JCB

JAMIESON COOTE BONDS

CC JCB Dynamic Alpha Fund (APIR: CHN8607AU)
Fund Update as at 31 May 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]	0.13%	1.36%	1.88%	3.14%	3.26%	1.47%	1.81%	2.52%
Benchmark Return[2]	0.34%	0.92%	1.69%	2.59%	2.65%	1.34%	0.92%	0.86%
Active Return (After fees)	**-0.21%**	**0.44%**	**0.19%**	**0.55%**	**0.61%**	**0.13%**	**0.89%**	**1.66%**

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

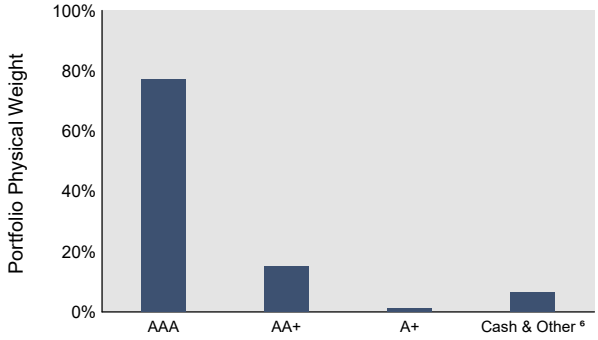
Investment Manager	JamiesonCooteBonds Pty Ltd
Portfolio Managers	Charles Jamieson & Chris Manuell
Style	Global absolute return bond fund - concentrating on actively managing global high grade sovereign bonds
Objective	Outperform the RBA Cash Rate by 2.50% p.a. (after fees) over rolling 3 year periods
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 $228 million [5]

Fund Characteristics

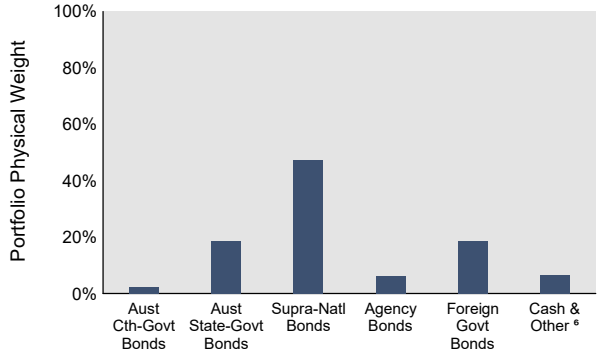
Characteristics	Fund
Modified Duration (yrs)	0.78
YTM + Hedging Effect	3.67
Weighted Ave. Credit Rating	AA+

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 in Australian Dollars. Net performance is calculated after management fees and operating costs. Individual investor level taxes are not taken into account when calculating net 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. The comparison to the RBA Cash Rate is displayed as a reference to the target return for the Fund and is not intended to compare an investment in the Fund to a cash holding . [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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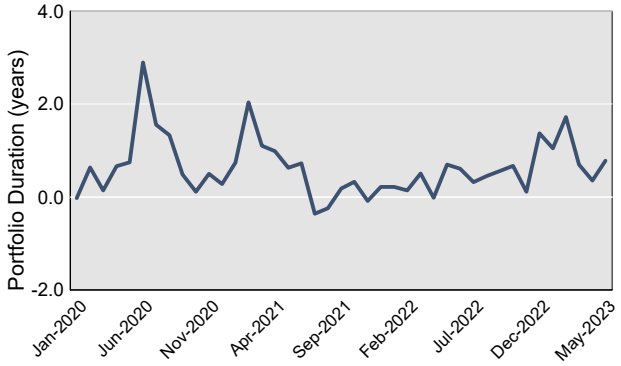
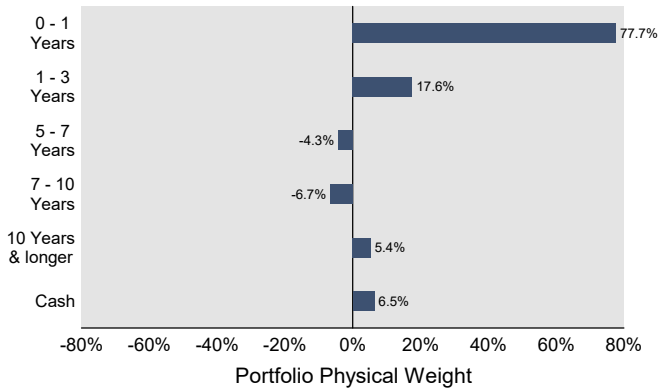
Historic Portfolio Duration



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 May, the CC JCB Dynamic Alpha Fund – Class A units (the Fund) returned 0.13% (after fees), underperforming the RBA Cash Rate Total Return Index.

The portfolio endured a slight underperformance in what continued to be a challenging period for the markets as the banking sector continued to remain in the spotlight early on against the narrative of "sticky " inflation which provided a cloudy picture for the global central banks.The bond market tested resistance levels early in the month that had held all year and again sellers appeared, the 3.30% region in US 10 years failed to crack despite repeated attempts. Bonds were also provided with an early bid in May after the US Federal Reserve meeting where they hiked 25 basis points (bp) to 5.25% however bulls latched onto the omission of prior communication signalling future hikes – specifically the committee removed the comment that "some additional policy firming may be appropriate". Bond markets then proceeded to grind lower through the month as the narrative switched away from a turn in the hiking cycle to focus on the "stickiness" of inflation. Persistent debt ceiling negotiations kept markets on tenterhooks and resulted in Fitch placing the US on watch for a downgrade. Similar to the previous month, the UK delivered an upside inflation surprise which escalated selling in the UK and provided global bond markets with a reminder that the fight against inflation at the expense of growth may still be warranted.Domestically, Australian bonds were pushed lower through the month as the Reserve Bank of Australia surprised the market with a 25 bp hike which set the tone. The monthly CPI indicator was a bit hotter than expected which in conjunction with US and UK inflation numbers pressured the market. Weaker Chinese data and a dovish hike from Reserve Bank of New Zealand failed to elicit much support for the domestic market as the systematic managed futures community took control and pushed momentum lower. The Fund suffered a drag on performance from the weakness in Australian short end however ultimately JCB believes that the economy will collapse quickly and that central banks will have to pause their path of tightening policy imminently which should allow a decent performance in the high grade fixed income landscape.

