SMARTER MONEY LONG SHORT CREDIT FUND

ATCHISON CONSULTANTS

Rating: Recommended

Report Date: June 2019

PRODUCT FEATURES SUMMARY	
Product	Smarter Money Long Short Credit Fund
Manager	Smarter Money Investments Pty Ltd
Inception	31 August 2017
APIR Code	SLT2562AU
Distribution Dates	Quarterly
Funds Under Management (FUM)	$109 million
Managed Fund Platform	Macquarie Wrap Netwealth HUB24 Mason Stevens OneVue Powerwrap Praemium
Asset Class	Hedge Fund/Alternatives
Benchmark	RBA Cash Rate
Investment Objective	Exceed the RBA's cash rate by 4%-6% p.a.net of fees over rolling three-year periods
Minimum Investment	$1,000
Management Fee	1.00 p.a. (including indirect costs of 0.25%)
Performance Fee	20.5% (incl. GST) of net returns excess of the RBA cash rate with a protection of water mark
Buy/Sell Spread	0.00%/0.10%
Target Allocation and Guidelines	Refer to Investment Governance Mandate (IGM) for portfolio construction guidelines and PDS
Redemptions	Daily

Overall, Atchison Consultants rate the Fund as:

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

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 Long Short Credit Fund (Fund) was established in August 2017 as an actively managed portfolio focusing on exploiting long and short mispricing in credit markets. The portfolio primarily invests in debt securities, hybrids and derivatives.

The Fund is managed to similar investment mandate to the Smarter Money Higher Income Fund but with additional facility to leverage, take short positions and invest in non-AUD denominated securities issued by non-Australian companies.

RATING CONSIDERATIONS

Strengths

- Two senior portfolio managers have been cohesively working together since the establishment of CCI in 2011.
- Experienced investment team including twelve full time investment professionals is appropriately resourced given three fixed-income retail investment strategies in addition to their other strategies CCI manage a total of 14 portfolios (4 funds and 10 mandates).
- Back-tested simulated performance results for the Fund illustrate strong investment performance versus investment objective.
- Downside risks from leverage are controlled by conducting scenario stress testing and placing gearing limits on various types of securities.
- The use of separate capital lenders and custodian allows Fund to access lower cost of borrowings and assists to reduce the rehypothecation risks.
- The risk management procedure is embedded in the overall process and is deemed satisfactory.

Weaknesses

- The Fund has a "live" performance history of 22 months.
- 20.5% performance fee structure is deemed expensive on a relative basis in comparison to the Fund's stated investment objective.

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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% owned 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 be the sole owner of Smart 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 Long Short Credit Fund (Fund), which is an actively managed portfolio comprised of debt securities, hybrids and derivatives that aims to target a return that exceeds the RBA cash rate plus 4.0% - 6.0% p.a. after fees and ordinary expenses, over a rolling three-year period.

The Fund is managed similar to the investment mandate of the Smarter Money Higher Income Fund but with additional facility to leverage, take short positions and invest in non-AUD denominated securities.

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 (Manager) 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 that can create opportunities for active asset-selectors.

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.

People and Resources

CCI's full-time key 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 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 of Australian cash securities and bonds with an established seven-year plus track-record, applying their highly active style initially via Smarter Money Higher Income Fund and the Smarter Money Active Cash Fund.

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 senior PMs individually also have veto rights on all long and short positions and must jointly agree on investments.

Biographies of the key investment professionals involved in the investment, governance, risk management and compliance follow:

Darren Harvey is a co-founder of SMI/CCI and is Co-CIO and Portfolio Manager. Harvey has 31 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 18 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

- General business management and the running of the Portfolio Management (PMT), Credit Research (CRT), Data Science (DST), Finance, Operations, Risk (FORT) and Sales and Product (SPT) teams.

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. At CCI he is responsible for ASX execution, quant research and general portfolio management duties.

Dr Stephen Parker joined CCI in 2016 as a full-time quantitative risk analyst and junior portfolio manager. Prior to this, Parker 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.

