



## Fund Update as at 31 July 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 <sup>^</sup>	25 February 2019
Benchmark	Bloomberg Global G7 TRI Value Hedged AUD
Management Fee <sup>#</sup>	0.15% p.a.
Administration Fee <sup>#</sup>	0.10% p.a.
Indirect Costs <sup>#</sup>	0.34% p.a.
Buy / Sell Spread	0.05% / 0.05%
Distributions	Semi-annual
Fund Size <sup>+</sup>	AUD \$25.2 million

#### Fund Performance

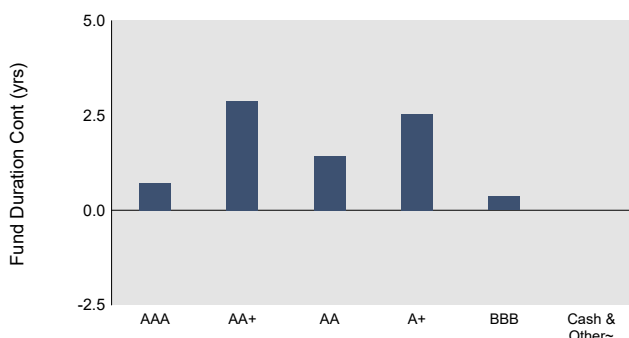
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	1.90%	1.92%	-0.02%
3 Months	0.47%	0.11%	0.36%
FYTD	1.90%	1.92%	-0.02%
1 Year	-7.81%	-7.69%	-0.12%
2 Years p.a.	-4.67%	-4.43%	-0.24%
3 Years p.a.	-0.94%	-1.13%	0.19%
Inception p.a.	0.30%	0.27%	0.03%

#### Fund Overview

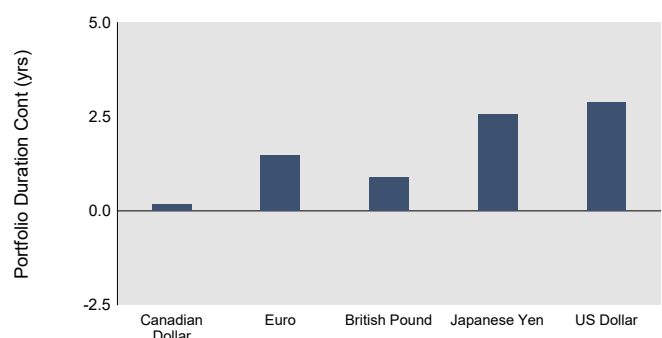
Characteristics	Fund	Benchmark
Modified Duration (yrs)***	7.94	8.06
YTM + Hedging Effect^^	2.43	2.55
Weighted Ave. Credit Rating***	AA	AA

^^ 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 Availability

Asgard	Ausmaq	Aust Money Market
BT Panorama	HUB24	Implemented Portfolios
Mason Stevens	Netwealth	Powerwrap
Praemium	uXchange	Xplore Wealth

#### Further Information

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Email:	distribution@channelcapital.com.au
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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

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The recent July US Federal Reserve meeting has elicited discussion about a possible US Federal Reserve “pivot” in interest rate policy and how that might support asset markets. Given global financial markets take their lead from the US and their policy moves, it is worth considering what we might look for to confirm this pivot.

Central Bankers around the world have been madly rushing to return monetary policy settings to neutral (neutral is the interest rate that neither stimulates nor restricts the economy) in order to quash inflation that has been turbo charged by the Russia/Ukraine conflict and Covid-19 related supply chain issues. Central Banks also made a subtle shift to reduce ‘forward guidance’ suggesting they will now be more data dependant in future policy moves, a sensible decision after being pilloried for their attempts to commit to policy outcomes in a fluid environment that remains extremely difficult to forecast. The response in July was for impressive asset market performance because of these nuanced adjustments, as markets are expecting a return to ‘bad news is good news’ in expectation of less restrictive monetary conditions, helping reclaim lost performance from earlier in the year.

JCB does not believe this is the “pivot” moment, as there are several important factors that do not align correctly to generate such an outcome. Positioning is primarily responsible for the sharp rally in many asset classes, which have ironically taken their lead from a rally in Government bonds markets. Government Bonds performed well last month as markets shifted their focus to a sharp decline in growth, with a large global recession now the base case for economic expectations. With risk allocations very low after the brutal market moves of June, the scene was set to regain some lost performance on a reduction of tightening expectations. This ‘flight to quality’ move for Government Bonds is due to weakening economic conditions and has been misinterpreted by markets expecting to operate on the Central Bank safety net dynamics of the last cycle. This may be a false start on the road to a policy pivot in a world of higher secular inflation due to energy shortages.

