JCB

JAMIESON COOTE BONDS

CC JCB Dynamic Alpha Fund (APIR: CHN8607AU)
Fund Update as at 28 February 2023

Fund Performance

Returns	1 month	3 months	6 months	FYTD	1 year	2 years p.a.	3 years p.a.	Since inception p.a. (30-Dec-2019)
Fund Net Return[1]	0.11%	0.51%	1.15%	1.75%	1.45%	1.02%	1.89%	2.28%
Benchmark Return[2]	0.25%	0.77%	1.40%	1.66%	1.75%	0.89%	0.63%	0.64%
Active Return (After fees)	**-0.14%**	**-0.26%**	**-0.25%**	**0.09%**	**-0.30%**	**0.13%**	**1.26%**	**1.64%**

Fund Benefits

Active Management

The CC JCB Dynamic Alpha Fund is designed as an absolute return product, that aims to deliver stable and consistent returns over time - regardless of share and bond market movements. JCB applies a range of hand-picked risk-controlled investment strategies to a universe of global high grade sovereign bonds (i.e. anchored by G7 nations, as well as Australia). It offers a high level of liquidity in Government issued instruments, without corporate credit exposure.

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

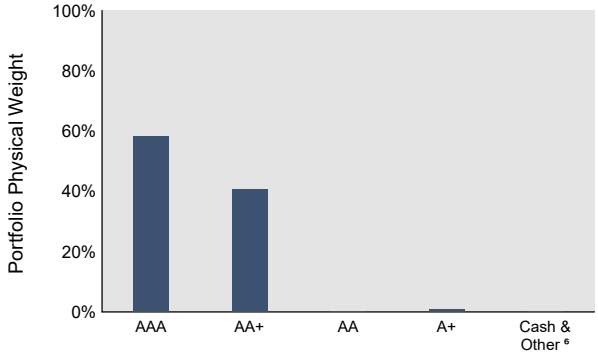
Investment Manager	JamiesonCooteBonds Pty Ltd
Portfolio Managers	Charles Jamieson & Chris Manuell
Style	Global absolute return bond fund - concentrating on actively managing global high grade sovereign bonds
Objective	Outperform the RBA Cash Rate by 2.50% p.a. (after fees) over rolling 3 year periods
Inception Date	30 Dec 2019 [3]
Benchmark	RBA Cash Rate
Management Fee	0.58% p.a.[4]
Administration Fee	0.10% p.a.[4]
Buy / Sell Spread	0.05% / 0.05%
Distributions	Quarterly
Fund Size	AUD $337 million [5]

Fund Characteristics

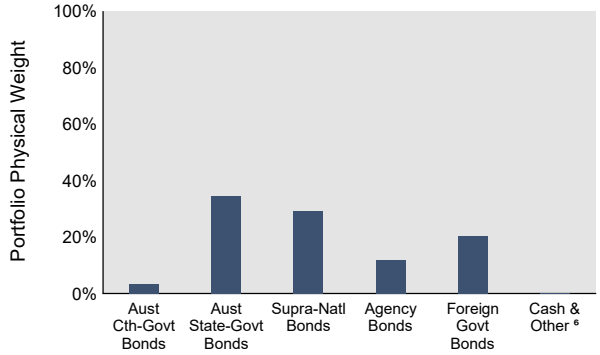
Characteristics	Fund
Modified Duration (yrs)	1.72
YTM + Hedging Effect	4.09
Weighted Ave. Credit Rating	AA+

Source: JamiesonCooteBonds Pty Ltd.
See Definition of Terms.

Asset Allocation by Credit Rating (Physical Weight)



Asset Allocation by Sector (Physical Weight)



[1] Performance is for the CC JCB Dynamic Alpha Fund (APIR: CHN8607AU), 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 RBA Cash Rate Total Return 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 Dynamic Alpha Fund ARSN 637 628 918. [6] Cash & Other includes cash at bank, outstanding settlements and futures margin accounts.

