JCB

JAMIESON COOTE BONDS

CC JCB Dynamic Alpha Fund (APIR: CHN8607AU)
Fund Update as at 31 March 2022

Fund Performance

Returns	1 month	3 months	6 months	FYTD	1 year	2 years p.a.	3 years p.a.	Since inception p.a. (30-Dec-2019)
Fund Net Return[1]	-0.55%	-0.65%	-1.21%	-0.60%	-0.21%	1.52%	-	2.31%
Benchmark Return[2]	0.00%	0.01%	0.02%	0.03%	0.04%	0.07%	-	0.13%
Active Return (After fees)	**-0.55%**	**-0.66%**	**-1.23%**	**-0.63%**	**-0.25%**	**1.45%**	**-**	**2.18%**

Fund Benefits

Active Management

The CC JCB Dynamic Alpha Fund is designed as an absolute return product, that aims to deliver stable and consistent returns over time - regardless of share and bond market movements. JCB applies a range of hand-picked risk-controlled investment strategies to a universe of global high grade sovereign bonds (i.e. anchored by G7 nations, as well as Australia). It offers a high level of liquidity in Government issued instruments, without corporate credit exposure.

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 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

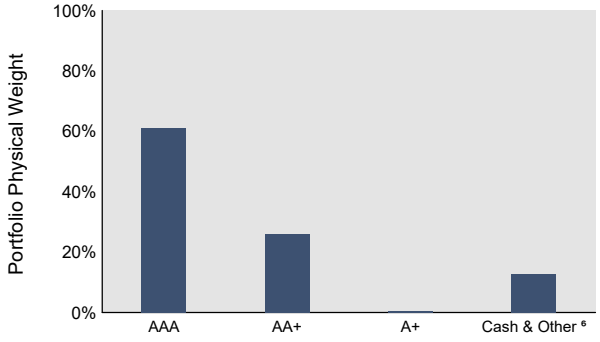
Investment Manager	JamiesonCooteBonds Pty Ltd
Portfolio Managers	Charles Jamieson & Chris Manuell
Style	Global absolute return bond fund - concentrating on actively managing global high grade sovereign bonds
Objective	Outperform the RBA Cash Rate by 2.50% p.a. (after fees) over rolling 3 year periods
Inception Date	30 Dec 2019 [3]
Benchmark	RBA Cash Rate
Management Fee	0.58% p.a.[4]
Administration Fee	0.10% p.a.[4]
Buy / Sell Spread	0.05% / 0.05%
Distributions	Quarterly
Fund Size	AUD $568 million [5]

Fund Characteristics

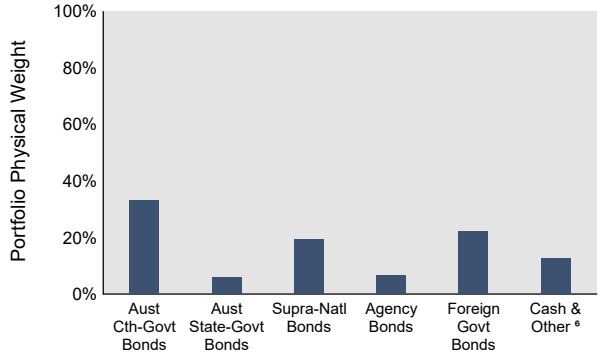
Characteristics	Fund
Modified Duration (yrs)	0.51
YTM + Hedging Effect	2.1
Weighted Ave. Credit Rating	AA+

Source: JamiesonCooteBonds Pty Ltd.
See Definition of Terms.

Asset Allocation by Credit Rating (Physical Weight)



Asset Allocation by Sector (Physical Weight)



[1] Performance is for the CC JCB Dynamic Alpha Fund (APIR: CHN8607AU), 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 RBA Cash Rate Total Return 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 Dynamic Alpha Fund ARSN 637 628 918. [6] Cash & Other includes cash at bank, outstanding settlements and futures margin accounts.

