Fund Update as at 31 October 2021
CC JCB Active Bond Fund (APIR: CHN0005AU)

Fund Performance

Returns	1 month	3 months	6 months	FYTD	1 year	3 years p.a.	5 years p.a.	Since inception p.a. (03-Aug-2016)
Fund Net Return*	-4.10%	-5.65%	-2.71%	-3.89%	-6.71%	2.58%	2.41%	2.14%
Benchmark Return**	-3.82%	-5.36%	-2.22%	-3.47%	-6.13%	2.74%	2.48%	2.04%
Active Return (After fees)	**-0.28%**	**-0.29%**	**-0.49%**	**-0.42%**	**-0.58%**	**-0.16%**	**-0.07%**	**0.10%**

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 Govenment, 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

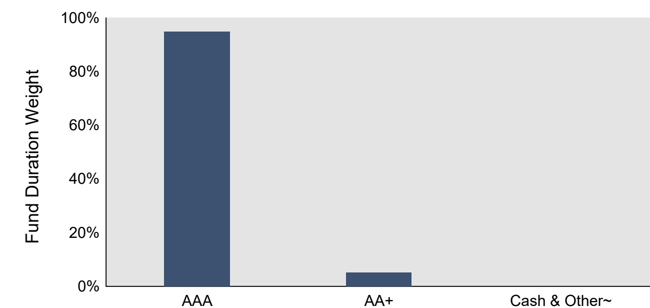
Investment Manager	JamiesonCooteBonds Pty Ltd
Portfolio Manager	Charles Jamieson
Structure	AAA or AA rated bond securities issued in Australian dollars
Inception Date^	3 August 2016
Benchmark	Bloomberg AusBond Treasury (0+Yr) Index
Management Fee#	0.45% p.a.
Administration Fee #	0.10% p.a.
Buy / Sell Spread	0.05% / 0.05%
Distributions	Semi-annual
Fund Size+	AUD $1,117 million

Fund Characteristics

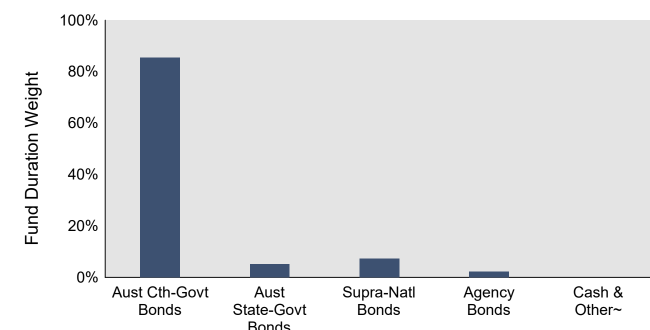
Characteristics***	Fund	Benchmark**
Modified Duration (yrs)	6.37	6.33
Yield to Maturity (%)	1.82	1.62
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	6.26	n/a

Source: JamiesonCooteBonds Pty Ltd.

Allocation by Rating (Duration Weight)***



Allocation by Sector (Duration Weight)***



Platform Availabilty

AMP MyNorth	Asgard	Ausmaq
Aust Money Market	BT Panorama	BT Wrap
Colonial First Wrap	HUB24	Implemented Portfolios
Linear	Macquarie Wrap	Mason Stevens
MLC Navigator	MLC Wrap	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 Active Bond Fund ARSN 610 435 302. * 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. ** Benchmark refers to the Bloomberg AusBond Treasury 0+ Yr Index. *** Refer to Definition of Terms. ~ Cash & Other includes cash at bank, outstanding settlements and futures margin accounts.

Jamieson Coote Bonds

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Market Review & Outlook

Global bond markets suffered heavy losses in October after comments from the Bank of England (BOE) in late September suggested rate hikes would be imminent for the UK markets, triggering a swift reassessment of potential Central Banking policies around the world (as it transpired the BOE did not moves rates at its recent November meeting – badly wrong footing markets). In Australia, the market moved to price in arguably more than an entire rate hiking cycle, as liquidation of positions transpired and more than five rate hikes for 2022 with an additional four hikes where priced into valuations into the 2023/2024 period. These suggested moves are in stark contrast to the RBA's central assessment of the pathway to rate hikes, but markets are taking on Central Banks in their convictions that post lockdown growth and higher supply side inflation due to Covid-19 outcomes will force Central Bankers to normalise their policies significantly earlier than telegraphed.

A small rise in Australian inflation outcomes to 2.1% year on year – just inside the RBA targeted band of 2.00% to 3.00% added further fuel to the bond sell-off late in the month, as the RBA failed to implement its Yield Curve Control policy which had anchored front end yields at low levels. Subsequently in the post November RBA meeting press conference Governor Lowe suggested he exercised his ''discretion'' around the implementation of the formal RBA policy.

