



July 2023

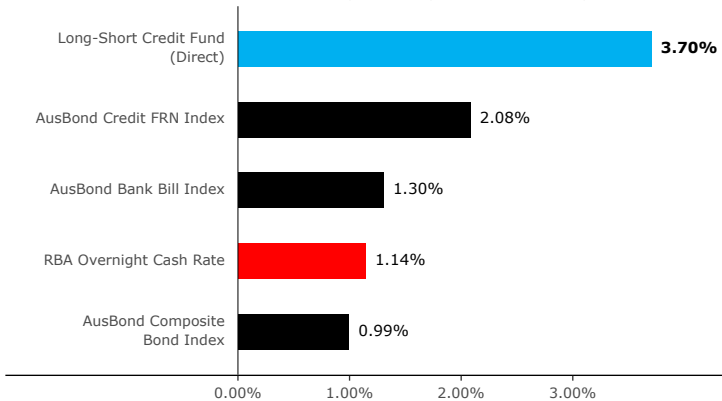
Objective: An absolute return fixed-income strategy focused on exploiting long and short mispricings in credit markets that targets high-yield like returns above the Reserve Bank of Australia (RBA) cash rate plus 4% to 6% p.a. over rolling 3 year periods with volatility of less than 5% p.a. after Management 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 2023-07-31	Gross Return (Direct)	Net Return (Direct) [†]	RBA Cash Rate	Gross Excess Return [‡]	Net Excess Return (Direct) ^{†‡}
1 month	2.20%	1.76%	0.34%	1.86%	1.42%
3 months	5.25%	3.74%	1.00%	4.25%	2.74%
6 months	9.26%	7.17%	1.82%	7.44%	5.34%
1 year	11.27%	8.59%	3.14%	8.13%	5.45%
2 years pa	3.67%	1.92%	1.66%	2.01%	0.25%
3 years pa	5.19%	3.19%	1.13%	4.07%	2.06%
4 years pa	4.91%	2.97%	0.98%	3.93%	1.99%
5 years pa	5.80%	3.73%	1.08%	4.72%	2.65%
Inception pa Sep. 2017	5.71%	3.70%	1.14%	4.57%	2.56%

Long Short Credit Fund Returns (Net) vs Comparisons

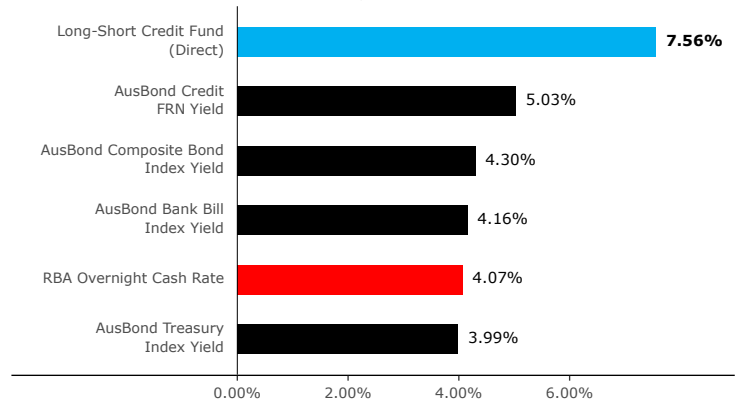
Annualized Total Returns Since Inception in September 2017 to July 2023



Data Source: RBA, Bloomberg, Mainstream, Coolabah Capital Investments

Annualised Yield to Call/Maturity

31 July 2023



Data Source: RBA, Bloomberg, Coolabah Capital Investments

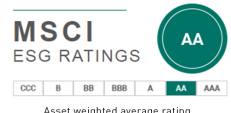
[†] Net returns are calculated from the historic gross returns using the current fee structure as displayed in the Product Disclosure Statement. [‡] The Excess Return columns represent the gross and net return above the RBA cash rate.

