



JAMIESON COOTE BONDS

Fund Update as at 31 January 2024

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	0.13%	5.94%	3.17%	1.51%	-3.31%	0.14%	1.24%	0.88%
Benchmark Return ²	0.16%	6.11%	3.32%	1.44%	-2.96%	0.23%	1.39%	0.88%
Active Return (After fees)	-0.03%	-0.17%	-0.15%	0.07%	-0.35%	-0.09%	-0.15%	0.00%

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

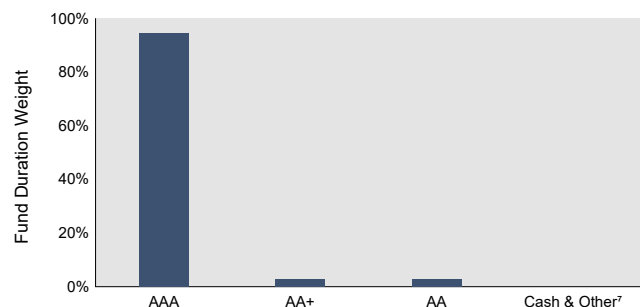
Investment Manager	JamiesonCooteBonds Pty Ltd
Structure	AAA or AA rated bond securities issued in Australian dollars
Inception Date	03 Aug 2016 ³
Benchmark	Bloomberg AusBond Treasury 0+ Yr Index
Management Fee	0.45% p.a. ⁴
Administration Fee	0.10% p.a. ⁴
Buy / Sell Spread	0.05% / 0.05%
Distributions	Semi-annual
Fund Size	AUD \$1,309 million ⁵

Fund Characteristics

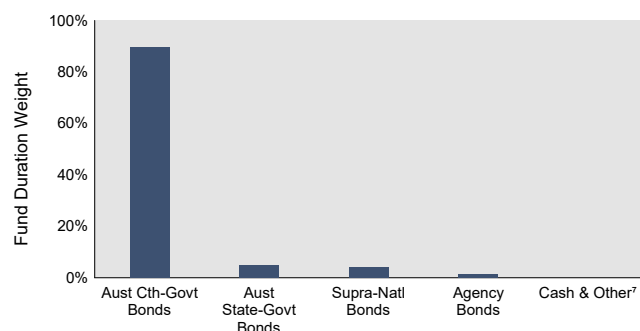
Characteristics ⁶	Fund	Benchmark ²
Modified Duration (yrs)	5.66	5.37
Yield to Maturity (%)	3.72	3.84
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	0.15	n/a

Source: JamiesonCooteBonds Pty Ltd.

Allocation by Rating (Duration Weight)⁶



Allocation by Sector (Duration Weight)⁶



Platform Availability

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

Investors will enjoy a non-stimulatory interest rate cutting cycle in 2024, with global interest rate cuts expected in most developed markets. The lowering of interest rates to match victories in bringing global inflation predominately to heel, helping to buoy many assets markets with improved financing conditions at a nominal interest rate level. Global central bankers have been explicit in their plans to turn the super tankers of interest rates policy in the rate cutting direction, a seismic change from the last few years of rate hikes, promising interest rates cuts to match the step downs in realised inflation outcomes.

With China continuing to experience outright deflation and excess capacity, global improvements in inflation outcomes can continue as China looks to export cheap goods and capacity to the world, and in the process generating significant ongoing global competition (good for lower price pressure). This suggests that peak interest rates are upon us (the terminal rate) and has knock on implications for asset allocation within fixed income, as history suggests that moving from floating to fixed interest rate exposures will outperform in the following multi year periods.

Whilst markets and commentators are obsessed about the timing and size of these interest rate cuts, oscillating around each economic data print as if it were totally binary, the reality is this should occur regardless of near-term data - likely in the second quarter led by the US Federal Reserve (US Fed) and the European Central Bank (ECB). The ECB need to cut, as their economies are faltering on recession, whilst the US Fed will want to get this done ahead of the election cycle to remain apolitical. Central bankers are also wanting to avoid the learnings of the Global Financial Crisis, being that if interest rates are left overly restrictive for too long, then economies can have a nasty accident. Preemptively cutting rates now by a slight margin (say 1.00% only after 5.00% of US rate hikes), can help elongate the cycle and avoid a harder economic landing later (like the mild cutting cycle of 1995). Should they let the economy stall by staying overly restrictive with interest rates in the nearer term, they risk a larger issue later which has historically required rates to be slashed by 3.00% to 5.00% to jump start the economic patient with the larger defibrillator.