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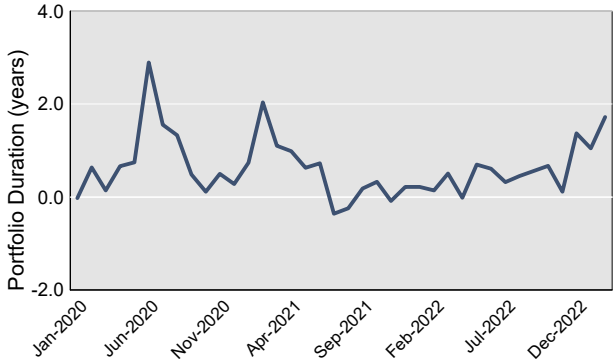
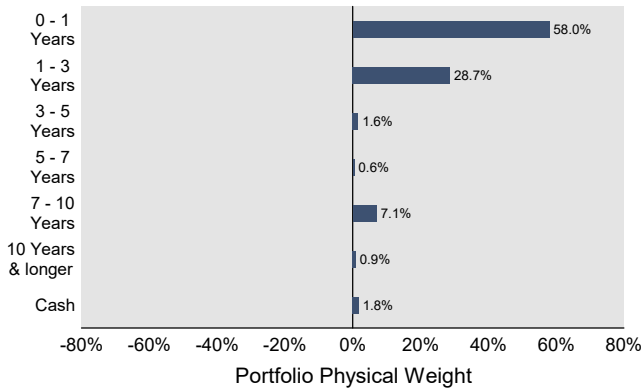
Historic Portfolio Duration



Asset Allocation by Duration (Physical Weight)*



*Asset allocation totals (Duration Band) are the net position of physical bond and bond futures exposure and will be positive or negative depending on the portfolio positioning as selected by JCB.

Fund Review

For the month ending February, the CC JCB Dynamic Alpha Fund – Class A units (the Fund) returned 0.11% (after fees), underperforming the RBA Cash Rate Total Return Index.

The Fund encountered a challenging month as global short end bonds were all re-priced lower as the economic data from the Northern Hemisphere exceeded expectations. Global yields bottomed at the start of the month following the US Federal Reserve (US fed) meeting which provided a 25 basis point (bp) hike and also pointed to a continuation of rate hikes on the horizon. The tone for impressive US economic data through the month was set early as nonfarm payrolls came in much stronger than expected (517k v 189k) on 3rd February.Through the month we also received decent retail sales and a couple of hot inflation data points , CPI and the Fed's preferred PCE deflator both encouraged calls for a 50 bp hike in March. US 2 year yields increased 62 bps over the month to close at 4.82% as markets expectation for the Fed Funds rate to finish at 5.50% for this hiking cycle. In the aftermath of the stronger US economic data prints, albeit helped by the better than expected weather for the Northern Hemisphere , US Fed officials including US Fed Chairman, Jerome Powell communicated the narrative of a potential "higher for longer" tightening cycle. In Europe, rates rallied aggressively following the ECB meeting where short term rates were increased by 50 bp. German 10 year yields richened 20bps on the day - which was their largest daily decline since November 2011. Markets interpreted that after March they would "then evaluate the subsequent path of its monetary policy." Markets then tracked US bond markets lower into month end and stronger than expected inflation data out of France and Spain into month end triggered a sharp sell-off and resulted in money markets pricing in a 4% ECB peak rate. In Japan the new nominee for Bank of Japan Governor, Kazuo Ueda , fronted parliament and mentioned a potential switching of the Yield Curve Control (YCC) band maturity from the 10 year to the 5 year part of the bond curve. Domestically , Australia remained the outlier as domestic data soured under the weight of consistent tightening from the RBA as the unemployment rate turned higher to 3.7% and wages came in lower than expected,along with a softer GDP print which allowed the Australian bond market to outperform through the month.The fund benefitted from the domestic outperformance in bonds through the month however the drag on performance resulted from offshore holdings. The fund lifted its domestic ESG holdings through the month participating in the Asian Development Bank 2026 Gender Bond.

