JAMIESON COOTE BONDS

Fund Update as at 31 July 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 $331 million

Fund Performance

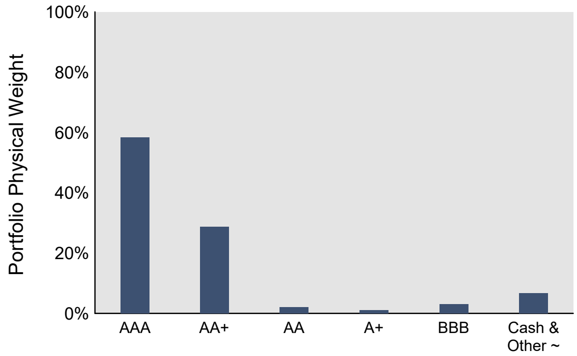
Returns (After fees)	Fund*	Index**	Excess
1 Month	0.15%	0.00%	0.15%
3 Months	0.37%	0.01%	0.36%
FYTD	0.15%	0.00%	0.15%
1 Year	2.03%	0.06%	1.97%
2 Years p.a.	-	-	-
Inception p.a.	3.79%	0.17%	3.62%

Fund Overview

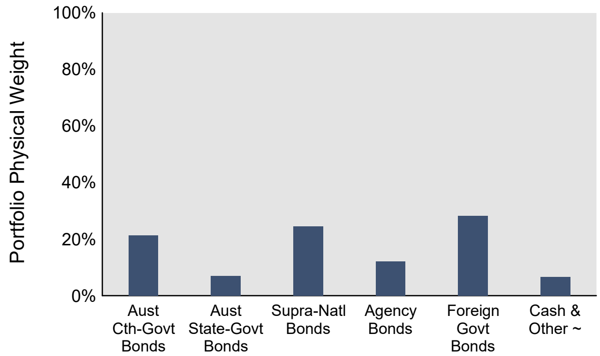
Characteristics	Fund
Modified Duration (yrs)	-0.36
YTM + Hedging Effect	0.75
Weighted Ave. Credit Rating	AA+

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	Colonial First Wrap	HUB24 IDPS & Super
Implemented Portfoli	Macquarie Wrap	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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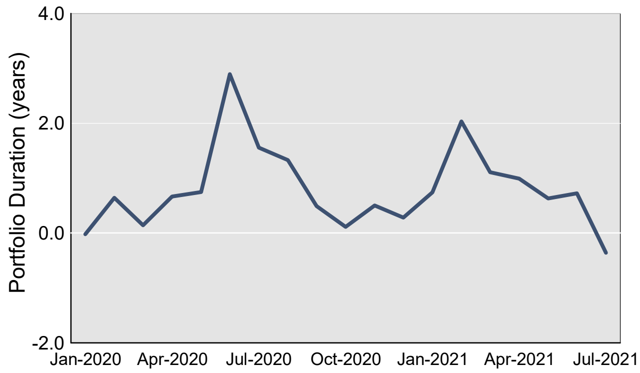
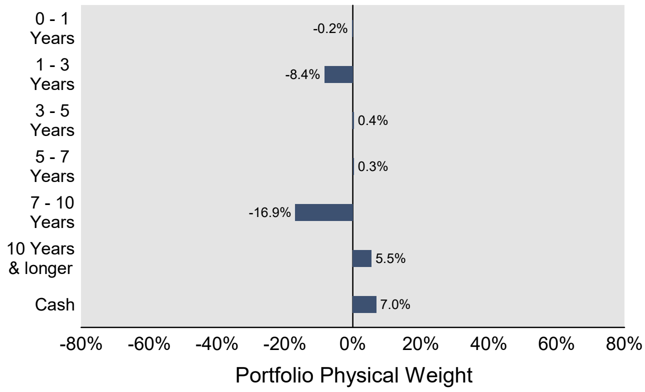
Historic Portfolio Duration



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.

Fund Review

For the month ending July, the CC JCB Dynamic Alpha Fund (the Fund) returned 0.15% (after fees), outperforming the RBA Cash Rate Total Return Index.

The Fund generated positive risk adjusted returns amidst a month of conflicting signals as the Northern Hemisphere entered summer break and economic data continued to remain polluted as the fallout from Covid persisted. The bullish seasonals for July in the fixed income market came to the fore again – US 10 yr yields falling by 23 bp – as the rates market continued to rally defying and squeezing the reflation crowd with persistent buying from CTA's, retail investors and pension funds. The narrative also remained focused on the transitory nature of the inflation prints and this was again underscored by US Fed Powell who testified in front of Congress that rising inflation was "largely reflecting transitory factors". The FOMC meeting later in the month also allayed the other fear in bond markets which is tapering – US Fed Powell assuaged concerns of stimulus withdrawal suggesting that the economy was still "some way away" from substantial further progress which allowed global yields to continue their grind higher into month end.

European rates also benefited from a dovish central bank as the ECB outlined its strategic review in the month of July which provided guidance for interest rates to remain at "present or lower levels" until certain conditions pertaining to inflation holding the 2% region were satisfied. Dovish Central Bank overtures also surfaced in China through the month as the State Council cut the reserve requirement ratio (RRR) by 50 bp which added to the concerns of the global growth slowdown thesis. The Commonwealth countries' central banks took a slightly different path in July with the Bank of Canada leaving rates unchanged, however in what was expected tapered its rate of bond buying to CAD 2 billion per week from CAD 3 billion previously and RBNZ surprised the markets announcing it would conclude its QE program by July 23. Domestically the RBA extended its QE programme however committed to tapering from 5 billion a week to 4 billion a week in September citing better-than-expected economic outcomes although following that decision the Delta variant played havoc with the East coast as states were forced into lockdown which allowed Australian rates to outperform into month end.