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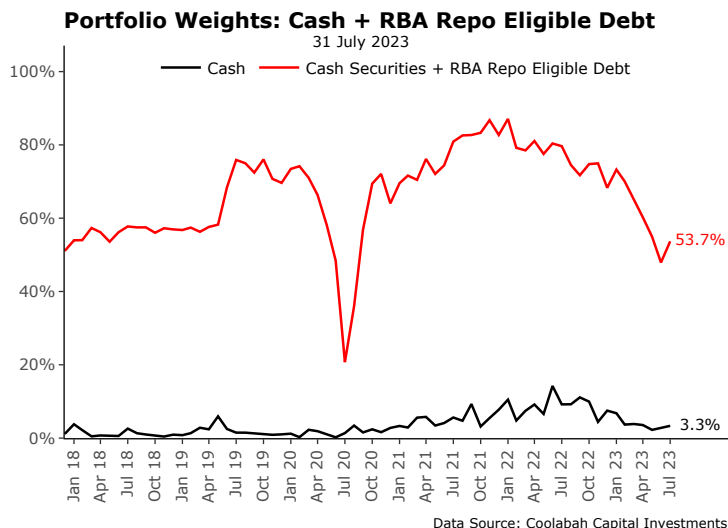
Note: all portfolio statistics other than running yield reported on gross levered value

Net Monthly Returns > RBA Overnight Cash Rate	72%	Av. Interest Rate (Gross Running Yield)	7.47%
Gross Portfolio Weight to Cash Securities	3.3%	Modified Interest Rate Duration	0.24 years
Gross Portfolio Weight to Bonds	96.5%	Gearing Permitted?	Yes
Av. Portfolio Credit Rating	A+	1 Year Av. Gross Portfolio Weight to Cash	5.7%
Portfolio MSCI ESG Rating	AA	Gross Portfolio Weight to AT1 Hybrids	0.1%
No. Cash Securities	17	Gross Cash Securities + RBA Repo-Eligible Debt	53.7%
No. Notes and Bonds	144	Net Annual Volatility (since incep.)	3.53%

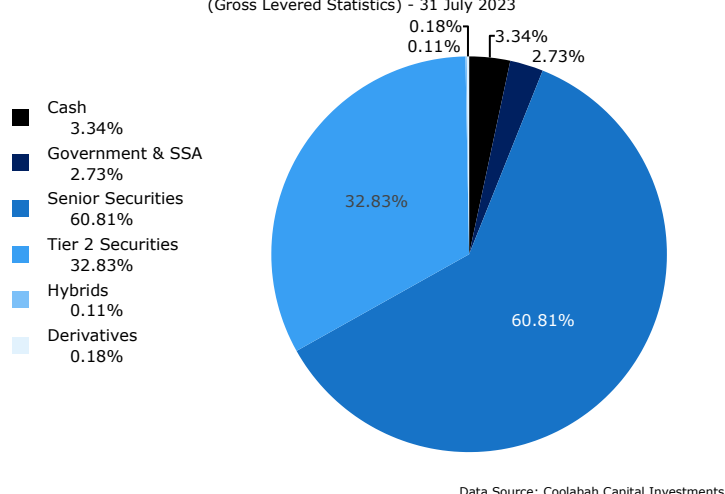
Awards: FE Alpha Manager 2019: Christopher Joye; **Ratings:** Lonsec available to advisers; Recommended (Atchison); 'Superior More Complex' (Foresight Analytics)



Asset weighted average rating

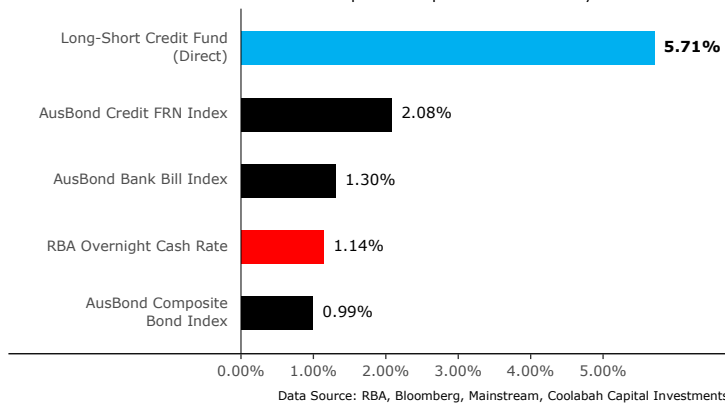


Long Short Credit Fund Portfolio Composition (GAV)



