JCB

JAMIESON COOTE BONDS

Fund Update as at 30 June 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]	-2.46%	-3.60%	1.23%	0.63%	0.63%	-4.41%	0.16%	0.50%
Benchmark Return[2]	-2.28%	-3.64%	1.07%	0.59%	0.59%	-4.15%	0.36%	0.48%
Active Return (After fees)	**-0.18%**	**0.04%**	**0.16%**	**0.04%**	**0.04%**	**-0.26%**	**-0.20%**	**0.02%**

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

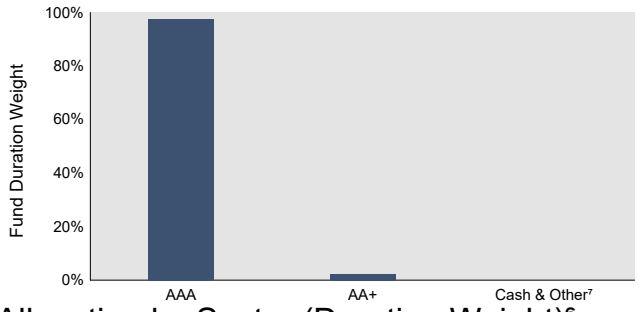
Investment Manager	JamiesonCooteBonds Pty Ltd
Structure	AAA or AA rated bond securities issued in Australian dollars
Inception Date	03 Aug 2016 [3]
Benchmark	Bloomberg AusBond Treasury 0+ Yr Index
Management Fee	0.45% p.a.[4]
Administration Fee	0.10% p.a.[4]
Buy / Sell Spread	0.05% / 0.05%
Distributions	Semi-annual
Fund Size	AUD $1,223 million [5]

Fund Characteristics

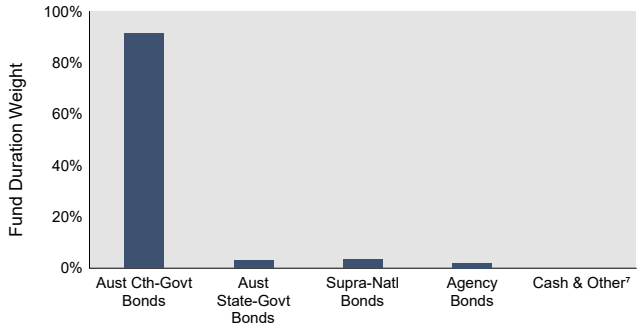
Characteristics[6]	Fund	Benchmark[2]
Modified Duration (yrs)	6.11	5.71
Yield to Maturity (%)	4.17	4.07
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	0.29	n/a

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

Following on from the volatile start to the year, the second quarter was a touch more subdued for asset markets as financial contagion from the banking issues of March remains contained for now, however the impact and the direction of global interest rates continued to be hotly debated and closely monitored as we approach the zenith of the tightening cycle. The cumulative effects of Central Bank tightening continue to keep participants on watch as the timing of the global recession remains hard to isolate, particularly given the conflicting evidence that is arising from key data and the divergent directions of different asset classes.

The manufacturing sector is historically a prescient indicator of the state of the economy and probably best reflects the global story, whilst the services component of that sector runs hot on pent-up consumer demand. The manufacturing survey remains steadfast in recessionary territory due to tightening lending standards and the higher cost of capital. This divergence is creating headaches for the monetary authorities as goods inflation continues its trajectory lower, whilst services inflation remains sticky. Central Banks face a delicate balancing act as they strive to steer inflation into an acceptable level in the “vicinity” of the mandated 2% level - creating a challenging conundrum.

Like the concerned parent threatening their recalcitrant children to implement a ban on all electronic devices in the household, we expect to see continued tough talking from Central Bank officials as they steer markets away from pricing in a rate cutting cycle in the near term.

This was evident at the recent Central Baking Forum in Sintra, Portugal where Federal Reserve Chair Powell, European Central Bank President Lagarde, Bank of England Governor Bailey, and Bank of Japan Governor Ueda, all waxed lyrical on monetary policy and their prospective thoughts. With the exception of Ueda, who acknowledged that underlying inflation in Japan remains below 2%, all others emphasised their commitment to combat inflation and are adapting policy to achieve that goal. The Central Bankers also suggested their respective institutions will now be moving interest rates on a meeting-by-meeting timeframe as they become data dependent. This underscores the uncertainty with regards to the global economic outlook and the perils of implementing monetary tightening late in the cycle.

Consider Europe as an example, where stubborn inflation and the Central Bank’s aggressive round of interest rate hikes have inflicted pain on the Eurozone economy, leading to a technical recession with real GDP declining by 0.1%, quarter-over-quarter in the final quarter of 2022 and the first quarter of 2023. Furthermore, the once proud German economy now bears the unfortunate label of the “sick man of Europe,” as recent employment weakness has pushed the unemployment rate to a two year high of 5.7%.

These follies of Central Bank forecasting and pinning themselves to data are demonstrated by the practice adopted by the US Federal Reserve, where each quarter the US Federal Reserve members release their projections of where they believe US short term interest rates will be at future rate setting meetings. This “dot plot” mechanism is designed to provide the market with forward guidance and serves as an additional lever utilised to implement monetary policy. However, the current “dot plot” for US cash rates demonstrates huge distortions, with the expectations ranging from as low as 2.375% to 5.625%. This wide range underscores the presence of divergent opinions within the world's leading rate-setting institution, highlighting the potential drawbacks of this approach.

