JAMIESON COOTE BONDS

Fund Update as at 31 March 2022
CC JCB Active Bond Fund (APIR: CHN0005AU)

Fund Performance

Returns	1 month	3 months	6 months	FYTD	1 year	3 years p.a.	5 years p.a.	Since inception p.a. (03-Aug-2016)
Fund Net Return[1]	-4.16%	-6.50%	-8.15%	-7.94%	-6.32%	-0.74%	1.56%	1.21%
Benchmark Return[2]	-4.03%	-6.26%	-7.62%	-7.28%	-5.54%	-0.66%	1.83%	1.16%
Active Return (After fees)	**-0.13%**	**-0.24%**	**-0.53%**	**-0.66%**	**-0.78%**	**-0.08%**	**-0.27%**	**0.05%**

Fund Benefits

Active Management
JCB is a specialist fixed income manager with significant global investment management experience and expertise.

Superior Liquidity and Credit Quality
A domestic high grade bond strategy that invests in Australian Govenment, semi-Government and supranational bonds (AAA or AA rated securities), providing investors with superior liquidity and credit quality.

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

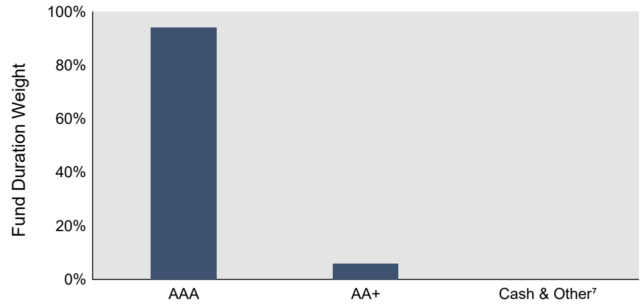
Investment Manager	JamiesonCooteBonds Pty Ltd
Structure	AAA or AA rated bond securities issued in Australian dollars
Inception Date	03 Aug 2016 [3]
Benchmark	Bloomberg AusBond Treasury 0+ Yr Index
Management Fee	0.45% p.a.[4]
Administration Fee	0.10% p.a.[4]
Buy / Sell Spread	0.05% / 0.05%
Distributions	Semi-annual
Fund Size	AUD $987 million [5]

Fund Characteristics

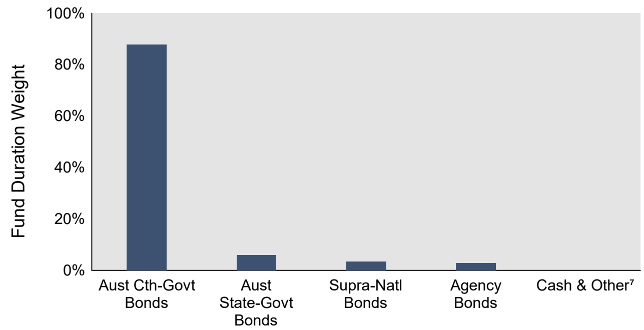
Characteristics[6]	Fund	Benchmark[2]
Modified Duration (yrs)	5.69	5.98
Yield to Maturity (%)	2.65	2.43
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	3.57	n/a

Source: JamiesonCooteBonds Pty Ltd.

Allocation by Rating (Duration Weight)[6]



Allocation by Sector (Duration Weight)[6]



Platform Availabilty

AMP MyNorth	Asgard	Ausmaq
Aust Money Market	BT Panorama	Colonial First Wrap
HUB24	Implemented Portfol	Linear
Macquarie Wrap	Mason Stevens	MLC Navigator
MLC Wrap	Netwealth	PowerWrap
Praemium	uXchange	Xplore Wealth

Further Information

Phone: 1800 940 599
Email: distribution@channelcapital.com.au
Web: www.channelcapital.com.au

[1] Performance is for the CC JCB Active Bond Fund (APIR: CHN0005AU), 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. [2] Benchmark refers to the Bloomberg AusBond Treasury 0+ Yr Index. [3] Inception Date for performance calculation purposes. [4] All figures disclosed include the net effect of GST and RITC. [5] Fund size refers to the CC JCB Active Bond Fund ARSN 610 435 302. [6] Refer to Definition of Terms. [7] Cash & Other includes cash at bank, outstanding settlements and futures margin accounts.

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Market Review & Outlook

The outbreak of conflict between Russia and Ukraine sent commodity markets rapidly higher, further fueling inflation concerns in the near term via the energy channels. Bonds initially enjoyed a flight to quality movement as markets were concerned over the prospect of an escalation to global or nuclear conflict, but as the days passed and the North Atlantic Treaty Organisation (NATO) refused to be drawn in directly, the markets pivoted to expect conventional warfare in a contained and localised battle. This removed the flight to quality from bonds and saw risk markets enjoy a stunning recovery over the month. The subsequent lift in inflation expectations via the energy channels shifted the rhetoric of U.S Federal Reserve (U.S Fed) who have now suggested they are intent of destroying demand in the economy to cool inflation pressures. Having missed the window to remove accommodative policy settings into the re-opening economic strength last year, the U.S Fed will now be taking markets on their fastest hiking cycle of recent times as the economy is already cooling rapidly from diminishing stimulus and higher energy costs. This is clearly evident in the new order component of the ISM surveys.

