Fund Update as at 28 February 2021
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 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 $112 million

Fund Performance

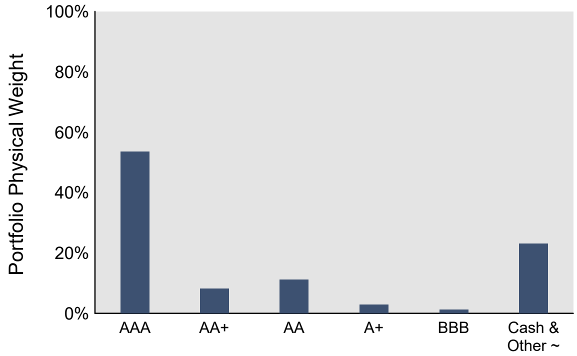
Returns (After fees)	Fund*	Index**	Excess
1 Month	0.01%	0.00%	0.01%
3 Months	0.23%	0.01%	0.22%
FYTD	1.86%	0.06%	1.80%
1 Year	3.65%	0.13%	3.52%
2 Years p.a.	-	-	-
Inception p.a.	4.47%	0.22%	4.25%

Fund Overview

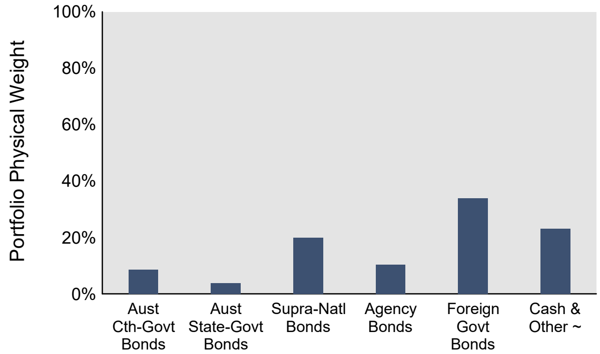
Characteristics	Fund
Modified Duration (yrs)	2.03
YTM + Hedging Effect	0.73
Weighted Ave. Credit Rating	AA+

Source: JamiesonCooteBonds Pty Ltd.
See Definition of Terms.

Asset Allocation by Credit Rating (Physical Weight)



Asset Allocation by Sector (Physical Weight)



Platform Availabilty

Ausmaq	Aust Money Market	BT Panorama
BT Wrap	HUB24 IDPS & Sup	Implemented Portfolios
Mason Stevens	Netwealth IDPS	Powerwrap
Praemium	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 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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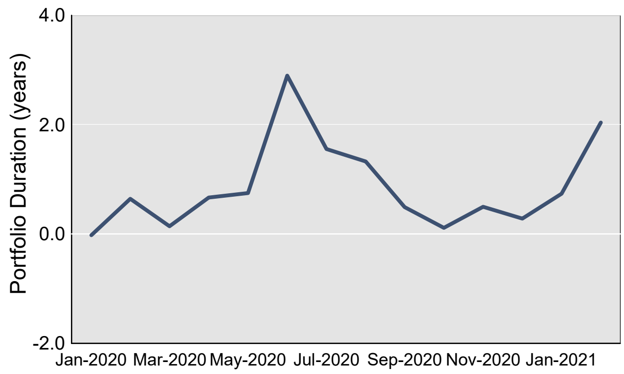
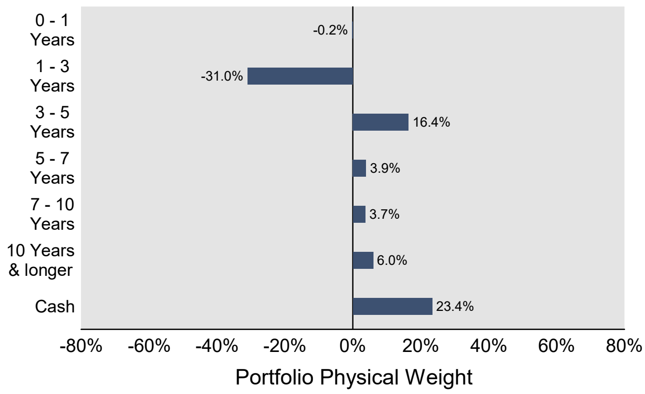
Historic Portfolio Duration



Asset Allocation by Duration Band (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.