These domestic moves seem to be an extreme over reaction, not in their direction to question the movement of policy into an economic recovery, but in the possible scope of such moves. Making a large assumption that the economy can recover quickly without further material Covid-19 interruptions (both here and abroad) and parking the large spare capacity within the current economy, pricing a fully normalised rate hiking cycle looks very premature given the debt loads and interest rate sensitivities within the economy. The RBA has continuously suggested that inflation outcomes would need to be realised into the middle of the expected inflation target (2.00% to 3.00%) combined with wages growth accelerating to beyond 3.00% as a catalyst or trigger to rate hikes. As Australia only calculates inflation on a quarterly basis, this suggests that at least two further readings (January 2022 and April 2022) at a minimum would be required to potentially hit the target mid-point of 2.50%, although wages growth is unlikely to have achieved 3.00% by this date. Again, assuming that wages had reached this 3.00% level (a big assumption once the borders re-open to foreign workers) then the RBA meeting in May 2022 seems the earliest possible "live" meeting for a rate move. To complete on five rate hikes into 2022, the RBA would have to hike rates more than every other month until year end. Whilst this is of course all "possible" it is highly improbable, but if it did occur the market is already priced for such an outcome!

The knock-on effect to the economy and asset markets such as property and equities would be problematic if this actually transpired throughout 2022. Just a reduction in bank lending in 2017 floored the major property markets around the country by around 10%, imagine what happens to credit availability once the collateral itself (bricks and mortar) is under the actual duress of multiple rate hikes? Each realised hike generates a material contraction in free cash flow for those on variable mortgages or loans, combined with obviously linkages through to the property and construction sectors. RBA commentary remains firmly in the camp of 'no move in interest rates until 2024' as the central scenario. When the RBA does finally hike rates, it remains hard to see the terminal rate (the highest RBA cash rate before rates turns towards a cutting cycle) above 1.50% without significant property market (and construction) problems in the economy compounded by a rapidly slowing Chinese economy.

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With markets fixated on a possible rate hiking cycle, it is important to remember that interest rates affect all parts of the financial systems and cannot materially move in isolation without significant ramifications elsewhere. Q4 2018 is perhaps the most obvious example. The US Federal Reserve triggered a significant bond market sell off in October 2020 suggesting it would continue raising rates; global credit markets froze in November that year; and equities subsequently dropped ~20% in December as corporates were starved of financial lubricant as the corporate zombies could no longer roll forward their existing debt obligations nor issue fresh debt (market was frozen to low quality borrowers).

Managing total portfolio risk

Things can change very quickly. In 2018, Australian Government Bonds went from being a material asset laggard year to date (as they often should be as a low expected return, high quality and high liquidity asset) to the best performing domestic asset of the year. Of course, the closing weeks of 2021 are unlikely to follow this pathway, but it is worth considering some of the parallels. This market "fragility" has been a major theme for JCB this year, as markets are seemingly clustered into herd positioning and any change in flows can have an outsized market move in a highly algorithmic world. This has been evidenced in bonds this year, and clearly in credit and equities into the Covid-19 crisis in March and April 2020. JCB continue to ask who is "short" equities, or "short" credit? This is important if large, long exposures look to exit on profit taking, as this risk needs to re-distributed to market and as witnessed the last traded price is often quite thin and cannot take the distribution of large risk positions, ultimately causing markets to cascade. Should these bond market moves persist into year end, these trigger points are rapidly approaching and JCB think a much wider discussion needs to occur around managing total portfolio risk.

The duration of bond moves capture all the attention and drives near-term performance, however, it is important to remember that duration has been a minority part of the total return for investors throughout time (although its nearly everything for short term speculators).

Looking at the last decade, we can see that "Carry" and "Roll" play a far larger part of the total return generation than any duration moves, and these bond sell-offs take bonds to substantially cheaper valuations in a world where seemingly everything is expensive. That generally bodes well for forward returns thereafter, particularly when a large fire break of excessive rate hikes is priced into the bond curves.

JAMIESON COOTE BONDS

Fund Update as at 31 October 2021
CC JCB Active Bond Fund (APIR: CHN0005AU)

Fund Review

For the month ending October, the CC JCB Active Bond Fund - Class A units (the Fund) returned -4.10% (after fees), underperforming the Bloomberg AusBond Treasury (0+Yr) Index.

Government bond markets endured a tough month in what was a globally coordinated fixed income sell-off and the Australian Government Bond was not immune to the weakness that started in late September following hawkish dialogue from both the Bank of England and the US Federal Reserve that triggered an aggressive repricing of bond markets in anticipation of a potential move higher in short term interest rates. This negative bond sentiment filtered into October as financial markets grappled with the glide path of interest rates and the actions of various Central Banks – the Bank of Canada wound down its bond buying program, the RBNZ hiked rates by 25 bp to 0.5% and the Reserve Bank of Australia abandoned its key short-term yield target despite its consistent pledge that domestic rates would remain on hold until 2024. The rally in energy prices through the month - oil prices hitting levels not seen since 2014 - as OPEC refrained from boosting supply, weighed on bond markets as well. The weakness in the domestic bond market was also accentuated by the optimism surrounding the reopening of the NSW and Victorian borders and the potential uplift in the economic growth trajectory. The negative sentiment provided a feedback loop which engineered an aggressive position liquidation in global interest rate markets that caught investors offside and contributed to an exaggeration of lower price moves into month end.

Going forward JCB anticipates that the bond markets have entered a compelling valuation that has historically encouraged offshore and institutional investors to allocate. JCB remains sceptical that an RBA rate hike is imminent given the effects a tightening of financial conditions would have on the economy and other asset classes, as the Chinese economy continues to slow and as the Australian inflation story continues to undershoot RBA expectations .

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

Channel Investment Management Limited ACN 163 234 240 AFSL 439007 ('CIML') is the Responsible Entity and issuer of units in the CC JCB Active Bond Fund ARSN 610 435 302 ('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.