SMARTER MONEY HIGHER INCOME FUND

Rating: Recommended

ATCHISON CONSULTANTS

Report Date: June 2018

PRODUCT FEATURES SUMMARY

Product	**Smarter Money Higher Income Fund, also known as the Smarter Money Higher Income strategy (SMHI)**
Manager	Smarter Money Investments Pty Ltd
Inception	October 2014
APIR Code	Assisted/mFund Units: SLT0052AU Direct Units: SLT0051AU
Distribution Dates	30 June, 30 September, 31 December, 31 March
Managed Fund Platform	Macquarie Wrap BTPanorama Asgard Inifinity Netwealth HUB24 Mason Stevens Powerwrap Praemium UBS OneVue uXchange Australian Money Market Managedaccounts.com.au
Asset Class	Fixed – Income
Benchmark	RBA Cash Rate +1.5% p.a. after all fees and costs
Investment Objectives	Exceed the RBA's official target cash rate plus 1.5% - 3.0% per annum net fees over a rolling 12-month period
Minimum Investment	$1,000
Management and Administration Fee	0.44% p.a. + 0.25% p.a.
Performance Fee	22.5% (incl. GST) of net returns excess of the RBA cash rate plus 1.5% pa after all fund fees
Buy/Sell Spread	0.000%/0.100%
Investment	Australian deposits, term deposits, floating rate notes, ASX listed hybrids issued by banks and companies
Guidelines	Refers to "Portfolio Construction Policy"

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 50% shareholder Coolabah Capital Investments Pty Ltd (CCI), which manages $2.7 billion in cash and fixed-income investments for institutional and retail clients.

The Smarter Money Higher Income Fund (Fund) was established in October 2014 as an actively managed portfolio of Australian deposits, investment-grade bonds and hybrids issued by banks and companies that targets a return higher than the RBA's official cash rate plus 1.5% - 3.0% p.a. after fees and expenses.

RATING CONSIDERATIONS

Strengths

- Senior portfolio managers have been working together since inception of the Fund, indicating a cohesive investment environment.
- Experienced investment team including eight full-time professionals is sufficiently resourced.
- Combination of quantitative valuation analysis and active trading leads to an understanding of the contribution to risk and return of the portfolio.
- The Manager has demonstrated a commitment to continually improve resourcing and investment processes (including ongoing enhancements to quant models).

Weaknesses

- The Fund has not yet been managed through a complete investment cycle.
- 22.5% performance fee is deemed high on a relative basis.
- With growing FUM the potential to continue to deliver strong excess returns may diminish due to inability to take meaningful positions.
- The risk of key staff departures may have an adverse effect while this has been partially addressed through equity sharing arrangements.

Overall, Atchison Consultants rate the Fund as:

RATING			
Not Investment Grade	Investment Grade	Recommended	Highly Recommended

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Rating Definitions

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

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

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

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

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

Organisation

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

CCI is 75% owed by its investment team and 25% owned by family office AMB holdings, the multi-billion-dollar investment entity.

CCI owns 50% of the Smarter Money Investment Pty Ltd (SMI) and is responsible for managing SMI's portfolio along with other institutional mandates, with funds more than $2.7 billion in total.

SMI is the investment manager and CCI is the sub-manager for the Smarter Money Higher Income Strategy (SMHI), which is an actively managed portfolio of Australian deposits, investment-grade bonds and hybrids issued by banks and companies, that in combination targets return that exceed the RBA's official cash rate plus 1.5% - 3% pa. after fees and ordinary expenses over rolling 12-month periods.

SMHI targets adding-value via active asset-selection using a range of valuation models with the aim of (1) delivering lower portfolio volatility than traditional cash/bond funds and (2) providing superior risk-adjusted returns or alpha without explicitly seeking interest rate risk, credit risk or liquidity risk. SMHI was established in October 2014.

Business Philosophy

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

CCI believes that the Australian cash and fixed-income markets are especially inefficient vis-à-vis other investment categories for several reasons, including, but not limited to: (1) the highly opaque/ non-transparent nature of price discovery given that there is no formal requirement to publicly report the prices and volumes of bond transactions in Australia (the ASX-owned Austraclear platform does not release this data in contrast to ASX traded equities). This means that there is very limited visibility on asset price movements that leads to bond mispricing's that can create opportunities for active asset-selectors; and (2) the use of much lower index-like management fees than other asset-classes that have encouraged passive portfolio approaches and discouraged active investment styles and the attraction and retention of top human talent (reflected in the smaller analyst teams found in fixed-income compared to equities).