Long Short Credit Fund Returns (Gross) vs Comparisons

Annualized Total Returns Since Inception in September 2017 to July 2023



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The since inception gross (net) return of 5.71% pa gross (3.70% 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 3.53% 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 July with an annualised yield to call/maturity of 7.56% pa (assuming current funding costs), a weighted-average credit rating of A+, and a portfolio weighted average MSCI ESG rating of AA. In July, LSCF returned 2.20% gross (1.76% net), outperforming the RBA Overnight Cash Rate (0.34%), the AusBond Bank Bill Index (0.37%), and the AusBond Credit FRN Index (0.46%). Over the previous 12 months, LSCF returned 11.27% pa gross (8.59% pa net), outperforming the RBA Overnight Cash Rate (3.14% pa), the AusBond Bank Bill Index (3.15% pa), and the AusBond Credit FRN Index (4.26% pa).

Since the inception of LSCF 5.9 years ago in September 2017, it has returned 5.71% pa gross (3.70% pa net), outperforming the RBA Overnight Cash Rate (1.14% pa), the AusBond Bank Bill Index (1.30% pa), and the AusBond Credit FRN Index (2.08% pa). While LSCF's return volatility since inception has been low at around 3.53% 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: Coolabah's portfolios generated striking outperformance over key benchmarks in July 2023, extending a theme that asserted itself after we switched out of government bonds and back into credit after mid-2022.

The catalyst for the portfolio pivot last year was the dramatic increase in high-grade financial spreads, which widened some 100-150 basis points in the first half of 2022 in line with our (contrarian) projections in late 2021. Simply put, high-grade financial credit went from being heinously expensive in 2021 (we added \$8-9 billion of credit shorts/hedges against financial credit to our portfolios in 2021/early 2022) to very cheap in the second half of 2022.

A similar observation applies to fixed-rate bond exposures (or interest rate "duration"): it transformed from being extremely unattractive in late 2021, when the US 10-year government bond yield was ~1%, to being increasingly enticing as today's 10-year yield hovers around 4.2% and central bank watchers believe that the Fed is approaching the end of its tightening cycle.

This is, of course, an open question. One factor contingency markets appear to be dismissing entirely is the possibility of a pause followed by an extension to the current hiking cycle in the event that core inflation, and services inflation more specifically, proves to be sticky. And persistently stubborn core inflation remains our central case, as does a global recession, which despite all the talk of soft-landings is playing out in regions like Europe and New Zealand with consecutive quarters of negative GDP growth (note there were also technically two consecutive quarters of negative GDP growth in the US in 2022, although the NBER would need to see a sustained rise in unemployment before calling a US recession).

Coolabah's portfolio performance in July was led by our higher-yielding strategies, including the Long Short Credit Fund, which returned 2.2% gross (1.8% net) in the month with an average A+ credit rating, zero interest rate duration risk, and a 7.5% pa running yield as at the end of July.

Over the last 12 months, the Long Short Credit Fund has returned a solid 11.3% gross (8.6% net), outperforming key peers net of fees since its 2017 inception. The Long Short Credit Fund can and does go both long and short government bonds, bank bonds, and corporate bonds.

