



# CC JCB Dynamic Alpha Fund (APIR: CHN8607AU)

## Fund Update as at 30 April 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 <sup>1</sup>	-0.37%	-1.11%	-1.11%	-0.98%	-0.76%	1.12%	-	2.07%
Benchmark Return <sup>2</sup>	0.00%	0.01%	0.02%	0.03%	0.04%	0.06%	-	0.13%
<b>Active Return (After fees)</b>	<b>-0.37%</b>	<b>-1.12%</b>	<b>-1.13%</b>	<b>-1.01%</b>	<b>-0.80%</b>	<b>1.06%</b>	<b>-</b>	<b>1.94%</b>

### 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

<b>Investment Manager</b>	JamiesonCooteBonds Pty Ltd
<b>Portfolio Managers</b>	Charles Jamieson & Chris Manuell
<b>Style</b>	Global absolute return bond fund - concentrating on actively managing global high grade sovereign bonds
<b>Objective</b>	Outperform the RBA Cash Rate by 2.50% p.a. (after fees) over rolling 3 year periods
<b>Inception Date</b>	30 Dec 2019 <sup>3</sup>
<b>Benchmark</b>	RBA Cash Rate
<b>Management Fee</b>	0.58% p.a. <sup>4</sup>
<b>Administration Fee</b>	0.10% p.a. <sup>4</sup>
<b>Buy / Sell Spread</b>	0.05% / 0.05%
<b>Distributions</b>	Quarterly
<b>Fund Size</b>	AUD \$485 million <sup>5</sup>

<sup>1</sup> 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. <sup>2</sup> Benchmark refers to the RBA Cash Rate Total Return Index. <sup>3</sup> Inception Date for performance calculation purposes. <sup>4</sup> All figures disclosed include the net effect of GST and RITC. <sup>5</sup> Fund size refers to the CC JCB Dynamic Alpha Fund ARSN 637 628 918. <sup>6</sup> Cash & Other includes cash at bank, outstanding settlements and futures margin accounts.

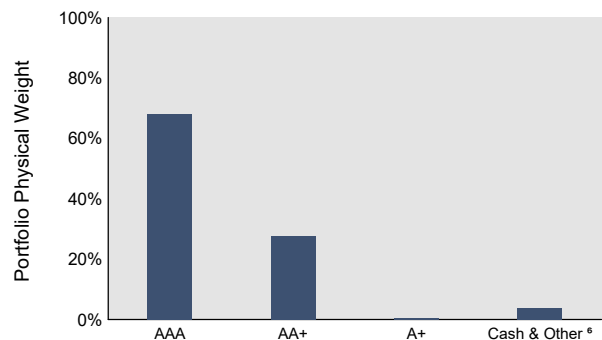
### Fund Characteristics

Characteristics	Fund
Modified Duration (yrs)	-0.01
YTM + Hedging Effect	2.69
Weighted Ave. Credit Rating	AA+

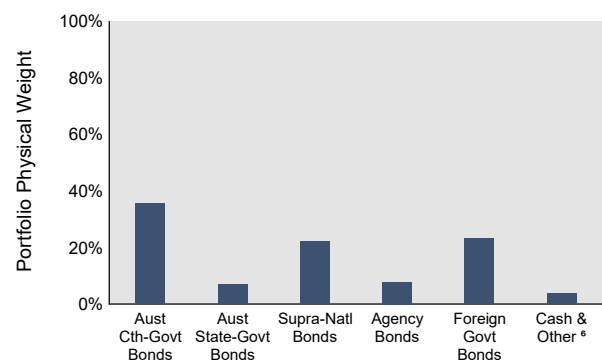
Source: JamiesonCooteBonds Pty Ltd.

See Definition of Terms.

