



Fund Update as at 31 May 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	-1.27%	2.34%	1.32%	3.18%	1.74%	-3.55%	0.76%	0.87%
Benchmark Return ²	-1.39%	2.09%	0.98%	2.94%	1.58%	-3.38%	0.93%	0.82%
Active Return (After fees)	0.12%	0.25%	0.34%	0.24%	0.16%	-0.17%	-0.17%	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 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	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 \$1,245 million ⁵

Platform Availability

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

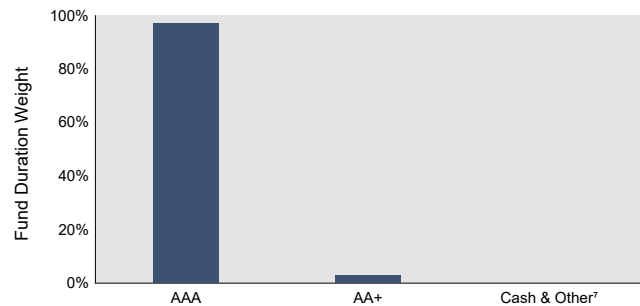
¹ Performance is for the CC JCB Active Bond Fund (APIR: CHN0005AU), also referred to as Class A units, and is based on month end unit prices before tax in Australian Dollars. Net performance is calculated after management fees and operating costs. Individual Investor level taxes are not taken into account 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.

Fund Characteristics

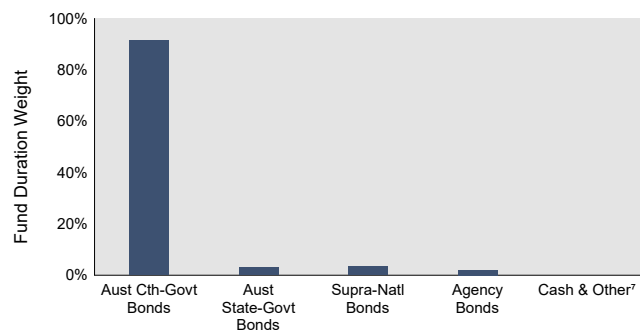
Characteristics ⁶	Fund	Benchmark ²
Modified Duration (yrs)	6.14	5.83
Yield to Maturity (%)	3.66	3.55
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	0.24	n/a

Source: JamiesonCooteBonds Pty Ltd.

Allocation by Rating (Duration Weight)⁶



Allocation by Sector (Duration Weight)⁶



Further Information

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Market Review & Outlook

As we come into the middle of the year, the economy is transitioning through a 'hop, skip and a jump' towards recession in late 2023 or early 2024. For now, the economy is 'hopping' along better than many expected to at this point after such an abrupt rate hiking cycle. This resilience has markets considering if a few further rate hikes may be needed to complete the intended demand destruction required to dent demand driven inflation outcomes. Central Bankers know they have already done a great deal in moving rates quickly to restrictive territory, and whilst they acknowledged inflation is yet to fully moderate (this takes time as demand cools), they are trying to buy time knowing the lag effect will complete this process, and therefore much of their own communications references 'skipping' a few meetings on the road to further rate hikes to access more incoming data.

Due to the long and variable lag effects of monetary policy, any further hikes now will continue to affect the economy well into 2024, meaning at some point the cumulative tightening will trigger the economy to 'jump' into a protracted slowdown, killing inflation and allowing for a new cycle to be born as policy stimulus can again be provided away from restrictive settings.

Recently in Australia, whilst employment readings have softened with unemployment moving a little higher (from 3.5% to 3.7%) and tepid real retail sales numbers, some inflation readings have remained elevated giving the RBA cause for concern. Combined with stubbornly resilient house prices, this may see the rates cycle elongate as our own path to terminal rates may become a little longer, with no doubt a few meetings of skipping introduced to also buy time to access the economic impact of previous hikes. In last week's Senate testimony, Governor Lowe, referred to rates already being 'restrictive' suggesting the RBA has made significant ground towards slaying the inflation beast: "We've increased interest rates a lot. Monetary policy is restrictive and it's working."

There is now significant divergence as we look around developed economies, with each country now embarking on its own rates journey. Last month the Reserve Bank of New Zealand (RBNZ) completed its rate hiking cycle lifting rates to 5.50%, and very importantly telegraphed to markets that it expect to now remain on hold at this level, as the restrictive nature of policy settings will work through the economy. This is an important cyclical marker, as the RBNZ was one the first and fastest rate hikers in this global cycle. JCB believe the New Zealand economy is currently in recession, with a raft of negative economic data across the board (retail sales, consumer confidence, activity outlook, and business confidence are all negative). Similarly, the Bank of Canada has also paused at 4.50%, suggesting it is also in a wait and see mode after significant monetary policy tightening. Again, data in Canada has been soft with negative retail sales, payrolls and a flatlining monthly GDP number.