SMI/CCI's approach to marketing SMHI is to distribute the Fund to institutional and retail investors. SMI has four full-time product distribution professionals to support the growth of SMHI and SMI's two other funds, Smarter Money Active Cash Fund and Smarter Money Long Short Credit Fund.

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.

SMI estimates total FUM capacity for this Fund to be ~$5-10 billion based on peers and the size of the Australian investment-grade bond universe, which is valued at approximately $1.5 trillion. Fund size as of May 2018 is circa $420 million.

People and Resources

CCI's full-time investment team consists of two senior portfolio managers (PMs), two portfolio managers/quant analysts, four credit/quant analysts, a portfolio management director and one part-time advisers with significant experience in fixed income market. CCI has also recently hired a senior data scientist to take the number of full-time employers to 17.

The two senior PMs (Joye and Harvey) are regarded as highly experienced in managing and trading portfolios Australian cash securities and bonds with a proven five-year plus track-record, applying their highly active style via SMAC. Joye focuses on idea generation, day-to-day portfolio management, and running the junior PMs and the analysts/advisers. Harvey has a more macro role concentrating on macro-market indicators, risk management, compliance and general mentoring.

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 four full-time credit analysts and a few part-time advisers 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 based on bottom-up and top-down quantitative valuation analysis applying several different models in 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 negative veto rights over all investments on risk grounds only. The two PMs individually also have veto rights on all positions and must jointly agree investments.

Biographies of the investment team as follows:

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

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

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

Howard and Rudd Governments and served as a Director of The Menzies Research Centre think-tank. Joye was also the founder and portfolio manager of the funds management and research group, Rismark International, which was sold to an investment bank in 2010. Joye's main responsibilities at SMI are:

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

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

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

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

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

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

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.

Kai Lin joined CCI in 2017 as a full time quantitative analyst focusing on assets pricing. 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 etc.

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

Peter Dore CA, Financial Controller, is a Chartered Accountant and Chartered Tax Adviser who previously worked for Ernst and Young (EY) specialising in corporate tax. After Dore’s time at EY he moved to Optiver Pty Limited, where Dore oversaw the finance function of the Optiver Hong Kong Entities to ensure financial accuracy and SFC reporting.

Matt Wilson joined CCI in 2016 as a portfolio management adviser to assist with quantitative analysis. Prior to this, Matt served as an Associated Director at ANZ (2010 – 2015) mainly in charge of interest rate trading, market making and risk management across various trading securities. Prior to that, Matt was a risk analyst at ANZ covering equities, commodities, credit and so on. At CCI, Matt focuses on quant asset pricing research.

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

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

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

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

However, as the portfolio managers are significant shareholders in the business, collectively owning 75% of CCI, which in turn owns 50% 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.

Currently equity ownership within the investment team applies to all current portfolio managers, and full-time credit analysts after CCI established an employee share plan that is available to all staff. Part-time researchers 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 six-year-plus track-record in the top three deciles of enhanced cash/short-term fixed interest managers in each calendar year since inception. The Fund itself has also performed in the top three deciles for each calendar year since its inception in October 2014. (*Source: FE Analytics)*

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

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

Investment Process

Investment Philosophy

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

- CCI believes in cash and fixed income securities’ risk adjusted diversification. 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 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 cash is a powerful inflation hedge. With central bank’s formal “inflation-targeting” mandate (as documented under the Statement on the Conduct of Monetary Policy), Australian cash securities and FRNs have delivered attractive “real” or inflation-adjusted returns. The RBA cash rate plus 1% per annum has yielded strong real, inflation-adjusted returns of approximately 3.5% per annum since 1990.
- Despite CCI believes that long-term interest rate duration is a major source of risk and argues that long-term duration is impossible to predict, they see that the interest rate-related financial markets 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 there are inherent unexploited inefficiencies in the Australian cash and fixed-income markets due to: (1) weak economic incentives in the form of very low fees encouraging very passive, hold-to-maturity investment styles and a paucity of active investment management (and top human talent), which means asset pricing is not as efficient as it should be; and (2) opaque price discovery as a function of the fact that wholesale bonds settled through the ASX-owned Austraclear do not require prices to be publicly disclosed, which means that rapid information flows are thwarted. This again opens-up opportunities for nimble active managers to exploit these discrepancies.

