



March 2022

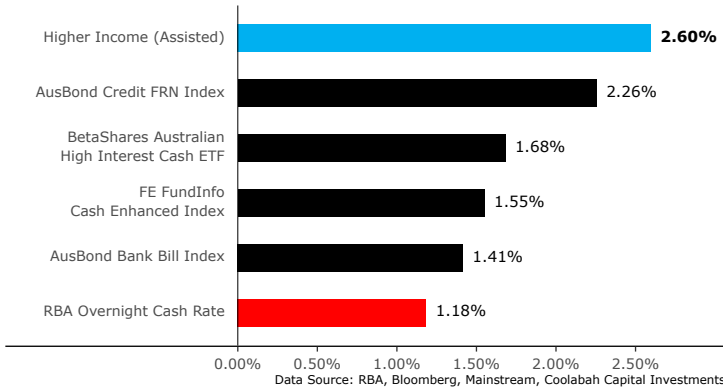
Objective: An independently-rated/recommended strategy targeting low-risk cash and fixed-income returns that exceed the RBA's cash rate by 1.5%-3.0% pa after fees, over rolling 12 month periods.

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

Period Ending 2022-03-31	Gross Return (Assist.)	Net Return (Assist.) [†]	RBA Cash Rate	Gross Excess Return [‡]	Net Excess Return (Assist.) ^{†‡}
1 month	0.10%	0.04%	0.00%	0.09%	0.04%
3 months	-0.14%	-0.31%	0.01%	-0.16%	-0.33%
6 months	0.08%	-0.26%	0.02%	0.06%	-0.28%
1 year	0.19%	-0.49%	0.04%	0.16%	-0.53%
2 years pa	3.14%	2.16%	0.07%	3.08%	2.09%
3 years pa	2.66%	1.70%	0.36%	2.30%	1.33%
4 years pa	2.90%	1.95%	0.65%	2.25%	1.30%
5 years pa	2.98%	2.06%	0.82%	2.16%	1.25%
Inception pa Oct. 2014	3.58%	2.60%	1.18%	2.40%	1.41%

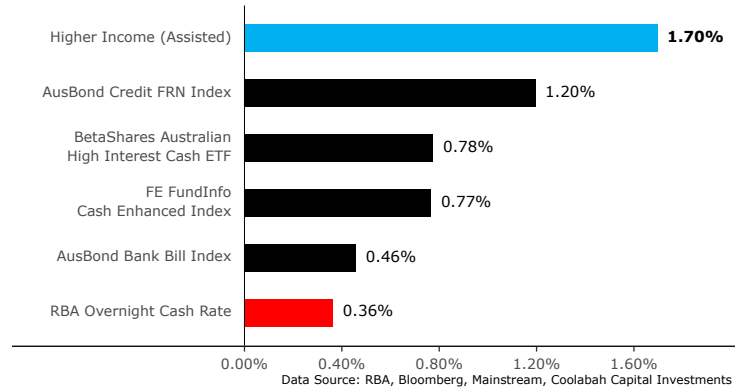
Smarter Money Higher Income Fund Returns (Net) vs Comparisons

Annualized Returns Since Inception in October 2014 to 31 March 2022



Smarter Money Higher Income Fund Returns (Net) vs Comparisons

3 Year Annualized Returns to 31 March 2022



[†] 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.

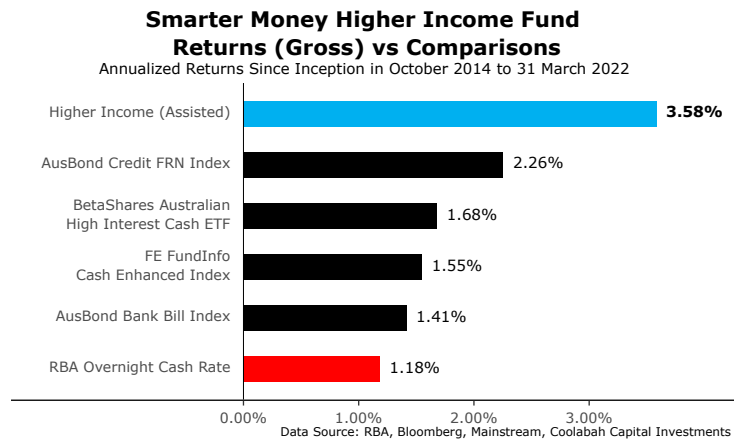
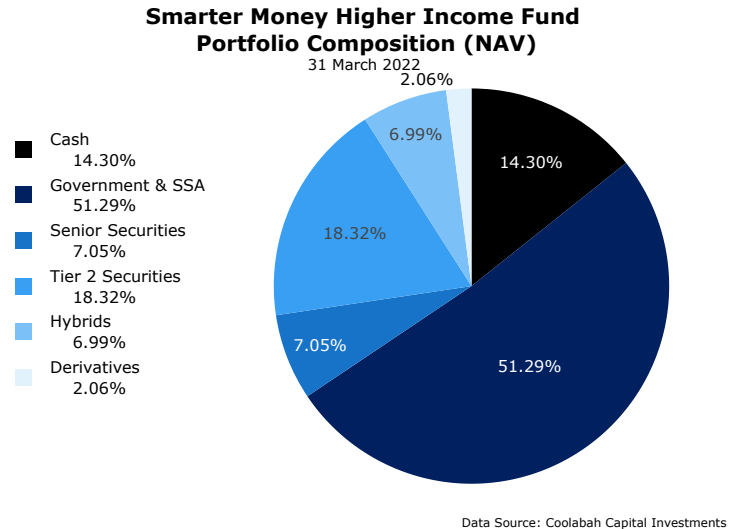
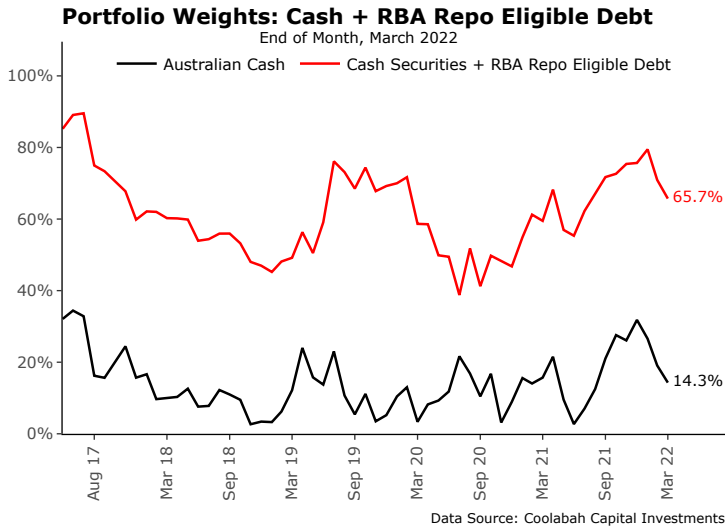
Disclaimer: Past performance does not assure future returns. Returns are shown net of all Management and Performance fees unless otherwise stated. All investments carry risks, including that the value of investments may vary, future returns may differ from past returns, and that your capital is not guaranteed.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

