JAMIESON COOTE BONDS

Fund Update as at 31 October 2022
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]	1.12%	-3.06%	-2.09%	0.43%	-7.58%	-3.54%	0.51%	0.52%
Benchmark Return[2]	1.22%	-2.96%	-1.82%	0.49%	-7.13%	-3.37%	0.76%	0.51%
Active Return (After fees)	**-0.10%**	**-0.10%**	**-0.27%**	**-0.06%**	**-0.45%**	**-0.17%**	**-0.25%**	**0.01%**

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

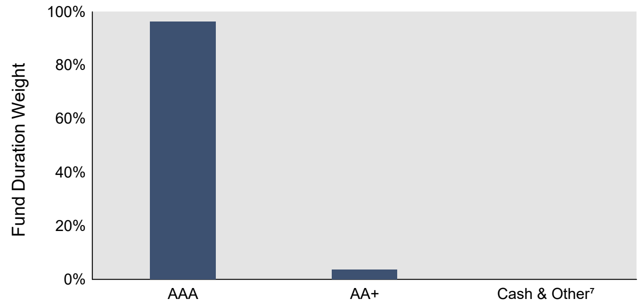
Investment Manager	JamiesonCooteBonds Pty Ltd
Structure	AAA or AA rated bond securities issued in Australian dollars
Inception Date	03 Aug 2016 [3]
Benchmark	Bloomberg AusBond Treasury 0+ Yr Index
Management Fee	0.45% p.a.[4]
Administration Fee	0.10% p.a.[4]
Buy / Sell Spread	0.05% / 0.05%
Distributions	Semi-annual
Fund Size	AUD $1,115 million [5]

Fund Characteristics

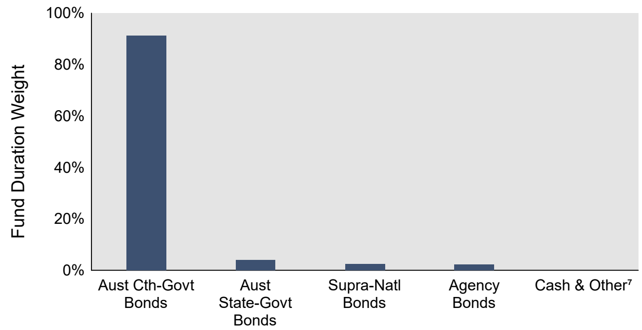
Characteristics[6]	Fund	Benchmark[2]
Modified Duration (yrs)	5.87	5.64
Yield to Maturity (%)	3.65	3.5
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	0.39	n/a

Source: JamiesonCooteBonds Pty Ltd.

Allocation by Rating (Duration Weight)[6]



Allocation by Sector (Duration Weight)[6]



Platform Availabilty

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

Further Information

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[1] 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. [2] Benchmark refers to the Bloomberg AusBond Treasury 0+ Yr Index. [3] Inception Date for performance calculation purposes. [4] All figures disclosed include the net effect of GST and RITC. [5] Fund size refers to the CC JCB Active Bond Fund ARSN 610 435 302. [6] Refer to Definition of Terms. [7] Cash & Other includes cash at bank, outstanding settlements and futures margin accounts.

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Market Review & Outlook

After a furious pace of rate hiking the world over, many Central Banks are now slowing the pace of their rate hiking programs, lowering the rate of change as they approach or exceed their own neutral rates of interest in their domestic economies, bringing policy to restrictive settings. This was inevitable after a frenetic period of acknowledgement that the war in Ukraine had turbo-charged supply pressures in global energy and food markets, and caught Central Bankers well behind the curve after overly generous Covid-19 support programs and record low interest rate settings.

Is this the 'pivot' moment (which was previously discussed in this column), where investors can find comfort in more supportive policies to help their asset portfolios perform? We don't believe so, as the Central Banks who have slowed their programs thus far - the Reserve Bank of Australia (RBA), Bank of Canada and European Central Bank (ECB), have suggested they will continue to hike at a slower rate as they assess the work already completed from rapid rate rises over 2022 to date – acknowledging the long lag effects of monetary policy. In moving at a slower pace, they still expect higher interest rates in the following months, as the bond markets have already priced in adjustments for this expectation.

We are sympathetic with an approach that allows Central Bankers a period of observation and reflection given that rate hikes tend to have a delayed effect on economic growth and inflation rates. The question all Central Bankers are asking to find the 'pivot' is whether the forward-looking or leading data has softened enough to signal a less aggressive stance which would bring them to a pause in rate hikes. This will likely require a softening in the labour markets, further adding weight to slowdowns of economies and easing of demand to meet available supply and restore equilibriums.

Credibility is paramount for any Central Bank (and any government as we found out in the UK in September!). Whilst economic data can be open to interpretation as to its relevance and even accuracy in devising monetary policy (especially for the ECB where there are a myriad of factors driving growth and inflation across 27 countries), Central Bankers will likely be cautious about stopping early and facing the renewed rise of the inflation monster, preferring to slow the rate of appreciation and buy some time to view the effects of prior adjustments. However, over the medium term they will likely face an ongoing amplitude in many prices as supply shortages followed by increased supply or lower demand will cause ongoing pricing volatility. The European energy crisis is the current observation point. So far, Europe and North America are enjoying an unseasonably warm spring period which has caused some chaos with near short-dated energy markets that have little storage capacity after being filled to see out the impending winter. Europe has continued to order shipped delivery of natural gas to replenish usage in the late spring period, but the ships have arrived without the ability to unload easily as many storage facilities are essentially full. This has caused near term gas prices to trade at negative values – like the Oil price at the height of global lock downs in the early pandemic period. This will generate lower inflation outcomes which will feed into future inflation data – but this is hardly a normal or steady state, and once the price of natural gas adjusts as winter arrives and usage increases, this will drive gas prices higher, creating amplitude to the data series over time.

