



## Fund Update as at 31 March 2023

### CC JCB Active Bond Fund (APIR: CHN3749AU)

#### Fund Performance

Returns	1 month	3 months	6 months	FYTD	1 year	2 years p.a.	3 years p.a.	Since inception p.a. (22-Feb-2019)
Fund Net Return <sup>1</sup>	3.58%	5.07%	5.22%	4.56%	0.51%	-2.87%	-2.99%	0.26%
Benchmark Return <sup>2</sup>	3.53%	4.89%	5.14%	4.39%	0.44%	-2.60%	-3.04%	0.14%
<b>Active Return (After fees)</b>	<b>0.05%</b>	<b>0.18%</b>	<b>0.08%</b>	<b>0.17%</b>	<b>0.07%</b>	<b>-0.27%</b>	<b>0.05%</b>	<b>0.12%</b>

#### 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 Government, 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

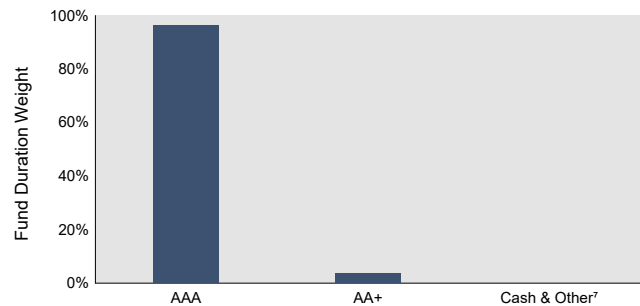
Investment Manager	JamiesonCooteBonds Pty Ltd
Structure	AAA or AA rated bond securities issued in Australian dollars
Inception Date	22 Feb 2019 <sup>3</sup>
Benchmark	Bloomberg AusBond Treasury 0+ Yr Index
Management Fee	0.2563% p.a. <sup>4</sup>
Administration Fee	0.1025% p.a. <sup>4</sup>
Buy / Sell Spread	0.05% / 0.05%
Distributions	Semi-annual
Fund Size	AUD \$1,136 million <sup>5</sup>

#### Fund Characteristics

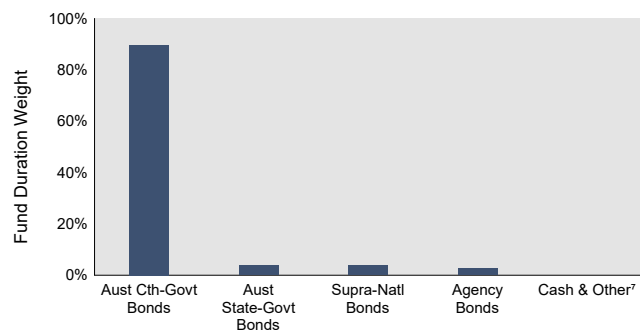
Characteristics <sup>6</sup>	Fund	Benchmark <sup>2</sup>
Modified Duration (yrs)	5.98	5.66
Yield to Maturity (%)	3.43	3.19
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	0.28	n/a

Source: JamiesonCooteBonds Pty Ltd.

#### Allocation by Rating (Duration Weight)<sup>6</sup>



#### Allocation by Sector (Duration Weight)<sup>6</sup>



#### Further Information

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<sup>1</sup> Performance is for the CC JCB Active Bond Fund (APIR: CHN3749AU), 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. <sup>2</sup> Benchmark refers to the Bloomberg AusBond Treasury 0+ Yr Index. <sup>3</sup> Inception Date for performance calculation purposes. <sup>4</sup> All figures disclosed include the net effect of GST and RITC. <sup>5</sup> Fund size refers to the CC JCB Active Bond Fund ARSN 610 435 302. <sup>6</sup> Refer to Definition of Terms. <sup>7</sup> Cash & Other includes cash at bank, outstanding settlements and futures margin accounts.



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#### Market Review & Outlook

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'Credit is a lot like oxygen. You don't notice it 99% of the time. But if its absent, it's the only thing you notice.'" Warren Buffett

March has been a rude awakening for investors, as credit risk returned with a vengeance and at a frightening speed. The fastest relative interest rate rises in recent history have now laid bare the potentially catastrophic credit risks faced by investors, with March generating the second and third largest banking failures in US history. Technology now means these events can happen in hours, a few mouse clicks of deposit withdrawals and the Silicon Valley Bank (SVB) was insolvent within a day, as customers stripped the bank of deposit assets by moving money rapidly. SVB and its poor risk management practices maybe the first major domino to fall but it's a stark reminder that we are now all standing on thinner ice, and cracks in the system are everywhere in a world unprepared for a rapid 500 basis point rise in the global risk-free rate (US funding rates).

These violent episodes now have markets on the back foot with confidence shattered and hunting around for the next weakest hand at the global table. Sadly, the embattled 160 year old and once global powerhouse of Credit Suisse wealth manager and investment bank was next on the chopping block, with some bond investors being wiped out entirely as the company was forced into a merger ahead of an almost certain imminent failure. With UBS being forced to acquire Credit Suisse to stem a run on the global banking system (some eerie parallels between this and Bear Stearns being forced into the hands of JP Morgan (pre GFC). No doubt many local investors madly re-read their hybrid prospectus to see the exact terms of their own debt holdings and investments, and where they may rank should the situation ever get disorderly closer to home, as some Credit Suisse bond holders lost everything. Credit risk has been violently reborn.