Net Monthly Returns > RBA Overnight Cash Rate	79%	Gearing Permitted?	No
Portfolio Weight to Cash Securities	14.3%	1 Year Av. Portfolio Weight to Cash	18.3%
Portfolio Weight to Bonds	83.6%	Portfolio Weight to AT1 Hybrids	7.0%
Av. Portfolio Credit Rating	A+	Cash Securities + RBA Repo-Eligible Debt	65.7%
Portfolio MSCI ESG Rating	A	Portfolio Weight to ABS/RMBS	0.0%
No. Cash Securities	12	Credit Spread Duration Ex Govt	1.33 years
No. Notes and Bonds	105	Net Annual Volatility (since incep.)	0.85% pa
Modified Interest Rate Duration	0.02 years	Gross/Net Sharpe Ratio (since incep.)	2.75x/1.66x
		Awards: FE Alpha Manager 2019: Christopher Joye; Ratings: Lonsec available to advisers; Highly Recommended (Atchison); 'Superior Relatively Simple' (Foresight Analytics)	

Signatory of:



Asset weighted average rating



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The since inception gross (net) return of **3.58% pa gross (2.60% pa net)** is the total annual return earned by the fund since Oct. 2014, 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 Higher Income Fund - Assisted 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 0.85% pa** is based on the standard deviation of net daily returns since inception, which are then annualised, attributable to the Smarter Money Higher Income Fund - Assisted Investor Class.

Portfolio Managers	Christopher Joye, Ashley Kabel, Dr Stephen Parker, Dr Nick Campregher (Coolabah Capital Investments)		
APIR Code	SLT0052AU	Fund Inception	30-Sep-14
mFund Code	SMF02	Distributions	Quarterly
Morningstar Ticker	40536	Unit Pricing	Daily (earnings accrue daily)
Asset-Class	Short-Term Fixed-Interest	Min. Investment	\$1,000
Target Return	Net 1.5%-3.0% pa over RBA cash rate	Withdrawals	Daily Requests (funds normally in 3 days)
Investment Manager	Coolabah Capital Investments (Retail)	Buy/Sell Spread	0.00%/0.025%
Responsible Entity	Equity Trustees	Mgt. & Admin Fee	0.69% pa
Custodian	Mainstream Fund Services	Perf. Fee	22.5% of returns over RBA cash + 2.19% pa

Portfolio commentary: In March, the zero-duration and daily liquidity Smarter Money Higher Income Fund (SMHI) returned 0.10% gross (0.04% net), outperforming the AusBond Credit FRN Index (-0.29%), the FE Cash Enhanced Index (-0.18%), the AusBond Bank Bill Index (0.00%), the RBA Overnight Cash Rate (0.00%), and the BetaShares High Interest Cash (AAA) ETF (0.02%). SMHI ended March with a weighted-average credit rating of A+, and a portfolio weighted average MSCI ESG rating of A.

