SMARTER MONEY INVESTMENTS
EVERY BASIS POINT COUNTS

COOLABAH CAPITAL INVESTMENTS
INVESTMENT MANAGER FOR SMI

Fund: **Smarter Money Fund**

Strategy: **Cash Plus/Short-Term Fixed-Interest**

Return (since Feb. 2012): **4.7% pa gross/3.7% pa net**

Net return volatility (since Feb. 2012): **0.42% pa**

FE/Atchison/Australia Ratings: **4 FE Crowns/Highly Recommended/Superior**

December 2019

[Click Here to Apply Online]

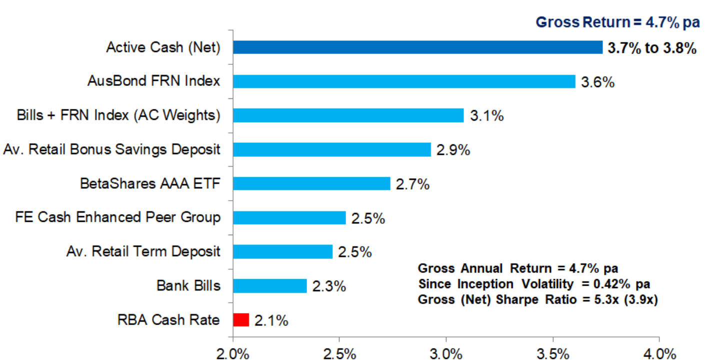
Objective: An independently-rated/recommended strategy targeting low-risk cash and fixed-income returns that exceed the RBA's cash rate by 1%-2% pa after fees, over rolling 12 month periods.

Strategy: We actively invest in a diversified portfolio of Australian deposits and investment grade floating-rate notes with a weighted-average "A" credit rating. We do not invest in fixed-rate bonds (unless interest rate risk is hedged), sub-investment grade bonds, direct loans, equities, capital notes, preference shares (aka 'hybrids'), use leverage, or take currency risk. We add value via active asset-selection using a range of valuation models with the aim of (1) delivering lower portfolio volatility than traditional bond funds and (2) providing superior risk-adjusted returns, or alpha, without explicitly seeking interest rate risk, credit risk or liquidity risk. The strategy is managed by Coolabah Capital Investments, which is a specialist active credit manager.

Period ending 31/12/2019	Gross Return (Assist.)†	Net Return (Insto.)†	Net Return (Assist.)†	RBA Cash Rate	Gross Excess Return‡	Net Excess Return (Insto.)‡
1 month	0.23%	0.18%	0.17%	0.06%	0.17%	0.12%
3 months	0.65%	0.48%	0.48%	0.19%	0.46%	0.29%
6 months	1.30%	0.93%	0.88%	0.44%	0.86%	0.49%
1 year	**3.90%**	**2.98%**	**2.91%**	**1.16%**	**2.74%**	**1.82%**
2 years pa	3.10%	2.34%	2.24%	1.33%	1.77%	1.01%
3 years pa	3.30%	2.53%	2.45%	1.39%	1.91%	1.14%
4 years pa	3.72%	2.88%	2.81%	1.47%	2.25%	1.41%
5 years pa	3.60%	2.80%	2.73%	1.60%	2.00%	1.20%
Inception pa Feb. 2012	**4.67%**	**3.79%**	**3.73%**	**2.08%**	**2.59%**	**1.71%**

† The Assisted (Assist.) and Institutional (Inst.) columns represent different unit classes. Refer to the PDS for more information. ‡ The Excess Return columns represent the gross and net return above the RBA cash rate.

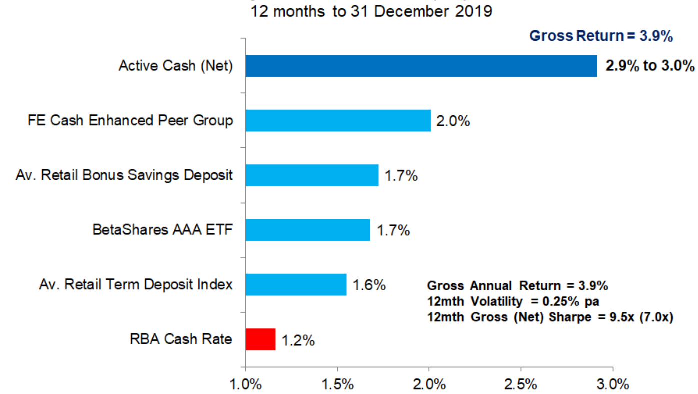
Smarter Money Active Cash Returns (Net) vs Benchmarks:
Since Inception in February 2012 to 31 December 2019



