JCB

JAMIESON COOTE BONDS

Fund Update as at 30 September 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 $41.5 million

Fund Performance

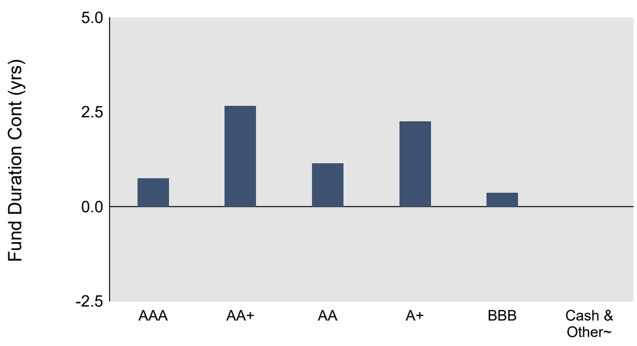
Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	-1.94%	-1.76%	-0.18%
3 Months	-2.60%	-2.66%	0.06%
FYTD	-2.60%	-2.66%	0.06%
1 Year	-0.99%	-1.15%	0.16%
2 Years p.a.	-6.57%	-6.63%	0.06%
3 Years p.a.	-5.15%	-5.15%	0.00%
Inception p.a.	-1.25%	-1.35%	0.10%

Fund Overview

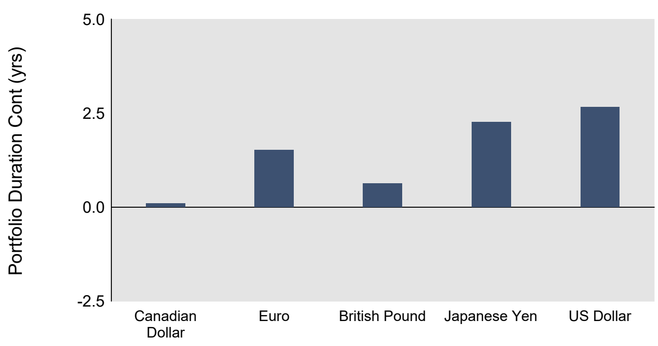
Characteristics	Fund	Benchmark
Modified Duration (yrs)***	7.16	7.28
YTM + Hedging Effect^^	2.91	4.22
Weighted Ave. Credit Rating***	AA	AA

^^ 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

Phone: 1800 940 599
Email: distribution@channelcapital.com.au
Web: www.channelcapital.com.au

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

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 Global Bond Fund – Hedged Class returned -1.94% (after fees), underperforming the Bloomberg Global G7 Total Return Index Value Hedged AUD.

The portfolio endured underperformance in the month of September as bond markets had a challenging month. The longer end of the market was under pressure with concerns emanating over the increase in supply and that inflation expectations could remain sticky. With US employment data exceeding expectations, US inflation prints for August were in line with consensus. Late in the month at the US Federal Reserve (US Fed) meeting, there was a hawkish tilt to the US Fed's median dot projections for 2024 and 2025 which pushed global yields higher into month end. US Fed Chair, Jerome Powell, commented that the US Fed was "prepared to raise rates further if appropriate" emphasising that the US Fed would "proceed carefully". In Europe – inflation rolled over in September to 4.3% from 5.2% in August. This resulted in rates markets pricing out any possibility of an October rate hike from the European Central Bank.

Curves steepened through the month as the issuance profile and inflation expectations continued to put pressure on the longer end of the yield curve along with the diminishing buying from international Central Banks. The aggressive rally in oil through the month following Saudi Arabia and Russia's commitments to persist with productions cuts through until December 2023 was the contributory factor to the 9% gain in the energy complex. The higher energy prices stoked fears the current period of stalling inflation would end and make it hard for the Central Banks to keep it under control, although ultimately it is a consumption tax and a drag on growth. The portfolio continued to favour shorter end Treasury bonds and was underweight in Japan and Italy.

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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