SMARTER MONEY FUND

Rating: Highly Recommended

Report Date: June 2019

ATCHISON CONSULTANTS

PRODUCT FEATURES SUMMARY	
Product	**Smarter Money Fund (Smarter Money Active Cash Fund)**
Manager	Smarter Money Investments Pty Ltd
Inception	February 2012
APIR Code	Platform/Wholesale/Assisted Units – CRE0014AU
Distribution Dates	Quarterly
Managed Fund Platform	Macquarie Wrap BT Panaroma Asgard Infinity Colonial First State FirstWrap Netwealth Hub24 Mason Stevens Powerwrap UBS OneVue (" OneView") Limited uXchange Australian Money Market Managedaccounts.com.au
Asset Class	Active Cash/Short-term Fixed Income
Benchmark	RBA Cash Rate +1% p.a. after all fees and costs
Investment Objectives	Exceed the RBA's official target cash rate by 1% - 2% p.a. net fees over rolling 12-month periods
Minimum Investment	$1,000
Management Fee	0.66% p.a. (including indirect costs of 0.25%)
Performance Fee	20.5% (incl. GST) of net returns in excess of the RBA official cash rate plus 1% p.a. after all management fees and other fund costs, subject to high watermark (HWM)
Buy/Sell Spread	0.00%/0.05%
Investment	Bank deposits, term deposits, investment grade floating rate bonds issued by banks and companies
Guidelines	Refer to Investment Governance Mandate (IGM) for portfolio construction guidelines and PDS

SUMMARY

Smarter Money Investments Pty Ltd (SMI) (ACN 153 555 867) was founded in October 2011 and is a Sydney-based boutique specialist active cash and fixed interest Australian investment management company. SMI outsources its portfolio management responsibilities to its parent company, Coolabah Capital Institutional Investments Pty Ltd (CCI). At the time of writing, CCI manages around $3 billion in cash and fixed-income investments for institutional and retail clients.

The Smarter Money Fund (Fund) was established in February 2012 as an actively managed portfolio of Australian deposits and investment-grade floating-rate notes (FRNs) that targets a return higher than the RBA's official cash rate plus 1% - 2% p.a. after fees and expenses. With active asset-selection supported by a range of valuation models, it aims for (1) lower portfolio volatility than traditional cash/bond funds and (2) superior risk-adjusted returns or alpha.

RATING CONSIDERATIONS

Strengths

- Senior portfolio managers have been working together since inception of the Fund, indicating a cohesive investment environment.
- Experienced investment team including twelve full time investment professionals is appropriately resourced given three fixed-income investment strategies in addition to their other strategies.
- Combination of quantitative valuation analysis and active trading leads to an understanding of the contribution to risk and return of each security within the portfolio.
- The Manager continues to demonstrate a commitment to improve resourcing and investment processes (including ongoing enhancements to quant models).

Weaknesses

- The risk of key staff departures may have an adverse effect. SMI have addressed this as far as possible through increasing staffing, establishing clear accountable processes, equity sharing arrangements and key man insurance.
- The 20.5% performance fee is high comparative to other funds.
- The potential to continue to deliver strong excess returns through active management may diminish with growing funds-under-management.

Overall, Atchison Consultants rate the Fund as:

RATING			
Not Investment Grade	Investment Grade	Recommended	**Highly Recommended**

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Rating Definitions

Atchison Consultants' ratings are multi-factor, encompassing: ownership and organisation, staff, investment objective and process, governance and compliance, customer service, liquidity, fees and other costs and performance.

Highly Recommended – The manager and its product have excelled across all of our assessment criteria. We expect the manager's product to perform well ahead of a reasonably appropriate risk and return objective for the product over a full investment cycle.

Recommended – The manager's product has consistently outperformed the median manager across our assessment criteria. We expect the manager to perform ahead of a reasonably appropriate risk and return objective for the product over a full investment cycle.

Investment Grade – The manager satisfies most, if not all, of our rating criteria. We are satisfied in its ability to perform at a reasonably appropriate risk and return objective over a full investment cycle. This rating can apply to new or recently established managers who demonstrate they have in place the experience, resources and systems which we expect will result in performance at or above the reasonably appropriate investment objective for the product over a full investment cycle. Similarly, it can apply to a new product from a new or established manager.

Not Investment Grade – The manager rates poorly in all or most of our ratings criteria.

Organisation

Coolabah Capital Institutional Investments Pty Ltd (CCI) is a Sydney-based boutique active cash and fixed interest investment management company founded by Christopher Joye and Darren Harvey in 2011.

CCI is 75% owed by its investment team and 25% owned by a multi-billion-dollar family company AMB holdings.

From 1 July 2019, CCI moved from 50% ownership to being the sole owner of Smarter Money Investments Pty Ltd (SMI). They continue to be responsible for managing SMI's portfolio along with other institutional mandates, with approximately $3 billion in assets under management (at the time of writing).

SMI is the investment manager and CCI is the sub-manager for the Smarter Money Fund (Fund), also called the Smarter Money Active Cash Strategy (SMAC), which is an actively managed portfolio of Australian deposits and investment-grade floating-rate notes (FRNs) that targets return's that exceed the RBA's official cash rate plus 1% - 2% p.a. after fees and ordinary expenses over rolling 12-month periods.

SMAC targets adding-value via active asset-selection using a range of valuation models with the aim of (1) delivering lower portfolio volatility than traditional cash/bond funds and (2) providing superior risk-adjusted returns or alpha without explicitly seeking interest rate risk, credit risk or liquidity risk. SMAC was established in February 2012.

The responsible entity (RE) is EQT Responsible Entity Services Limited. The administrator is Mainstream Fund Services Pty Ltd.

Business Philosophy

At a macro level, CCI believes that Australian superannuation funds could improve their risk-adjusted return outcomes by addressing the bias towards Australian and international equities, unlisted commercial property, hedge funds and private equity (i.e. equities overall). Based on CCI's empirical research, it argues that higher portfolio weights to actively managed cash securities, FRNs, and fixed rate bonds can deliver superior risk and inflation-adjusted returns than the current standard diversified balanced fund, which has an average allocation of over 70% to listed and unlisted equities.

CCI believes that the Australian cash and fixed-income markets are especially inefficient vis-à-vis other investment categories due to the highly opaque/ non-transparent nature of price discovery. This is given that there is no formal requirement to publicly report the prices and volumes of bond transactions in Australia (the ASX-owned Austraclear platform does not release this data in contrast to ASX traded equities). This means that there is very limited visibility on asset price movements that leads to bond mispricing's that can create opportunities for active asset-selectors.

SMI/CCI's approach to marketing SMAC is to distribute the Fund to institutional and retail investors. SMI has several product distribution professionals to support the growth of SMAC and SMI's two other funds in addition to their other products.

SMI/CCI's strategy is to grow the business in accordance with its investment style, being an active cash and variable debt/hybrid securities manager focussed on delivering positive absolute returns in all cycles. This active investment approach seeks to identify securities that have been inefficiently priced by the market—in isolation or relative to key peers—and are therefore deemed inexpensive and attractive on a risk versus return basis. CCI estimates there to be no capacity issues for their funds up to $10 billion. This is based on peers and the size of the Australian investment-grade bond universe, which is valued at approximately $1.5 trillion. They currently manage around $3 billion, the Fund size as of June 2019 is around $630 million.

