

January 2020
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FE/Atchison/Australia Ratings: 4 FE Crowns/Highly Recommended/Superior

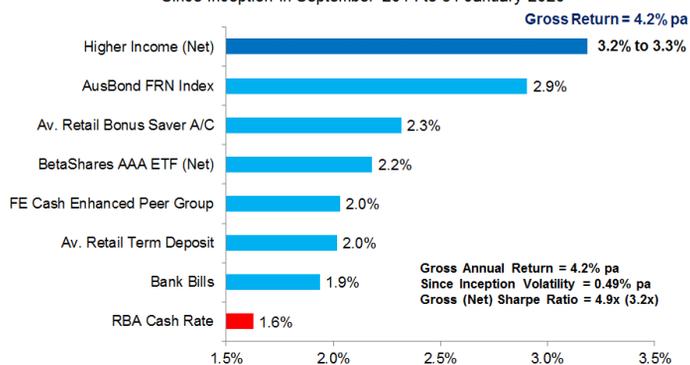
Objective: An independently-rated/recommended strategy targeting low-risk cash and fixed-income returns that exceed the RBA's cash rate by 1.5%-3.0% pa after fees, over rolling 12 month periods.

Strategy: We actively invest in a diversified portfolio of Australian deposits, investment grade floating-rate notes and hybrid securities with a weighted-average "A" credit rating. We do not invest in fixed-rate bonds (unless interest rate risk is hedged), direct loans, 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 31/1/2020	Gross Return (Assist.)†	Net Return (Insto.)†	Net Return (Assist.)*	RBA Cash Rate	Gross Excess Return‡	Net Excess Return (Assist.)*‡
1 month	0.28%	0.23%	0.21%	0.06%	0.21%	0.15%
3 months	0.78%	0.62%	0.59%	0.19%	0.59%	0.40%
6 months	1.09%	0.79%	0.72%	0.42%	0.67%	0.30%
1 year	4.23%	3.32%	3.19%	1.10%	3.13%	2.09%
2 years pa	3.37%	2.59%	2.45%	1.30%	2.07%	1.15%
3 years pa	3.67%	2.91%	2.77%	1.37%	2.31%	1.40%
4 years pa	4.31%	3.41%	3.28%	1.45%	2.86%	1.83%
5 years pa	4.06%	3.20%	3.06%	1.57%	2.49%	1.49%
Inception pa Sep. 2014	4.19%	3.32%	3.19%	1.63%	2.56%	1.56%

† The Assisted (Assist.) and Institutional (Insto.) columns represent different unit classes. Refer to PDS for more information. ‡ The Excess Return columns represent the gross and net return above the RBA cash rate. * Based on 0.69% admin/custody/RE/mgt fee introduced 1 February 2017.

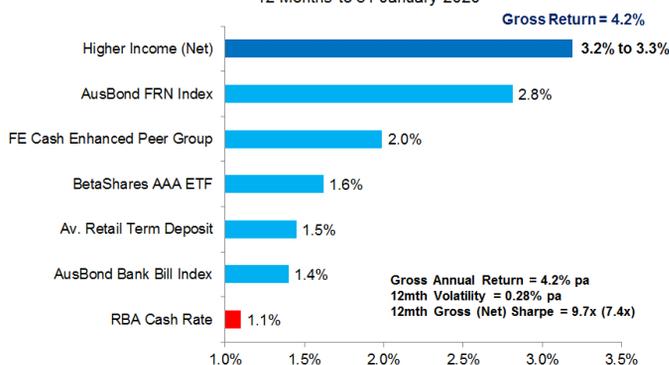
Smarter Money Higher Income Returns (Net) vs Benchmarks:
 Since Inception in September 2014 to 31 January 2020



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 Higher Income's risks better, please refer to the detailed Product Disclosure Statement. The graph above shows the net returns after all fees attributable to the Smarter Money Higher Income and various benchmarks. 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 Higher Income Returns (Net) vs Benchmarks:
 12 Months to 31 January 2020



Source: RBA; Bloomberg; Coolabah Capital Investments

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% Monthly Returns > RBA Cash Rate + 0.69%	81.3%	Inception Av. Portfolio Weight to Cash	13.1%
Portfolio Weight to Cash Securities	10.3%	Portfolio Weight to AT1 Hybrids	6.3%
Portfolio Weight to Floating-Rate Securities	89.7%	Cash Securities + RBA Repo-Eligible Debt	70.0%
Av. Portfolio Credit Rating	AA-	Cash-Flow Duration Across Portfolio	1,265 days
No. Cash Securities	5	Portfolio Weight to ABS/RMBS	19.6%
No. Floating-Rate Notes/Bonds	77	Credit Spread Duration	3.3 years
Total Number of Unique ADIs	14	Annual Volatility (since incep.)	0.49% p.a.
Av. Interest Rate (Gross Running Yield)	2.11%	Gross/Net Sharpe Ratio (since incep.)	4.9/3.2 times

