JAMIESON COOTE BONDS

Fund Update as at 30 September 2023
CC JCB Active Bond Fund (APIR: CHN0005AU)

Fund Performance

Returns	1 month	3 months	FYTD	1 year	3 years p.a.	5 years p.a.	7 years p.a.	Since inception p.a. (03-Aug-2016)
Fund Net Return[1]	-1.87%	-0.82%	-0.82%	0.50%	-4.99%	-0.09%	0.32%	0.36%
Benchmark Return[2]	-1.88%	-0.80%	-0.80%	0.51%	-4.66%	0.10%	0.33%	0.35%
Active Return (After fees)	**0.01%**	**-0.02%**	**-0.02%**	**-0.01%**	**-0.33%**	**-0.19%**	**-0.01%**	**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 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

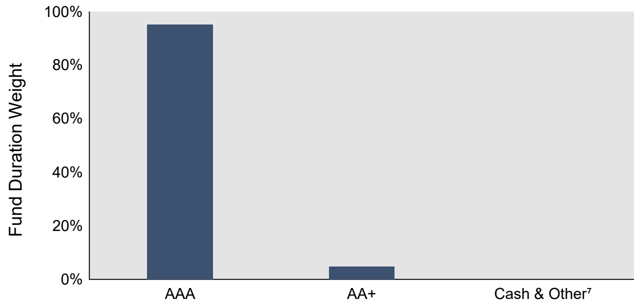
Investment Manager	JamiesonCooteBonds Pty Ltd
Structure	AAA or AA rated bond securities issued in Australian dollars
Inception Date	03 Aug 2016 [3]
Benchmark	Bloomberg AusBond Treasury 0+ Yr Index
Management Fee	0.45% p.a.[4]
Administration Fee	0.10% p.a.[4]
Buy / Sell Spread	0.05% / 0.05%
Distributions	Semi-annual
Fund Size	AUD $1,268 million [5]

Fund Characteristics

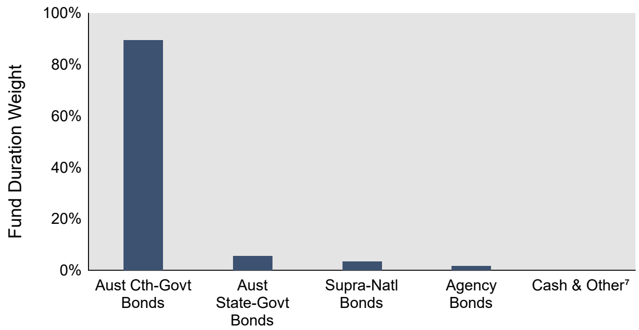
Characteristics[6]	Fund	Benchmark[2]
Modified Duration (yrs)	5.62	5.39
Yield to Maturity (%)	4.3	4.28
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	0.14	n/a

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

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[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

Markets have hit the wobbles as 'higher for longer' interest rate expectations and the removal of 2024's interest rate cuts threaten to deliver a crushing blow to valuations the world over. Many folks in markets are now expecting a market crescendo or credit event as we approach the lower liquidity year end period. Higher for longer interest rate expectations - i.e., removing expected rate cuts and keeping Central bank rates at recent historical elevated levels - have caused indigestion across the complex of both bonds and equities, forcing a nasty reassessment of the 'soft landing' outcomes we are all hoping for. It does, however, seem incongruous to us that 'higher for longer' and 'soft landing' can co-exist. There is significant irony in the linkage that those very soft-landing expectations, and thereby the failure to tighten financial conditions via lower asset valuations, wider credit spreads, less spending and consumption, will ultimately lead to a hard landing by generating a credit event under higher bond yields. By driving interest rates higher, asset markets will question debt sustainability and refinancing risks, which can trigger a negative and pro-cyclical pricing loop.

Investors have been conditioned and calibrated to expect support via rate cuts and policy intervention (such as quantitative easing or QE) at each nasty market episode since the Global Financial Crisis (GFC). It is perhaps a 'take your medicine moment', where the expected macro slowdown is met with minimal market support, characterised by limited rate cuts and QE programs. Without ongoing policy interventions and smoothing over each crack in the complex, it is a stand on your own feet moment of genuine price discovery, to forcibly achieve the ultimate goal of fully extinguishing inflation. This is a tremendously difficult backdrop for risk markets, characterised by higher funding costs, the rebirth of credit defaults and delinquencies, all underscored by the prevailing trend of slowing economies. The difference between a benign or destructive outcome comes down to the magnitude and rate of change to the growth outlook, as a result of these market moves.