People and Resources

CCI's full-time investment team consists of two senior portfolio managers (PMs), who also have analyst responsibilities, two portfolio managers/quant analysts, six analysts (4x credit analysts and two senior data scientists), a portfolio management director, portfolio analyst, as well as a senior operations analyst. The team has been progressively expanded over the Fund's history, with a new office opened in Melbourne and an upcoming expansion into an additional Sydney CBD office.

The two senior PMs are regarded as highly experienced in managing and trading portfolios Australian cash securities and bonds with a proven seven-year plus track-record, applying their highly active style via SMAC.

The two PMs joined in 2016/17 and assist with execution in the unlisted bond and ASX markets while also having quantitative research responsibilities.

The credit analysts have previously held senior roles within the credit and debt capital markets divisions at major financial institutions or asset managers and have been recruited on the following attributes:

- Extensive multi-cycle experience
- Buy-side credit/risk analyst experience
- Funds management/bank trading experience
- Personal knowledge/relationship with PMs

CCI's active security selection and investment style is an ongoing process, focussing on bond valuation mispricing, based on bottom-up and top-down quantitative valuation analysis. Many different models are applied to identify securities that are trading below fair value with acceptable levels of risk. This is augmented by a macroeconomic and traditional asset due diligence overlay. Full credit analyst reviews of an asset can be instigated by any of the four PMs.

Adding any new investment to the Fund is dependent on the asset receiving a positive credit recommendation from one of the independent analysts, which is a process that grants analysts veto rights over all investments on risk grounds only. The two PMs individually also have veto rights on all positions and must jointly agree on investments.

Biographies of the investment team as follows:

Darren Harvey is a co-founder of SMI/CCI and is Co-CIO and Portfolio Manager. Harvey has 32 years of experience in investment management in Australia and overseas with Deutsche Bank as a proprietary trader running fixed-income and derivatives investments across both the Australian and global markets. He retired from Deutsche Bank in 1999 to run his own family office. Harvey is responsible for:

- Macro-market insights
- Risk management
- Compliance
- Mentoring

Christopher Joye is co-founder of SMI/CCI and is Co-CIO and Portfolio Manager. Joye has 19 years capital markets experience gained as an investment banker, economist and fund manager having previously worked for Goldman Sachs in London and Sydney in mergers and acquisitions and principal investments and the Reserve Bank of Australia in special projects. He was an economic advisor to the Howard and Rudd Governments and served as a Director of The Menzies Research Centre think-tank.

Joye was also the founder and portfolio manager of the funds management and research group, Rismark International, which was sold to an investment bank in 2010. Joye's main responsibilities at SMI are:

- Idea generation
- Trade execution/strategy
- Portfolio management
- Portfolio construction
- Asset pricing
- Credit research
- Macroeconomic research
- Quantitative research

Ashley Kabel joined CCI in 2017 in a full-time role as a quantitative analyst and junior portfolio manager. Ashley was Director of Quantitative Strategies at the award-winning and strongly performing FX hedge fund, The Cambridge Strategy, between 2012 and 2016, based in London. At Cambridge Ashley managed US$250m (and a small team) in medium-term, quant-based FX strategies spanning 2012-2016, outperforming FX beta indices and FX and Macro Hedge Fund indices. Prior to Cambridge, Ashley served as an investment analyst with portfolio management responsibilities covering FX, equities and fixed-income at the $800bn fund manager, Invesco between 2005 and 2012, based in Melbourne. At Invesco he helped develop, analyse and manage multiple quant strategies including direct execution of fixed-income portfolios. At CCI he is responsible for ASX execution, quant research and general portfolio management duties. Kabel was promoted to portfolio manager in March 2018.

Dr Stephen Parker joined CCI in 2016 as a full-time risk analyst and junior portfolio manager. Prior to this, Stephen was a future trader at Star Beta with a focus on Australian and US government bonds and the formulation of quantitative trading strategies and risk management models. Dr Parker obtained his PhD degree in 2013 from UNSW in Astrophysics. At CCI he is responsible for OTC bond execution, quant research and general portfolio management duties. Dr Parker was promoted to portfolio manager in March 2018.

Andrew McLachlan is a full-time senior credit analyst who joined CCI in 2015. He is an experienced buy-side professional who was previously the senior credit strategist at the $5.5 billion Australian fixed-income manager Vianova between 2008 and 2013 and its successor Brookline Partners (2014-2015) where he was responsible for all quantitative and qualitative credit analysis and valuation, as well as having input into macroeconomic strategy. Prior to Vianova, McLachlan was a senior credit analyst at the $6 billion fixed-income fund manager Perennial Investment Partners (2001-2008) where he designed and implemented Perennial's in-house credit risk pricing models. He started his commercial career as an economist at NAB focussing on industrial analysis and forecasting. McLachlan is well known in the institutional markets. At CCI he is involved in credit risk analysis, quantitative asset pricing and general due diligence.

Jason Lindeman joined CCI in 2017 in a full-time role as a senior credit analyst. Jason has over 15 years buy-side experience specialising in fundamental and technical credit analysis across the capital structure. Previously at Hadron Capital LLP, a London based global relative value and event driven multi-asset class hedge fund, he was jointly responsible for the Credit Long/Short absolute return portfolio. Prior to Hadron, Jason was the Credit Portfolio Manager at RBC Capital Markets London, responsible for the European Credit Proprietary Trading Portfolio. He has also worked at Credit Suisse and BAB Corporate Banking with roles involving in credit risk management. Jason has a Bachelor of Economics and Post Graduate Diploma in Applied Finance and Investment.

Mathew Barrie joined CCI in 2019 in a full-time role as a credit analyst. Mat previously worked as an Assistant Manager in corporate finance with BDO focussing on valuations, M&A advisory, financial modelling and due diligence and as an undergraduate engineer at Winslow Civil Constructors. He graduated from Monash University with a Bachelor of Commerce and Bachelor of Engineering (Civil) with 1st Class Honours having completed his VCE at St Kevin's College with a VCE Enter Score of 98.55, where he was a School Prefect and the recipient of the Edmund Rice Medal for the exhibition of excellence and contribution to the College.

Sebastian Wiech joined CCI in 2019 as a Junior Credit Analyst after graduating from the University of Adelaide with a Bachelor of Science majoring in Physics and a Bachelor of Finance. He played football at SANFL level for the Sturt Football Club before taking the opportunity to study for a year at Purdue University in the United States (where he joined the Delta Upsilon fraternity). Seb studied physics at Purdue and took interest in computational physics and quantum mechanics. Following his return from the US, Seb took an internship in Bangalore, India and developed data extraction methods at Infosys Limited.

Ying Yi Ann Cheng joined CCI in 2017 as a full-time portfolio management director focussing on market research, analysis and technical factors, while also assuming responsibility for external stakeholder management. Cheng has spent most of her career at Citibank in London, where she was a Vice President, specialising in G10 and Emerging Market currencies, advising hedge fund clients and sovereign asset managers on alpha generating and risk management strategies. Cheng was most recently at RBC Capital Markets working within fixed-income and credit. Prior to the sell side, Ying Yi had interned at Colonial First State and PwC in various quantitative roles. After receiving a 99.95 ATAR for her HSC studies, ranking her in the top 0.05% of all secondary students, Ying Yi graduated with honours in Actuarial Science from the University of New South Wales.

