



June 2023

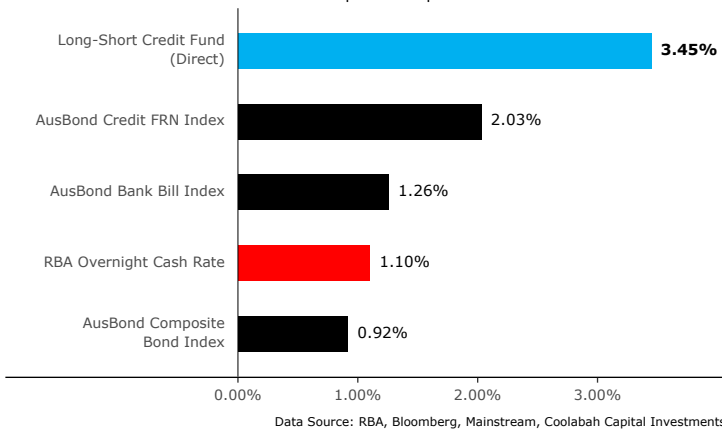
Objective: An absolute return fixed-income strategy focused on exploiting long and short mispricings in credit markets that targets high-yield like returns above the Reserve Bank of Australia (RBA) cash rate plus 4% to 6% p.a. over rolling 3 year periods with volatility of less than 5% p.a. after Management Fees, Administration Fees and Performance Fees.

Strategy: We add value via active asset-selection using a range of valuation models with the aim of delivering superior risk-adjusted returns, or alpha, to traditional hedge funds. We primarily invest in senior and subordinated debt securities, hybrids and derivatives issued by Australian entities domestically, although we can invest in these securities when they are issued overseas, or by overseas entities (into Australia or offshore). The Fund can use gearing and targets holding the majority of its portfolio in investment-grade securities. It is managed by Coolabah Capital Investments.

Period Ending 2023-06-30	Gross Return (Direct)	Net Return (Direct) [†]	RBA Cash Rate	Gross Excess Return [‡]	Net Excess Return (Direct) ^{†‡}
1 month	2.04%	1.64%	0.32%	1.72%	1.31%
3 months	5.59%	4.18%	0.93%	4.65%	3.24%
6 months	8.01%	6.31%	1.75%	6.26%	4.56%
1 year	10.43%	8.17%	2.89%	7.54%	5.28%
2 years pa	2.63%	1.06%	1.49%	1.14%	-0.43%
3 years pa	4.90%	2.93%	1.02%	3.89%	1.92%
4 years pa	4.78%	2.85%	0.92%	3.86%	1.92%
5 years pa	5.53%	3.51%	1.03%	4.50%	2.48%
Inception pa Sep. 2017	5.40%	3.45%	1.10%	4.30%	2.35%

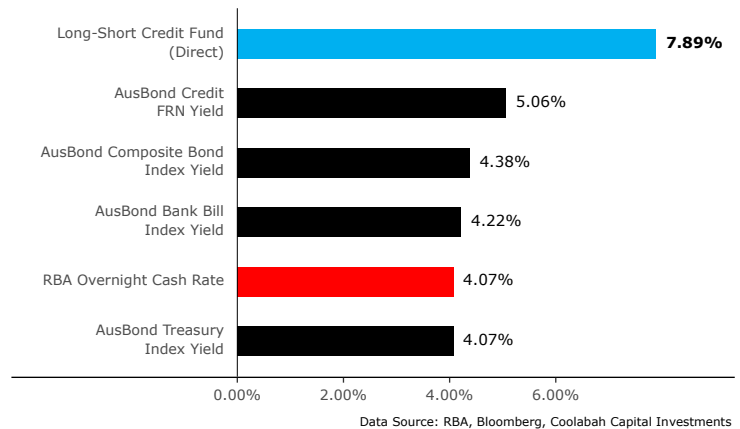
Long Short Credit Fund Returns (Net) vs Comparisons

Annualized Total Returns Since Inception in September 2017 to June 2023



Annualised Yield to Call/Maturity

30 June 2023



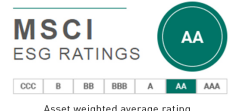
[†] Net returns are calculated from the historic gross returns using the current fee structure as displayed in the Product Disclosure Statement. [‡] The Excess Return columns represent the gross and net return above the RBA cash rate.

