FE Alpha Manager:
Coolabah Capital
CCI was selected by researcher FE fundinfo in its Inaugural 2019 Top 11 Australian "Alpha Managers"

COOLABAH CAPITAL INVESTMENTS™

THE INTELLECTUAL EDGE: MAKING EVERY BASIS POINT COUNT

Delivering Coolabah Capital's High-Grade Credit Edge…

MSCI ESG RATINGS A

CCC	B	BB	BBB	A	AA	AAA

Asset weighted average rating

July 2023

www.coolabahcapital.com

MSCI ESG RATINGS AA

CCC	B	BB	BBB	A	AA	AAA

Asset weighted average rating

Important Information

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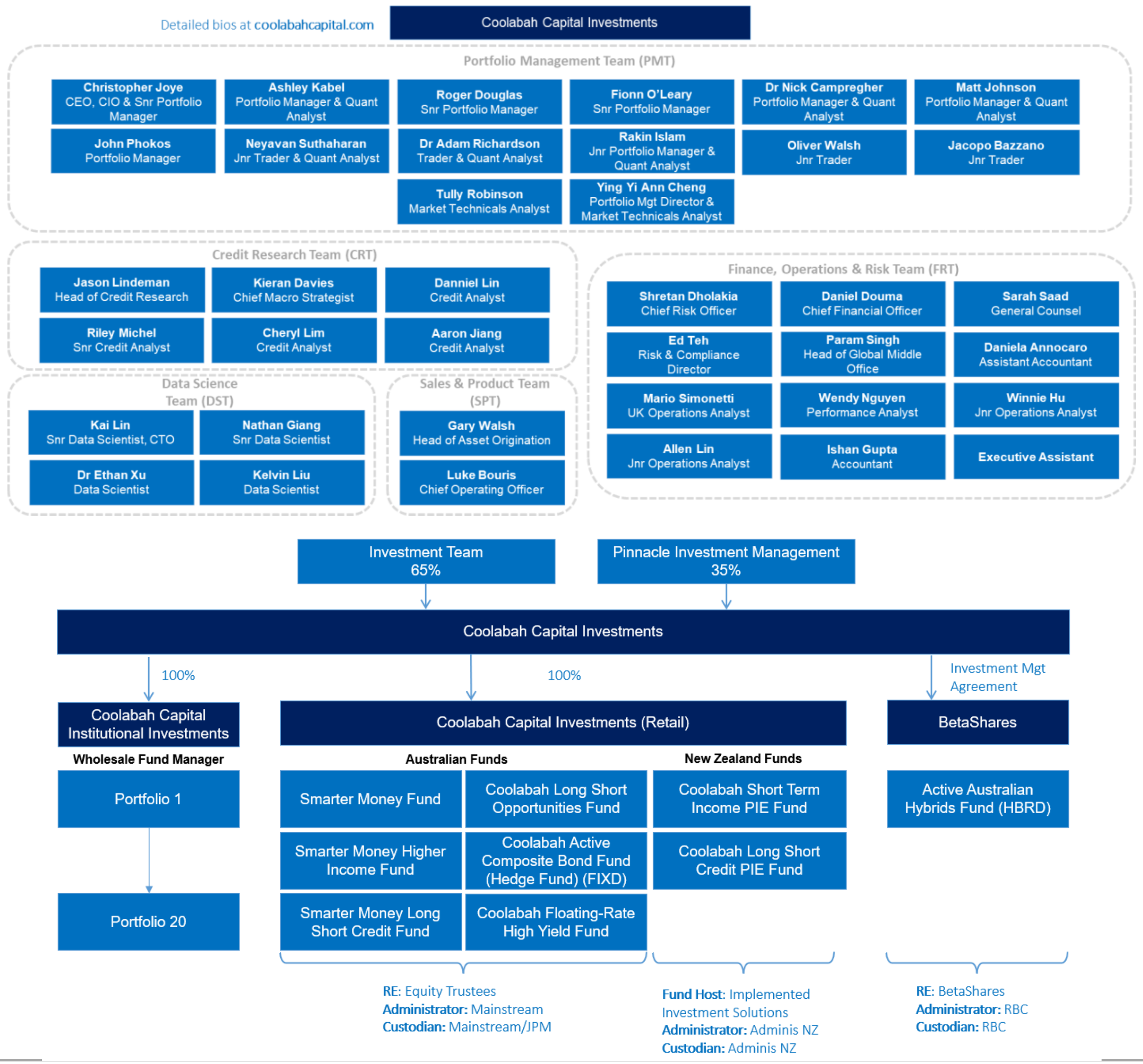
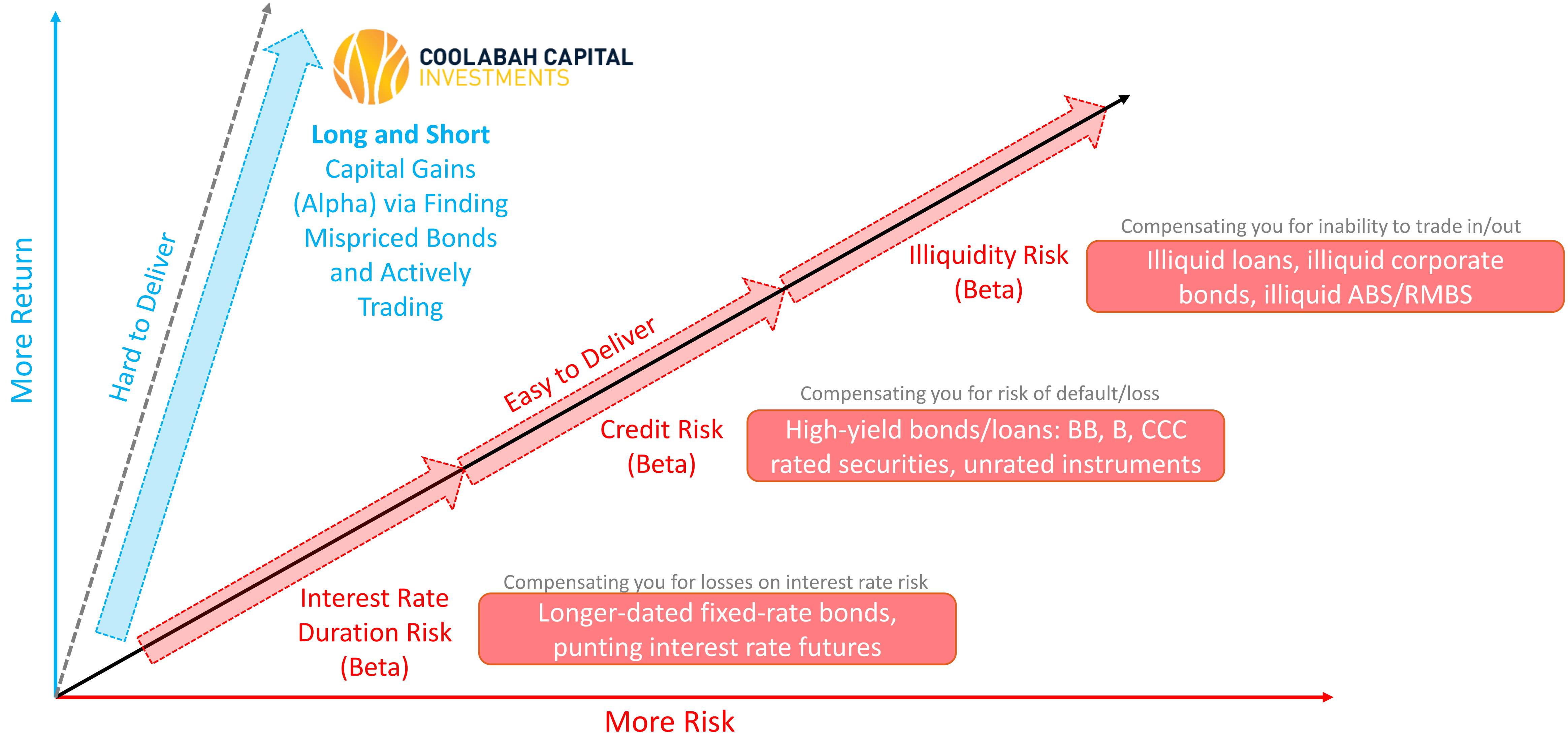
Large Active Fixed-Income Team

- **Established in 2011, first fund launched in Feb. 2012**
  - FUM is ~$8bn*
  - Currently running 30 portfolios, including 10x public funds
  - Run Australia's fastest growing active ETF (HBRD) for BetaShares with ~A$2bn in FUM*
- **Widely recognised as a leading investor**
  - Smarter Money Higher Income Fund (SMHI) – Direct Investor Class ranked #1 in FE fundinfo's cash enhanced universe over 5 years (FE Analytics 4/7/23)
  - Selected by FE Analytics as one of Australia's Top 11 Alpha Managers across all asset-classes in 2019
  - Strong ratings from Zenith, FE fundinfo (quant), Morningstar (quant), Mercer, Lonsec, Atchison, and Australia Ratings
- **38x full-time execs, 12x portfolio managers and 12x analysts**
  - 6x traders based in London within 9x person UK team
  - Staff own 65% of the business
- **Offices in Sydney, Melbourne, London**



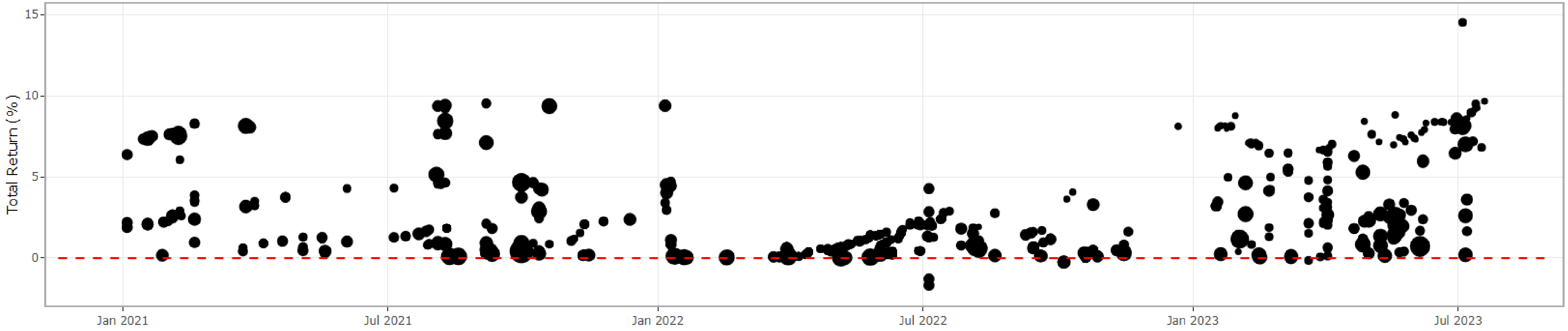
* Source: Coolabah Capital Investments (July 2023)

The Existential Choice: Add-Value or Add Risk?



AUD Primary Since '21: $4bn; >30% IRR; 99% Win Rate; 8 Day Hold

Screenshot from CCI's quant lab – AUD Primary Credit Trades ex Hybrids from 1-Jan-2021



vwavg Sell Rating	vwavg Sell Tenor	vwavg Spread (bps)	Median Holding Period (days)	Median Trade Size ($MM)	Mean Trade Size ($MM)	Median Cap Gain Per Sell (%)	vwavg Cap Gain Per Sell (%)	vwavg Cpn Return Per Sell (%)	vwavg Margin Change Per Sell (bps)	vwavg Winner Cap Gain (% pa)	vwavg Loser Cap Gain (% pa)	vwavg Cap Gain (% pa)	vwavg Cpn Return (% pa)	vwavg Total Ret (% pa)	Num Sells	Num Cap Wins/Losses	Num Total Ret Wins/Losses	Cap Gain Win % by Trades	Total Ret Win % by Trades	Cap Gain Win % by vwavg Days	Sum Face Value Sell ($MM)
A	4.23	138.2	8	0.7	1.06	0.21	0.64	0.84	-15.5	26.08	-5.31	25.59	3.17	28.75	1817	1703/114	1802/15	93.7	99.2	91.0	1927

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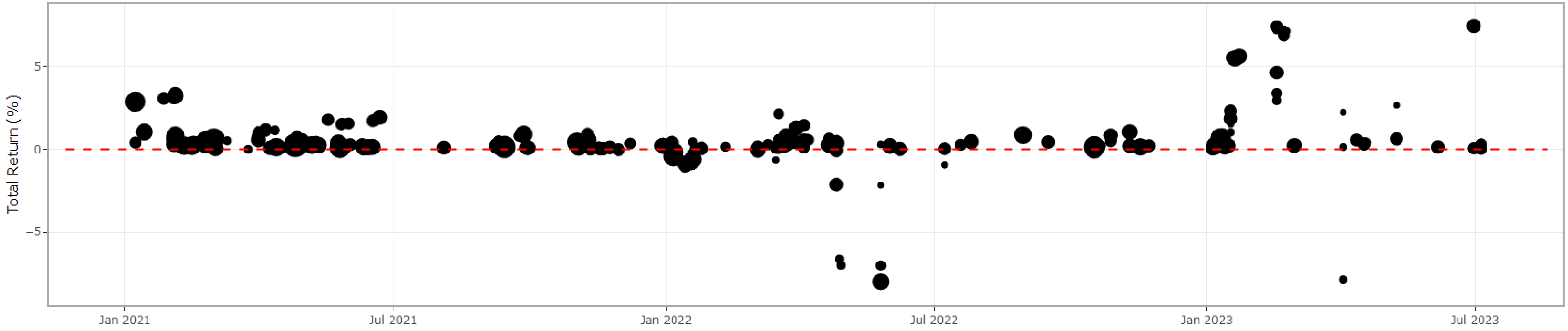
A	4.23	138.2	8	0.7	1.06	0.21	0.64	0.84	-15.5	49.59	-0.57	33.72	3.17	36.88	1817	1703/114	1802/15	93.7	99.2	91.0	1927

Source: Coolabah Capital Investments

USD/EUR Primary: $4.8bn; >30% IRR; 90% Win Rate; 3 Day Hold

Screenshot from CCI's quant lab – EUR & USD Primary Credit Trades from 1-Jan-2021



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A	6.88	65.7	3	0.3	0.597	0.14	0.22	0.27	-4.02	52.13	-9.77	42.91	2.71	45.62	4096	3452/644	3679/417	84.3	89.8	84.2	2444

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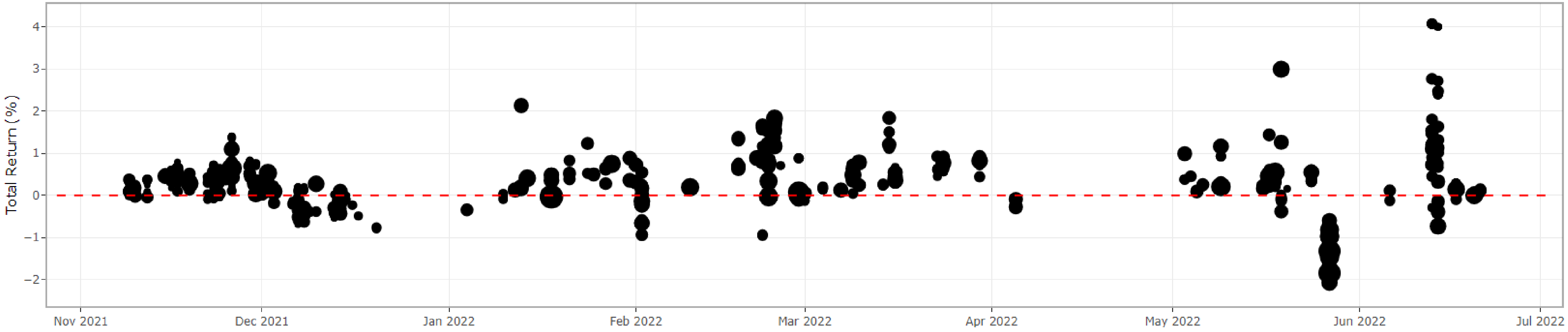
Source: Coolabah Capital Investments

Global Bond Shorts: $4.3bn; 83% Gain; IRR > 6%; 21 Day Hold

Screenshot from CCI's quant lab – from 1-July-2021



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A	6.7	76.3	21	0.4	0.749	0.49	0.44	-0.17	6.94	19.29	-10.68	13.55	-1.90	11.65	2891	2408/483	2167/724	83.3	75.0	90.1	2166

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Source: Coolabah Capital Investments

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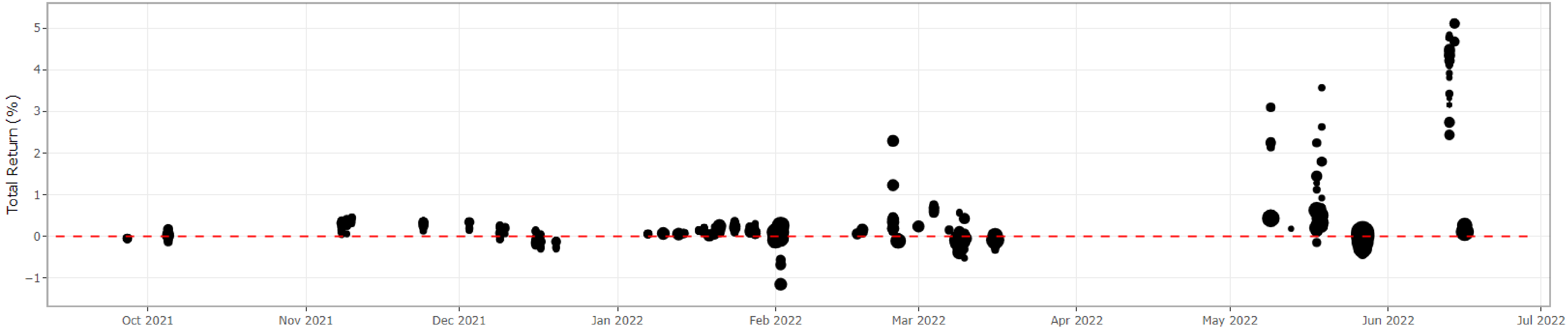
Global CDS Shorts: $12bn; 80% Gain; IRR > 8%; 11 Day Hold