Modified Interest Rate Duration 0.07 years

Awards: FE Alpha Manager 2019: Christopher Joye; **Quant Ratings:** 4 FE Crowns (FE); **Qual Ratings:** Lonsec available to clients; Highly Recommended (Atchison); Superior (Aust. Ratings)



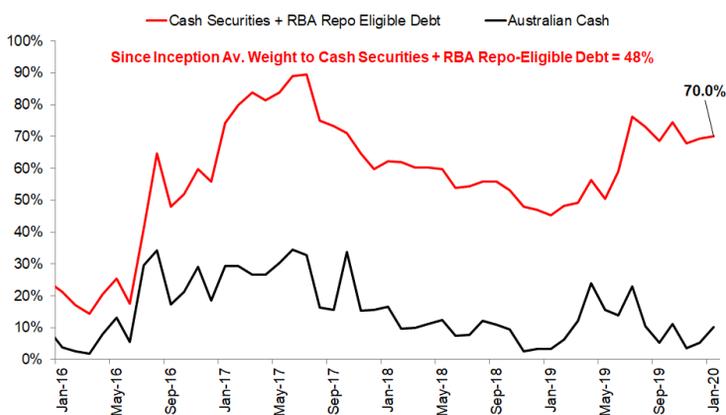
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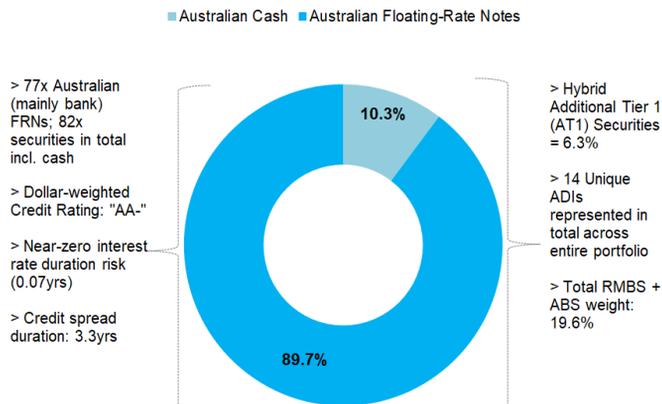


SMHI Portfolio Weights: Cash Securities + RBA Repurchase Eligible Debt
End of Month, January 2020



Source: Coolabah Capital Investments

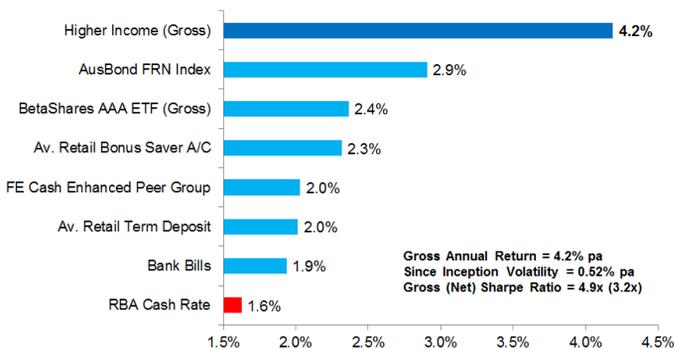
Smarter Money Higher Income Portfolio Composition:
31 January 2020



Source: Coolabah Capital Investments



Smarter Money Higher Income Returns (Gross) vs Benchmarks:
Since Inception in September 2014 to 31 January 2020



Source: RBA; Bloomberg; Coolabah Capital Investments

The since inception gross (net) return of 4.2% p.a. (3.2% p.a.) is the total annual return earned by the fund since September 2014, including interest income and movements in the price of the bond portfolio after all fund fees (assuming the 1 February 2017 0.69% admin/custody/RE/mgt fee regime has always applied). 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 0.49% 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)	SLT0052AU	Fund Inception	30-Sep-14
mFund Code	SMF02	Distributions	Quarterly
Morningstar Ticker	40536	Unit Pricing	Daily (earnings accrue daily)
Asset-Class	Short-Term Fixed-Interest	Min. Investment	\$1,000
Target Return	Net 1.5%-3.0% > RBA cash	Withdrawals	Daily Requests (funds normally in 3 days)
Investment Manager	Smarter Money Investments	Buy/Sell Spread	0.00%/0.10%
Sub-Manager	Coolabah Capital Investments	Mgt. Fee (Assisted)	0.44% p.a.
Responsible Entity	EQT RE Services Ltd	Admin. Fee	0.25% p.a.
Custodian	BNP Paribas	Perf. Fee	22.5% of returns over RBA cash + 2.19% p.a.



