JCB

JAMIESON COOTE BONDS

# CC JCB Dynamic Alpha Fund (APIR: CHN8607AU)
# Fund Update as at 31 July 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] | 0.39% | 1.03% | -0.09% | 0.39% | -0.11% | 0.95% | - | 2.27% |
| Benchmark Return[2] | 0.10% | 0.18% | 0.19% | 0.10% | 0.21% | 0.13% | - | 0.18% |
| **Active Return (After fees)** | **0.29%** | **0.85%** | **-0.28%** | **0.29%** | **-0.32%** | **0.82%** | **-** | **2.09%** |

## 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

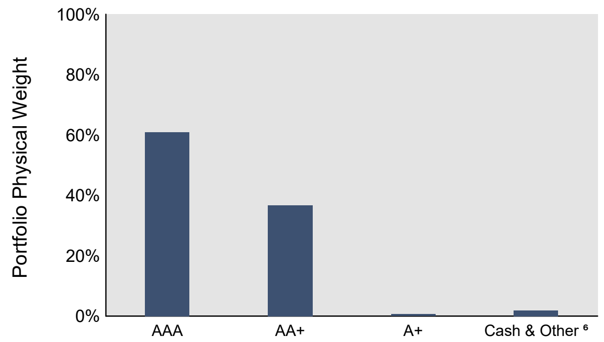
When bonds are held as part of a broader portfolio of different asset classes, diversification may assist in managing market volatility. Bond securities in general are considered a defensive asset class.The income generated by bond securities is consistent and regular (usually semi-annual).

## Fund Characteristics

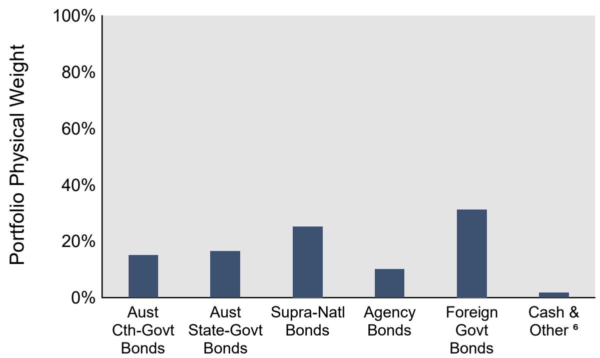
| Characteristics | Fund |
|---|---|
| Modified Duration (yrs) | 0.32 |
| YTM + Hedging Effect | 2.71 |
| Weighted Ave. Credit Rating | AA+ |

Source: JamiesonCooteBonds Pty Ltd.
See Definition of Terms.

## Asset Allocation by Credit Rating (Physical Weight)




## Asset Allocation by Sector (Physical Weight)




## 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 $421 million [5] |

[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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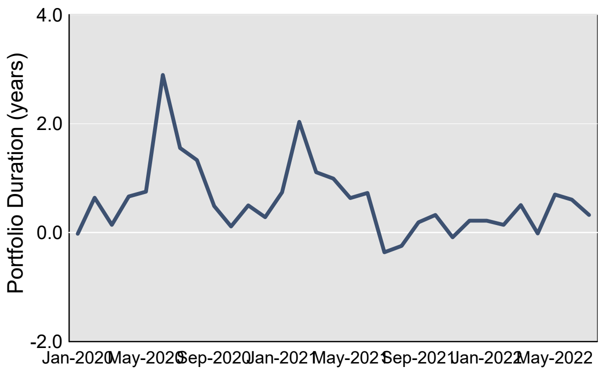
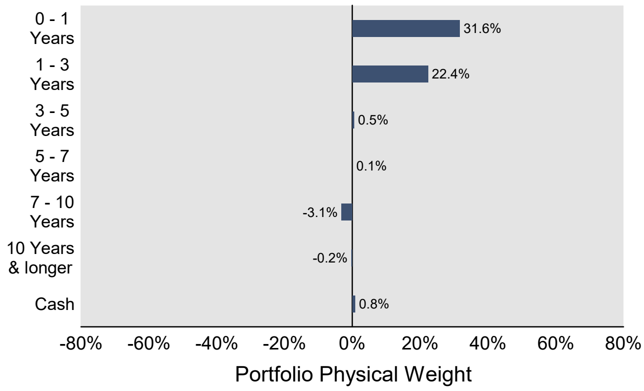
## Historic Portfolio Duration




## 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 July, the CC JCB Dynamic Alpha Fund – Class A units (the Fund) returned 0.39% (after fees), outperforming the RBA Cash Rate Total Return Index.