Since the inception of SMHI 7.5 years ago in October 2014, it has returned 3.58% pa gross (2.60% pa net), outperforming the RBA Overnight Cash Rate (1.18% pa), the AusBond Bank Bill Index (1.41% pa), the FE Cash Enhanced Index (1.55% pa), the BetaShares High Interest Cash (AAA) ETF (1.68% pa), and the AusBond Credit FRN Index (2.26% pa). Since inception, SMHI's Sharpe Ratio, which measures risk-adjusted returns, has been 2.75x gross (1.66x net). While SMHI's return volatility since inception has been low at around 0.85% 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: March was an extraordinary, record-setting month following on from the weakness recorded by global bond markets in February, with Coolabah's portfolios materially outperforming benchmarks for peers and the major fixed-income indices during this sharp downturn. All our long-only and long-short strategies registered solid returns in March while our index-tracking Active Composite Bond strategy beat the benchmark by a significant margin. Our long-short strategies also delivered robust returns in the similarly challenging month of February when the major bond benchmarks suffered losses.

Duration Destroyed - Silver Lining is Superior Future Yields

March 2022 officially became the worst month in history for the Aussie bond market as judged by the benchmark fixed-rate AusBond Composite Bond Index, which fell a staggering 3.75%, the worst return recorded by the index in 33 years of data. It was also the third worst month in the 24 year history of the AusBond Floating-Rate Note (FRN) Index, which fell 0.29%.

This continues a string of losses for both bond indices on the back of higher interest rates and wider credit spreads: the Composite Bond Index was down 1.21% in February and lost 5.88% over the March quarter. The FRN Index declined in both February and March as well. Over the 12 months to 31 March 2022, the Composite Bond Index lost 5.5% while the much lower volatility FRN Index declined 0.04%.

In late 2021, we repeatedly advised our investors to expect large losses from fixed-rate bonds as a result of [forecasts for a sharp increase in government bond yields driven by persistent inflation problems](#). Australia's 10-yr government bond yield has jumped by more than 180 basis points (bps) from 1.08% in August 2021 to a peak around 2.9% in March 2022.

Remarkably, the three worst months in the last 33 years of Composite Bond Index history have all arrived in the past 15 months. Specifically:

- A 3.75% loss in March 2022,
- A 3.58% loss in February 2021, and
- A 3.55% loss in October 2021.

In fact, a staggering six of last 15 months for the Composite Bond Index have been negative (ie, 40%). In comparison, only 29% of months since August 1989 were negative.

The big silver lining for investors is that they are now getting the best 10-year interest rates on Aussie government bonds (ie, around 2.9%) that they have had in years.

Strategy commentary cont'd: For many years we have warned clients that the ultimate response to the central banking reflex of printing money to bail-out every economic shock would be an acute inflation cycle that would force interest rates much higher, crushing fixed-rate bonds. Our hypothesis has been that the “QE-to-infinity” policy response only works for as long as inflation is not a structural problem, which it now appears to be.

Credit Spreads Widen Sharply

After the pandemic first hit, we also warned investors to expect losses from the historically very stable FRN Index as central banks moved their cash rates to zero. The ensuing decline in yields and credit spreads underpinning the FRN Index meant that there would be less organic or innate income protecting total returns.

In mid 2021 Coolabah projected that Aussie credit spreads would widen as a result of (i) the need for banks to ramp-up senior bond issuance to repay the \$188 billion they had borrowed from the RBA and (ii) the forecast closure by APRA of the \$140 billion Committed Liquidity Facility, which banks had historically used to buy their own senior bonds and RMBS, keeping the associated credit spreads tight. APRA duly announced the shuttering of the CLF in September 2021.

In late 2021 and early 2022 we expressed the view that there would be a material widening of credit spreads in 2022 as central banks raised their cash rates much more aggressively than market pricing assumed to cauterise a budding wage/price spiral. This spread widening would be amplified by the end of QE and the advent of quantitative tightening, or central banks shrinking their balance-sheets.

The playbook was written in 2018 when the US Federal Reserve lifted its cash rate to around 2.5% and allowed its balance-sheet to run-off, which precipitated a big increase in 10-year government bond yields (US treasuries pierced 3.2%), sharply wider credit spreads, and a 20% draw-down in equities.

Back in 2018, core US inflation was below 2% and wages growth was running at a benign circa 3% pace. Yet in 2021 and 2022, core inflation, wages and inflation expectations have jumped to more than 5%, the highest levels in decades.

The flip-side of this coin is that wider credit spreads and higher cash rates (as central banks lift policy rates) mean that future income levels on bonds will be superior to the paltry yields offered since the pandemic.

But wider spreads have hurt the AusBond FRN Index, which recorded three negative months in succession in late 2021 for the first time ever. Between 1999 and 2021, the probability of the FRN Index having a negative month was just 3.4%. Since the end of 2020, over 40% of months have been negative. More precisely, 6 of the 14 negative months in total since December 1998 have materialised in the period after January 2021. That is, 43% of all negative months over the last 24 years have been registered in recent times.

In March, we saw 5-year major bank senior bond spreads jump from 73bps over the quarterly bank bill swap rate (BBSW) to 90bps (ie, 17bps wider). In the same manner, 5-year Tier 2 spreads leapt from 163bps over BBSW to 184bps (21bps wider). One step further down the capital stack, 5-year AT1 hybrid spreads drifted from 227bps to 240bps over BBSW (13bps wider).

Aussie credit was playing catch-up to the USD and EUR investment-grade bond markets where spreads had been moving sharply wider since January. In 2022, we have watched EUR IG corporate spreads explode 65bps wider at their peak in March based on Bloomberg data, although they have since retraced about 30bps to be net 35bps higher. US corporate IG spreads moved similarly, climbing about 50bps at their peak in mid-March, following which they have compressed about 30bps (ie, 20bps net wider).