Kai Lin joined CCI in 2017 as a full time Senior Data Scientist focusing on assets pricing and portfolio management. Prior to joining CCI, Lin worked as a data scientist at CBA where he built machine learning models to protect consumer propensities. Lin has also been involved in data mining projects with heavy use of R, Python, Hadoop, Hive, SQL and Linux tools. Prior to CBA Kai interned as signal processing researcher at Cochlear. Kai graduated from UNSW with 1st Class Honours and the University Medal in his Bachelor of Engineering (Electrical) program where his thesis researched pose estimation and trajectory matching. He is currently completing a Masters of Statistics at UNSW.

Dr Ainslie Yuen joined CCI in July 2018 in a full-time role as a Senior Data Scientist focusing on asset pricing and portfolio management. Yuen was previously a Vice President at Goldman Sachs in New York, where she worked as a Strategist in the Special Situations Group, a principal investments area, concentrating on ABS and RMBS performance, amongst other things. Yuen was awarded a PhD in Engineering (Statistical Signal Processing Laboratory) in 2005 from Cambridge University where she focussed on statistical analysis of inter-trade durations of stocks and their relationship with price volatility using wavelets, fractal, multifractal, and correlation analysis techniques. Ainslie has received numerous awards, including the King's College Wilkinson Fund award for a one month research visit to Paris (2005), a Cambridge University Engineering Department award for a two month research visit to Boston in 2002, the University of Western Australia Telecommunications Society Prize, a Vacation Scholarship at the Radiophysics Division of the CSIRO, the Association of Mining and Exploration Companies Medal, and the Western Australian Government General Exhibition (for the top twenty students in Western Australia in 1989).

Timothy Good joined CCI in 2019 in a full-time role as a Portfolio Analyst. Tim previously worked as a Trader at Exponential Trading, a proprietary-trading company, moving from Brisbane to join their team as a Graduate in July 2018. In this role, Tim was responsible for trade strategy generation and execution, as well as data analysis. Prior to this, Tim completed a Dual Bachelor's Degree at the University of Queensland, graduating with a High Distinction in a Bachelor of Commerce majoring in Finance, and a Bachelor of Science majoring in Mathematics (extended). Whilst completing his tertiary qualifications, Tim served as a Data Scientist at Max Kelsen, a software engineering firm in Brisbane. In this role, Tim conducted market research and analysis for a range of clients.

Param Singh joined CCI as a senior operations analyst. Param oversees the middle office function on a day-to-day basis. Prior to joining CCI, Param worked at global custodian such as State Street, BNP, Westpac etc, involving in projects ranging from onboarding of IM clients on to the custodian clients, conversion of mutual trade process to STP and automated trade processing platforms. Param has a bachelor's degree in Business Accounting from Central Queensland University Rockhampton.

Ed Teh is a full-time Chief Risk Officer with CCI, joining the business in 2013. Teh has more than 19 years relevant research and funds management experience. Teh has previously worked as Director of Debt Products & Global Risk at Bank of America Merrill Lynch as well as a Senior Credit Analyst of fixed income credit research at ING Investment Management and Assistant Vice President of Corporate Risk Management at Citigroup. Teh is responsible for credit risk analysis, risk management, compliance and governance reporting.

Oliver Reynolds joined in 2018 as Chief Financial Officer. Oliver previously held a duel role as CFO/COO of the XTB Group where he was responsible for the financial management and operational capabilities of over 60 XTBs listed on the ASX. He was also a member of the Investment and Risk Committees and was responsible for the operations of Challis Investment Partners, a market maker for XTBs. Prior to that, Oliver served as Vice President, Operations at Blackrock Asset Management, reporting to the Australian COO and APAC Head of Investment Operations. Oliver has also been significantly involved in the establishment and growth of several managed funds in Australia, Hong Kong and the UK. Oliver is a CFA Charterholder and holds a Bachelor of Commerce and Administration from Victoria University of Wellington.

Brianna Fallins joined in 2017 as a Financial Analyst and Executive Support Specialist. Brianna works within financial control, reporting to the CFO. Brianna is currently undertaking a Bachelor of Commerce - Professional Accounting at Macquarie University. Prior to her current role, Brianna worked at a leading international design company, Unispace Global, where she held a dual role in the Executive Support and Finance Team.

Melda Donnelly was appointed Chair of CCI's Board, Investment Committee and Risk & Compliance Committee in 2015. She is responsible for managing processes relating to compliance, governance, strategy, performance and risk management. Ms Donnelly is a director of Treasury Group (ASX: TRG/mkt cap $200m and $49bn in FUM) and a member of HESTA's ($32bn FUM) investment advisory board. Ms Donnelly's previous work experience includes being CEO of the Queensland Investment Corporation, Deputy Managing Director of ANZ Funds Management, Managing Director of ANZ Trustees and chairperson of the Centre for Investor Education (CIE). Ms Donnelly has also served as chair of Donnelly Money Management ($1bn in FUA), deputy chairperson of VFMC ($47bn FUM), and a director of: Unisuper ($50bn in FUM); Ashmore Group plc ($61bn FUM); Health Super ($9bn FUM); Network 10 Limited, and the Australian Accounting Standards Board.

Bob Henricks was appointed a Non-Executive Director of CCI's Board, Investment Committee and Risk & Compliance Committee in 2017. Bob was previously the 20-year Chairman of the $6 billion super fund, Energy Super. In 2015, he was named 2015 Trustee of the Year by the Australian Institute of Superannuation Trustees. He currently serves as a director of the $2 billion Gardior Infrastructure Fund and the University of Queensland Diamantina Institute Business Development Board. Bob was previously chair of the SPEC(Q) and AUST(Q) super funds, and a director of the CBUS super fund. Bob brings substantial governance, compliance and risk management expertise to the business.

Alex Wise is an Independent Compliance Committee Member. Wise previous role was as Head of Fund Services and Chief Operating Officer at OneVue RE Services Limited. Prior to that Wise was the founder of Orchard Harbour (Pty) Limited, an alternative investment consultancy business established in Sydney.

Key person risks (i.e. one PM leaving CCI), and the potential that this adversely affects CCI's investment process and performance, which is usually associated with boutique style investment teams, is an area of risk given there appears to be a strong collaborative approach in security research, selection and the portfolio construction process.

However, as the portfolio managers are significant shareholders in the business and along with the investment team collectively own 75% of CCI, which in turn owns 100% of SMI, and investment guidelines are transparent, prescriptive and monitored by a quantitative risk management system and overseen by an investment committee with independent members this risk is, to some extent, mitigated. CCI also has key man insurance in place covering Joye and Harvey.

The majority of the investment team own equity in CCI, and a portion of bonuses are generally paid in equity via the ESOP. Non-investment team members can also participate in the ESOP. Part-time employees are classed as "contractors" and remunerated on a base salary and/or hourly basis.

Remuneration comprises base salaries and bonuses that are determined by CCI's board based on a scorecard that accounts for performance.

Track Record

The senior PMs Joye and Harvey have established CCI/SMI with a seven-year-plus track-record in the top three deciles of enhanced cash/short-term fixed interest managers in each calendar year since inception. (*Source: FE Analytics*)

PM Harvey has a history of building investment management teams, assisting in establishing Fay Richwhite's (1988 – 1992) Australian fixed interest rate derivatives business, Deutsche Bank Australia's option market-making function (1992 – 1997) and more recently setting-up Bower Capital to invest his own funds in the interest rate securities markets and since 2011 helping run SMI/CCI.