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 $5.5bn 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 $6bn fixed-income fund manager Perennial Investment Partners (2001-2008) where he designed and implemented Perennial's in-house credit risk pricing models. At CCI he is involved in credit risk analysis, quantitative asset pricing and general due diligence.

Jason Lindeman joined Coolabah Capital Investments, which manages Smarter Money Investments' funds, 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. Previous roles include Credit Risk Management at Credit Suisse London and NAB Corporate Banking in both London & Melbourne. 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 Coolabah Capital Investments, which manages Smarter Money Investments' funds, 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. She spent the majority 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. She 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. She has also held various advisory roles with tech start-ups in London and Sydney. 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, where she was the recipient of a Co-op Scholarship and included on the Dean's Honour Roll for her year of exchange at NYU's Stern School of Business.

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 operation analyst. Param oversees the middle office function on a day-to-day basis. Prior to joining CCI, Param has 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 Senior Credit Analyst & Compliance Manager with CCI, joining the business in 2013. Teh has more than 18 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 CFO. 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 a number of 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 Coolabah Capital'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's 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.

The two key members of the investment team are PMs, Darren Harvey and Christopher Joye. Each PM brings complimentary trading and analytical skill to the investment process and strategy, supported by internally generated quantitative valuation and credit research, which is supplemented by externally sourced third-party research and data.

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 two PMs 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 score-card 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 decile of enhanced cash/short-term fixed interest managers.

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, 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 $250m 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 $20bn 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:

- On the basis of 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 that with a central bank that has a 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.
- CCI believes that there is a role in diversified portfolios for active credit strategies with little interest rate/duration risk. Duration is deemed the source of majority of fixed-income volatility and the risk of capital loss. CCI finds that over the last 16 years the likelihood of realising a negative monthly return in stocks was 38% even after accounting for dividends. The probability of a negative month in fixed-rate bonds was also reasonably high at around 27%. Yet in FRNs, which strip out interest rate risk, only 2.9% of the 204 months between 1999 and 2015 were negative.
- 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 opportunities for nimble active managers to exploit these discrepancies.
- While CCI argues that long-term duration is impossible to predict, they believe that the interest rate-related financial markets do 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 active managers can add considerable value by dynamically adjusting portfolios for relative value opportunities between cash, bonds and listed income securities. CCI believe 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—to enable CCI to identify and exploit mispriced assets to deliver "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 absolute fixed-interest strategy, seeking to generate an absolute return above the RBA cash rate by 4.0% to 6.0% p.a. over a rolling three-year period net of fees. This is achieved through managing to a broad investment mandate using a combination of debt securities, hybrids and derivatives issued either by Australian entities or overseas entities and actively taking long or short positions on those securities should conclusions from the manager's analysis indicate that securities are trading below or above their fair value. In addition, derivatives and leverage can be applied by the Fund to enhance returns.

The investment framework focusses on determining the fair value of a security using a variety of quantitative methods, and hence assets that are trading above or below fair value, after adjusting for a range of risk factors, including the probability of default, recovery rates, credit ratings, capital structure position, time to maturity, industry sector, issue sizes, and liquidity. If the securities are deemed trading above their fair value, then the fund manager would short sell the securities and buy back when the securities have decreased in value, generating profits even in declining markets. On the other hand, if the securities are deemed trading below their fair value, then the manager would long the securities for a potential increase in value.

The investment framework also considers how a security contributes to the overall risk and return characteristics and investment objective of the portfolio. CCI's investment style considers and leads to the following:

- Conventional credit research of both the issuer and the specific security with the analyst having veto over any investment on risk grounds.
- Top-down quant valuation analysis 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 that computes the probability of default, expected loss, and minimum required return on a security based on its capital structure position and the issuer's financials, including leverage and projected asset volatility, using option pricing technology.
- A macro-economic and intensive due diligence overlay that evaluates industry conditions, supply and demand technical, and all exogeneous factors that could impact asset pricing.
- Attribution analysis at the portfolio level to evaluate a security's contribution to overall return and risk.
- PM approval on pricing, sizing and entries and exits.

Investment Process

The Fund is managed similar to the investment mandate of the Smarter Money Higher Income Fund but with additional facility to leverage, take short positions and invest in non-AUD denominated securities.