Market Review & Outlook

The silent cashflow squeeze in the domestic economy has commenced as the aggressive RBA hiking cycle is starting to crush discretionary incomes. This process will not only continue, but is very likely to accelerate, with more RBA hikes expected, likely triggering a number of business failures and a material recalibration of business outlooks and employment prospects whilst the RBA policy remains restrictive and somewhat backward looking .

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Divergent economic pathways are evident to start the year, whilst global economic data has picked up after a poor start to the year, Australian data continues to disappoint. Australia has a higher 'transmission mechanism' – the impact of interest rate rises effects our economy faster due to variable rates mortgages – this cashflow squeeze is the beginning of a material bite into our economic performance and is already causing a huge cash flow squeeze across many sectors and businesses, as bill payment times are blowing out. The net result is a slowing in economic activity which is starting to come through Australian data which is consistently underperforming expectations as financial conditions tighten sharply.

The read on the domestic data of late is not one that befits "the lucky country". The unemployment rate has climbed from 3.5% to 3.7% with full time employment losing 43,000 jobs in January, reversing full time job growth which has occurred in every month of 2022 except July. Part time employment did improve (although this series is very volatile over time), but it is full time work that is critical to a high functioning economy. Retails sales over the last three months have been volatile (due to November black Friday effect) but in aggregate they are slightly negative in nominal terms (i.e. negative in real terms as they should grow with inflation). Wages are accelerating at 0.8%, but far below markets expectations which is encouraging for the RBA and its fight to regain control over the inflation narrative and inflation expectations. Finally, our 4th quarter GDP numbers are also weaker than expected at 0.5% versus market expectations of 0.8%.

All of these data points should be cooling RBA policy expectations; however the global backdrop makes it difficult for Governor Lowe to go it alone aggressively. This tightening process will likely create absolute chaos for those in the interest rate sensitive parts of the economy and will send plenty of hard-working honest folks to the wall. Sure, the RBA can cut rates thereafter (and with inflation the central bank should err on the side of caution) but having completely encouraged folks into the belief they could afford to borrow money at low interest rates, only to lift rates by ~4.00% (16 times the usual 25 bps increment) the economic damage will be absolute and final for many, not to mention the economic scaring which was witnessed in many offshore economies after the GFC. Regaining 'animal spirits' (a term used a number of times by the RBA pre Covid to explain a lack of aggressive investment) will not be easy to achieve with a Central Bank chasing behind the ball at every turn. After making a huge policy error of long dated and single outcome forecasting, it is very likely the RBA has already overtightened policy enough to cause a material default cycle. Now we just need time to complete the task.

It is also important to factor in the pro-cyclic nature of banking through this process. Credit availability is more pronounced right now - the economy is firing on all cylinders and retreats quickly (despite higher interest rates and net interest margins) as the economy cools. For a default cycle to really take hold, two conditions are required. The price of money needs to be high (we can check that box on a relative basis), and we need time for delinquency to occur. If the price of money jumps higher, but then falls quickly back towards status quo then the impact is negligible. If that price stays high, the impact is profound. The RBA will change policy with longer run implications which will now extend will into 2024. Whilst the cashflow squeeze is eerily silent for now, expect to hear a lot more negative news around business and employment which are struggling under the higher cost of capital and challenged working capital cycle. Recently we have seen the public failures of craft beer brewer Tribe Breweries and Scott's Refrigerated Logistics, no doubt there will sadly be many more to come.

Further Information

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Platform Availabilty

AMP MyNorth	Ausmaq	Aust Money Market
BT Panorama	Colonial First Wrap	HUB24
Implemented Portfolios	Macquarie Wrap	Mason Stevens
Netwealth	Powerwrap	Praemium
Xplore Wealth		

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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.
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.

Channel Investment Management Limited ACN 163 234 240 AFSL 439007 ('CIML') is the Responsible Entity and issuer of units in the CC JCB Dynamic Alpha Fund ARSN 637 628 918 ('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.