



## CC JCB Dynamic Alpha Fund (APIR: CHN8607AU) Fund Update as at 31 May 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>	0.52%	-0.41%	-0.48%	-0.46%	-0.29%	1.09%	-	2.21%
Benchmark Return <sup>2</sup>	0.02%	0.03%	0.04%	0.06%	0.06%	0.07%	-	0.13%
<b>Active Return (After fees)</b>	<b>0.50%</b>	<b>-0.44%</b>	<b>-0.52%</b>	<b>-0.52%</b>	<b>-0.35%</b>	<b>1.02%</b>	<b>-</b>	<b>2.08%</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 \$443 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.

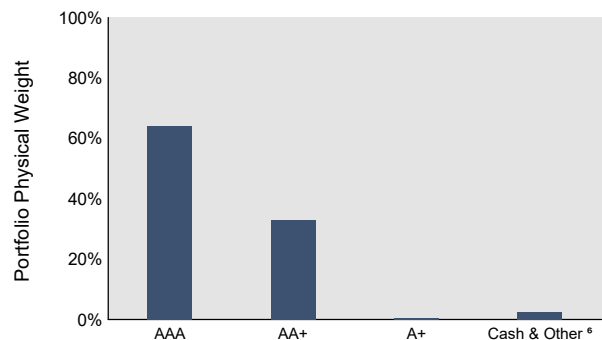
### Fund Characteristics

Characteristics	Fund
Modified Duration (yrs)	0.7
YTM + Hedging Effect	2.43
Weighted Ave. Credit Rating	AA+

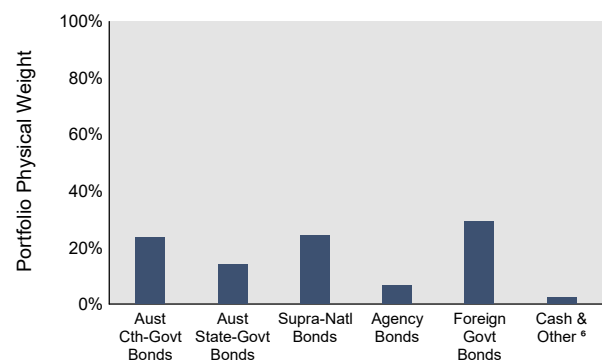
Source: JamiesonCooteBonds Pty Ltd.

See Definition of Terms.

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



### Asset Allocation by Sector (Physical Weight)

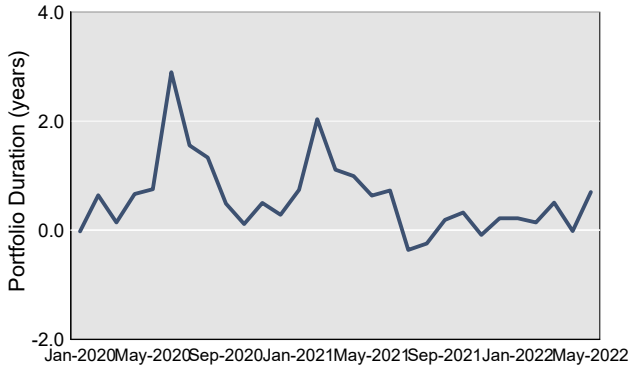




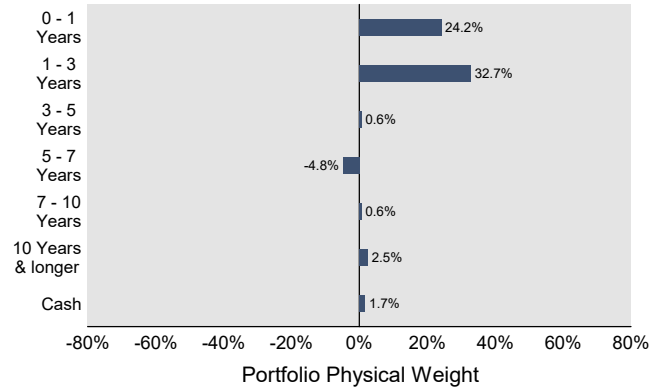
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## Historic Portfolio Duration



## 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 May, the CC JCB Dynamic Alpha Fund – Class A units (the Fund) returned 0.52% (after fees), outperforming the RBA Cash Rate Total Return Index.

At the US Federal Reserve (US Fed) meeting on May 4, the US Fed hiked rates by 50 basis points (bp), however they pushed back on the option of going 75 bp. US Fed Chairman Powell opined that “inflation is far too high” and there seemed to be agreement among the committee that similar sized rate increases “should be on the table for the next couple of meetings”. With equity market weakness and a general downturn in risk sentiment, allowed US 10-year yields to stabilise around the 3% zone and the tightening of financial conditions impacted risk markets which was corroborated with a slowdown in economic data. The general tone from US Fed speakers through the month continued the thematic of pursuing tighter policy however there was a subtle shift in the hawkish narrative from US Fed Bostic on May 23 when he commented that “a pause in September might make sense” – this helped support risk markets and allowed some respite from the selling pressure of fixed income in 2022.