Based on the premise that value can be added through:

- Actively managing the fixed income portfolio (i.e. continuous management to source the best possible interest rates on deposits relative to credit risk).

- Active asset selection of debt/hybrid securities identified via top-down and bottom-up valuation analysis that can provide capital gains when mis-pricings normalise.
- Active asset-allocation within the portfolio between pure cash and risker debt/hybrid securities depending on the PM's views of the relative value available in each asset-class. When the credit sector is expensive, they will revert to cash, and vice-versa. The Fund retains the ability to invest 100% in cash.
- Actively taking long and short positions on securities that are deemed trading below or above their fair value. However initially the manager will use credit market indices e.g. ITRAXX to adjust the credit exposure of the Fund.
- Actively using leverage that is up to 3x of the Fund's market value and derivatives to enhance the portfolio returns.

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	
Max. (target) unrated/sub-investment grade debt	30% (<20%) (assuming maximum 3x leverage)
Max. subordinated bonds	120% (assuming maximum 3x leverage)
Max. (target) listed or unlisted securities ranking below subordinated bonds but above equities	45% (<30%) (assuming maximum 3x leverage)
Max. (target) foreign denominated debt issued by non-Australian companies	30% (0%) (assuming 3x leverage)
Australian or global shares (excl. ASX listed bonds)	0%
Long-term fixed-rate bonds (>24mths) unless swapped to floating with a major Australian bank	0%
At-Call Cash ETFs	20% per issuer
Investment in or funding of related party securities	0%
Target return	At least 4% p.a. above RBA cash rate after fees
Target investment horizon	12 months or more
Max. (target) risk	Less than 5% p.a. (3% p.a.) volatility over a rolling three-year period and significantly lower than the All Ordinaries Accumulation Index
Max. (target) leverage	3x (1.5x to 2.5x) fund market value
Target liquidity	High, with ability to offer daily withdrawal requests
Liquidity protections	Ability to access RBA's liquidity facilities as official RBA Eligible Counterparty via ISDAs with major Australian banks
Max. (target) interest rate duration of net fund exposure	Maximum of 6 years (target less than 9 months)
Max. (target) credit spread duration of net fund exposure	Maximum of 15 years (target less than 10.5 years)
Target competition	Hedge funds and other alternatives

Source: Smarter Money Investments Pty Ltd (2018)

Portfolio construction rules are subject to capital limitations and portfolio reweighting events.

Table 3 below lists the Portfolio Construction Investment Limits.

Table 3: Portfolio Construction Investment Limits

Portfolio Construction Investment Limits	
Target weight to at-call bank deposits with APRA regulated ADI	0% to 5%

Disclaimer: Atchison Consultants recommend that investors read the detailed information contained in the Product Disclosure Document. Investors should read the Analyst Interest and Certification, Warning (General Advice Only) and Disclosure (Commissioned Research) at the end of this report.

Target weight at-call deposits and term deposits with APRA-regulated ADI with maturities <12 months	0% to 5%
Target weight to at-call deposits, term deposits and other cash equivalent securities <12 months	0% to 10%
Min. exposure to cash securities	0%
Max. target to debt and other permitted securities	300%
Max. absolute exposure of long or short CDS contracts	200%
Max. physical leverage	300% (this limits the Fund to owning physical assets less than 3x fund market value)
Max. leverage	300% (this limits the Fund to having exposure to markets of less than 300% fund market value)
Max. short credit exposure	-200% (this limits the Fund to having negative exposure to markets, obtained by buying protection, of more than -200%)
Max. (target) exposure to any one issuer at origination, excluding ADI deposits	99% (30%) (assuming maximum 3x leverage)
Min. (target) number of debt and other permitted securities	5 (50) issues
Max. (target) exposure to any one asset at origination, excluding ADI deposits	99% (15%) (assuming maximum 3x leverage)
Target weighted-average S&P credit rating (or Moodys where S&P not available) weighted to Leverage Fund Exposure	BBB
Max. portfolio weight to ABS and RMBS	99% (assuming maximum 3x leverage)

Source: Smarter Money Investments Pty Ltd (2018)

CCI is cognisant of the requirement to provide investors with liquidity, for Liquidity Guidelines refer to Table 4.