- CCI believes that by applying rigours bottom-up ad top-down valuation process, active managers can add considerable value by dynamically adjusting portfolios for relative value opportunities between cash and FRNs.
- CCI believes that the combination of human talent on a cross asset-class basis with a commitment to comprehensive quantitative asset pricing (valuation) on both a bottom-up and top-down basis supported by more traditional qualitative due diligence would enable CCI to identify and exploit mispriced assets to deliver true "alpha", or risk-adjusted excess total returns, over and above the passive yield provided by those assets.

Investment Style

CCI's investment style can be described as an active short-term fixed-interest strategy, seeking to generate a consistent return for investors above the RBA cash rate of between 1.5% to 3.0% p.a. on an after fees basis. This is achieved through using a combination of Australian deposits, investment-grade bonds and hybrids issued by banks and companies. The Fund is structured with the objective to provide investors with exposure to wholesale bond market.

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. The 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 negative veto over any investment on risk grounds.
- Top-down quantitative 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.

The Fund predominantly invests in floating rate notes (i.e. bonds) and cash securities with a targeted weighted-average "A-" S&P credit rating, and investment grade ASX listed hybrids up to 15% of the portfolio. The Fund however can also invest in unlisted debt securities (10% max).

Investment Process

The investment process for SMHI is based on the premise that value can be added through:

- Actively managing the cash portfolio (i.e. continuous management to source the best possible interest rates on deposits relative to credit risk). Deemed by CCI as a modest contributor to alpha.

- Active asset selection of bonds identified via top-down and bottom-up valuation analysis to relentlessly seek and identify assets that are cheap relative to the managers assessment of fair value and which have a high likelihood of converging back to fair value and thus providing capital gains, CCI concludes is the major source of alpha.
- Active asset-allocation within the portfolio between pure cash and risker debt/hybrid securities depending on the PM's views of the relative value available in each asset-class. When debt securities are expensive they will revert to cash, and vice-versa. The Fund retains the ability to invest 100% in cash.

The investment process is regulated by the Investment & Governance Mandate (IGM) dated March 2017 which dictates, restricts and limits the universe of securities to an investable universe that reflects the conservative characteristics of the investment strategy. See Table 1 for Portfolio Construction Policy.

Table 1: Portfolio Construction Policy

Portfolio Construction Policy	
Unlisted, Unrated debt	10%
ASX listed hybrids	15%
Debt not listed on Austraclear or ASX or Australian-dollar securities governed under Australian law, settled via Euroclear.	0%
Foreign denominated debt	0%
Australian or global shares (excl. ASX listed bonds)	0%
Long-term fixed-rate bonds (>12mths) unless swapped to floating with AA-rated counterparty	0%
Collateralised debt obligations	0%
Issues sizes <$50m	0%
Inflation-linked bonds	0%
Gearing the Fund	No, unless using RBA liquidity facilities
Hybrids with significant equity risks, as determined by the Investment Committee, subject to being ASX listed	15%
At-Call Cash ETFs	10% per issuer
Non-prime mortgages	0%
Investment in or funding of related party issued securities or issued loans	0%

Source: Smarter Money Investments Pty Ltd (2017)

Table 2 below lists the Portfolio Construction Investment Limits.

Table 2: Portfolio Construction Investment Limits

Portfolio Construction Investment Limits	
Target weight to at-call bank deposits with APRA regulated ADI	0% to 10%
Target weight at-call deposits and term deposits with APRA-regulated ADI with maturities <12 months	0% to 10%
Target weight to at-call deposits, term deposits and other cash equivalent securities less than 12 months plus RBA repo-eligible floating rate notes	5% to 10%
Min. exposure to cash instruments	2%
Max. target weight to credit unions/building societies in deposit portfolio	15%
Maximum target weight to foreign-owned subsidiary banks regulated by APRA in deposit portfolio	30%
Maximum target weight to deposits with issuers with short-term S&P (or Moodys where S&P not available) credit ratings of less than A-2	30%
Target weight to investment grade, Australian dollar-denominated and issued, floating rate notes and hybrids	92.5%
Maximum exposure to non-deposit debt securities or hybrids	98%
Maximum target weight to Term Deposits	25%
Minimum (target) number of floating rate note issues	5 (max. 30) issues
Maximum (target) exposure to any one issuer at origination, excluding ADI deposits	33% (10%)

Target weighted-average S&P credit rating (or Moodys where S&P not available), excluding ADI bank deposits	A-
Max. (target) weighted-average time to maturity	3.5 years (less than 3 years)
Max. portfolio weight to RMBS	33% in total

Source: Smarter Money Investments Pty Ltd (2017)

Table 3 below lists the investment guidelines to be adopted when hedging macro-economic risk in the portfolio.

