JCB

JAMIESON COOTE BONDS

CC JCB Dynamic Alpha Fund (APIR: CHN8607AU) Fund Update as at 31 July 2023

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]	0.43%	0.44%	1.79%	0.43%	3.06%	1.46%	1.65%	2.49%
Benchmark Return[2]	0.35%	1.02%	1.85%	0.35%	3.18%	1.68%	1.14%	1.01%
Active Return (After fees)	**0.08%**	**-0.58%**	**-0.06%**	**0.08%**	**-0.12%**	**-0.22%**	**0.51%**	**1.48%**

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

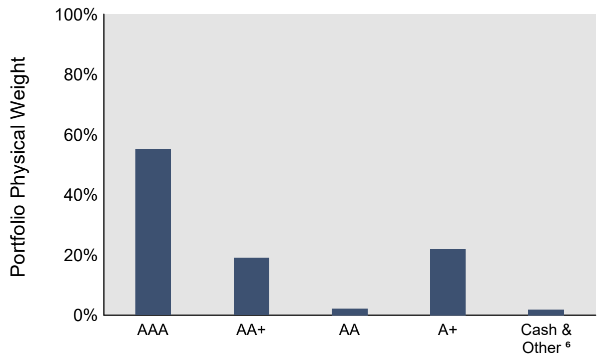
Investment Manager	JamiesonCooteBonds Pty Ltd
Portfolio Managers	Charles Jamieson & Chris Manuell
Style	Global absolute return bond fund - concentrating on actively managing global high grade sovereign bonds
Objective	Outperform the RBA Cash Rate by 2.50% p.a. (after fees) over rolling 3 year periods
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 $197 million [5]

Fund Characteristics

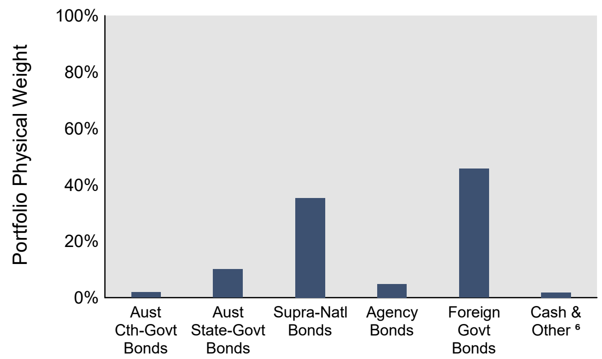
Characteristics	Fund
Modified Duration (yrs)	0.51
YTM + Hedging Effect	3.92
Weighted Ave. Credit Rating	AA+

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 in Australian Dollars. Net performance is calculated after management fees and operating costs. Individual investor level taxes are not taken into account when calculating net 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. The comparison to the RBA Cash Rate is displayed as a reference to the target return for the Fund and is not intended to compare an investment in the Fund to a cash holding. [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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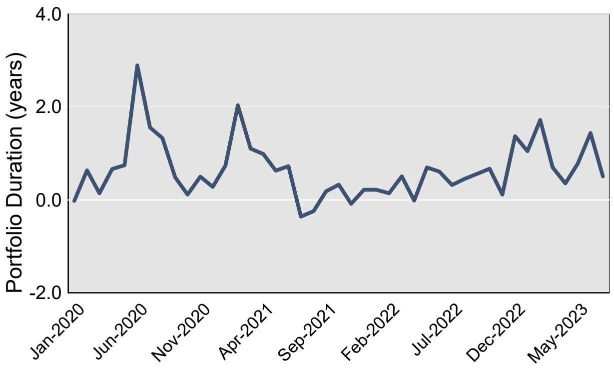
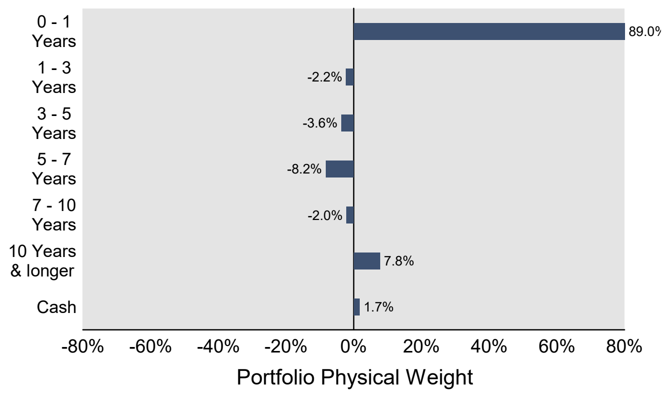
Historic Portfolio Duration#



