JCB

JAMIESON COOTE BONDS

CC JCB Dynamic Alpha Fund (APIR: CHN8607AU)
Fund Update as at 30 September 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]	-0.22%	0.75%	1.26%	0.75%	3.26%	1.39%	1.59%	2.46%
Benchmark Return[2]	0.32%	1.02%	1.98%	1.02%	3.53%	2.02%	1.36%	1.15%
Active Return (After fees)	**-0.54%**	**-0.27%**	**-0.72%**	**-0.27%**	**-0.27%**	**-0.63%**	**0.23%**	**1.31%**

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

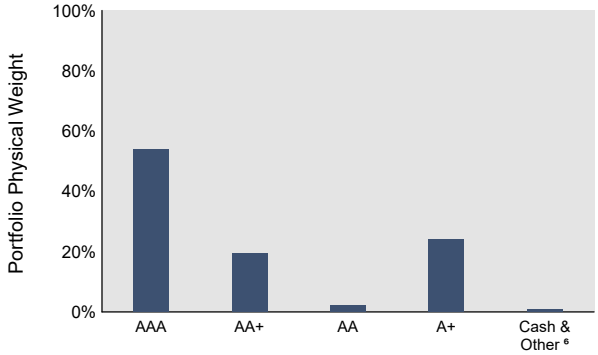
Investment Manager	JamiesonCooteBonds Pty Ltd
Portfolio Managers	Charles Jamieson & Chris Manuell
Style	Global absolute return bond fund - concentrating on actively managing global high grade sovereign bonds
Objective	Outperform the RBA Cash Rate by 2.50% p.a. (after fees) over rolling 3 year periods
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 $180 million [5]

Fund Characteristics

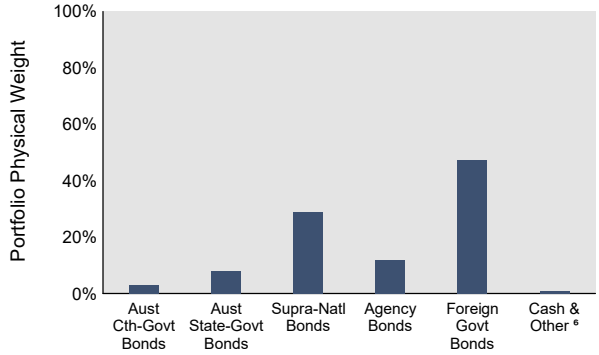
Characteristics	Fund
Modified Duration (yrs)	0.18
YTM + Hedging Effect	3.07
Weighted Ave. Credit Rating	AA+

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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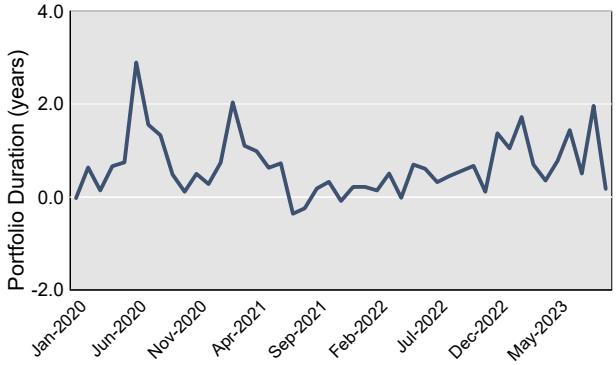
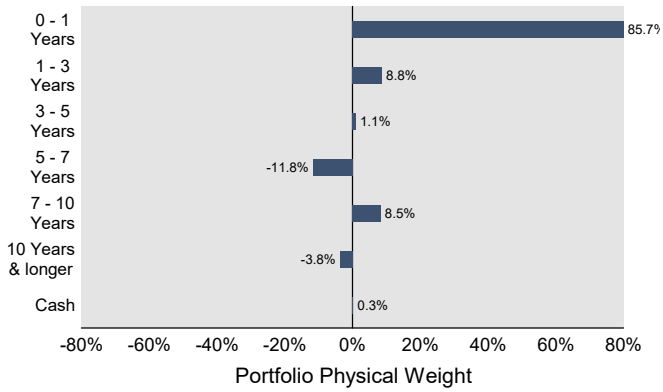
Historic Portfolio Duration#



Asset Allocation by Duration (Physical Weight)*



Data shown is for underlying assets of the CC JCB Dynamic Alpha Fund
*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.

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Fund Review

For the month ending September, the CC JCB Dynamic Alpha Fund – Class A units (the Fund) returned -0.22% (after fees), underperforming the RBA Cash Rate Total Return 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 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.

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 got wrong footed mid-month with the breach of the 4.35% level in US 10-year Treasury yields, the 2022 highs, which was an area that we felt was compelling to add duration in US Treasuries. The momentum through there was exacerbated by the momentum participants and the continued rise in term premium following the Fed meeting and as the market became more comfortable that rates could remain higher for longer. Into month end the fund added some long end UK bonds as their economy continued to show signs of slowing and as the BoE come close to finishing their hiking cycle. Into month end the portfolio continued to hold short end bonds in NZ and Australia with the view that these bonds should outperform on the curve.

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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.
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

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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.

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.