JCB

JAMIESON COOTE BONDS

Fund Update as at 31 July 2023
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^	25 February 2019
Benchmark	Bloomberg Global G7 TRI Value Hedged AUD
Management Fee#	0.15% p.a.
Administration Fee#	0.10% p.a.
Indirect Costs#	0.34% p.a.
Buy / Sell Spread	0.05% / 0.05%
Distributions	Semi-annual
Fund Size+	AUD $32.8 million

Fund Performance

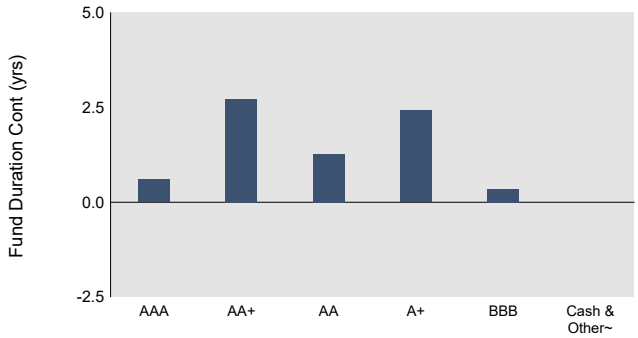
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	-0.44%	-0.52%	0.08%
3 Months	-1.66%	-1.48%	-0.18%
FYTD	-0.44%	-0.52%	0.08%
1 Year	-4.52%	-4.86%	0.34%
2 Years p.a.	-6.18%	-6.29%	0.11%
3 Years p.a.	-4.62%	-4.57%	-0.05%
Inception p.a.	-0.81%	-0.91%	0.10%

Fund Overview

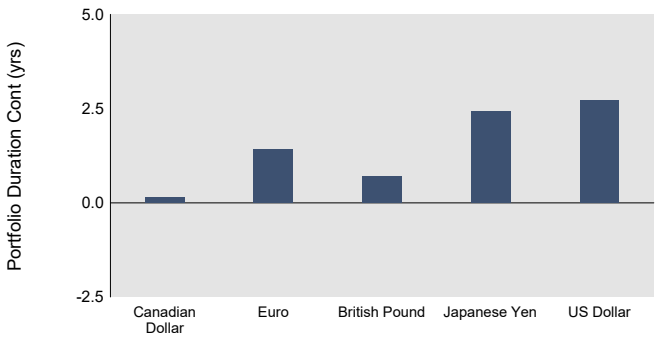
Characteristics	Fund	Benchmark
Modified Duration (yrs)***	7.37	7.51
YTM + Hedging Effect^^	2.65	3.83
Weighted Ave. Credit Rating***	AA	AA

^^ 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 Availabilty

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

Further Information

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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

A large miss in Australian inflation data for the second quarter reinforces the global disinflationary theme which is bringing Central Banks towards terminal rates after a vicious interest rate hiking cycle. Global supply chains have normalised, abating inflation in most goods and materials, whilst commodity and energy markets have cooled considerably from the shock disruptions around the outbreak of conflicts between Russia and Ukraine. It is likely that many Central Banks have delivered their final rate hikes on a preset path and will now be driven by 'data dependency'. We believe this is the end of 'forward guidance,' a key pillar of policy communication since the global financial crisis (GFC), with communication having more strategic ambiguity. After such a dramatic shift in the global cost of capital, a 'pause and assess' moment is warranted as inflation cools, settling towards its mid-run trend in a post pandemic world. The recent decrease in inflation numbers is certainly a significant relief compared to the lofty peaks of 9% in US CPI. The last year on year reading was down to just 3%. However, the fight for 'the last mile' towards the inflation target of 2-3% will not be a simple task, as the easiest part of disinflation (the base effect of data rotation) is now complete, making the journey towards the target more challenging.

As inflation picked up around the world led by US markets, Australian inflation was a material laggard in the global process, with a more than six-month lag to US data. US year on year inflation numbers exceeded 4.00% in April '21, whilst Australia did not breach this 4.00% level until Jan '22. As global inflation pressures have abated with the normalisation of supply lines and goods prices, further falls in domestic inflation should be expected following this lower momentum and global trend.

As we look ahead, there are competing forces at play that will impact inflation. On one hand, there is a decline in services inflation, driven in large part by rents and slowing global economies. On the other hand, the cyclical nature of the commodities and energy cycle will have an impact. As a result, is it anticipated that US inflation, acting as the global barometer, will stabilise between 3-4% over the balance of 2023. Specifically, the July data is expected to show a slight increase to 3.2%.