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Fund Review

For the month ending February, the CC JCB Dynamic Alpha Fund (the Fund) returned 0.01% (after fees), outperforming the RBA Cash Rate Total Return Index.

The Fund generated a positive number for the month despite one of the weakest months for bonds in over 10 years. The Fund continued to stick to the process of maintaining the optimal risk-adjusted portfolio and tactically adjusted the duration exposures through the month. Bonds continued to cheapen as the reflation momentum trade persisted from January. The successful vaccine rollout and as the monetary and fiscal accommodation continued to flow which all fed into growth expectations going forward. The theme in rates space was one of steepening curves and Mr Market taking on the global central banks buy programs as Commodity Trading Advisor (CTA) short positioning reached historically elevated levels. Inflation expectations continued to push higher although started to enter exuberant levels and continued to be dismissed by Central Banks. US Fed Chair Powell remained sanguine and maintained his dovish stance – quoted as saying “inflation dynamics don’t change on a dime”.

European rates continued to outperform as economic expectations were pared back – EC cutting Eurozone growth from 4.2% to 3.7%. The European Central Bank (ECB) were more forthright with their approach to the back up in yields with ECB’s Philip Lane underscoring their commitment to buy bonds and prevent a tightening in financial conditions.

Domestically, Australian rates underperformed through the month, despite the RBA adding another 100 billion to their QE program and a deterioration in the Australian economic surprise index. The RBA’s yield target for the current 3 year bond was tested by the market late in the month and elicited a reactive response from Martin Street as the RBA bought an unscheduled 3 billion of 2023 and 2024 bonds. 10-year ACGBs underperformed their peers through the month although was exaggerated into month end due timing differences with month end closes. The monthly close of Australian bonds were exacerbated by lack of liquidity and a fast money community that could massage their underweight position in Australian rates with aggressive futures selling into the month end 10 year futures close. This enabled them to close the bond market on the lows for the year which was illustrated in the Australian/US 10 year spread which closed the day session at 51 bps and less than hour later was back under 30 bps in the London session.

Looking forward into March JCB is acutely aware of the quarterly SFE futures rolls and will be on alert for any turning points which historically occur in this window. JCB maintains the RBA QE program should be very beneficial for the bond market on a net supply narrative. Additionally, ACGB bond yields after fx hedging are highly attractive for foreign investors – Japan and Europe in particular. JCB anticipates that foreign investors will enter the ACGB market once global rates markets, particularly US treasury market, stabilise and the hunt for high quality yield resumes.

The cheapening of global rates has now breathed some more air into the asset class and will also present cross market opportunities given the different velocity amongst global economies. JCB remains constructive on the pullback. First, higher yields and steeper curves provide a compelling carry & roll profile, which boosts the long-term return potential of bonds. Historically, carry & roll contributes more return than the duration in ACGB and other rates markets. Second, the negative correlation between equity and bonds should return to the fore as yields moves further away from the zero-lower bound which accentuates the defensive characteristics of the bonds.

Market Review & Outlook

February market review

Bond markets were on the back foot in February, in a material way, as global positions were liquidated challenging Central Banks in a way we have rarely seen since the GFC. The optimism surrounding the Biden fiscal stimulus (USD $1.9 trillion) and inflation expectations on short run base effects, caused a liquidation of bond positions against the commentary of Central Bankers, who remain committed to low cash rates and easy financing conditions to stimulate demand in the Covid-19 ravaged economies. The sell-off became self-fulfilling in Australia as the RBA did little to redress algorithmic and Commodity Trading Advisor (CTA) style funds continuously selling interest rates futures, causing longer term holders to liquidate as the relative value of Australian rates cheapened against other cross market nations such as the United States. Ironically, this relative value is an explicit objective of the RBA's own QE program combined with the suppression of the Australian dollar. The RBA has failed on both fronts since the inception of the QE program and leads us to believe that further QE will be required.