Screenshot from CCI's quant lab



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NA	NA	0	10.7	1.8	4.56	0.17	0.25	-0.04	5.76	17.47	-12.03	8.84	-0.95	7.89	1320	1057/263	1016/304	80.1	77.0	84.1	6015

vwavg Sell Rating	vwavg Sell Tenor	vwavg Spread (bps)	Median Holding Period (days)	Median Trade Size ($MM)	Mean Trade Size ($MM)	Median Cap Gain Per Sell (%)	vwavg Cap Gain Per Sell (%)	vwavg Cpn Return Per Sell (%)	vwavg Margin Change Per Sell (bps)	vwavg Winner Cap Gain (% pa) Via median Holding Period	vwavg Loser Cap Gain (% pa) Via median Holding Period	vwavg Cap Gain (% pa) Via median Holding Period	vwavg Cpn Return (% pa)	vwavg Total Ret (% pa) Via median Holding Period	Num Sells	Num Cap Wins/Losses	Num Total Ret Wins/Losses	Cap Gain Win % by Trades	Total Ret Win % by Trades	Cap Gain Win % by vwavg Days	Sum Face Value Sell ($MM)
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Source: Coolabah Capital Investments

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Trade Volume: $117bn of Bond/Credit Trades Since Jan 2022

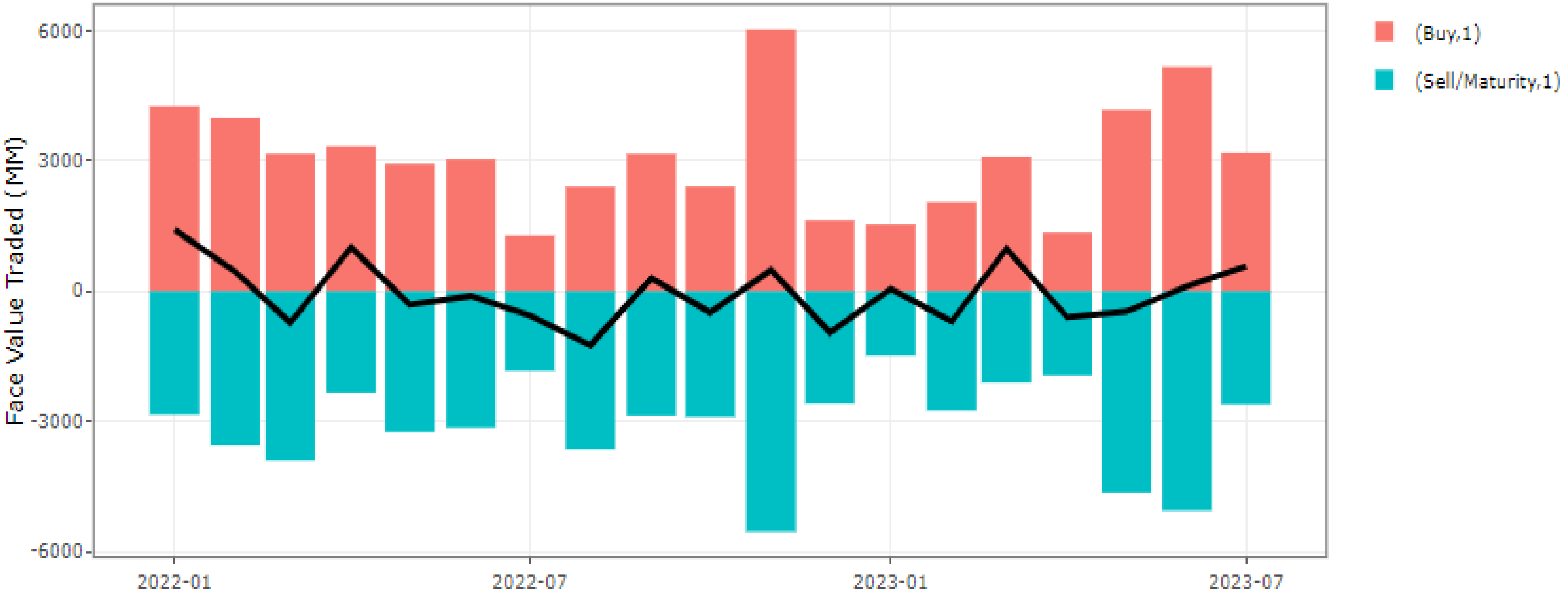
Trades | Intraday Trades | Time Series | Trade Volume | Turnover | Distributions | Transaction Cost | Market Conditions

Plot Statistic

Face Value Traded (MM)

Total Trade Volume (Inclusive of Intraday Trades)

Direction	Face Value ($MM)	Number Of Trades	Market Value AUD ($MM)
Sell & Maturity	59025.2	27952	46213.9
Buy	58194	19111	47073.6
Buy Less Sell	-831.1		859.7
Gross Traded	117219.2		93287.5



Source: Coolabah Capital Investments 25/7/2023

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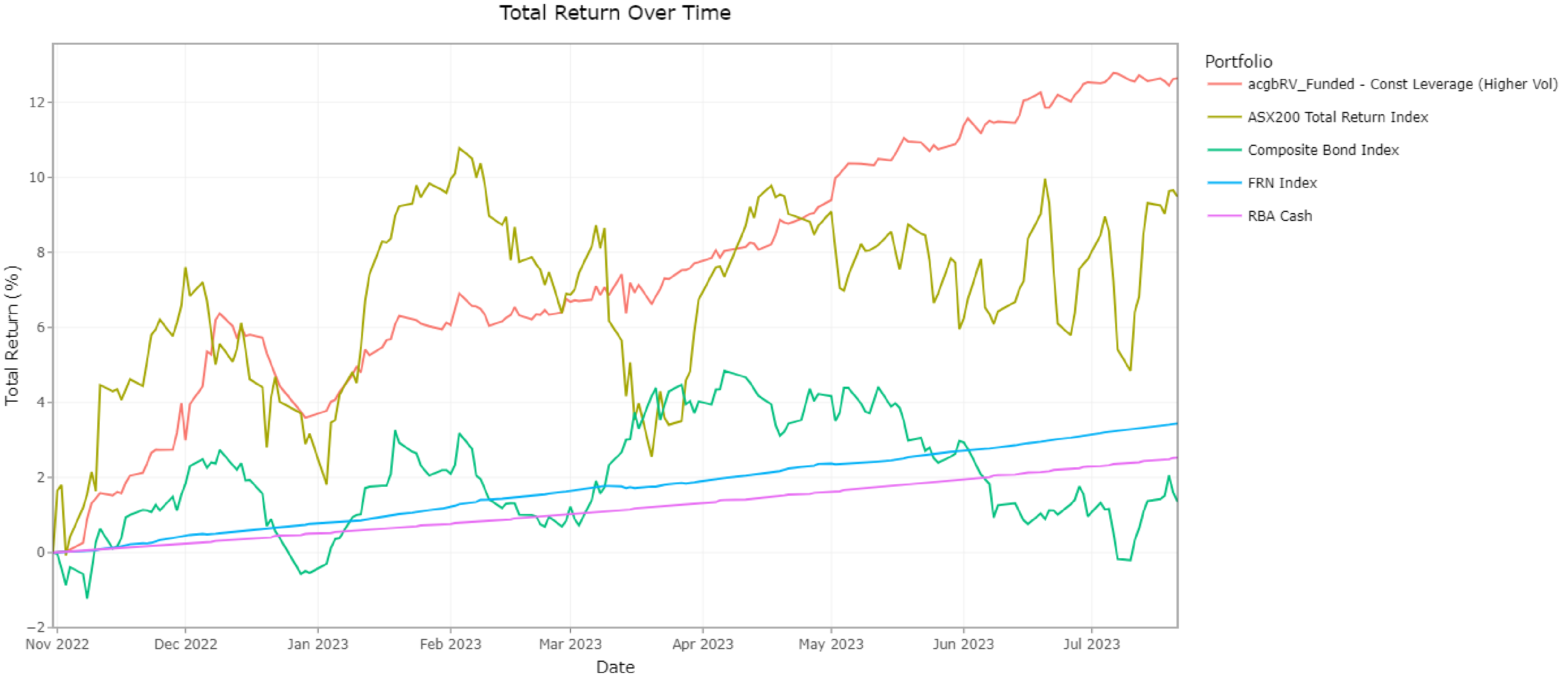
Long Short AAA Rated Sovereign Since 1 Nov '22 Launch

- **Strategy returns (red line and green line) since 1 November 2022 launch**
  - All duration is hedged out and strategy is only AAA rated govvies – no credit or equity beta – so "leverage" is a more complex concept
- **Compared to RBA cash rate, ASX200 and Composite Bond Index total returns**



Source: Coolabah Capital Investments 25/7/2023

Long Short AAA Rated Sovereign: 18% Annualised with 4.1% Vol

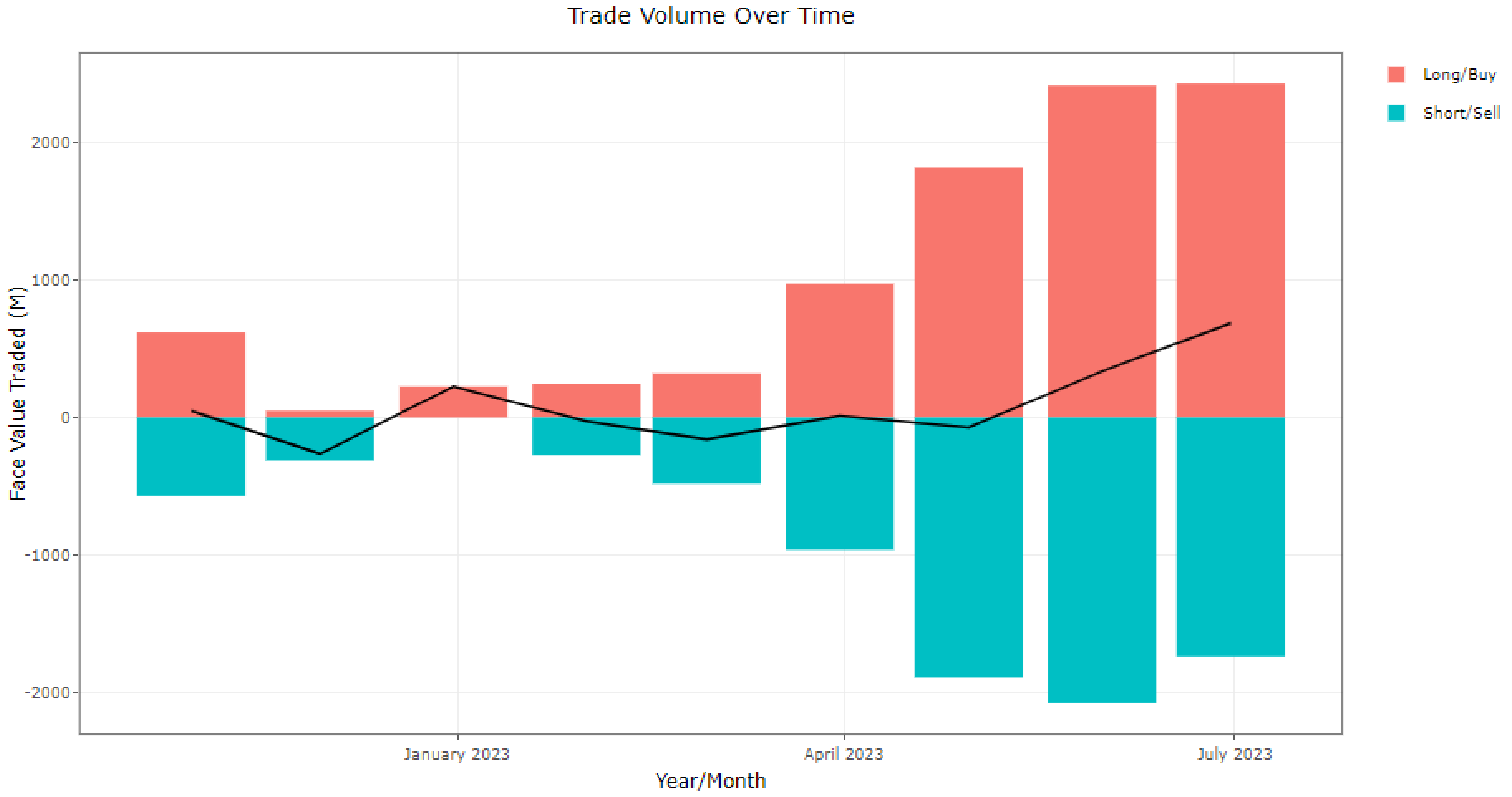
Portfolio	Period Return (%)	Annualised Return (% Pa)	Annualised Volatility (% Pa)	Sharpe Ratio	Sortino Ratio	Max Drawdown (%)
Long/Short Govvies	**12.64**	**17.98**	**4.08**	**3.54**	**5.07**	**-2.61**
ASX200 Total Return Index	9.48	13.41	11.55	0.85	1.16	-7.43
Composite Bond Index	1.35	1.89	5.79	-0.28	-0.41	-4.82
FRN Index	3.44	4.81	0.24	5.32	5.95	-0.06
RBA Cash	2.53	3.53	0.14	0	0	0

Source: Coolabah Capital Investments 25/7/2023

Close to Zero Correlation with Bonds, Equities, FRNs

Source: Coolabah Capital Investments 25/7/2023

$17.4bn of Trades with 77% Win Rate



Direction	Face Value (M)
Long/Buy	9084.75
Short/Sell	-8302.75
Gross Traded	17387.5

Source: Coolabah Capital Investments 25/7/2023

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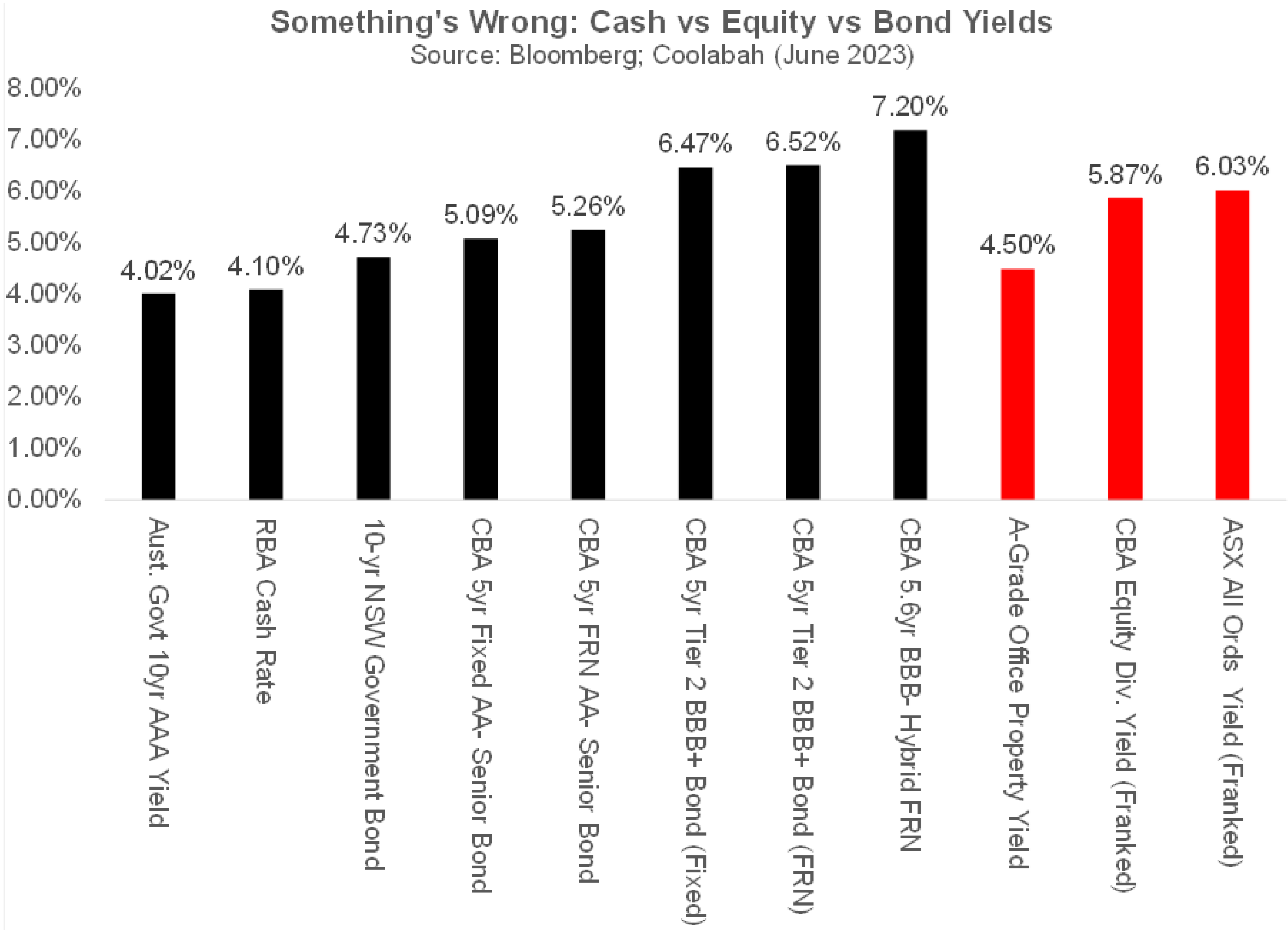
Rise of Risk-Free Yield Creates Opportunities & Threats

- **Near riskless government and bank bonds are paying similar/higher yields to equities and commercial property…**



