JCB

JAMIESON COOTE BONDS

Fund Update as at 28 February 2023
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]	-1.43%	-0.99%	0.04%	0.82%	-7.16%	-4.27%	0.51%	0.55%
Benchmark Return[2]	-1.58%	-1.08%	0.12%	0.83%	-6.89%	-4.08%	0.80%	0.54%
Active Return (After fees)	**0.15%**	**0.09%**	**-0.08%**	**-0.01%**	**-0.27%**	**-0.19%**	**-0.29%**	**0.01%**

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

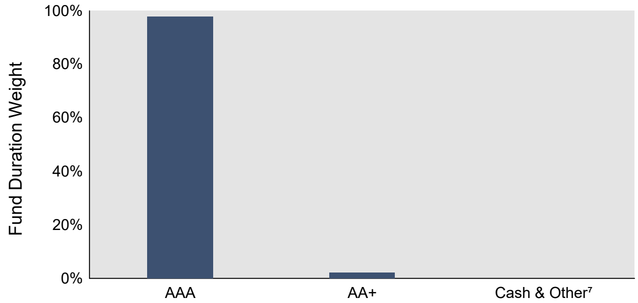
Investment Manager	JamiesonCooteBonds Pty Ltd
Structure	AAA or AA rated bond securities issued in Australian dollars
Inception Date	03 Aug 2016 [3]
Benchmark	Bloomberg AusBond Treasury 0+ Yr Index
Management Fee	0.45% p.a.[4]
Administration Fee	0.10% p.a.[4]
Buy / Sell Spread	0.05% / 0.05%
Distributions	Semi-annual
Fund Size	AUD $1,117 million [5]

Fund Characteristics

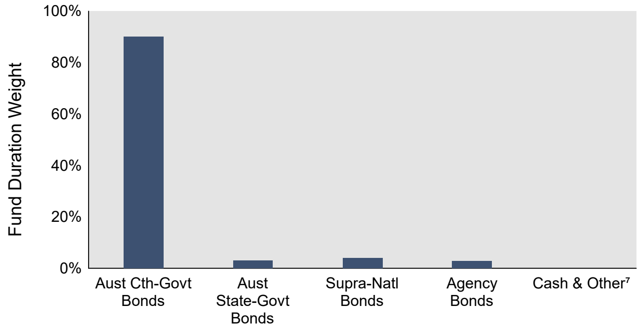
Characteristics[6]	Fund	Benchmark[2]
Modified Duration (yrs)	5.97	5.62
Yield to Maturity (%)	3.88	3.75
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	0.13	n/a

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 silent cashflow squeeze in the domestic economy has commenced as the aggressive RBA hiking cycle is starting to crush discretionary incomes. This process will not only continue, but is very likely to accelerate, with more RBA hikes expected, likely triggering a number of business failures and a material recalibration of business outlooks and employment prospects whilst the RBA policy remains restrictive and somewhat backward looking .

Divergent economic pathways are evident to start the year, whilst global economic data has picked up after a poor start to the year, Australian data continues to disappoint. Australia has a higher 'transmission mechanism' – the impact of interest rate rises effects our economy faster due to variable rates mortgages – this cashflow squeeze is the beginning of a material bite into our economic performance and is already causing a huge cash flow squeeze across many sectors and businesses, as bill payment times are blowing out. The net result is a slowing in economic activity which is starting to come through Australian data which is consistently underperforming expectations as financial conditions tighten sharply.

The read on the domestic data of late is not one that befits "the lucky country". The unemployment rate has climbed from 3.5% to 3.7% with full time employment losing 43,000 jobs in January, reversing full time job growth which has occurred in every month of 2022 except July. Part time employment did improve (although this series is very volatile over time), but it is full time work that is critical to a high functioning economy. Retails sales over the last three months have been volatile (due to November black Friday effect) but in aggregate they are slightly negative in nominal terms (i.e. negative in real terms as they should grow with inflation). Wages are accelerating at 0.8%, but far below markets expectations which is encouraging for the RBA and its fight to regain control over the inflation narrative and inflation expectations. Finally, our 4th quarter GDP numbers are also weaker than expected at 0.5% versus market expectations of 0.8%.