As European rates were under pressure through the month even if the hawkish overtures from the European Central Bank members were in the face of a slowing economy and dampening consumer confidence. This was later supported by the European Commission’s forecast as they revised GDP down to 2.7% from 4.0% for 2022. JCB will continue to monitor developments in Europe as they have long been the anchor for global rates and the secular lower economic growth story might provide difficulties for the ECB to tighten aggressively. The correlation with the Australian bond market also remains from a flow perspective and can provide insight into the tactical direction of Australian bond markets.

Domestically, the Reserve Bank of Australia, who were late to the Quantitative Easing party, were now arriving late to the global hiking party as they hiked 25 bp to a unique rate of 0.35% - with market expectation for a 15 bp hike. Minutes released later in the month demonstrated that the members discussed hiking by 15 bp, 25 bp or 40 bp. The Fund will continue to look at generating income in the short end of the Australian curve as yields return to the shorter end.

The Fund experienced a solid performance for the month as the investment process remained in place and the compelling carry and roll of the shorter end was cultivated in a risk-adjusted manner. The main thematic for the portfolio throughout the month was to switch into the short end of the Australian bond market given the appealing rates on offer with the changing dynamics and movement in short term interest rates. Going forward the Fund will look to benefit from the opportunity set of changing macro-economic winds globally which should materialize from active Central Banks and the slowing of inflation.



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### Market Review & Outlook

May was a month where Central Bank actions and dialogue were disseminated as the geopolitical risks of the Russian/Ukraine conflict was largely forgotten and as the market weighed up the inflation versus growth slowdown story. At the US Federal Reserve (US Fed) meeting on May 4 the US Fed hiked rates by 50 basis points (bp), however they pushed back on the option of going 75 bp. US Fed Chairman Powell opined that “inflation is far too high” and there seemed to be agreement among the committee that similar sized rate increases “should be on the table for the next couple of meetings”. The general tone from the US Fed speakers through the month continued the thematic of pursuing tighter policy which was highlighted in the US Fed minutes released late in the month – “most” policymakers believed “50 bp increases in the target range would likely be appropriate in the next couple of meetings”. European Central Bank (ECB) members ran with the hawkish baton – Klaas Knot hinted at the chance of a 50 bp hike if inflation broadened and was supported through the month with comments from other members open to the possibility of that degree of tightening. The ECB President Lagarde penned a piece that highlighted the change in the inflation outlook, and it was now “appropriate” for an adjustment in interest rates and hinted that the Asset Purchase Program could end early in the third quarter. This is like taking candy straight from the baby’s mouth where markets and debt burdened households will now have to adjust to tightening financial conditions with the removal of monetary stimulus. These moves will almost certainly provide ongoing volatility to asset markets, potentially taking some asset classes a long way from perceived ‘fair’ value and blurring the signposts that investors often use to make forward looking decisions.

Fixed income markets often provide strong guidance to these developments, behaving like a locomotive on a long train of assets - ultimately where fixed income (Government bonds) travel many other asset classes can be pulled in time. This was reinforced last month as the US 10-year yields hovered around the magical 3% zone as tightening in financial conditions reminded equity and credit markets of their reliance on bond markets for their generous source of funding over the last few years. Financial markets were not the only area that that higher rates impacted through the month, it was also substantiated with a slowdown in economic data in the US manufacturing, housing and durable goods data all came in below expectations. The hawkish overtures from the ECB will be worth monitoring as Europe has long been the anchor for low global rates and the secular lower economic growth story might provide difficulties for the ECB to tighten aggressively. The UK started the rates sell-off last October and JCB will be watching for a change in tone as an early warning indicator that the momentum and narrative of higher rates globally is starting to slow as the demand destruction on the economy takes precedence. The UK is grappling with poor consumer confidence as data there hit a record low of -40 in May and justified the slight dovish tilt from the Bank of England at its meeting and the 15 billion pound fiscal package announced by their government.

In Asian markets, China continued to struggle under the Covid-19 outbreak which provided added concerns for the global growth engine. This remains a positive for the inflation story as we anticipate a removal of the supply chain blockages that have plagued us from the commencement of Covid-19. Barring any further unexpected shocks, inflation should fall over the balance of the year, with restrictive policy destroying demand to help this process.

Domestically, the Reserve Bank of Australia who were late to the Quantitative Easing party were now arriving late to the global hiking party as they hiked 25 bp to a unique rate of 0.35% - with market expectation for a 15 bp hike. Board minutes released later in the month demonstrated that the members discussed hiking by 15 bp, 25 bp or 40 bp. Once again highlighting the indecision and waning credibility from an institution that drives so many financial outcomes for Australian households and corporations. JCB still maintains the egregious forward pricing of circa 3.70 % rates, 1 year out is not sustainable for the domestic economy without engineering a very uncomfortable hard landing given the sensitive transmission mechanism of higher rates.

Sadly, for asset owners, 2022 is proving a very difficult environment as the price of money is set to increase rapidly to temper demand, helping to rein in inflation. These moves often lead to a rapid slowdown in the economy and consequently a repricing of assets. Whilst continued rate hikes will certainly produce market volatility, for those that weather these storms there should be fantastic investment opportunities available thereafter. Creating a plan for the coming volatility will serve investors well with some obvious trigger events which will guide as signposts to the twists and turns ahead. JCB remains confident that the bond market will become more two-sided in this environment



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against the backdrop of slowing inflation and Central Bank actions.

## 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).