Source: Coolabah Capital Investments 30/6/2023

Huge Increase in Major Bank Bond Yields Since 2013

5 yr Major Senior Bank Bond Running Yields

5 yr Major Subordinated Bank Bond Running Yields

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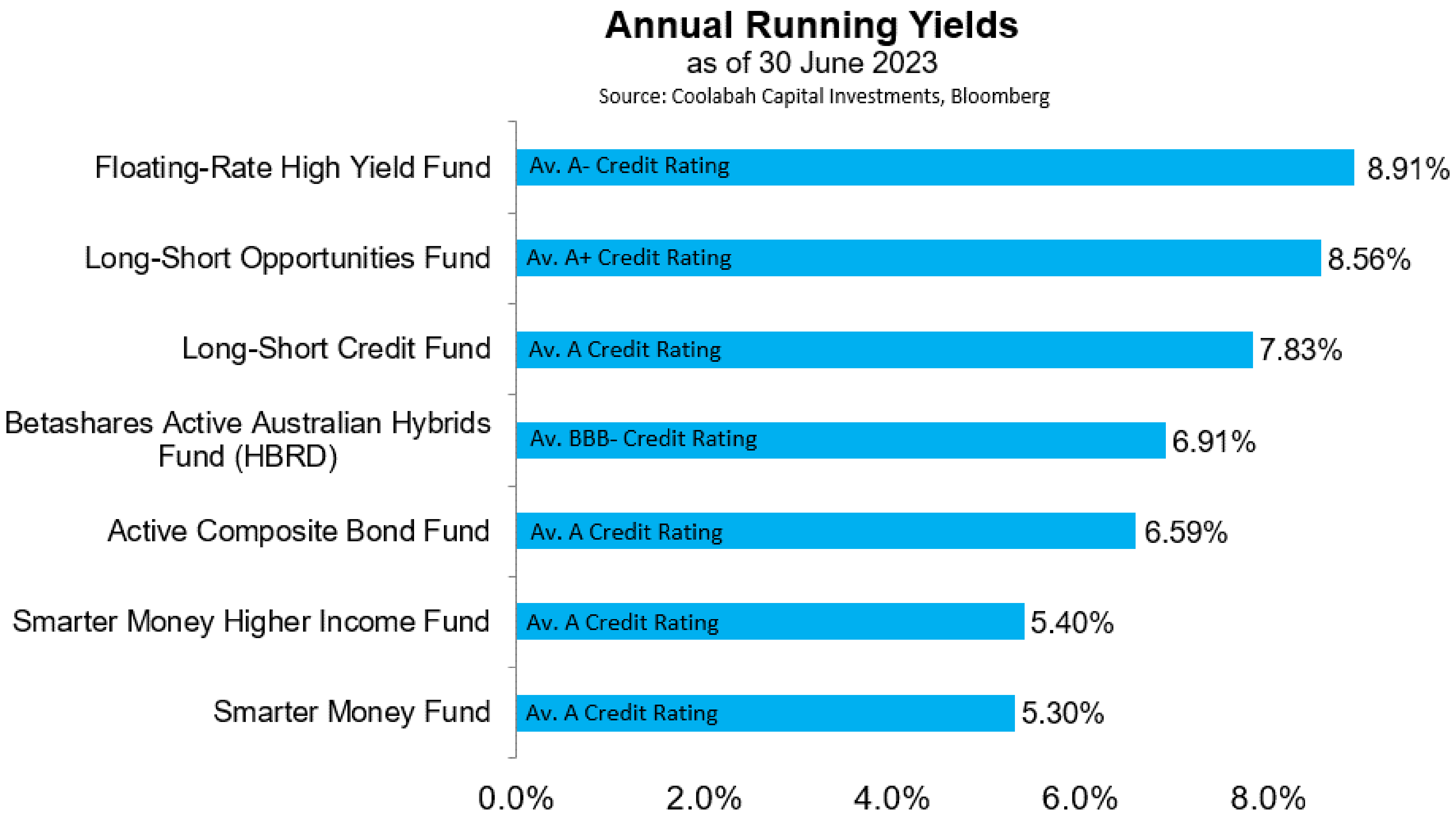
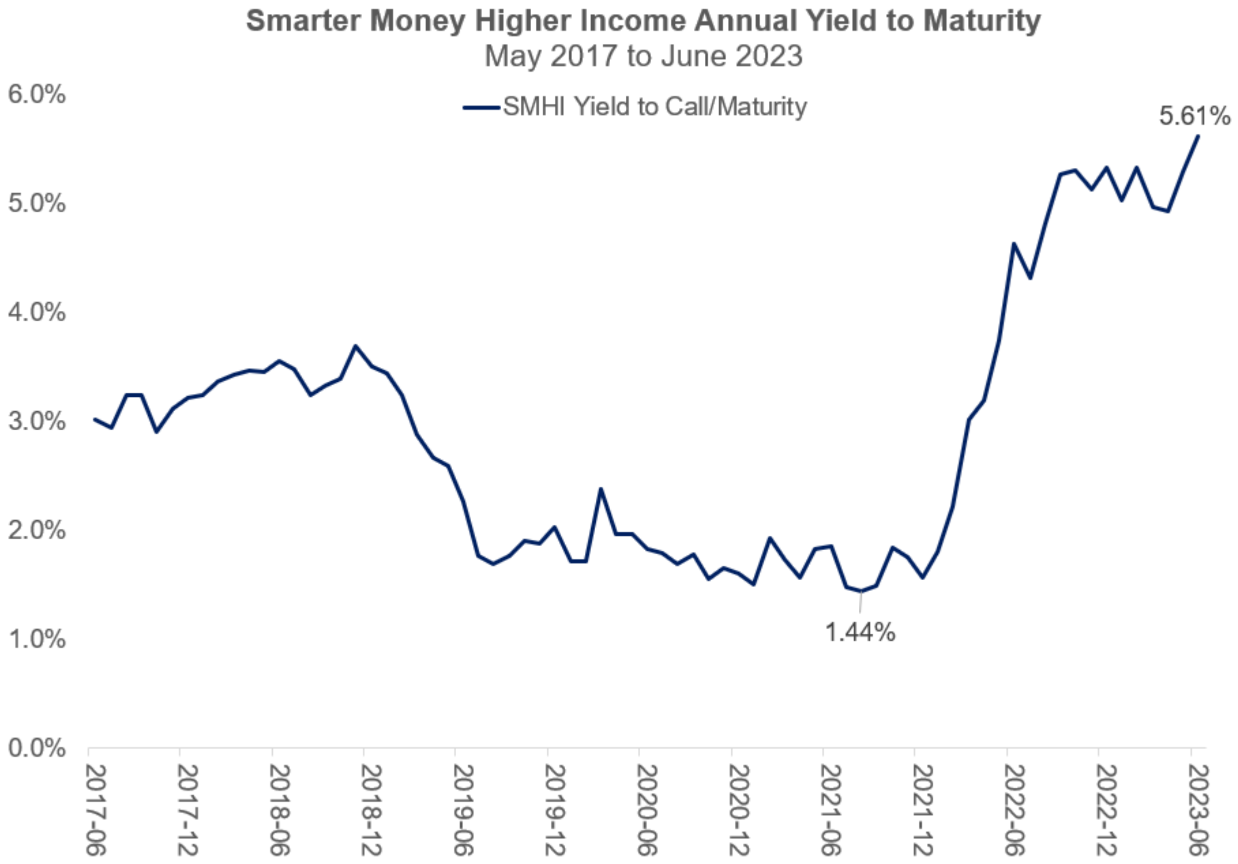
June Update: Running Yields