The good news on the inflation front is that these competing data forces should significantly moderate the rates of change. Services inflation should continue to fall, driven by the large category of owners' equivalent rents, which exhibit a long lag within inflation data due to annual rental resets at CPI inflation levels. This creates a classic self-reinforcing loop, making it challenging to break, where rental agreements are extended as they fall due at spot CPI year on year levels, on a rolling basis. This feeds previously high CPI figures into rental prices, thereby increasing future CPI with higher rental prices in that subcomponent, given the long lag until headline inflation cools (headline is now 3%) and the data enjoys relief with a laggard period. Continued cooling in this important subcategory should help to deliver lower headline inflation and reduce the volatility of the incoming data series, as it settles towards trend after a period of violent amplitude. The addition of the fastest and largest rate-hiking cycle in a generation should temper demand, aided by easing supply conditions and the expected softening of the labour market, responding to the ongoing monetary policy tightening that began in global markets over a year ago.

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Despite the positive developments mentioned, there is a counteracting force in the commodities and energy cycle which has rallied considerably over the month of July, with an increase of 15.5% in Oil, and 5.8% in the Bloomberg Commodities Index, after an ongoing period of decline since the shock of the Russia-Ukraine conflict in February 2022. This also coincides with a significant fall in oil rig counts, which tends to provide cyclicality to oil supply capacity, as oil wells are capped and rigs mothballed at lower prices, thus reducing output and supply which in turn is healthy for price increases.

Overall, market expectations regarding inflation are significantly more subdued compared to the heightened concerns experienced in 2022. The task of achieving that 'last mile' to bring the long-run trend back within the desired range of 2-3% is proving to be frustrating. This should hold the interest rate term structure at higher yields than pre-pandemic levels, with fixed income and bond yields offering significantly more income than much of the last decade.

To that point, the Reserve Bank of Australia (RBA) left interest rates at 4.10% last week, the highest levels since 2012. The rapid increase in interest rates now looks complete as the RBA has 'actively passed' on hiking rates at the last two meetings despite market expectations suggesting a hike was possible and which was somewhat expected by many market folks. As many Central Banks have now moved to pause and access mode, we believe the RBA will follow with the next move in interest rates being a rate cut in 2024. The RBA's assumptions are for the labour market to soften, with unemployment rising to 4.50% next year and below trend economic growth expected which seems rational given the restrictive settings of monetary policy. We are already seeing slowing in consumer behaviour, with recent retail sales data (-0.8% monthly print) being very weak inside an economy that should be growing by around 2% on population growth alone. This is the green light for bond investors to increase durations on these domestic developments as we are at or around peak policy rates, with a slowing economy and restrictive monetary settings.

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Fund Review

For the month ending July, the CC JCB Global Bond Fund – Hedged Class returned -0.44% (after fees), outperforming the Bloomberg Global G7 Total Return Index Value Hedged AUD.

The portfolio outperformed for the month, additive to the performance which was the underweight in Japan and curve steepeners in Treasuries.

Global bond markets commenced the first week of the month under pressure after an outsized US employment print landed into the US Fourth of July holiday effected week. This forced US 10-year yields through the 4.00% level which had not been seen since the regional banking crisis in March, the markets also had to digest the minutes from the US Federal Reserve's (US Fed) June meeting which despite them remaining on hold at that meeting they called for further rate hikes this year. The UK bond market continued to provide direction for its global peers and early in the month UK 10-year yields hit their highest levels since 2008 with market expectations of a 6.5% peak in the Bank of England's short-term rate by year end.

Global bond market yields peaked early in the month with lower-than-expected US CPI inflation as it declined from 4.0% to 3.0% in June which along with the lower-than-expected Producer Price Index number added to the disinflation narrative. The stabilisation of short end rates in line with the thematic of Central Banks at the zenith of their tightening was supported by the Reserve Bank of New Zealand maintaining their bank rate at 5.5% and the Reserve Bank of Australia (RBA) remaining on hold and deleting a reference to "upside risks to the inflation outlook". The Bank of Canada, US Federal Reserve and the European Central Bank all moved in line with market expectations and hiked by 25 basis points. Bond markets peaked mid-month following the downside surprise in UK headline CPI, which was the first miss in inflation since January, however the market failed to sustain the rally. The foundation for a steepening of the yield curve commenced with a strong rejection of the 5.00% level in US 2 years which encouraged demand for short end bonds, and this was supported by less hawkish rhetoric from Central Bank officials. Noted by ECB hawk Klaas Knot commented after the July hike from the ECB that 'for anything beyond July it would at most be a possibility but by no means a certainty". Into month end Bank of Japan surprised the market as they tinkered their yield curve control program which also pressured markets into month end with the spectre of a Japanese liquidation of foreign bonds in the foreseeable future. The strong performance of the energy complex on output reduction plans from Saudia Arabia and Russia also pressured fixed income through 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.
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 instruments duration by the percentage weight of the instrument in the portfolio. This calculation includes the contribution to duration by holding futures contracts.

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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. A Target Market Determination for the Fund is available at www.channelcapital.com.au

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