Table 3: Investment Guidelines

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

Source: Smarter Money Investments Pty Ltd (2017)

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

Table 4: Liquidity Guidelines

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

Source: Smarter Money Investments Pty Ltd (2017)

Portfolio Construction

The portfolio construction and security selection process is documented and consistent. Key investment factors include:

- Credit quality
- Duration risk
- Credit spread risk
- Industry risk
- Macro-economic risks
- Portfolio diversification
- Valuation considerations, including:
  - Credit rating
  - Capital structure position
  - Time to maturity
  - Liquidity
  - Issue size
  - Industry sector
  - Probability of default
  - Recovery rate
  - Relative value
  - Absolute value

The investment decision-making and portfolio construction process follows a disciplined and logical five step procedure, see Appendix 1 for Portfolio Construction - Decision-Making Process schematic.

Step 1 – 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 2 – Security Valuation

Securities that have been filtered through Step 1 are modelled by the quant analysts using up to 12 different proprietary valuation systems to estimate the fair value of securities versus their market values. The spread between values assist the PMs to determine whether to buy, hold, trim or sell a security. Securities market prices versus the PMs' determined fair value are monitored and reviewed daily using the internal quantitative models and external market data sourced from:

- Yieldbroker
- S&P Capital IQ
- Bloomberg and
- Other dealer sources

Step 3 - 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 4 – 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 5 – 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 negative veto on all decisions and providing general risk and macro-market insights and mentoring to the overall team.

Buy / Sell Decisions

All trades are monitored and reviewed by:

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

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

Trigger points that instigate a security review are:

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

Information Resources & Research Approach

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

Research Team

CCI continues to invest in its full-time research/investment team which has doubled since the last review. CCI now has four full-time quantitative analysts/PMs, four full-time credit analysts, a portfolio management director and a part-time advisor.

Internal Research

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

- Up to 20 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

Responsible Investing (ESG Policy)

The investment manager believes that Environmental, Social and Governance policy (ESGP) do have an impact on investment performance, credit ratings etc. As a result, CCI has incorporated Environmental, Social and Corporate Governance issues into the investment process to enhance investment performance and reduce potential credit risks. The investment team oversees the implementation with a particular focus on first-time issuers of corporate securities, where monitoring is undertaken by Ed Teh, the Compliance Manager, who is in turn overseen by the Independent Risk & Compliance Committee.

Implementation

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

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

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

An application for units in SMHI can also be made by using the appropriate online application form available on the SMI website: www.smitrust.com.au.

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

Risk Management and Compliance

Risk Management

Investment Risk Management

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

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

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

Interest rate and credit risk is minimised by:

- Investing in cash and floating-rate debt securities and is prohibited from investing in fixed-rate debt securities with more than 12 months term to maturity.
- Targeting a weighted-average S&P credit rating (or Moody's where S&P not available), of "A-" 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.

Administrative Risk Management

The following back-office functions are out-sourced:

- Responsible Entity - Equity Trustees Limited
- Administration – Mainstream Fund Services
- Custody - BNP Paribas
- Distribution - Yellow Brick Road ltd/Winston Capital/Shed EnterprisesR

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

Derivatives can be only used to hedge interest rate, credit and macro-economic risks through the purchase of options. Short positions must be backed by matched physical assets and long derivative positions must be matched by cash equivalents. Derivatives cannot be used to gear or leverage the Fund for higher returns.

Compliance

The Compliance Committee meets on a monthly-basis over the year to evaluate all internal and external compliance.

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

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

As at June 2018, CCI incurred one delayed response to an AFSL audit as the audit questionnaire failed to be delivered on time from the auditing team.

Fees and Costs

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

Administration & Management Fee

- 0.44% p.a. investment management fee, plus
- 0.25% p.a. administration fee covering all RE, administration, unit registry, and custody costs

Performance Fee

22.5% of the net excess out-performance versus the benchmark and high watermark, being RBA official target cash rate plus 2.19% per annum calculated every calendar month. The high watermark equates to the cumulative monthly performance of the Fund including distributions but before performance fees since inception.