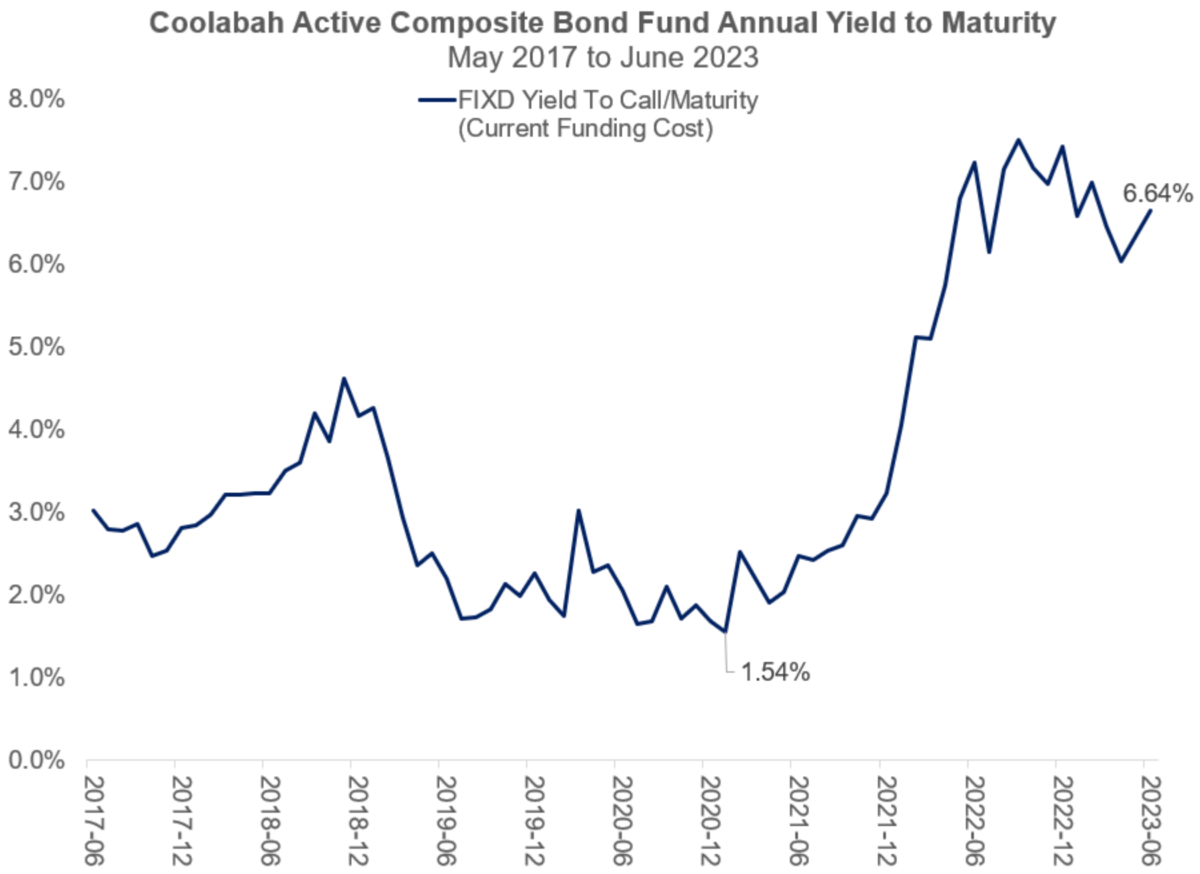
Source: Coolabah Capital Investments

Huge Improvement in CCI Yields

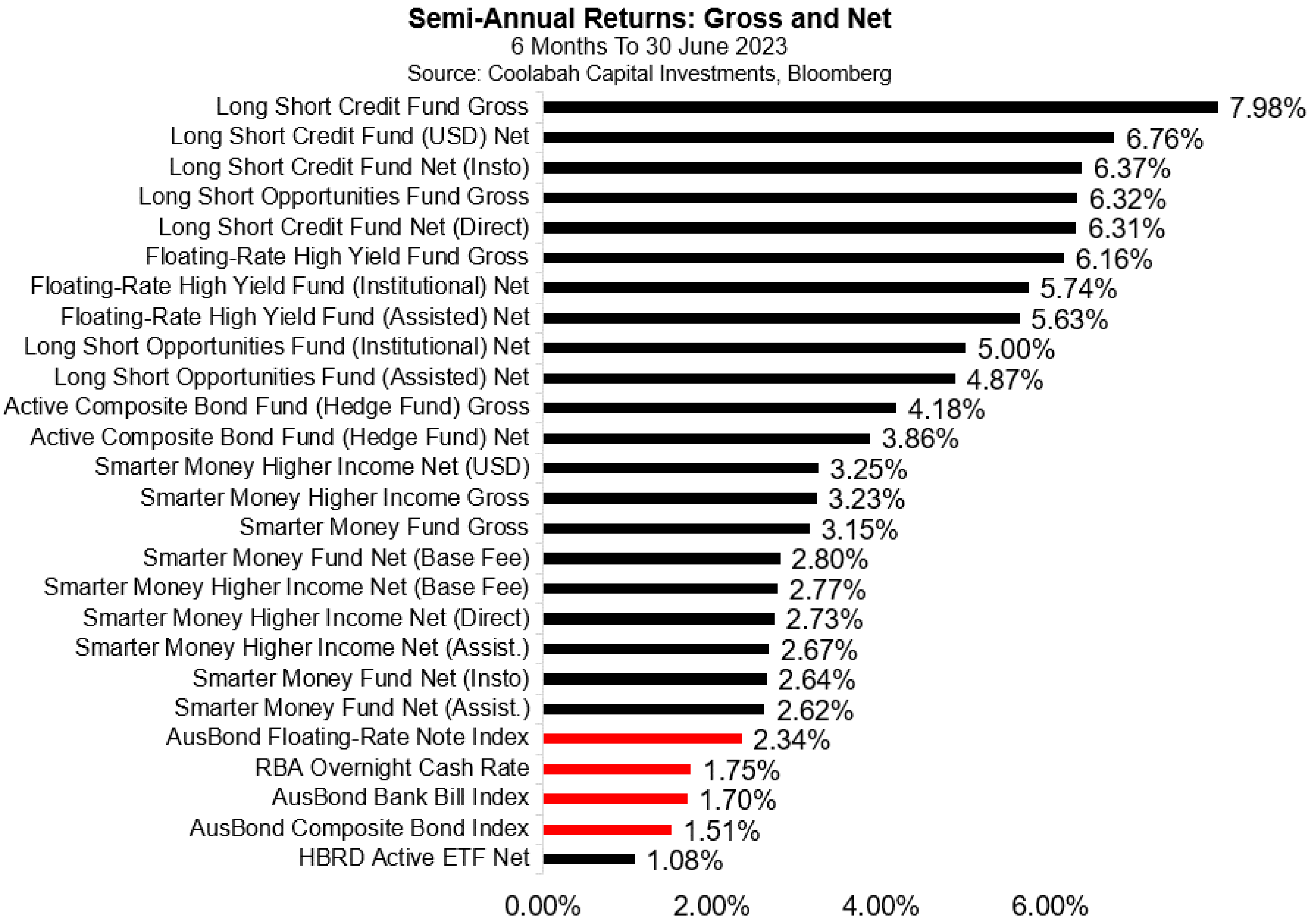
Zero Interest Rate Duration



Long Interest Rate Duration



June Performance Update: 6 Month Returns



Source: Coolabah Capital Investments

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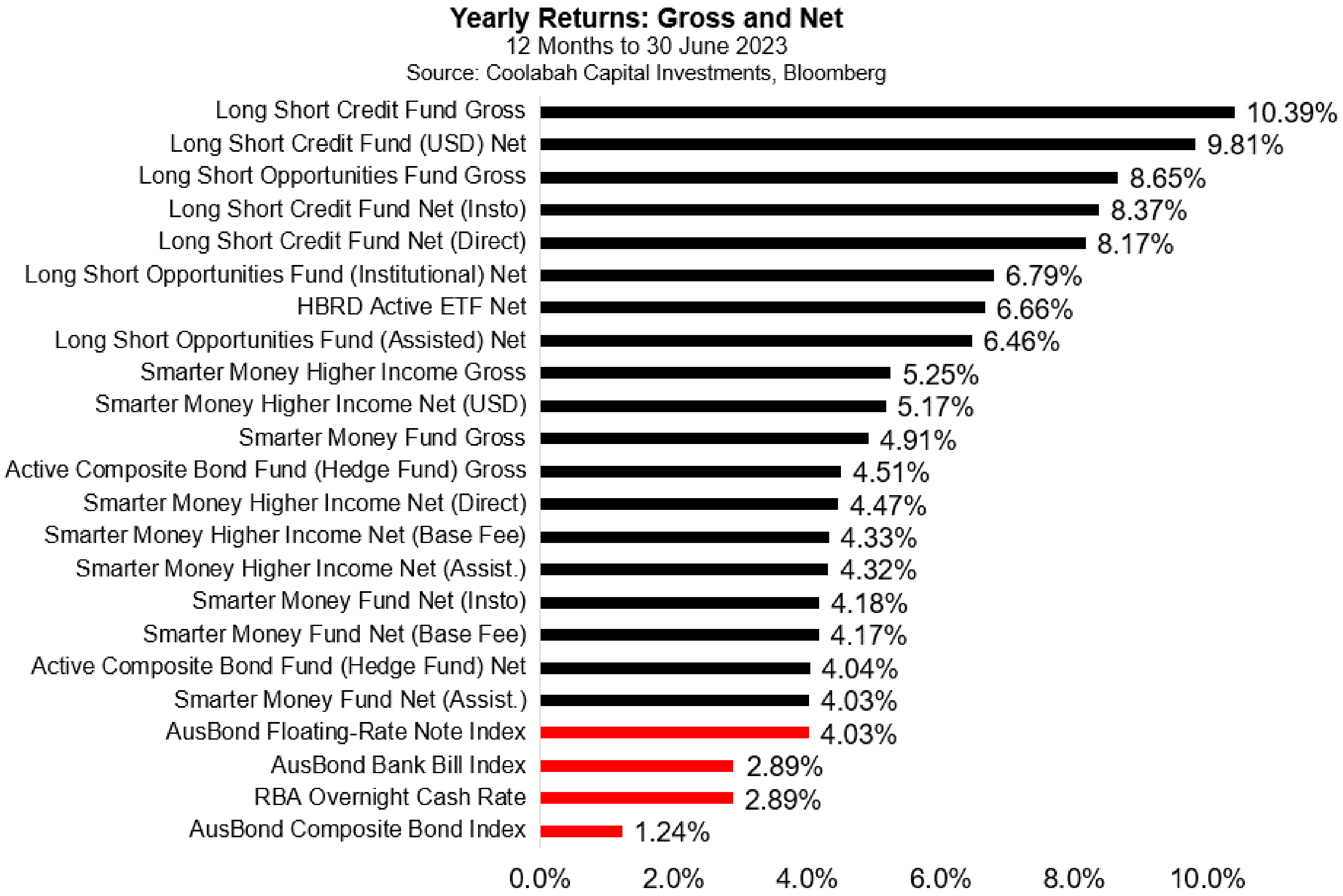
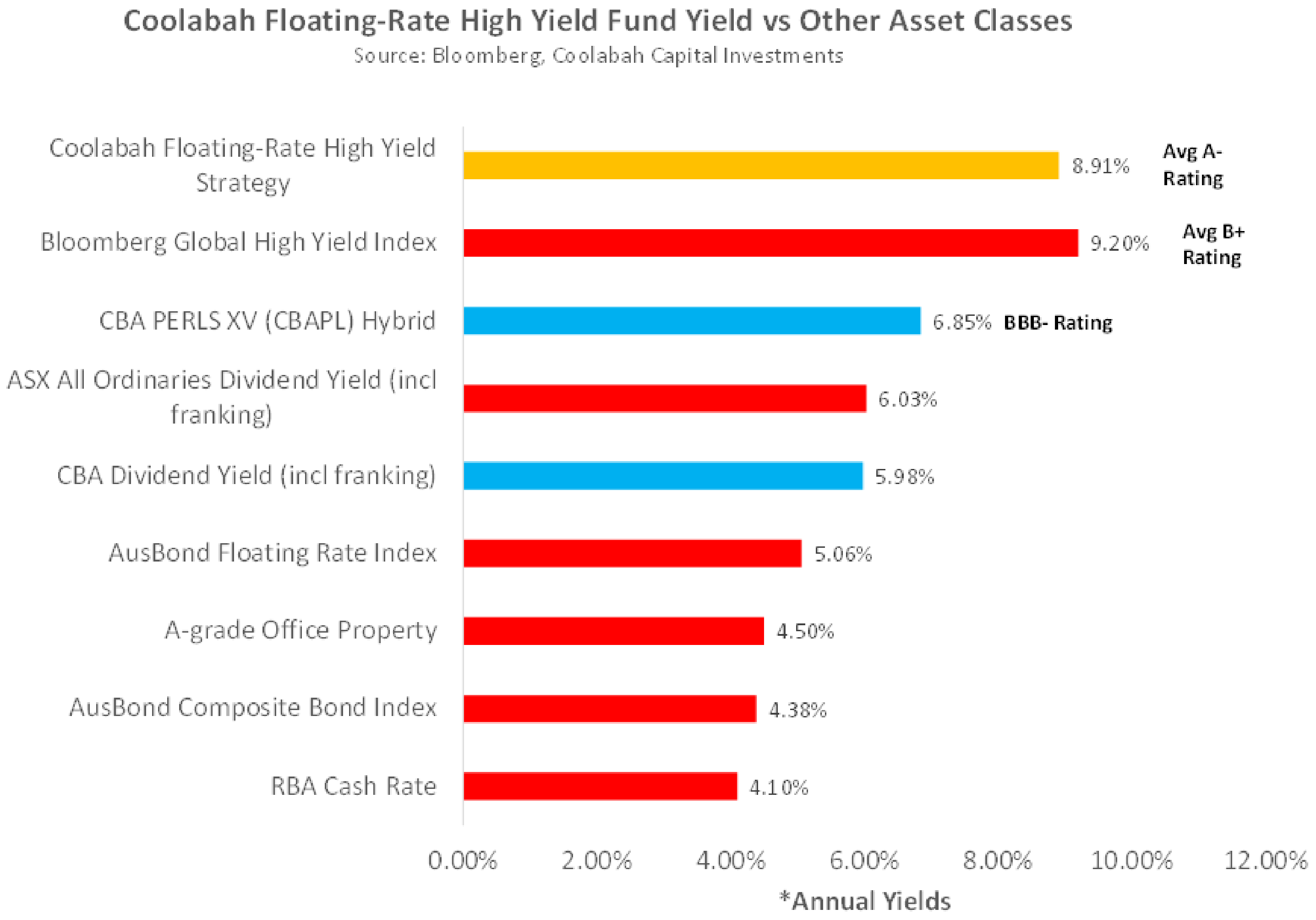
June Performance Update: 12 Months Returns



Source: Coolabah Capital Investments

Coolabah Floating-Rate High Yield Fund

- **Coolabah Floating-Rate High Yield Fund comprises only**
  - Running Yield of 8.9% pa (gross)
  - Weighted-average credit rating of “A-”
  - 100% floating-rate Australian bank and insurer bonds
  - 100% Australian dollars
  - Zero years interest rate duration risk
  - Daily liquidity
  - No performance fee
- **Rated “Recommended” by Zenith**
- **Superior yields currently to Australian equities, Australian bank stocks, Australian hybrids, and high yield bonds**
- **The interest rates on these bonds are enhanced via gearing via a number of highly rated Australian banks at very low cost**



* As at June 2023. Fund yield is the annual running yield on the portfolio before fees.

Coolabah Capital, Bloomberg (30 June 2023)

Asset-Class Performance

- **Geared Aussie bank bonds that are floating-rate currently provide much higher yields than other asset classes because**
  - ❑ Credit spreads are historically wide
  - ❑ Yields curves are flattening/inverting (the cash rate is near or above long-term yields)

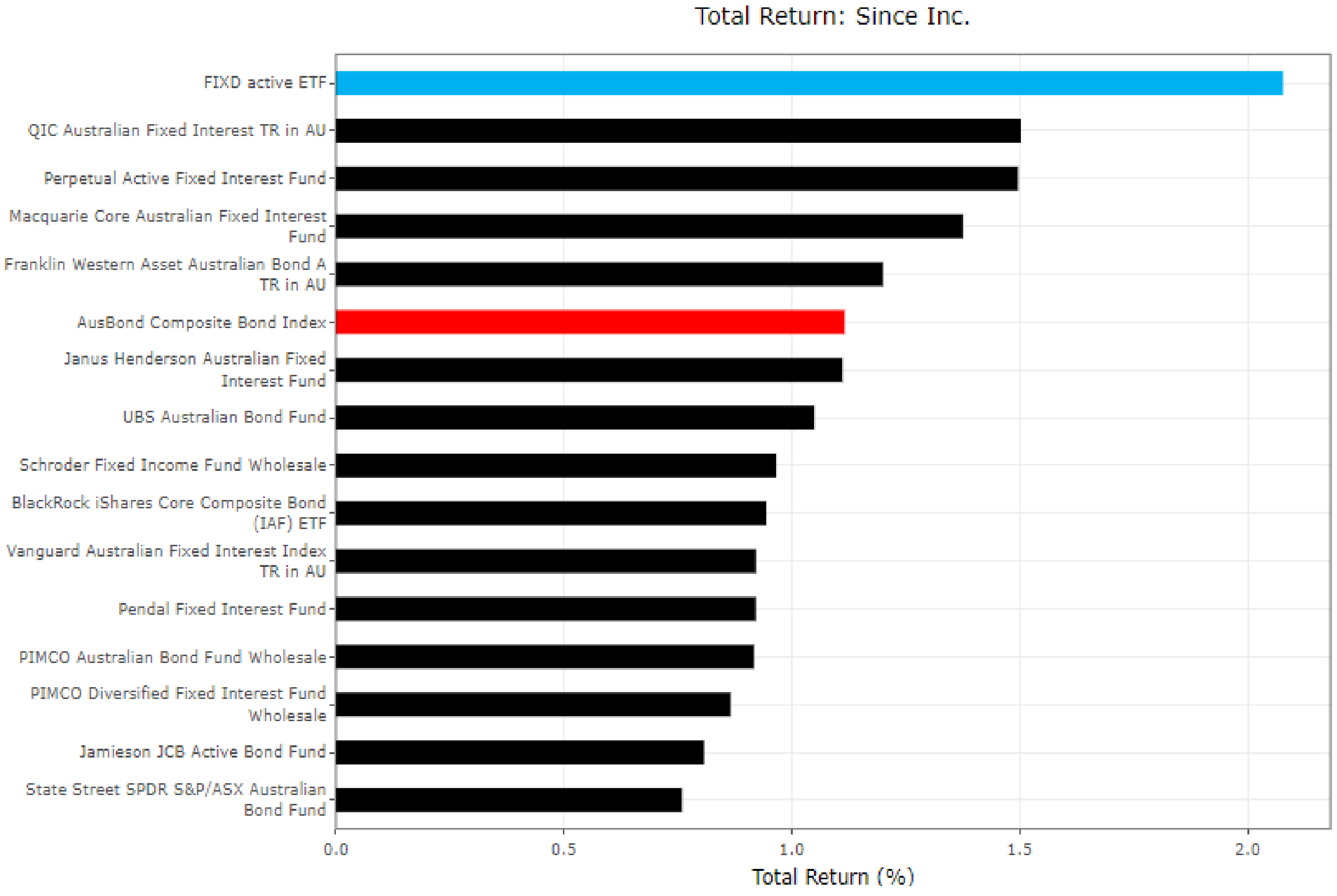
Returns and Risks of Different Asset-Classes between January 2013 and 30 June 2023
Source: Bloomberg; Coolabah Capital Investments

	RBA Cash	Ungeared Aussie Bank Bonds	75% Geared Aussie Bank Bonds	ASX Hybrids	ASX All Ordinaries	Bloomberg Global High Yield Index Hedged to AUD	AusBond FRN Index	AusBond Composite Bond Index 0+
Total Return	**17.94%**	**37.52%**	**106.48%**	**75.65%**	**139.87%**	**52.76%**	**32.13%**	**28.42%**
Return p.a.	**1.58%**	**3.08%**	**7.15%**	**5.51%**	**8.69%**	**4.12%**	**2.69%**	**2.41%**
Average Credit Rating	**NA**	**A**	**A**	**BB to BBB-**	**NA**	**B+**	**AA**	**AA**
Excess over RBA Cash Rate		**1.50%**	**5.57%**	**3.93%**	**7.11%**	**2.53%**	**1.11%**	**0.83%**
Volatility p.a.	**0.09%**	**1.31%**	**5.22%**	**3.83%**	**14.87%**	**5.04%**	**0.24%**	**3.88%**
Sharpe Ratio		1.14	1.07	1.03	0.48	0.50	4.59	0.21
Sortino Ratio		0.95	0.94	0.87	0.58	0.48	3.91	0.30
Annual Yield to Maturity	**4.1%**	**5.7%**	**8.9%**	**7.2%**	**6.0%**	**9.2%**	**5.1%**	**4.4%**

** YTM Source: Coolabah Capital, Bloomberg – 30 June 2023*

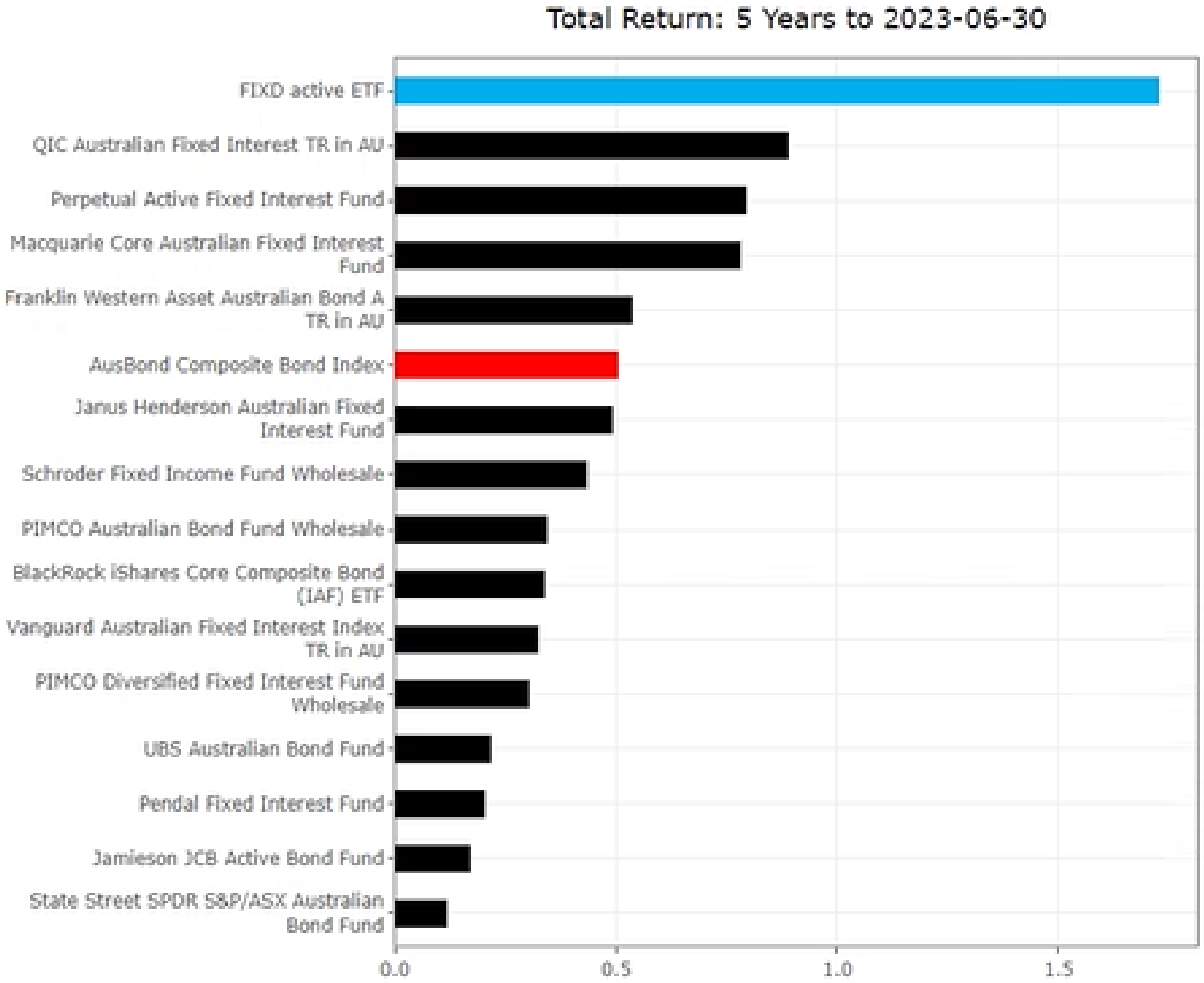
Coolabah Active Composite Bond Fund (Hedge Fund; CBOE:FIXD)

- **Coolabah's market-leading Active Composite Bond Fund**
  - No.1 performer net of fees since inception and over the last 1 year, 3 years and 5 years
  - Beaten the Composite Bond Index by 0.96% pa after fees since inception
  - Delivered superior risk-adjusted returns to both the index and all peers since inception
  - Should outperform floating-rate bonds in a recession as the RBA cuts rates and government bond yields decline
  - Provides fixed-rate exposure to a bond portfolio with an average maturity of approx. 5.5 yrs
  - Current Running Yield of 6.9% pa net of fees*
  - Weighted-average credit rating of "A"
  - 100% investment-grade bonds predominately issued by banks, insurers and Australian governments
  - Total management/admin fees capped at 30bps pa
  - Daily liquidity
- **Rated "Recommended" by Lonsec**



Source: Coolabah Capital Investments, FE (Inception to 30/6/2023)

Coolabah Active Composite Bond Fund (FIXD) – 5yr Return v Peers



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Coolabah Active Composite Bond Fund (FIXD) – 3yr Return v Peers

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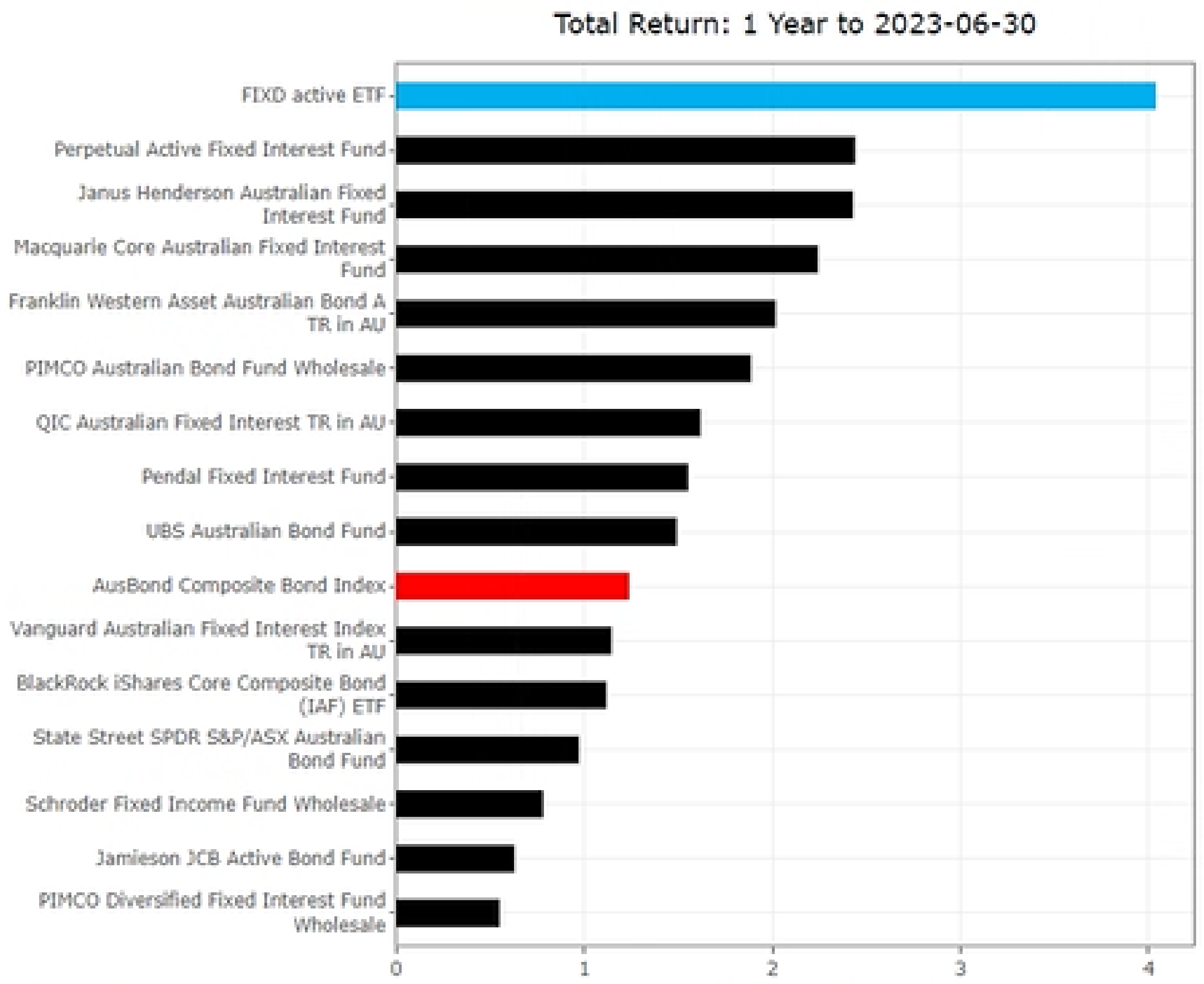
Coolabah Active Composite Bond Fund (FIXD) – 1yr Return v Peers



