



## Fund Update as at 30 September 2020

### CC JCB Dynamic Alpha Fund (APIR: CHN8607AU)

#### 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.

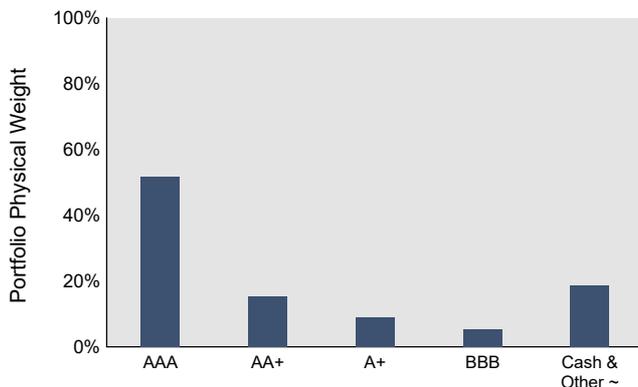
##### Diversification and Income

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 Performance

Returns (After fees)	Fund*	Index**	Excess
1 Month	0.46%	0.01%	0.45%
3 Months	1.15%	0.03%	1.11%
FYTD	1.15%	0.03%	1.11%
1 Year	-	-	-
2 Years p.a.	-	-	-
Inception	4.50%	0.23%	4.27%

#### Asset Allocation by Credit Rating (Physical Weight)



#### Platform Availability

Ausmaq	Aust Money Market	HUB24 IDPS
Mason Stevens	Netwealth IDPS	Powerwrap

#### Fund Facts

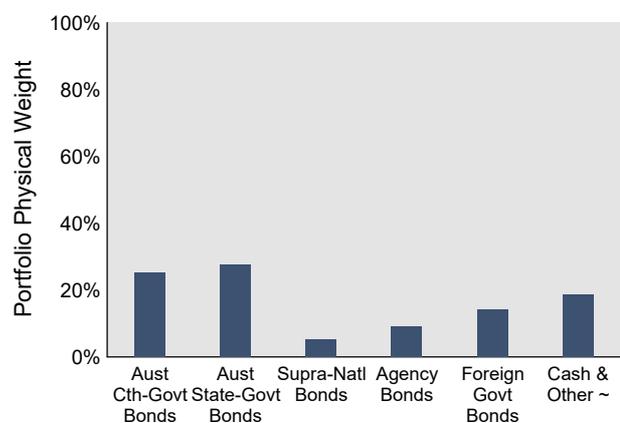
Investment Manager	JamiesonCooteBonds Pty Ltd
Portfolio Manager	Charles Jamieson & Chris Manuell <small>CMR</small>
Style	Global absolute return bond fund - concentrating on actively managing global high grade sovereign bonds
Objective	Outperform the RBA Cash Rate by 2.50% p.a. (after fees) over rolling 3 year periods.
Inception Date <sup>^</sup>	30 December 2019
Index	RBA Cash Rate Total Return Index
Management Fee <sup>#</sup>	0.58% p.a.
Administration Fee <sup>#</sup>	0.10% p.a.
Buy / Sell Spread	0.05% / 0.05%
Distributions	Semi-annual
Fund Size <sup>+</sup>	AUD \$40 million

#### Fund Overview

Characteristics	Fund
Modified Duration (yrs)	0.49
YTM + Hedging Effect	0.84
Weighted Ave. Credit Rating	AA+

Source: JamiesonCooteBonds Pty Ltd.  
See Definition of Terms.