Table 4: Liquidity Guidelines

Liquidity Guidelines
The Fund will seek to actively manage its exposure to underlying assets with wide-bid-offer spreads while acknowledging that spreads vary on a daily- basis 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.
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)

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

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.

<u>Buy / Sell Decisions</u>

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
- 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 which has doubled since the last review. CCI now has four full-time PM's who also have dual analyst responsibilities four full-time credit analysts, two full-time data scientists, a portfolio management director, a portfolio analyst and a senior operations analyst. CCI also employ a credit analyst on a part-time basis.

Internal Research

The internal research program is comprehensive and is constantly improving. Currently the program includes:

- 20-30 different quantitative valuation models that have been all built in-house
- An in-house econometric quantitative credit rating model
- More conventional credit research that one would find at standard fixed-income shops covering traditional variables
- Internal macro research and industry/ company 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:

- Indicator 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.

Use of Leverage

Compared to Smarter Money Higher Income Fund and the Smarter Money Active Cash Fund, the Smarter Money Long Short Credit Fund is permitted to use leverage to amplify the potential gains from securities' mispricing. The Fund can achieve leverage through either repurchase agreement (repos) or by borrowing via margin loans with its counterparties. Repo-eligible assets include; government bonds, senior bank bonds, and AAA RMBS.

The Fund can enter into the repurchase agreement (repo) transactions directly with RBA or one of the major banks by paying a low borrowing cost that is capped by the central bank's repo rates. The main advantage of using repo facilities is a lower cost of borrowing. However, not all the debt securities can be used as collateral for accessing capital. Subordinated debt, hybrids or high yield bonds cannot be levered using repo facilities.

The Fund can also access additional capital through obtaining loans from banks or brokers to make additional investments, which in general accept a wider range of securities as collateral for loans. However, the less restrictive requirements can come with higher cost of borrowing.

Unlike any other "hedge" funds, the Fund has been designed with the unique structure which separates the role of capital lenders and custodian, which was not normally the case for other hedge fund managers. The Fund can access a wide range of lenders, to generate competitive tension among the lenders leading to potential lower cost of borrowing. In addition, the separation of the custodian and lenders assists the reduction of the re-hypothecation risks.

Ability to Short Sell

A set of quantitative models are used to value the fair value spreads for the securities, supported and further reinforced by additional bottom up and top-down analysis. Securities that are deemed overvalued can be subject to short sale either via single name shorts and single name Credit Default Swaps (CDS). Currently, the Manager intends to adjust the credit exposure of the Fund using derivatives of credit market indices deemed suitable e.g. ITRAXX.

Implementation

The Smarter Money Long Short Credit Fund (LSCF) 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.

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 and 3 for mandatory investment risk management constraints, guidelines and limits as set-out in the IGM.

Interest rate and credit risk is minimised by:

- Investing in cash and floating-rate debt securities and prohibited from investing in fixed-rate debt securities with more than 24 months term to maturity.
- Targeting a weighted-average S&P credit rating (or Moodys where S&P not available), of BBB- across the portfolio.
- Monitoring the Fund's maximum value-at-risk including basis credit risk estimates monthly.

- Conducting stress tests around various scenarios to determine their impact on the fund's value on a quarterly basis.

As this Fund has the facility to leverage, it is critical to identify and control the Fund's downside risk resulting from leverage. Simulated returns for the Fund have been conducted since 2003 based on the actual performance of Smarter Money Higher Income Fund and Smarter Money Active Cash Fund (due to similar fundamentals of the Smarter Money Higher Income Fund and the Smarter Money Long Short Credit Fund).

Based on the Manager's simulation and testing, the leverage level is capped at 3.0x the Fund's Net Asset Value (NAV). Allowing for this range of leverage, the worst returns that the simulated portfolio would have experienced are during the 2007-08 GFC period. The Fund would have suffered a monthly loss ranging from 11.7% to 19.0% assuming there was no effort at all to in any way reduce leverage during this calamity, which is unrealistically conservative.