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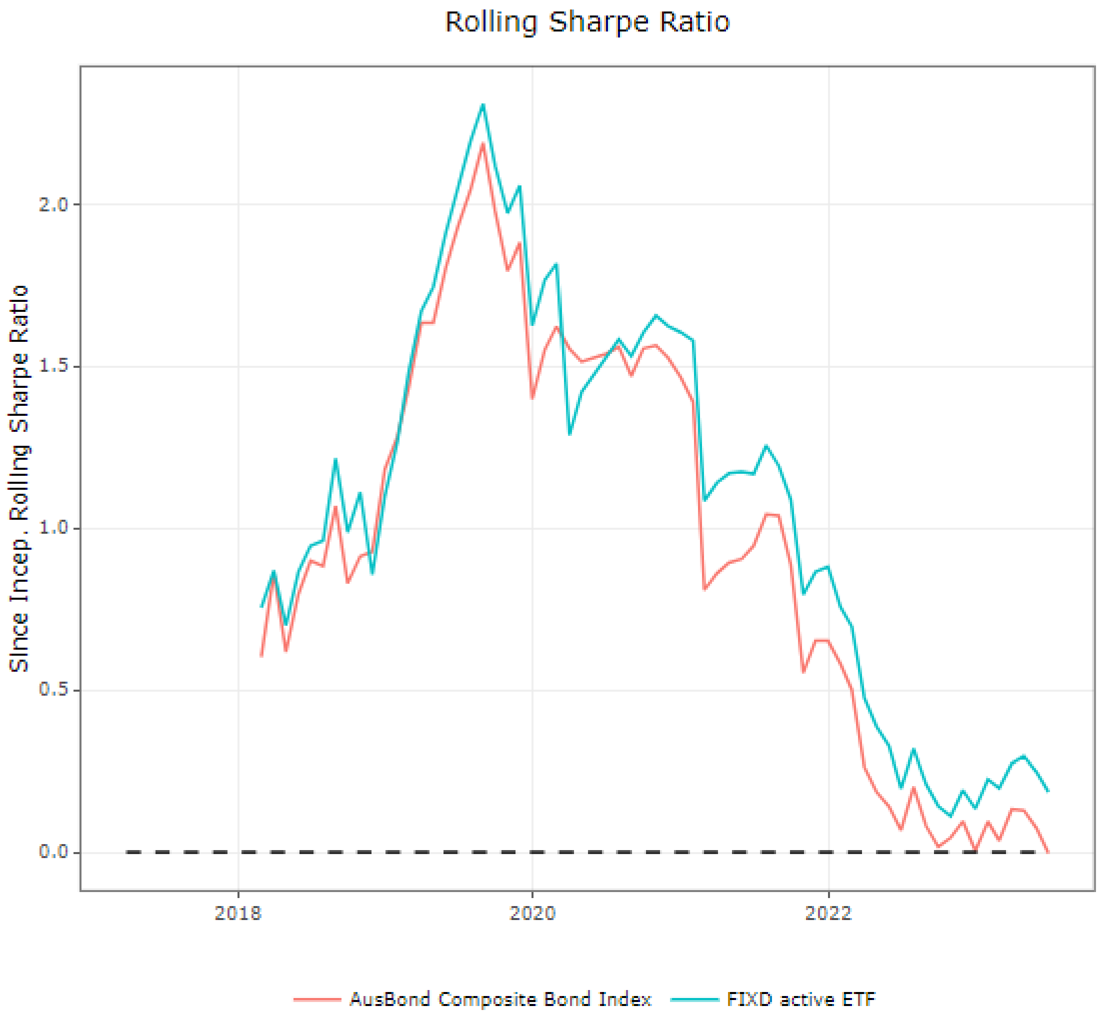
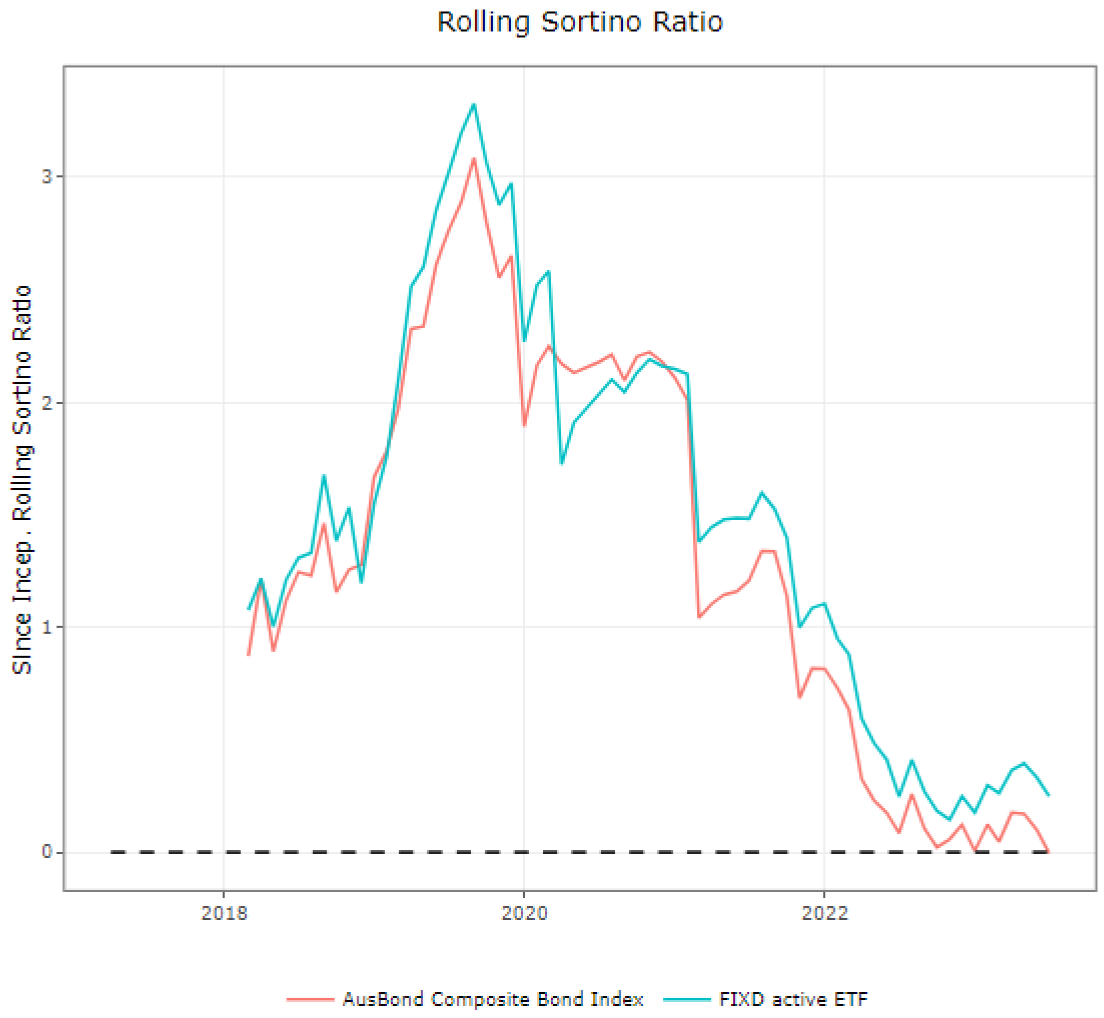
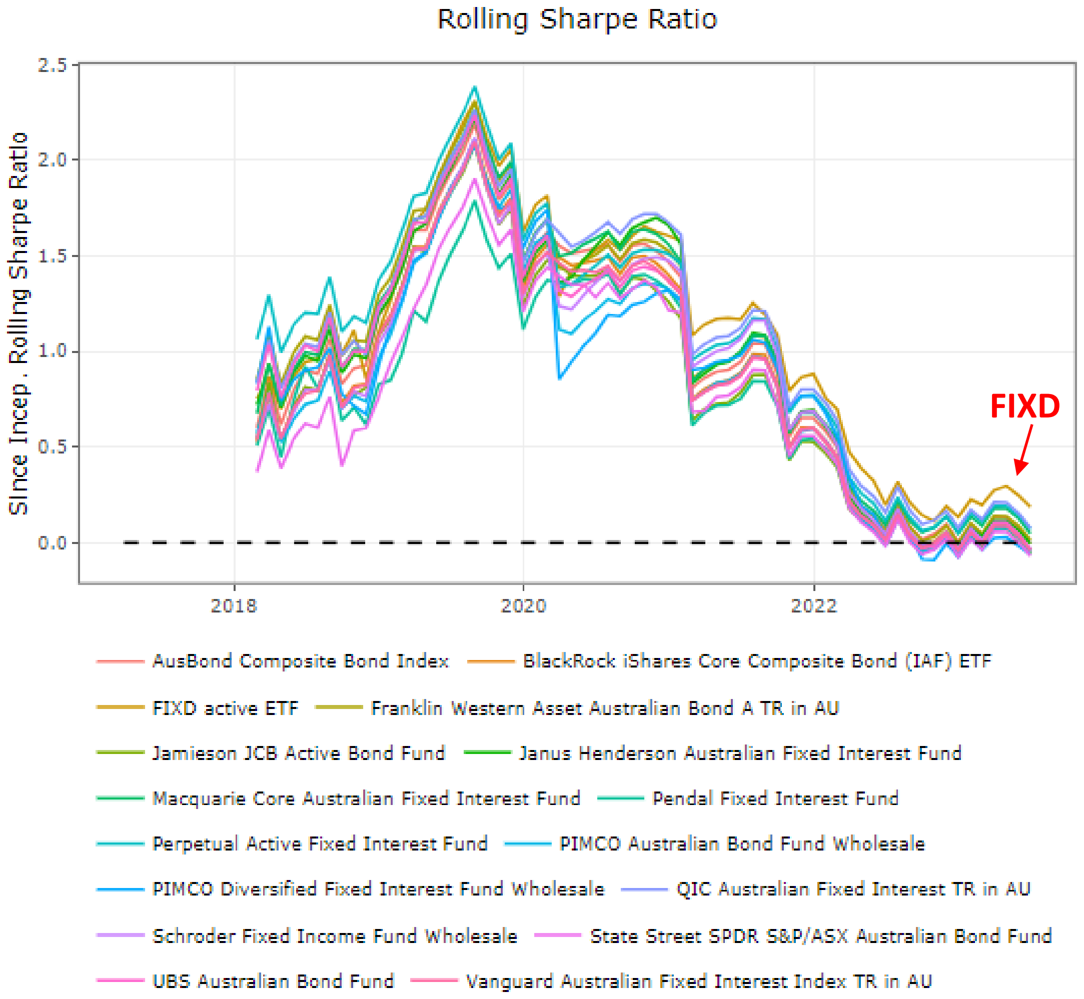
Benchmark Comparison - Active Composite Bond Fund

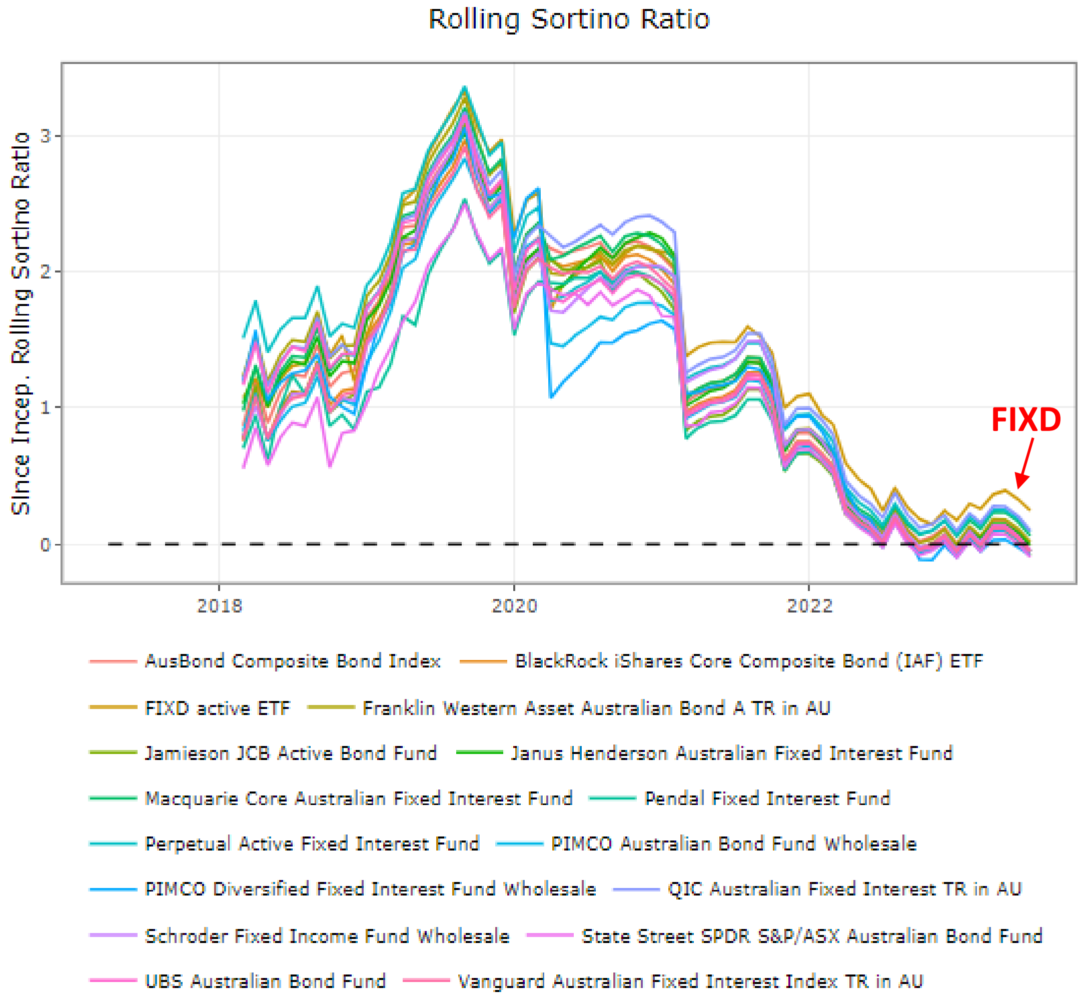




Source: Coolabah Capital Investments, FE 30/6/2023

Peer Comparison - Active Composite Bond Fund

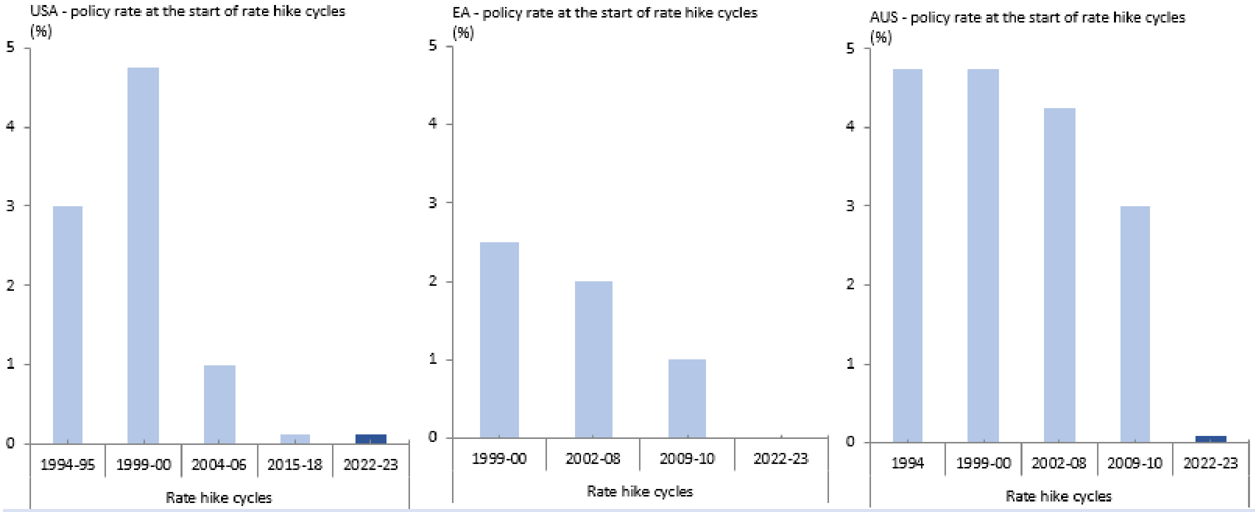




Source: Coolabah Capital Investments, FE 30/6/2023

Not a Typical Tightening Cycle

Figure 1: Policy rates at the start of rate hike cycles in the USA, euro area and Australia



- Investors have found it hard not to treat this as similar to the rate hike cycles prior to the pandemic, but it has been very different with extreme starting points across the advanced economies in terms of:
  - Near-zero interest rates that are well below any estimate of the neutral policy rate;
  - The highest core inflation since the 1980s, well above central bank targets; and
  - The lowest unemployment rate since the 1970s, well below any estimate of the NAIRU.

