JAMIESON COOTE BONDS

CC JCB Dynamic Alpha Fund (APIR: CHN8607AU)
Fund Update as at 31 August 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]	0.20%	0.71%	0.30%	0.60%	-0.03%	1.03%	-	2.27%
Benchmark Return[2]	0.16%	0.31%	0.34%	0.25%	0.36%	0.21%	-	0.24%
Active Return (After fees)	**0.04%**	**0.40%**	**-0.04%**	**0.35%**	**-0.39%**	**0.82%**	**-**	**2.03%**

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

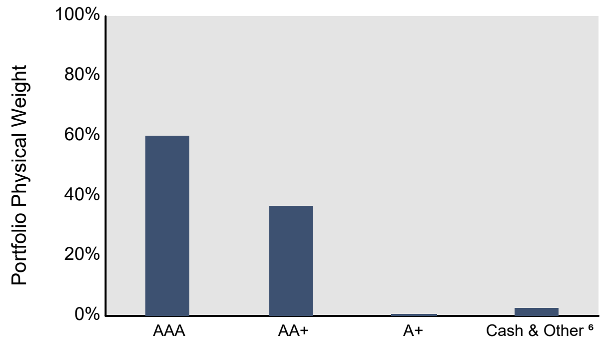
When bonds are held as part of a broader portfolio of different asset classes, diversification may assist in managing market volatility. Bond securities in general are considered a defensive asset class.The income generated by bond securities is consistent and regular (usually semi-annual).

Fund Characteristics

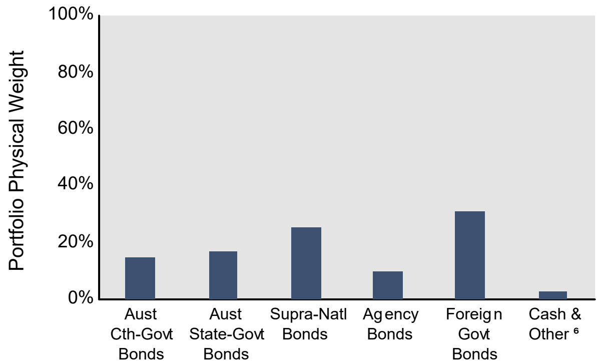
Characteristics	Fund
Modified Duration (yrs)	0.45
YTM + Hedging Effect	3.11
Weighted Ave. Credit Rating	AA+

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 $418 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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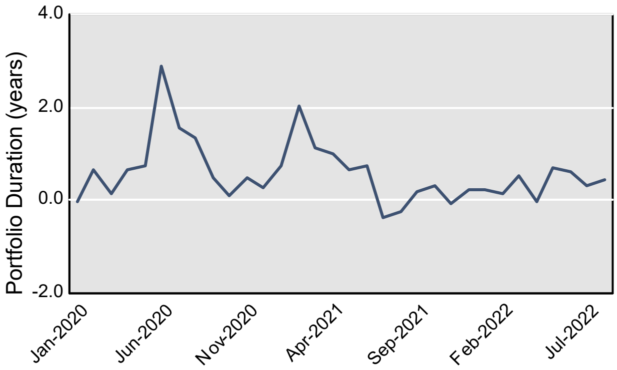
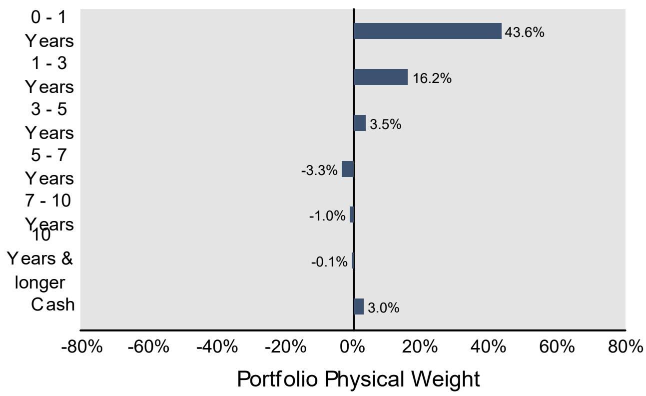
Historic Portfolio Duration



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 August, the CC JCB Dynamic Alpha Fund – Class A units (the Fund) returned 0.20% (after fees), outperforming the RBA Cash Rate Total Return Index.

The portfolio completed a decent return amidst the challenging month for asset markets in August. The month started with a potential geopolitical scare as US-China tensions flared briefly following the visit by US Congresswoman Nancy Pelosi to Taiwan which provided a brief flight to quality bid in the government bond market although this dissipated. As US yields pushed higher early in the month following a strong US employment report, which was close to double expectations and resulted in a more aggressive pricing of monetary tightening for the September Federal Reserve meeting. The push to higher yields was tempered as headline inflation in the US came in weaker than expected as weaker energy prices started to transmit through the economy. Hawkish messaging from various US Fed members throughout the month reiterated their commitment to raise rates to quash inflation which took the tailwind out of asset markets that were reinvigorated by US Fed Powell's dovish comments in late July. With global yields drifting higher into month end as the market continued to deliberate over the European energy crisis, Central Bank tightening continued to persist amidst the backdrop of deteriorating global economic data. The portfolio traded with an underweight bias in US Treasuries for most of the month and continued to express an underweight in the European markets in anticipation of the inflation skew remaining higher given the energy crisis.