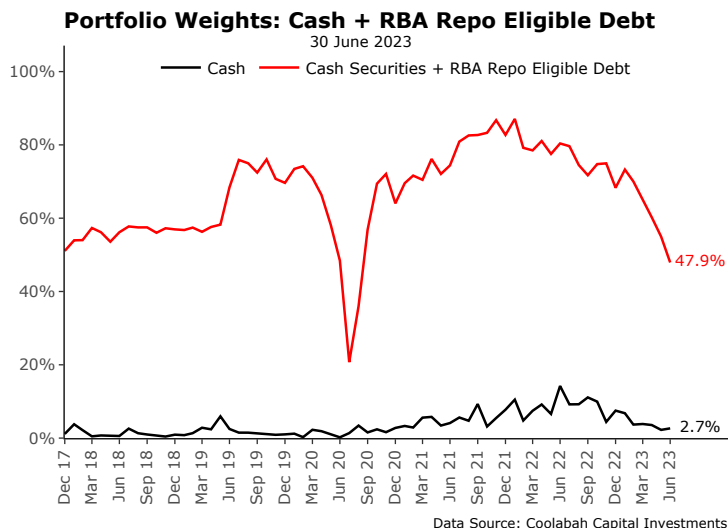
Disclaimer: Past performance does not assure future returns. Returns are shown net of all Management and Performance fees unless otherwise stated. All investments carry risks, including that the value of investments may vary, future returns may differ from past returns, and that your capital is not guaranteed. To understand Fund's risks better, please refer to the Product Disclosure Statement available at Coolabah Capital Investments' [website](#).

Note: all portfolio statistics other than running yield reported on gross levered value

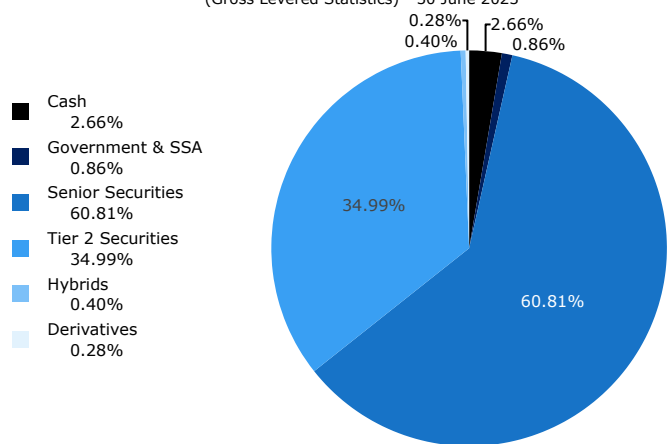
Net Monthly Returns > RBA Overnight Cash Rate	71%	Av. Interest Rate (Gross Running Yield)	7.83%
Gross Portfolio Weight to Cash Securities	2.7%	Modified Interest Rate Duration	< 0.1 years
Gross Portfolio Weight to Bonds	97.1%	Gearing Permitted?	Yes
Av. Portfolio Credit Rating	A	1 Year Av. Gross Portfolio Weight to Cash	6.2%
Portfolio MSCI ESG Rating	AA	Gross Portfolio Weight to AT1 Hybrids	0.4%
No. Cash Securities	16	Gross Cash Securities + RBA Repo-Eligible Debt	47.9%
No. Notes and Bonds	137	Net Annual Volatility (since incep.)	3.55%

Awards: FE Alpha Manager 2019: Christopher Joye; **Ratings:** Lonsec available to advisers; Recommended (Atchison); 'Superior More Complex' (Foresight Analytics)

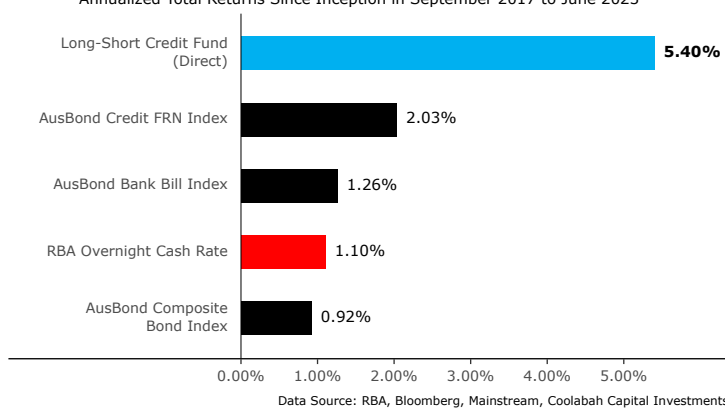




Long Short Credit Fund Portfolio Composition (GAV)
(Gross Levered Statistics) - 30 June 2023



Long Short Credit Fund Returns (Gross) vs Comparisons
Annualized Total Returns Since Inception in September 2017 to June 2023



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The since inception gross (net) return of 5.40% pa gross (3.45% pa net) is the total annual return earned by the fund since Sep. 2017, including interest income and movements in the price of the bond portfolio after all fund fees (assuming net returns are calculated from the historic gross returns using the current fee structure as displayed in the Product Disclosure Statement). The net return quoted applies to the Smarter Money Long-Short Credit Fund - Direct Investor 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 3.55% pa is based on the standard deviation of net daily returns since inception, which are then annualised, attributable to the Smarter Money Long-Short Credit Fund - Direct Investor Class.