The US Federal Reserve (US Fed) has also suggested it may pause (or skip) hiking rates, as again it wishes to view more data and access the fallout from the regional banking crisis. US data has also been patchy, with weak purchasing managers index (PMI) readings and weak (negative) regional confidence or outlooks from a raft of areas including Philadelphia, Richmond, Dallas and Kansas. But the employment market keeps on keeping on, adding solid gains in the recent May release. At a headline level the gains are welcome, but as keen US Fed watcher Nick Timiraos noted in his recent column, this also has a 'choose your own narrative' element to it, where one must decide whether it calls for further policy response. The unemployment rates jumped from 3.4% to 3.7%, while average hourly earnings – a key metric for the US Fed in assessing wage growth – remained well contained at 0.3%. This lower average hourly earnings (plus additional months revised lower) suggests that employment is growing but employers have a lot more power over containing wages. This is the dream scenario for the US Fed – job growth remains steady, but wages moderate – something it has been pushing in its recent research too. Markets are currently priced for a 'skip' from the US Fed at its upcoming June meeting.



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This all suggests that there is good reason for many Central Banks to pause/skip at this point, if they are to achieve their dreamy 'soft landing' scenario, given the highly divergent nature of some incoming economic data. Leading data continues to fall with manufacturing PMIs across the world remaining poor (most below 50, with a level of 50 considered flatlining). While manufacturing has historically dominated the business cycle, services PMIs do remain healthier. Interestingly, output prices have now fully normalised and supply chains are now completely back to normal of pre-pandemic levels.

Looking ahead there remains a raft of issues that can push the markets into 'jump' territory, and most market participants believe this remains the inevitable pathway through time. The exact catalysts and timing remain unknown but after such violent rate increases, to restrictive settings, the through time expectation remains to be a more challenging environment. It may be an acceleration of weaker economic data, a fraught geopolitical issue, or the aftermath of US debt ceiling politics. Having narrowly avoided the perils of the US debt default again, the US Treasury will now issue more than US\$1 trillion dollars' worth of securities to replenish its general account buffers (these were drawn down as the debt ceiling approached), draining much needed liquidity from the financial system as these securities settle.

JCB will again watch for bank deposit outflows placing pressure on smaller lenders and reigniting any regional banking problems, as whilst this has fallen from the news cycle, it remains an ongoing issue. History suggests markets will have some increased volatility with this surge of securities and the associated liquidity drain, especially now that the US Fed is hiking rates whilst also decreasing its balance sheet via quantitative tightening.

Fund Review

For the month ending May, the CC JCB Active Bond Fund - Class A units (the Fund) returned -1.27% (after fees), outperforming the Bloomberg AusBond Treasury (0+Yr) Index.

Overall the month of May saw global yields drift higher in yield across developed markets as markets took out pricing of rate cuts that had appeared in 2024 money market curves as a lingering outcome of the banking worries of March. Central bankers globally pushed back on this pricing. Outside of central banks and data, the other key catalyst driving headlines in markets was the pending debt ceiling negotiations, with parties finding enough common ground to send the deal to the Senate by the final week of the month. The US 10y yield finished the month 20 basis points (bp) higher at 3.65%, and the Australian 10year bond was 30 bp higher to 3.59%.

Central banks continued to tighten policy with the Reserve Bank of Australia (RBA) surprising the market with a 25bp hike to 3.85%, whilst the Reserve Bank of New Zealand, European Central Bank and Bank Of England all delivered 25bp rate hikes as expected lifting rates to 5.5%, 3.25% and 4.5% respectively. The RBA had been expected to pause at the May meeting, however the 7% yoy CPI print for Q1 and a 3.5% unemployment rate was too compelling for the RBA to sit on their hands, especially on the back of the RBA Review findings, and the desire to maintain credibility and prevent inflation expectations from spiraling higher.

The portfolio overall traded a short bias on the month, as JCB believed the market was pricing in too much easing in the face of sticky inflation. Price momentum towards higher yields added to our bearish sentiment, however JCB turned long at 3.75%. JCB believe that entry levels of between 3.75-4% are very attractive medium term levels to be adding to long duration positions ahead of the northern hemisphere summer where bonds seasonally have seen strong performance historically.



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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.

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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