The Fund enjoyed a decent month as bonds enjoyed one of their best monthly performances in history. The month started with a strong US CPI data release for June – registering 9.1% year on year - which bolstered calls for a possible 100 basis point hike by the US Federal Reserve. With equity markets tumbling and the growing narrative around a global recession also triggered demand for bonds as Central Banks continued to hike around the globe and tighten financial conditions, with Reserve Bank of Australia hiking 50 basis points (bp) to 1.35% ,Bank of Canada 100 bp to 2.50% and Reserve Bank of New Zealand 50 bp to 2.50%. The straw to break the camel's back from a Central Bank hiking perspective appeared to be the 50 bp hike from the European Central Bank with global bond markets rallying aggressively into month end following that decision as the market started to focus on the growth slowdown story because of the co-ordinated global rate hikes. The markets also positioned for the August window where bond markets traditionally perform well. Augmenting the positive bond sentiment was the deterioration in the US economic data which includes various regional manufacturing surveys and softer housing data – which saw US 10-year yields move from 3.07% on July 21 to close out the month at 2.69%. US Federal Reserve Governor, Jerome Powell, at the US Federal Reserve meeting emphasised that further rate hikes would be data dependent as policy would be set on a meeting-by-meeting basis and that rates were close to a neutral or fair setting. This quasi pivot in US Federal Reserve monetary policy thinking could be worse than expected as the US GDP reading (-0.9% v 0.4% expected) took yields out on their lows for the month. The Fund continued to benefit from the compelling yields on offer which was managed in a strict risk-adjusted framework.

## Market Review & Outlook

The recent July US Federal Reserve meeting has elicited discussion about a possible US Federal Reserve ''pivot'' in interest rate policy and how that might support asset markets. Given global financial markets take their lead from the US and their policy moves, it is worth considering what we might look for to confirm this pivot.

Central Bankers around the world have been madly rushing to return monetary policy settings to neutral (neutral is the interest rate that neither stimulates nor restricts the economy) in order to quash inflation that has been turbo charged by the Russia/Ukraine conflict and Covid-19 related supply chain issues. Central Banks also made a subtle shift to reduce 'forward guidance' suggesting they will now be more data dependant in future policy moves, a sensible decision after being pilloried for their attempts to commit to policy outcomes in a fluid environment that remains extremely difficult to forecast. The response in July was for impressive asset market performance because of these nuanced adjustments, as markets are expecting a return to 'bad news is good news' in expectation of less restrictive monetary conditions, helping reclaim lost performance from earlier in the year.

JCB does not believe this is the ''pivot'' moment, as there are several important factors that do not align correctly to generate such an outcome. Positioning is primarily responsible for the sharp rally in many asset classes, which have ironically taken their lead from a rally in Government bonds markets. Government Bonds performed well last month as markets shifted their focus to a sharp decline in growth, with a large global recession now the base case for economic expectations. With risk allocations very low after the brutal market moves of June, the scene was set to regain some lost performance on a reduction of tightening expectations. This 'flight to quality' move for Government Bonds is due to weakening economic conditions and has been misinterpreted by markets expecting to operate on the Central Bank safety net dynamics of the last cycle. This may be a false start on the road to a policy pivot in a world of higher secular inflation due to energy shortages.

Inflation needs to observably peak and then fall rapidly to provide comfort for Central Bankers. This is currently in play as most commodity markets are now lower in price from where they were on the outbreak of the Russia/Ukraine conflict in late February. Goods inflation has already peaked, Services inflation is sticky for now, but the important swing factor of energy and commodities is falling under expected lower growth. We cannot expect a pivot to neutral or accommodative (rate cuts and Quantitative Easing) policies that would underpin a long bull market for assets if inflation falls were only slight from their lofty levels of 9.1% in the U.S economy. JCB believes inflation would moderate quickly if left to its own devices, but the highly influential energy components are out of our control.

Energy remains at the behest of Vladimir Putin and he will have a big say on where inflation goes. Europe is having an energy crisis during the middle of summer and cannot stockpile energy reserves needed to see out the freezing winter months ahead, instead continuing to draw across all energy inventories. Vladimir Putin has the western world cornered in energy dependency through the short-sighted energy policies of dependence on Russian oil and gas. We must expect that he uses this opportunity to its maximum potential against western Europe who is shockingly underprepared. It's expected that Russia will cut off European energy flows into the winter months as Europe literally freezes. This type of exogenous energy shock would badly derail inflation normalisation by triggering a deeper global energy issue.

Government Bonds remain the canary in the goldmine as they often lead in predictions on the macroeconomic landscape. The deep inversion of the yield curve suggests that the market is concerned for forward looking growth, however, expects further rate hikes from the US Federal Reserve to complete its inflation fighting task. A hyper inverted yield curve suggests significant recession risk is dead ahead with lower growth almost a certainty as the year progresses due to tightening policy. Risk markets need to closely consider the shape of the treasury curve to illicit the correct signals for consumer health and corporate profitability. When the treasury bond curve starts to steepen from the current inverted levels, the "pivot" will likely be upon us.

Markets have been conditioned to expect continued support from policy makers who have papered over every systemic financial crack since the Global Financial Crisis. Today's unstable geopolitical world makes that safety net increasingly difficult to produce without restimulating inflation. Sadly, for investors, the much anticipated Central Bank ''pivot'' for a clean and certain bullish run looks some ways away. Volatility and heightened uncertainty will likely remain, and investors are advised to maintain their defensive mindset in the months ahead.

## Further Information

Phone: 1800 940 599
Email: distribution@channelcapital.com.au
Web: www.channelcapital.com.au

## 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 | | |

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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.
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.