JCB

JAMIESON COOTE BONDS

Fund Update as at 31 May 2022
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 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 $13.6 million

Fund Performance

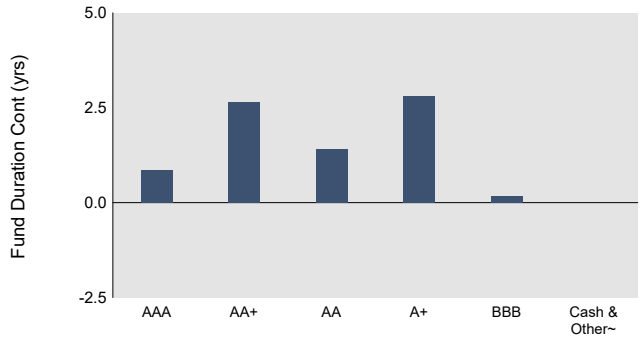
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	-0.35%	-0.59%	0.24%
3 Months	-4.89%	-4.90%	0.01%
FYTD	-7.35%	-7.08%	-0.27%
1 Year	-7.01%	-6.67%	-0.34%
2 Years p.a.	-4.60%	-4.34%	-0.26%
3 Years p.a.	-1.02%	-0.81%	-0.21%
Inception p.a.	0.06%	0.07%	-0.01%

Fund Overview

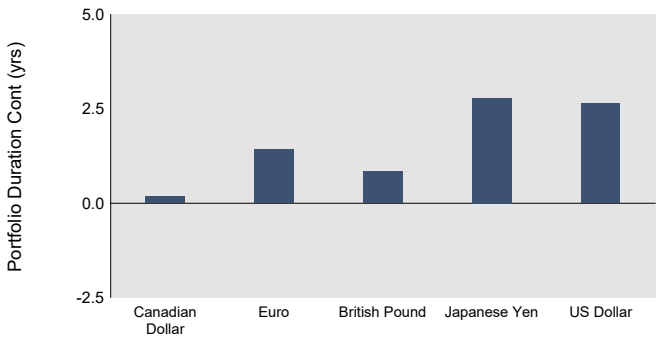
Characteristics	Fund	Benchmark
Modified Duration (yrs)***	7.86	8.08
YTM + Hedging Effect^^	1.84	1.91
Weighted Ave. Credit Rating***	AA	AA

^^ Data refers to CC JCB Global Bond Fund - Hedged Class (APIR: CHN4711AU) and Bloomberg 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	HUB24	Implemented Portfolios
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 - 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 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 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

May was a month where Central Bank actions and dialogue were disseminated as the geopolitical risks of the Russian/Ukraine conflict was largely forgotten and as the market weighed up the inflation versus growth slowdown story. At the US Federal Reserve (US Fed) meeting on May 4 the US Fed hiked rates by 50 basis points (bp), however they pushed back on the option of going 75 bp. US Fed Chairman Powell opined that "inflation is far too high" and there seemed to be agreement among the committee that similar sized rate increases "should be on the table for the next couple of meetings". The general tone from the US Fed speakers through the month continued the thematic of pursuing tighter policy which was highlighted in the US Fed minutes released late in the month – "most" policymakers believed "50 bp increases in the target range would likely be appropriate in the next couple of meetings". European Central Bank (ECB) members ran with the hawkish baton – Klaas Knot hinted at the chance of a 50 bp hike if inflation broadened and was supported through the month with comments from other members open to the possibility of that degree of tightening. The ECB President Lagarde penned a piece that highlighted the change in the inflation outlook, and it was now "appropriate" for an adjustment in interest rates and hinted that the Asset Purchase Program could end early in the third quarter. This is like taking candy straight from the baby's mouth where markets and debt burdened households will now have to adjust to tightening financial conditions with the removal of monetary stimulus. These moves will almost certainly provide ongoing volatility to asset markets, potentially taking some asset classes a long way from perceived 'fair' value and blurring the signposts that investors often use to make forward looking decisions.

Fixed income markets often provide strong guidance to these developments, behaving like a locomotive on a long train of assets - ultimately where fixed income (Government bonds) travel many other asset classes can be pulled in time. This was reinforced last month as the US 10-year yields hovered around the magical 3% zone as tightening in financial conditions reminded equity and credit markets of their reliance on bond markets for their generous source of funding over the last few years. Financial markets were not the only area that that higher rates impacted through the month, it was also substantiated with a slowdown in economic data in the US manufacturing, housing and durable goods data all came in below expectations. The hawkish overtures from the ECB will be worth monitoring as Europe has long been the anchor for low global rates and the secular lower economic growth story might provide difficulties for the ECB to tighten aggressively. The UK started the rates sell-off last October and JCB will be watching for a change in tone as an early warning indicator that the momentum and narrative of higher rates globally is starting to slow as the demand destruction on the economy takes precedence. The UK is grappling with poor consumer confidence as data there hit a record low of -40 in May and justified the slight dovish tilt from the Bank of England at its meeting and the 15 billion pound fiscal package announced by their government.