Global equities suffered in 2022 as a consequence of the much higher discount rates. In price terms, the S&P500 equities index troughed at a 14% loss in mid-March (for the 2022 calendar-year-to-date), thereafter rallying to close down 5.2% by the end of the month. Life has been more challenging for growth stocks with the NASDAQ Composite Index losing 20% in price terms at its lowest point in mid-March (relative to its closing 2021 level). It has since recovered to be down 9.1% in the year-to-date.

Strategy commentary cont'd: The moves in credit markets have been broadly consistent with our short-term targets for spreads to converge to the 2018 wides, as have the equity market losses (we were looking for 5-15% drawdowns in equities in the first quarter). In December we were forecasting 6-7 hikes from the Fed in 2022 while the market was only pricing 3 rate increases. The market has now shifted to pricing in 8-9 hikes. We have also been expecting the US 10-year government bond yield to rise back towards its 2018 peak above 3.2%. It has not disappointed to date, with the 10-year yield climbing more than 100bps from 1.35% in December to over 2.41% at the time of writing.

Differentiated Performance

Coolabah's portfolios materially outperformed in March. The long/short strategies were a particular stand-out, as we have argued they should be in an interest rate/inflation shock, recording large positive returns in both February and March. (The index-tracking Active Composite Bond strategy also posted large relative alpha over this period).

This outperformance has been powered by differentiated portfolio positioning. Over 2021, we had taken profits on most of its credit exposures, substantially increasing portfolio weights to cash and interest-rate hedged government bonds to near record levels because of our strongly negative views on credit spreads, interest rate risk (duration), and equities, amongst other asset-classes (eg, crypto), driven by non-consensus forecasts for large interest rate increases in 2022 based on persistent US inflation problems.

Over 2021 and 2022, we actively built-up multi-billion-dollar credit hedges in Aussie, US, UK, and Euro bank bonds in the AUD, USD and EUR markets. We also actively accumulated multi-billion-dollar credit hedges in AUD, USD and EUR investment-grade (IG) and high-yield (HY) credit by buying protection on USD, EUR and AUD credit default swap indices for the IG and HY markets.

In around mid March, Coolabah's team concluded that most, but not all, of the short-term interest rate/inflation/conflict risks we had been warning about since 2021 had become more-or-less fully priced by the equities, credit and interest rate markets. We therefore monetised most of our shorts/hedges on the basis of the view that risk would rally in the near-term. Over the longer-term, we believe risk will struggle as the probability of a US recession increases.

Another key driver of our outperformance has been a contrarian view on the State government bond (or semis) market. In February and March 2022, the semis market was arguably one of the best performing spread asset-classes globally, recording spread compression rather than spread expansion as the market came to embrace our views regarding: (1) the need for banks to buy >\$400 billion of government bonds for regulatory liquidity reasons; and (2) the prospect of the State budget deficits shrinking much faster than the market expected with supply in FY23 likely to be 25-40% less than expectations.

Over February and March 2022, 10-year State government bond spreads actually compressed about 6bps (despite the RBA ending QE) compared to credit spreads globally that have trended 20-30bps wider. You can read some of our [quant research on this market here](#), [here](#) and [here](#).

Differentiated Macro Forecasts

Back in October 2021, we [warned that the risk of global military conflicts was much higher](#) than many people - including those in markets - assumed, and that the outbreak of war could have deleterious consequences for asset prices.

We further recommended that investors embrace a "democratic" ESG criterion and stop allocating capital to dictatorships and despots, specifically calling out [the NSW government for providing debt and equity funding to Russia \(\\$75 million\)](#), Saudi Arabia (\$45 million), China (\$225 million), and the UAE (\$15 million).

It's funny how events change perspectives: we suspect some folks initially thought we were being alarmist. Yet our warnings were based on [advanced academic research](#) that applied sophisticated statistical and machine learning methods to 160 years of military, economic, demographic, social and political data to estimate - for the first time - [the objective empirical probabilities of conflicts erupting between different nation states](#).

Strategy commentary cont'd: The truth is we have been highlighting these risks for over a decade. In 2012 this [we asserted](#) that "the most profound hazard Australians face is the risk of war". "We invest vast taxpayer resources – more than \$30 billion each year – nominally insuring against it. Yet despite more than 200 conflicts since 1900, causing 35 million deaths, there is a startling dearth of quantitative research on forecasting the frequency and severity of wars. Here I am talking about projecting the "probability distribution" of future conflicts..."

After years of work, we were finally able to address this conflict modelling lacuna. While the data-set used in the models ends in 2020 (i.e. they do not have the benefit of information after 2020), they nonetheless put the probability of a full kinetic conflict between Russia and the Ukraine at a substantial 1-in-4 to 1-in-5 (or 22.2 per cent) over the next 10 years. Crucially, this specific probability included a declaration of war between these countries. Worryingly, the conflict probabilities between the US and China, and China and Taiwan, were an even higher 45 per cent and 74 per cent, respectively.

Sadly, the Russian/Ukraine risks have come to fruition in 2022, wreaking havoc on markets. And it has suddenly dawned on investors (like NSW) that lending money to dictatorships, such as Russia, is a terrible idea. Indeed, there has been an international rush to dump all Russian exposures, which had been widely held as part of many investors' emerging market equities/debt portfolios.