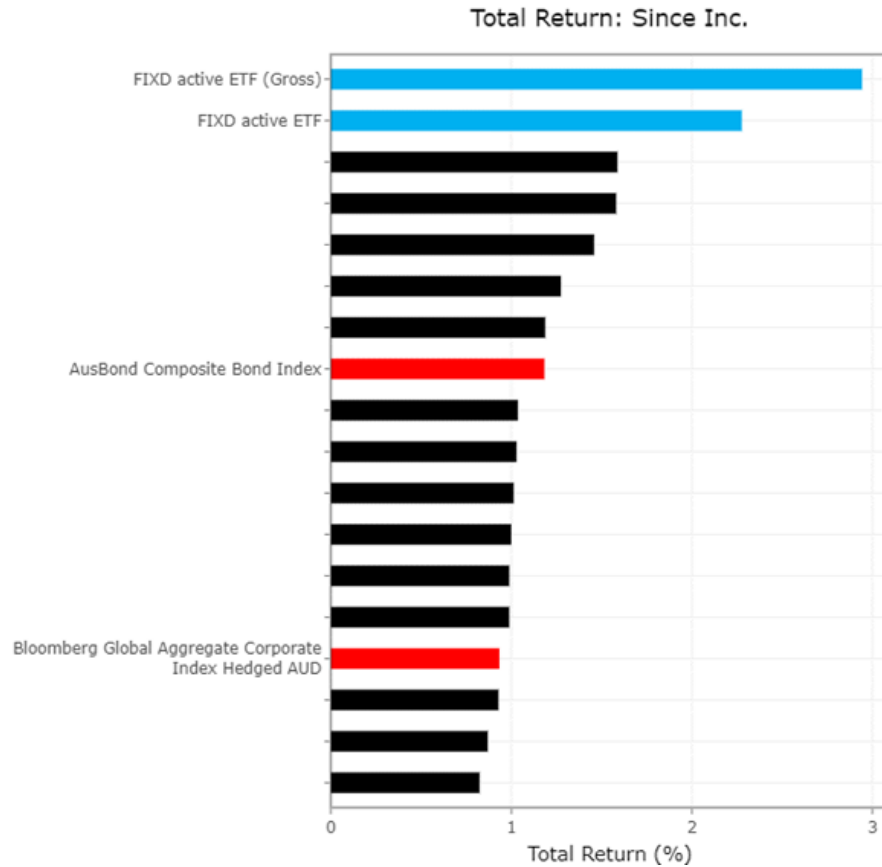
Coolabah's new Floating-Rate High Yield Fund also performed well in July, delivering 2.2% gross (2.1%) net with an average A- credit rating, zero interest rate duration risk, and a strong 8.9% pa running yield. Since its 5 December 2022 launch, the Floating-Rate High Yield Fund has returned 9.6% gross (8.9% net) on a non-annualised basis (ie, over the last 7-8 months), outperforming all key peers net of fees.

Strategy commentary cont'd: Staying in the floating-rate space, Coolabah’s two “cash plus” products, the Smarter Money Fund and the Smarter Money Higher Income Fund, had their best month since April 2020, providing gross (net) returns of 1.0% (0.8%) and 0.9% (0.8%) respectively in July. Over the last 12 months, the Smarter Money Fund and the Smarter Money Higher Income Fund have returned 5.6% (4.6%) and 5.9% (4.9%) on a gross (net) basis with an average rating of A, zero interest rate duration, and cash running yields of 5.3% and 5.4% respectively in July. Since inception, they have outperformed key peers net of fees.

In July, interest rate duration stabilised somewhat as 5-year government bond yields pulled-back on weaker inflation data, boosting some fixed-rate bond prices. Specifically, Australia’s 5-year government bond yield declined modestly from 3.95% to 3.85% in July.

Coolabah’s class-leading Active Composite Bond Fund once again generated robust outperformance in July, beating the AusBond Composite Bond Index by 1.2% gross (0.9% net). More precisely, the Active Composite Bond Fund, which trades under the Chi-X ticker FIXD, returned 1.7% (1.4%) gross (net) compared to the Composite Bond Index’s 0.5% in July.

Since its March 2017 inception, the Active Composite Bond Fund has outperformed the Composite Bond Index by an average of 1.8% gross (1.1% net) pa (and all known peers). It has done so with very similar volatility to the index, a tracking error of around 1.3% pa, and superior risk-adjusted returns to both the index and peers.