In Asian markets, China continued to struggle under the Covid-19 outbreak which provided added concerns for the global growth engine. This remains a positive for the inflation story as we anticipate a removal of the supply chain blockages that have plagued us from the commencement of Covid-19. Barring any further unexpected shocks, inflation should fall over the balance of the year, with restrictive policy destroying demand to help this process.

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Domestically, the Reserve Bank of Australia who were late to the Quantitative Easing party were now arriving late to the global hiking party as they hiked 25 bp to a unique rate of 0.35% - with market expectation for a 15 bp hike. Board minutes released later in the month demonstrated that the members discussed hiking by 15 bp, 25 bp or 40 bp. Once again highlighting the indecision and waning credibility from an institution that drives so many financial outcomes for Australian households and corporations. JCB still maintains the egregious forward pricing of circa 3.70 % rates, 1 year out is not sustainable for the domestic economy without engineering a very uncomfortable hard landing given the sensitive transmission mechanism of higher rates.

Sadly, for asset owners, 2022 is proving a very difficult environment as the price of money is set to increase rapidly to temper demand, helping to rein in inflation. These moves often lead to a rapid slowdown in the economy and consequently a repricing of assets. Whilst continued rate hikes will certainly produce market volatility, for those that weather these storms there should be fantastic investment opportunities available thereafter. Creating a plan for the coming volatility will serve investors well with some obvious trigger events which will guide as signposts to the twists and turns ahead. JCB remains confident that the bond market will become more two-sided in this environment against the backdrop of slowing inflation and Central Bank actions.

Fund Review

For the month ending May, the CC JCB Global Bond Fund – Hedged Class returned -0.35% (after fees), outperforming the Bloomberg Global G7 Total Return Index Value Hedged AUD.

The global rates market showed divergent paths in May. With US Treasuries (UST) 10Y yield lowered by 9 basis points (bp) on a monthly basis. The monthly decline masked the volatility as UST 10Y yield, was under consistent selling pressure since March, reaching 3.20% in early May - just shy of 2018 peak. After that, it fell 50bps to 2.70% in less than 2 weeks. Investors feared that US economy was cooling faster than expected while the US Federal Reserve (US Fed) continued tightening the monetary policy to bring inflation back to its 2% target. Across the Atlantic, Bund 10Y yield and Gilt 10Y yield were up 18bps and 20bps over the period respectively. Inflation data in these regions reached record highs and expected to move higher in coming months.

The Underlying Fund had a net short bias in the European government bond market at the beginning of the month. JCB saw the prolonged Russia/Ukraine conflict could force the European Central Bank (ECB) to hike more aggressively later. The Underlying Fund also positioned for gilt vs bund yield spread compression because the Bank of England was well ahead of ECB in the monetary tightening path. Both positions worked well for the Underlying Fund. On the other hand, the Underlying Fund initiated a bund curve flattening trade in the expectation of short-end yield increasing more than long-end yield. The curve was largely sideways, and the trade lost from the negative carry.

Going forward, the Northern Hemisphere will enter summer which favours duration seasonally. The base effect would help to lower the US inflation in coming months. But the inflation path after the summer remains highly uncertain. Recent US economy survey data points to a softer labour market and economic activities. On the other hand, a long-waited summer holiday could boost the service consumption and cushion the economy's slowdown, which would also keep the price pressure elevated. These make the US Fed's policy path less certain in Q3. On the other hand, the ECB is still on track to conduct Quantitative Easing in June despite record high inflation of print and the pickup of wage growth in the European Union. It would force them to tighten aggressively later. JCB believes that the divergence among Central Banks would generate tactical opportunities cross the sovereign yield curves.

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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.

Channel Investment Management Limited ACN 163 234 240 AFSL 439007 ('CIML') is the Responsible Entity and issuer of units in the CC JCB Global Bond Fund ARSN 631 235 553 ('the Fund'). The appointed Investment Manager is JamiesonCooteBonds Pty Ltd ACN 165 890 282 AFSL 459018 ('JCB'). The Fund invests into the CC JCB Active International Bond Segregated Portfolio ('Underlying Fund'). Neither CIML or JCB, their officers, or employees make any representations or warranties, express or implied as to the accuracy, reliability or completeness of the information contained in this report and nothing contained in this report is or shall be relied upon as a promise or representation, whether as to the past or the future. Past performance is not a reliable indication of future performance. This information is given in summary form and does not purport to be complete. Information in this report, should not be considered advice or a recommendation to investors or potential investors in relation to holding, purchasing or selling units in the Fund and does not take into account your particular investment objectives, financial situation or needs. Before acting on any information you should consider the appropriateness of the information having regard to these matters, any relevant offer document and in particular, you should seek independent financial advice. Readers are cautioned not to place undue reliance on forward looking statements. Neither CIML nor JCB have any obligation to publicly release the result of any revisions to these forward looking statements to reflect events or circumstances after the date of this report. For further information and before investing, please read the Product Disclosure Statement available at www.channelcapital.com.au. A Target Market Determination for the Fund is available at www.channelcapital.com.au

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