JCB

JAMIESON COOTE BONDS

Fund Update as at 29 February 2024
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 $41.7 million

Fund Performance

Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	-1.06%	-0.80%	-0.26%
3 Months	1.35%	1.37%	-0.02%
FYTD	0.83%	0.73%	0.10%
1 Year	2.42%	2.46%	-0.04%
2 Years p.a.	-3.71%	-3.95%	0.24%
3 Years p.a.	-3.28%	-3.25%	-0.03%
Inception p.a.	-0.46%	-0.56%	0.10%

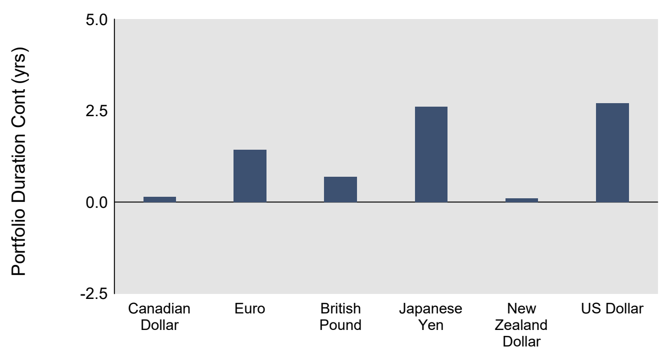
Fund Overview

Characteristics	Fund	Benchmark
Modified Duration (yrs)***	7.68	7.37
YTM + Hedging Effect^^	3.81	3.88
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

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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

2024 has seen a dramatic switch in prevailing views on the future of the US economy with its resilience and unique features coming to the fore as consensus has flipped from a hard landing recession last year to a soft landing in expectation that inflation continues to slow without a damaging economic recession.

This demonstration of US growth exceptionalism can be explained by the difference in the sensitivity of the interest rate transmission mechanism compared to the rest of the world which has kept expenditure from the consumer and the corporation humming along following the 2010-2020 quantitative easing program from the US Federal Reserve. Remarkably, despite the recent rate rises, the amount that American companies have had to pay in interest expenses has fallen and the US is the only developed market where the interest expenses have fallen in this manner. The US corporates are the beneficiaries of the higher short-term rates as they earn interest from their higher cash holdings while they fortuitously or skillfully locked in fixed-rate debt payments at the lower interest rate levels we witnessed post the GFC.

This thematic is also prevalent for the US consumer in the pass-through to mortgage repayments where the average rate for outstanding mortgage debt is in the ballpark of 3.80% despite the standard 30-year mortgage rate currently running in the high 6% level – which has given the consumer plenty of buffer to continue their post-Covid exuberant consumption patterns. This difference is most evident in our own backyard where Australian households continue to have their real incomes and thus consumption patterns squeezed with a greater intensity on the cash flow channel from the variable nature of our outstanding mortgage debt.

The high debt to income status of Australians and the higher percentage of non-housing wealth tied up in superannuation explains why the rates squeeze is so much more problematic for the Australian battler specifically in the demographic of the 25 to 55 year old space.

The other component to the US exceptionalism narrative now is the spectacular rally within the technology sector of the US equity market, which dovetails with the expectations of a softer landing in the economy as seen through the lens of the bond market.

The peak in US bond yields last October at 5.00% has resulted in the equity market recording 16 weekly gains out of 18, which has not been recorded since 1971. The unique feature of this parabolic rally is where it has occurred in the business cycle, historically rallies of this velocity and magnitude commence from the depths of a recession as the asset markets benefit from the Central bank easing cycle. This continued resilience in the US economy has also shifted the markets thoughts on expectations for rate cuts in 2024 – at the start of the year roughly 7 interest rate cuts were to be expected into year end and that has subsequently ratcheted down to around 3 to 4 cuts at the time of writing. This removal of easing has not yet upset the risk markets as the rally has continued unfettered, in fact the equity market has gone over a year without a 2% correction, which is why some caution may be warranted as we head into the ides of March.

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Seasoned market observers would be cognisant of several historic turning points in the month of March. Among these, the Nasdaq reached its peak on 10 March 2000, marking a notable moment in market history. 6 March 2009, saw the S&P 500 plummet to a low of 666 during the GFC, and 9 March 2020, witnessed a remarkable spike low in 10yr Treasury yields, dropping to a mere 0.31%. Thus, it might pay to monitor the US equity market as the Nasdaq currently flirts with the all-time highs set in 2021 and take note of any meaningful movement around this March window. No doubt the markets' narrative will oscillate between the "bubble" crowd and the "fear of missing out" crowd which is why this inflection point will be important for the roadmap into financial year end. The US Federal Reserve will be wary of cutting too soon and restoking inflation like the 1970s or fueling an equity bubble like the late 1990s which is why there might be a sense of relief that the market has recently wound back the amount and timing of US rate cuts in the face of US exceptionalism.

Domestically the economy is painting a different picture to the US as we diverge from the US on productivity and consumption data and in fact the Reserve Bank of Australia (RBA) might be wary that it made a policy error with its last rate hike in an underestimation of the sensitivity that higher rates are having on the economy. Following the recent GDP number, its evident the blowtorch remains on the economy in the face of the restrictive policy settings with some concerning metrics underneath the hood.

Looking at the data, immigration continues to mask the weakness of the economy, in per person terms, GDP fell 0.3% from the third quarter and was 1% lower than a year earlier which is the deepest contraction since 1991 (excluding the pandemic). Strong population growth has now seen GDP per capita fall for a fourth consecutive quarter. Weakness was also more profound in the interest-rate sensitive sectors – household consumption and residential construction. This is not surprising given data showing that the interest paid on housing debt has ballooned by 162% from the pandemic lows. US economic exceptionalism could be contrasted with Australian economic realism as the hefty weight of rapid interest rate rises continue to spread through the economy in 2024.

For investors, monitoring central bank policies, particularly those of the US Federal Reserve and the RBA, and employing robust risk management strategies are essential amid prevailing global market uncertainty to safeguard capital and navigate volatile conditions effectively.

Fund Review

For the month ending February, the CC JCB Global Bond Fund – Hedged Class returned -1.06% (after fees), underperforming the Bloomberg Global G7 Total Return Index Value Hedged AUD.

The portfolio was down for the month as an overweight bias was maintained in expectation of a slowing economy as the interest rate tightening started to affect the economy. US 2-year yields closed 40 basis points (bp) higher for the month as markets pared back their expectations for expected interest rate cuts in 2024 to be more in line with policymakers' forecasts of three 25 bp cuts for the year. Stronger US data occurred through the month with a robust jobs report, strong manufacturing services print and a higher-than-expected CPI number all hitting the tape by mid-month and setting the tone for higher yields. A second straight month of record corporate bond issuance also pressured the market.

The Federal Open Market Committee, Bank of England, Reserve Bank of Australia (RBA) and Reserve Bank of New Zealand all remained on hold at their respective meetings. The commentary from the US Federal Reserve members over the month signalled concern with cutting rates too soon, while the RBA also pushed back on any immediate cuts. All central banks are in data watch mode, and this makes each tier 1 data print more important than ever. An underweight position in Italy and US curve steepened in Treasuries dragged on performance along with getting caught offside on the stronger US data. An overweight in the New Zealand long end was alpha accretive as that bond market should outperform early on in in a global interest rate cutting cycle.

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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.
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.