Navigating a delicate tightrope: the dilemma of policy makers

Higher for longer interest rates are supposed to cause pain, tightening financial conditions to bring economies back to equilibrium, thereby normalising inflation. Policymakers are walking a delicate tightrope, often described as the pursuit of 'immaculate disinflation' in financial markets – the unicorn outcome of threading the economic needle in highly complex systems still affected by the aftershocks of COVID-19 shutdowns and re openings. Being able to achieve those outcomes without a few bumps along the journey seems highly unlikely.

So far, the recalibration of equity markets to higher bond yields and changing narratives has been somewhat orderly. Whilst the drawdowns have been like the Silicon Valley bank episode of quarter one of this year (around -7.5%), it has been a consistent and slow leakage, with little of the evidenced panic seen in markets at that time. Let us all hope that the concerns among market participants, sensing the potential for more disruptive moments for the first time since the Regional Banking crisis, remain unfounded. However, there are indeed plenty of potential pockets of concern that warrant attention.

The refinancing of outstanding debt obligations seems the most obvious, driven by the surge in debt creation prompted by low interest rates, which will require refinancing over time. This becomes highly problematic for the weakest hands at the table. A loss of confidence from markets tightens access to credit, leaving less financially robust borrowers exposed, generating a procyclical negative debt loop. This isn't a matter of the borrower not liking the interest rate on offer to refinance, it pertains to lenders demanding full repayment upon maturity. In many cases, refinancing may not even be an option.

While markets obsess about the next potential 25 basis point move by Central Bankers and whether we've hit terminal rates or if minor adjustments are still on the horizon, these concerns matter little in comparison to changes in the total cost of funding. Markets are on the verge of the re birth of material credit risk – something that was extinguished 15 years ago through the initial US Government programs designed to crush volatility during the GFC.

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As the credit cycle turns, markets will speed up considerably. Risk managers at investment banks will be less inclined to warehouse these risks for long against a weakening macro backdrop. If these securities cannot be redistributed to new buyers quickly, caution is warranted. Risk managers will force these inventories to be cleared at lower prices, triggering a feedback loop of declining prices. These episodes, once they become disorderly, have generally required policy intervention to dampen the volatilities. The notion of 'higher for longer' might mean it is a get down, stay down world for a little while yet. The one sure thing is that volatility will persist, and market sentiment might well swing from return on capital, to return of capital. That's quite a distinction. In an environment of elevated rates, credit stress tends to emerge, and, in that moment, the quality of assets in a portfolio will really become significant.

Fund Review

For the month ending September, the CC JCB Active Bond Fund - Class A units (the Fund) returned -1.87% (after fees), outperforming the Bloomberg AusBond Treasury (0+Yr) Index.

Bond markets saw a sustained move to decade highs in yields over the month of September as the 'higher for longer' path of cash rates became ingrained in market participants psyche. Other catalysts adding to the increase in yield included the return of sizeable corporate bond issuance following the northern hemisphere summer hiatus, as well as ongoing acknowledgement of supply and demand disconnect. In Australia, we saw 10 year bond yields push to decade highs above 4.5%, and this drove riskier assets like equities to sell off also.
In the world of central banks, the US Federal Reserve (US Fed), Reserve Bank of Australia (RBA) and the Bank of England kept cash rates on hold as expected, while the European Central Bank hiked their cash rate by 0.25% which was not market consensus. The US Fed dot plot garnered market attention as rate cuts in 2024 were reduced from the forecast profiles, adding to the 'higher for longer' messaging that was also mentioned by many US Fed speakers across the month.

The RBA will be carefully watching the quarterly CPI data that will be released in October after the September monthly release showed a small re-acceleration in the monthly reading from 4.9% year on year (yoy) to 5.2% yoy broadly driven by an increase in the oil price over the month which led to increased fuel prices that showed up in the data. Whilst it is not our base case, further upside surprise will increase the chances of another move in the RBA cash rate.

The ongoing rise in yields is starting to put some pressure on risk markets, with the ASX200 finishing the month -3.5% and the S&P500 -4.2%, with the VIX widening also as volatility is starting to rise. The bond yield surge is starting to draw parallels to the GFC, where a 'soft landing' was talked about frequently in the financial press and it was all fine until of course it wasn't! History shows us that higher yields and therefore the higher cost of capital causes something to break. We believe that this stands true in the current cycle. What we don't know is what or when.

The portfolio traded with a tactical short bias over the month as momentum indicators kept us from getting too overweight. In saying this, by the end of the month the portfolio had turned to a long duration position as value indicators reduced our shorts. Semi-government and supranational bonds tightened as a spread to Australian Commonwealth Government Bonds which was accretive to portfolio alpha with our modest overweight position.

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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.