### Asset Allocation by Credit Rating (Physical Weight)



### Asset Allocation by Sector (Physical Weight)

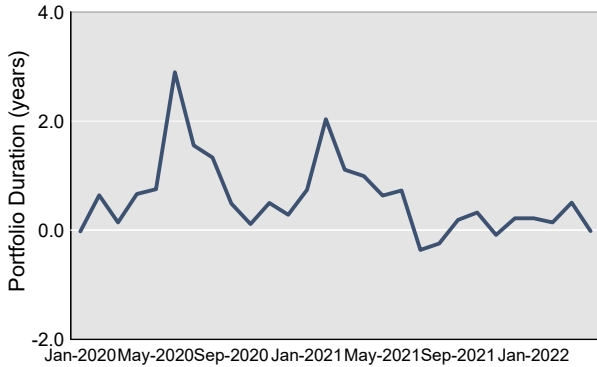




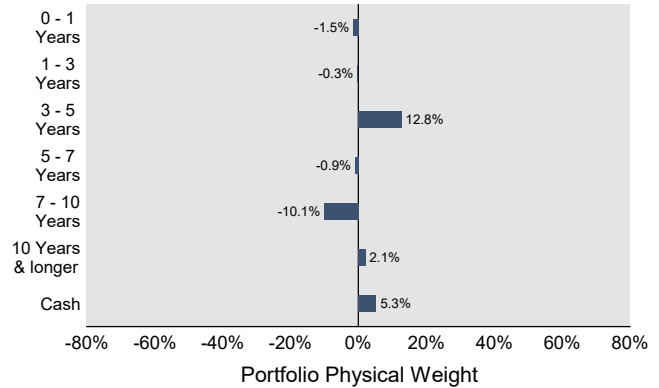
JAMIESON COOTE BONDS

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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 April, the CC JCB Dynamic Alpha Fund – Class A units (the Fund) returned -0.37% (after fees), underperforming the RBA Cash Rate Total Return Index.

Global Bond markets suffered more pain in April as cross asset volatility remained persistent. The strong pressure from US Fed officials persisted with calls for 50 basis points (bp) for the May meeting and a higher neutral rate, with US Fed Bullard being quite vocal in calling for a 75 bp first hike. Bank Of Canada hiked 50 bp to 1% and suggested further 50 bp hikes were possible, Reserve Bank of New Zealand also hiked by 50 bp to 1.5% although countered that with the messaging “larger moves now” generate more “policy flexibility ahead”. The European Central Bank even joined in on the hawkish behaviour as they communicated that a July rate hike is possible. The US, Canada and Australia all recorded stronger than expected inflation data which exacerbated the bearish sentiment in bonds. Despite this tightening bias, Bank of Japan swam against the Central Bank tide as they held rates steady and defended their Yield Curve Control policy pledging unlimited purchases of Japanese Government Bonds every day which could trigger a sharp move lower in Yen.

The slowdown in the global growth narrative started to permeate as financial conditions started to tighten with the UK recording some dismal data as their consumer confidence slumped to the lowest level since 2008 and retail sales disappointed. Growth concerns also emanated from China as Covid-19 spread to Beijing which triggered rigorous lockdowns. Domestically the bond market was on the defensive following a hawkish pivot from the Reserve Bank of Australia (RBA) as they removed a reference to be “patient” and despite leaving rates on hold in April the market latched on to the chances of an RBA rate lift-off and proceeded to aggressively ramp up expectations of impending rate rises.

The Fund performance dragged through the month as the portfolio had exposure to the Australian short end, which JCB felt that the market was pricing-in an aggressive amount of tightening given: the guidance provided by the RBA; the different inflation profile to its global peers; and the high debt-load prevalent in Australia.

JCB is cognisant of the bearish price action in global rates as the momentum trade lower persists amidst the Central Bank tightening narrative. We are awaiting a period of stabilisation and as the slowdown in global economic growth starts to permeate with the tightening financial conditions. The slowdown in momentum and extreme bearish sentiment should line up with a seasonally bullish period for bonds that is approaching. Peak inflation and decent valuations as the US 10 year oscillates around 3.00% should provide a more stable investing environment in bonds.