All of these data points should be cooling RBA policy expectations; however the global backdrop makes it difficult for Governor Lowe to go it alone aggressively. This tightening process will likely create absolute chaos for those in the interest rate sensitive parts of the economy and will send plenty of hard-working honest folks to the wall. Sure, the RBA can cut rates thereafter (and with inflation the central bank should err on the side of caution) but having completely encouraged folks into the belief they could afford to borrow money at low interest rates, only to lift rates by ~4.00% (16 times the usual 25 bps increment) the economic damage will be absolute and final for many, not to mention the economic scaring which was witnessed in many offshore economies after the GFC. Regaining 'animal spirits' (a term used a number of times by the RBA pre Covid to explain a lack of aggressive investment) will not be easy to achieve with a Central Bank chasing behind the ball at every turn. After making a huge policy error of long dated and single outcome forecasting, it is very likely the RBA has already overtightened policy enough to cause a material default cycle. Now we just need time to complete the task.

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It is also important to factor in the pro-cyclic nature of banking through this process. Credit availability is more pronounced right now - the economy is firing on all cylinders and retreats quickly (despite higher interest rates and net interest margins) as the economy cools. For a default cycle to really take hold, two conditions are required. The price of money needs to be high (we can check that box on a relative basis), and we need time for delinquency to occur. If the price of money jumps higher, but then falls quickly back towards status quo then the impact is negligible. If that price stays high, the impact is profound. The RBA will change policy with longer run implications which will now extend will into 2024. Whilst the cashflow squeeze is eerily silent for now, expect to hear a lot more negative news around business and employment which are struggling under the higher cost of capital and challenged working capital cycle. Recently we have seen the public failures of craft beer brewer Tribe Breweries and Scott's Refrigerated Logistics, no doubt there will sadly be many more to come.

Fund Review

For the month ending February, the CC JCB Active Bond Fund - Class A units (the Fund) returned -1.43% (after fees), outperforming the Bloomberg AusBond Treasury (0+Yr) Index.

The month of February saw bond yields grind higher and curves flatter as key global data points showed signs of reacceleration, and inflation data surprised to the upside, in a move that was not pleasing to the worlds central bankers.

February began with bonds rallying and saw 10y UST yields trade as low as 3.35% before the data surprised to the upside, which was a catalyst for hawkish rhetoric from central banks from both sides of the Atlantic, and right down to Australia. The explicit warings that rates may need to stay higher for longer saw the 10y UST traded up to 3.98% which was where we finished the month.

Locally, the RBA lifted the cash rate by another 25 basis points with the promise of more to come following the stronger than expected CPI print at the end of January, noting that "further increases in interest rates will be needed over the months ahead.". As the month passed by however, Australian data began to see the effects of the higher rates begin to hit the consumer, as retail sales, monthly CPI data, wages and unemployment data all surprised to the down side, which brought fears that Australia may in fact be getting towards the end of the hiking cycle and due for a pause by the middle of the year.

From a duration point of view, we began month long as global consensus was a pivot just around the corner. Bond yields got to multi month lows before consistent messaging from global central banks pushed back on pricing. The Active Bond Fund entered an underweighted duration position at around 3.00% in 3y bonds. We took profit and at month end we saw bonds now oversold and momentum turning so we have entered an overweight position of around 0.3 years. The portfolio was also positioned for flatter curves which was additive to alpha.

Primary issuance was very busy in the debt capital markets space and was very well absorbed by real money managers such as JCB, as well as reports that European central banks had been consistent buyers of Australian spread paper, as well as ongoing demand from domestic balance sheets. The JCB Active Bond fund was active in the primary issuance deals, and we added to our ESG product through the EIB 4.2% 2028 and the Asian Development Bank 2026 Gender Bond. The portfolio was positioned with an overweight position through semi governments and supranational spread product which performed well over the month.

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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