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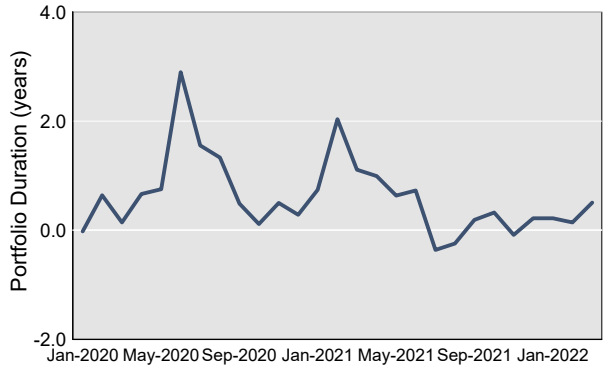
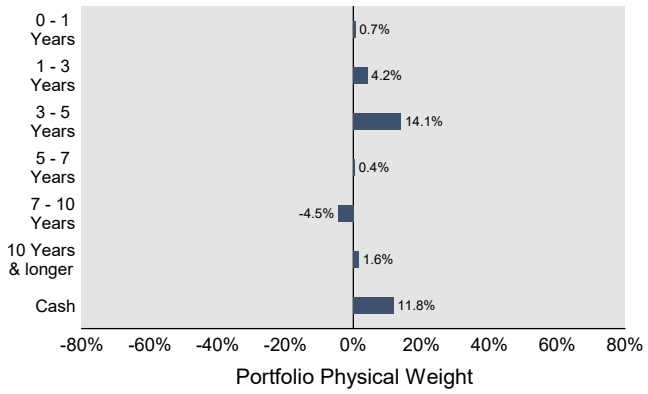
Historic Portfolio Duration



Asset Allocation by Duration (Physical Weight)*



*Asset allocation totals (Duration Band) are the net position of physical bond and bond futures exposure and will be positive or negative depending on the portfolio positioning as selected by JCB.

Fund Review

For the month ending March, the CC JCB Dynamic Alpha Fund – Class A units (the Fund) returned -0.55% (after fees), underperforming the RBA Cash Rate Total Return Index.

The ides of March were applicable for the bond market which rounded out a challenging quarter for bond investors, which also coincided with the end of the Japanese fiscal year and the subsequent reduction of fixed income assets. An acceleration of the sell-off through the month pushed yields to levels not witnessed since the previous U.S Fed hiking cycle of 2018. The cocktail of hawkish factors included higher inflation on a realised and forward-looking basis, a notable uplift in hawkish dialogue from global Central Banks and continued geopolitical risks from the Russian/Ukraine conflict fuelling inflationary expectations. Into month end there was a barrage of hawkish comments from U.S Fed officials talking up the need for 50 basis point rate hikes which jolted U.S front end rates higher and accelerated the flattening of the U.S curve and global short end markets. Jamieson Coote Bond's long held view that the U.S Federal Reserve have been behind the curve in their tightening cycle and believe a 50 basis point hike is a good opportunity to send a strong message to the market of their intentions to dampen inflation and choke demand in the process.

The main detractor of attribution for the month was exposure to Australian short end bonds which suffered from the heightened hawkishness of the Central Bankers and selling from Japanese investors into their financial year end. Currently, the markets are pricing in more than double our estimated tightening amount from the Reserve Bank of Australia (RBA), which Jamieson Coote Bonds believe is a significant overstep. The expected RBA implied policy rate in 2 years is above 3.52%, more than 50 basis points higher than that of the U.S Federal Reserve, suggesting that the RBA can raise rates faster than the U.S Fed which Jamieson Coote Bonds believe is a blatant mispricing. Risk management remains paramount, and we stopped on a long position in Australian 3 yr futures after technical levels were breached following the quarterly roll, the liquidation was validated shortly after as U.S Fed's, Jerome Powell, said he was willing to support a 50 basis point hike if needed. The Fund benefited from tactical allocations in European rates and a low-risk curve structure in U.S Treasuries.

Jamieson Coote Bonds believe that market pricing is now sufficiently hawkish and that a period of stabilisation is likely in the coming months. A fall in bond volatility will encourage investment flows into bonds combined with anticipated pension and institutional fund demand as yields have entered zones that that remain very appealing from a long-term valuation. As we are quickly approaching strong seasonality, several things line up to suggest we are getting very close despite some large Consumer Price Index prints which lay ahead – to a more range bound investment environment for bonds. The Fund will benefit from the compelling roll and carry in short end bonds and the opportunities afforded for tactical investing in more defined and cyclical ranges.