Asset Allocation by Duration (Physical Weight)*



Data shown is for underlying assets of the CC JCB Dynamic Alpha Fund

*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.

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Fund Review

For the month ending July, the CC JCB Dynamic Alpha Fund – Class A units (the Fund) returned 0.43% (after fees), outperforming the RBA Cash Rate Total Return Index.

Global bond markets commenced the first week of the month under pressure after an outsized US employment print landed into the US Fourth of July holiday effected week. This forced US 10-year yields through the 4.00% level which had not been seen since the regional banking crisis in March, the markets also had to digest the minutes from the US Federal Reserve's (US Fed) June meeting which despite them remaining on hold at that meeting they called for further rate hikes this year. The UK bond market continued to provide direction for its global peers and early in the month UK 10-year yields hit their highest levels since 2008 with market expectations of a 6.5% peak in the Bank of England's short-term rate by year end. Global bond market yields peaked early in month with lower-than-expected US CPI inflation as it declined from 4.0% to 3.0% in June which along with the lower-than-expected Producer Price Index number added to the disinflation narrative. The stabilisation of short end rates in line with the thematic of Central Banks at the zenith of their tightening was supported by the Reserve Bank of New Zealand maintaining their bank rate at 5.5% and the Reserve Bank of Australia (RBA) remaining on hold and deleting a reference to "upside risks to the inflation outlook". The Bank of Canada, US Federal Reserve and the European Central Bank (ECB) all moved in line with market expectations and hiked by 25 basis points. Bond markets peaked mid-month following the downside surprise in UK headline CPI which was the first miss in inflation since January, however the market failed to sustain the rally. The foundation for a steepening of the yield curve commenced with a strong rejection of the 5.00% level in US 2 years which encouraged demand for short end bonds, and this was supported by less hawkish rhetoric from Central Bank officials. Noted by ECB hawk Klaas Knot commented after the July hike from the ECB that 'for anything beyond July it would at most be a possibility but by no means a certainty". Into month end Bank of Japan surprised the market as they tinkered their yield curve control program which also pressured markets into month end with the spectre of a Japanese liquidation of foreign bonds in the foreseeable future. The strong performance of the energy complex on output reduction plans from Saudia Arabia and Russia also pressured fixed income through the month. Domestically the RBA kept rates on hold at the start of the month, however deleted the reference to "upside risks to the inflation outlook" in its statement. Data was a mixed bag for the month with the stronger employment data somewhat offset by the weaker CPI and retail sales prints. Australian bonds underperformed Treasuries to start the month amid the global sell-off, however grinded tighter through the month on softer than expected data.

The portfolio added shorter dated tenors to the portfolio throughout the month specifically New Zealand and Australian Supra paper which offered attractive yields for the minimal risk. US Treasuries were added on the cheapening at the commencement of the month and subsequently unwound following the weaker than expected US CPI data. The fund bought UK bonds which was held against an underweight in Germany in anticipation that the higher short term rates in the UK, given their fluid mortgage transmission system would continue to impact the growth outlook and slowdown inflation. The fund will continue to add shorter term fixed income product in the foreseeable future as we near the end of the global tightening cycle.