Buy/Sell Spread

0.000%/0.100%

Liquidity

SMHI offers liquidity on a T+3 days basis during normal market conditions. Timing of any redemption of units is otherwise determined by the liquidity of the underlying investments and the efficiency of the platform administrator and SMI's administrator (Mainstream Fund Services).

Performance

SMHI inception date was 14 October 2014. For investment performance measurement purposes, the inception date used is 31 October 2014.

Refer to Appendix 2 for an analysis of the investment performance and risk metrics of SMHI at May 2018.

Performance (net of fees) against the Fund's benchmark and excess return is provided in Table 5 below.

Table 5: Performance (SLT0052AU) to 31 May 2018. (net)

	Smarter Money Higher Income Fund	Benchmark (RBA +1.5% p.a.)	Excess Return
1 Months (%)	0.04	0.25	(0.21)
3 Months (%)	0.07	0.75	(0.68)
6 Months (%)	0.72	1.48	(0.76)
1 Year (% pa)	2.39	3.00	(0.61)
3 Years (% pa)	3.12	3.17	(0.05)
Since Inception (% pa)	3.35	3.30	0.05

Source: Morningstar

Conclusion

- As of May 2018, the Fund has underperformed its benchmark over all the accessed periods over the last year.
- The underperformance was mainly attributed by the underperformed credit market in earlier months of 2018, where credit spreads widened globally given the fears on accelerating inflation in the US following a higher discount rate.
- The Fund was also adversely affected by the hybrid supply shocks during the month as alpha generation became very difficult
- The Fund however did increase its yield to maturity to over 3.4%
- The Fund generated a better performance over the longer term, outperforming its benchmark and peer group over 3-year, 5-year periods and since inception. (Performances has been provided in Appendix 2).
- Based on our assessments, we expect the Fund to perform a reasonable risk-adjusted return based on its current investment strategy.

Strength

- ✓ Senior portfolio managers have been working together since inception of the Fund, indicating a cohesive investment environment.
- ✓ Experienced investment team of eight full time investment professionals is sufficiently resourced.
- ✓ Combination of quantitative valuation analysis and active trading leads to an understanding of the contribution to risk and return of the portfolio.
- ✓ The Manager has demonstrated a commitment to continually improve resourcing and investment processes (including ongoing enhancements to quant models).
- ✓ In addition, the team are co-invested in the fund. Their interests are very much aligned with their clients.