Source: RBA; Bloomberg; Coolabah Capital Investments

Disclaimer: Past performance does not assure future returns. Returns are shown after all trust fees. All investments carry risks, including that the value of investments may vary, future returns may differ from past returns, and that your capital is not guaranteed. To understand Smarter Money Active Cash's risks better, please refer to the detailed Product Disclosure Statement. The graph above shows the net returns since inception (Feb. 2012) after all fees attributable to Smarter Money Active Cash (source: Mainstream) and various benchmarks (source: Reserve Bank of Australia and Bloomberg). A fund is not a bank deposit and your capital is not guaranteed. This information has been prepared by Smarter Money Investments. It is general information only and is not intended to provide you with financial advice.

Smarter Money Active Cash Returns (Net) vs Benchmarks:
12 months to 31 December 2019



Source: RBA; Bloomberg; Coolabah Capital Investments

Disclaimer: Past performance does not assure future returns. Returns are shown after all trust fees. All investments carry risks, including that the value of investments may vary, future returns may differ from past returns, and that your capital is not guaranteed. To understand Smarter Money Active Cash's risks better, please refer to the detailed Product Disclosure Statement. The graph above shows the net returns since inception (Feb. 2012) after all fees attributable to Smarter Money Active Cash (source: Mainstream) and various benchmarks (source: Reserve Bank of Australia and Bloomberg). A fund is not a bank deposit and your capital is not guaranteed. This information has been prepared by Smarter Money Investments. It is general information only and is not intended to provide you with financial advice.

% Monthly Returns > RBA Cash Rate + 0.66%	84.2%	Inception Av. Portfolio Weight to Cash	37.1%
Portfolio Weight to Cash Securities	12.1%	Portfolio Weight to AT1 Hybrids	0.0%
Portfolio Weight to Floating-Rate Securities	87.9%	Portfolio Weight to Sub-BBB- Securities	0.0%
Av. Portfolio Credit Rating	AA-	Cash-Flow Duration Across Portfolio	1,246 days
No. Cash Securities	6	Portfolio Weight to ABS/RMBS	13.9%
No. Floating-Rate Notes/Bonds	46	Credit Spread Duration	3.2 years
Total Number of Unique ADIs	16	Annual Volatility (since incep.)	0.42% p.a.
Av. Interest Rate (Gross Running Yield)	1.89%	Gross/Net Sharpe Ratio (since incep.)	5.3/3.9 times
Modified Interest Rate Duration	0.10 years		

Awards: FE Alpha Manager 2019: Christopher Joye; **Quant Ratings:** 4 FE Crowns (FE); 4 Stars (Morningstar, August 2019). **Qual Ratings:** Lonsec available to advisers; Mercer available to clients; Highly Recommended (Atchison); "Superior" (Aust. Ratings)

HIGHLY RECOMMENDED ATCHISON CONSULTANTS

Past performance does not assure future returns. Please read the PDS to understand risks and disclaimers on final page

FE CROWN FUND RATING

ALPHA MANAGER 2019 Christopher Joye

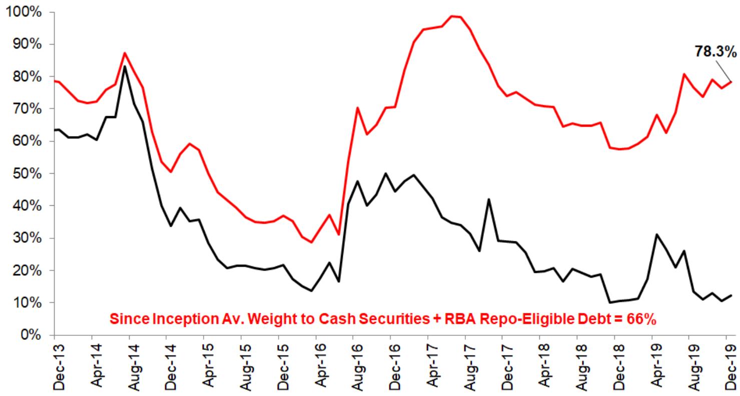
Australia Ratings SUPERIOR

www.coolabahcapital.com

Fund: **Smarter Money Fund**

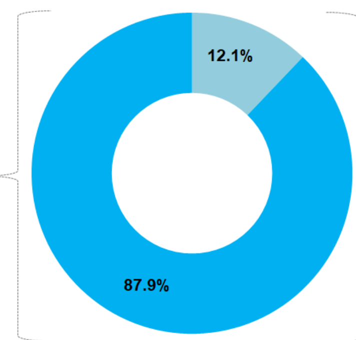
Return/Risk: **4.7% pa gross/3.7% pa net (0.42% pa volatility)**