In October 2021, [we explained](#) that "we require all investments to be domiciled in democratic, rather than authoritarian, states where there are minimum safeguards regarding the rule of law, property rights, freedom of individual and religious expression, human rights and so on". "Without this democratic criterion, it is easy to end up lending money to the likes of Vladimir Putin and the Saudi royal family."

Nobody seemed to care back then, but do they now. To be clear, our democratic maxim is not just about ethics. It is founded on the idea that transparent democracies give investors a much better chance of having their legal rights enforced and protected. [Countries like Russia and China are un-investable](#) because no serious investor can have confidence in the rule of law, property rights, enforceability of claims, and/or the integrity of the financial, risk and other information disclosures that emanate from companies that are subject to the dictates of totalitarian regimes.

Russia has just banned foreign sales of domestic investments. China imposed similar constraints during their 2015 equity market crash. Ask Jack Ma, the founder of Alibaba, how he feels about becoming the president's personal plaything!

These geo-political risks only amplify the negativity we have communicated regarding almost all asset-classes since late 2021

Sky-High Vacancies suggest Australia's Jobless Rate Will Decline Further to 3% Area

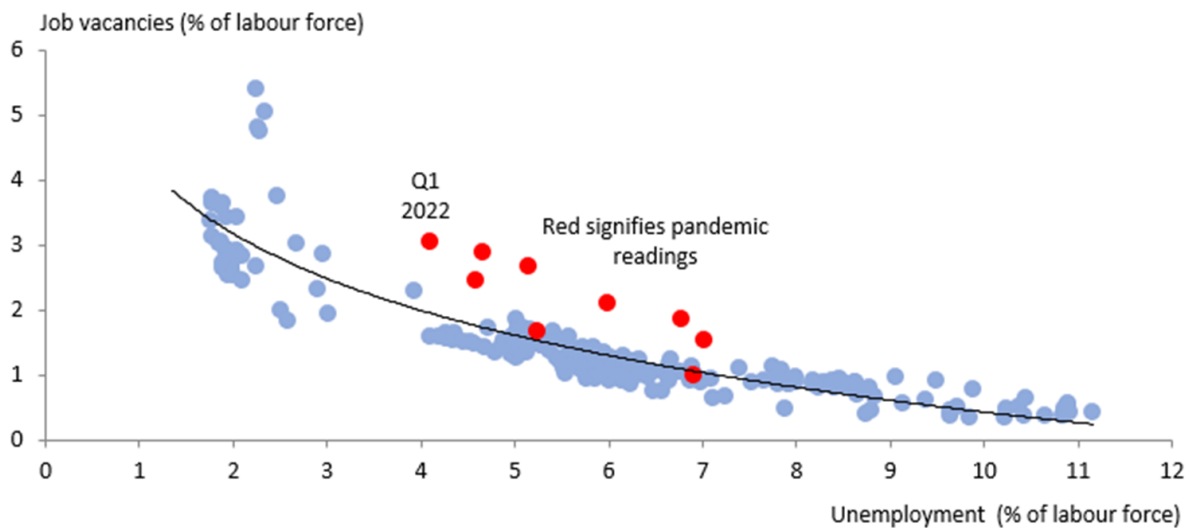
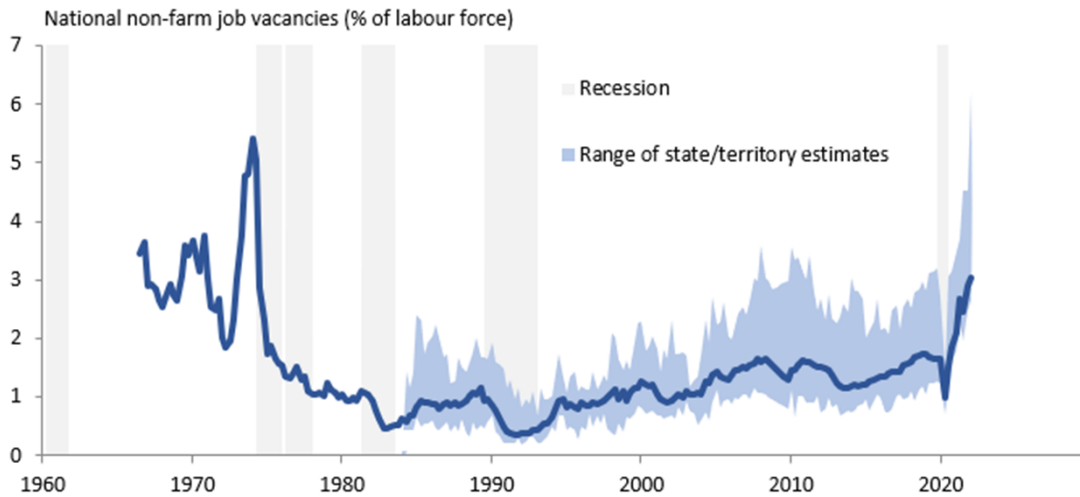
Recent data on both job vacancies and worker mobility show that Australia's labour market is continuing to tighten, pointing to ongoing reductions in the unemployment rate and higher wages growth. In fact, current vacancy rates are consistent with a much lower unemployment rate, raising the prospect of a very rare 3-handle being recorded soon. This will only increase pressure on the RBA to soon start raising the cash rate, unwinding the emergency rate cuts of 2020.