Portfolio Managers	Christopher Joye, Ashley Kabel, Roger Douglas, Dr Nick Campregher (Coolabah Capital Investments)		
APIR Code	SLT2562AU	Fund Inception	31-Aug-17
ISIN	AU60SLT25623	Distributions	Quarterly
Morningstar Ticker	41597	Unit Pricing	Daily (earnings accrue daily)
Asset-Class	Alternatives/Hedge Funds	Min. Investment	\$1,000
Target Return	Net 4.0%-6.0% pa over RBA cash rate	Withdrawals	Daily Requests (funds normally in 3 days)
Investment Manager	Coolabah Capital Investments (Retail)	Buy/Sell Spread	0.00%/0.05%
Responsible Entity	Equity Trustees	Mgt. & Admin Fee	1.00% pa
Custodian	APEX Fund Services	Perf. Fee	20.5% of returns over RBA cash rate + 1.00% pa

Portfolio commentary: The zero-duration daily liquidity Long-Short Credit Fund (LSCF) ended June with an annualised yield to call/maturity of 7.89% pa (assuming current funding costs), a weighted-average credit rating of A, and a portfolio weighted average MSCI ESG rating of AA. In June, LSCF returned 2.04% gross (1.64% net), outperforming the AusBond Bank Bill Index (0.30%), the RBA Overnight Cash Rate (0.32%), and the AusBond Credit FRN Index (0.41%). Over the previous 12 months, LSCF returned 10.43% pa gross (8.17% pa net), outperforming the RBA Overnight Cash Rate (2.89% pa), the AusBond Bank Bill Index (2.89% pa), and the AusBond Credit FRN Index (4.03% pa).

Since the inception of LSCF 5.8 years ago in September 2017, it has returned 5.40% pa gross (3.45% pa net), outperforming the RBA Overnight Cash Rate (1.10% pa), the AusBond Bank Bill Index (1.26% pa), and the AusBond Credit FRN Index (2.03% pa). While LSCF's return volatility since inception has been low at around 3.55% 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 (eg, 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: June marked another month in which Coolabah's strategies drove consistently robust returns and alpha over benchmarks. It also capped off what has been a class-leading financial year performance-wise for Coolabah's portfolios despite the extraordinary volatility in global bond and interest rate markets.

Coolabah's zero interest rate duration Long-Short Credit Fund, which has an average A credit rating, returned 2.0% in June gross (1.6% net), delivering a healthy 10.4% gross (8.2% to 8.4% net) return over the 12 months of the 2023 financial year. It is currently yielding 7.8% pa gross.

Since its launch in December 2022, Coolabah's new zero interest rate duration Floating-Rate High Yield Fund has similarly outperformed, returning 1.5% gross (1.4% net) in absolute terms in June and delivering 7.3% gross (6.7% to 6.8% net) over the seven months since its inception. This has been powered by a combination of trading alpha and the fund's robust yield of 8.9% pa gross. This strategy has an average rating of A-.

In the lower volatility "cash enhanced" sector, Coolabah's zero interest rate duration Smarter Money Fund and Smarter Money Higher Income Fund, which carry average A ratings, have materially outperformed the AusBond Bank Bill Index and AusBond Floating-Rate Note Index. Over the last 12 months, the Smarter Money Fund and Smarter Money Higher Income Fund have returned 4.9% and 5.3% gross (4.2% to 4.5% net), respectively, compared to the RBA cash rate's 2.9%, the Bank Bill Index's 2.9% and the FRN Index's 4.0%. They are now yielding around 5.3% to 5.4% pa gross.

While long duration bonds have been buffeted by higher interest rates, the class-leading Coolabah Active Composite Bond Fund beat its benchmark, the AusBond Composite Bond Index, by a significant 0.4% in June after fees. It has outperformed the Composite Bond Index by 2.7% over the last 12 months net of fees. In total return terms, the Coolabah Active Composite Bond Fund has delivered 4.5% gross (4.0% net) over the past year compared to the Composite Bond Index's 1.2%. It is currently yielding 6.6% pa gross.

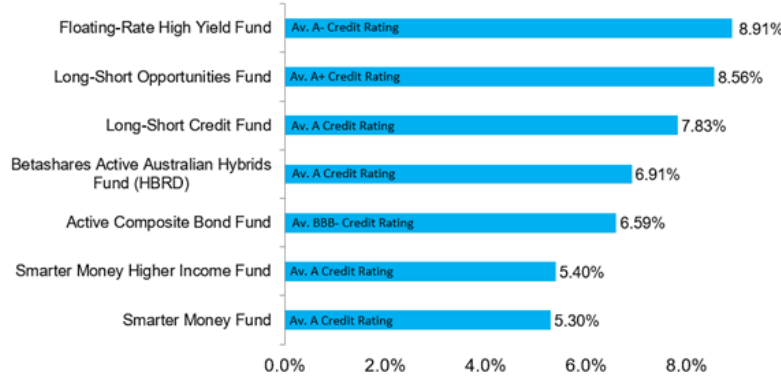


Strategy commentary cont'd:

Annual Running Yields

as of 30 June 2023

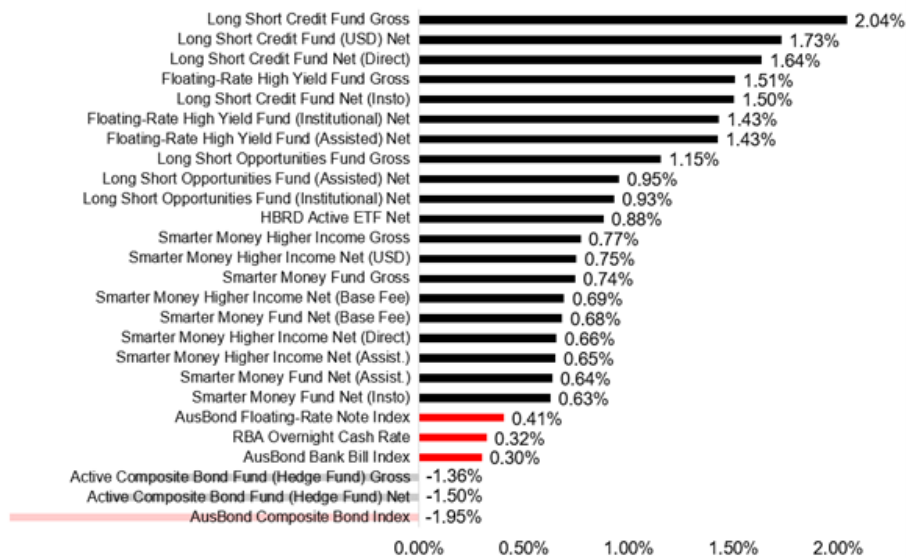
Source: Coolabah Capital Investments, Bloomberg



Monthly Returns: Gross and Net

June 2023

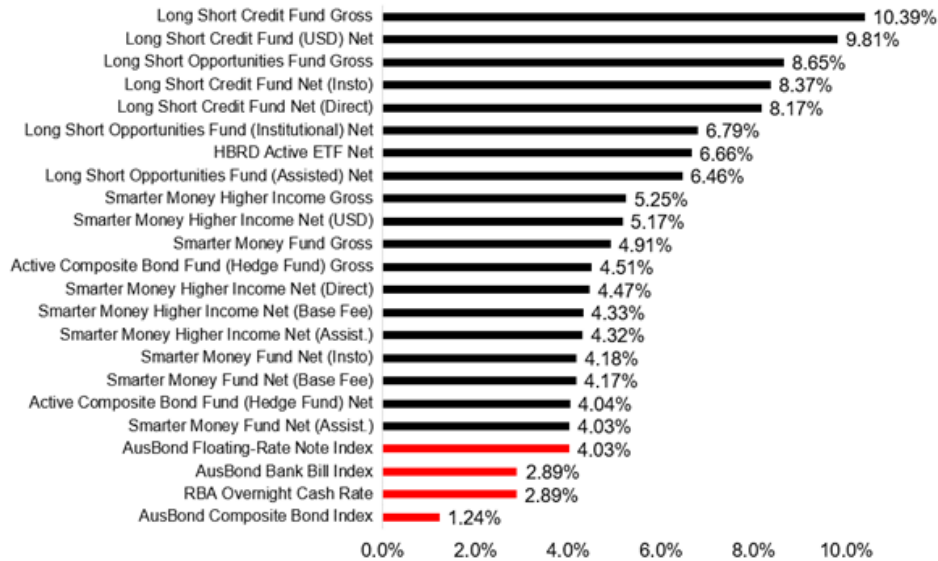
Source: Coolabah Capital Investments, Bloomberg



Yearly Returns: Gross and Net

12 Months to 30 June 2023

Source: Coolabah Capital Investments, Bloomberg



Strategy commentary cont'd: In June, floating-rate bonds once again outperformed their fixed-rate equivalents with the AusBond Floating-Rate Note Index returning 0.41% compared to the 1.95% loss posted by the fixed-rate AusBond Composite Bond Index, which was all a function of interest rate duration risk underperforming. The latter was attributable to further increases in bond yields on the back of concerns regarding sticky inflation pressures: the Australian 10-year government bond yield jumped from 3.62% to 4.02% in June.

While the major banks' 5-year senior bond spreads hardly shifted in June, contracting from 90bps to 89bps over the quarterly bank bill swap rate (BBSW), there was some performance in major bank Tier 2 bond markets as spreads declined from 218bps to 209bps over BBSW.

The stand-out in June was, however, the ASX hybrid market where spreads on 5-year major bank hybrids were crushed from 323bps to 292bps over BBSW as CBA's new \$1.55bn hybrid (ASX: CBAPM) was finally absorbed. And the BBSW rate itself has continued to climb from its 0% level in 2021, hitting 4.35% in June.