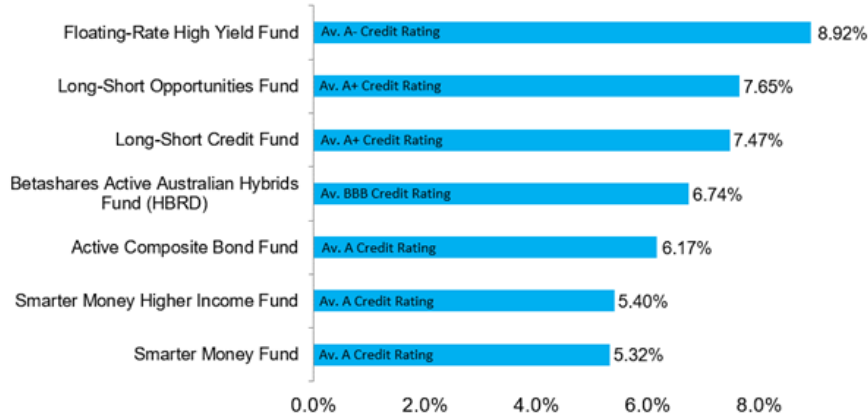


The charts below summarise yields across key products and returns over the month of July and the 12 months to July. Black bars are Coolabah portfolios. Red bars are benchmarks.

Strategy commentary cont'd:

Annual Running Yields
as of 31 July 2023

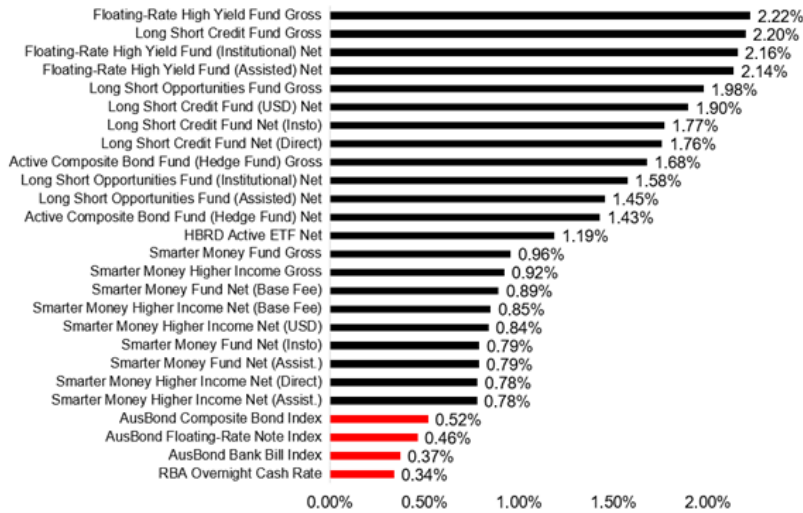
Source: Coolabah Capital Investments, Bloomberg



Monthly Returns: Gross and Net

July 2023

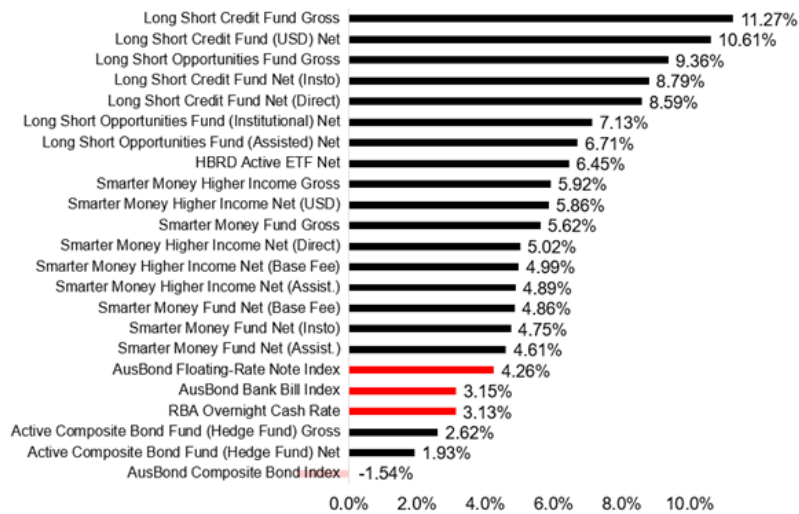
Source: Coolabah Capital Investments, Bloomberg



Yearly Returns: Gross and Net

12 Months to 31 July 2023

Source: Coolabah Capital Investments, Bloomberg



Strategy commentary cont'd: Spreads generally continued to grind tighter in the first month of the new financial year in US dollars, Euros and Aussie dollars. At the top of the capital stack, 5-year major bank senior bond spreads in AUD contracted ever so slightly from ~92 basis points (bps) to 90bps over the bank bill swap rate (BBSW) in July.