Weaknesses

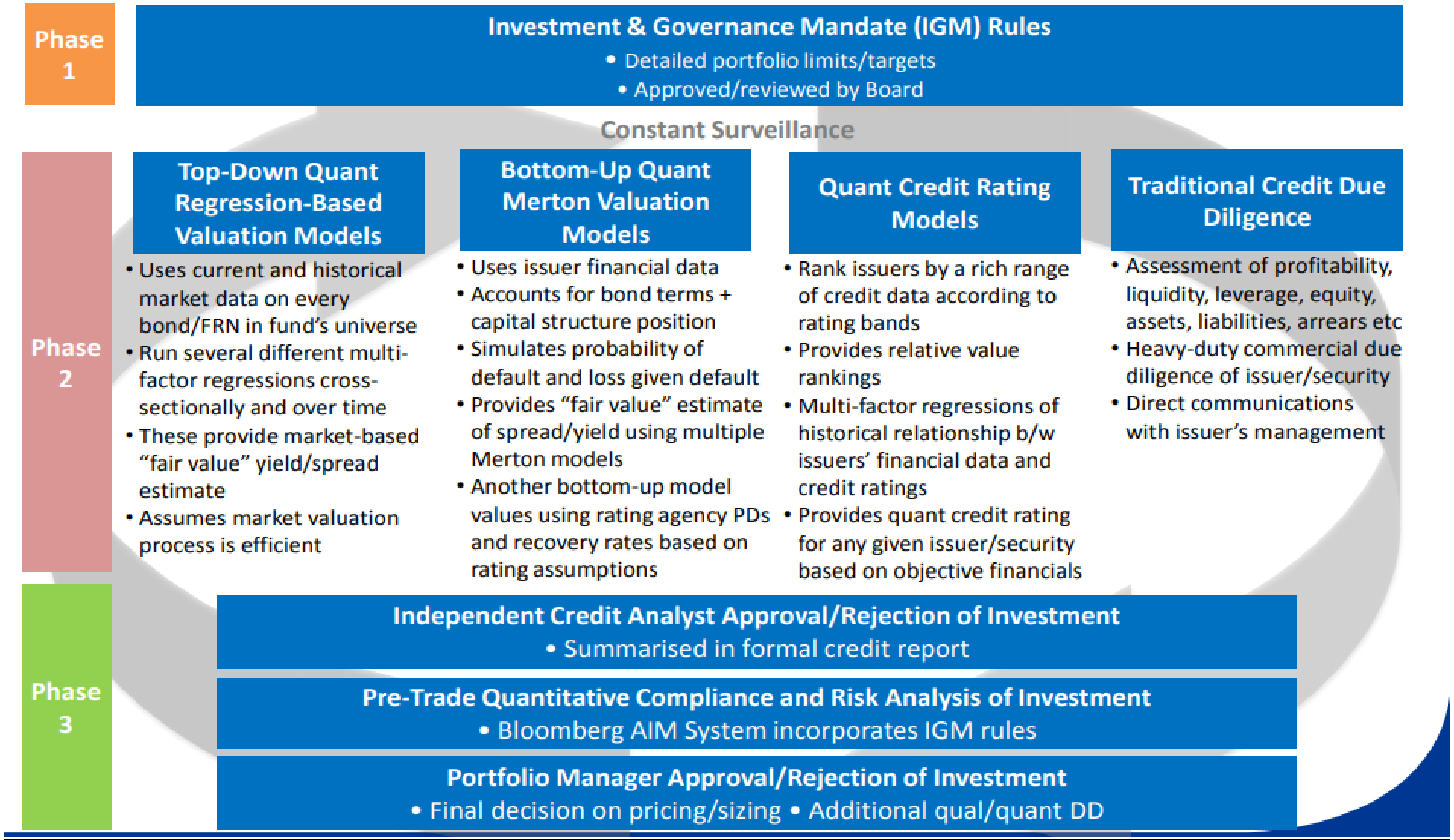
- The Fund has not yet been managed through a complete investment cycle.
- 22.5% performance fee is deemed high on a relative basis.
- With growing FUM the potential to continue to deliver strong excess returns may diminish due to inability to take meaningful positions. Notably, management is cognisant of FUM's impact on performance and suggest necessary action will be in place to minimise this impact.
- The risk of key staff departures may have an adverse effect while this has been partially addressed through equity sharing arrangements.

Rating Summary

Rating: Recommended

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.

APPENDIX 1: PORTFOLIO CONSTRUCTION – DECISION-MAKING PROCESS



Source: Morningstar

APPENDIX 2: SMARTER MONEY HIGHER INCOME FUND PERFORMANCE ANALYSIS

Smarter Money Higher Income Fund

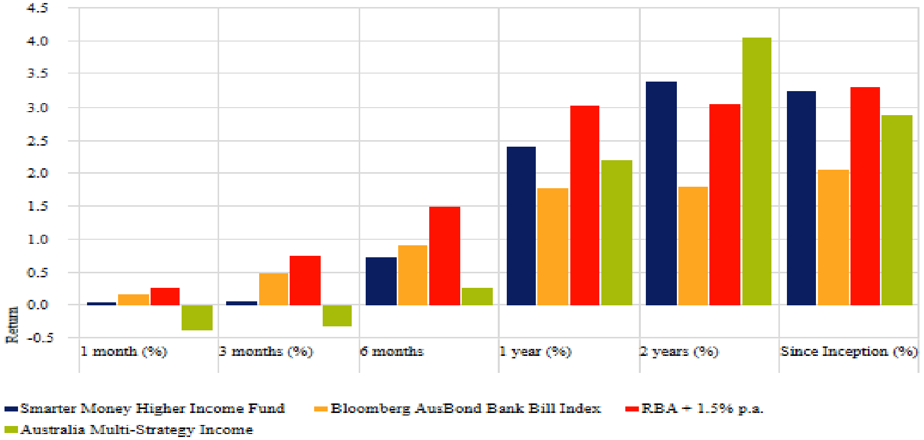
ATCHISON CONSULTANTS

Performance as of 31 May 2018

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	Since Inception (%)
Smarter Money Higher Income Fund	0.0	0.1	0.7	2.4	3.1	3.2
Bloomberg AusBond Bank Bill Index	0.2	0.5	0.9	1.8	2.0	2.1
RBA + 1.5% p.a.	0.3	0.8	1.5	3.0	3.2	3.3
Australia Multi-Strategy Income	-0.4	-0.3	0.3	2.2	2.9	2.9

*Inception Date - 8 October 2014. For performance calculation purposes inception date is 31/10/2014.