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Asset prices this year are also pushing Central Bankers into a corner as the performance of equity markets and residential property have defied expectations. Technology stocks, which ironically are supposed to suffer under a higher interest rate environment, have experienced their best start to the year since 1983, with the Nasdaq soaring over 30%. What a difference a year makes, as it comes off the worst start to a year we had ever experienced in 2022. This positive equity market performance, along with historically low equity volatility, well behaved credit spreads, and reduced bond market volatility, has created a relatively favourable financial environment. However, this situation has inadvertently provided Central Banks with a false sense of security, potentially leading them to adopt a stern stance on further interest rate rises in the near term and bang the drum of higher interest rates for longer. Despite this easing of financial conditions, it does not factor in the extreme tightening of bank lending standards, as the contraction of bank loans to businesses will exert a significant drag on the economy going forward.

The asset allocation landscape into year-end could be set to reverse from the first half. With the persistently higher interest rate environment, we anticipate downward pressure on equity valuations due to slowing revenue growth and contracting margins. Conversely, the bond market is expected to benefit from Central Banks' unenviable task of restoring inflation to the target range. Bonds are likely to regain their status as an attractive asset class, especially considering that 1-year Treasury yields have surpassed S&P 500 earnings yields for the first time since 2000. For investors, the evolving asset allocation landscape suggests a need to reassess investment strategies. Diversification and careful selection of quality assets could be crucial in navigating this environment.

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Fund Review

For the month ending June, the CC JCB Active Bond Fund - Class A units (the Fund) returned -2.46% (after fees), underperforming the Bloomberg AusBond Treasury (0+Yr) Index.

Further hawkish rhetoric and a number of developed market central banks continuing the rate hiking journey saw bond yields broadly trade higher over the month of June, aided by resilient job markets and ongoing inflation concerns.

The FOMC delivered a 'hawkish pause', after ten consecutive meetings of rate hikes with the Fed Funds rate kept at 5.25%, allowing the lagged effects of monetary policy to continue to strangle demand and put a dent in inflation. US headline CPI had printed at 4.0% in the days prior to the meeting, which allowed the US Federal Reserve to 'skip' further rate hikes this month, although the fight is by no means over.

The Reserve Bank of Australia (RBA) surprised the market with another rate hike to 4.1% in June following on from the Fair Work Commission decision to increase the minimum wage by 5.75%. In a speech the day after the RBA Board Meeting, Governor Lowe noted the 'narrow path' the Australian economy is treading whilst trying to maintain healthy employment levels and at the same time decrease inflation expectations and allay fears of the damage that a wage spiral may have on the economy. The Board meeting minutes showed the decision was 'finely balanced'. With the monthly CPI number released late in the month showing a 5.6% yoy increase, down from 6.8% the prior month, we believe the RBA are winning the fight against inflation.

Elsewhere, we saw the Bank of Canada implement a surprise 25 basis points (bp) hike to 4.75%, and Bank of England 50bp hike to 5.0% as expected. The European Central Bank also moved in line with expectations and hiked 25bps to 3.5%. In addition, the Norges Bank hiked 50 bps to 3.75%, the Swiss National bank hiked 25 bps to 1.75%, and the Riksbank hiked 25 bps to 3.75%.

We believe that central banks are approaching the mature stages of their hiking programs, and we are getting close to terminal rates in most developed markets. Rates are now sufficiently restrictive to see a slow down in demand and refinancing risks for corporates who are coming off honeymoon rates that were locked in during the ultra low-rate period of the pandemic. So far, the consumer has been remarkably resilient, and it is too early to be even thinking about rate cuts. The time is near for central bankers to take stock and allow tight monetary policy to work its way through the economy.

The most notable moves in bond markets were in the front end which led the sell off to higher yields. This resulted in a flattening of global yield curves, with the US 2s10s curve closing back at -106 bps (near the pre SVB close), and the Australian 3s10s bond futures curve moving from 20 bps to 2 bps. Flatter yield curves (especially prolonged negative yield curves) have historically been a reliable indicator of pending recessions; however, they do take time.

The JCB portfolios entered long duration positioning at 3.75% in 10 year Australian Commonwealth Government Bondss, and then added further duration at the 4% level. These are levels we have been targeting as the top end of the range and are levels that we see to be a sufficiently restrictive level from a monetary policy perspective. It is also an attractive level when compared to the earnings yield of the S&P 500 (around 4.1%) when you can invest in a continuously compounding and self-correcting asset class of high-grade bonds.

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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 instruments duration by the percentage weight of the instrument in the portfolio. This calculation includes the contribution to duration by holding futures

Channel Investment Management Limited ACN 163 234 240 AFSL 439007 ('CIML') is the Responsible Entity and issuer of units in the CC JCB Active Bond Fund ARSN 610 435 302 ('the Fund'). The appointed Investment Manager is JamiesonCooteBonds Pty Ltd ACN 165 890 282 AFSL 459018 ('JCB'). 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.