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### Market Review & Outlook

After warning of challenges for asset markets since the beginning of the year, April has delivered a wake up call across many asset markets (ex commodities), as the realisation that higher interest rates will dramatically effect not only bonds but have an outsized impact on corporate credit, equities and property. As the triple crutches of policy support continue to be withdrawn in 2022 (Qualitative easing (QE), low interest rates and fiscal spending), economic momentum is slowing or stalling the world over with a global recession now widely expected into year-end or early 2023. Consumer confidence remains extremely poor, despite the majority of planned major rate hikes priced by Wall St markets and remain yet to be delivered to the Main St economy, which JCB feels will further reduce confidence, demand and spending in economics.

Bonds initially lead the underperformance of asset markets in 2022, but the selloff in other asset classes has now accelerated significantly in April for credit and equities (JCB believes that bonds are the freight train on a long series of assets and ultimately pull other markets via funding and discount rates moves), with US equities now down ~12% for S&P and ~20% for Nasdaq. Thankfully Australian equities are a significant global outperformer, helped by commodities and the inversion of the tyranny of distance – the blessing to be well geographically removed from current conflict issues in the world today. US high grade corporate credit has also suffered, following equities to accelerated underperformance and is now ~-13% YTD, after a large decline of -5.5% in April. It is worth noting that these returns are before any major credit event that may seize the market similar to the loss of confidence periods in Q4, 2018 and Q1, 2020. As corporate credit is a market of confidence, JCB believe that soaring interest rate hikes and reduced policy support delivered by Central Bankers to crush inflation expectations, can bring us to the difficult seizure point in markets as the year progresses. Asset correlation remains positive for now as rates lead markets to new policy environment, but as we are yet to experience a credit moment where asset quality and liquidity becomes paramount for investors, JCB would expect negative correlation to kick in hard for sovereign bonds should that moment be unfortunately realised. The key element to watch out for is refinancing, rolling existing obligations forwards. Where are the pressure points? What are the maturity walls? Who is struggling? JCB note there have already been a number of high yield issues that have been pulled from market due to 'volatility'. Should that read lack of interest? As credit is the financial oil that lubricates the economic machine, it is absolutely critical for market health that it stays functioning. It didn't in 2018, or 2020; both episodes required vast policy accommodation (rate cuts and QE) from Central Bankers. That cannot happen this time under the current framework and mandates until inflation falls.

The savour for markets will be lower inflation outcomes, which will save policy makers from slamming on the brakes with extra force. Any further shocks to inflation (China/Taiwan conflict, 2nd Global Covid-19 wave or energy infrastructure destruction) would likely cause a deep recession, should policy makers remain committed to slaughtering demand to take pressure off the supply side. Without further shocks, inflation does look set to significantly moderate over the balance of the year after suffering a string of unexpected shocks which has kept expected inflation readings higher in the near term. The re-opening boom in economies last year, fuelled by exceedingly generous policy accommodation long after the medical emergency had past, has run right into a food and energy crisis from the Ukraine/Russia conflict, which is further compounded by the lockdown of China and its manufacturing sectors. Inflation is unlikely to return quickly to any type of stable trend levels, with more volatility expected in readings as the world returns to a larger boom/bust cycle. This bust cycle is moving at a furious pace, we are likely to have a US Federal Reserve funds rate of 2.00% (from essentially zero) by July this year. In the last hiking cycle the credit markets seized and imploded at 2.50% Federal Funds rate – achieved in a stable and peaceful preCovid-19 world. This time because of the pace of hikes we might get further initially, before policy makers move from the brakes to the accelerator to stimulate if inflation allows, but make no mistake in the interim. These policy adjustments using monetary policy with this much force is a blunt instrument to crush demand, attempting to alleviate a supply side pressure. Central Bankers are telling us it will be a "soft landing". JCB don't agree that dealing with these highly complex issues is quite that simple. The one thing that JCB can recommend in a highly uncertain world – markets will remain very volatile and that alone drives risk premiums higher in all asset markets.



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### Further Information

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### Platform Availability

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](http://www.channelcapital.com.au). A Target Market Determination for the Fund is available at [www.channelcapital.com.au](http://www.channelcapital.com.au).