JCB

JAMIESON COOTE BONDS

Fund Update as at 31 December 2021
CC JCB Global Bond Fund - Unhedged Class (APIR: CHN1425AU)

Fund Benefits

Active Management
JCB is a specialist fixed income manager with significant global investment management experience and expertise.

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	Channel Investment Management Ltd
Underlying Fund Investment Manager	JamiesonCooteBonds Pty Ltd or JCB (Portfolio Manager: Charles Jamieson)
Structure / Underlying Fund	The Fund invests into the CC JCB Active International Bond SP (in USD)
Inception Date^	25 February 2019
Benchmark	Bloomberg Global G7 TRI Value Hedged USD (converted to AUD)
Management Fee#	0.15% p.a.
Administration Fee#	0.10% p.a.
Indirect Costs#	0.34% p.a.
Buy / Sell Spread	0.05% / 0.05%
Distributions	Semi-annual
Fund Size+	AUD $16.3 million

Fund Performance

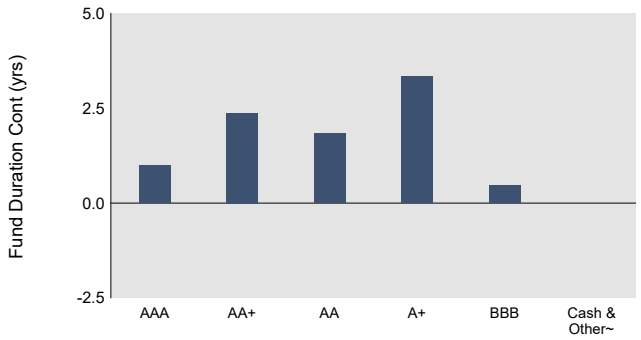
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	-3.33%	-3.20%	-0.13%
3 Months	-0.92%	-0.39%	-0.53%
FYTD	2.93%	3.48%	-0.55%
1 Year	3.54%	4.22%	-0.68%
2 Years p.a.	-0.35%	-0.03%	-0.32%
Inception p.a.	2.40%	2.69%	-0.29%

Fund Overview

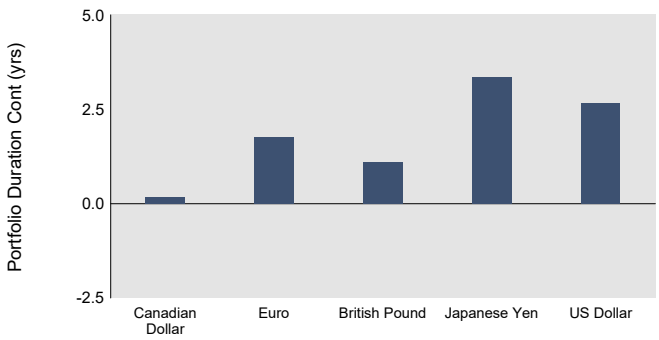
Characteristics	Fund	Benchmark
Modified Duration (yrs)***	9.03	8.77
YTM + Hedging Effect^^	0.89	0.89
Weighted Ave. Credit Rating***	AA	AA-

^^ Data refers to CC JCB Global Bond Fund - Unhedged Class (APIR: CHN1425AU) and Bloomberg Global G7 TRI Value Hedged USD (converted to AUD).
Source: JamiesonCooteBonds Pty Ltd.
See Definition of Terms.

Asset Allocation by Credit Rating (Duration Contribution)***



Asset Allocation by Currency (Duration Contribution)***



Platform Availabilty

Asgard	Ausmaq	Aust Money Market
BT Panorama	BT Wrap	HUB24
Implemented Portfoli	Macquarie Wrap	Mason Stevens
Netwealth	Powerwrap	Praemium
uXchange	Xplore Wealth	

Further Information

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All figures disclosed include the net effect of GST and RITC. ^ Inception Date for performance calculation purposes. + Fund size refers to the CC JCB Global Bond Fund ARSN 631 235 553. * Performance is for the CC JCB Global Bond Fund - Unhedged Class (APIR: CHN1425AU), also referred to as Class B 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. ** Benchmark refers to the Bloomberg Global G7 TRI Value Hedged USD (converted to AUD). *** Data refers to Underlying Fund, CC JCB Active International Bond Segregated Portfolio (in USD); and where applicable, Underlying Benchmark, Bloomberg Global G7 TRI Value Hedged USD. ~ Cash & Other includes cash at bank, outstanding settlements and futures margin accounts.

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Market Review & Outlook

Markets remained focused on the spread and severity of the Omicron variant in December, combined with monitoring mild improvements in the global supply chain. Whilst Omicron remains highly infectious, thankfully its severity does not seem to be as acute as prior strains. How politicians react will be critical for market performance. Hopefully lockdowns can be avoided as this milder strain can become dominant and crowd out other strains of Covid-19 which may bring the pandemic and all its interruptions on lives and economies to an earlier conclusion.

Markets have a huge amount to deal with into 2022, with three major policy changes likely across the year. Individually, any one of these three policy changes would be important for the bond market (and by linkage all asset markets) but collectively they generate material headwinds.