Whilst Australian interest rates were a surprise under performer over the month, movements across global rates markets also pushed to higher yields in unison with heightened volatility in risk free Government bond markets. This has huge implications for all asset markets the world over. This volatility does not stay in a singular asset class for long, other similar episodes often sees volatility morph to other asset classes as interest rates are the virus that affect all things – they are our funding rates and discount rates. When risk free rates rise quickly in a heavily indebted world, that volatility can spread with dangerous implications. The most recent example of this was Q4 2018 when bonds sold off aggressively late in the year, freezing corporate high yield debt markets (there was no debt capital market issuance of high yield bonds for around six weeks as confidence collapsed) and ultimately triggering -20% liquidation of equity markets (which in and of itself generates a flight to quality bid in Government bonds).

Fast forward to today and we now have corporate credit at more expensive valuations than pre Covid-19 which JCB believes is crazy, especially as risk free rates are rising which usually forces a recalibration of credit spread premiums. As experienced from episodes like last March and April 2020, when credit reprices, it can be truly chaotic with a huge loss of liquidity – volatility in risk free rates often moves into credit before then skipping to risk assets as markets become concerned around low quality corporates, funding themselves at higher interest rates using debt capital markets or rolling existing debt obligations.

Defensive longer-term portfolio returns delivered by carry and roll

With the sell-off in risk free markets has come a reestablishment of yield (carry) and importantly delivered a steep term structure of interest rates curve (roll). Whilst duration often gets all the attention in bond markets for its short run movement of prices, it is actually a minor contributor to total return over time. This is critical to understand when building defensive longer-term portfolios as the major returns are delivered by carry and roll. Looking at the last decade of bond returns, almost everyone would tell you that bonds performed because duration rallied, and that was helpful no doubt, but the vast majority of performance happens slowly in an accretive and continuously compounding manner of carry and roll (roll in very simple terms is as a 5 year bond becomes a 4 year bond in one years' time, it has a capital accretion down a steep term structure curve generating total return). This rebuilds the defensive characteristics materially for a future time and has been met with interest from many of our clients, most of whom have been underweight Government bonds within their own asset allocations and are excited to rebuild more material positions into higher yields and steeper curves. Having just witnessed the tremendous power of the liquidity optionality available in Government bonds in March and April of 2020, many clients are now acknowledging that it was the ability to sell easily (at a premium) in times of stress that allowed them to invest in deeply discounted equities. For many, this move made substantial portfolio returns over the later part of 2020, thanks to a clean asset allocation that is not co-mingled with corporate credit making the entire structure vulnerable (many corporate credit funds were semi-gated during this time by raising sell spreads significantly as corporate credit froze).

Over the inflation hill

JCB has written previously about the mechanical pathway for higher US inflation (remember Q2 2020 the entire world was closed and we had negative oil prices) on data rotation alone, inflation should peak in May (base effects). We can work out a fairly tight lane way on this scenario pathway, but the one thing that is difficult to economically estimate is how long supply blockages take to clear. Once the base effect gives inflation velocity, it also takes it away just as quickly. JCB is preparing a white paper titled ''Over the inflation hill'' and believes its hugely relevant as it will have impacts on so many asset classes as the journey evolves. JCB will also build useful and actionable documents applicable to bonds, credit, alternatives, value and growth equity etc via the lens of the bond market.

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From a secular viewpoint, disinflationary forces of poor demographics, high debt levels (interest rate sensitivities and zombie corporate funding), technology, automation, robotics, lack of unionisation and globalisation have all been an overarching deflationary force. You can now add to that list massive economic slack and untapped labour pools the world over, so its hard to get excited about medium to long run 'self-reinforcing' inflation. However, short run inflation is transitory and will be much higher before base effects fall out and inflation will cool .

So the major questions now asked by many investors are; what are the triggers or the pathway towards a short run inflation peak, how chaotic can this movement become across portfolios that are broadly long risk assets, and what would be the reflexive feedback loops to other assets markets? JCB cannot caution enough that this volatility will be very unlikely to remain in the risk free complex. Modern day markets are actually quite fragile, and whilst prices are observable at great valuations in many things, the true test remains how deep that pricing tension really is. If bullish risk allocations go for the door, we know that opening can become a keyhole very quickly where only the first few folks get through.

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.