In practice the Fund targets a leverage of 2.5x. At this level, based on simulation, the Manager expects that the Fund is likely to achieve a gross return higher than the Australian equity market with only one third of the measured volatility. Consistent with the Fund's objectives.

The Manager has placed various restrictions on the levels of leverage on individual securities, dependent on:

- Magnitude of the assessed mispricing/alpha
- Assessed risk associated with realising that alpha; and
- Idiosyncratic risk of the asset itself in relation to the portfolio of assets that we hold.

Additional risk of loss to the Fund is amplified due to the facility to short sell securities. A short position creates the risk of losses that are capped at the debt's principle along with the repayment of coupons. The Manager monitors on an intraday basis securities' gains and losses as well as liquidity conditions to limit losses. However, there is no formal stop loss policy.

Administrative Risk Management

The following back-office functions are out-sourced:

- Responsible Entity – EQT Responsible Entity Services Limited
- Custodian and Fund administrator– 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 and
- Others

Derivatives Risk Management

The Fund has the facility to go long and short assets or derivatives which the Manager has identified as mispriced. In addition, the Fund can use derivatives and futures to manage risk and/or gain exposure to investments.

Compliance

CCI runs extensive pre-trade and post-trade compliance of all investments via its Bloomberg AIM system with the results sent daily to the investment team, the RE and other stakeholders. CCI also has its own Risk & Compliance Committee with 3 of the 4 members being independent that meets monthly to evaluate all internal and external compliance. This is supplemented by an independent professional Responsible Entity (RE). The RE provides SMI and CCI with a monthly compliance assurance letter that involves randomised tests of individual investments. CCI has a documented compliance procedures manual in place and has established adequate processes to deal with any compliance breaches.

Fees and Costs

Smarter Money Long Short Credit Fund charges the following fees to investors. Fees shown are inclusive of GST.

Administration & Management Fee

- 1.0% p.a. of the net asset value of the Fund.

Performance Fee

20.5% of the net excess out-performance versus the RBA official target cash rate, with a high-water mark. Accrued daily and assessed and payable six monthly.

Buy/Sell Spread

0.00%/0.10%

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

Liquidity

Withdraw requests are usually processed daily. 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.

Performance

Smarter Money Long Short Credit Fund inception date was 31 August 2017.

Investment performance of the Fund against the RBA Cash Rate and excess return is provided in Table 7 below.

Table 7: Performance to 30 June 2019

	Net Return	RBA Cash Rate + 4%	Excess Return
1 Months (%)	0.97	0.43	0.54
3 Months (%)	2.36	1.34	1.02
6 Months (%)	4.73	2.70	2.03
1 Year (%)	5.64	5.54	0.10
Inception (% p.a.)	4.14	5.54	(1.40)

Source: Morningstar

Conclusion

- The Fund has a negative excess return since inception, though every period assessed from 1 Year has a positive excess return.
- SMI/CCI have delivered successful returns from their other funds that use many of the same processes, though without a short component. They have leveraged this pre-existing knowledge and infrastructure with this Fund.

Strengths

- ✓ The Fund has met its target performance over the last year, though it is still under the benchmark since inception.
- ✓ The two senior portfolio managers have been working together since the establishment of CCI in 2011, indicating a

cohesive investment environment. Experienced, and well-resourced investment team. The "foundations" of the investment process and rigour to research and modelling follows SMI's other successful funds.

- ✓ The back-tested simulated performance results for the Fund illustrate strong investment performance versus the target return of RBA Cash Rate plus 4% to 6%.
- ✓ Downside risks from leverage are acknowledged and controlled by conducting scenario stress testing and placing gearing limits on various types of securities.
- ✓ The use of separate capital lenders and custodian allows the Fund to access lower cost of borrowings and helps to reduce the rehypothecation risks.
- ➢ The risk management procedure is embedded in the overall process and is deemed satisfactory.

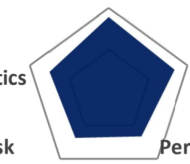
Weaknesses

- ➢ The Fund has a short performance history of 22 months. The two senior portfolio managers are gaining experience in short selling and the use of credit derivatives, though they have brought on a member of the team that has relevant experience in trading long and short credit derivatives positions.
- ➢ 20.5% performance fee structure is deemed expensive on a relative basis and hurdle rate low in comparison to the Fund's stated investment objective.