Prior to establishing SMI/CCI in 2011, PM Joye worked as an analyst with Goldman Sachs in London and Sydney, and the Reserve Bank of Australia. He subsequently served as a portfolio manager helping run $250 million of assets securing patented structured loans between 2007 and 2011 that had an "A" rating from Mercer and generated strong absolute returns during the global financial crisis and thereafter. He was the principal author of the 2003 Prime Minister's Home Ownership Task Force report on the demand- and supply-sides of the housing market and advised the Rudd Government on the development of a $20 billion investment program into mortgage-backed securities during the GFC. In 2010, he helped draft the first terms of reference for Treasurer Joe Hockey's Financial System Inquiry and has led the public debate on Australian bank and housing risks in his capacity as a Contributing Editor with the Australian Financial Review.

Investment Process

Investment Philosophy

CCI's investment process has been structured on the following broad investment philosophy:

- CCI believes in cash and fixed income securities' risk adjusted diversification. Based on return targets of CPI plus 3-4% p.a. and empirical mean-variance optimisation analysis, CCI believes Australian savers' asset-allocation decisions have historically resulted in them taking on unnecessarily high exposures to equities, including listed Australian and global equities, unlisted commercial property equities, and private equity. At the same time, CCI is of the opinion that savers have historically had insufficiently high portfolio weights to cash securities, FRNs, and fixed-rate bonds, which have offered relatively attractive risk-adjusted returns.
- CCI believes cash is a powerful inflation hedge. With the central bank's formal "inflation-targeting" mandate (as documented under the Statement on the Conduct of Monetary Policy), Australian cash securities and FRNs have delivered attractive "real" or inflation-adjusted returns. The RBA cash rate plus 1% per annum has yielded strong real, inflation-adjusted returns of approximately 3.5% per annum since 1990.
- Despite CCI believes that long-term interest rate duration is a major source of risk and argues that long-term duration is impossible to predict, they see that the interest rate-related financial markets present systematically attractive short-term opportunities to exploit pricing inefficiencies around major macroeconomic events, such as RBA cash rate decisions, and the release of tier-one economic data.
- CCI believes that there are inherent unexploited inefficiencies in the Australian cash and fixed-income markets due to: (1) weak economic incentives in the form of very low fees encouraging very passive, hold-to-maturity investment styles and a paucity of active investment management (and top human talent), which means asset pricing is not as efficient as it should be; and (2) opaque price discovery as a function of the fact that wholesale bonds settled through the ASX-owned Austraclear do not require prices to be publicly disclosed, which means that rapid information flows are thwarted. This again opens-up opportunities for nimble active managers to exploit these discrepancies.
- CCI believes that by applying rigours bottom-up ad top-down valuation process, active managers can add considerable value by dynamically adjusting portfolios for relative value opportunities between cash and FRNs.
- CCI believes that the combination of human talent on a cross asset-class basis with a commitment to comprehensive quantitative asset pricing (valuation) on both a bottom-up and top-down basis supported by more traditional qualitative due diligence would enable CCI to identify and exploit mispriced assets to deliver true "alpha", or risk-adjusted excess total

returns, over and above the passive yield provided by those assets.

Investment Style

CCI's investment style can be described as an active enhanced cash or short-term fixed-interest strategy. It seeks to generate a consistent return for investors above the RBA cash rate of between 1% to 2% p.a. after fees. Implemented using a combination of cash and variable-rate debt securities (no fixed rate bonds greater than 12 months to maturity are permitted).

As an active fixed income manager, CCI aims to identify opportunities for capital gains. They seek assets that are both currently undervalued (relative to the rigorous qualitative and quantitative assessments of fair value) and are likely to converge back to their fair value.

In contrast to a passive hold-to-maturity investor, CCI distinguishes itself in the following ways:

- CCI has a large team of portfolio managers and analysts with significant experience in the fixed-income markets. Key members all have equity exposure to the business to maximise alignment and longevity.
- CCI retains the flexibility to allocate the capital between pure cash (deposits) and credit, based on sophisticated relative value assessments. Cash can go up to 100% based on its mandates in the event exists no attractive investment opportunities and/or to preserve capital.
- CCI undertakes rigorous bottom-up quantitative asset valuations to price assets based on (a) the issuer's financial characteristics, (b) the asset's capital structure position, and (c) statistical estimates of the probability of default, loss given default, and hence expected loss in light of (a) and (b). These bottom-up models include "Merton" methods, which utilise option pricing technology and have been adopted by the RBA as a tool for monitoring real time credit risk.
- CCI utilises top-down, regression-based valuation models that assume current market prices are correct. The models price assets based on their individual characteristics; including credit ratings, maturity, liquidity, capital structure position, industry sector, and the terms of the security in question. These top-down statistical valuation models are used to identify day-to-day anomalies in secondary asset pricing as well as to inform CCI about the correct valuations of new primary issues.
- Econometric rating models are used by CCI to evaluate the relationship between historical credit ratings and individual issuer financial data. This allows CCI to objectively rate any given target company or security based on its hard-financial information/performance.
- CCI's shareholders and team have invested over $60 million as co-investments in its strategies, which provide for strong alignment of interests.

This investment style forms a managed portfolio of Australian denominated cash and variable income debt securities. The investment style will result in turnover above 100% p.a. from the conservative approach to active management (i.e. exploiting day-to-day pricing inefficiencies that can produce capital gains on top of the organic yield).

Investment Process

The investment process for SMAC is listed below:

- CCI's Investment Committee determines the portfolio's Investment & Governance Mandate (IGM), which includes the detailed portfolio limits/targets shown in Tables 2 & 3.

- Top-down quantitative valuation analysis is conducted to assist in calculating the fair value of a security versus its peers after controlling for its risk factors using regression methods.
- Fundamental bottom-up quantitative valuation analysis is conducted concurrently with the top-down analysis. Computed are: the probability of default, the expected loss, and the minimum required return on a security. This required return is based on a securities' capital structure, position and the issuer's financials (including leverage and projected asset volatility)
- An Internal credit rating model has been developed to quantify the relationship between agency ratings and the financial performance of issuers. Credit ratings can be also provided by this model based on current financial data for Australian and global issuers.
- Market technicals are viewed, with modelling for the supply and demand of individual bonds, qualitative preferences, data flow and expectations.

Before PM approval, independent credit analyst approval and pre-trade compliance is required.

CCI is constantly improving and refining its investment process; including reviewing existing strategies to enhance their efficacy, including the use of comprehensive trade-by-trade attribution analysis, improving existing valuation models building new ones and searching for new sources of target returns.

CCI believes that value can be added through:

- Actively managing the cash portfolio (i.e. continuous management to source the best possible interest rates on deposits relative to credit risk). Deemed by CCI as a modest contributor to alpha.
- Active asset selection of bonds identified via top-down and bottom-up valuation analysis to relentlessly seek and identify assets that are cheap relative to the managers assessment of fair value and which have a high likelihood of converging back to fair value and thus providing capital gains, CCI concludes is the major source of alpha.
- Active asset-allocation within the portfolio between pure cash and FRNs (dependant on the PM's views of the relative value available in each asset-class). For example, when FRNs are expensive they will revert to cash, and vice-versa. This gives rise to contrarian asset-allocations (when credit is rallying SMAC can be very long on cash, sometimes accounting for more than 70% of the portfolio).

The investment process is regulated by the Investment & Governance Mandate (IGM) dated September 2018. See Table 2 for Portfolio Construction Policies.