There was also some decent performance in the State government bond (or semis) market where 10-year NSW spreads compressed from 72bps over Commonwealth government bonds to 67bps over the month.

Coolabah's alpha was primarily attributable to active trading in both the primary and secondary markets, which continue to generate very attractive opportunities. Performance was also aided by Coolabah's very strong underlying yields.

Elevated Inflation Pressures

The monthly CPI showed underlying inflation remains uncomfortably high, tracking above the RBA's forecast profile, where its peers are confronting the same problem of it taking too long for inflation to return to target with much higher interest rates.

The ex-volatile items/transport CPI is a close proxy for the RBA's preferred measure of underlying inflation, which is the trimmed mean CPI.

This measure of underlying inflation picked up from 0.2% in April to 0.5% in May and has shown only a gradual improvement in trend terms this year.

On a rolling 3-month basis, annualised underlying inflation was 5.2% in May, which is down from a peak of about 8% last year, but it is not improving at the rate the RBA had forecast.

That is, interpolating the RBA's forecasts for the quarterly trimmed CPI, they imply annualised growth should have been around 4.5% in May in trend terms.

This suggests that the RBA will likely nudge up its near-term forecasts for underlying inflation in the August Statement on Monetary Policy.

The RBA has belatedly become concerned about fast growth in **unit labour costs**, contrasting with the view it held last year that Australia could maintain lower interest rates than the rest of the world because of differences in our labour market.

Indeed, with the RBA recently raising its estimate of the neutral nominal cash rate from 3.5% to 3.8% - or from "at least 2.5%" in the case of Governor Lowe's view last year - the current cash rate of 4.1% suggests that monetary policy is only slightly restrictive.

This contrasts with the RBA's peers, where policy interest rates are much higher; for example, the US is at 5-5.25%, New Zealand is at 5.5%, the UK is at 5%, and Canada is at 4.75%.

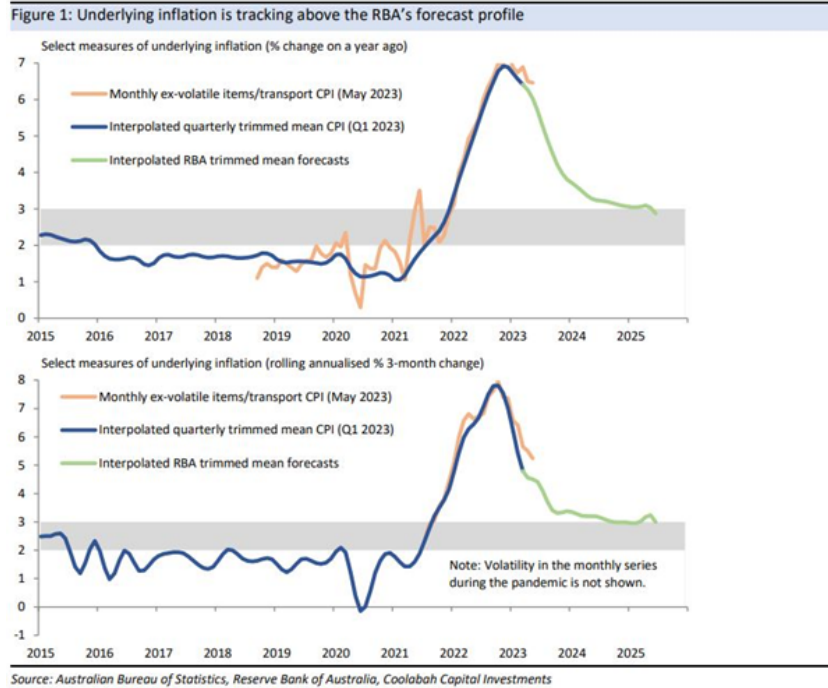
Higher interest rates are the product of other central banks confronting the same pressing problem of it taking too long for underlying inflation to return to target, particularly when service-sector inflation remains sticky and where there is uneasiness over whether high inflation will spill over to higher inflation expectations.

Strategy commentary cont'd:

Less importantly, the monthly CPI also reported that the headline CPI was flat in the month (or down 0.4% in unadjusted terms), held down by a near -7% decline in petrol prices and a near -4% fall in travel costs on our seasonal adjustment.

Annual headline inflation slowed from 6.8% to 5.6%, which was much lower than the consensus market forecast of a 6.1% increase and below the RBA's forecast profile.

Note, though, that the volatility in headline inflation will continue, with massive price hikes for electricity slated for July.



History Points to the Risk of Tight Monetary Policy

One way central banks judge whether they have done enough on monetary policy to return inflation to target is to compare the current policy rate with the neutral policy rate.

The neutral policy rate can be thought of as the interest rate that would prevail if underlying inflation was in line with the central bank's target, output was in line with its potential, and there was full employment in the labour market.