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Market Review & Outlook

A large miss in Australian inflation data for the second quarter reinforces the global disinflationary theme which is bringing Central Banks towards terminal rates after a vicious interest rate hiking cycle. Global supply chains have normalised, abating inflation in most goods and materials, whilst commodity and energy markets have cooled considerably from the shock disruptions around the outbreak of conflicts between Russia and Ukraine. It is likely that many Central Banks have delivered their final rate hikes on a preset path and will now be driven by 'data dependency'. We believe this is the end of 'forward guidance,' a key pillar of policy communication since the global financial crisis (GFC), with communication having more strategic ambiguity. After such a dramatic shift in the global cost of capital, a 'pause and assess' moment is warranted as inflation cools, settling towards its mid-run trend in a post pandemic world. The recent decrease in inflation numbers is certainly a significant relief compared to the lofty peaks of 9% in US CPI. The last year on year reading was down to just 3%. However, the fight for 'the last mile' towards the inflation target of 2-3% will not be a simple task, as the easiest part of disinflation (the base effect of data rotation) is now complete, making the journey towards the target more challenging.

As inflation picked up around the world led by US markets, Australian inflation was a material laggard in the global process, with a more than six-month lag to US data. US year on year inflation numbers exceeded 4.00% in April '21, whilst Australia did not breach this 4.00% level until Jan '22. As global inflation pressures have abated with the normalisation of supply lines and goods prices, further falls in domestic inflation should be expected following this lower momentum and global trend.

As we look ahead, there are competing forces at play that will impact inflation. On one hand, there is a decline in services inflation, driven in large part by rents and slowing global economies. On the other hand, the cyclical nature of the commodities and energy cycle will have an impact. As a result, is it anticipated that US inflation, acting as the global barometer, will stabilise between 3-4% over the balance of 2023. Specifically, the July data is expected to show a slight increase to 3.2%.

The good news on the inflation front is that these competing data forces should significantly moderate the rates of change. Services inflation should continue to fall, driven by the large category of owners' equivalent rents, which exhibit a long lag within inflation data due to annual rental resets at CPI inflation levels. This creates a classic self-reinforcing loop, making it challenging to break, where rental agreements are extended as they fall due at spot CPI year on year levels, on a rolling basis. This feeds previously high CPI figures into rental prices, thereby increasing future CPI with higher rental prices in that subcomponent, given the long lag until headline inflation cools (headline is now 3%) and the data enjoys relief with a laggard period. Continued cooling in this important subcategory should help to deliver lower headline inflation and reduce the volatility of the incoming data series, as it settles towards trend after a period of violent amplitude. The addition of the fastest and largest rate-hiking cycle in a generation should temper demand, aided by easing supply conditions and the expected softening of the labour market, responding to the ongoing monetary policy tightening that began in global markets over a year ago.
Despite the positive developments mentioned, there is a counteracting force in the commodities and energy cycle which has rallied considerably over the month of July, with an increase of 15.5% in Oil, and 5.8% in the Bloomberg Commodities Index, after an ongoing period of decline since the shock of the Russia-Ukraine conflict in February 2022. This also coincides with a significant fall in oil rig counts, which tends to provide cyclicality to oil supply capacity, as oil wells are capped and rigs mothballed at lower prices, thus reducing output and supply which in turn is healthy for price increases.

Overall, market expectations regarding inflation are significantly more subdued compared to the heightened concerns experienced in 2022. The task of achieving that 'last mile' to bring the long-run trend back within the desired range of 2-3% is proving to be frustrating. This should hold the interest rate term structure at higher yields than pre-pandemic levels, with fixed income and bond yields offering significantly more income than much of the last decade.

To that point, the Reserve Bank of Australia (RBA) left interest rates at 4.10% last week, the highest levels since 2012. The rapid increase in interest rates now looks complete as the RBA has 'actively passed' on hiking rates at the last two meetings despite market expectations suggesting a hike was possible and which was somewhat expected by many market folks. As many Central Banks have now moved to pause and access mode, we believe the RBA will follow with the next move in interest rates being a rate cut in 2024. The RBA's assumptions are for the labour market to soften, with unemployment rising to 4.50% next year and below trend economic growth expected which seems rational given the restrictive settings of monetary policy. We are already seeing slowing in consumer behaviour, with recent retail sales data (-0.8% monthly print) being very weak inside an economy that should be growing by around 2% on population growth alone. This is the green light for bond investors to increase durations on these domestic developments as we are at or around peak policy rates, with a slowing economy and restrictive monetary settings.

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		

<u>Definition of Terms:</u>

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.