JCB

JAMIESON COOTE BONDS

Fund Update as at 30 September 2021
CC JCB Active Bond Fund (APIR: CHN0005AU)

Fund Performance

Returns	1 month	3 months	6 months	FYTD	1 year	3 years p.a.	5 years p.a.	Since inception p.a. (03-Aug-2016)
Fund Net Return*	-1.79%	0.23%	1.99%	0.23%	-2.62%	4.17%	3.03%	3.01%
Benchmark Return**	-1.80%	0.37%	2.25%	0.37%	-2.29%	4.26%	2.90%	2.85%
Active Return (After fees)	**0.01%**	**-0.14%**	**-0.26%**	**-0.14%**	**-0.33%**	**-0.09%**	**0.13%**	**0.16%**

Fund Benefits

Active Management
JCB is a specialist fixed income manager with significant global investment management experience and expertise.

Superior Liquidity and Credit Quality
A domestic high grade bond strategy that invests in Australian Govenment, semi-Government and supranational bonds (AAA or AA rated securities), providing investors with superior liquidity and credit quality.

Diversification and Income
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. The income generated by bond securities is consistent and regular (usually semi-annual).

Fund Facts

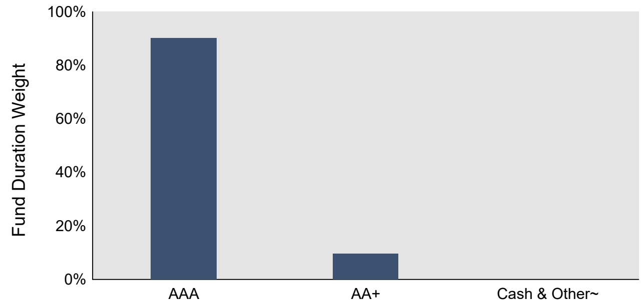
Investment Manager	JamiesonCooteBonds Pty Ltd
Portfolio Manager	Charles Jamieson
Structure	AAA or AA rated bond securities issued in Australian dollars
Inception Date^	3 August 2016
Benchmark	Bloomberg AusBond Treasury (0+Yr) Index
Management Fee#	0.45% p.a.
Administration Fee #	0.10% p.a.
Buy / Sell Spread	0.05% / 0.05%
Distributions	Semi-annual
Fund Size+	AUD $1,167 million

Fund Characteristics

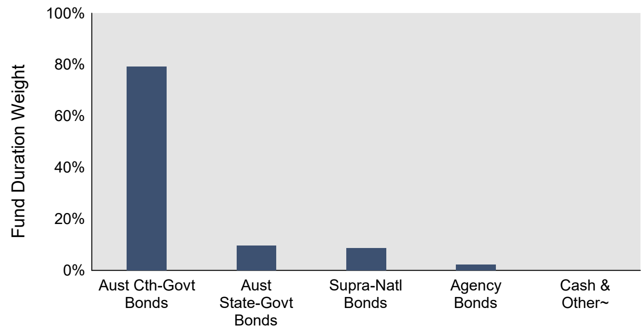
Characteristics***	Fund	Benchmark**
Modified Duration (yrs)	6.41	6.49
Yield to Maturity (%)	1.22	0.99
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	0.72	n/a

Source: JamiesonCooteBonds Pty Ltd.

Allocation by Rating (Duration Weight)***



Allocation by Sector (Duration Weight)***



Platform Availabilty

AMP MyNorth	Asgard	Ausmaq
Aust Money Market	BT Panorama	BT Wrap
Colonial First Wrap	HUB24	Implemented Portfolios
Linear	Macquarie Wrap	Mason Stevens
MLC Navigator	MLC Wrap	Netwealth
PowerWrap	Praemium	uXchange
Xplore Wealth		

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. Individual Investor level taxes are not taken into account when calculating returns.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

Bond markets were on the backfoot in September after very strong performance over the Northern Hemisphere summer period. The rise in Debt Capital Market issuance is often a period where yields can move higher in expectation of increased corporate supply coming out of the holiday season in the major financial markets of London and New York. Market attention has been dominated by the politics of Washington, as Democratic infighting has caused difficulty in securing passage of key legislation to pay the debts of the administration's abundant spending programs. With the Republicans playing politics on the issue and refusing to support any Senate bill around an extension of the debt ceiling, it will likely be left for progressive and moderate Democratic Senators to find common ground around policy to secure the required votes as a party to pass the bill to extend the debt ceiling. The major battleground remains the size of future Democratic spending programs, slated to be multi trillion under President Bidens "build back better" social programs. Holding out are moderate Democratic senators, Kyrsten Sinema of Arizona and Joe Manchin of West Virginia who have placed a flag in the sand on the issue looking for more fiscal conservatism in future debt fuelled spending programs. Without these moderate Senators, and Republicans playing politics, the Democrats risk managing the US Government into a monetary crisis, running out of money in mid-October, with a potential to also default on debt securities which could lead to a significant shock to capital markets. The stakes are high and voting margins are razor thin.

