JCB

JAMIESON COOTE BONDS

CC JCB Dynamic Alpha Fund (APIR: CHN8607AU) Fund Update as at 31 October 2021

Fund Performance

Returns	1 month	3 months	6 months	FYTD	1 year	3 years p.a.	Since inception p.a. (30-Dec-2019)
Fund Net Return*	-0.48%	-0.02%	0.35%	0.13%	1.28%	-	3.25%
Benchmark Return**	0.00%	0.01%	0.01%	0.01%	0.03%	-	0.15%
Active Return (After fees)	**-0.48%**	**-0.03%**	**0.34%**	**0.12%**	**1.25%**	**-**	**3.10%**

^ 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. Gross performance is calculated excluding all fees, costs and taxation. Net performance is calculated after administration fees and fund expenses. 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.
* Benchmark refers to the RBA Cash Rate Total Return Index. All data is the property of MSCI. No use or distribution is permitted without written consent. Data provided "as is" without any warranties. MSCI assumes no liability for or in connection with the data.

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

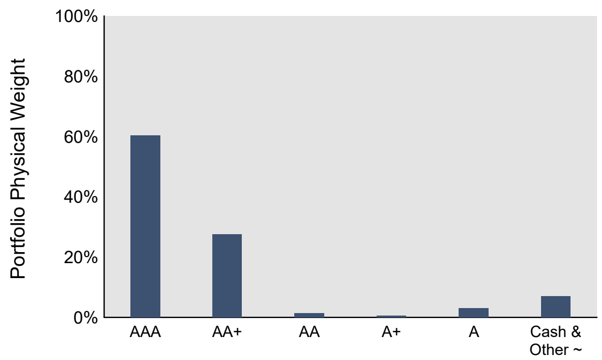
Investment Manager	JamiesonCooteBonds Pty Ltd
Portfolio Manager	Charles Jamieson & Chris Manuell CMT
Style	Global absolute return bond fund - concentrating on actively managing global high grade sovereign bonds
Objective	Outperform the RBA Cash Rate by 2.50% p.a. (after fees) over rolling 3 year periods.
Inception Date^	30 December 2019
Index	RBA Cash Rate Total Return Index
Management Fee#	0.58% p.a.
Administration Fee#	0.10% p.a.
Buy / Sell Spread	0.05% / 0.05%
Distributions	Quarterly
Fund Size+	AUD $494 million

Fund Characteristics

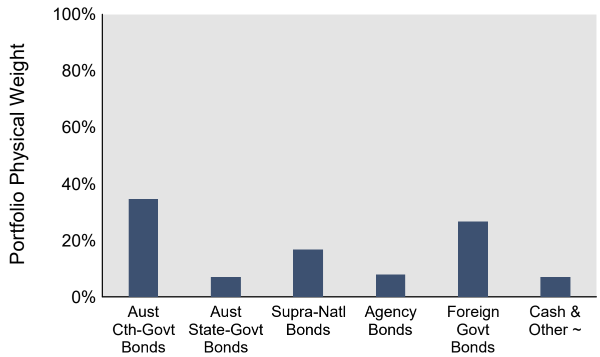
Characteristics	Fund
Modified Duration (yrs)	0.33
YTM + Hedging Effect	1.39
Weighted Ave. Credit Rating	AA+

Source: JamiesonCooteBonds Pty Ltd.
See Definition of Terms.

Asset Allocation by Credit Rating (Physical Weight)



Asset Allocation by Sector (Physical Weight)



All figures disclosed include the net effect of GST and RITC. ^ Inception Date for performance calculation purposes. + Fund size refers to the CC JCB Dynamic Alpha Fund ARSN 637 628 918. * 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. ** Index refers to the RBA Cash Rate Total Return Index.