Also on the minds of central bankers, is the pending credit cycle which grows in importance over the year. Corporations did a fantastic job of extending out their maturities on debt obligations during the pandemic, where the total cost of debt was tantalizingly cheap, and it was rational to lock in debt for longer time periods, however, there is a large amount of that corporate debt that is due for refinancing as we approach 2025 and beyond. Whilst the initial moves in markets repriced assets due to duration risk, the next leg of asset performance is hinged on the ability to refinance outstanding credit or debt. Bringing the total cost of debt down is certainly helpful and provides confidence that this can occur in an orderly manner. Corporate credit markets are highly contingent on confidence, tending to act in a pro cyclical manner, underperforming around economic weakness where credit availability is often reduced. We believe that helping to facilitate this credit refinancing process, which swings into full gear by the later part of this year, will be additional motivation for authorities to reduce interest rates assuming inflation remains contained near longer term targets.



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The US economy has enjoyed a strong start to the year, with a lift in activity and employment after waning momentum into late 2023. Conversely, the Australian economy has hit a rough patch, with recent data being extremely soft. Domestic retail sales were shockingly weak at -2.7% on a notional basis (remember including inflation at ~4% plus population growth at ~2% - nominal retail sales should be significantly positive, not -2.7% negative), full time employment (always a volatile number) dropped 106,600 jobs in December and inflation fell significantly faster than both the Reserve Bank of Australia (RBA) and the markets expectations. Whilst the media reported inflation number focuses on a Quarter-on-Quarter basis at 4.1% annualized, if we look at a Month-on-Month calculation (similar to other global markets) the domestic inflation rates is already at 3.4%. These developments lead us to believe that the RBA can join the global rate cutting party by the middle of the year, although we do not expect cuts of the same magnitude as that of Europe or the United States. This improvement in domestic inflation is likely to continue, green lighting a rate cutting bias to RBA policy in coming months, as Governor Bullock made this direct quote in last week's press conference after the RBA meeting, "There's a question that comes about when do we reduce the restrictiveness of monetary policy to neutral (rate cuts), and do we have to be in the band (on inflation) at 2.5% before we think about doing that? No, I don't believe we do."

With interest rate cuts suggested to be approaching, JCB expects that economies will continue to cool from the long and variable lags of monetary policy rate hikes that are still working their way into everyday life and business performance. Ironically capital markets can enjoy looking forward to more friendly financing rates than we are currently experiencing. With attractive term deposit rates now on the verge of decreasing, investors should consult their advisers and consider alternative asset allocations into a rate cutting world where credit risk is percolating as the economic cycle cools.



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Fund Review

For the month ending January, the CC JCB Active Bond Fund - Class A units (the Fund) returned 0.13% (after fees), underperforming the Bloomberg AusBond Treasury (0+Yr) Index.

Having finished the 2023 rallying very strongly, global bond markets sold off to higher yields in the first half of January in the face of very high global bond supply, before finding some solid demand and finishing the month almost back to where we started.

January 2024 saw a huge supply of bonds across many geographies as is often the case, and coupled with bond markets that had become over bought into the end of 2023 as real money managers chased the price action lower. JCB saw a bounce in yields of around 30 basis points before finding some buying support around 4.25% in 10 year US Treasuries.

Towards the end of the month, JCB found a number of catalysts that ignited demand for global fixed income:

- Geopolitical issues around the Red Sea
- Regional banking issues which reared their heads following the news that the New York Community Bancorp disclosed a surprise loss for the fourth quarter and slashed its dividend. When the announcement was made on the last day of the month, the regional bank index dropped around 6% which was the worst day since the Silicon Valley Bank collapse nearly twelve months prior.
- Treasury announced Q1 borrowing need estimate, which turned out to be materially lower than market expectation (\$760 billion vs \$816 billion est.) This was also positive for bonds into month end.

Australian data was noticeably softer compared to global peers with retail sales and inflation missing market estimates. The Reserve Bank of Australia (RBA) has now seen peak rates and the question will now be when the cutting cycle will commence. We acknowledge that the labour market is still too tight and services inflation still a little too high for an imminent rate cut, however if the inflation rate continues to trend lower, which JCB believes is the most likely path barring an exogenous shock, the RBA will be able to begin to ease pressure on mortgage holders via a rate cut in the second half of the year, with August or November the most likely meetings.

Bond markets are at a very interesting juncture and globally investors are seemingly lacking a lot of conviction for the next big move. The biggest catalyst for bond market direction is of course the US Treasury market. On one hand, the data has been very resilient with payrolls and spending data surprising to the upside, which is keeping yields from rallying too far, while the inflation data is trending in the desired direction which means bonds cannot sell-off too far. This is creating choppy bond markets that lack deep trends but do create opportunities.

The portfolio traded dynamically over the month, with the valuation signals positive to index outperformance, however the momentum factors were detrimental. Spread product was alpha accretive as the portfolio is overweight short end semi-government bonds. The portfolio added mid-curve and long end TCV bonds to the position which had cheapened over the month to a level of attractive value.

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



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