For now, authorities have managed to prop up the system, back stopping depositors in SVB, fire selling the ashes and dealing with these isolated failures. Are these examples of one-off spot fires, firecrackers that make a lot of noise without causing much damage, or is there a network effect that can link them together and generate a darker series of events which becomes systemic? This is a really difficult question to answer with precision, but critical if you are a dynamic asset allocator. It has certainly introduced some additional thinking for folks that expected 2023 to be a 2007 repeat, the continued calm after the rate hiking cycle. In the case of 2007, the world had just experienced a large US Federal Reserve hiking cycle (2004-2006), reaching a similar peak in rates of 5.25%, but the economy continued on into the long shadows of the post terrorist attack rates cuts of the 9/11 boom. Markets were talking about sub-prime debt, but we all knew about it, and felt collectively safe in that knowledge as it was unlikely to be a major problem, because it was the "unknown unknowns" that would topple the system and sub-prime was a known issue. For 2007 it was a year where not much happened, in fact equities went on to cycle highs later in the year, but then, all of a sudden everything happened. Such is the nature of delinquency, a silent build up that grows exponentially and then suddenly a straw breaks the camel's back.

Credit, and its availability are such a critical function in the economic system. The depositor flight that the US banking system is now experiencing is highly contractionary for credit creation. Much of the depositor monies are leaving smaller regional banks - the very back bone of US small and medium sized enterprise lending at more than 50% of all loans in this space - fleeing to the safety of systemically important banks or short dated US Government Bonds that enjoy explicit support. A contraction of credit availability means less new lending which crimps expected growth, but almost more importantly for the status quo, it presents a highly challenged environment for consumers and corporates in 'rolling' existing debts forward, as the existing debt terms mature.



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Whilst no two cycles are the same, there are many similarities, but some differences, around this rapid hiking cycle and that of 2004-2006 which culminated in the GFC in 2008. As the old saying goes, liquidity is a coward, and it vanishes at the first sign of trouble. For a fund structure that offers frequent exit liquidity, the manager either needs to hold liquid assets to meet expected investor demand or raise enough fresh capital of inflows to meet investor demands. If the redemption request exceeds these thresholds, the manager must take the drastic action of realising the underlying illiquid assets or freezing the fund. We have seen many episodes of asset managers gating investors in, essentially freezing the structure to protect investors. Now that the firecrackers of SVB and Credit Suisse have started erupting, we would expect that investors will begin to move quickly on shoring up what liquidity they can find in an attempt to arbitrage this illiquidity offering by redeeming ahead of the asset books being forced into remarking by the additional redemption flow of funds. It becomes a game of last one out turns off the lights. It is somewhat irrational, very destructive and quite obviously somewhat unnecessary, but when it occurs in clusters it is catastrophic - just like deposit outflows at SVB.

Sometimes in investing the themes are easy, but the timing is really hard. Trying to time the evolution of this cycle and identify the acceleration of events can be as much luck as skill. As risk appetites shift, one thing is for certain, we have moved passed investors thinking about return 'on' capital to focus on return 'of' capital. The \$17 billion of destroyed wealth in Credit Suisse bonds reminds us that this really requires very critical thought, and then likely some tough actions.



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#### Fund Review

For the month ending March, the CC JCB Active Bond Fund - Class B units (the Fund) returned 3.58% (after fees), outperforming the Bloomberg AusBond Treasury (0+Yr) Index.

March 2023 is one of the months that will go down in history as one of the most volatile of all time. The MOVE Index (the bond market version of the VIX that measures daily volatility) hit levels not seen since the depths of the COVID-19 crisis of March 2020. Over a period of 13 trading days straight, the 2yr USTs traded an unprecedented 20 basis point (bp) daily range. These are not normal times! So what happened..?

The biggest event was the collapse of Silicon Valley Bank (SVB) which sent shockwaves through the financial markets. It was March 7th when US Federal Reserve, Chair Jerome Powell, noted "Nothing about the data suggests to me that we've tightened too much" before the Senate Banking Committee. By March 8, SVB was in trouble and raising capital, and two days later SVB was gone. This is an example of the ferocity of the financialisation of the banking work, with deposits in the order of \$42bn withdrawn in a matter of hours via online transactions, in a practice that back in the days of the GFC would have taken weeks to see people lining up once the branch opens on a given morning.

The next bank to fall was Credit Suisse, an institution with 160 years of history, and then rumours also were swirling about Deutsche Bank being in trouble, although this was driven by a CDS trade with a measly notional of just \$5million. This is a minor trade in the scheme of things, but we are not living in normal times.

On the data front, inflation and employment continue to be the big ticket items and receiving the most attention from market participants. Tight employment conditions globally continues to be a thorn for central bankers, while inflation data is easing, however still at uncomfortable levels. In the face of the data, the Federal Open Market Committee, European Central Bank and Reserve Bank of Australia all continued their mission to focus on the inflation fight and hiked rates at their respective meetings, although we are now getting to a point where things are starting to break, which has been their aim all along by providing headwinds to the economy with the increasing cash rates and therefore cost of money.

Over the month the 3yr Australian bond future traded almost 100bp higher in price (lower in yield), before finishing the month around 80bp higher on the month as some of the panic dissipated. Bond curves globally steepened, with the rally led by front end bonds. The 2yr US Treasury note traded from 5% in yield to 4% in a matter of days in the middle week of the month, as short positions were squeezed by the SVB news and the flight-to-quality bid dominated.

The Fund began the month overweight in duration as indicators showed the market was short and valuations were cheap. Although JCB took profit on this position a little early, the Fund outperformed the index which itself had a very strong month of performance. Adding to performance were a mild steepening bias. Detracting from performance was the overweight in semi-government and supranational positions.

#### 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 instrument's 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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