SMAC Portfolio Weights: Cash Securities + RBA Repurchase Eligible Debt
End of Month, December 2019



Source: Coolabah Capital Investments

Smarter Money Active Cash Portfolio Composition:
31 December 2019



> 46x Australian (mainly bank) FRNs; 52x securities in total incl. cash

> Dollar-weighted Credit Rating: "AA-"

> Near-zero interest rate duration risk (0.10yrs)

> Credit spread duration: 3.2yrs

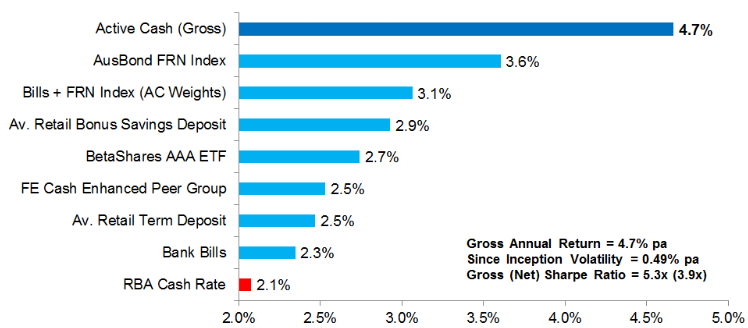
> Hybrid Additional Tier 1 (AT1) Securities = 0%

> 16 Unique ADIs represented in total across entire portfolio

> Total RMBS + ABS weight: 13.9%

Source: Coolabah Capital Investments

Smarter Money Active Cash Returns (Gross) vs Benchmarks:
Since Inception in February 2012 to 31 December 2019



Source: RBA; Bloomberg; Coolabah Capital Investments

Disclaimer: Past performance does not assure future returns. The Smarter Money Active Cash Fund return shown is before all trust fees. All investments carry risks, including that the value of investments may vary, future returns may differ from past returns, and that your capital is not guaranteed. To understand Smarter Money Active Cash's risks better, please refer to the detailed Product Disclosure Statement. The graph above shows the gross return since inception (Feb. 2012) before all fees attributable to Smarter Money Active Cash (source: Mainstream) and various benchmarks (source: Reserve Bank of Australia and Bloomberg). A fund is not a bank deposit and your capital is not guaranteed. This information has been prepared by Smarter Money Investments. It is general information only and is not intended to provide you with financial advice.

The since inception gross (net) return of 4.7% p.a. (3.7% p.a.) is the total annual return earned by the fund since February 2012, including interest income and movements in the price of the bond portfolio after all fund fees. The net return quoted applies to the Assisted Investor Unit Class, with quarterly distributions reinvested. Each investor's return will vary depending upon their own investment date and any top-ups and withdrawals they make. **The annualised volatility estimate of 0.42% p.a.** is based on the standard deviation of net daily returns since inception, which are then annualised, attributable to the Assisted Unit Class.

Portfolio Managers	Christopher Joye, Ashley Kabel, Stephen Parker, Darren Harvey (Coolabah Capital Investments)		
APIR Code (Assisted)	CRE0014AU	Fund Inception	17-Feb-12
mFund Code	SMF01	Distributions	Quarterly
Morningstar Ticker	19382	Unit Pricing	Daily (earnings accrue daily)
Asset-Class	Short-Term Fixed-Interest	Min. Investment	$1,000
Target Return	Net 1-2% over RBA cash rate	Withdrawals	Daily Requests (funds normally in 3 days)
Investment Manager	Smarter Money Investments	Buy/Sell Spread	0.00%/0.05%
Sub-Manager	Coolabah Capital Investments	Mgt. Fee (Assisted)	0.41% p.a.
Responsible Entity	EQT RE Services Ltd	Admin. Fee	0.25% p.a.
Custodian	BNP Paribas	Perf. Fee	20.5% of returns over RBA cash + 1.66% p.a.

