# Fund Update as at 31 January 2019
# 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 | 0.05% / 0.05% |
| Distributions | Semi-annual |
| Fund Size+ | AUD $306 million |

## Fund Performance

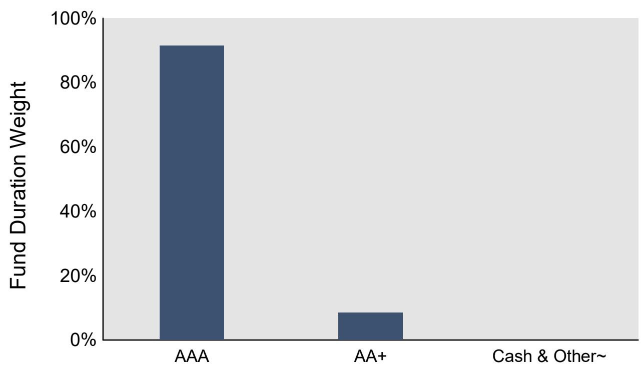
| Returns (After fees) | Fund* | Benchmark** | Excess |
|---|---|---|---|
| 1 Month | 0.60% | 0.71% | -0.11% |
| 3 Months | 2.42% | 2.97% | -0.55% |
| FYTD | 3.27% | 3.96% | -0.69% |
| 1 Year | 5.11% | 6.29% | -1.18% |
| 2 Years p.a. | 4.06% | 4.35% | -0.29% |
| Inception p.a. | 2.37% | 2.19% | 0.19% |

## Fund Overview

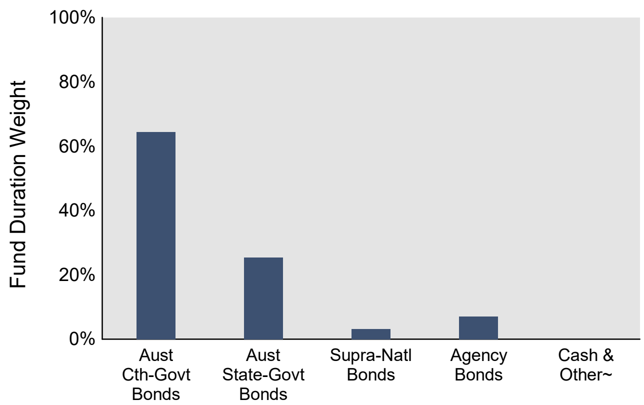
| Characteristics*** | Fund | Benchmark** |
|---|---|---|
| Modified Duration (yrs) | 5.49 | 6.27 |
| Yield to Maturity (%) | 2.29 | 2.07 |
| Weighted Ave. Credit Rating | AAA | AAA |
| Cash Weighting (%) | 1.19 | n/a |

Source: JamiesonCooteBonds Pty Ltd.

## Credit Rating Allocation (by Duration Weight)***




## Sector Allocation (by Duration Weight)***




## Platform Availabilty

| | | |
|---|---|---|
| Asgard | Ausmaq | Aust Money Market |
| BT Wrap/Panorama | Colonial First Wrap | HUB24 |
| Linear | Macquarie Wrap | Mason Stevens |
| Netwealth | PowerWrap | U-Exchange |

## 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.

## Market Review & Outlook

• Taking stock ahead of a difficult year
• Asian export data collapses foreshadowing global growth slowdown
• US Federal Reserve flips, what are they worried about?
• Australian economy, weakening via housing but there is hope

• Taking stock of poor advice ahead of a difficult year

As the year begins, Jamieson Coote Bonds (JCB) believes investors should take stock of all the bad advice and poor predictions that have been proved incorrect with the passage of time. Where are the economists who predicted great sustainable growth from Trump's tax cuts? Or the strategists that guaranteed runaway inflation? What about those "expert" macro voices that wanted to be underweight bonds who suffered horrific losses holding a negative carry position (as a short position they must repay the government guaranteed coupon/dividend) only for interest rates to essentially go nowhere.

As JCB enters its fifth year of managing a truly 'defend and protect' asset class in Government Bonds, there are again the same voices calling for 'bonds to be avoided', 'bonds have no value' or 'bonds are positively correlated'. It's a new year but the narrative remains the same from those who have been proven wrong. Government Bonds were the best performing asset class of 2018 and continue to have an important role to play into 2019/2020 as credit delinquency builds and economic data momentum continues to fall. The final quarter of 2018 was a sneak peek behind the curtain of the main show, if economies roll over into recession and corporate borrowers cannot repay.

• Asian export data collapses foreshadowing global growth slowdown

The collapse in Asian export data (factories to the world) had been expected due to the strong inventory build in late 2018 to avoid tariffs in 2019. However, the degree of the slowdown has been grossly underestimated as shown in January export data from Taiwan (-10.5%), South Korea (-14.6%), Indonesia (-4.6%) and China (-4.4%). Economics is a fractional science, but these numbers are not fractional, they are earth shattering. Combined with Europe that is on the brink of recession (German industrial production -1.9%, retail sales -4.3% and Italian industrial production -1.6%) and a severe slowing of US data, global growth looks mighty shaky into early 2019.