Job vacancies continue to surge, up 7% in the first quarter of 2022. Vacancies are now 3% of the labour force, which is the highest share since just before the economy entered recession in late 1974. Vacancies are extremely high as a share of the labour force in every state and territory, but among the states WA has almost reached 4.5%.

Some vacancies will be filled when non-resident workers return to Australia, but based on the pre-pandemic relationship between vacancies and the unemployment rate, we estimate that the current level of vacancies is consistent with an unemployment rate of around 2% (see the first two charts below).

Assuming that the unemployment rate soon falls into the 3s for the first time since 1974, this will place pressure on wages growth given the Reserve Bank thinks the NAIUR ranges between the high 3s and low 4s, while the bank's inflation model suggests the NAIUR is higher at 5.25%.

Strategy commentary cont'd:



Labour Mobility Points to Greater Aussie Wage Pressures

With the unemployment rate likely to fall further, recent data also show clear signs of increased job mobility in Australia - albeit still nothing like the great resignation phenomenon in the US - which is also consistent with a pick-up in wages growth.

About 5.25% of workers have recently started a new job, which is the highest share in about a decade, mostly reflecting part-time workers changing jobs. More notable is the increase in the share of workers who plan to either change jobs or seek other employment over the next twelve months, which at about 5.25% is at the highest point since the global financial crisis.

This has been driven by full-time workers, where about 4.75% of full-time staff plan to quit over the next twelve months, which is the highest share since data first became available in 2001.

Importantly for the RBA, increased job switching places upward pressure on labour costs and hence inflation, but not the wage price index, which is a pure measure of wages growth that is not affected by changes in the occupational/industry mix of the workforce.

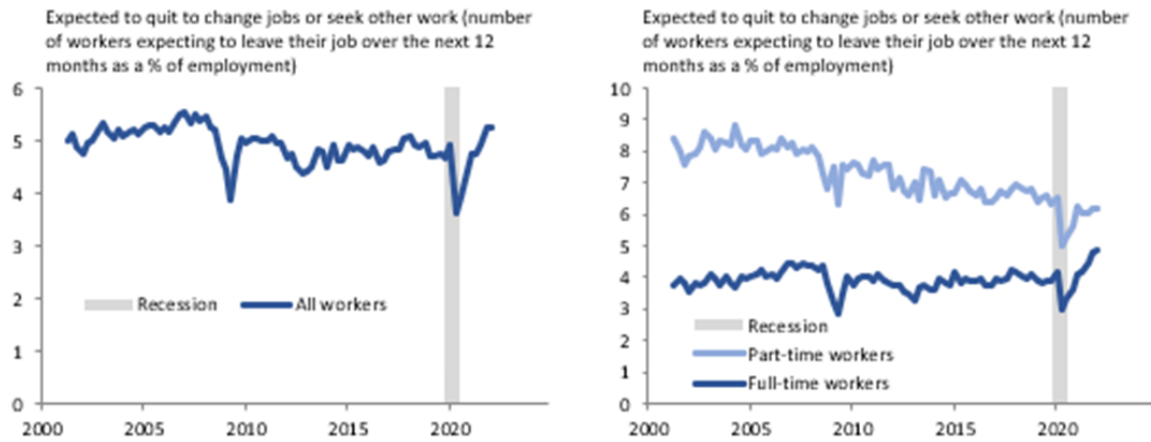
The RBA has recently emphasised that it evaluates a broad range of labour cost benchmarks when assessing inflation pressures, including both the unit labour costs series reported in the national accounts as well as the wage price index. The former is more likely to signal sooner that the economy is generating wages growth that is consistent with sustainable core inflation within the RBA's 2-3% target band, which the bank has set as a pre-condition for its first hikes.

Strategy commentary cont'd: We continue to expect 2-3 rate hikes from the RBA this year, which will eventually apply nontrivial downward pressure on national house prices.

Figure 1: More employees have recently started a new job



Figure 2: More employees are planning to switch employers



US Unemployment Rate is Now Well Below the US NAIRU

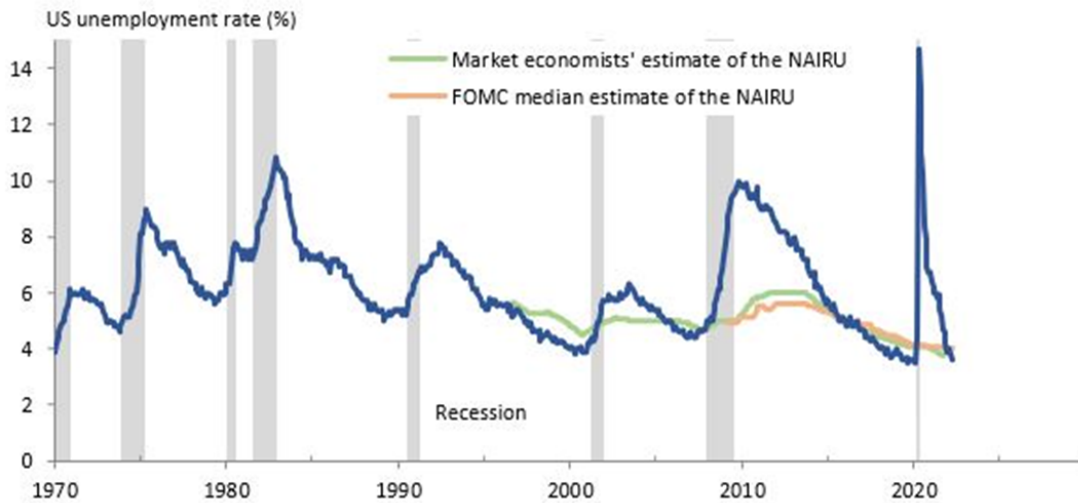
In the US, the unemployment rate is practically back at pre-pandemic levels and well below estimates of the NAIRU. That is, the unemployment rate fell to 3.6% in March, almost matching the pre-pandemic low of 3.5% that itself was the lowest unemployment rate since 1969 and one of the lowest rates in modern history.