Faced with high inflation, central banks need tight monetary policy, with a policy rate higher than the neutral rate required to slow the economy and bring prices under control.

Unfortunately the neutral policy rate is unobservable and has to be estimated by relying on techniques that extract the neutral rate from market pricing, economic models and/or surveys.

The RBA calculates the neutral cash rate by taking the **average** of estimates derived from nine different methods, which allows the neutral rate to vary over time.

As at early last year, the RBA put the neutral cash rate at about 1% in real terms, which, allowing for the 2.5% midpoint of the inflation target, translated to a 3.5% nominal neutral cash rate.

Strategy commentary cont'd: Sidestepping the replication of the nine methods that underpin the RBA's calculations, the average neutral cash rate can be approximated in a timely way by using a simple model based on real bond yields.

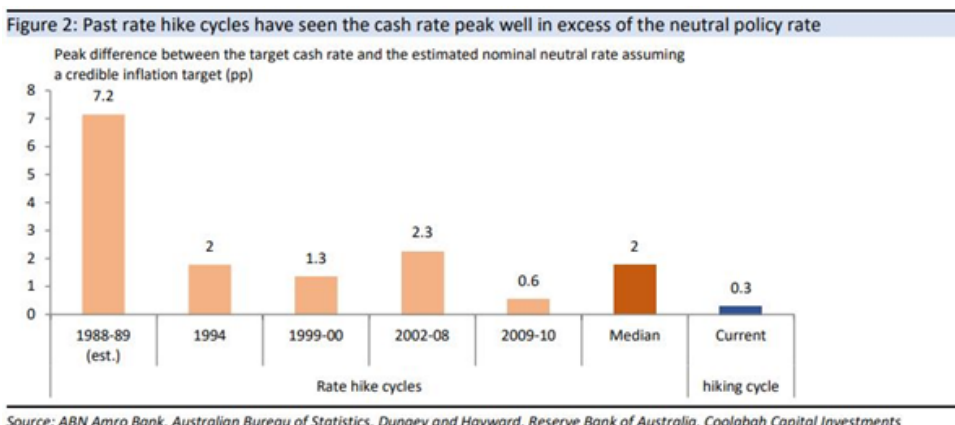
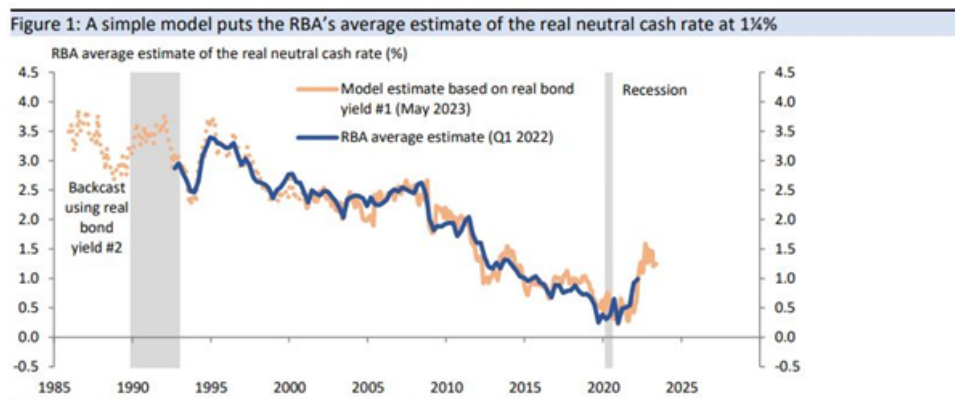
This simple model suggests that the neutral real rate picked up further around the middle of last year and currently stands at about 1.25%, which implies a 3.75% nominal neutral cash rate, again allowing for the 2.5% midpoint of the target band.

Encouragingly, this lines up with Freedom of Information documents that show that the RBA recently raised its estimate of the neutral nominal cash rate from 3.5% to 3.8%.

Mindful that there is significant uncertainty around any estimate of the neutral rate, this suggests that monetary policy is finally slightly tight (assuming that inflation expectations remain anchored by the inflation target), with the current cash rate of 4.1% slightly above the neutral nominal cash rate of 3.8%.

However, history shows that the RBA has needed to have tight monetary policy in order to contain inflation, which points to upside risks to the current cash rate.

That is, monetary policy has been much more restrictive during past tightening cycles, with a 2pp median of the peak in the cash rate relative to the neutral rate in the five hiking cycles since the late 1980s.



Confidence in Central Banks Takes a Hit

Inflation expectations are difficult to measure, but they are hugely important to central banks because they speak to the credibility of policy-makers, in that expectations act as an anchor for actual inflation in standard models of consumer prices.

Strategy commentary cont'd: A key risk for central banks is that persistently high inflation feeds into higher inflation expectations, thereby entrenching high inflation and serving as a trigger for significantly higher interest rates, which is what happened in the 1970s/1980s.

