



JAMIESON COOTE BONDS

## Fund Update as at 29 February 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 <sup>1</sup>	-0.45%	2.43%	2.72%	2.52%	-2.04%	-0.16%	1.11%	0.81%
Benchmark Return <sup>2</sup>	-0.36%	2.57%	2.95%	2.70%	-1.68%	-0.05%	1.32%	0.82%
Active Return (After fees)	-0.09%	-0.14%	-0.23%	-0.18%	-0.36%	-0.11%	-0.21%	-0.01%

#### 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

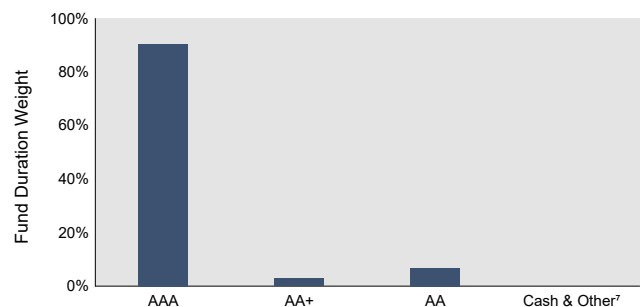
Investment Manager	JamiesonCooteBonds Pty Ltd
Structure	AAA or AA rated bond securities issued in Australian dollars
Inception Date	03 Aug 2016 <sup>3</sup>
Benchmark	Bloomberg AusBond Treasury 0+ Yr Index
Management Fee	0.45% p.a. <sup>4</sup>
Administration Fee	0.10% p.a. <sup>4</sup>
Buy / Sell Spread	0.05% / 0.05%
Distributions	Semi-annual
Fund Size	AUD \$1,307 million <sup>5</sup>

#### Fund Characteristics

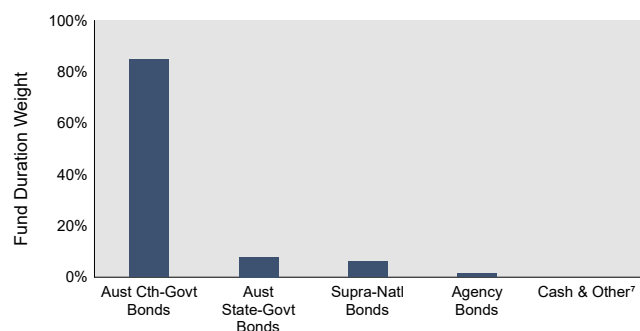
Characteristics <sup>6</sup>	Fund	Benchmark <sup>2</sup>
Modified Duration (yrs)	5.5	5.27
Yield to Maturity (%)	3.88	3.96
Weighted Ave. Credit Rating	AAA	AAA
Cash Weighting (%)	0.40	n/a

Source: JamiesonCooteBonds Pty Ltd.

#### Allocation by Rating (Duration Weight)<sup>6</sup>



#### Allocation by Sector (Duration Weight)<sup>6</sup>



#### 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

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

<sup>1</sup> 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. <sup>2</sup> Benchmark refers to the Bloomberg AusBond Treasury 0+ Yr Index. <sup>3</sup> Inception Date for performance calculation purposes. <sup>4</sup> All figures disclosed include the net effect of GST and RITC. <sup>5</sup> Fund size refers to the CC JCB Active Bond Fund ARSN 610 435 302. <sup>6</sup> Refer to Definition of Terms. <sup>7</sup> Cash & Other includes cash at bank, outstanding settlements and futures margin accounts.



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#### Market Review & Outlook

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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.



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#### Fund Review

For the month ending February, the CC JCB Active Bond Fund - Class A units (the Fund) returned -0.45% (after fees), underperforming the Bloomberg AusBond Treasury (0+Yr) Index.

Overall volatility in bond markets declined over the month of February as the market sits and waits for the next catalyst to drive directionally. Yields finished the month modestly higher. On one hand there is the threat of ongoing sticky inflation, while keeping yields compressed as the expectation is that the US Federal Reserve will be able to loosen monetary policy by the second half of 2024, which we see as the most likely outcome in the form of a non-stimulatory interest rate cutting cycle for global central banks.

Within the tight trading ranges, there was some dispersion between Australian yields and US Treasury yields as we saw signals that that Australian economy is in fact feeling the pinch of the tight monetary conditions more so than the US, which has less grip on the consumer with the different transmission mechanisms. In the US, payrolls showed a massive increase of over 350,000 jobs created in the month of January. The hotter than expected Consumer Price Index (CPI) data, the Institute of Supply Management services data and the Initial Jobless Claims data also indicated a fairly resilient economy. Australia on the other hand saw hard data prints missing market expectations to the downside, as the lagged effects of monetary policy are really clawing at the consumer, as shown by soft retail sales and jobs numbers (Unemployment rate now lifting to 4.1% from 4.0%).

The difference in data prints between Australia and US resulted in the Australian Commonwealth Government Bonds outperforming US Treasuries (UST) over the month, tightening from 7 basis points (bp) over the UST to finish 14bp below. The 10-year UST jumped to 4.3% after the stronger CPI print and maintained a trading range of 4.20-4.35% for the remainder of February.

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 (US Fed) members over the month signalled concern with cutting interest 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 and every tier 1 data print more important than ever.

As far as central bank pricing goes, this has left the market pricing in line with the most recent Fed Dot plots of around 75 basis points of interest rate cuts from the US Fed this year which we see as reasonably priced. The RBA pricing has two interest rate cuts priced over the next year, although if anything we would see risks to more cuts from the RBA than less.

In choppy trading conditions within tight ranges, the portfolio was traded dynamically with momentum factors within the strategy dragging on performance as well as mild widening of semi-government and supranational bonds to the treasury curve.

With the market coiling in tight ranges, JCB believes that there is a break from the range coming as this leans towards the break coming to the lower side in yields in Australia. In saying this, we are still mindful of the resilience of the US economy which may continue to keep US Treasuries (and therefore global rates) from running too far to the downside.



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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.

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 instrument's 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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