This indicates that there is excess demand in the US labour market as the unemployment rate is now well below the FOMC's median estimate of the NAIRU of 4% and outside the range of individual FOMC-member estimates of 3.8-4.2% (it is also below the median market estimate of the NAIRU of 3.8% in Q3 last year).

Wages growth has reacted to the tighter labour market, where there has also been a supply response to the pandemic itself, with the strongest growth in wages in people-facing industries, such as hospitality, retail, health, and education, presumably reflecting concern about catching COVID.

The tightness of the labour market combined with the risk that high actual inflation will feed into high inflation expectations helps explain the Fed's pressing need to quickly return monetary policy to a more neutral setting and potentially adopt tight policy.

Strategy commentary cont'd:



Why NSW Budget could be \$9.5bn Better Off after Commonwealth Support

The NSW budget remarkably remained close to balance in February, as recent data shows, providing welcome news for NSW Treasurer Matt Kean. The budget deficit is likely to come in \$5 billion better than the full-year government forecast for 2021-22 (i.e., FY22), even allowing for conservative estimates of the potential costs of recent tragic flooding and assuming that the Commonwealth's reimbursement of 75% of the cost of this natural disaster does not arrive until next financial year.

If the Commonwealth reimbursed NSW for its 75% share of the floods this financial year, via an advance, the budget could be as much as \$8.5-\$9.5bn better off. While it is more likely that the Commonwealth payments are made in the next financial year or later, there is a possibility that an advance is made due to the pending federal election in May.

These upside budget surprises should reduce NSW's debt funding task by a similar quantum in 2022-23 (or FY23). Further outperformance over the remainder of 2021-22 (or FY22) could potentially reduce NSW's debt funding needs by more than \$5bn in the next financial year before accounting for the very substantial impact of infrastructure delays, [which we previously analysed here](#).

The NSW budget has been very volatile over recent months even after seasonal adjustment, but the omicron outbreak has not had a measurable effect on the bottom line, contrasting with the large deficits posted during the delta outbreak. This contrast reflects more targeted assistance to the community during omicron and a more limited impact of the outbreak on the economy.

Strategy commentary cont'd: The general NSW government budget on a cash basis was broadly in balance in trend terms in February (i.e., close to surplus), although this will very likely be revised to a modest deficit as more data become available given how trend estimates are calculated.

This is clear from the seasonally adjusted estimates, which showed the deficit widened from about \$500 million in January, when the budget was similarly close to surplus, to almost \$1 billion in February, while flood-related costs will add to the deficit over the coming months (subject to the timing of the Commonwealth's reimbursement of 75% of these costs).

The improvement in the NSW budget over the financial year to date mainly reflects stronger revenue, particularly grants and subsidies, but payments have fallen and are back at pre-delta levels, with a large fall in financial assistance payments to households/businesses.

The budget is likely to come in about \$5bn better than government expectations for this financial year, even allowing for the economic and fiscal cost of the tragic floods in northern NSW and ignoring the fact that the Commonwealth will pay for 75% of the cost of the floods.

The government has forecast a deficit of \$30bn for 2021-22 (FY22) as a whole, but the rolling annual sum of the monthly numbers shows the deficit over the past twelve months has narrowed from \$25bn in October/November to \$21bn in January/February.

Conservatively allowing for about \$5-6bn in New South Wales government assistance and economic fall-out from the floods – where payments could well end up being spread into 2022-23 – the deficit for this financial year is on track to come in about \$5bn better than the government's full-year estimate of \$30bn. This is an improvement on Coolabah's previous estimate using NSW's monthly budget data for January, where we assumed \$5bn in flood costs, which implied the deficit could come in \$4-5bn better than expectations.

The Commonwealth will reimburse 75% of NSW's direct disaster costs, which means that the NSW budget will improve further when those payments are made in arrears, where the Commonwealth has said that these costs are currently unquantifiable. Net of the Commonwealth's reimbursements for flood expenses, the NSW budget could be about \$8.5-9.5bn better off, although this is more likely to be realised next financial year after the state has applied for a reimbursement.

The pending federal election in May raises a possibility that the Commonwealth makes an advance on these payments, as it did in 2010-11 with the floods and cyclone in Queensland.