So far, measures of expectations across the advanced economies show a rough split between market/economist expectations remaining broadly consistent with central bank inflation targets and households/businesses reporting higher inflation expectations.

On the latter point, there is some noise in the short-term measures of household/business expectations stemming from the volatility in energy and food prices that is outside the control of central banks, and medium-/long-term measures of household/business expectations have been better behaved.

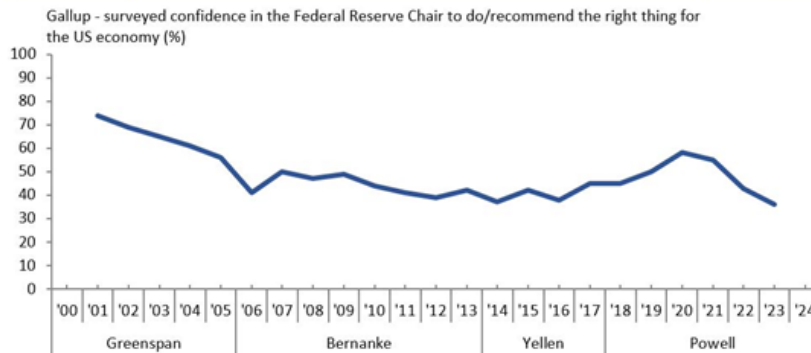
With credibility reducing the economic cost of controlling inflation, policy-makers also look at broader survey measures of credibility, which are much rarer and less timely.

In this respect, the survey that has recently received the most attention is the **Gallup survey** that shows public confidence in the Federal Reserve is at its lowest point since polling began in 2001.

Central bankers would probably believe that this finding is echoed across the advanced economies based on widespread media criticism of higher interest rates and it would make them question whether household/business inflation expectations are actually a bit worse than surveyed.

The drop in confidence would also, at the margin, lead some central banks to speculate on the slim possibility of more government criticism/intervention regarding monetary policy, where policy independence is a relatively new phenomenon in the history of central banking (for example, closer to home, the RBA's independence since the early/mid 1990s followed decades of government control).

Figure 1: The public is less confident that the Federal Reserve will do the right thing



Strong Unit Labour Costs Continue to Drive High Domestic Inflation

A simple accounting exercise shows that strong unit labour costs - which the RBA has belatedly recognised as a key upside risk to consumer prices - continue to drive high domestic inflation.

Recently we replicated a simple analysis often undertaken by the ECB, where an accounting identity is used to measure the contributions of wages, profits and net taxes to inflation.

In this analysis, wages, profits and net taxes are all expressed in unit terms, which means that they are all divided by real output.

Unit wages are a simple measure of unit labour costs (i.e., labour costs adjusted for productivity), which are a major concern of the RBA at present. Net taxes equal taxes on production less subsidies.

Strategy commentary cont'd: Updating that analysis with information from today's national accounts, high domestic inflation - as proxied by the non-mining GDP deflator - continues to be driven by higher unit wages.

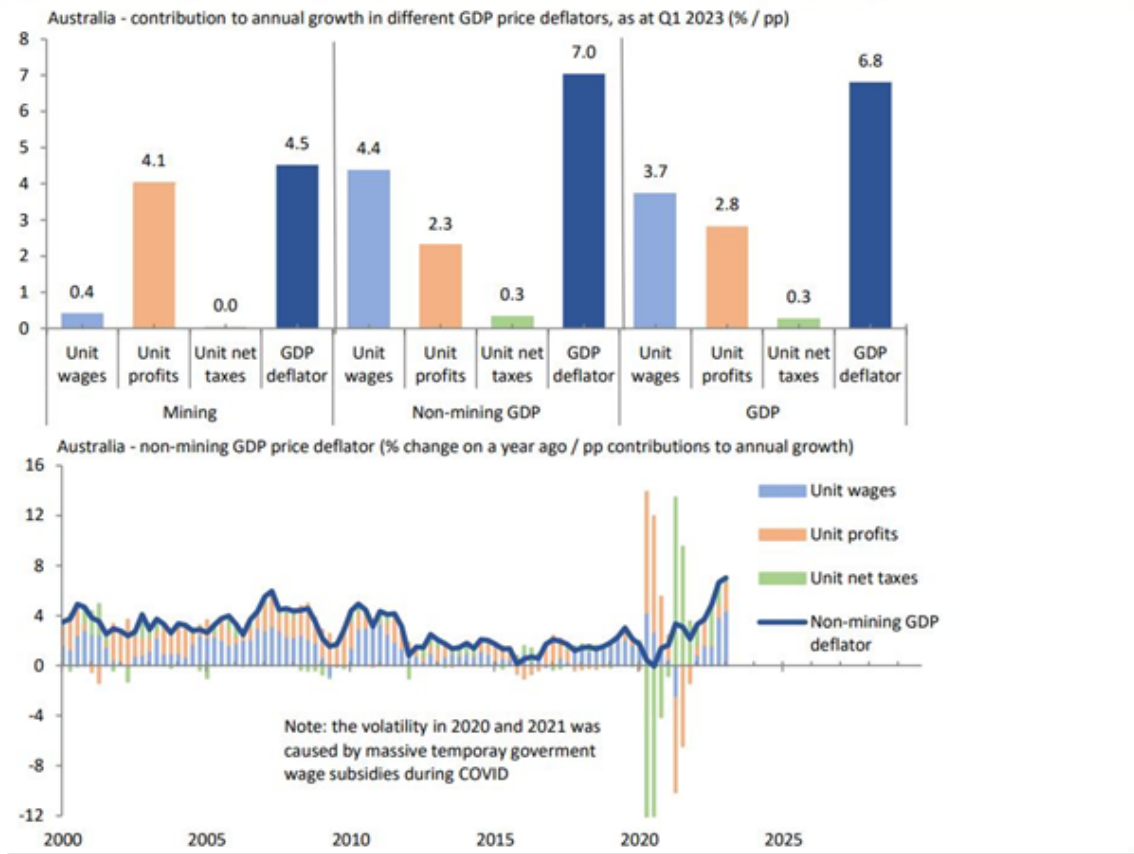
That is, non-mining GDP prices are up 7% over the past year, reflecting a 4.4pp contribution from higher unit wages, 2.3pp from unit profits and 0.3pp from unit net taxes.

