JCB

JAMIESON COOTE BONDS

Fund Update as at 31 October 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 $23.2 million

Fund Performance

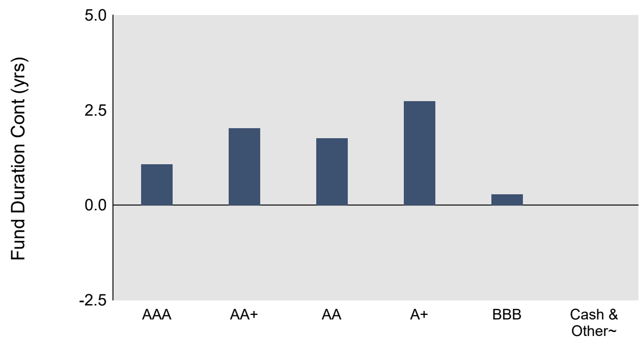
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	-4.05%	-3.84%	-0.21%
3 Months	-3.67%	-3.49%	-0.18%
FYTD	-0.32%	-0.10%	-0.22%
1 Year	-8.52%	-8.13%	-0.39%
2 Years p.a.	-3.42%	-3.20%	-0.22%
Inception p.a.	1.33%	1.51%	-0.18%

Fund Overview

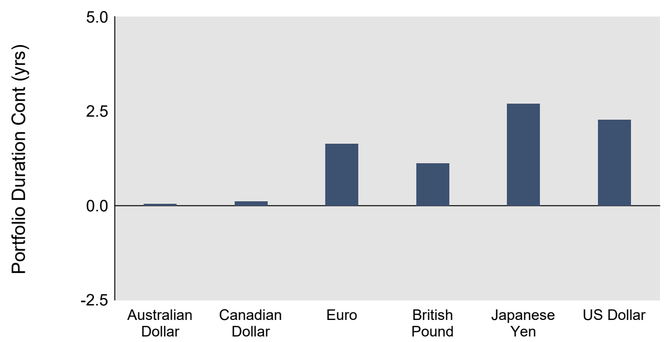
Characteristics	Fund	Benchmark
Modified Duration (yrs)***	7.87	8.77
YTM + Hedging Effect^^	0.91	0.85
Weighted Ave. Credit Rating***	AA	AA-

^^ 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

Global bond markets suffered heavy losses in October after comments from the Bank of England (BOE) in late September suggested rate hikes would be imminent for the UK markets, triggering a swift reassessment of potential Central Banking policies around the world (as it transpired the BOE did not moves rates at its recent November meeting – badly wrong footing markets). In Australia, the market moved to price in arguably more than an entire rate hiking cycle, as liquidation of positions transpired and more than five rate hikes for 2022 with an additional four hikes where priced into valuations into the 2023/2024 period. These suggested moves are in stark contrast to the RBA's central assessment of the pathway to rate hikes, but markets are taking on Central Banks in their convictions that post lockdown growth and higher supply side inflation due to Covid-19 outcomes will force Central Bankers to normalise their policies significantly earlier than telegraphed.

A small rise in Australian inflation outcomes to 2.1% year on year – just inside the RBA targeted band of 2.00% to 3.00% added further fuel to the bond sell-off late in the month, as the RBA failed to implement its Yield Curve Control policy which had anchored front end yields at low levels. Subsequently in the post November RBA meeting press conference Governor Lowe suggested he exercised his ''discretion'' around the implementation of the formal RBA policy.

These domestic moves seem to be an extreme over reaction, not in their direction to question the movement of policy into an economic recovery, but in the possible scope of such moves. Making a large assumption that the economy can recover quickly without further material Covid-19 interruptions (both here and abroad) and parking the large spare capacity within the current economy, pricing a fully normalised rate hiking cycle looks very premature given the debt loads and interest rate sensitivities within the economy. The RBA has continuously suggested that inflation outcomes would need to be realised into the middle of the expected inflation target (2.00% to 3.00%) combined with wages growth accelerating to beyond 3.00% as a catalyst or trigger to rate hikes. As Australia only calculates inflation on a quarterly basis, this suggests that at least two further readings (January 2022 and April 2022) at a minimum would be required to potentially hit the target mid-point of 2.50%, although wages growth is unlikely to have achieved 3.00% by this date. Again, assuming that wages had reached this 3.00% level (a big assumption once the borders re-open to foreign workers) then the RBA meeting in May 2022 seems the earliest possible "live" meeting for a rate move. To complete on five rate hikes into 2022, the RBA would have to hike rates more than every other month until year end. Whilst this is of course all "possible" it is highly improbable, but if it did occur the market is already priced for such an outcome!