Table 2: Portfolio Construction Policy

Portfolio Construction Policy	
Unrated debt	0%
Debt not listed on Austraclear or ASX or Australian-dollar securities governed under Australian law, settled via Euroclear	0%
Sub-investment grade debt at purchase	0%
Foreign denominated debt	The fund can invest in bonds issued by Australian incorporated companies (or their wholly-owned subsidiaries) in foreign currencies, subject to hedging the exchange rate risk associated with these bonds

	(principal and interest) back into Australian dollars.
Australian or global shares (excl. ASX listed bonds)	0%
Long-term fixed-rate bonds (>12mths) unless swapped to floating with AA-rated counterparty	0%
Collateralised debt obligations	0%
Issues sizes <$50m	0%
Inflation-linked bonds	0%
Gearing the Fund	No, unless using RBA liquidity facilities
Hybrids with significant equity risks, as determined by the investment committee	0%
At-Call Cash ETFs	20% per issuer
Non-prime mortgages (defined by S&P)	0%
Investment in or funding of related party issued securities or issued loans	0%

Source: Smarter Money Investments Pty Ltd (2018)

Portfolio construction rules are subject to capital limitations and portfolio reweighting events. Core portfolio > 90%.

Tables 3 & 4 below lists the Portfolio Construction Investment Limits.

Table 3: Portfolio Construction Investment Limits – Core Portfolio

Portfolio Construction Investment Limits – Core Portfolio (Over 90%)	
Core Portfolio	Over 90%
Target weight to at-call bank deposits with APRA regulated ADI	0% to 10%
Target weight at-call deposits and term deposits with APRA-regulated ADI with maturities <12 months	20%
Target weight at-call deposits and term deposits with APRA-regulated ADI with maturities <12 months plus RBA repo-eligible cash equivalent securities	30%
Min. exposure to cash securities	10%
Max. target weight to credit unions/building societies in deposit portfolio	15%
Max. target weight to foreign-owned subsidiary banks regulated by APRA in deposit portfolio	30%
Max. target weight to deposits with issuers with short-term S&P (or Moodys where S&P not available) credit ratings of less than A-2	30%
Max. target weight to Term Deposits	25%
Target weight to investment grade, Australian dollar-denominated and issued, bonds	80%
Max. exposure to investment-grade debt securities	90%
Min. (target) number of bond-issues	5 (30) issues
Max. (target) exposure to any one issuer at origination, excl. ADI deposits	33% (10%)
Max. (target) exposure to any one asset at origination, excl. ADI deposits	33% (5%) of portfolio value
Target weighted-average S&P credit rating (or Moodys where S&P not available), excl. ADI bank deposits	A+ to A-
Target exposure to securities with long-term credit rating assessed by S&P of A- or better (or Moodys where S&P not available)	50%
Min. credit rating for all securities, excl. ADI deposits	BBB- or better (or equivalent as assessed by other recognised ratings agencies). In case of rating variances, lowest used.
Target weighted-average time to maturity	3 years
Max. portfolio weight to ABS and RMBS	In case of ABS: S&P (or equivalent) rating of A- or better) In case of RMBS: 25% in total (15% with a rating of AA- or better (or rating equivalent) and a further 10% of the portfolio with a rating of AAA and repo-eligible)

Source: Smarter Money Investments Pty Ltd (2018)

Table 4 below lists the investment guidelines to be adopted when hedging macro-economic risk in the portfolio.

Table 4: Portfolio Construction Limits – Hedging Portfolio

Hedging Portfolio ≤ 10% (Hedging Macro-Economic Risk)	
Max. cash investment in Hedging universe securities	10% of portfolio value
Target time-weighted exposure to Hedging universe securities	≤ 2.5% of portfolio value
Max. calendar year Hedging budget	Greater of 0.5% of the Fund's value at the start of the year or post fees Hedging returns added to returns during year
Max. Hedging budget in calendar month	Subject to Annual Hedging Budget, 50% of Fund's post-ICR monthly yield
Derivatives	Derivatives are used to hedge interest rate, credit and macro-economic risks through purchases of options only (or hedging of securities received under exercised options). Short positions must be supported by matched physical assets; long derivative positions must be matched by cash equivalents. Only purchases permitted, unless hedged.

Source: Smarter Money Investments Pty Ltd (2018)

CCI is cognisant of the requirement to provide investors with liquidity, for Liquidity Guidelines refer to Table 5.

Table 5: Liquidity Guidelines

Liquidity Guidelines
Target 30% - 50% of Fund's assets in cash and RBA repo-eligible securities
The Fund will be able to draw on the RBA's liquidity facilities through access to RBA repurchase facilities provided by a major Australian bank.
At origination 100% of the Fund's assets will have an expectation of daily liquidity under normal trading conditions

Source: Smarter Money Investments Pty Ltd (2018)

The Fund will seek to actively manage its exposure to underlying assets with wide bid-offer spreads while acknowledging that spreads vary daily according to market circumstances, and unusual events, such as a credit shock, can result in a substantial increase in spreads for a period of time.

Portfolio Construction

The portfolio construction process follows three phases: Investment & Governance Mandate (IGM) Rules, the analysis, and the review & compliance. See Appendix 1 for Portfolio Construction – Decision-Making Process schematic.

Step 1 – Mispricing Analysis

SMI/CCI's process begins with identifying mispricings in credit securities that have a high probability of mean-reverting to CCI's modelled fair value. This process uses top-down and bottom-up valuation approaches in 20-30 models for each analysis that take in account factors such as:

For top-down models ("market-efficient" assumptions):

- Credit ratings
- Maturities
- Issue size
- Industry sector
- Capital structure position
- Liquidity

For bottom-up models ("market-inefficient" assumptions):

- Assets
- Liabilities
- Leverage
- Equity volatility
- Projected assets volatility
- Projected probability of default or the probability distribution around defaults
- Projected loss given default

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Step 2 – Deep-dive credit analysis

A deep dive credit analysis is conducted on the core business model to identify any inherent business model risks. This report is then reviewed and debated in an iterative process that involves extending the analysis with further research.

Step 3 – Bottom-Up Credit Analysis

The Fund's IGM narrows the investable universe from which credit research is to be performed. Credit analysts carry out independent bottom-up research using current credit data and financial statements based on sector responsibilities. This is performed to determine the degree of risk involved and credit worthiness of investing in a security. The analysts also utilise CCI's proprietary credit rating model, which is a quantitative amalgam of rating agency approaches and provides a unique issuer rating that can be contrasted against public ratings. All "recommendations" are supported by written credit research reports. Approval from the credit analysts is required before proceeding with an investment.

Step 4 - Macro Analysis & Other Due Diligence

Steps 1 and 2 are supported with macro-economic analysis and additional industry and security due diligence driven by the PMs. This includes macro research focussing on short-term event risks such as GDP, inflation, jobless rate, RBA decisions etc. within T+3 months, mid-term macro events that will influence pricing over 6 to 12 months e.g. global macro growth paths and policy decisions, as well as longer-term secular drivers such as; conflict risks, demographic change through population growth and ageing etc. CCI deems that these variables may not be immediately evident through bottom-up credit analysis but may influence the future credit rating and price of a security and therefore its inclusion within the portfolio. The PMs further supplement the credit/quantitative research process with their own independent credit, valuation, other due diligence that will typically involve discussions with issuers, customers, competitors and other key stakeholders.

