Fund Update as at 31 October 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 $236 million

Fund Performance

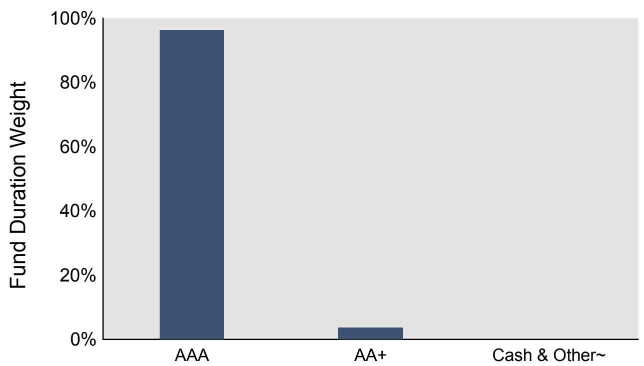
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	0.42%	0.50%	-0.08%
3 Months	0.69%	0.85%	-0.16%
FYTD	0.83%	0.96%	-0.13%
1 Year	2.84%	3.14%	-0.29%
2 Years p.a.	2.15%	2.08%	0.08%
Inception p.a.	1.55%	1.11%	0.45%

Fund Overview

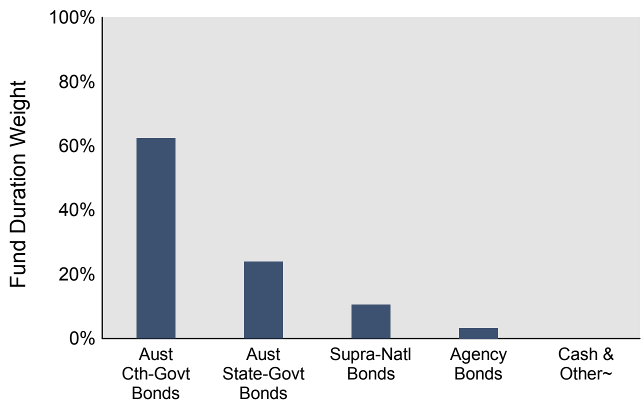
Characteristics***	Fund	Benchmark**
Modified Duration (yrs)	5.98	6.20
Yield to Maturity (%)	2.64	2.38
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	0.54	n/a

Source: JamiesonCooteBonds Pty Ltd.

Credit Rating Allocation (by Duration Weight)***



Sector Allocation (by Duration Weight)***



Platform Availabilty

Asgard	Aust Money Market	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.

Zenith Investment Partners Recommended

JCB JAMIESON COOTE BONDS

Recommended Lonsec Research

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Market Review & Outlook

• The investment ground has shifted and isn't coming back soon - markets face less liquidity, higher rates and tighter credit conditions.
• October delivers a dose of reality into a 'restrictive' world - some pockets of good news in Australia but the trade-off between strong economic conditions in this late cycle U.S. market, coupled with tightening monetary policy, will be a defining battle ground for markets.
• Rolling asset correlation changes? The commentary around correlations between fixed rate bonds and equities continues. These assets are prone to a positive skew in periods of very high inflation (5.00%+ CPI) or in a substantial interest rate hiking cycle. Not in Australia any time soon, but possible.
• For CYTD ending October, Australian Government Bonds produced a return of +2.78%, whilst the ASX 200 price index closed -3.87%. This 6.65% differential seems negatively correlated to high grade bonds - which aim to defend and protect, whilst providing optionality and liquidity.

THE INVESTMENT GROUND HAS SHIFTED AND ISN'T COMING BACK SOON

Just a year ago the world was enjoying a synchronised economic acceleration. In 2017, growth rose in every big advanced economy except Britain, and in most emerging economies. Global trade was surging and America was booming; China's slide into deflation had been quelled; even the Euro Zone was thriving. In 2018, the story is very different. Investors have fretted materially for the second time this year, concerned over trade wars and monetary policy tightening. Those fears are well-founded according to JCB. The world economy's major problem in 2018 has been uneven momentum. Leading economic indicators from Asian export nations have been in marked decline, coupled with weakening European data and fiscal drag in the U.S. into 2019. JCB believes all of this makes for a stark reality check and has lead the International Monetary Fund (IMF) to forecast slowing growth this year in most advanced economies (excluding the U.S.).

For 10 years, buying dips in risk markets has been rewarded via excess liquidity (QE), low interest rates and easy credit availability. All of those structural elements are now gone. The fundamental ground has disappeared. Looking ahead, JCB see that markets will face less liquidity, higher rates and tighter credit conditions, all of which should curtail economic activity looking forward.

OCTOBER DELIVERS A DOSE OF REALITY INTO A 'RESTRICTIVE' WORLD

October has historically been a shaky month for risk markets and this year was no exception, with wild swings intra-month before closing significantly lower. Markets look set to retain higher volatility into year-end ahead of U.S. mid-term elections and further U.S. rate hikes from the Federal Reserve. Domestically, the economy remains idiosyncratic with pockets of good news. Employment numbers have improved and terms of trade remain high. However, the property market remains soft with credit availability constrained and further tightening likely on the findings of Royal Commission in February 2019.

The acute trade-off between strong economic conditions in late cycle U.S. markets and the pressures for interest rates to rise, via a tightening of monetary policy, will be a defining battleground for markets. Strong economies support strong cash flows and earnings, but 'restrictive' policy settings bring higher discount rate assumptions which offset this. Eventually, tightening starts to flow through to weigh on economic conditions. JCB have begun to see this dynamic play out this year, as the fiscal boost has helped support economic conditions but has been offset by rising discount rates. As the pullback of liquidity continues and fiscal policy starts to roll over, this will increasingly become a drag on economic conditions as well, especially relative to market expectations.

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ROLLING ASSET CORRELATION CHANGES? NOT IN AUSTRALIA ANY TIME SOON, BUT POSSIBLE

There is some discussion by commentators around the correlation between asset classes, namely between fixed rate bonds and equities. These correlations are fluid and can be prone to a positive skew in periods of very high inflation (5.00%+ CPI) or in a substantial interest rate hiking cycle. Thankfully in Australia investors do not face either scenario, nor are investors likely to face such scenarios in this global business cycle, according to JCB.

One of the key product benefits of fixed rate bonds is they have zero volatility when held to maturity (investment is made at a 'fixed rate'), but often rally considerably in times of material stress before maturity - at exactly the point when investment portfolios require a negative correlation benefit. This gives investors great flexibility and optionality to divest and take advantage of riskier assets that may have cheapened as a result.

As at October month end, Australian Government Bonds have produced a calendar year to date return of +2.78%, whilst ASX 200 price index closed -3.87%. This 6.65% differential seems pretty negatively correlated to JCB's high grade bond strategy. This indicates to JCB that government bonds are doing what they are designed to do, defend and protect, whilst providing optionality and liquidity.

Fund Review

For the month of October, the CC JCB Active Bond Fund (the Fund) returned 0.42%, underperforming the Bloomberg AusBond Treasury (0+Yr) Index by 0.08%.

JCB lightened durations after a surprise stronger employment print during October, only for international equity markets to fall and lift bond valuations higher through the month. This caused some Fund underperformance versus the index within the month.

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.

Jamieson Coote Bonds

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