One notch down, 5-year major bank Tier 2 spreads compressed more sharply from 216bps to 200bps on the back of a diminution in supply juxtaposed against robust institutional and mid-market demand.

Finally, the major banks' 5-year AT1 hybrid spreads dropped ~21bps from 292bps to 271bps given the supply vacuum. Current hybrid spreads are notably well inside their long-term 325-350bps average range since the 2013 introduction of the Basel III global banking rules.

Once the major banks come out of black-out following their full year results, it would be reasonable to assume that they (and the regional banks) start issuing into the tight AT1 ASX (or OTC) hybrid markets to take advantage of the currently attractive cost of capital.

The catalyst for global spread performance in July was more benign core inflation data, which generally printed in line with or below market expectations. This has helped support the "immaculate disinflation" narrative that central banks are approaching the end of their tightening cycles, prompting riskier asset-classes to look through recessions (eg, in Europe and New Zealand), or tepid economic growth that is emerging throughout the developed world as record rate hikes slowly begin to bite.

While we welcome the spread compression, we are sceptical of the risk rally and the notion that central banks will shortly be done and dusted with this tightening cycle. Global developed country unemployment rates remain around or below their multi-decade lows despite the tightening of policy. Wages growth is elevated and combined with weak labour productivity is driving globally strong unit labour cost growth in the US (5-6%), Europe (6-7%), Australia (8%), and New Zealand (7-8%), amongst other countries. Unit labour costs are one of the key variables that central banks use to forecast inflation and represent the wage cost of businesses producing products.

Soaring labour costs are in turn fuelling persistently strong services, or demand-side, inflation, which has yet to normalise or mean-revert in the way that goods inflation has following the re-opening of supply chains. Sustained services inflation is likely to contribute to ongoing inertia in core inflation well above the central banks' circa 2 per cent targets.

There are many facets that make this tightening cycle different (see slide below), including the fact that we have started with the lowest interest rates in recorded history, the highest core inflation since the 1980s, and the lowest unemployment rates since the 1970s. Overlay sustained weak labour productivity, which pushes up unit wage costs, and it makes for a very tricky policy challenge.

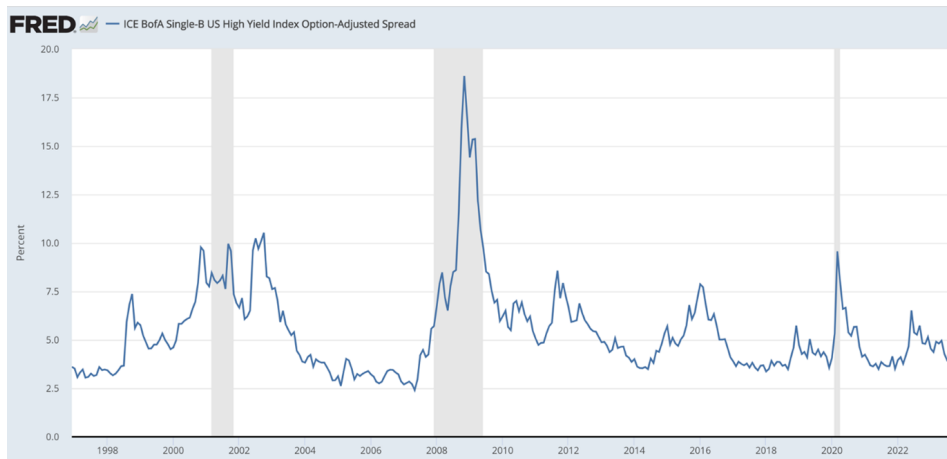
In this context, one crucial (and often overlooked) innovation is the advent of the enormous consumer savings buffers, built-up during the pandemic because households could not spend when economies were shut down. These buffers were further expanded by unprecedented cash transfers from governments to the community (driving an extreme deterioration in fiscal balances), which were designed to mitigate the impact of the downturn.

While the evidence suggests consumers are now eroding these buffers, they remain large and a very important independent source of demand and hence inflationary pressure. They almost certainly help explain why economies have been able to weather savage interest rate increases better than they would have in the past.