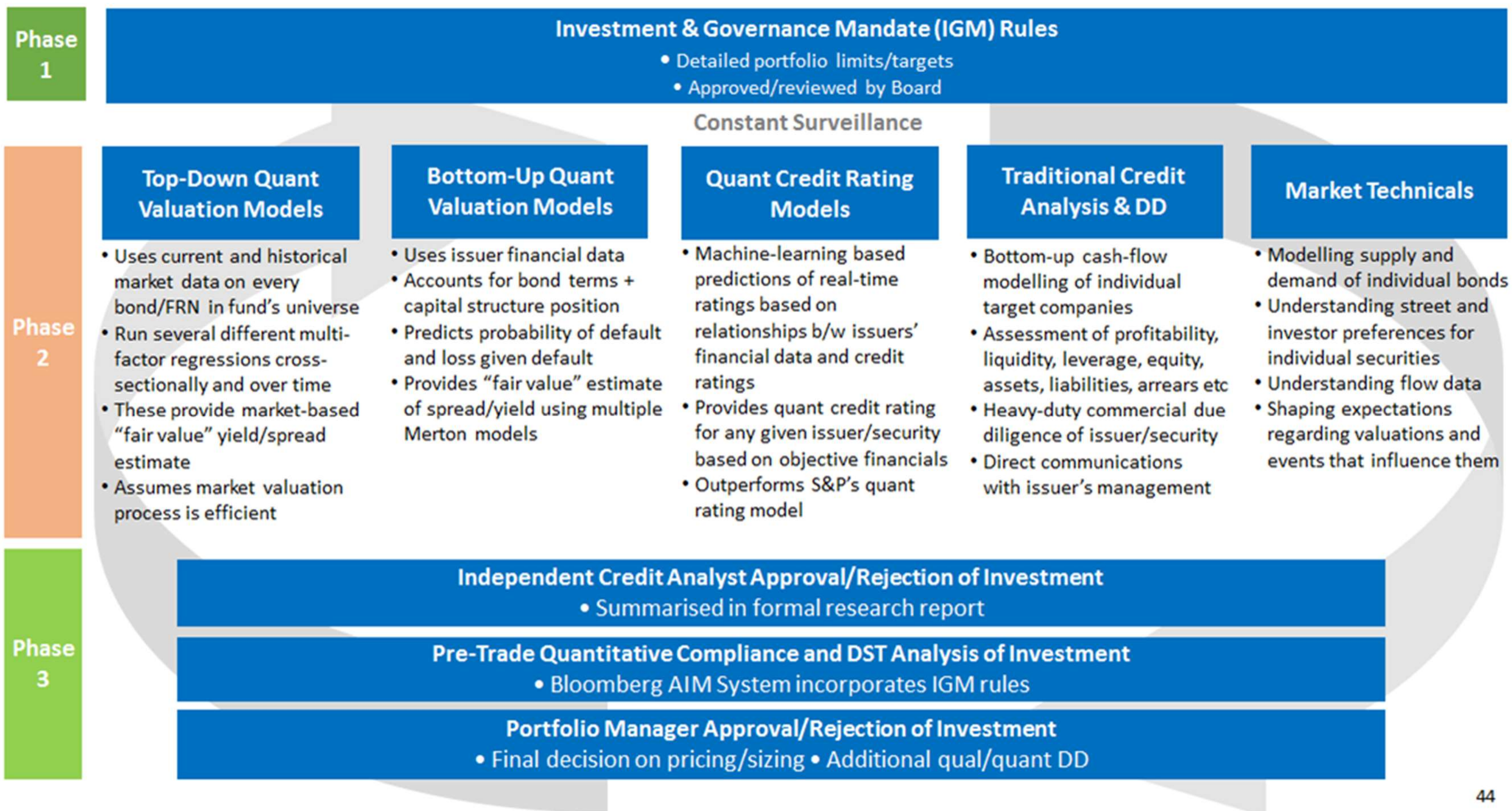
Rating Summary

Summary rating by the following 5 factors have been provided.