The knock-on effect to the economy and asset markets such as property and equities would be problematic if this actually transpired throughout 2022. Just a reduction in bank lending in 2017 floored the major property markets around the country by around 10%, imagine what happens to credit availability once the collateral itself (bricks and mortar) is under the actual duress of multiple rate hikes? Each realised hike generates a material contraction in free cash flow for those on variable mortgages or loans, combined with obviously linkages through to the property and construction sectors. RBA commentary remains firmly in the camp of 'no move in interest rates until 2024' as the central scenario. When the RBA does finally hike rates, it remains hard to see the terminal rate (the highest RBA cash rate before rates turns towards a cutting cycle) above 1.50% without significant property market (and construction) problems in the economy compounded by a rapidly slowing Chinese economy.

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With markets fixated on a possible rate hiking cycle, it is important to remember that interest rates affect all parts of the financial systems and cannot materially move in isolation without significant ramifications elsewhere. Q4 2018 is perhaps the most obvious example. The US Federal Reserve triggered a significant bond market sell off in October 2020 suggesting it would continue raising rates; global credit markets froze in November that year; and equities subsequently dropped ~20% in December as corporates were starved of financial lubricant as the corporate zombies could no longer roll forward their existing debt obligations nor issue fresh debt (market was frozen to low quality borrowers).

Managing total portfolio risk

Things can change very quickly. In 2018, Australian Government Bonds went from being a material asset laggard year to date (as they often should be as a low expected return, high quality and high liquidity asset) to the best performing domestic asset of the year. Of course, the closing weeks of 2021 are unlikely to follow this pathway, but it is worth considering some of the parallels. This market “fragility” has been a major theme for JCB this year, as markets are seemingly clustered into herd positioning and any change in flows can have an outsized market move in a highly algorithmic world. This has been evidenced in bonds this year, and clearly in credit and equities into the Covid-19 crisis in March and April 2020. JCB continue to ask who is “short” equities, or “short” credit? This is important if large, long exposures look to exit on profit taking, as this risk needs to re-distributed to market and as witnessed the last traded price is often quite thin and cannot take the distribution of large risk positions, ultimately causing markets to cascade. Should these bond market moves persist into year end, these trigger points are rapidly approaching and JCB think a much wider discussion needs to occur around managing total portfolio risk.

The duration of bond moves capture all the attention and drives near-term performance, however, it is important to remember that duration has been a minority part of the total return for investors throughout time (although its nearly everything for short term speculators).

Looking at the last decade, we can see that “Carry” and “Roll” play a far larger part of the total return generation than any duration moves, and these bond sell-offs take bonds to substantially cheaper valuations in a world where seemingly everything is expensive. That generally bodes well for forward returns thereafter, particularly when a large fire break of excessive rate hikes is priced into the bond curves.

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Fund Review

For the month ending October, the CC JCB Global Bond Fund – Unhedged Class returned -4.05% (after fees), underperforming the Bloomberg Global G7 Total Return Index Value Hedged USD (converted to AUD).

The global bond market selloff continued from late September into October. The selloff, however, was no longer led by the belly of the curve. The front end of curve, especially in the 1-2 year yield, was the most volatile tenor because the market aggressively repriced the policy path of global central banks like BOE, Fed, ECB and RBA. ACGB 2-year yield increased +73bps in October despite of RBA's Yield Curve Control Policy and no-hike-until-2024 forward guidance. Canada 2-year yield was up +56bps, Gilt 2-year yield was up +30bps and UST 2-year yield was up +22bps over the month.

The Underlying Fund had a long bias in ACGB market at the beginning of the month, which was the biggest drag of the Fund performance. During the October meeting, RBA re-iterated the YCC and forward guidance, which calmed the ACGB market temporarily. The hawkish comments from BOE, higher inflation data in New Zealand, and earlier termination of QE program by Bank of Canada accelerated the global rates selloff. Compared to US, Australia has lower wage growth and lower inflation, which don't support the faster rate hikes of RBA vs Fed. Nonetheless, the ACGB/UST spread continued widening. The Underlying Fund cut the long bias in ACGB market in the first part of the month as it hit the stop loss limit. Over the month, the Underlying Fund positioned for improved economy outlook and unwinding of emergency monetary policy in US and Europe via the short bias in UST market and the yield spread widener between core and periphery European countries. These positions helped the performance.

Looking ahead, JCB expects the prolonged supply chain bottleneck to keep the goods inflation elevated in the near term. Together with pickup of service consumption, the overall inflation is expected to move higher in the coming months before heading lower in the middle of 2022. On the other hand, the slowdown of Chinese economy with limited support from the government posed the downside risk to the global economy. After the universal rates selloff in the last few weeks, JCB expects global rates market to re-adjust to reflect the divergent macro fundamentals and monetary policy outlooks. JCB is looking to add cross market positions to capture those moves.

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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.