Fund Update as at 30 September 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#	0.45% p.a.
Administration Fee#	0.10% p.a.
Buy / Sell Spread	0.10% / 0.10%
Distributions	Semi-annual
Fund Size+	AUD $225 million

Fund Performance

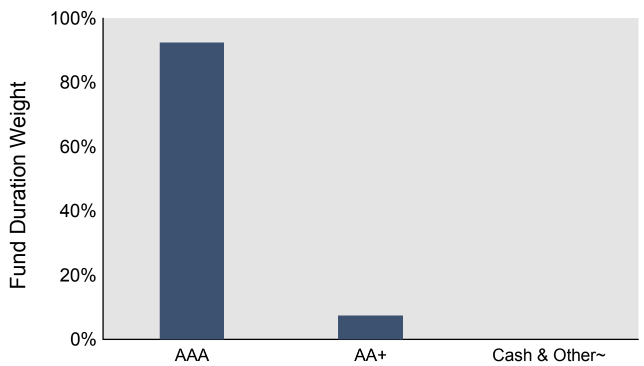
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	-0.55%	-0.58%	0.03%
3 Months	0.41%	0.46%	-0.05%
FYTD	0.41%	0.46%	-0.05%
1 Year	3.42%	3.89%	-0.48%
2 Years p.a.	1.33%	0.89%	0.45%
Inception p.a.	1.42%	0.91%	0.50%

Fund Overview

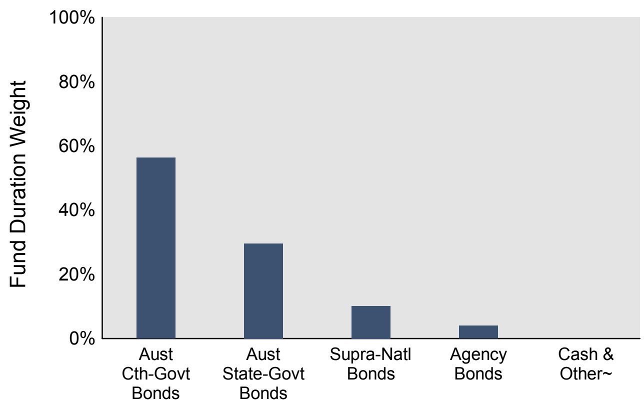
Characteristics***	Fund	Benchmark**
Modified Duration (yrs)	5.35	6.12
Yield to Maturity (%)	2.67	2.42
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	0.73	n/a

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

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

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Market Review & Outlook

• The US Federal Reserve raises interest rates in September – a restrictive move which will likely jam the brakes on the US economy.
• The party has come to an abrupt halt for Australian property thanks to the Royal Commission and domestic credit availability.
• The tightening of bank lending on investment properties means property settlement failures could trigger dreaded forced selling; the seat belt sign is on.
• The Australian dollar enjoys counter trend bounce, still bearish for now.

THE US FEDERAL RESERVE HIT THE BRAKES FOR FIRST TIME IN 13 YEARS, POLICY IS NOW ECONOMICALLY 'RESTRICTIVE'

The US Federal Reserve (the Fed) lifted interest rates to 2.25% as was widely expected in September and commented that monetary policy is no longer 'accommodative'. Previous rate hikes have merely lifted their foot from the accelerator, but moving from 'accommodative' to 'restrictive' is a significant moment in the development of the economic cycle, as the Fed is now actively trying to jam on the brakes. With interest rates rising and funding liquidity difficulties mounting, pressure is building on debtors. Historically this leads to recession as corporate /personal debt bubbles burst and financial defaults ensue. There is nothing in this set up that makes JCB believe this time will be any different. Looking at US interest rate moves over the past 75 years, a rise in interest rates has had a significant effect on risk assets. Since the Brexit lows, US Treasury bond yields have risen ~120% versus a cycle average of ~44%. Corresponding moves in US S&P equity indices after such moves have been negative (unsurprisingly as financial conditions tighten) with a mean drawdown of -20.2%.

US interest rates are rising and the Fed is intent on jamming on the brakes. JCB believe the asset allocation implications are likely to be vast.

THE PARTY HAS COME TO AN ABRUPT HALT FOR AUSTRALIAN PROPERTY THANKS TO THE ROYAL COMMISSION AND DOMESTIC CREDIT AVAILABILITY

When you 'grow' with debt, times feel good. Loans are made, capital is deployed, asset prices rise, interest is paid and everyone is happy. Until someone later in the cycle is denied a loan, at which point that 'growth' can flip to unsustainable debt loads very quickly. The Hayne Banking Royal Commission will likely be viewed in history as the tipping point for Australian financial asset and property performance. After a long period of easy credit availability globally, coupled with weak domestic loan due diligence and generous loan to valuation ratios, it seems the party has come to an abrupt halt for Australian property, with significant implications for Australian banks who are highly leveraged into property lending as their main source of income and profit growth. Other factors are also at play with APRA tightening its policies and global funding costs rising.

PROPERTY SETTLEMENT FAILURES COULD TRIGGER DREADED FORCED SELLING; THE SEAT BELT SIGN IS ON

Ordinarily, to have a collapsing marketplace you would need 'forced selling', people who must transact regardless of economics. In a recession or high unemployment period these unfortunate folks are easy to identify, but in a silent correction – such as we are currently experiencing in Australian property – identifying the forced seller is much harder.

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The tightening of bank lending on investment properties is having a significant ripple effect through the Australian apartment markets. 'Off the plan' buyers are failing to settle in droves on completion of their purchased apartments due to the lack of banking finance. Some estimates of completed apartment projects unable to settle in Brisbane, Sydney and Melbourne are running as high as 40-50%. Failing to settle a legally binding contract is no small problem, placing leveraged developers under financial strain who in turn are potentially forced to flip their newly finished stock into a falling market to satisfy their own loan agreements. The obvious chain of events from here could create a wave of forced sellers into a market that is only just beginning to correct after a period of vast outperformance. The developers have a contractual right to sue the buyer for the difference between the assets realisation (plus legal costs) and contract price. Should the purchaser not hold sufficient liquidity to fund such a cash settlement, they would be forced to sell assets. It shouldn't take much of a correction for banks to revalue an investment property portfolio to the downside and materially tighten loan conditions or required additional capital calls. Buckle up, JCB believes there could be turbulence on the radar ahead.

AUD ENJOYS COUNTER TREND BOUNCE, STILL BEARISH FOR NOW

The Australian dollar (AUD) enjoyed a brief counter trend bounce in September trading above 73 cents (versus the USD), before pulling back again into a negative trend. Ultimately, a mild fall in the AUD will help stabilise the economic fallout from the change of government combined with pockets of housing stress. JCB maintains that 2018 is the 'year of the USD' as the US enjoys the last throes of highly 'pro-growth at any cost' policies. As economic growth declines into 2019 and with Trump's fiscal expansion moderating, the AUD currency will likely break its clean downtrend.

Fund Review

For the September quarter, the CC JCB Active Bond Fund (the Fund) returned 0.41%, underperforming the Bloomberg AusBond Treasury (0+Yr) Index by 0.05%.

In the month of September, the Fund declined 0.55%, outperforming the Bloomberg AusBond Treasury (0+Yr) Index by 0.03%. JCB believes we are in the last throes of high growth environment and hence additional duration positions should be maintained in the Fund. The move to a material duration underweight in September was tactical in nature, and after yields rose over the month, JCB now believe the Fund should again build added defence, hence we have added duration into such improved valuations.

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.

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