JCB
JAMIESON COOTE BONDS

Fund Update as at 30 April 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

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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 $41.6 million

Fund Performance

Returns (After fees)	Fund*	Benchmark**	Excess
1 Month	-1.93%	-1.86%	-0.07%
3 Months	-2.27%	-2.00%	-0.27%
FYTD	-0.41%	-0.49%	0.08%
1 Year	-1.63%	-1.45%	-0.18%
2 Years p.a.	-2.04%	-2.39%	0.35%
3 Years p.a.	-3.61%	-3.59%	-0.02%
Inception p.a.	-0.69%	-0.77%	0.08%

Fund Overview

Characteristics	Fund	Benchmark
Modified Duration (yrs)***	7.3	7.2
YTM + Hedging Effect^^	2.65	4.07
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)***
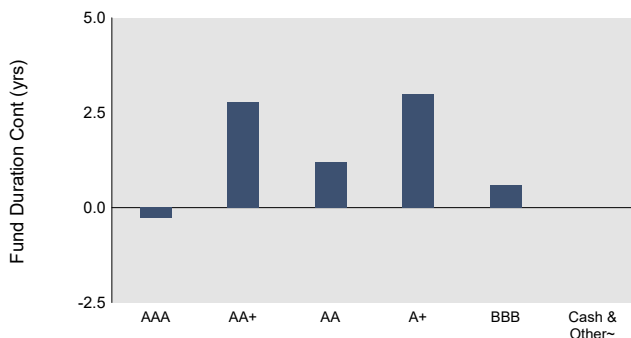
Asset Allocation by Currency (Duration Contribution)***
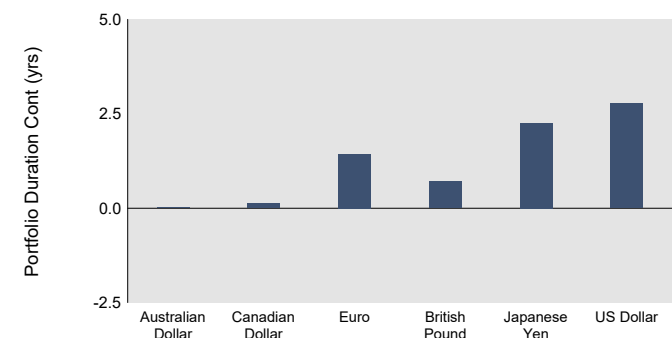
Platform Availabilty

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

Financial markets have dealt with a large volume of economic data and communication from central bankers in recent weeks. Despite some overly sensationalised media coverage and short-term predictions, we believe that the central banks' messaging has remained consistent across jurisdictions.

The US Federal Reserve (US Fed), the global leader in setting market trends, and the Reserves Bank of Australia (RBA) domestically, have both cautioned patience with monetary policy, as already restrictive settings continue to work through the system, lowering growth and demand whilst bringing inflation back towards target. This process is frustrating in the day to day, in that inflation data doesn't move in straight lines – seasonal factors, annual price increases, one-off adjustments, flash sales, and other variables create a bumpy, unpredictable, and somewhat volatile path. Even well-resourced teams of economists at major investment banks consistently get their estimations markedly wrong, reflecting the inherent volatility in this process.

Take the latest CPI quarterly release in Australia, which was widely predicted to be 0.8%. When the actual figure came in at 0.96% (rounded up to 1.0%), the unexpected result triggered a significant market reaction, leading to the removal of any expectations of a rate cut from the RBA.

What makes this even more galling for forecasters is that with a monthly inflation series, they already have about two thirds of the dataset before the quarterly figures are released. This makes forecasting errors even more surprising and exacerbates the market's reaction when a when a relatively small portion of new data has an outsized impact.

This may be more detail than you require as you read this over your morning coffee. Of course, forecasting errors can also work in reverse, as we have seen some large undershoots versus expectation over time. Yet the sequencing of these dataset surprises drives market sentiment, and sadly, central bankers are now wedded to react to a 'data dependent' approach, risking falling behind the curve.

The key takeaway here is that while inflation in Australia peaked at 7.8% in the fourth quarter of 2022, it has since steadily fallen to 7.0%, 6.0%, 5.4%, 4.1% and now 3.6% over the preceding quarters. This downward trend, though slightly slower than the RBA forecasts, has been the direction of travel for 18 months. The fight against inflation is not yet over, but it is well advanced, whilst the battle rages on under restrictive interest rate settings.

The US economy, which has long been the 'exception' in a souring global macroeconomic story, has suddenly slowed significantly. Whilst the incoming numbers remain solid, they are markedly weaker than we had received previously, with a shock miss on components like GDP, the employment report (Non-Farm Payrolls), initial unemployment claims and a host of second-tier manufacturing and activity data. This has taken the US "economic surprise" index to a negative reading. Markets are now focused on how the interplay of slower growth will affect prices (and inflation) in the coming quarters, trying to calibrate the timing of central banks that have become unashamedly 'data dependent'. The significant failure of models used to calibrate policy through the COVID-19 period has made central bankers highly reactive, no longer willing to back their judgements on years of policy learnings and economic theory to move policy ahead of the cycle.

