JAMIESON COOTE BONDS

Recommended
Lonsec Research

Fund Update as at 31 May 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 $167 million

Fund Performance

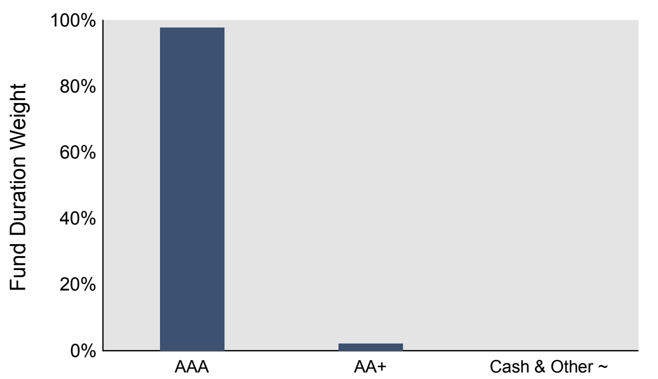
Returns	Fund*	Benchmark**	Active
1 Month	0.64%	0.81%	-0.18%
3 Months	1.08%	1.44%	-0.36%
FYTD	2.45%	2.45%	0.00%
1 Year	1.52%	1.34%	0.17%
2 Years p.a.	-	-	-
3 Years p.a.	-	-	-
Inception p.a.	1.17%	0.54%	0.63%

Fund Overview

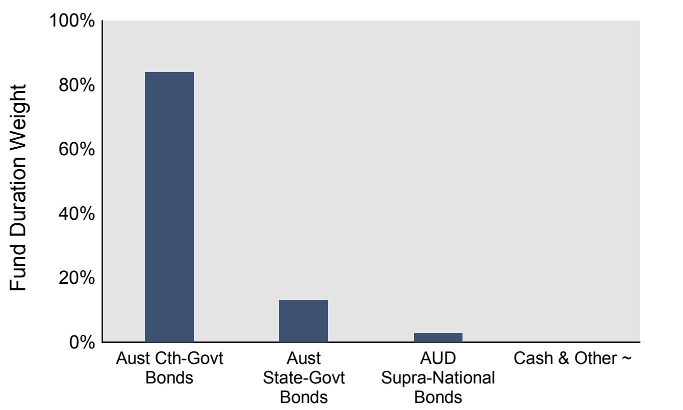
Characteristics***	Fund	Benchmark**
Modified Duration (yrs)	6.27	6.11
Yield to Maturity (%)	2.58	2.42
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	0.90	n/a

Source: JamiesonCooteBonds Pty Ltd.

Credit Rating Allocation (by Duration Weight)***



Sector Allocation (by Duration Weight)***



Platform Availabilty

Asgard	BT Panorama	BT Wrap
HUB24	Macquarie Wrap	Mason Stevens
Netwealth	PowerWrap	

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, 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. *** Refer to Definition of Terms. ~ Cash & Other includes cash at bank, outstanding settlements and futures margin accounts.

Fund Update as at 31 May 2018
CC JCB Active Bond Fund (APIR: CHN0005AU)

Market Review & Outlook

(1) The Economist “Why it makes sense to invest in Treasury Bonds”
(2) 2018: the year of risk market accidents – independent or connected?
(3) Global synchronised growth has ended
(4) Nowhere to hide in 2018 - low year-to-date asset returns with low forwards expected

(1) THE ECONOMIST “WHY IT MAKES SENSE TO INVEST IN TREASURY BONDS”

The general media flow around bond markets is decidedly negative, particularly in Australia where shares hold a cult-like status. A broad mix of bonds across the spectrum can play a positive role in portfolio construction. In essence, bonds can augment and complement growth assets. It is said a high grade bond allocation improves asset quality, lowers risk and can produce complementary and usually offsetting portfolio volatility.

Annoyingly for many anti-bond commentators, Australian high grade bonds have broadly kept up with far riskier portfolio allocations, despite a sell-off in fixed income over the past two years. Investors should always be wary of strategists giving glowing views of their own asset class; it is pleasing to see rare third-party positive media reflection on Government Bonds from The Economist – a renowned U.K. business and markets publication.

The Economist published an article “Why it makes sense to invest in Treasury Bonds” (26 May 2018) stating, “there is a large class of investors for whom long-dated Treasuries have an almost unique virtue…it consists of holders of other riskier assets, such as stocks, houses or high-yield corporate bonds, who wish to hedge against falling prices in the event of a recession…and this insurance policy pays 3.00% a year.”