For next financial year, NSW should benefit from a materially reduced debt funding task in the order of \$8.5-\$9.5bn if reimbursement is made that year. If TCorp issues debt in line with its official funding task for FY22, which was last updated in December, it would be effectively pre-funding something like this amount for FY23.

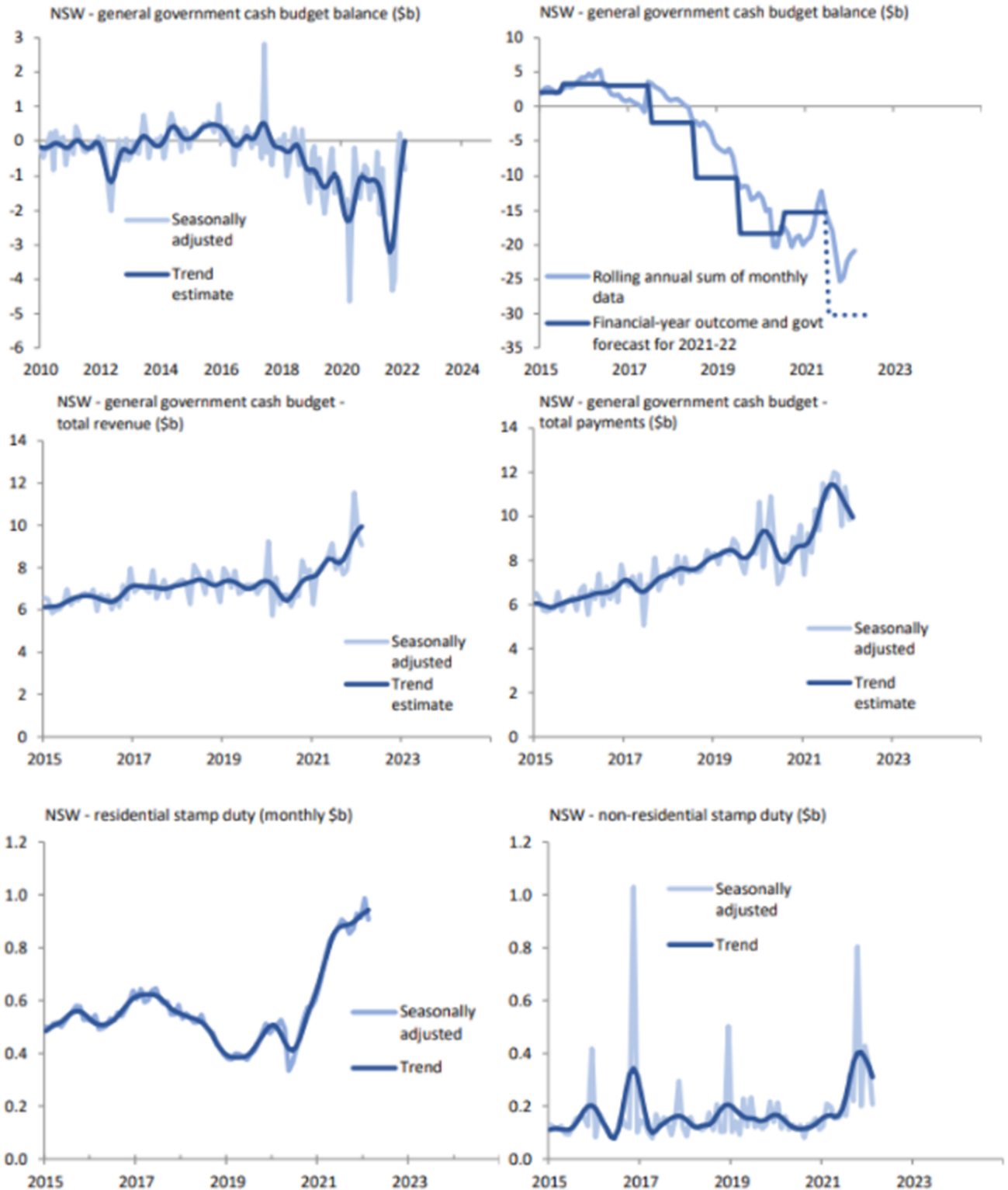
Given the state of the economy, it is reasonable to assume that all states and territories are also experiencing some degree of outperformance of their official deficit forecasts, which paves the way for lower debt issuance in FY23 given the states will have done a lot of pre-funding by sticking to their official debt issuance tasks. Victoria is a stand-out because it is running more than \$5bn ahead of its official debt issuance task in FY22, which means that it might have unwittingly done significant pre-funding for FY23, much as it had done in FY21 (this FY21 pre-funding ended up having to be used for to pay for the cost of the COVID lockdowns).

Separate to the tracking of budget performance, in recent research we have quantified the impact of delays to infrastructure spending on state issuance, [which the empirical data suggests will lag government forecasts by 10% to 20%](#). Given the currently very tight labour market and supply-chain blockages, where New South Wales is reportedly considering delaying a number of "mega-projects", we estimate this could reduce the states' debt funding needs in FY23 by another \$8bn (assuming 10% delays) to \$16bn (assuming 20% delays).



Strategy commentary cont'd:

Figure 1: The omicron outbreak has had little measurable effect on the NSW budget



Note: The data were seasonally adjusted and detrended by CCI.

Source: Department of Treasury, Revenue New South Wales, Coolabah Capital Investments



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