1. The significant removal of quantitative easing as a collective policy (some smaller programs may continue but US and Australia will end QE) removing huge amounts of excess liquidity.
2. Interest rate hikes – following on from RBNZ and the UK, JCB expects Canada then the US Federal Reserve to hike interest rates, with the RBA expected to be a laggard in this process.
3. A monstrous decline in fiscal spending after extraordinary programs designed to bridge the pandemic.

JCB believes these three significant policy changes will likely cause much higher volatility for asset markets across the year.

Insatiable demand still resides for physical goods in economies that are often very service orientated. Lockdowns have driven the demand for physical goods to spike as 'just in time manufacturing' has collided with global lockdowns, and now Omicron self-isolations are causing enormous supply disruptions that could take years to fix once compounded over many months. The supply side is slowly healing as evidenced by the recent improvements in the US ISM data seeing new orders falling and inventories rising, but this will not fully normalise easily or quickly.

Policy reaction will be required from Central Bankers in the form of normalising a series of policies that were implemented to hold back the gates of hell in March and April 2020. That moment of financial peril is long past, making those settings overly accommodative as the world enters that late stage of the pandemic. Combined with Biden's fiscal spending that has saturated the US economy in stimulus, resultant inflation pressures will bring Central Bankers to action. However, Central Bankers have made a significant rod for their own backs. If they normalise policy too quickly, they risk setting off a volatility wave which can generate a market re-pricing in highly algorithmic markets (as seen in the bond market in 2021), especially in markets where the risk clustering is all one way – it takes a balance of long and short positions to fight for the market clearing price – that is, where all participants have a similar risk profile and are already long risk as we would broadly expect, then there is no one to sell securities to.

Central Bankers may very well kill inflation by these actions, but they also may kill off the economy in the process in a highly interest rate sensitive world. In Australia for instance, some 36% of spending now goes towards servicing debt repayments. Already as we are cresting the new year, the hot property markets of Sydney and Melbourne have slowed considerably in response to higher fixed rate loan availability.

For all the growth optimists of 2022, some markets are treading a little more cautious. Commodities, the stand-out asset performer of 2021, are already well off their highest valuations which suggests a more considered approach looking into such powerful re-calibrations of policy accommodation and liquidity conditions over 2022.

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Fund Review

For the month ending December, the CC JCB Global Bond Fund – Unhedged Class returned -3.33% (after fees), underperforming the Bloomberg Global G7 Total Return Index Value Hedged USD (converted to AUD).

Over the month, UST 10Y yield was up 7bps but had two round trips between 1.50% and 1.35%. The headlines surrounding the Omicron variant caused the market rally in the early part of the month. UST 10Y yield went from 1.50% to 1.35%. The expectation of hawkish tilt from BoC, BoE, ECB and the US Fed together with big inflation data fuelled the following sell-off and UST 10Y went back to 1.53%. Once the central banks delivered the hawkish tilt, the growth concern caused by Omicron re-emerged and UST 10Y yield tested 1.35% again. In the second half of the month, UST 10Y yield raised to 1.55% on the expectation of faster rate hiking path and quantitative tightening. German bund 10Y yield was up 17bps over the month. Yield curves behaved differently across the Atlantic. UST curve flattened as the front-end yield sold off more on the expectation of faster hiking path. EGB curve steepened as ECB's asset purchase post-PEPP wasn't as big as market expected.

The Underlying Fund had a short bias at the beginning of the month, which was stopped out during the initial rally. This was the biggest drag to the performance. The Underlying Fund re-entered the short bias in the second half of the month but at a smaller size due to low liquidity and high volatility during the holiday season. That recouped part of the earlier losses.

Into 2022, we expect the US Fed to tighten the financial conditions to control inflation. Further waves of the virus or new variants would exacerbate the supply-chain issue. On the other hand, the high saving rate among households in the developed countries should continue supporting the demand. Under the current supply/demand dynamic, although we expect the inflation to start falling in the 1H2022, especially from April onwards when last year's high monthly inflation data drop out of the calculation, the rental and other persistent items may prevent it from falling below the US Fed's target of 2%. In Europe, the further distribution of NGEU fund provides a supportive fiscal backdrop for the EU economy. In China, the policymakers explicitly pivoted to arrest the economic slowdown. Chinese credit impulse stopped falling further and signalled a potential bottom. If realised, the improved credit flow should support the Chinese economic growth in 2022, likely after Chinese New Year.

Going forward, the Underlying Fund would still maintain a short bias over the medium term but stay nimble in the near term. Gradual withdrawal support from the ECB, front-loaded bond issuance schedule and political risk around coming Italian and French Presidential elections favour a cross-country yield spread widening position within the European government bonds markets.

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.
Duration Contribution - refers to the portion of the overall duration attributable to the segment (i.e. credit rating or sector) in years. Contribution to duration is calculated by multiplying an instruments duration by the percentage weight of the instrument in the portfolio. This calculation includes the contribution to duration by holding futures contracts.

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