#### Asset Allocation by Sector (Physical Weight)



#### Further Information

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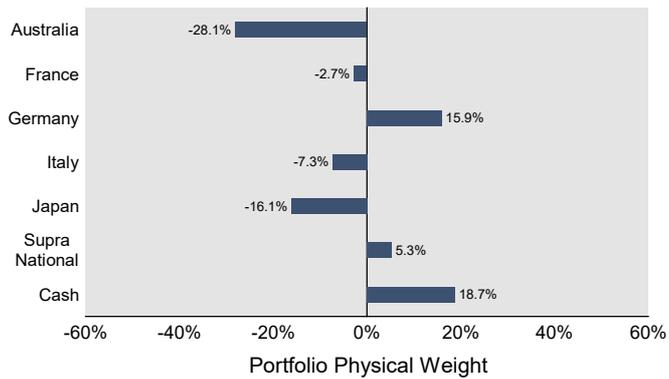
# All figures disclosed include the net effect of GST and RITC. ^ Inception Date for performance calculation purposes. + Fund size refers to the CC JCB Dynamic Alpha Fund ARSN 637 628 918. \* Performance is for the CC JCB Dynamic Alpha Fund (APIR: CHN8607AU), also referred to as Class A units, and is 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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Asset Allocation by Country (Physical Weight)\*

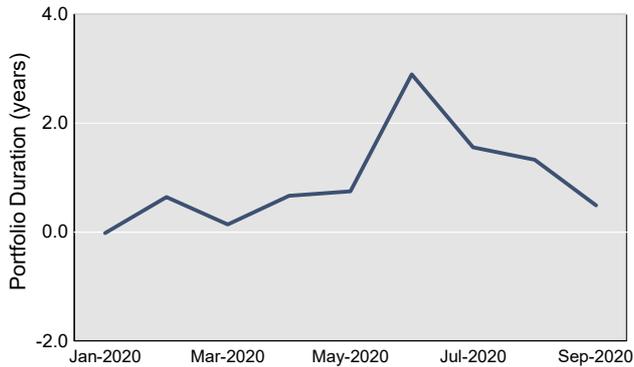


Asset Allocation by Duration Band (Physical Weight)\*



\*Asset allocation totals (Country and 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.

### Historic Portfolio Duration





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### CC JCB Dynamic Alpha Fund (APIR: CHN8607AU)

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#### Fund Review

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For the quarter ending September, the CC JCB Dynamic Alpha Fund (the Fund) returned 1.15% (after fees), outperforming the RBA Cash Rate of 0.03%.

The Fund had another robust month in what was a benign and low volatility environment with the US 30-year completing its narrowest monthly range for the year. The global rates market started the month on the defensive with compelling valuations. This was following the release of the Fed's new policy framework which triggered momentum style positioning to unwind flows through the last week of August.

JCB remained wary of the carnage late in August from Fed Powell's appearance at Jackson Hole and as a result kept the Fund cleaner running into the September Fed meeting, sticking to the process of targeting income-heavy and liquid short-dated exposures and avoiding any drawdown.

JCB were cognisant of a potential USD rally and subsequent risk-off price action given the seasonal backdrop which encouraged some anti-risk trade structures in the Fund that provided great diversification and benefited from 10% correction in the S&P 500.

The focus into month end revolved around the machinations of Washington as the markets remain fixated on the proposed stimulus bill and how that would unfold leading into the election as the pandemic continued to interrupt the economy.

JCB remain mindful of the myriad of potential event risks that remain on the calendar going forward. US fiscal stimulus talks and the progress of US presidential election could change the direction of asset markets violently, which will provide the Fund tactical opportunities to take advantage of any exaggerated deviations from value and harvest alpha over the top of the bond income accrued.

#### Market Review & Outlook

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##### **Strong returns for fixed income in September**

September delivered a wobble in risk markets combined with growing expectations of further RBA policy support delivering positive returns for fixed income investors. Risk market momentum turned negative for the first time since the violent sell off of in March, seeing key reversals in many market darlings of the last six months. The US technology sector lead equities lower, turning over the Australian dollar, which now looks to have a top in place as we head into the binary US election period come 3 November. Bond markets maintained solid negative correlations to equities, but the addition of further policy support from the RBA into Q4 further supported fixed income, whilst also being an additional drag on the AUD currency.