The same is true for both household services and broad retail trade, which give a sense of the drivers of underlying inflation.

- In trend terms, the price of household services is up 8% over the past year, driven by a 5pp contribution from unit wages, 2pp from unit profits, and 1pp from net taxes.
- A 14% trend increase in retail prices reflects an 8pp contribution from unit wages, 5pp from unit profits, and 1pp from net taxes.

Unit profits make a larger contribution to retail prices than household services because this broad and volatile measure of retail trade includes petrol stations, which, like the largely foreign-owned mining sector, employ very few people.

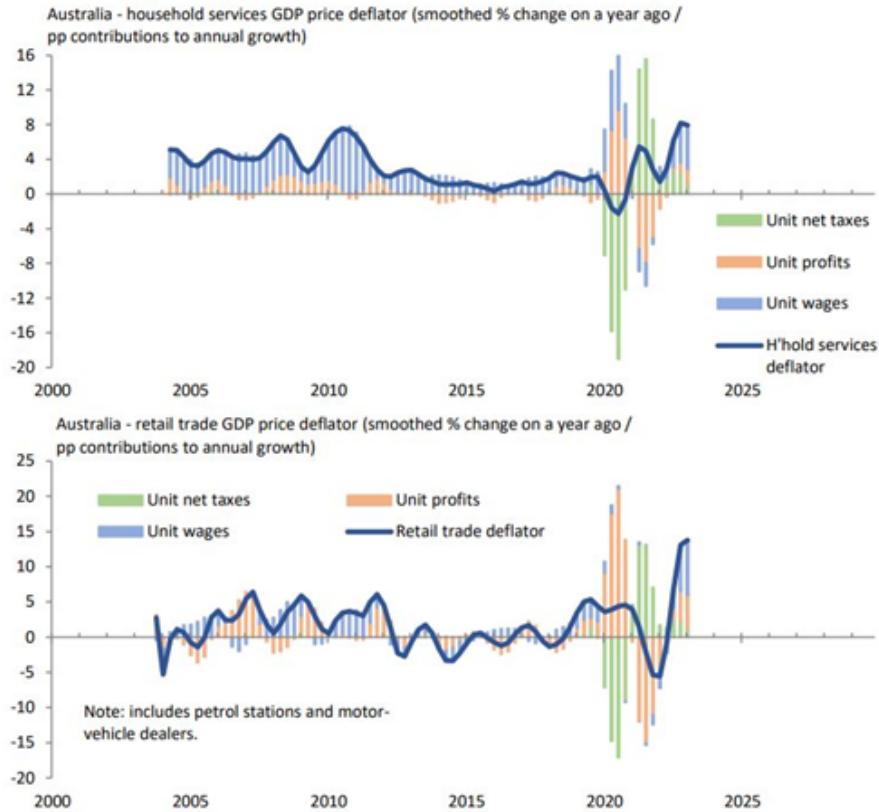
Figure 1: Recent high non-mining GDP price inflation in Australia has been driven by strong unit labour costs



Source: Australian Bureau of Statistics, Coolabah Capital Investments

Strategy commentary cont'd:

Figure 2: Strong unit labour costs also account for high household services and retail inflation



Note: Massive government subsidies, mostly aimed at encouraging firms to retain staff, greatly affected net taxes and hence wages and profits at the height of the pandemic.
 Source: Australian Bureau of Statistics, Coolabah Capital Investments



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](#).

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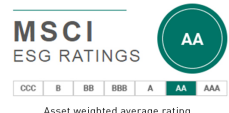
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