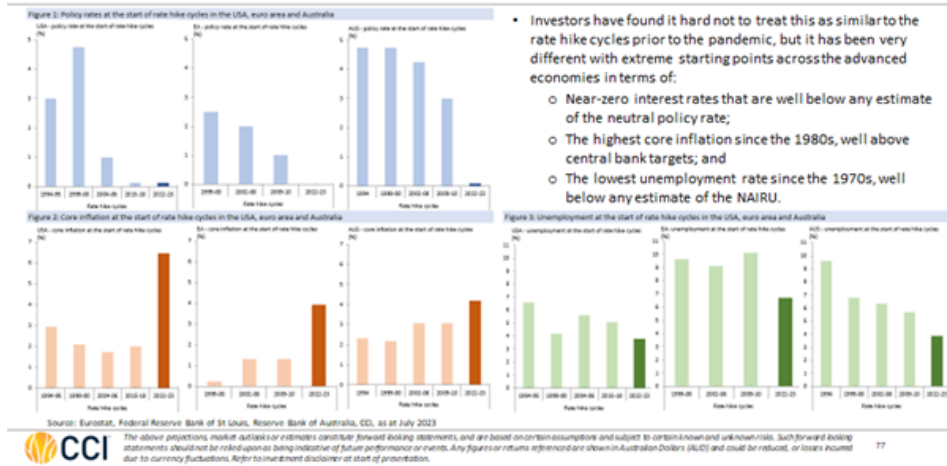
Yet alongside elevated unit wage growth and tight labour markets, they imply that this will be an elongated and iterative, multi-year battle to wrest inflation back to the central banks' targets.

Strategy commentary cont'd: There is nonetheless mounting evidence that cracks are beginning to appear in more vulnerable sectors of the economy. Insolvencies are spiking around the world. Global corporate defaults look on track to have their worst year since the 2008 crisis. Despite this, single-B rated high yield bond spreads in the US appear incredibly tight, likely because of the illiquidity in the high-yield bond market. High yield spreads are less than half the peaks you would expect based on prior default cycles in 2002/03, 2008/09, 2011/12, 2015/16, and 2020.

Problems with illiquidity (or fund gatings/seizures) and mispriced assets are also being increasingly reported in both the commercial real estate market and the non-bank private debt industry that finances most commercial property and residential development. In Australia, there has been a huge increase in insolvencies in the residential construction and hospitality industries. And with interest rates likely to remain elevated for years, we project that this default cycle is just beginning.



Not a typical tightening cycle



Strategy commentary cont'd:

Services inflation reflects strong growth in unit labour costs



- Services inflation, excluding rents, reflects strong growth in unit labour costs (labour costs adjusted for labour productivity).
 - US unit wages (5.3%) have grown at fastest rate since early 1980s.
 - Euro area unit wages (6.4%) have grown at their fastest rate since the global financial crisis (excluding COVID policy distortions).
 - Australian unit labour costs (7.9%) have grown at fastest rate since late 1980s due to poor productivity (ex COVID policy distortions).



Source: Eurostat, Federal Reserve Bank of St Louis, Australian Bureau of Statistics, CCI, as at July 2023

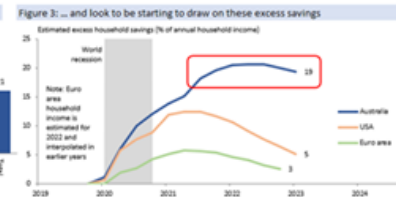


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Economic Resilience Driven by Huge Excess Consumer Savings



- Consumer spending could hold up if households:
 - Push for pay rises;
 - Spend all they earn; and/or
 - Tap the excess savings built up during the pandemic thanks to government handouts and lockdowns.
- There is tentative evidence that Australians are following their American counterparts by drawing on their excess savings to support spending, where excess savings have started to edge lower from the peak of about 20% of annual household income.



Source: ABS, BLS, Eurostat, RBA, CCI, as at July 2023



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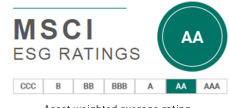
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