Looking beyond the short term of Washington politics, the markets have a number of issues to process as the year ends and looking into 2022. The US Federal Reserve (the Fed) has announced its intention to taper bond purchases, likely beginning in November. This taper has been widely expected by markets, being part of the Fed conversation for some time. Whilst such a move will reduce the amount of buying conducted by the Fed, Government bond supply will also be significantly curtailed coming into 2022, as the US Government enters the largest expected fiscal contraction of recent times, with deficit spending falling from 13.5% of GDP (estimated for full year 2021) towards 5 to 6%. On these estimates, this would make this contraction larger than the reduction in spending after WWII. Markets seem to be blissfully missing this fiscal cliff for now, but the macro drag will be pronounced into 2022.

Energy prices in Europe and China are also a cause for concern, biting into economic recovery (emerging markets are very sensitive to energy prices) and bringing supply side inflation concerns to market. Given it is pre-winter, already elevated prices will likely become political issues for much of Europe suffering from disruptions of natural gas from the North Sea, lack of wind seeing renewable production levels fall and struggling to provide on ageing and poor infrastructure. China has also experienced energy shocks, as Beijing imposes limitations on usage to promote efficiency, reflecting the struggle to balance economic growth with efforts to rein in pollution and emissions of climate-changing gases.

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As Australia exits its lockdowns into October, we expect a short jump in economic data on a reopening surge, however, we believe economic scarring will occur as a result of pronounced lockdowns and data will fall away to return to trend after a summer bounce, similar to the experience of Northern hemisphere economies. This period of change can have an effect on social psyche, as folks try and return to normal to find it's not the normal they remember and much has changed from 2019. This is disorientating and unpredictable, meaning consumer behaviour and economic activity can become more complex to model.

Conflict is likely between the government and private sector as to who shares the blame and who is responsible for the solution. Whilst funding conditions remain highly accommodative and will remain so, with the RBA doubling down on no rates hike before 2024. "Animal spirits''- a term often referred to by the RBA, is expected to be highly muted for the lifeblood of the economy being small business creation. Lockdowns and all the uncertainty they have generated, combined with stop start government programs of assistance for such businesses can create a very cautious small business sector as the economy reopens. We continue to expect that Australia and the RBA remain at the rear of any policy normalisation.

Fund Review

For the month ending September, the CC JCB Active Bond Fund - Class A units (the Fund) returned -1.79% (after fees), outperforming the Bloomberg AusBond Treasury (0+Yr) Index.

Domestically the Australian rates market underperformed its global peers through the month which caught the market off-guard, particularly given the weaker economic data, increasing Covid-19 cases and the RBA extending its buying mandate until mid-February 2022 from its initial November 2021 end date. Coupled with those RBA actions, Governor Lowe reinforced that conditions for a rate hike would likely not be achieved until 2024. The market ignored the fundamental reasons which were expected to be supportive and pivoted lower in the second half of the month as it continued its thematic for 2021 with a reversal lower following completion of the quarterly Australian bond futures expiry roll, like what was witnessed in March and June.

For the first half of the month, global rates remained in a well confined trading range as the market awaited the US Federal Reserve (US Fed) meeting and shrugged off the weaker than expected US employment number which was well short of forecasts. The US employment weakness continued to endure Covid induced fallout as August saw zero net new hiring in the hospitality and leisure sectors. The clock on US Fed tapering the balance sheet continues to get run down and at the monthly US Fed meeting where Jerome Powell expanded on details suggesting it "could come as soon as the next meeting" and be completed by mid-2022. The market seemed to take the tapering signal in its stride however a hawkish shift in the dot plots which telegraphed that officials are now evenly divided on rate hikes beginning as early as 2022 helped yields higher. Into month end, global rates encountered technical selling as the Evergrande narrative started to show signs of headline fatigue, the Bank of England suggested there is potential for a rate hike at its next meeting on 4th November and as energy prices continued their ascent.

Looking ahead the Fund will focus on positioning itself ahead of the narrative thematics for 2022 which JCB believes will be around fiscal drag, exuberant growth expectations and the ramifications of any Central Bank liquidity withdrawal. The Fund will look to take advantage of any extensions to the downside in rates – particularly in the domestic shorter end given the differing tapering timelines and the commitment from the RBA to keep rates on hold .

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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), as a percentage of overall portfolio duration. 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