Step 5 – Portfolio Contribution/Attribution

Securities identified through steps 1 to 3 are incorporated, modelled and examined to ascertain their influence and contribution to the total portfolio from a risk and return perspective utilising the Bloomberg Asset & Investment Management (AIM) system, which evaluates the impact of all new investments on a wide range of portfolio attributes, including more than 20 different pre-trade compliances and other IGM rules.

Step 6 – Approval by Portfolio Managers

All final pricing, sizing, positioning, and timing is determined jointly by the PMs. In practice, Joye runs the process on an intra-day basis with Harvey having veto on all decisions and providing general risk and macro-market insights and mentoring to the overall team.

Buy / Sell Decisions

All trades are monitored and reviewed by:

- Portfolio Managers (internal - daily)
- Responsible Entity (external - daily)
- CCI Investment Committee (monthly)

All trades are managed and settled via the Fund's external administrator and custodian.

Trigger points that instigate a security review are:

- Non-compliance with IGM
- Price movement of +/-1% or more from entry price
- Price changes in relation to fair value estimate

Information Resources & Research Approach

CCI utilise both internal and external sources of information to identify, research and analyse a diverse series of suitable securities.

Research Team

CCI continues to invest in its full-time research/investment team. CCI now has four full-time PM's who also have dual analyst responsibilities, six full-time analysts including four credit analysts, two senior data scientists, a portfolio management director, a portfolio analyst and an additional senior operations analyst. CCI also employ a credit analyst on a part-time basis.

Internal Research

The internal research program features 20-30 quantitative valuation models, an in-house econometric quantitative credit rating model, and macro research for due diligence.

CCI also has access to third party research and data to augment its own research and security analysis.

External Research

CCI subscribes and receives information from several sources. Financial data includes:

- YieldBroker (real-time bond data)
- S&P Capital IQ (credit data)
- Bloomberg (security, trade management/compliance and economic data)

Access to external research and data is viewed as having multiple advantages:

- Indicators of market expectations for a security
- Potential to highlight to the PMs any significant deviations between consensus and the PM's forecast, credit rating valuation etc
- Reveal information that the analysts may not have initially recognised

ESG Policy

CCI views current measures of sustainability and ethical governance as subjective in nature and thus does not follow a checklist in accounting for ethical, social & governance (ESG) issues.

Coolabah uses ESG concepts by factoring in considerations, such as weather-related risks, political stability and board composition, into its valuation process. This allows the Fund to identify where a price may deteriorate due to underlying ESG issues, or where credits are undervalued to due to ESG issues that the manager expects to improve. This allows ESG concepts to be a factor in driving alpha.

Implementation

SMAC is accessible via a Managed Investment Scheme (MIS) registered with the Australian Securities and Investments Commission (ASIC). The Fund structure is a unit trust governed by a constitution. Investors' monies are pooled together under the Fund arrangement to buy institutional investments/securities.

An investor's interest in the Fund is represented by their holding of units in the Fund. Investors do not hold/own a direct share of the Fund's underlying assets.

Applications can be made directly by the investor through the mFund settlement service which employs the ASX's electronic settlement system CHESS to process buying (applying for) and selling (redeeming) of units in SMAC. Units in SMAC are held electronically and linked to the investors Holder Identification Number (HIN), a unique identifier used to transact on the ASX.

An application for units in SMAC can also be made by using the appropriate online application form available on the SMI website.

Transactions via administration platforms can also be made, however these are consolidated by the platform administrator prior to an investment or redemption being made.

Risk Management and Compliance

Risk Management

Investment Risk Management

In broad terms, investment risk is managed via the IGM framework which specifies the portfolio construction rules and limits. This is monitored by CCI's pre-trade compliance system which evaluates all investments against the IGM. The results of the pre-trade compliance system's analysis are sent to the PMs, the RE and other stakeholders.

CCI's Board sets, monitors and reviews the IGM.

Refer to Tables 2, 3 and 4 for mandatory investment risk management constraints, guidelines and limits as set-out in the IGM.

Interest rate and credit risk is minimised by:

- Holding large amounts of cash, which in SMAC's portfolio has averaged 42% since 2012
- Limiting investments to Australian cash and investment-grade FRNs with a target weighted-average S&P credit rating across the portfolio of "A+ to A-"
- Not investing in physical fixed-rate bonds with terms greater than 1 year and targeting a specific modified duration of less than 3 months
- Not investing in foreign (denominated) issues (Kangaroo issuers are permitted)
- Not investing in hybrids or sub-investment grade issues
- Not taking leverage or using derivatives for speculative purposes
- Running daily scenario analyses around shocks to interest rates and credit spreads to determine their impact on the fund's value

Administrative Risk Management

The following back-office functions are out-sourced:

- Responsible Entity – EQT Responsible Entity Services Limited
- Administration – Mainstream Fund Services
- Custody - BNP Paribas
- Distribution - Winston Capital (Retail and financial planning sales), Shed Enterprises (Institutional sales)

Smarter Money Investments (SMI), CCI's fully owned subsidiary, also serves CCI's retail and financial planning distribution channels.

Operational Risk Management

CCI has its own Business Continuity & Disaster Recovery Plan (BCDRP). The BCDRP focuses on mitigating the risks arising from people, systems and processes through which the organisation operates. CCI has access to 24/7 offsite emergency office infrastructure provided by Servcorp with all key systems abled to be accessed via the web and daily offsite backups. CCI uses the Complispace system for enterprise risk management, which embeds a range of CCI's internal policies including:

- BCDRP
- Conflicts of Interest Policy
- Soft Dollar Policy
- Trade Management Policy
- Derivatives Policy
- ESG Policy

Derivatives Risk Management

Derivatives can be used to hedge interest rate, credit and macro-economic risk, with some restrictions:

- Derivatives are not used for speculation or leveraging

- Derivatives can be bought, but can only be sold when the transaction is fully hedged
- Short positions must be backed by matched physical assets
- Long derivative positions must be matched by cash or equivalents

Compliance

The Compliance Committee meet monthly over the year to evaluate all internal and external compliance.

CCI has designed and implemented its Compliance Program according to Australian and International Standard for Compliance Management Systems, which is embedded in the CompliSpace electronic infrastructure. All policies and procedures are regularly updated for any regulatory change by their internal team, which is comprised of 15 lawyers.

CCI also runs extensive pre-trade and post-trade compliance of all investments by portfolio managers via CCI's customised Bloomberg AIM system with the results sent daily to the investment team, the RE and other stakeholders.

Fees and Costs

SMAC charges the following fees to investors. Fees shown are inclusive of GST and administration expenses and consider RITC.

Administration & Management Fee

0.66% p.a. of the net asset value of the Fund

Performance Fee

20.5% of the net excess performance versus the benchmark and high watermark, being RBA official target cash rate plus 1.66% (p.a. calculated every calendar month. The high watermark equates to the cumulative monthly performance of the Fund including distributions but before performance fees.

Buy/Sell Spread

0.00%/0.05%

Incorporated into the Fund's unit price and incurred when an investor withdraws from the Fund.

Liquidity

There is no fixed term and investors generally have access to their investment on a daily basis. SMAC offers liquidity on a T+3 days basis during normal market conditions. Timing of any redemption of units is otherwise determined by the liquidity of the underlying investments and the efficiency of the platform administrator and SMI's administrator (Mainstream Fund Services).

Performance

SMAC inception date was 17 February 2012. For investment performance measurement purposes, the inception date used is 01 March 2012.

Refer to Appendix 2 for an analysis of the investment performance and risk metrics of SMAC at 30 June 2019.