Inflation needs to observably peak and then fall rapidly to provide comfort for Central Bankers. This is currently in play as most commodity markets are now lower in price from where they were on the outbreak of the Russia/Ukraine conflict in late February. Goods inflation has already peaked, Services inflation is sticky for now, but the important swing factor of energy and commodities is falling under expected lower growth. We cannot expect a pivot to neutral or accommodative (rate cuts and Quantitative Easing) policies that would underpin a long bull market for assets if inflation falls were only slight from their lofty levels of 9.1% in the U.S economy. JCB believes inflation would moderate quickly if left to its own devices, but the highly influential energy components are out of our control.

Energy remains at the behest of Vladimir Putin and he will have a big say on where inflation goes. Europe is having an energy crisis during the middle of summer and cannot stockpile energy reserves needed to see out the freezing winter months ahead, instead continuing to draw across all energy inventories. Vladimir Putin has the western world cornered in energy dependency through the short-sighted energy policies of dependence on Russian oil and gas. We must expect that he uses this opportunity to its maximum potential against western Europe who is shockingly underprepared. It’s expected that Russia will cut off European energy flows into the winter months as Europe literally freezes. This type of exogenous energy shock would badly derail inflation normalisation by triggering a deeper global energy issue.



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Government Bonds remain the canary in the goldmine as they often lead in predictions on the macroeconomic landscape. The deep inversion of the yield curve suggests that the market is concerned for forward looking growth, however, expects further rate hikes from the US Federal Reserve to complete its inflation fighting task. A hyper inverted yield curve suggests significant recession risk is dead ahead with lower growth almost a certainty as the year progresses due to tightening policy. Risk markets need to closely consider the shape of the treasury curve to illicit the correct signals for consumer health and corporate profitability. When the treasury bond curve starts to steepen from the current inverted levels, the “pivot” will likely be upon us.

Markets have been conditioned to expect continued support from policy makers who have papered over every systemic financial crack since the Global Financial Crisis. Today’s unstable geopolitical world makes that safety net increasingly difficult to produce without restimulating inflation. Sadly, for investors, the much anticipated Central Bank “pivot” for a clean and certain bullish run looks some ways away. Volatility and heightened uncertainty will likely remain, and investors are advised to maintain their defensive mindset in the months ahead.

#### Fund Review

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For the month ending July, the CC JCB Global Bond Fund – Hedged Class returned 1.90% (after fees), underperforming the Bloomberg Global G7 Total Return Index Value Hedged AUD.

The global rates rally carried on in early July, with better-than-expected US labor data and further increases of inflation leading to a rate selloff till mid-July. Across the Atlantic, markets worried about the total cut off of Nord Stream, which would have dragged the Germany economy into recession straight away. Once the European Central Bank hiked 50 basis points, the Philadelphia Federal Index survey plunged to -12.3, as rate markets rallied aggressively. Markets expected the economy slowdown to cool inflation quickly and the US Federal Reserve would pivot to cut policy rates in early 2023. Over the month, the yield curve flattened aggressively. As US 2-year vs 10-year yield spread flattened by 29 basis points (bp) and touched -32 bp intra-month. Last time that we saw such an inverted yield curve was in March 2000, the peak of the dot-com bubble.

During the month, Japan former Prime Minister Shinzo Abe, the architect of Abenomics, was assassinated. He picked Haruhiko Kuroda as the Bank Of Japan Governor to help reflating the Japanese economy. In respect to Abe’s legacy, the monetary policy is likely to keep unchanged until April 2023, the end of Kuroda’s term. The Japanese Government Bonds (JGB) 7-year bond, the underlying bond of the JGB bond future, rallied 11 bp over the month as investors unwound the bet against Bank Of Japan. In Europe, Italian Prime Minister, Mario Draghi’s resignation and Italy’s general election in September introduced the political uncertainty in Europe, with Italy vs Germany 10-year yield spreads widening 28 bp over the month.

The Underlying Fund had a short-bias in Japanese government bonds. JCB preferred this position as the downside risk is expected to be limited, e.g. less room for JGB to rally aggressively but more room for selloff if Bank Of Japan (BOJ) starts to tighten the monetary policy. As BOJ did revise up the inflation outlook and Japan’s inflation continued creeping higher, the JGB yield lowered over the month together with global rates which hurt the portfolio. The Underlying Fund had a tactical short in US Treasuries which was caught offsite during the rally. JCB switched to long later which helped to recoup the loss. On the other hand, European core vs periphery countries yield spread widener helped the return.

Going forward, the US Federal Reserve needs to soften the economy further, particularly the labor market, to bring inflation back to the 2% target. The broad market rally in July eased the financial conditions meaningfully, which was against the US Fed’s effort to dampen inflation. Rates market are likely to be caught between the expectation of tighter monetary policy and growth fear in the near term.



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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 instrument's 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](http://www.channelcapital.com.au). A Target Market Determination for the Fund is available at [www.channelcapital.com.au](http://www.channelcapital.com.au)

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