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We know that as a rate of change concept, headline inflation is likely to fall rapidly into early 2023 as the data series drops the oldest data (high inflation numbers from 12 months ago) and replaces the series with the current lower inflation numbers (thanks to stable energy and falling/normalising goods and freight prices), thereby lowering the headline year-on-year inflation number. If we look at the rolling 3 month inflation prints from the US data, the velocity has already collapsed, with annualised readings of 8.8%, 10.4%, 10.4%, and the latest 3 month period annualised at just 2.0%.

This fall or debasing effect in inflation prints should provide a window to peak policy interest rates early into 2023, after which the markets expect some change in the cycle where Central Banks can pause or cut rates if the economy has slowed significantly with the largest swing factor to these outcomes remaining 'energy' in the inflation equation.

For now, whilst we continue to expect the delayed effect of rate hikes, the latest data doesn't suggest the US economy (as our global barometer) is poised for a nosedive, nor does it argue strongly for a shift in sentiment to a more neutral stance on rate hikes. Whilst there have been some worrying signs of an economic downturn in the UK in the most recent data (weak retail sales, deteriorating manufacturing data and housing readings over the last few weeks) they are probably not compelling enough to outweigh the need to combat CPI inflation at above 10% - so markets continue to expect further tightening of policy. Barring an unexpected shock, we are still some way from a 'pivot' moment that will deliver more policy comfort for investors.

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Fund Review

For the month ending October, the CC JCB Active Bond Fund - Class A units (the Fund) returned 1.12% (after fees), underperforming the Bloomberg AusBond Treasury (0+Yr) Index.

In a year of volatility across the global economy and financial markets, October was no different, with as many headlines and catalysts for prices to oscillate than any month of the year so far.
Having warned the market in previous communication that the pace of hikes may slow down, the global bond market was still caught off guard when the Reserve Bank of Australia (RBA) moved back to a 25 basis point hike (from 50 point hikes at the prior 4 RBA Board meetings). This had an outsized impact on global markets as the hope that central banks globally may be entering a coordinated slowing in the aggressive hiking cycles that we have seen over 2022, seeing bond markets rally to lower yields immediately after the decision.

This bond market rally was short lived however, as markets again were faced with strong US data prints including upside surprises to the CPI (Headline +8.25 YoY) and continued labour market strength (263,000 jobs created). These data points led to new cycle highs in 10y UST yields before the bond bulls returned to the market and saw aggressive rallies in the order of 60 basis points in the last week of October.

We have spoken a lot this year about the potential for central bank divergence in their policies due to different fundamentals, and in the final week of October, these themes are finally starting to come into fruition in a year when the correlation of bond markets across all central banks has been led by aggressive tightening out of the US. Other central banks, battling their own domestic inflation issues have also been affected by the global issues and yields dragged higher by the US economy.

The month of October saw the US bond yields underperform their global counterparts, led by Australia, Europe and Canada. October was the first time we did see what seemed to be a coordinated signal that a slow-down in rate hikes was upon us, and this would mean that the majority of the painful sell-off we have seen in 2022 may be behind us. This was evidential in the central bank highlights for the month including:
- The Reserve Bank of Australia hiking 25 basis points (bps) when 50 bps were expected, citing the lag effects of monetary policy.
- The Bank of Canada increased its policy rate by 50 bps, to 3.75%, a dovish surprise relative to the 75 bps hike that markets had priced in, noting that “we are getting closer” to the end of rate rises.
- The Bank of England hiked 75 bps as expected (but still the single largest hike in over three decades), taking the policy rate to 3%, with Governor Andrew Bailey noting that "we think bank rates will have to go up by less than currently priced in financial markets."
- The European Central Bank stated that "substantial progress in withdrawing monetary policy accommodation" has been made after a 75 basis point hike.
- The Wall Street Journals Nick Timiraos (the unofficial but well informed mouth piece for the US Federal Reserve (US Fed)) noted that it was likely the US Fed would step down to 50 bps increments for the December Federal Open Market Committee meeting.
- The US Fed’s Mary Daly made a statement that “the time is now to start planning for stepping down [in rate hikes] which the market interpreted as very dovish and put a bid into risk markets.

It is important to note that a slow down in the velocity does not necessarily mean a pivot, despite how much risk markets would love for this to happen, but just a signal that central banks cannot continue to hike rates at the pace they have without inflicting generational pain to global growth.
Overall, Australian Government bonds have outperformed the US market as the rate hiking profile in Australia continues to be much shallower than the US (despite a 7.3% YoY inflation number). We believe this outperformance can continue as the terminal rate should stay lower in Australia due to the structural differences in the interest rate transmission mechanism. In the spread product, Semi-Government and Supranational bonds widened on the month in line with global credit spreads and swap spreads.
Liquidity in global markets remains at a premium, as bank ability an appetite to warehouse bonds decreases into year end, which will pose potential risks to risk assets in general if there is a credit squeeze.

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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