The speed of these moves is truly historic. As the markets have lurched to reprice the expectations of the U.S Fed policy from gradualist to violent, the U.S Treasury Bond curve has inverted at a rapid pace (where the yield on a 2yr bond is higher than the yield on a 10 year bond). These curve inversions have a near perfect prediction capability of calling impending recessions within a 6 to 18 month lag effect. But the speed of this hiking cycle is generating great debate about how long may be required until a recessionary environment may occur. In the hiking cycle of 2004-2006, this curve inversion was not achieved until the U.S Fed had hiked rates 15 times. In the U.S Fed hiking cycle of 2015-2018, this inversion was achieved after the 9th rate hike. In this current hiking cycle of 2022, the curve inverted 13 days after the 1st rate hike. So, the markets are acknowledging the U.S Fed's desire to now crush inflation by killing demand, but the danger remains that in that process the U.S Fed may also kill the economy (this is why longer dated bonds yield less than shorted dated bonds). This clearly has a vast array of asset allocation implications in the near term once the U.S Fed begins tightening financial conditions rapidly via the interest rate channel.

Over the month of March, the Reserve Bank of Australia (RBA) finally started acknowledging what markets have been suggesting for some time, that interest rate hikes will be required in calendar year 2022. Our base position has remained that the RBA needs to get the cash rate to 1.00% (from its emergency setting of 0.10% currently) by year end, before hiking again in the first half of the year to a terminal rate of 1.50% to 1.75%. From the second half of 2023 onwards, the roll off of fixed price mortgages from sweetheart deals available during Covid will reset to current market rates at vastly higher interest rates (Commonwealth Bank of Australia have already increased fixed rate mortgage rates 8 times), providing a natural dampening effect on the economy. Currently, the markets are pricing in more than double our estimated tightening amount from the RBA, which we believe is a significant overstep. The expected RBA implied policy rate in 2 years is above 3.52%, more than 50 basis points higher than that of the U.S Federal Reserve, suggesting that the RBA can raise rates faster than the U.S Fed. This looks excessive for Australia given the large starting inflation differentials with current year on year inflation are currently at 3.5%, whilst the USA is 7.9%. Both of these numbers will move higher into Q2 as a result of the war based shock to energy, however, the U.S has more than twice the inflation issue of Australia at this time.

Given the recent moves in fixed income we are expecting a period of significant interest from investors to rebuild liquid defensive exposures, as many clients have been underweight since the exceptional performance through the Covid turmoil of March 2020, and are now reconsidering their allocations. Jamieson Coote Bonds believes a period of consolidation is likely as the move has been historic in both speed and size, and driven by expectation of Central Bank actions. As these actions become delivered realities and economies are affected by their outcomes, the scope for moves based on momentum will diminish and be replaced by investors seeking high quality liquid assets to navigate their portfolios through the seismic policy changes ahead.

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Fund Review

For the month ending March, the CC JCB Active Bond Fund - Class A units (the Fund) returned -4.16% (after fees), underperforming the Bloomberg AusBond Treasury (0+Yr) Index.

The selloff in global bond markets accelerated in the month of March to reach higher yield levels not seen since the previous U.S Fed hiking cycle of 2018. Three core themes have continued to dominate markets:

- higher inflation in terms of both realised inflation and forward looking expectations
- increasingly hawkish Central Bank policy and;
- geopolitical risks.

Global supply chain issues, as well as pent up demand has seen inflation continue to move higher in developed markets, with the U.S Consumer Price Index data showing an annual rate of 7.9%. The U.S Federal Reserve officially kicked off their rate hiking cycle with a 25 basis point hike at the March Federal Open Market Committee (FOMC) meeting. Jamieson Coote Bonds has long been of the view that the U.S Federal Reserve have been behind the curve in their tightening cycle and had seen a 50 basis point hike as a good opportunity to send a strong message to the market of their intentions to dampen inflation. A more conservative path was chosen by the FOMC as the uncertainty reigned strong with the Russian invasion of Ukraine. Markets are now almost fully priced for 50 basis point interest rate hikes by the U.S Fed at the next meeting in May, with a terminal price of around 2.75% priced into markets, before an economic slowdown will see rate cuts in the second half of 2023. The aggressive pricing saw the U.S bond curve flatten. In the front end of the U.S bond curve, 2y United State Treasuries (UST) sell off 90 basis points for the month to finish at 2.33%, while 10y USTs sold off 51 basis points to 2.34%. Historically, curve flattening is a consistent predictor of pending recessions over the next 18-24 months.

Australian interest rate markets traded broadly in line with the U.S, as bond markets sold off violently to higher yields over the month. By the end of the month, the interest rate derivative markets were pricing a year end cash rate of around 2%, and a terminal cash rate of over 3%. Jamieson Coote Bonds does not see the Reserve Bank of Australia (RBA) meeting this pricing, and expects the cash rate to be 1% by the year end, with the first rate hike to come at the June RBA meeting.

The CC JCB Active Bond Fund slightly underperformed the index performance for the month of March. Main drivers of the detraction were the overweight position in the short end bonds that sold off over the month, and the widening of supranational securities versus exchange-traded Australian Commonwealth Government Bonds.

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.
Yield to Maturity - is the total return anticipated on the portfolio if the bond holdings were held until their maturity.
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 Weight - refers to the portion of the overall duration attributable to the segment (i.e. credit rating or sector), as a percentage of overall portfolio duration. 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

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