JCB

JAMIESON COOTE BONDS

Fund Update as at 28 February 2021
CC JCB Global Bond Fund - Hedged Class (APIR: CHN4711AU)

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 Barclays Global G7 TRI Value Hedged 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 $44.5 million

Fund Performance

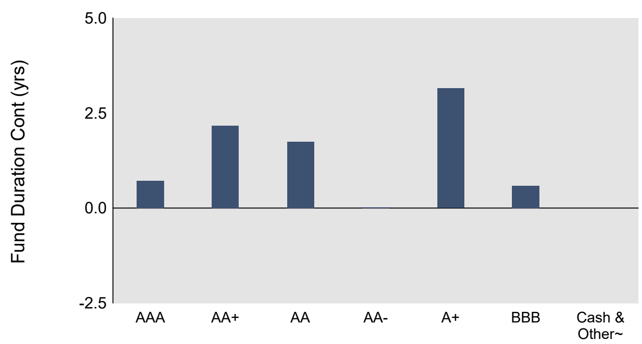
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	-1.65%	-1.85%	0.20%
3 Months	-2.31%	-2.44%	0.13%
FYTD	-2.06%	-2.08%	0.02%
1 Year	-2.11%	-1.23%	-0.88%
2 Years p.a.	4.22%	3.77%	0.45%
Inception p.a.	3.89%	3.60%	0.29%

Fund Overview

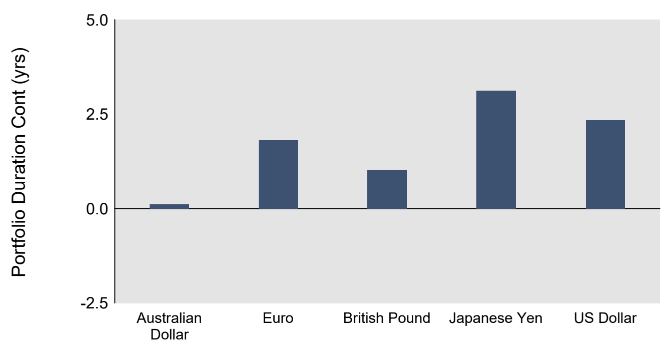
Characteristics	Fund	Benchmark
Modified Duration (yrs)***	8.40	8.67
YTM + Hedging Effect^^	0.70	0.70
Weighted Ave. Credit Rating***	AA-	AA-

^^ Data refers to CC JCB Global Bond Fund - Hedged Class (APIR: CHN4711AU) and Bloomberg Barclays Global G7 TRI Value Hedged 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 Super & IDPS
Implemented Portfoli	Mason Stevens	Netwealth IDPS
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 - Hedged Class (APIR: CHN4711AU), 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. ** Benchmark refers to the Bloomberg Barclays Global G7 TRI Value Hedged AUD. *** Data refers to Underlying Fund, CC JCB Active International Bond Segregated Portfolio (in USD); and where applicable, Underlying Benchmark, Bloomberg Barclays 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

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).

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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.

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.

Fund Review

For the month ending February, the CC JCB Global Bond Fund – Hedged Class (the Fund) returned -1.65% (after fees), outperforming the Barclays Global G7 Total Return Index Value Hedged AUD.

In February, the manner of G7 bond markets sell-off can be described as a fundamentally driven sell-off that gyrated into spikes in volatilities that induced position capitulation across markets and time zones. The impending expiry on March 31 of the exemption to exclude US Treasury from Supplementary Leverage Ratio calculation may also have contributed to reduction in position by US banks. Apart from the speed and the lower liquidity, this is a healthy adjustment in yields to reflect the end of pandemic and the impending global economic recovery. The Underlying Fund benefited from a core short duration position in US Treasury .

Looking forward, positions should be now cleaner. The high March/April inflation forecast of 3% in the US should print in April or May. After that, inflation is forecasted to fall fairly mechanically, back to the long-run average of 2%. Post pandemic, presumably in June, the elasticity of supply to meet the pent-up demand will be the hardest thing to forecast and may or may not sustainably elevate inflation. JCB believes that if inflation will indeed peak, it will be a great opportunity to see the peak in bond yields and a rally of bond markets in the middle of the year.

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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