HIGHLY RECOMMENDED ATCHISON CONSULTANTS

Past performance does not assure future returns. Please read the PDS to understand risks and disclaimers on final page

FE CROWN FUND RATING

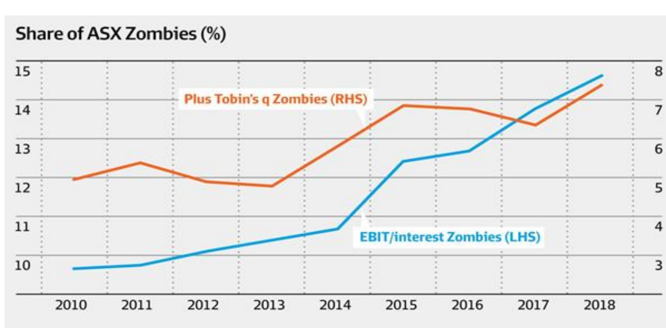
ALPHA MANAGER 2019 Christopher Joye

Australia Ratings SUPERIOR

www.coolabahcapital.com

Portfolio commentary: Coolabah Capital Investment's zero duration Smarter Money Active Cash (SMAC) strategy returned between 0.17% and 0.18% net of fees (0.23% gross) in December, outperforming the RBA cash rate's 0.06%, the AusBond Bank Bill Index's 0.07%, the average "Cash Enhanced" peer group return reported by FE fundinfo (0.07%) and the AAA ETF's 0.11%. **Over the 12 months to December 2019, SMAC returned 2.91% to 2.98% net of fees (3.90% gross), outperforming the RBA Cash Rate (1.16%), the AusBond Bank Bill Index (1.50%), the AAA ETF (1.68%), and the "Cash Enhanced" peer group return reported by FE fundinfo (2.01%).** SMAC's outperformance over the last year has been driven by the portfolio managers consistently exploiting mispricings in both the primary (new issue) and secondary (existing assets) markets. Although SMAC's performance in 2019 compared to the RBA cash rate (2.9% annualised net of fees for SMAC vs the 1.2% cash rate) might appear surprisingly high, it reflects the fact that the assets acquired by the portfolio managers have paid spreads well above their modelled fair value estimates. **Since SMAC's inception almost 8 years ago in February 2012, it has returned between 3.73% and 3.79% annually (4.67% pa gross) net of fund fees compared to the AusBond Bank Bill Index (2.35%) and the "Cash Enhanced" peer group return reported by FE fundinfo (2.53%). Over the same period, SMAC has delivered 1.7% pa net (2.6% pa gross) above the RBA cash rate and 2.0% pa net (3.0% pa gross) above Australia's core inflation rate.** SMAC's since inception Sharpe Ratio, which measures risk-adjusted returns, has been 5.3 times (3.9 times) gross (net). While SMAC's return volatility since inception has been low at less than 0.5% pa (measured using daily returns), as a daily liquidity product with assets that are marked-to-market using executable prices, volatility does exist. This contrasts with illiquid credit (e.g. loans and high yield bonds) wherein assets that have very high risk can appear to have remarkably low volatility, which is, in fact, just a mirage explained by the inability to properly value these assets using executable prices.

