. You can only stretch a rubber band so far before it snaps. Rate rises are stretching that band whilst investor positioning and sentiment remains extreme.

• Interest rates are the virus that affect all asset classes:

As the cost of global capital has been rising since June 2016, JCB have long argued that this will affect economies and markets in time, ultimately completing the market cycle. Rising interest rates are far more acute in a heavily indebted world. The implications for Australian investors are likely to be stark. Every Federal Reserve rate hike in the U.S. has driven 'out of cycle' rate rises for Australian mortgage holders, already servicing record debt levels. With global funding rates likely to rise over 2018 lifting the cost of global capital, Australian consumers will continue to struggle, particularly at a time when housing is no longer a ready made cash machine providing paper gains.

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• Global bonds drag Aussie lower despite weak inflation likely, keeping the RBA on hold:

The acceleration of global bond yield rises led by U.S. Treasury bonds so far in 2018 is starting to give global equity markets cause for concern, breaking the near parabolic rise of some indices. As the markets and economies enter a late cycle environment, it will pay to watch moves in interest rates and critically credit markets for the signposts to other asset markets.

Australian data opened the year on the back foot with another significant miss on domestic inflation, despite a lower currency in the Q4 period, which should have supported tradeables inflation. JCB expect the RBA to remain firmly on hold in the early part of 2018, given the RBA's explicit messaging in late 2017 around the noted employment slack of 0.6% (as the participation rate climbs, the slack remains constant despite employment gains) and structural subpar inflation outcomes below mandate. JCB believe it will take two inflation prints within the mandate band of 2-3% to move the bank towards a hawkish rates bias. For now, the improvement in valuations looks attractive given the carry (coupon income) available from current levels versus the RBA cash rate.

• Scenario analysis for high grade bonds in 2018 – getting cheap in a rich world:

Which asset classes are cheap? Historically assets are very expensive. JCB's view is that there will not be a RBA rate move over 2018, for aforementioned reasons, and hence this is our preferred Scenario A. However as some investors believe the RBA will hike rates in 2018, we look at a second possibility – an increase in rates of 0.50%, in Scenario B.

In the scenarios below, JCB have used historical spread data for the last 20 years, incorporating pre and post GFC markets. The generic curve points are valued versus the RBA cash rate and run through a normal distribution curve. In five of the eight outcomes, JCB have assumed bonds are cheap to historical normal distribution based spreads. JCB have two fair value or mean assumptions, and one of eight assumptions suggesting the RBA could have an easing bias to cut rates after making a hiking error, similar to Glen Stevens in 2007/08. Stevens hiked into the GFC and had to cut aggressively thereafter.

Scenario A – no change to RBA cash rate in 2018

Market conditions --> Value --> Expected total return of index
Continued risk on --> 1.5 standard deviation cheap --> 0.102%
Markets steady --> 1 standard deviation cheap --> 2.431%
Mild risk off --> 0.5 standard deviation cheap --> 4.2744%
Extreme risk off --> Fair value/mean --> 7.0356%

Scenario B – RBA hikes 0.50% in 2018

Market conditions --> Value --> Expected total return of index
More hikes expected --> 1.0 standard deviation cheap --> -0.5426%
RBA neutral/FOMC hiking --> 0.5 standard deviation cheap --> 1.7126%
RBA and FOMC neutral --> Fair value/mean --> 4.206%
Next RBA move a rate cut --> Next move a rate cut --> 6.1213%

Despite much media sensationalism, bond returns are positive in seven of eight scenarios. This scenario analysis is for the Bloomberg AusBond Treasury 0+ Yr Index (the benchmark for the JCB AUD strategies) and should not be considered the expected outcomes of JCB portfolio strategies. JCB cannot forecast expected portfolio outcomes.

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Fund Review

For the month of January, the CC JCB Active Bond Fund returned -0.28%, outperforming the Bloomberg AusBond Treasury (0+Yr) Index by 0.16%. The Fund benefited from an underweight duration position combined with corresponding short positions in other sectors (known as butterfly positions), that added to performance from the increase in term premium in the ten year sector of the curve.

The Australian Office of Financial Management issued a new November 2029 Australian Commonwealth Government Bond (ACGB) line via syndication, drawing significant interest (A$21billion in orders) in late January, which JCB used to close the Fund's underweight duration and reduce its butterfly exposures.

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.