JCB’s April 2018 monthly update suggested “3.00% U.S. 10 year yields, over hyped but a natural target” and The Economist goes on to explain this: “Yields on government bonds now compare favourably with the paltry dividend yields on stocks or with rental yields on prime city property. But why buy a volatile ten-year (or nine-year) bond with a mere 3.00% yield?”

The answer lies further in the article…“A true diversifier pays off when you really need it – when trouble strikes. In bad times the scope for fiscal stimulus in America would be limited by an already large budget deficit. The Fed would cut short-term rates, perhaps to zero. It might start buying bonds again. Investors would rush to the safety of Treasuries. Ten-year yields could plausibly fall to 1% or so. Those who had bought at yields of 3% would secure a 17% capital gain. Not only would that cushion a fall in the price of stocks, it would provide the means to buy them while they are cheap.”

(2) 2018: THE YEAR OF RISK MARKET ACCIDENTS – INDEPENDENT OR CONNECTED?

Only five months into 2018 and already we have experienced a volatility complex explosion (VIX), LIBOR-OIS funding crisis, trade wars, emerging market stress in Turkey/Argentina and now possible far reaching Italian populism. JCB asks are these random singular occurrences to be dismissed as isolated events or linked together with a common thread?

JCB believes these are all episodes of true price discovery in a world where cracks are no longer papered over by excess Quantitative Easing liquidity. JCB expect more of these spot fires ahead.

Fund Update as at 31 May 2018
CC JCB Active Bond Fund (APIR: CHN0005AU)

What does the VIX explosion, the populist threat to the European Union and Turkish external debt re-pricing have in common? All were tolerated by market players until, quite suddenly, they weren't. For now shares and credit have been spared on a capital basis, however, they have not been immune to the short-term volatility. As global funding rates continue to rise and market support pillars are further eroded (from Quantitative Easing to Quantitative Tightening), how much longer can credit and equity investors expect to walk the road to wealth creation whilst these risk events are appearing left and right on a consistent basis? Strong U.S. growth remains the narrative on that road for risk investors but cycle tops are approaching. Risk accidents are becoming the normal rather than the exception. Let's hope they remain flares rather than forest fires.

(3) GLOBAL SYNCHRONISED GROWTH HAS ENDED

In late 2017, global growth appeared synchronised to the pleasure of risk markets. 2018 has seen a marked decline in such a view. The Eurozone is leading the slow-down to below-average growth with its economic surprise indices (which measures objective and quantitative economic news) now approaching -100, a severe absolute reading. Asian growth remains patchy, with China and Japan showing signs of slowdown, whilst U.S. growth remains on track. Despite this global slowdown, the U.S. Federal Reserve is near certain in its path for U.S. interest rates as the domestic economy continues to perform. Seemingly, the U.S. Federal Reserve is relying on the ultra-positive soft data surveys for inflation expectation, wages and economic growth even though hard data has failed to keep up in pace.

(4) NOWHERE TO HIDE IN 2018 - LOW YEAR TO DATE ASSET RETURNS WITH LOW FORWARDS EXPECTED

2018 is proving a tough year for asset markets. As at the end of May 2018, U.S. equity markets are mixed with the Dow Jones down by 1.23% and the S&P500 Index up by 1.18%. U.S. investment grade credit returns were -2.71% and U.S. Government Bonds -1.10%. Emerging market returns are broadly negative in both equities and fixed income, as are domestic equities with a slight drawdown of -0.90%.

As funding rates continue to rise and further Quantitative Tightening flows into markets, forward looking expected returns remain far slighter than the previous decade. Sydney and Melbourne property markets continue to cool as credit conditions are tightening across the economy. From excess liquidity to true price discovery, from accommodative interest rates to restrictive rates, from one-off sugar hits of tax reform to paying the debt laden bills thereafter. Investors should consider how they will navigate the road fraught with danger as risk accidents become common place. Return 'on' capital can quickly evolve to return 'of' capital.

Fund Review

For the month of May, the CC JCB Active Bond Fund (the Fund) returned 0.64%, underperforming the Bloomberg AusBond Treasury (0+Yr) Index by 0.18%.

The Fund produced a positive total return, as Italian politics generated "a flight to quality bid" in most global high grade bond markets. The Fund versus index performance suffered some drag due to a violent re-steepening of the 10yrs versus 20yrs and 10yrs versus 30yrs domestic yield curves, which is a core position for the Fund in a U.S. induced curve flattening secular theme.

JCB has been running additional duration exposures in keeping with their view that 3.00% U.S. 10 year valuations are a target rather than tipping point, a view validated by the 30bps and rally around the Italy news. JCB expect Italian politics to remain a focal point for markets throughout the European summer, providing additional volatility. JCB expect to remain active in their duration management with a preference to add additional duration on any material back-ups in yields.

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). 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 contracts.