Rating: Recommended



Appendix 1: Portfolio Construction – Asset-Selection Process



Source: Smarter Money Management

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Appendix 2: Smarter Money Long Short Credit Fund – Strategy Performance Analysis

Smarter Money Long-Short Credit Fund

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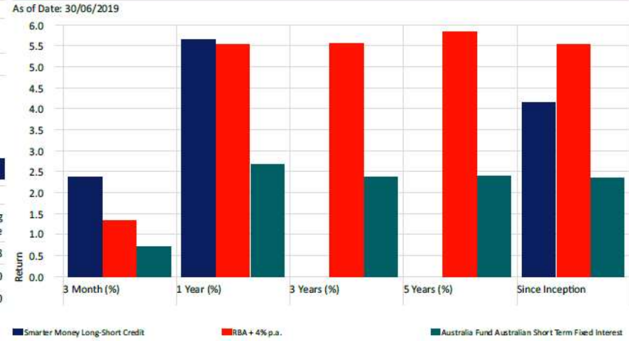
Performance

As of Date: 30/06/2019

	3 Month (%)	6 Month (%)	1 Year (%)	3 Years (% p.a.)	Since Inception
Smarter Money Long-Short Credit	2.36	4.73	5.64		4.14
RBA + 4% p.a.	1.34	2.70	5.54	5.56	5.54
Australia Fund Australian Short Term Fixed Interest	0.72	1.59	2.68	2.37	2.35

Returns

As of Date: 30/06/2019



Risk Metrics

Time Period: 1/10/2017 to 30/06/2019

	Excess Return	Std Dev	Sharpe Ratio	Gain/Loss Ratio	Tracking Error	Batting Average
Smarter Money Long-Short Credit	-1.30	1.82	1.27	4.65	1.83	52.38
RBA + 4% p.a.	0.00	0.04	63.14		0.00	100.00
Australia Fund Australian Short Term Fixed Interest	-3.17	0.21	2.27		0.22	0.00

Correlation Matrix

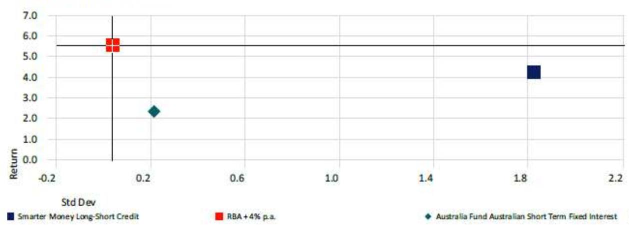
Time Period: 1/10/2017 to 30/06/2019

	1	2	3
1 Smarter Money Long-Short Credit	1.00		
2 RBA + 4% p.a.	-0.12	1.00	
3 Australia Fund Multi-Strategy Income	0.72	-0.03	1.00

Risk-Reward

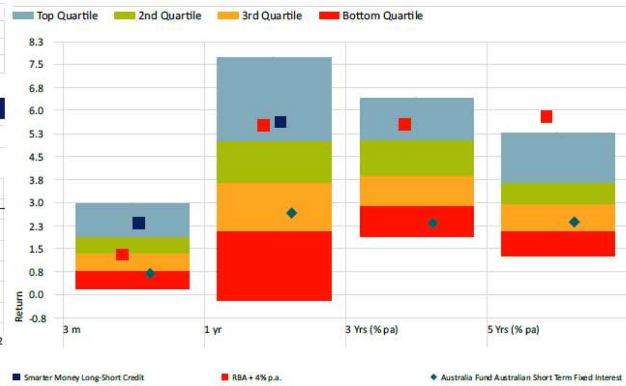
Time Period: 1/10/2017 to 30/06/2019

Calculation Benchmark: RBA + 4% p.a.



Performance Relative to Peer Group

As of Date: 30/06/2019 Peer Group (5-95%): Funds - Australia - Multi-Strategy Income



Source: Morningstar

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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)
- LSCF Performance Snapshot (Dated: July 2019)
- Smarter Money Long-Short Credit Fund PDS (Dated: March 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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