Figure 2: Core inflation at the start of rate hike cycles in the USA, euro area and Australia

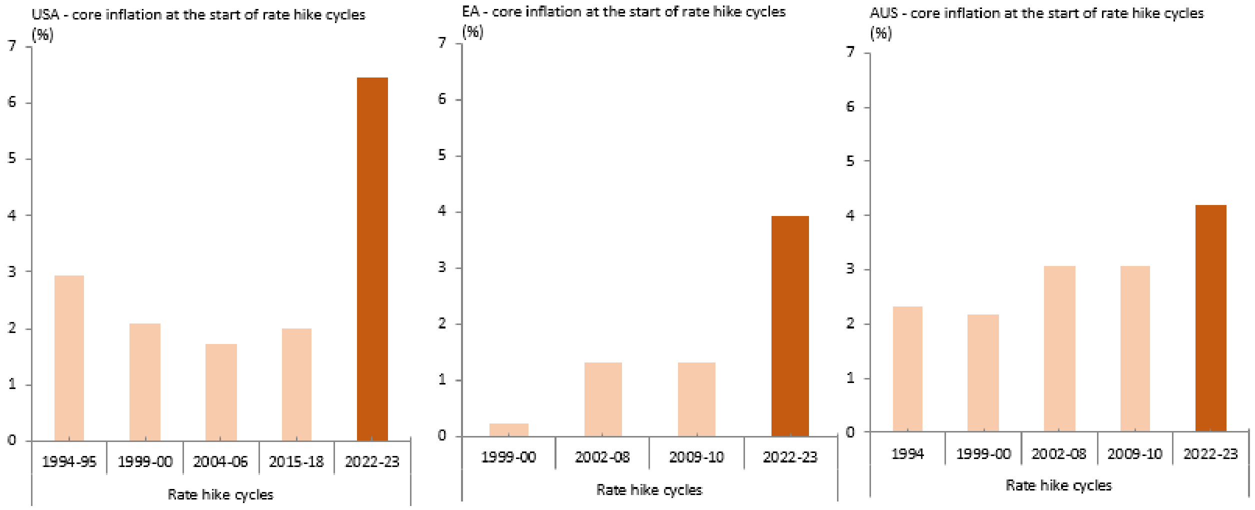
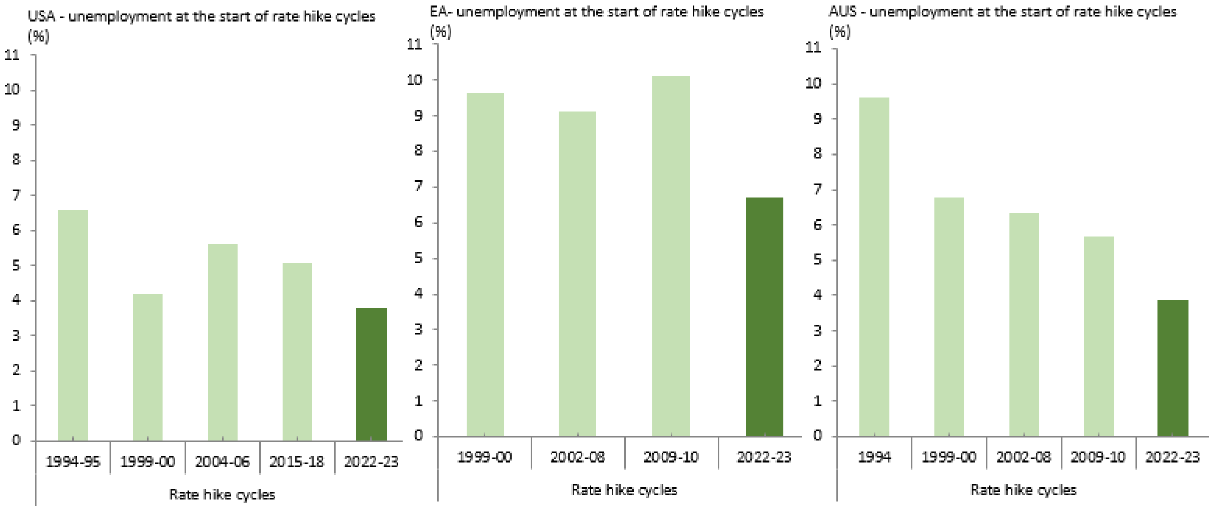


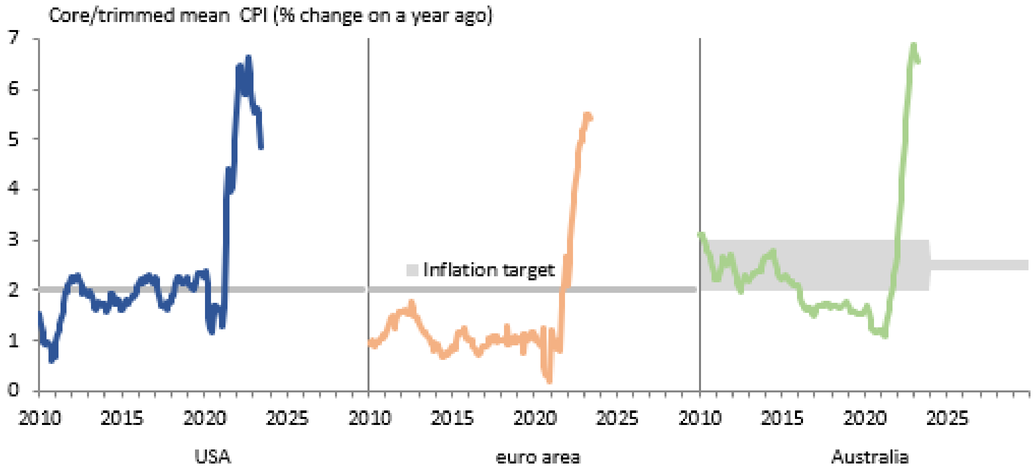
Figure 3: Unemployment at the start of rate hike cycles in the USA, euro area and Australia



Source: Eurostat, Federal Reserve Bank of St Louis, Reserve Bank of Australia, CCI, as at July 2023

Goods Inflation will Subside, Services Inflation could be Sticky

Figure 1: Core CPI inflation in the US, euro area and Australia



- Core inflation has peaked in most advanced economies and should fall sharply given goods inflation has subsided as global supply-chain disruptions have been resolved and the surge in shipping costs has dissipated.

- However, there is the risk that inflation takes longer to sustainably return to central bank targets in a timely fashion given services inflation is high and relatively sticky.

Figure 2: Core goods inflation in the US, euro area and Australia

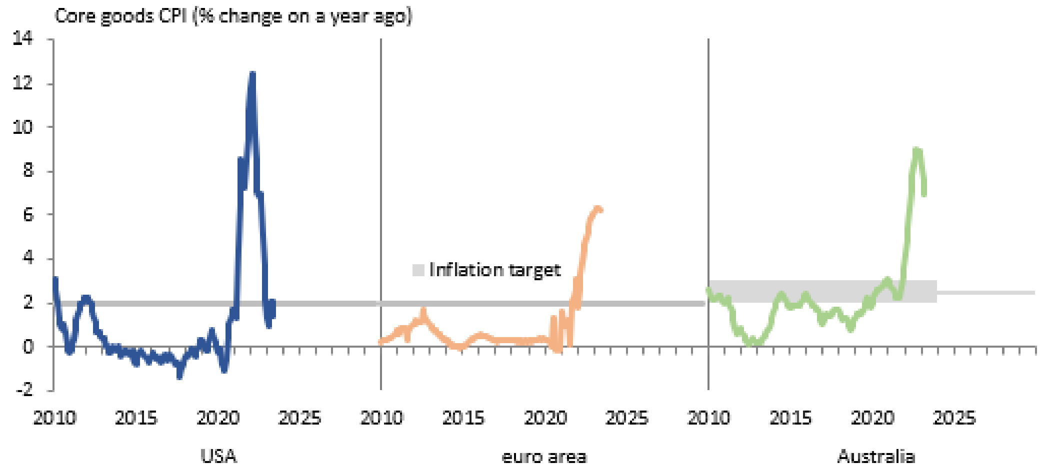
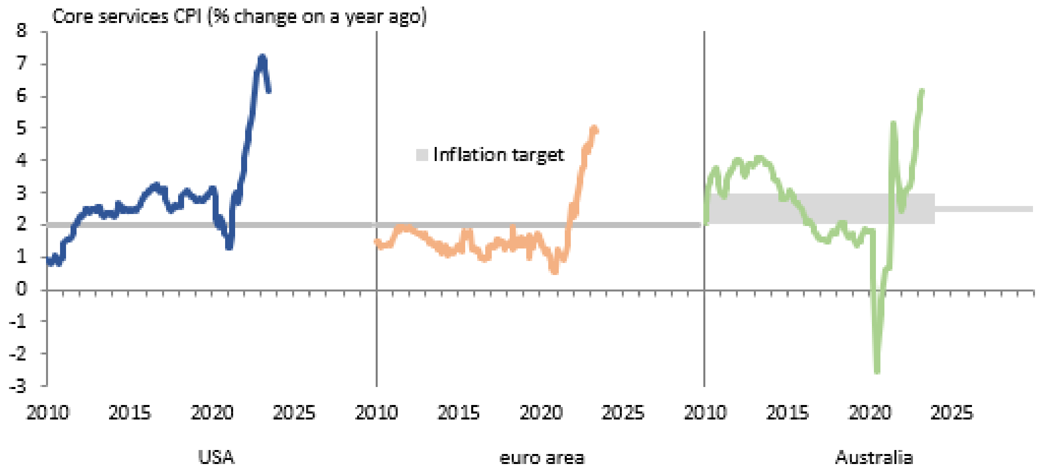


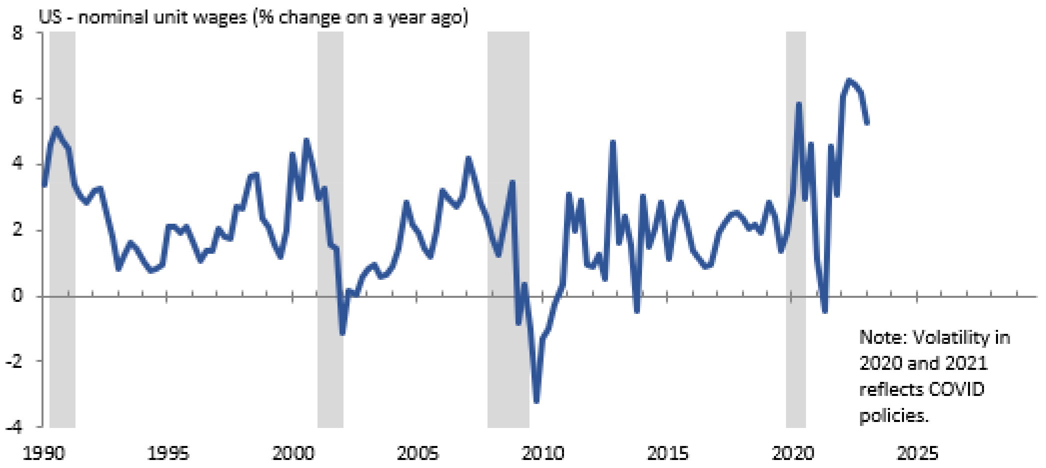
Figure 3: Core services inflation in the US, euro area and Australia



Source: Eurostat, Federal Reserve Bank of St Louis, Reserve Bank of Australia, CCI, as at July 2023

Services Inflation Reflects Strong Growth in Unit Labour Costs

Figure 1: Unit labour costs are growing strongly in the US ...



- 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).

Figure 2: ... and in the euro area ...

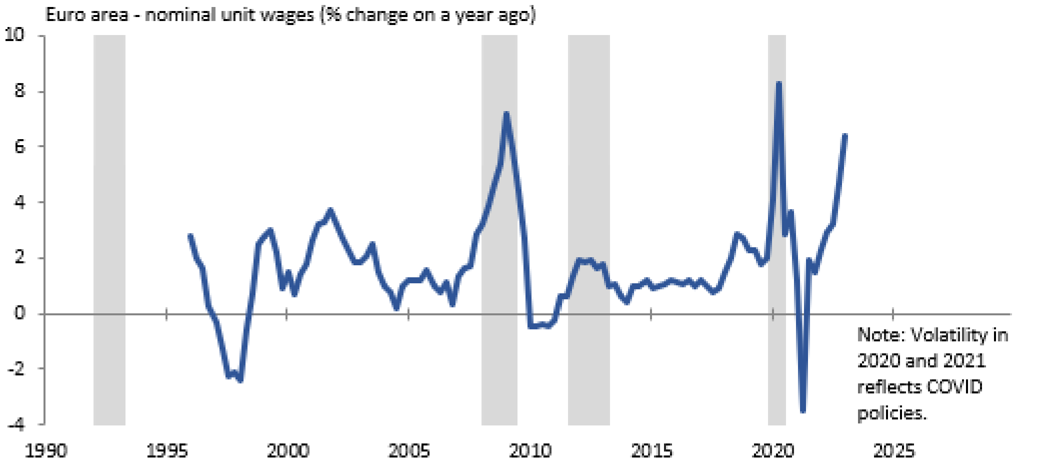
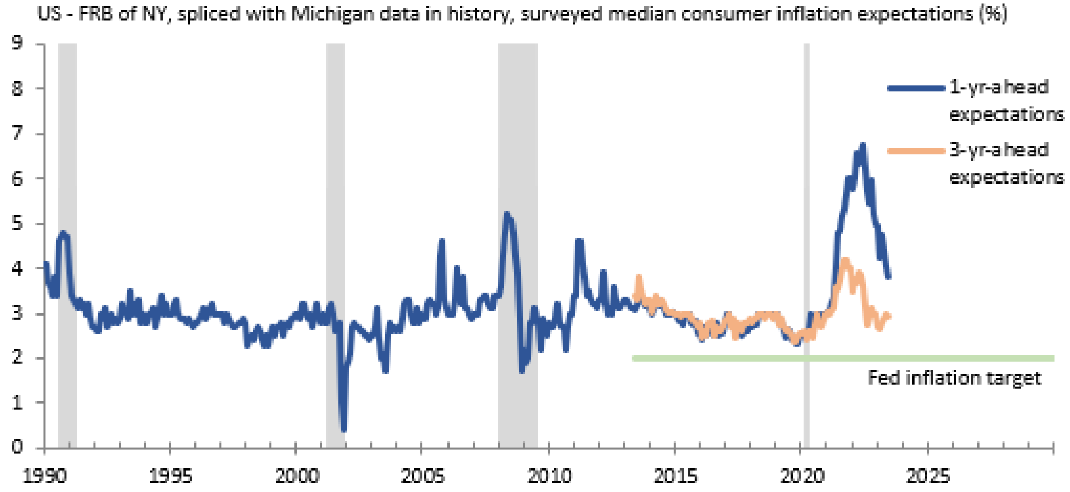


Figure 3: ... and Australia

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

There are Lingering Risks around Inflation Expectations

Figure 1: Consumer inflation expectations are still high in the US …



- Central banks are alert to the risk that persistently high inflation might feed into higher inflation expectations, as was the case in the 1970s.
- If that happened, higher inflation expectations would cement high inflation, leading to much higher interest rates and much higher unemployment, as was the case in the 1980s/1990s across the advanced economies.