##### **Will negative interest rates fix the economy?**

The focus of the RBA seems to have shifted to additional support via small interest rate cuts, and possible additional bond buying in longer maturities to stimulate the economy still beset by ongoing Covid-19 lockdowns in Victoria. This also seems targeted at lowering the currency to foster growth once the lockdowns end and the disaster relief funding of generous job keeper programs starts to wind down, with the first of these moves occurring on 28 September. The RBA remains a highly reactive Central Bank, with a very poor record around recent communications of medium term monetary policy. Not long ago it was telling markets the neutral rate of interest was around 3.00% in the Australian economy – in a world of essentially zero interest rates, this looks like commentary from a parallel universe. The RBA kept rates at 1.50% for three years (mid-2016 to mid-2019) telling markets they didn't envisage going any lower, but alas here we are at a 0.25% cash rate which is likely headed lower still, come the November meeting. Covid-19 is clearly the reasoning for such moves, but JCB believes Covid-19 is just a rapid accelerator of prevailing slow burning secular themes.



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The RBA further commented that it would study Quantitative Easing (QE) but assumed it would be unlikely to utilise such a program. Here we are in the throes of an active QE program that is also likely to further swell. Which brings us to negative interest rate policy. Again, we are being told this is unlikely and not preferred. JCB firmly believes that the RBA has had to reluctantly embark on these major policy changes in response to a global environment that continues to draw many economies into dangerously low growth outcomes, and whilst it remains reluctant on negative rates, recent history is a poor guide for taking the RBA at their word. Other Central Banks with similar mandates such as the Bank of England and Reserve Bank of New Zealand are now openly exploring negative interest rate policy, with most of these domestic bond markets now trading at negative yields.

Australian bonds continue to look cheap and steep in a global context. Given the global appeal of Australian fixed income, it remains little surprise to see further records for Australian Bond issuance. In September, the Australian office of Financial Management (AOFM) issued a new syndicated six year bond which received an initial \$86 billion of bids (this dropped to just over \$60 billion when pricing was revised tighter during the book building process). This issue printed with a size of \$25 billion only, again leaving material demand unsatisfied.

#### Outlook for markets in this election year

The outlook for markets remains clouded by significant binary events, namely the US election and the uptick in second wave Covid-19 cases coming into the Northern Hemisphere winter. The US election seems unlikely to be resolved around the November election day with a significant chance of a Supreme Court challenge should the Trump administration lose the election, as current polling would suggest. The appointment of a new Supreme Court justice in Amy Coney Barrett, which we expect before election day, will tip the court to a 6-3 conservative majority which will give Trump a springboard for legal escalations. We needn't look further than the recent first presidential debate to see the circus of US politics in action with Trump seemingly willing to do anything to maintain his grip on power.

European Covid-19 cases continue to spike into a second wave, with isolated restrictions and lockdowns now occurring. This places additional drag on economies which are only just semi-normalising after the knock-on effects from the March and April lockdowns. European Covid-19 cases lead the US case count by two to four weeks in the first wave, and a material second wave would also complicate the US election process. Trumps approval rating shows a high correlation to US case counts, should this relationship hold into November with escalating US cases at that time, it would likely be viewed as negative for Trump and the outlook for the US dollar, which has closely followed Trumps popularity.

#### 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.

Channel Investment Management Limited ACN 163 234 240 AFSL 439007 ('CIML') is the Responsible Entity and issuer of units in the CC JCB Dynamic Alpha Fund ARSN 637 628 918 ('the Fund'). The appointed Investment Manager is JamiesonCooteBonds Pty Ltd ACN 165 890 282 AFSL 459018 ('JCB'). Neither CIML or JCB, their officers, or employees make any representations or warranties, express or implied as to the accuracy, reliability or completeness of the information contained in this report and nothing contained in this report is or shall be relied upon as a promise or representation, whether as to the past or the future. Past performance is not a reliable indication of future performance. This information is given in summary form and does not purport to be complete. Information in this report, should not be considered advice or a recommendation to investors or potential investors in relation to holding, purchasing or selling units in the Fund and does not take into account your particular investment objectives, financial situation or needs. Before acting on any information you should consider the appropriateness of the information having regard to these matters, any relevant offer document and in particular, you should seek independent financial advice. Readers are cautioned not to place undue reliance on forward looking statements. Neither CIML nor JCB have any obligation to publicly release the result of any revisions to these forward looking statements to reflect events or circumstances after the date of this report. For further information and before investing, please read the Product Disclosure Statement available at [www.channelcapital.com.au](http://www.channelcapital.com.au).