Going forward the Fund will look to take advantage of the seasonally bullish and volatile period of August and exploit the rich valuations and cross-market opportunities from the differing policy normalisation paths of the Central Banks in an alpha accretive manner. JCB is cognisant that the bond market prices events ahead of time and will be looking for the catalyst to validate the change in the price action and positioning that has dominated the powerful bond market rally of the last month keeping a close eye on Jackson Hole in August where tapering rumblings from the US Fed could trigger some cross asset volatility.

JCB

Jamieson Coote Bonds

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Market Review & Outlook

The substantial performance of bond markets over the month of July has been attributed to number of factors, each one not solely responsible for the move but in combination causing a significant repricing. As with much of the year to date, bond markets have moved on expectations well ahead of actual data realisations. Three major factors are at play in this repricing. The decline in global growth momentum, which continues to cool after the re-opening surge (whilst absolute data levels remain healthy the trend in data is decaying). Second, the Delta variant continues to ravage the Australian east coast having a large impact on domestic RBA expectations, but it is also slowing movement globally as growing case numbers are restricting mobility abroad. Third, China is also cause for concern for macro investors with substantial tightening in regulatory environments in many asset markets and some large corporates in strife, the largest of which is Evergrande (one of China's largest property developers) with debts of 1.65 trillion yuan (A$345 billion). The combination of these concerns, combined with a market place still heavily positioned for 'reflation' structures has produced a powerful rally across global bond markets.

When JCB wrote their recent whitepaper 'Over the inflation hill', they noted that bond markets tended to do very well after a large sell-off, particularly if the curve steepens in that process, as this resets the carry and roll elements of bond returns. Carry and roll has historically been a bigger provider of returns than duration, which often gets all the headlines but is in fact a minority part of the longer term return profile. JCB argued for a re-establishment of defensive allocations into improved valuations, but they did not foresee the speed at which such performance would be delivered.

The sell-off in markets and subsequent re-rally over the year is akin to a large part of a full cycle which has been accelerated in modern markets by powerful momentum based algorithms. In that process, JCB has noted a significant narrative change from the reflation optimism that opened the year, to a more cautious outlook now concerned with lower growth and fiscal cliffs as governments back away from the emergency financial settings of 2020 which set up 2021s solid growth opening. Throughout the realisations of higher headline inflation over the last few months, the bond market has reacted to higher inflation prints by rallying long dated US Treasury bonds, in expectation that if inflation prints are higher now, then future inflation prints will fall away rapidly as base effect has now crested and re-opening singularities moderate (JCB estimates 55% of the higher than expected 0.9% month over month increase in June inflation report came from six components - used cars, rental cars, vehicle insurance, lodging, airfares, and food away from home, up from 52% the prior month). Of course these one off components can continue higher but higher prices leads to demand destruction which moderates the pricing cycle. These look very likely to moderate as the re-opening surge starts to normalise.

As the northern summer comes to an end, investors should watch a critical Central Bank meeting by the US Federal Reserve (US Fed) at its Jackson Hole Symposium starting on 26 August. Whilst other Central Banks are currently more hawkish than the US Fed, (Bank of England, Canada, New Zealand all look closer to starting policy normalisation) it is the US Fed that will capture the attention of risk markets. The US Fed Board is now talking about when to taper bond purchases. Intuitively this would seem to be a bearish development for bond valuations, however, many of the experiences with recent Quantitative Easing (QE) to Quantitative Tightening (QT) policy switches suggest bond yields often fall (higher prices) as liquidity support for the economy is reduced. Additionally, any QT from the US Fed will also coincide with a significant reduction in US Treasury coupon bond issuance, further supporting the bond complex as supply is curtailed. JCB expects that this could further flatten the term structure curve, as markets may price some movement in policy rates which would be a bearish development for short-dated bonds (but quite constructive for long dated bonds as it destroys future inflation expectations by having higher cash rates).

JCB would expect any tightening of policy will be led by countries that have been heavily affected by Covid-19, who are now well vaccinated and looking to return to a more normalised policy setting with populations either vaccinated or with antibodies after having Covid-19. This leads JCB to believe that Bank of England and Bank of Canada can lead global Central Banks into attempting small policy normalisations. The RBA was likely a laggard in the global movement towards a hiking cycle before the current flare up of Delta in Sydney and Melbourne. An elongated and problematic winter period will only further delay any tapering process as additional support will be required for the domestic economy.

Clearly after the rally of the last 30 years it is absurd to consider bonds to be ‘cheap’ on an outright basis as they reside at low yields when viewed in isolation (very few assets are cheap on such a time scale). If that view is switched to a relative lens, bond valuations became incredibly attractive earlier in the year based on the steepness of the curve and distance from cash rate and have since recovered swiftly. Given heightened investor anxiety around the inflation complex, JCB expects that bonds should settle slightly cheap to their fair value estimates (until inflation trend is restored). This concept of the neutral rate is worth considering as investors join the dots to portfolio construction. The neutral rate is often used to describe the rate at which a central bank’s policy rate generates full employment and the desired inflation, without overheating nor overstimulating the economy. The economic damage defrayed by huge debt driven Government stimulus will leave a scarring on economies, driving down the neutral rate significantly.

As JCB have seen over 2021, rates can push higher for a short period where momentum algorithms take control of market pricing, but the sustainability of higher long dated rates look questionable when considering the neutral rate in the economy. Buying targets for other duration sensitive assets away from fixed income (growth equities) should be calibrated accordingly.

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.