Figure 2: … and in the euro area …

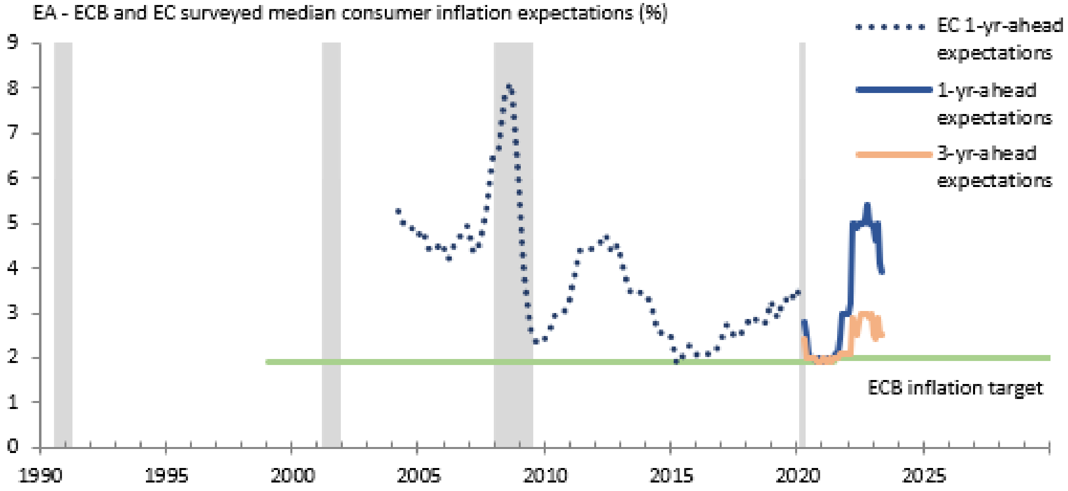
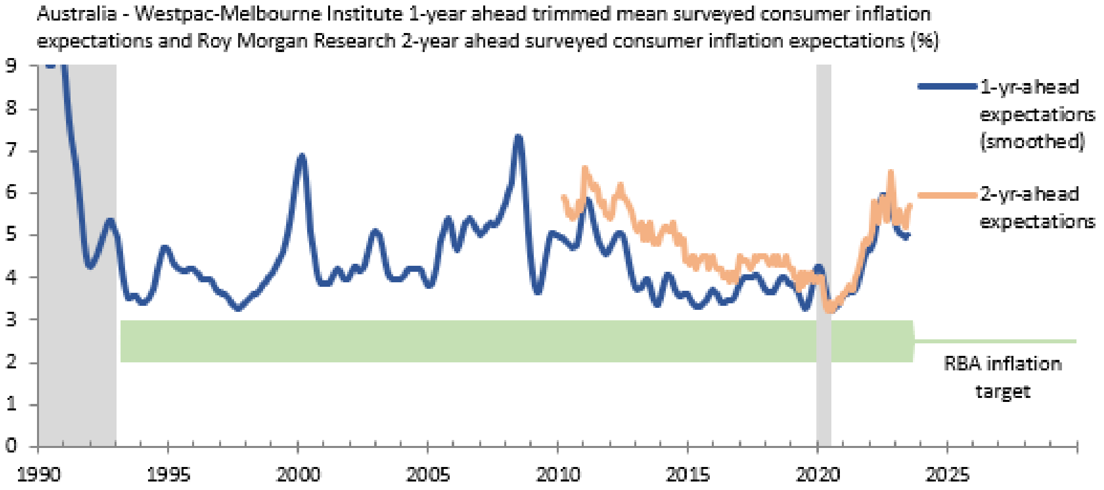


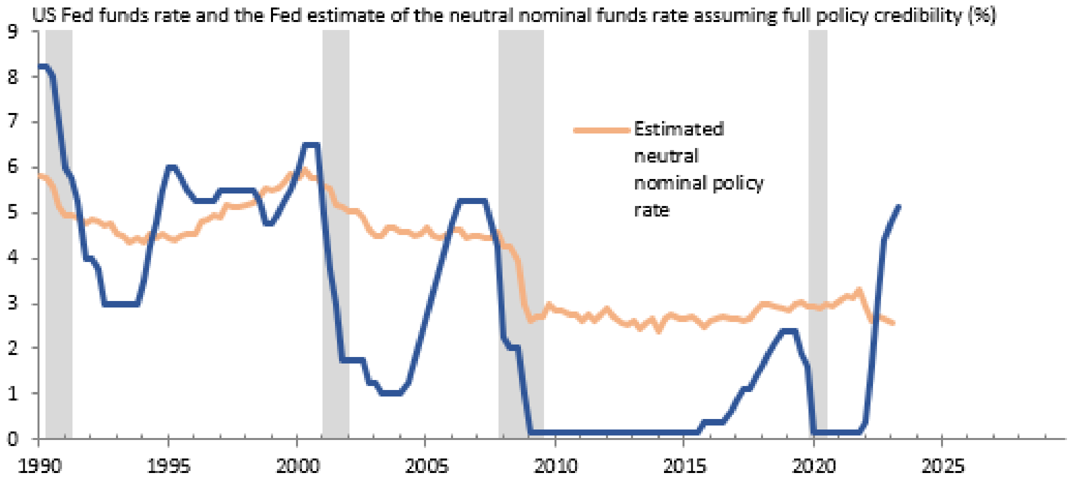
Figure 3: … and Australia



Source: European Central Bank, European Commission, Federal Reserve Bank of New York, Federal Reserve Bank of St Louis, Reserve Bank of Australia, Roy Morgan Research, CCI, as at July 2023

Most, but Not All, Central Banks are Near Peak in Interest Rates

Figure 1: Monetary policy is tight in the US …



- Some central banks are either near or fast approaching a peak in interest rates, with Australia a likely exception.
  - The Fed has significantly restrictive monetary policy in that the funds rate of 5.1% is well above the neutral nominal rate of about 2½%.
  - The ECB has restrictive policy, with the policy rate of 4% above the neutral nominal rate of about 3%.
  - The RBA has slightly restrictive policy, with the cash rate of 4.1% slightly above the neutral nominal rate of 3¾%.

Figure 2: … and in the euro area …

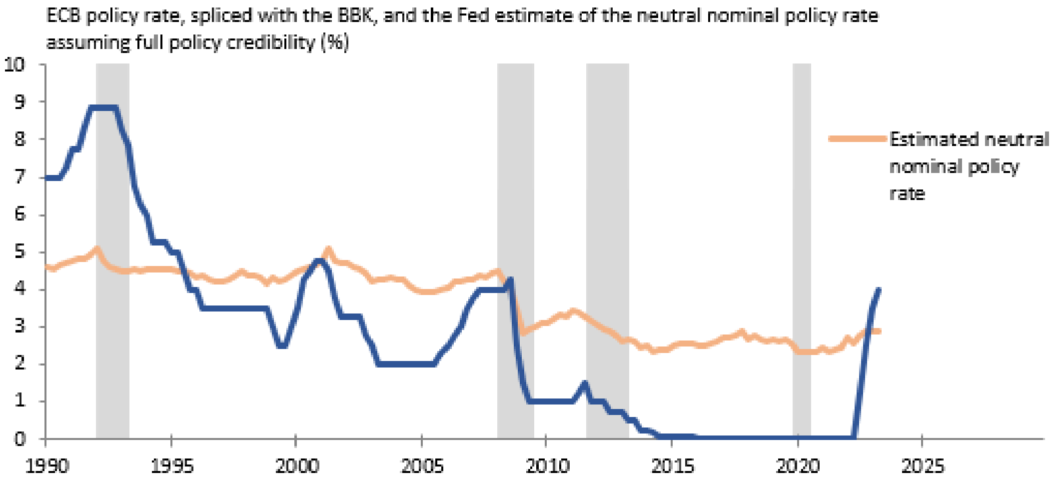
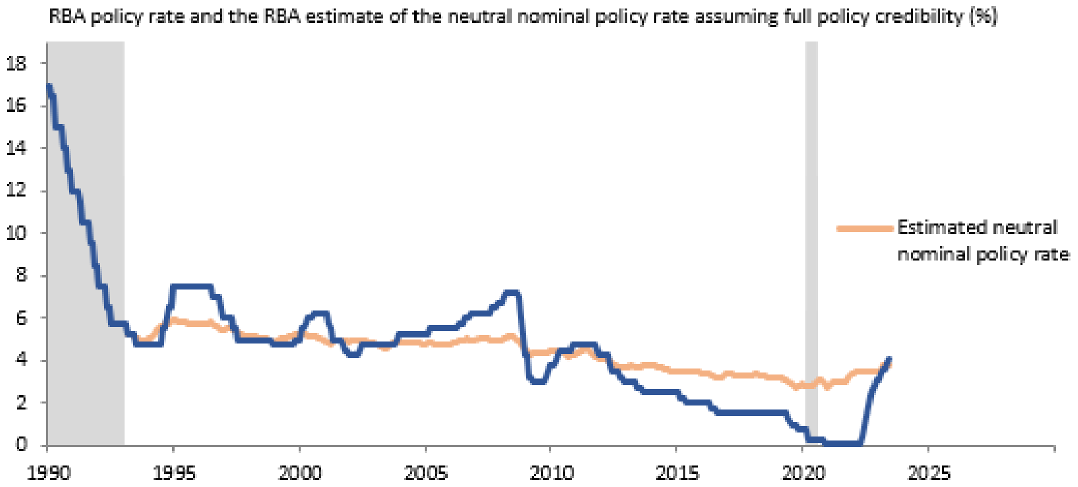


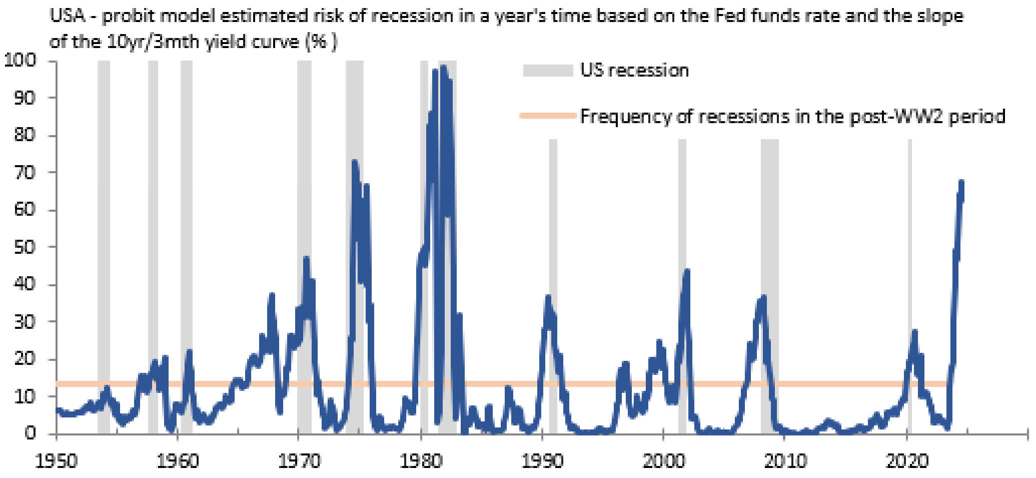
Figure 3: … but only slightly restrictive in Australia



Source: Board of Governors of the Federal Reserve, Eurostat, Federal Reserve Bank of New York, Federal Reserve Bank of St Louis, Reserve Bank of Australia, CCI, as at July 2023

Market Pricing Points to a Global Recession in Late 2023/2024

Figure 1: An inverted yield curve points to a heightened risk of US recession ...



- Bond market pricing is signalling a high risk of recession in the US and euro area in late 2023/H1 2024 based on probit models incorporating the inversion of yield curves at relatively high levels of policy rates.
- The yield curve is not a perfect indicator of recession, but it outperforms other financial and economic indicators. Unfortunately, there is no reliable indicator of recession in Australia. The probability of a recession in Australia will hinge on whether companies reduce hours worked – like they did during the global financial crisis – or cut staff.

Figure 2: ... and the same holds in the euro area

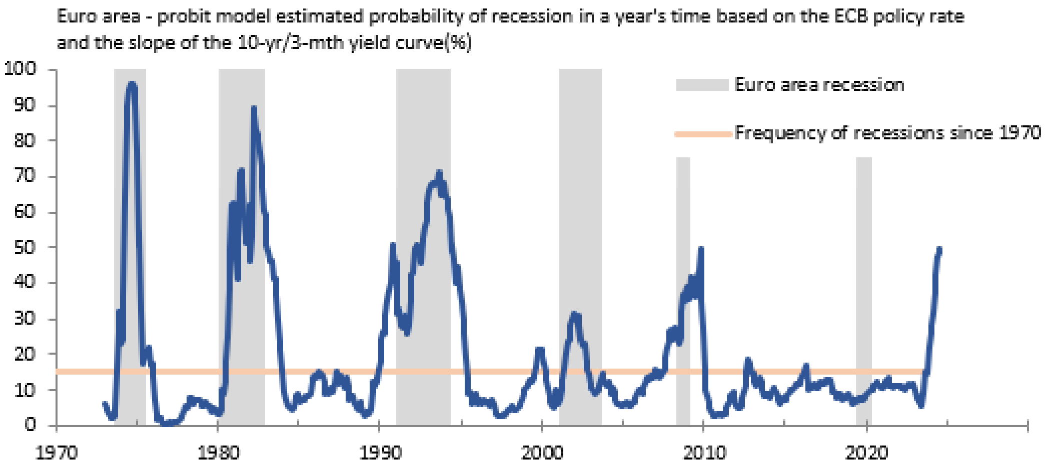
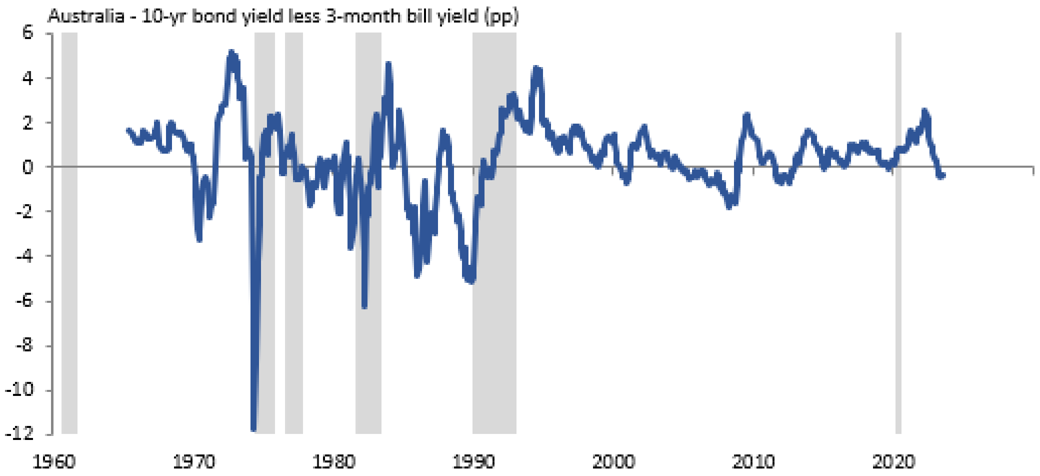


Figure 3: The yield curve is not a reliable indicator of recession in Australia



Source: Melbourne Institute, National Bureau of Economic Research, Federal Reserve Bank of St Louis, Reserve Bank of Australia, CCI, as at July 2023

Economic Resilience Driven by Huge Excess Consumer Savings

Figure 1: Consumers saved a massive amount of money during the pandemic …

- 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.

Figure 2: … across the age and income distribution …

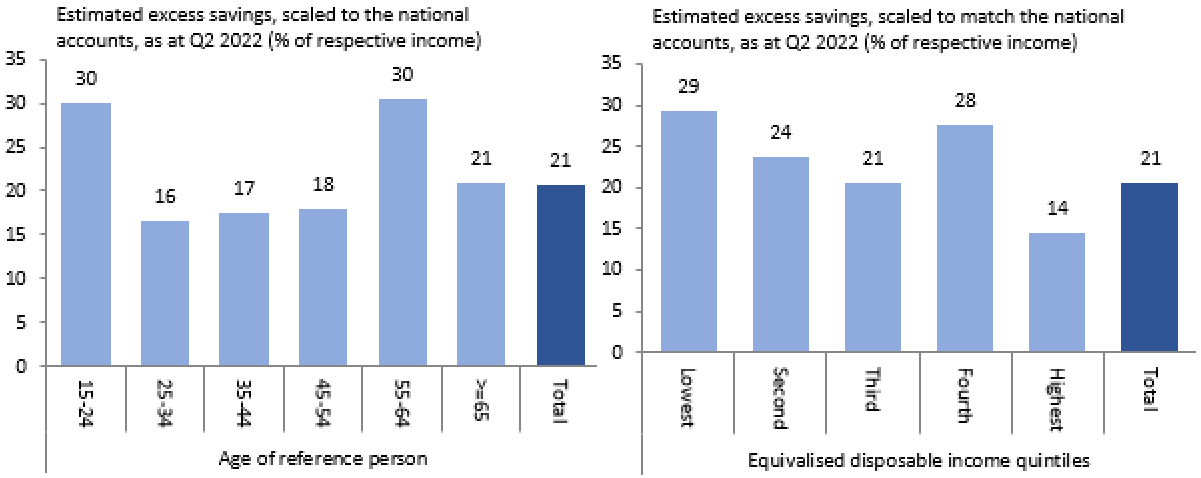
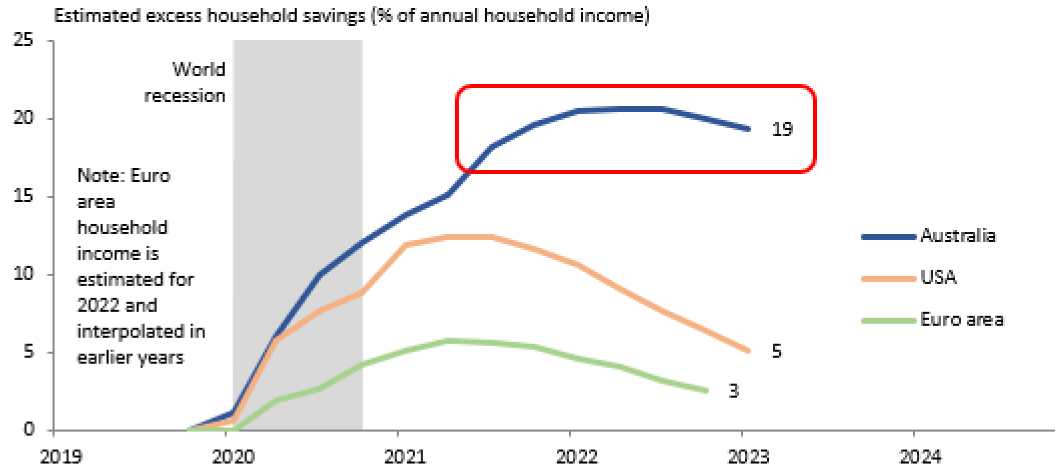


Figure 3: … and look to be starting to draw on these excess savings



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

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US Equities are Expensive and Should Underperform

Figure 1: History suggests equities trough after a recession is under way …

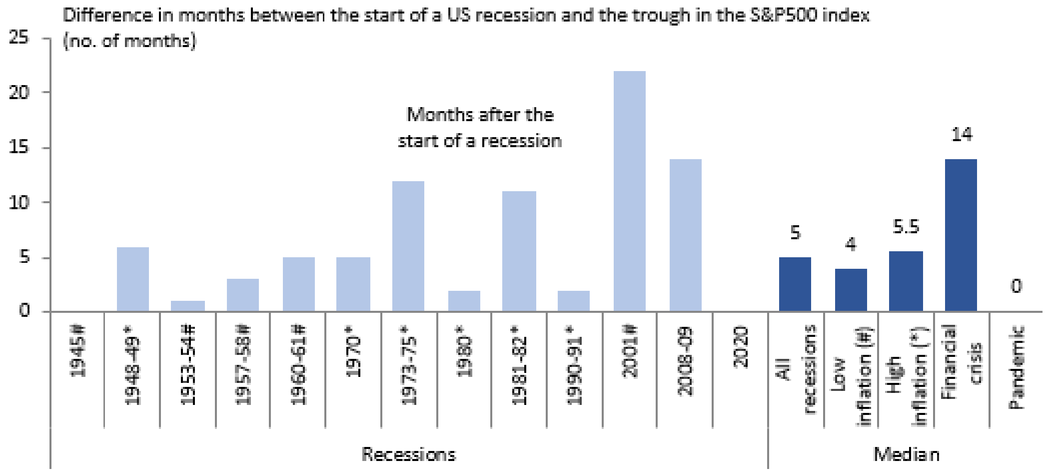


Figure 2: … while the starting point for long-term valuations this time around was extreme …