Performance as of 31 May 2018



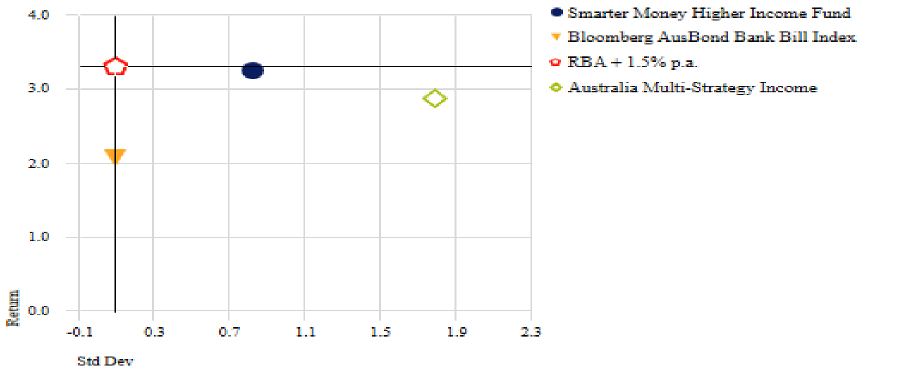
Risk Metrics vs Bloomberg AusBond Credit FRN Index - Since inception to 31 May 2018

Time Period: 1/11/2014 to 31/05/2018

	Excess Return	Tracking Error	Sharpe Ratio	Info Ratio	Std Dev	Batting Average
Smarter Money Higher Income Fund	-0.1	0.8	1.4	-0.1	0.8	55.8
Australia Multi-Strategy Income	-0.4	1.8	0.5	-0.2	1.8	48.8

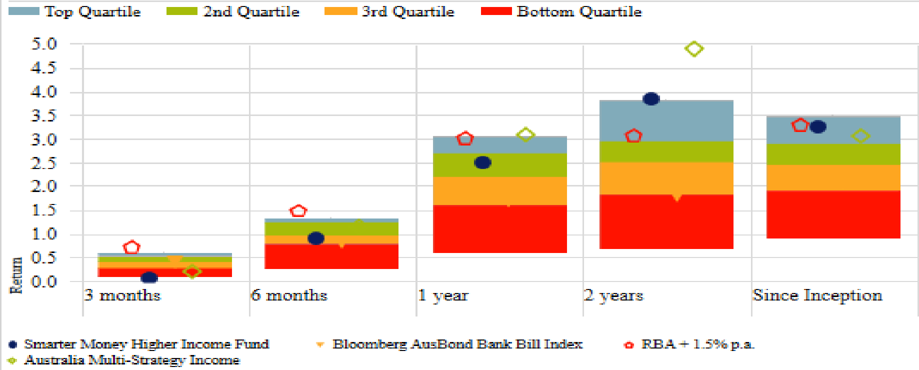
Risk-Reward - Since Inception to 31 May 2018

Time Period: 1/11/2014 to 31/05/2018



Performance Relative to Peer Group

Peer Group (5-95%): Open End Funds - Australia - Australian Short Term Fixed Interest



Source: Morningstar

Sources of Information

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

- Institutional Grade IFSA/DDQ Questionnaire (Dated: February 2018)
- SMHI Presentation (Dated: February 2018)
- Product Disclosure Statement (Dated: September 2017)
- Investment & Governance Mandate (IGM) (Dated: March 2017)
- Risk Management Policy (TMP) (Dated: November 2016)

Report Expiry Date

Date Report Prepared: 30 June 2018

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.

Report Prepared By:	Jake Jodlowski
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Report Authorised By:	Jake Jodlowski

Statement of Analyst Interest and Certification, Warning and Disclosure

Atchison Consultants' Financial Services Guide has been provided to Smarter Money Investments Pty Ltd. Retail investors may obtain this directly from Atchison Consultants using the contact details below. The Financial Services Guide is designed to assist retail investors in their use of any financial product advice in this Report.

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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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