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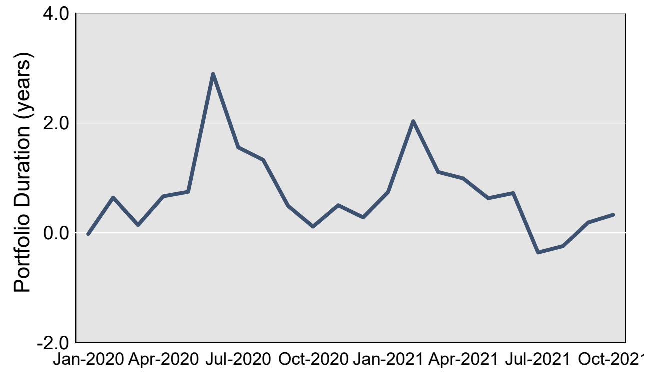
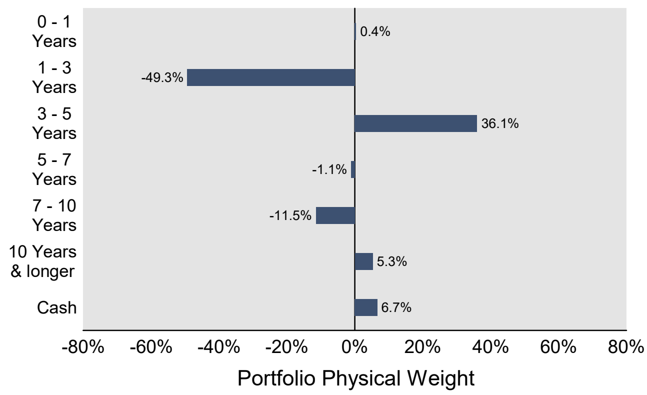
Historic Portfolio Duration



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 October, the CC JCB Dynamic Alpha Fund (the Fund) returned -0.48% (after fees), underperforming the RBA Cash Rate Total Return Index.

The Fund encountered a challenging month in what was a globally coordinated fixed income sell-off under the guise of higher energy prices feeding into the reflation narrative and the potential threat of Central Bank tinkering, with the generous financial accommodation that has been provided to the financial systems since the Covid-19 outbreak. Global bond market weakness commenced in late September following hawkish dialogue from both the Bank of England and the US Federal Reserve that triggered an aggressive repricing of bond markets in anticipation of a potential move higher in their respective short term interest rates. This negative bond sentiment filtered into October as financial markets grappled with the glide path of interest rates and the actions of various Central Banks – the Bank of Canada wound down its bond buying program, the RBNZ hiked rates by 25 bp to 0.5% and the Reserve Bank of Australia abandoned its key short-term yield target despite its consistent pledge that domestic rates would remain on hold until 2024. The rally in energy prices through the month - oil prices hitting levels not seen since 2014 - as OPEC refrained from boosting supply weighed on bond markets as well. The weakness in the domestic bond market was also accentuated by the optimism surrounding the reopening of the NSW and Victorian borders and the potential uplift in the economic growth trajectory. The negative sentiment provided a feedback loop which engineered an aggressive position liquidation in global interest rate markets that caught investors offside and contributed to an exaggeration of lower price moves into month end.

Looking forward JCB would anticipate that there is a readjustment reflecting the expectations divergence around central bank activity and the extreme negativity priced into global bond markets. Bond volatility continued to diverge from equity volatility through October as equity markets grinded higher through the month and JCB anticipates that into year-end volatility should mutate into other asset classes.

Market Review & Outlook

Global bond markets suffered heavy losses in October after comments from the Bank of England (BOE) in late September suggested rate hikes would be imminent for the UK markets, triggering a swift reassessment of potential Central Banking policies around the world (as it transpired the BOE did not moves rates at its recent November meeting – badly wrong footing markets). In Australia, the market moved to price in arguably more than an entire rate hiking cycle, as liquidation of positions transpired and more than five rate hikes for 2022 with an additional four hikes where priced into valuations into the 2023/2024 period. These suggested moves are in stark contrast to the RBA's central assessment of the pathway to rate hikes, but markets are taking on Central Banks in their convictions that post lockdown growth and higher supply side inflation due to Covid-19 outcomes will force Central Bankers to normalise their policies significantly earlier than telegraphed.

A small rise in Australian inflation outcomes to 2.1% year on year – just inside the RBA targeted band of 2.00% to 3.00% added further fuel to the bond sell-off late in the month, as the RBA failed to implement its Yield Curve Control policy which had anchored front end yields at low levels. Subsequently in the post November RBA meeting press conference Governor Lowe suggested he exercised his ''discretion'' around the implementation of the formal RBA policy.