Figure 3: … which historically has led to poor long-term returns …

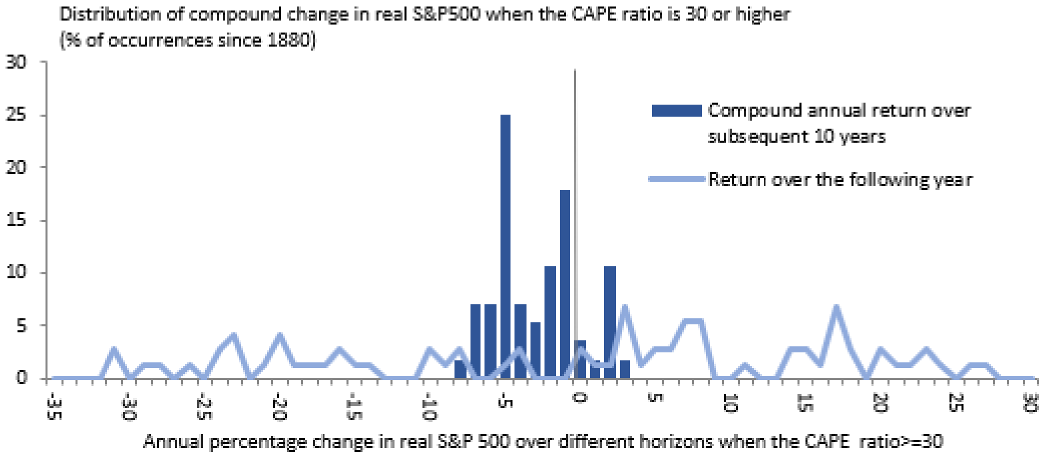
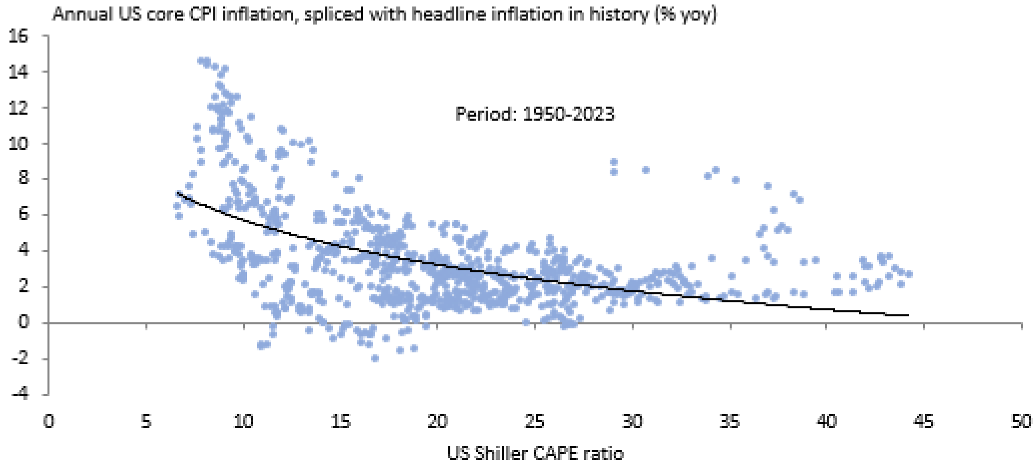


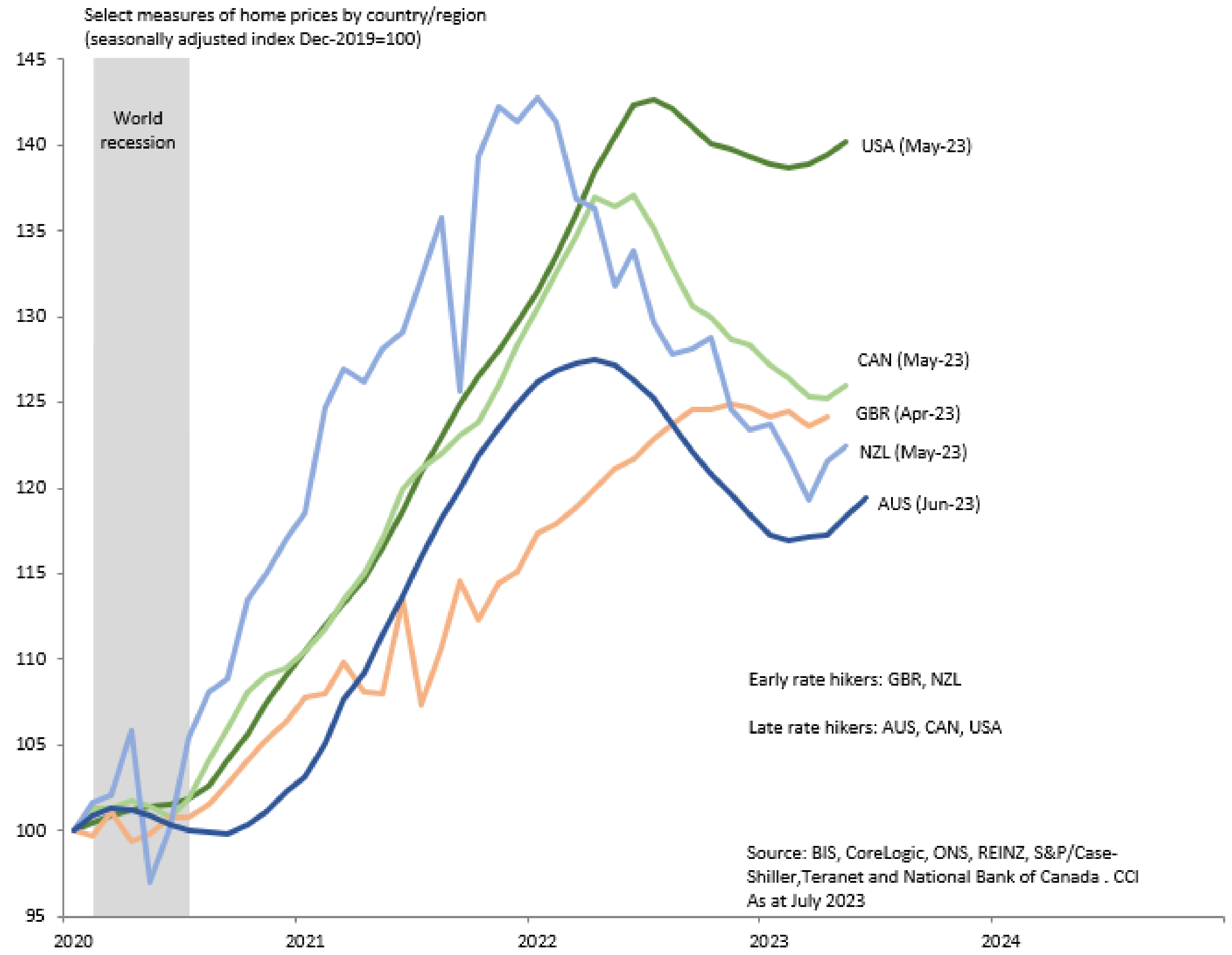
Figure 4: … particularly in high inflation periods



Source: FRB of St Louis, Shiller, CCI, as at July 2023.

Modest House Price Rebound a Global Dynamic

- Most countries have experienced a recent modest rebound in house prices, including Australia.
- Coincided with risk rally generally as markets focussed on the end of the tightening cycle in early 2023.
- Lower asset prices are one of the ways in which tight monetary policy works.
- This rebound - along with very low unemployment - indicates that monetary policy is not tight for all households.
- Raises the question of whether some households thought tightening cycles were nearly over and rate cuts were not far off.



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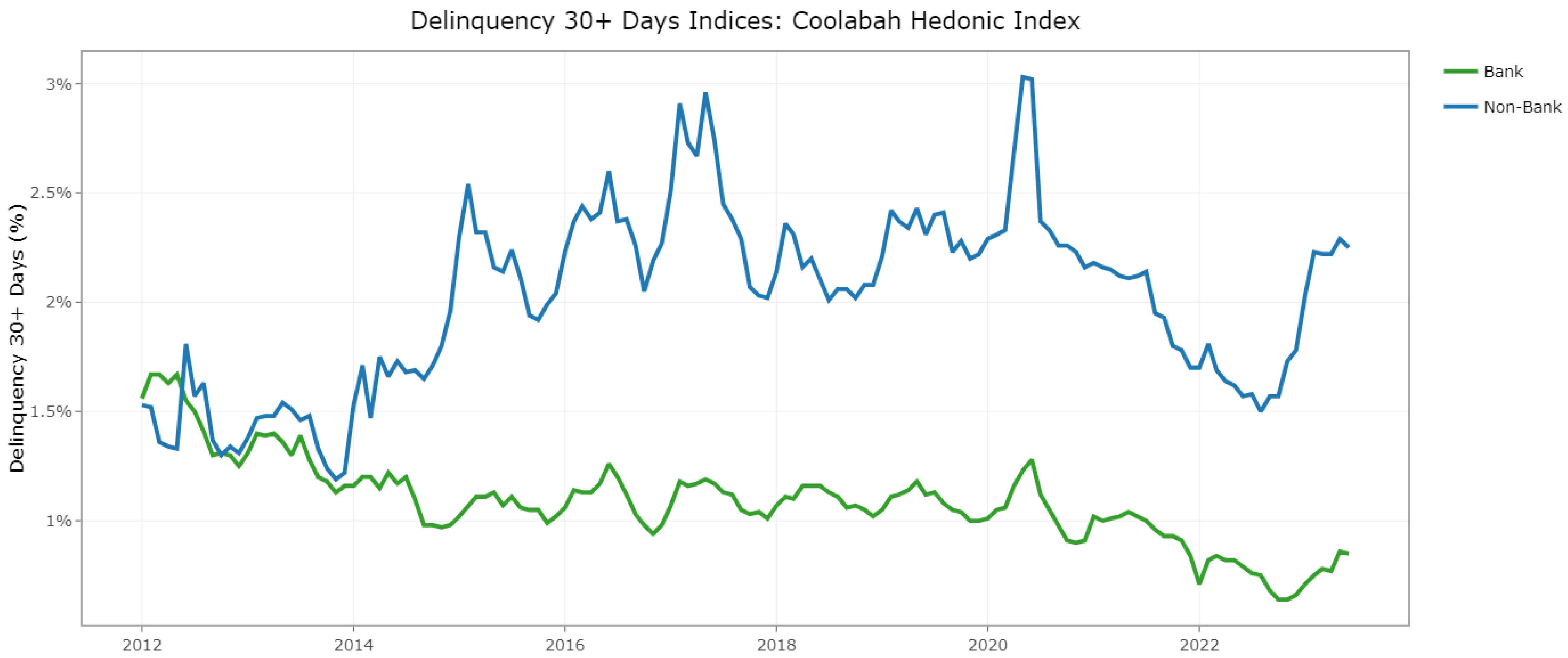
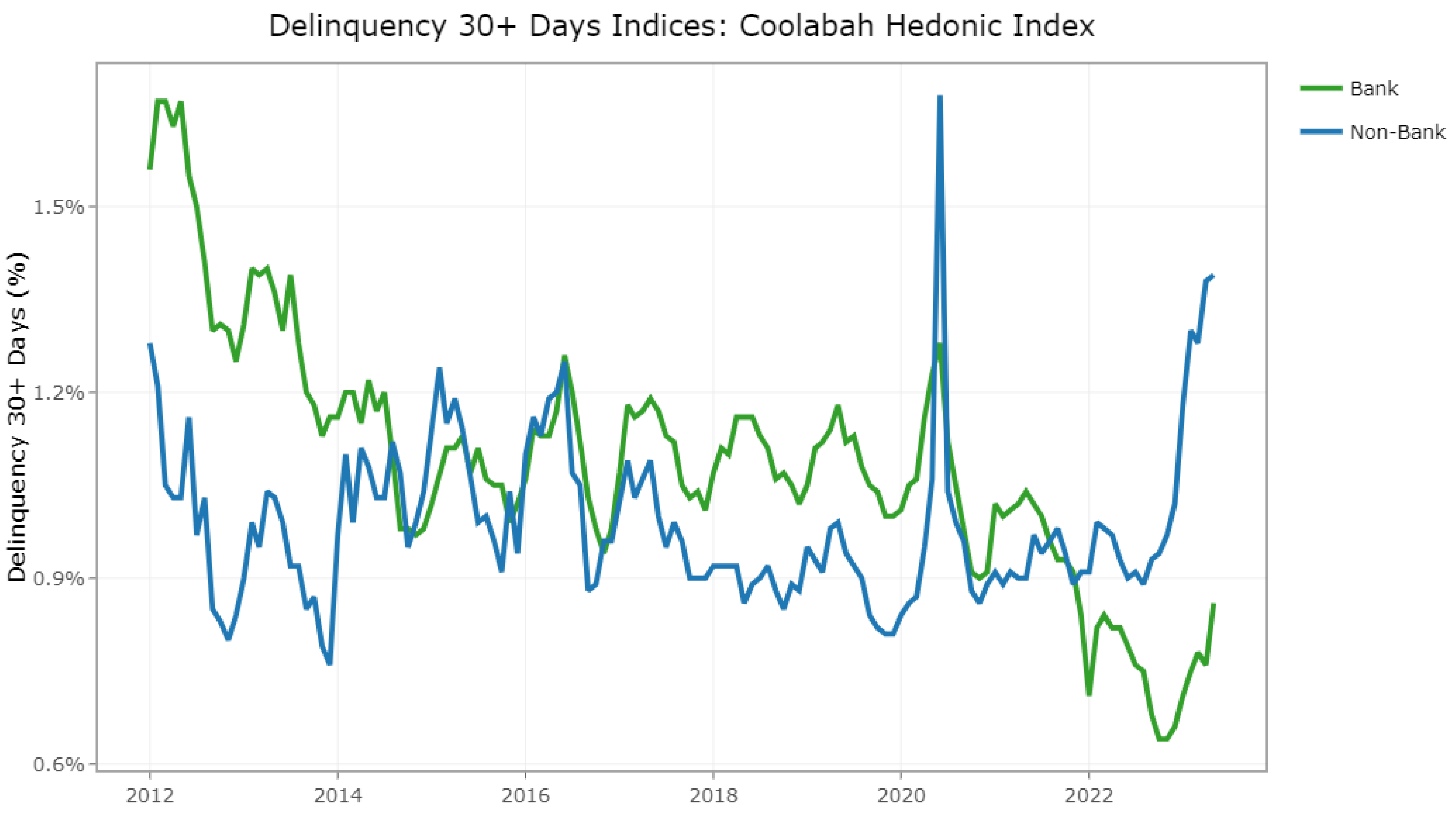
The Global Default Cycle Has Arrived



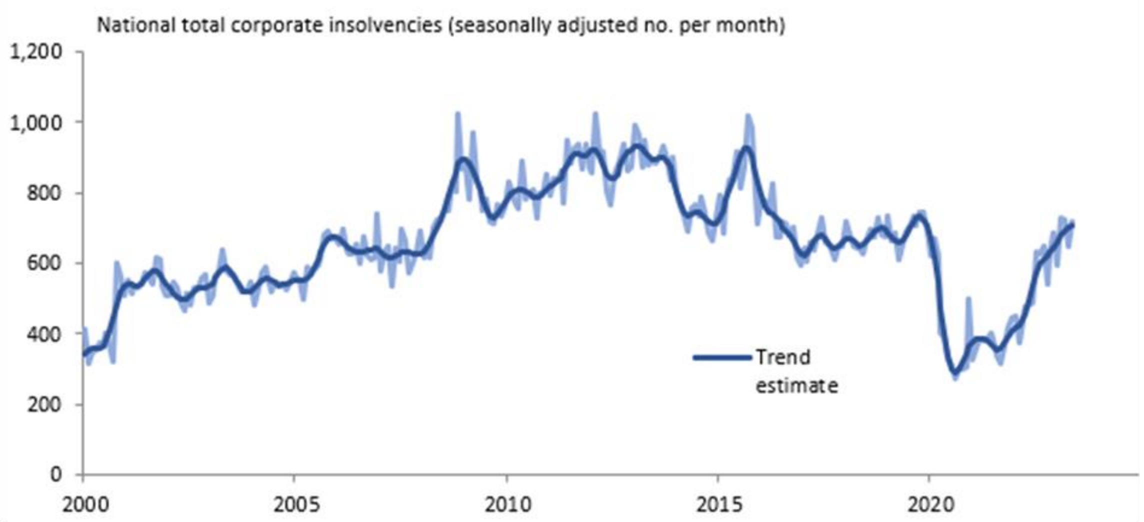
Source: Coolabah Capital Investments 24 June 2023

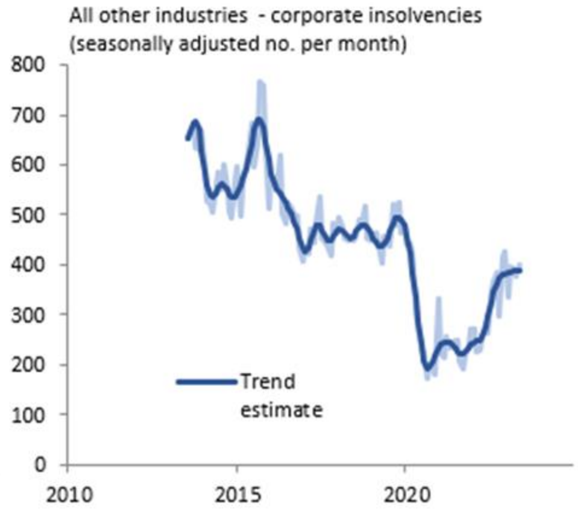
The Global Default Cycle Has Arrived



Source: Coolabah Capital Investments 24 June 2023

The Global Default Cycle Has Arrived





Source: ASIC 30 Apr 2023