• US Federal Reserve flips, what are they worried about?

In one the largest turnarounds of modern-day central banking, the US Federal Reserve (the Fed) completely flipped its policy stance 180 degrees within a two month window. The collapse in global data velocity, combined with the tightening in financial conditions has seen the Fed abruptly halt any further plans of tightening interest rate policy. The rise in the credit delinquency rate is now significant from 50-year lows and tends to lead the unemployment rate by some margin, suggesting a recessionary economy is likely looking ahead. Both supply and demand for household and business credit is either slowing or contracting according to the Fed Senior Loan Officer Opinion Survey for Q1, whilst consumer future expectations relative to current conditions is at one of the worst readings ever recorded.

# Fund Update as at 31 January 2019
# CC JCB Active Bond Fund (APIR: CHN0005AU)

• Australian economy, weakening via housing but there is hope

Tightening credit conditions, brought about by the macro-prudential provisions that are limiting foreign money inflows and the stricter lending conditions enforced on domestic banks, continue to weigh on Sydney and Melbourne house prices as the orderly decline from 2017 persists. December residential building approval data reinforced this theme - falling 8.4% to the lowest level in five and a half years. There is light at the end of the tunnel for the economy, as a robust labour market continues to provide hope as the RBA recently improved its jobless rate forecast to 4.75% over the next couple of years. Australia is also better placed than many other countries to provide fiscal spending to stabilise any impending slow-down, more so in an election year. As Australia's public debt is a respectable 41% of GDP, this means there is room for public expenditure to provide stimulus.

## Fund Review

For the month ending January, the CC JCB Active Bond Fund (the Fund) returned 0.60% (after fees), underperforming the Bloomberg AusBond Treasury (0+Yr) Index by 0.11%.

JCB adopted a cautious approach during the month given the overextended nature of the global rates rally into year end. Fixed income markets marked time for most of the month as the parabolic rally from mid-November failed to follow over the month. Global financial conditions eased as risk markets gained comfort from the Fed pivot along from the dovish tilt from the BoJ and ECB. JCB maintain the chances of a decent pullback in rates will be somewhat limited given the tenuous state of global growth and given markets are in the latter stages of the business cycle. JCB believe corrections in the domestic market will be shallow in the first quarter given The Australian Office of Financial Management (AOFM) are ahead of their issuance schedule and the domestic economy continues to deteriorate.

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.

The information contained in this report is provided by the Investment Manager, JamiesonCooteBonds Pty Ltd ACN 165 890 282 AFSL 459018 ('JCB'). Channel Investment Management Limited ('Channel') ACN 163 234 240 AFSL 439007 is the Responsible Entity and issuer of units in the CC JCB Active Bond Fund ARSN 610 435 302 ('the Fund'). Neither Channel or JCB, their officers, or employees make any representations or warranties, express or implied as to the accuracy, reliability or completeness of the information contained in this report and nothing contained in this report is or shall be relied upon as a promise or representation, whether as to the past or the future. Past performance is not a reliable indication of future performance. This information is given in summary form and does not purport to be complete. Information in this report, should not be considered advice or a recommendation to investors or potential investors in relation to holding, purchasing or selling units in the Fund and does not take into account your particular investment objectives, financial situation or needs. Before acting on any information you should consider the appropriateness of the information having regard to these matters, any relevant offer document and in particular, you should seek independent financial advice. Readers are cautioned not to place undue reliance on forward looking statements. Neither Channel nor JCB have any obligation to publicly release the result of any revisions to these forward looking statements to reflect events or circumstances after the date of this report. For further information and before investing, please read the Product Disclosure Statement available on request.

# Fund Update as at 31 January 2019
# CC JCB Active Bond Fund (APIR: CHN0005AU)

The Lonsec Rating (assigned as follows: APIR CHN0005AU - May 2018) presented in this document is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445. The Rating is limited to “General Advice” (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product. Past performance information is for illustrative purposes only and is not indicative of future performance. It is not a recommendation to purchase, sell or hold Jamieson Coote products, and you should seek independent financial advice before investing in this product(s). The Rating is subject to change without notice and Lonsec assumes no obligation to update the relevant document(s) following publication. Lonsec receives a fee from the Fund Manager for researching the product(s) using comprehensive and objective criteria.

For further information regarding Lonsec’s Ratings methodology, please refer to the Lonsec website at: http://www.lonsecresearch.com.au/research-solutions/our-ratings

The Zenith Investment Partners (“Zenith”) Australian Financial Services License No. 226872 rating (assigned 31 May 2018) referred to in this document is limited to “General Advice” (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of, and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith’s methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at http://www.zenithpartners.com.au/RegulatoryGuidelines