Benchmark and excess return provided in Table 6 below.

Table 6: Performance (CRE0014AU) to 30 June 2019 (net)

	Smarter Money Active Cash Fund (%)	Benchmark (RBA+1% p.a.)	Excess Return
1 Months (%)	0.31	0.19	0.12
3 Months (%)	0.91	0.60	0.31
6 Months (%)	2.02	1.22	0.80
1 Year (% p.a.)	2.91	2.49	0.42
3 Years (% p.a.)	2.85	2.51	0.34
5 Years (% p.a.)	2.93	2.78	0.15
Since Fund Inception	3.87	3.19	0.68

Source: Morningstar

Conclusion

- The Fund has been performing in excess of its benchmark, showing strong performance over its lifetime (Performance has been provided in Appendix 2).
- Based on Atchison Consultant's assessments, we expect the Fund to deliver a reasonable risk-adjusted return with its current investment strategy.

Strengths

- ✓ Senior portfolio managers have been working together since inception of the Fund, indicating a cohesive investment environment.
- ✓ An experienced investment team, including twelve full-time investment professionals, is sufficiently resourced given the team is dedicated to the management of three fixed-income investment strategies in addition to their other strategies. CCI manage a total of 14 portfolios (4 funds and 10 mandates)
- ✓ Combination of bottom-up and top-down valuation analysis and active trading leads to an understanding of the contribution to risk and return of each security within the portfolio.
- ✓ The Manager has demonstrated a commitment to continually improve resourcing and investment processes (including ongoing enhancements to quant models).
- ✓ In addition, the team are co-invested in the fund. Their interests are very much aligned with their clients.

Weaknesses

- As with any investment team, there is a risk that key staff departures may have an adverse effect. SMI has, as far as deemed possible, addressed this issue through expanding its staff base, accountability and equity sharing arrangements as well as the possession of key man insurance.
- The performance fee of 20.5% is deemed excess compared to other fixed income strategies.
- The potential to continue to deliver strong excess returns through active management may diminish with growing funds-under-management due to an inability to take meaningful positions or take advantage of arbitrage opportunities as they arise.

Rating Summary

Summary rating by the following 5 factors have been provided.

Rating: Highly Recommended

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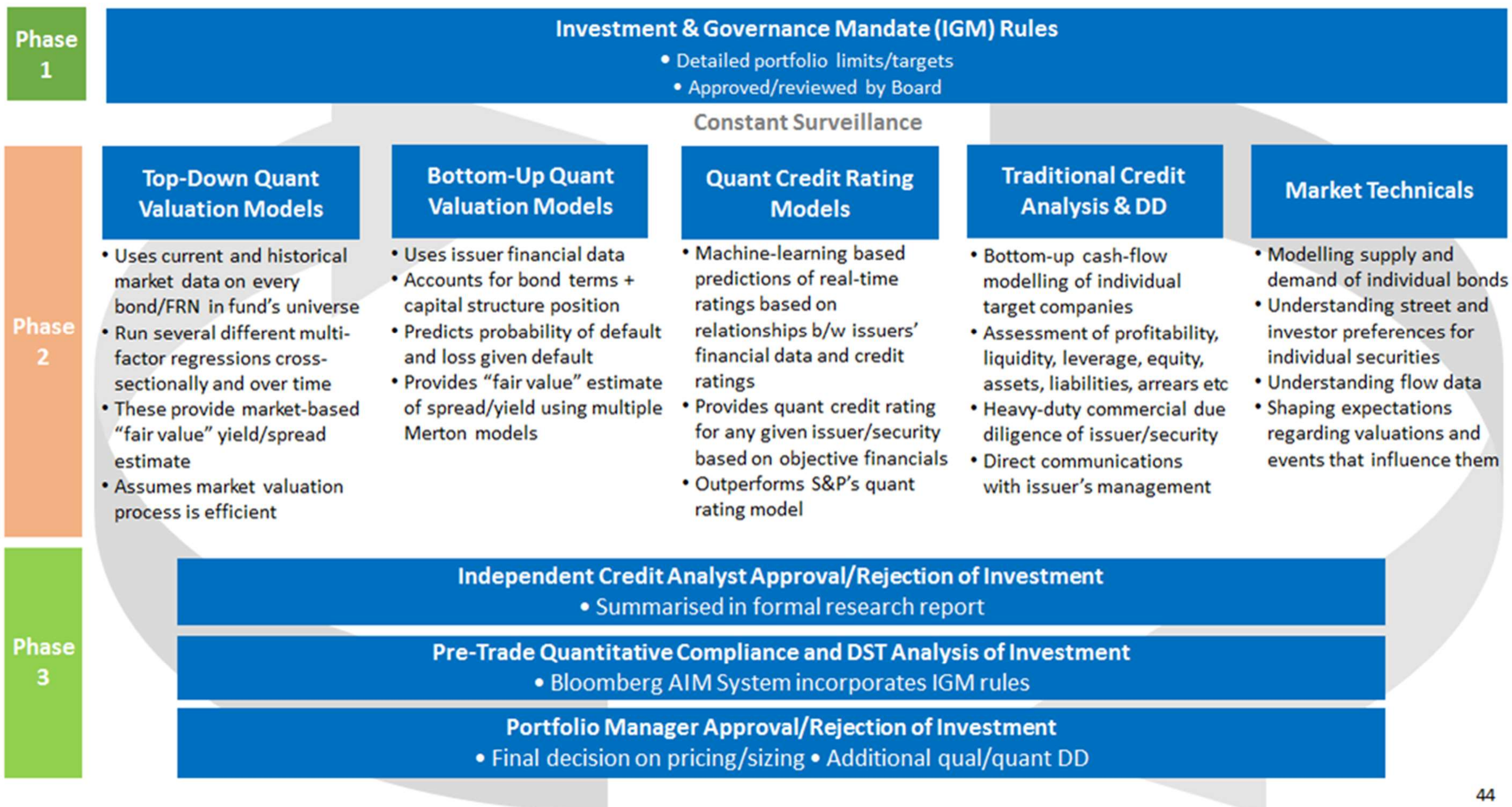
Appendix 1: Portfolio Construction – Asset-Selection Process



Source: Smarter Money Management

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Appendix 2: Smarter Money Active Cash Fund – Strategy Performance Analysis

Smarter Money Active Cash

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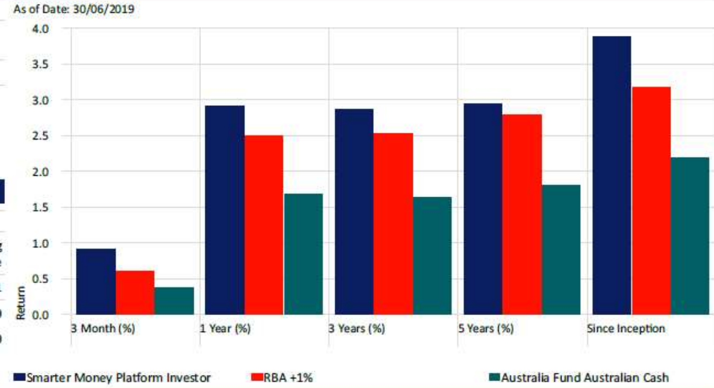
Performance

As of Date: 30/06/2019

	3 Month (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception
Smarter Money Platform Investor	0.9	2.9	2.9	2.9	3.9
RBA +1%	0.6	2.5	2.5	2.8	3.2
Australia Fund Australian Cash	0.4	1.7	1.6	1.8	2.2