These domestic moves seem to be an extreme over reaction, not in their direction to question the movement of policy into an economic recovery, but in the possible scope of such moves. Making a large assumption that the economy can recover quickly without further material Covid-19 interruptions (both here and abroad) and parking the large spare capacity within the current economy, pricing a fully normalised rate hiking cycle looks very premature given the debt loads and interest rate sensitivities within the economy. The RBA has continuously suggested that inflation outcomes would need to be realised into the middle of the expected inflation target (2.00% to 3.00%) combined with wages growth accelerating to beyond 3.00% as a catalyst or trigger to rate hikes. As Australia only calculates inflation on a quarterly basis, this suggests that at least two further readings (January 2022 and April 2022) at a minimum would be required to potentially hit the target mid-point of 2.50%, although wages growth is unlikely to have achieved 3.00% by this date. Again, assuming that wages had reached this 3.00% level (a big assumption once the borders re-open to foreign workers) then the RBA meeting in May 2022 seems the earliest possible "live" meeting for a rate move. To complete on five rate hikes into 2022, the RBA would have to hike rates more than every other month until year end. Whilst this is of course all "possible" it is highly improbable, but if it did occur the market is already priced for such an outcome!

The knock-on effect to the economy and asset markets such as property and equities would be problematic if this actually transpired throughout 2022. Just a reduction in bank lending in 2017 floored the major property markets around the country by around 10%, imagine what happens to credit availability once the collateral itself (bricks and mortar) is under the actual duress of multiple rate hikes? Each realised hike generates a material contraction in free cash flow for those on variable mortgages or loans, combined with obviously linkages through to the property and construction sectors. RBA commentary remains firmly in the camp of 'no move in interest rates until 2024' as the central scenario. When the RBA does finally hike rates, it remains hard to see the terminal rate (the highest RBA cash rate before rates turns towards a cutting cycle) above 1.50% without significant property market (and construction) problems in the economy compounded by a rapidly slowing Chinese economy.

With markets fixated on a possible rate hiking cycle, it is important to remember that interest rates affect all parts of the financial systems and cannot materially move in isolation without significant ramifications elsewhere. Q4 2018 is perhaps the most obvious example. The US Federal Reserve triggered a significant bond market sell off in October 2020 suggesting it would continue raising rates; global credit markets froze in November that year; and equities subsequently dropped ~20% in December as corporates were starved of financial lubricant as the corporate zombies could no longer roll forward their existing debt obligations nor issue fresh debt (market was frozen to low quality borrowers).

Managing total portfolio risk

Things can change very quickly. In 2018, Australian Government Bonds went from being a material asset laggard year to date (as they often should be as a low expected return, high quality and high liquidity asset) to the best performing domestic asset of the year. Of course, the closing weeks of 2021 are unlikely to follow this pathway, but it is worth considering some of the parallels. This market "fragility" has been a major theme for JCB this year, as markets are seemingly clustered into herd positioning and any change in flows can have an outsized market move in a highly algorithmic world. This has been evidenced in bonds this year, and clearly in credit and equities into the Covid-19 crisis in March and April 2020. JCB continue to ask who is "short" equities, or "short" credit? This is important if large, long exposures look to exit on profit taking, as this risk needs to re-distributed to market and as witnessed the last traded price is often quite thin and cannot take the distribution of large risk positions, ultimately causing markets to cascade. Should these bond market moves persist into year end, these trigger points are rapidly approaching and JCB think a much wider discussion needs to occur around managing total portfolio risk.

The duration of bond moves capture all the attention and drives near-term performance, however, it is important to remember that duration has been a minority part of the total return for investors throughout time (although its nearly everything for short term speculators).

Looking at the last decade, we can see that "Carry" and "Roll" play a far larger part of the total return generation than any duration moves, and these bond sell-offs take bonds to substantially cheaper valuations in a world where seemingly everything is expensive. That generally bodes well for forward returns thereafter, particularly when a large fire break of excessive rate hikes is priced into the bond curves.

Platform Availabilty

AMP MyNorth	Ausmaq	Aust Money Market
BT Panorama	BT Wrap	Colonial First Wrap
HUB24	Implemented Portfolios	Macquarie Wrap
Mason Stevens	Netwealth	Powerwrap
Praemium	Xplore Wealth	

Further Information

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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.