Market Review & Outlook

Scenario analysis can help to prepare investors for uncertain times by providing the signals needed when considering a vast number of possible market outcomes after a given period of time. With the global outlook remaining clouded in uncertainty from geopolitics, energy shortages and sticky global inflation, the cards may fall in a number of sequential ways which will have vast implications for skittish asset markets looking to extrapolate those developments, powered by algorithms and momentum-based funds.

In our recent writings we have touched on the 'stages of grief' for investors - who have been forced to accept a world without multiple policy support, as Governments and Central Bankers aim to kill the inflation monster, that has fed from the pandemic. We have also suggested that the US Federal Reserve (as the world's leading Central Bank) would not 'pivot' its policy easily or quickly as financial market participants return to work after a hot North American and European summer holiday. The global outlook remains highly volatile with several possible pathways for asset markets all having reasonable probabilities. A few influential folk hold powerful cards to these outcomes (Putin, Xi, OPEC, Biden, Powell) and the sequence with which they may play those hands can have powerful effects against an economic and macro backdrop that will likely continue to slow from increasingly restrictive policy into year end.

As such, we are thinking about asset allocation as a series of scenarios of differing likelihoods. 2022 is proving to be such a complex year that it is not impossible that the low probability 'tails' could happen concurrently, giving the scenario analysis a third and very complex dimension. That is beyond the scope of stimulating reader interest for now , but let's consider the world in two dimensions over five scenarios , from our most probable and central case with possible outcomes (both good and bad for assets), and then the extremes, low probability events but high impact contingencies for markets.

Central scenario most expected by markets

Starting with the central scenario most expected by markets, this assumes energy will find a new valuation /trading range, which helps mitigate the inflationary effects as prices remain higher than previous periods, but do not continue increasing (inflation is a rate of change concept). Goods inflation moderates as supply chains continue to heal – this is already occurring across the global economy – however the services side of inflation remains sticky from an inflation perspective which frustrates the year-on-year inflation readings from moderating faster. Things like 'rent' often have a mechanical legal contract component driven by previous higher headline inflation readings which become somewhat self-reinforcing, making it imperative that Central Bankers kill inflation quickly by destroying demand in the economy via higher interest rates. This outcome is currently priced by markets, which expects inflation to moderate, the US Federal Reserve to continue hiking rates towards the 3.75% area before delivering mild support with some rate cuts in 2023. We would expect most assets to be range bound in this scenario, with a drift towards more 'risk-off' pricing as the economic picture continues to weaken from previous policy adjustment that is yet to hit the economy due to its lagged effect (rate hikes usually take 6-12 months to appear in economic data). In this scenario we assume most assets are already well priced, inflation stays well above mandate but does decline, the US Federal Reserve continues hiking but at a slower pace, equities, credit spreads and bond yields reflect higher risk premiums and volatility remains higher than historical settings.

Possible scenarios on either side of the central scenario

On either side of this central scenario there are higher probability 'possible' outcomes, one that is better for asset prices and one not as supportive. This hinges around energy pricing and its feedback into inflation outcomes and hence the amount of additional tightening required to moderate demand to bring the economy into balance. If we have additional exogenous shock events that drives energy prices higher (for example, Putin cuts off Russian gas in the European winter or OPEC heavily restricts oil flows) then the impact on inflation will force Central Banks to raise interest rates higher into restrictive territory, crushing asset values in the process and obliterating demand causing a violent recession. Assuming Central Banks stay the course as inflation fighters this would be unpleasant for bonds, as short dated bonds continue to move to higher yields (lower prices) however, we would assume that long dated yields become stubborn and bond total returns might hold up quite well peer relative to other asset classes, as a lot of this has already been priced for bond markets, helped by the current 3.60% yield to maturity across the index of Australian Government bond assets. It would be terrible for credit spreads, as corporates already facing weaker demand will be forced to refinance outstanding debt obligations at far higher yields (cost) and in a market of weak confidence, not all lower rated corporates will be able to complete such a refinancing. We would expect heightened credit defaults, which in turn would drag on the equity complex. As we know bonds would lead this process initially , but as we saw earlier this year, when other markets play catch up it can be quite violent.

Conversely, without an exogenous shock to energy, the mirror image could be expected. Lower energy prices as supply comes online, lowering demand from already active monetary tightening helping a faster moderation in inflation allowing Central Bankers to pause and do 'less' which would be supportive for all asset classes. In this instance, we would expect Government Bonds to be the lowest returning, whilst corporate credit and equities would benefit from less restrictive policy settings and volatility might moderate under lower default assumptions than previously feared.

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Low probability scenarios

At the extremes of our scenario analysis, we envisage low probability but highly impactful possibilities. First, a resolution to the conflict between Russia and the Ukraine would generate a powerful bullish move for assets, in expectation of lower volatility, plentiful supply of energy, lower inflation etc. In this instance, full blown risk allocation would be the preferred outcome. Growth equities and crypto assets would be expected to slingshot higher. Credit would also enjoy this environment with expected spread tightening and bonds would also perform, although would be mild in comparison to other expected asset returns.

On the other tail extreme, we assume a geopolitical flash point between the US and China in the Taiwanese Strait. This would likely deliver panic and a strong 'flight to quality' response from markets which is usually highly supportive of Government Bonds (particularly United States Treasury Bonds) and volatility. Sadly, all other asset classes would be expected to perform poorly if we had to endure the scary prospect or world war. We don't believe this is likely, but the probability is not zero.

With much uncertainty ahead, diversified portfolio allocations seem to navigate a host of possible scenarios. With the restoration of yield in Government Bonds markets, they will continue to play an anchor role through these uncertainties ahead and an important role in four of our five scenarios.

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.