Returns

As of Date: 30/06/2019



Risk Metrics

Time Period: 1/07/2016 to 30/06/2019

	Excess Return	Std Dev	Sharpe Ratio	Gain/Loss Ratio	Tracking Error	Batting Average
Smarter Money Active Cash	0.3	0.5	2.1	27.9	0.5	61.1
RBA +1%	0.0	0.0	14.3		0.0	100.0
Australia Fund Australian Cash	-0.9	0.1	-5.0		0.1	0.0

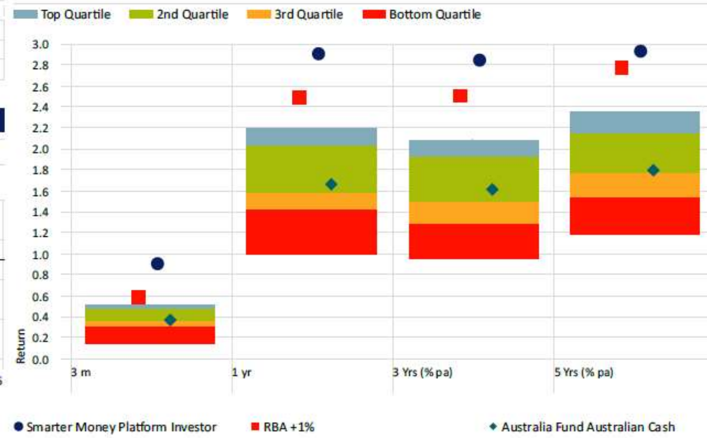
Correlation Matrix

Time Period: 1/07/2016 to 30/06/2019

	1	2	3
1 Smarter Money Platform Investor	1.00		
2 RBA +1%	0.08	1.00	
3 Australia Fund Australian Cash	0.55	0.44	1.00

Performance Relative to Peer Group

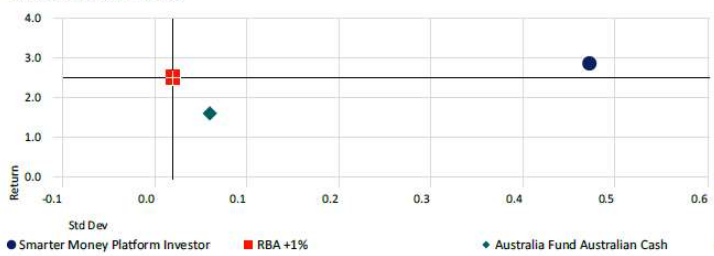
As of Date: 30/06/2019



Risk-Reward

Time Period: 1/07/2016 to 30/06/2019

Calculation Benchmark: RBA +1%



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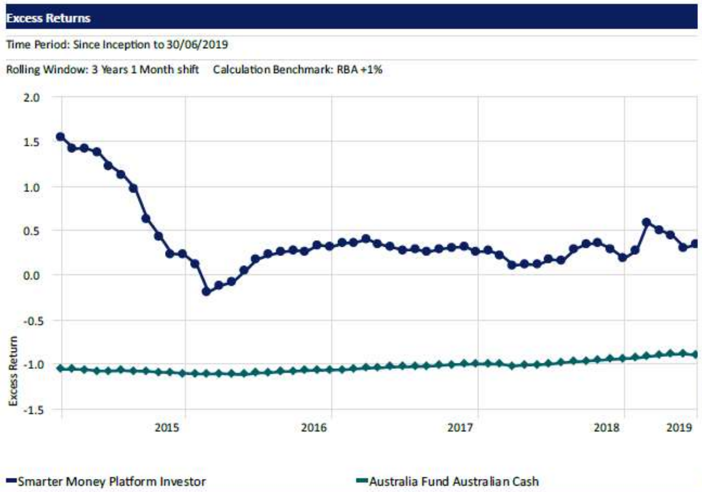

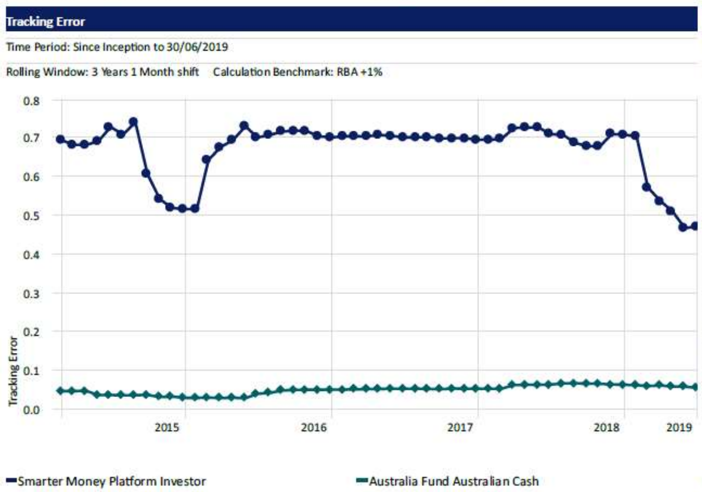

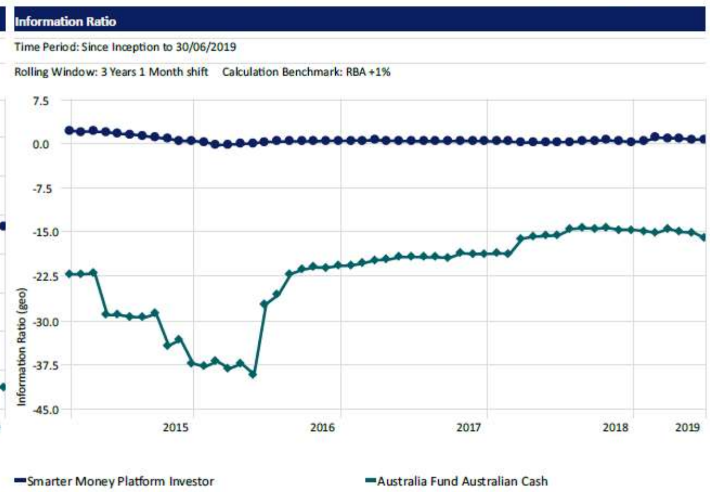

Source: Morningstar

Sources of Information

In addition to a site visit and multiple manager interviews, the following sources of information have been relied upon in preparing this report:

- CCI Institutional Presentation (Dated: July 2019)
- SMAC Performance Snapshot (Dated: July 2019)
- Smart Money Fund – Assisted Investor PDS (Dated: May 2019)
- Investment & Governance Mandate (Dated: September 2018)
- Environmental, Social and Governance Policy (Dated: October 2018)
- Investment Management Agreement BetaShares Active Australian Hybrids Fund

Report Expiry Date

Date Report Prepared: 30 June 2019

Report Expiry Date: The Atchison Consultants report is a point in time assessment and expires after 12 months or if there are any material changes in relation to the information contained in this report or any disclosure or offer document issued in relation to this offer. Atchison Consultants reserves the right change its opinion, rating and/or withdraw the report at any time on reasonable grounds.

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Atchison Consultants

Atchison Consultants was established in 2001 by Ken Atchison and consists of a team of investment professionals based in Melbourne with extensive experience in all aspects of financial markets.

The principal focus of the business is the provision of advice, research and analysis across all components of managing investment portfolios by financial institutions, superannuation and insurance funds and investment managers.

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