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Market Review & Outlook

The outbreak of conflict between Russia and Ukraine sent commodity markets rapidly higher, further fueling inflation concerns in the near term via the energy channels. Bonds initially enjoyed a flight to quality movement as markets were concerned over the prospect of an escalation to global or nuclear conflict, but as the days passed and the North Atlantic Treaty Organisation (NATO) refused to be drawn in directly, the markets pivoted to expect conventional warfare in a contained and localised battle. This removed the flight to quality from bonds and saw risk markets enjoy a stunning recovery over the month. The subsequent lift in inflation expectations via the energy channels shifted the rhetoric of U.S Federal Reserve (U.S Fed) who have now suggested they are intent of destroying demand in the economy to cool inflation pressures. Having missed the window to remove accommodative policy settings into the re-opening economic strength last year, the U.S Fed will now be taking markets on their fastest hiking cycle of recent times as the economy is already cooling rapidly from diminishing stimulus and higher energy costs. This is clearly evident in the new order component of the ISM surveys.

The speed of these moves is truly historic. As the markets have lurched to reprice the expectations of the U.S Fed policy from gradualist to violent, the U.S Treasury Bond curve has inverted at a rapid pace (where the yield on a 2yr bond is higher than the yield on a 10 year bond). These curve inversions have a near perfect prediction capability of calling impending recessions within a 6 to 18 month lag effect. But the speed of this hiking cycle is generating great debate about how long may be required until a recessionary environment may occur. In the hiking cycle of 2004-2006, this curve inversion was not achieved until the U.S Fed had hiked rates 15 times. In the U.S Fed hiking cycle of 2015-2018, this inversion was achieved after the 9th rate hike. In this current hiking cycle of 2022, the curve inverted 13 days after the 1st rate hike. So, the markets are acknowledging the U.S Fed's desire to now crush inflation by killing demand, but the danger remains that in that process the U.S Fed may also kill the economy (this is why longer dated bonds yield less than shorted dated bonds). This clearly has a vast array of asset allocation implications in the near term once the U.S Fed begins tightening financial conditions rapidly via the interest rate channel.

Over the month of March, the Reserve Bank of Australia (RBA) finally started acknowledging what markets have been suggesting for some time, that interest rate hikes will be required in calendar year 2022. Our base position has remained that the RBA needs to get the cash rate to 1.00% (from its emergency setting of 0.10% currently) by year end, before hiking again in the first half of the year to a terminal rate of 1.50% to 1.75%. From the second half of 2023 onwards, the roll off of fixed price mortgages from sweetheart deals available during Covid will reset to current market rates at vastly higher interest rates (Commonwealth Bank of Australia have already increased fixed rate mortgage rates 8 times), providing a natural dampening effect on the economy. Currently, the markets are pricing in more than double our estimated tightening amount from the RBA, which we believe is a significant overstep. The expected RBA implied policy rate in 2 years is above 3.52%, more than 50 basis points higher than that of the U.S Federal Reserve, suggesting that the RBA can raise rates faster than the U.S Fed. This looks excessive for Australia given the large starting inflation differentials with current year on year inflation are currently at 3.5%, whilst the USA is 7.9%. Both of these numbers will move higher into Q2 as a result of the war based shock to energy, however, the U.S has more than twice the inflation issue of Australia at this time.

Given the recent moves in fixed income we are expecting a period of significant interest from investors to rebuild liquid defensive exposures, as many clients have been underweight since the exceptional performance through the Covid turmoil of March 2020, and are now reconsidering their allocations. Jamieson Coote Bonds believes a period of consolidation is likely as the move has been historic in both speed and size, and driven by expectation of Central Bank actions. As these actions become delivered realities and economies are affected by their outcomes, the scope for moves based on momentum will diminish and be replaced by investors seeking high quality liquid assets to navigate their portfolios through the seismic policy changes ahead.

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Further Information

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Platform Availabilty

AMP MyNorth	Ausmaq	Aust Money Market
BT Panorama	Colonial First Wrap	HUB24
Implemented Portfolios	Macquarie Wrap	Mason Stevens
Netwealth	Powerwrap	Praemium
Xplore Wealth		

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.
YTM + Hedging Effect - is the total return anticipated on the portfolio if the bond holdings were held until their maturity, including the cost or benefit associated with the currency hedge.
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.

Channel Investment Management Limited ACN 163 234 240 AFSL 439007 ('CIML') is the Responsible Entity and issuer of units in the CC JCB Dynamic Alpha Fund ARSN 637 628 918 ('the Fund'). The appointed Investment Manager is JamiesonCooteBonds Pty Ltd ACN 165 890 282 AFSL 459018 ('JCB'). Neither CIML 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 CIML 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 at www.channelcapital.com.au. A Target Market Determination for the Fund is available at www.channelcapital.com.au.