Strategy commentary: **In December Coolabah Capital Investments' credit portfolios performed well, although the really big story is the smashing interest rate duration, or fixed- as opposed to floating-rate bonds, copped over the month. A portfolio of AAA rated Aussie government bonds lost 2.07% of its value — that is more than its annual yield — in December while the benchmark fixed-rate AusBond Composite Bond Index fell 1.64% as local and global growth expectations started mean-reverting.** This little noticed event is, in fact, the single worst monthly result for the Composite Bond Index since way back in September 1994 when the index fell -2.28%! Older heads will remember 1994 as the bond market bloodbath when the Fed surprised markets by rapidly increasing its cash rate. The massive December 2019 loss for duration has, however, come after a truly stellar run. Even accounting for the draw-down last month, the Composite Bond Index is still up 7.26% in 2019. For institutional clients we run Coolabah's Active Composite Bond Strategy, which is benchmarked against this index, and it returned 11.51% in 2019 before fees (it is not available to retail and fee terms are confidential, hence the need to quote gross) and substantially outperformed in December as well. This time around central banks are unlikely to want to emulate the Fed's efforts in 1994 given their contemporary commitment to forward guidance and keeping rates low for long (notwithstanding that US wages growth is converging back to pre-GFC levels). **So, while duration may continue to struggle, this should be a healthy retracement rather than complete Armageddon unless our expected elevated-inflation cycle materialises more quickly than the longer-term horizon we have previously proposed. Another fascinating feature of December is the fact that fixed-rate bonds and shares were yet again positively, not negatively, correlated with the All Ordinaries Accumulation Index, which is the main local equities benchmark, falling 1.9%. Like the Composite Bond Index, this was small beer in the context of the calendar year performance with domestic shares delivering 24.06% including dividends.** We've been a lonely voice that has for years argued that using duration as an equities hedge is a dicey strategy, especially during inflationary periods when the correlation has historically been positive (both Goldman Sachs and Milliman have verified this over the last 100+ years). Set against this backdrop, Aussie floating-rate credit performed well. In contrast to the losses in fixed-rate bonds, the AusBond Floating-Rate Note (FRN) Index rose 0.15% in December while the hybrid market stormed 0.38% higher before franking. Over the last 12 months, the FRN Index returned a solid 2.90% compared to the 1.16% yield offered by the RBA cash rate. The ASX hybrid market had another cracker, providing 6.34% in total return terms before franking. **December played out as we had projected with a distinct diminution in geo-political risks as China and the US agreed a largely meaningless phase one trade deal that was nonetheless lapped-up by markets keen to avoid left-tail risks while BoJo's electoral victory in Britain provides a powerful mandate for the Brexit deal he has agreed with the EU. In December we updated our popular analysis on the rising proportion of zombie companies on the ASX, that is companies that cannot service their debts if interest rates rise. The latest results are enclosed below.**



Strategy commentary cont'd: **The first, broader measure of a zombie requires it to have been listed on the ASX for more than 10 years and to have an interest coverage ratio (ICR) that is less than 1 for three consecutive years, where the ICR is defined as the ratio of earnings before interest and tax (EBIT) to the interest repayments on the company's debt. A second narrower measure adds the requirement that the zombie also has very low growth potential with a ratio of the company's market value of its assets to their replacement cost (proxied by "Tobin's q") that is less than the median of their industry sector.** This approach replicates the methodology developed by Ryan Banerjee and Boris Hofmann at the Bank for International Settlements (BIS) in 2018. Tobin's q is calculated as the sum of the market value of the company's assets and liabilities divided by the sum of the book value of its equity and debt. Our quants have also added a few new proprietary filters to further improve the accuracy of our analysis. Interestingly, the results for Australia are almost identical in terms of both the directional trend and the actual share of zombies to the BIS's findings for developed countries, which suggests that the rise of zombies is a global phenomenon. **We conclude that almost 15% of all ASX stocks are zombies based on our broader definition, which shrinks to about 7.5% if we impose the extra requirement of low expected growth. Crucially, these shares are both rising fast: the number of observed zombies on both definitions has increased 50% since 2010. The emergence of an expanding cohort of zombies casts into sharp relief the trade-offs of hyper-stimulatory monetary policy. Dan Andrews, the Commonwealth Treasury's Chief Adviser on Macroeconomic Modelling & Policy, emailed us regarding this work following its publication in the AFR.** "Your results are consistent with a new paper of mine that shows an increasing survival of low productivity incumbents from circa 2012," Andrews wrote. This treasury research corroborates one of our central theses: that unconventional monetary policy is thwarting the creative destruction inherent in capitalism that reallocates scarce labour and capital away from unproductive businesses to more innovative firms. Andrews and his co-author David Hansell find that Australia fares well on a global basis in terms of its ability to ensure productive companies attract more human talent than less productive peers. And they show that because of this, labour productivity is 20% higher than it would be if workers were randomly distributed. The bad news is that the speed with which high productivity companies expand and low productivity businesses contract has been slowing over time with this dysfunction especially evident since 2009. The treasury economists also verify our data scientists' research documenting a growing number of zombies by presenting "evidence that low productivity incumbent firms are increasingly likely to survive". **In fact, the rising influence of zombie-like companies accounts for about one-quarter of the slowdown in overall productivity growth since 2012. And since higher productivity firms pay higher wages, the zombiefication of industry "provides a new insight into why aggregate wage growth over recent years has been weaker than expected". Reducing interest rates boosts employment, investment and economic growth in the short term. But to the extent that this is generating fake growth, and capitalism's creative destruction is being thwarted by allowing bad businesses to survive when they would otherwise die, central banks could be undermining future productivity and growth outcomes.** Don't forget to listen to Coolabah Capital's popular Complexity Premia podcast. You can listen on your favourite podcast app, or you can find it on Apple Podcasts or Podbean here.