Market Review & Outlook

As we come into the middle of the year, the economy is transitioning through a 'hop, skip and a jump' towards recession in late 2023 or early 2024. For now, the economy is 'hopping' along better than many expected to at this point after such an abrupt rate hiking cycle. This resilience has markets considering if a few further rate hikes may be needed to complete the intended demand destruction required to dent demand driven inflation outcomes. Central Bankers know they have already done a great deal in moving rates quickly to restrictive territory, and whilst they acknowledged inflation is yet to fully moderate (this takes time as demand cools), they are trying to buy time knowing the lag effect will complete this process, and therefore much of their own communications references

'skipping' a few meetings on the road to further rate hikes to access more incoming data.

Due to the long and variable lag effects of monetary policy, any further hikes now will continue to affect the economy well into 2024, meaning at some point the cumulative tightening will trigger the economy to 'jump' into a protracted slowdown, killing inflation and allowing for a new cycle to be born as policy stimulus can again be provided away from restrictive settings.

Recently in Australia, whilst employment readings have softened with unemployment moving a little higher (from 3.5% to 3.7%) and tepid real retail sales numbers, some inflation readings have remained elevated giving the RBA cause for concern. Combined with stubbornly resilient house prices, this may see the rates cycle elongate as our own path to terminal rates may become a little longer, with no doubt a few meetings of skipping introduced to also buy time to access the economic impact of previous hikes. In last week's Senate testimony, Governor Lowe, referred to rates already being 'restrictive' suggesting the RBA has made significant ground towards slaying the inflation beast: "We've increased interest rates a lot. Monetary policy is restrictive and it's working."

There is now significant divergence as we look around developed economies, with each country now embarking on its own rates journey. Last month the Reserve Bank of New Zealand (RBNZ) completed its rate hiking cycle lifting rates to 5.50%, and very importantly telegraphed to markets that it expect to now remain on hold at this level, as the restrictive nature of policy settings will work through the economy. This is an important cyclical marker, as the RBNZ was one the first and fastest rate hikers in this global cycle. JCB believe the New Zealand economy is currently in recession, with a raft of negative economic data across the board (retail sales, consumer confidence, activity outlook, and business confidence are all negative). Similarly, the Bank of Canada has also paused at 4.50%, suggesting it is also in a wait and see mode after significant monetary policy tightening. Again, data in Canada has been soft with negative retail sales, payrolls and a flatlining monthly GDP number.

The US Federal Reserve (US Fed) has also suggested it may pause (or skip) hiking rates, as again it wishes to view more data and access the fallout from the regional banking crisis. US data has also been patchy, with weak purchasing managers index (PMI) readings and weak (negative) regional confidence or outlooks from a raft of areas including Philadelphia, Richmond, Dallas and Kansas. But the employment market keeps on keeping on, adding solid gains in the recent May release. At a headline level the gains are welcome, but as keen US Fed watcher Nick Timiraos noted in his recent column, this also has a 'choose your own narrative' element to it, where one must decide whether it calls for further policy response. The unemployment rates jumped from 3.4% to 3.7%, while average hourly earnings – a key metric for the US Fed in assessing wage growth – remained well contained at 0.3%. This lower average hourly earnings (plus additional months revised lower) suggests that employment is growing but employers have a lot more power over containing wages. This is the dream scenario for the US Fed – job growth remains steady, but wages moderate – something it has been pushing in its recent research too. Markets are currently priced for a 'skip' from the US Fed at its upcoming June meeting.

This all suggests that there is good reason for many Central Banks to pause/skip at this point, if they are to achieve their dreamy 'soft landing' scenario, given the highly divergent nature of some incoming economic data. Leading data continues to fall with manufacturing PMIs across the world remaining poor (most below 50, with a level of 50 considered flatlining). While manufacturing has historically dominated the business cycle, services PMIs do remain healthier. Interestingly, output prices have now fully normalised and supply chains are now completely back to normal of pre-pandemic levels.

Looking ahead there remains a raft of issues that can push the markets into 'jump' territory, and most market participants believe this remains the inevitable pathway through time. The exact catalysts and timing remain unknown but after such violent rate increases, to restrictive settings, the through time expectation remains to be a more challenging environment. It may be an acceleration of weaker economic data, a fraught geopolitical issue, or the aftermath of US debt ceiling politics. Having narrowly avoided the perils of the US debt default again, the US Treasury will now issue more than US$1 trillion dollars' worth of securities to replenish its general account buffers (these were drawn down as the debt ceiling approached), draining much needed liquidity from the financial system as these securities settle.

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JCB will again watch for bank deposit outflows placing pressure on smaller lenders and reigniting any regional banking problems, as whilst this has fallen from the news cycle, it remains an ongoing issue. History suggests markets will have some increased volatility with this surge of securities and the associated liquidity drain, especially now that the US Fed is hiking rates whilst also decreasing its balance sheet via quantitative tightening.

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		

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.