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Ordinarily, as growth slowed, central bank policy levers would already be in motion to address the slowdown and expected cooling inflation outcomes associated with weaker demand, acknowledging that policy works with long lag times. Now, as data dependency is 'policy de jour', the danger is that economies may slow more than necessary before central banks act to curb a downturn. This delay could lead to more severe corrective measures, as central banks struggle to address a substantial loss of economic momentum.

We have heard various terms to describe economic trajectories, such as 'hard,' 'soft' and 'no' landing. If, like an aircraft, the economy hits stall speed, the pilots' attempts at recovery will be a lot more severe than if they'd simply eased up a little ahead of time. Central bankers are often criticized for waiting until ''something breaks'' before taking decisive action. This was evident during the Global Financial Crisis (GFC) over a decade ago when rates were held at similar levels to today until a catastrophic episode was unavoidable, prompting rates to be slashed by more than 5% to jump start economies and reverse the damage caused by overly restrictive rates from the pre-2008 period.

With this concept in mind, our baseline position at the start of the year was that central bankers would aim for a non-stimulatory rate cutting cycle in the back half of 2024. This was expected to be led by Europe or the US, commencing around the middle of the year. Such a strategy could help smooth the economic cycle, offer some relief to consumers and borrowers, and ideally avoid the negative consequences of keeping rates too high for too long. That is still seemingly on track for Europe, with the European Central Bank (ECB) likely leading the way, followed by Canada, the UK and New Zealand. However, the expected timing for the US to lead the rate-cutting cycle has shifted further out.

An interesting development is Sweden's Riksbank, which just leapfrogged the pack by cutting rates from 4.00% to 3.75%, whilst observing similar economic outcomes to our own domestic data, weak growth, deeply negative retail sales and cooling (though still above mandate) inflation. Perhaps some central bankers are still moving ahead of the curve.

In the US, the trend has slightly reversed, with inflation moving from a low of 3.1% up to 3.5% over the last five months. Despite this uptick, the US Fed retained its easing bias and reduced the scope of its Quantitative Tightening program during its May meeting, helping solidify expectations around bond yields. A short covering rally followed thereafter, which all asset markets have enjoyed, lifting bonds and equities alike.

From prior communications, the US Fed indicated its intent to cut rates, retaining an easing bias. However, the slight increase in inflation has complicated the process, delaying market expectations for rate cuts to later in the year. While monetary policy is fighting the good fight against inflation with restrictive policy settings, US fiscal policy remains highly stimulatory, with public spending running at around ~6% of GDP. Much of the economic growth in the US has been fueled by this large public sector spend, which has been exceptional against other jurisdictions and looks to continue in an election year. As a result, this continued fiscal stimulus could create some friction in achieving normalisation of inflation.

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The RBA has found that recent surprises in our own inflation were predominantly due to education and insurance which we think has heavy seasonal annual reset, and is unlikely to be repeated in following quarters. Calling the near-term inflation pathways remains difficult. Plenty of things can work sequentially against further progress in the near term, like a stimulatory federal budget, larger fair work outcomes on minimum wages, geopolitical flare ups driving energy prices higher or global shipping disruptions to name a few. On the other hand, there are reasons for optimism. Oil prices are well off their highs despite recent geopolitical tensions involving Israel and Iran. Slowing economic activity has tempered discretionary spending, as evidenced by deeply negative retail sales. We've also seen declines or stabilisations in rent and used car prices. In the 10 years prior to COVID-19, Australia's average quarterly inflation rate was 0.52%. If we assume that the next few quarters are much higher at 0.8%, inflation could fall to 3.2% by the end of the third quarter, against the RBA estimate of 3.8% by year end.

These contrasting forces create a complex landscape for policymakers, and while there is room for inflation to fall below the RBA's forecasts, data dependency will continue to drive monetary policy decisions. The uncertainty surrounding these various factors suggests that flexibility and careful analysis will remain critical as the RBA navigates the path ahead.

Fund Review

For the month ending April, the CC JCB Global Bond Fund – Hedged Class returned -1.93% (after fees), underperforming the Bloomberg Global G7 Total Return Index Value Hedged AUD.

Global bond markets pushed lower though the month of April driven predominantly by the stronger data emanating from the US as US Federal Reserve interest rate cut expectations were revised. The sell off gathered steam following the release of US CPI on 10 April which emphasised the resilience of the economy and the narrative around avoiding the stickiness of inflation within inflation expectations. Stronger than expected US retail sales also supported the notion that the strength of the US consumer was not a myth. The Underlying Fund was wrong footed early in the month, with the sell off in interest rates as an overweight in New Zealand dragged on the performance throughout the month. An overweight position in the European short end was also detractive of performance as European interest rates underperformed throughout the month, with bearish momentum being supported by stronger than expected manufacturing data into month end. The Underlying Fund trimmed an underweight in Italy and maintained a curve steepening position in US Treasuries. Tactical duration plays in European interest rates and US Treasuries were alpha accretive.

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.

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