JAMIESON COOTE BONDS

Fund Update as at 31 August 2019
CC JCB Global Bond Fund - Unhedged Class (APIR: CHN1425AU)

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
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.

Income
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 Barclays Global G7 TRI Value Hedged USD (converted to 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 $24.8 million

Fund Performance

Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	5.22%	5.13%	0.09%
3 Months	7.61%	7.67%	-0.06%
FYTD	7.63%	7.76%	-0.13%
1 Year	-	-	-
2 Years p.a.	-	-	-
Inception	14.92%	14.72%	0.21%

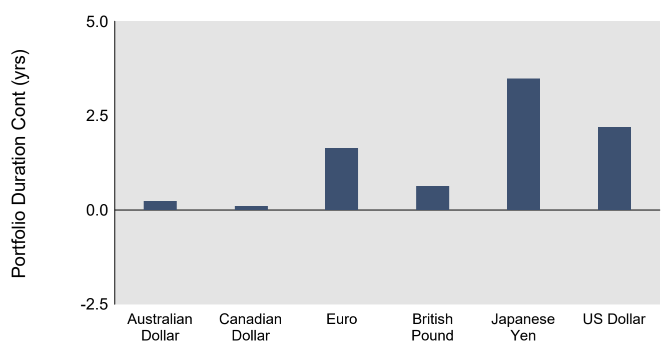
Fund Overview

Characteristics	Fund	Benchmark
Modified Duration (yrs)***	8.27	8.81
YTM + Hedging Effect^^	1.86	2.06
Weighted Ave. Credit Rating***	AA	AA+

^^ Data refers to CC JCB Global Bond Fund - Unhedged Class (APIR: CHN1425AU) and Bloomberg Barclays Global G7 TRI Value Hedged USD (converted to 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	BT Wrap	HUB24 IDPS
Mason Stevens	Netwealth	Powerwrap
Praemium	Xplore Wealth	

Further Information

Phone: 1800 940 599
Email: distribution@channelcapital.com.au
Web: www.channelcapital.com.au

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 - Unhedged Class (APIR: CHN1425AU), also referred to as Class B units, and is based on month end unit prices before tax in Australian Dollars. Net performance is calculated after management fees and operating costs, excluding taxation. 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 Barclays Global G7 TRI Value Hedged USD (converted to AUD). *** Data refers to Underlying Fund, CC JCB Active International Bond Segregated Portfolio (in USD); and where applicable, Underlying Benchmark, Bloomberg Barclays 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

•Trade War enters new prolonged phase as both sides escalate keeping macro data weak.
•US Treasury curve deeply inverted signaling severe recession risk, with the US Federal Reserve (US Fed) Fed funds now the highest interest rate in the developed world ex Italy.
•Negative yielding bonds deliver best returns
•RBA Governor Lowe suggests flexibility in inflation outcomes at Jackson Hole, suggesting a pause in rate cuts for domestic only reasoning. JCB still expects additional rate cuts from global factors.

•Trade War enters new prolonged phase as both sides escalate keeping macro data weak.

President Trump's announcement of additional tariffs imposed on Chinese goods early in August set the tone for a material flight to quality rally across global bond markets. China responded by adding tariffs to US goods, continuing to operate in a 'tit for tat' exchange that will further prolong the trade war and depress global economic sentiment. Seemingly a period of negotiation and compromise in the trade war has now ended and with these additional developments a likely acknowledgment from both sides that they are prepared to endure a protracted fight.

This is likely to further depress capital spending intensions, as companies struggle to identify which jurisdictions may be subject to tariffs when forward planning. JCB's central expectation remains that the trade war is a complex fight over not only trade, but technology and the control of artificial intelligence, a fight neither side can afford to lose. Trump's plans may well be to broker a deal ahead of his November 2020 re-election campaign to try and slingshot the US economy ahead of election day, but it was China who rolled on the first version of the deal in May at the 11th hour when it came down to changing Chinese domestic law and making the deal enforceable.

•US Treasury curve deeply inverted signaling severe recession risk, with the US Federal Reserve (US Fed) funds now the highest interest rate in the developed world ex Italy.

The US Treasury bond curve finally inverted in the month of August between the 10 year and 2 year Government Bond yields (i.e. 10 year Government Bonds now yield less than 2 year bonds). Such previous episodes have historically had exceptional predictive ability at forecasting US recessions shortly thereafter with only one false negative in 1967. JCB actually favours monitoring the 3 month rate versus the 10 year bond rate, noting that this curve has been inverted since 23 May 2019. JCB have written previously at length about the flattening term structure curve and why you would likely hear more about this in time.

At the time of writing, the rate of short-term funding in the US is higher than every bond of all maturities (long and short dated) in the G7, except for long dated Italian bonds, which are currently subject to significant political risk. That is quite extraordinary given the hugely powerful signaling from global bond markets that future expected growth and inflation remains deeply depressed, whilst also suggesting that the US Fed is badly behind the curve and needs to cut rates aggressively to avoid recession.

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•Negative yielding bonds deliver best returns.

As global central banks continue to experiment with negative interest rates, it's ironic that some of the best performing bond markets this year have also been the most negative in yield. This is a difficult notion to fathom, that a bond already delivering a slightly negative return, if held to maturity, can produce significant positive returns – Switzerland's bond markets are the most negative and the year to date return is around +12.5%. Negative yielding bonds have been around for more than 5 years now, ever since the European Central Bank and the Bank of Japan took their policy rates below zero. An extension of those negative interest rate policies coupled with depressed inflation expectations is redefining investors' expectations of the performance of fixed income as an asset class. Thankfully, Australia looks some way off needing to embark on any such negative interest rate policy, but the actions of others continue to make Australian Government Bonds highly desirable on a global scale given their excellent liquidity and highest AAA rating.

•RBA Governor Lowe suggests flexibility in inflation outcomes at Jackson Hole, suggesting a pause in rate cuts for domestic only reasoning. JCB still expects additional rate cuts from global factors.

JCB has long argued that the RBA would cut rates from 1.50% to 1.00% on domestic factors, and then additionally cut rates from 1.00% to 0.50% due to global factors. They expect those additional rate cuts either very late this year or in the early part of 2020. JCB found a recent speech from RBA Governor Lowe at Jackson Hole (a Central Banking conference in Wyoming USA) of interest as he suggested the RBA may use 'flexibility' in judging its inflation outcomes. JCB sees this as allowing for a pause in the interest rate cutting cycle as expected, where the RBA will not be wedded to below target inflation to further cut the policy rate.

JCB expect the RBA to remain firmly focused on achieving full capacity in the economy, in line with additional reductions in the unemployment rate below 4.50% (currently 5.20%) as telegraphed by the RBA's Lucy Ellis earlier this year.

Fund Review

For the month ending August, the CC JCB Global Bond Fund – Unhedged Class (the Fund) returned 5.22% (after fees), outperforming the Barclays Global G7 Total Return Index Value Hedged USD (converted to AUD) by 0.09%.

The Fund had a strong month as the hunt for yield globally continued unabated. The Fund added to long end Italian bonds and Japanese bonds which continue to offer decent returns on a currency adjusted basis. German 10-year bonds were also added as data continued to weaken in response to the deterioration of the global trade war. The Fund also benefited from a curve flattening position in US Treasuries.

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 + 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). 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.

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