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Portfolio commentary: Coolabah Capital Investment's zero duration Smarter Money Higher Income (SMHI) strategy returned between 0.21% and 0.23% net of fees (0.28% gross) in January outperforming the RBA cash rate's 0.06%, the AusBond Bank Bill Index's 0.08%, the AAA ETF's 0.10%, the average "Cash Enhanced" peer group return reported by FE fundinfo (0.11%), and the AusBond Floating-Rate Note (FRN) Index's 0.20%. **During the 12 months to January 2020, SMHI returned 3.19% to 3.32% net of fees (4.23% gross), outperforming the RBA Cash Rate (1.10%), the AusBond Bank Bill Index (1.40%), the AAA ETF (1.62%), the average "Cash Enhanced" peer group return reported by FE fundinfo (1.99%) and the AusBond FRN Index (2.81%).** SMHI's superior performance 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. **Since its inception, over 5 years ago in September 2014, SMHI has returned 3.19% to 3.32% annually net (4.19% pa gross) of fund fees depending on the unit class with annualised volatility of only 0.49% (measured using daily returns), outperforming the RBA cash rate (1.63% pa), the AusBond Bank Bill Index (1.94%), the FE fundinfo Cash Enhanced peer group return (2.03%), and the AusBond FRN Index (2.90% pa) over the same period.** SMHI's since inception Sharpe Ratio, which measures risk-adjusted returns, has been 4.9 times (3.2 times) gross (net). While SMHI's return volatility since inception has been low, 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: January was a strong month for Coolabah's portfolios and Aussie credit performance-wise, but definitely one of the more curious and event-ridden periods we have had to traverse. Although the miserly 0.75% RBA cash rate only offered a 0.06% return in January, the AusBond Floating-Rate Note Index delivered a solid 0.20% while the ASX major bank hybrid market offered an even more hefty 0.41%. The real stand-out, however, was the fixed-rate AusBond Composite Bond Index, which returned a massive 2.33% in January as a result of a huge 42 basis point (bps) fall in the 10-year Australian government bond yield, which declined from 1.39% at 31 December to 0.97% by the end of January. For institutional clients, Coolabah runs an Active Composite Bond Strategy, which returned 2.54% in January before fees, some 21bps ahead of the index (gross numbers are quoted for this strategy because the fee terms are confidential). After posting the worst monthly return (-1.64%) in December since September 1994, some payback in the Composite Bond Index was perhaps to be expected. It turned out that January was the best result for interest rate duration since May 2012. January was a very active month for primary market bond activity with the major banks all issuing locally and globally, taking advantage of the fact that the US dollar and Euro markets offer as cheap, if not cheaper, funding than their Aussie dollar equivalents for many parts of their capital structures, including senior and subordinated bonds (after accounting for the cost of hedging this money back into Aussie dollars). We estimate that the majors raised \$25.7bn of funding/capital in January across a range of securities, including RMBS, covered bonds, senior unsecured bonds, and Tier 2 bonds with only \$8.2bn of that quantum priced in local currency. This reflects the strong demand for paper from these very highly-rated, AA- issuers. **For Coolabah, it was a very active month with a lot of mispricing alpha crystallised, juxtaposed against some costs from putting in place portfolio insurance against various external shocks. In the month we executed over \$2.2bn of active credit trades (against circa \$4.1bn of AUM), with \$1bn of purchases and \$1.2bn of sales (ie, we were a net seller). Within this, we bought a little over \$600m in primary market new issues, leaving more than \$1.6bn of active trading in secondary markets.** After sailing through December with superficial resolution to the US-China trade wars and Brexit, markets were priced for near-perfection. January duly delivered a rather extreme dose of exogenous shocks. We started with the Iranians launching 22 ballistic missiles against two US bases in Iraq, 16 of which hit their mark, fortuitously only destroying a few hangers, helicopters and drones. Signals intercepts allowed US troops to evacuate the bases or protect themselves in bunkers hours in advance of the Iranians seeking kinetic retribution for President Trump's bold decision to liquidate their second-most-senior government official, the now infamous General Qassem Soleimani. In the face of Trump having achieved his objective of eliminating what was perceived to be one of the Middle East's greatest terrorist threats, the hitherto capricious leader of the free world exercised surprising restraint in choosing not to escalate, even though he had previously promised to do exactly that should the Iranians retaliate. (Despite reports of no casualties, more than 34 US troops were impacted by brain damage from the shockwaves from the ballistic missile blasts.) The portfolio insurance we put in place against outright war between Iran and the US therefore proved to be unnecessary. **Locally, the east coast of Australia was then slammed by its own force majeure in the form of the horrific bushfires, which while incredibly tragic—and briefly trapping one of our portfolio managers—is unlikely to have any material medium-term impact on the economy save for an apparent regime-change in the public sensitivities to the effects of climate change.** The month concluded with the emergence of the global pandemic known as the "novel coronavirus", which feels like unprecedented territory for markets and has certainly triggered a renewed bout of risk-aversion. This contributed to the exceedingly strong rally in interest rate duration (i.e. the reduction in long-term government bond yields) and, at the margin, pushed risk premia a little wider although equity markets have been surprisingly resilient thus far.

Strategy commentary cont'd: The coronavirus is likely to detract from global economic activity in the near-term and intensify pressure on both fiscal and monetary authorities to furnish further stimulus in a world that is already awash with it care of coordinated global central bank rate cuts in 2019 and additional QE from the likes of the ECB and the Fed. **Financial markets continue to price in extra RBA rate cuts with a 0.33% cash rate forecast by December 2020. Martin Place has made it clear that it will consider alternative policies, such as QE, once it hits its effective lower bound at 0.25%, which is just two official cuts away.** 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.



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