SMARTER MONEY LONG SHORT CREDIT FUND

Rating: Recommended

ATCHISON CONSULTANTS

Report Date: February 2018

PRODUCT FEATURES SUMMARY

Product	Smarter Money Long Short Credit Fund
Manager	Smarter Money Investments Pty Ltd
Sub-Manager	Coolabah Capital Investments Pty Ltd (CCI)
Inception	31 August 2017
APIR Code	SLT2562AU
Distribution Dates	30 June, 30 September, 31 December, 31 March
Funds Under Management (FUM)	$60 million
Asset Class	Hedge Fund/Alternatives
Benchmark	RBA Cash Rate
Investment Objective	Exceed the RBA's cash rate by 4.0%-6.0% per annum net fees over a rolling three-year period
Minimum Investment	$1,000
Management and Administration Fee	1.25% p.a. and 0.25% respectively
Performance Fee	20.5% (incl. GST) of net returns excess of the RBA cash rate with a protection of water mark
Buy/Sell Spread	0.000%/0.100%
Target Allocation and Guidelines	Refer to pages 10-11
Redemptions	Daily

Overall, Atchison Consultants rate the Fund as:

RATING			
Not Investment Grade	Investment Grade	**Recommended**	Highly Recommended

SUMMARY

Smarter Money Investments Pty Ltd (SMI) (ACN 153 555 867) was founded in October 2011 and is a Sydney-based boutique specialist active cash and fixed interest Australian investment management company. SMI outsources its portfolio management responsibilities to its 50% shareholder Coolabah Capital Investments Pty Ltd (CCI), which collectively manages over $2.2bn.

The Smarter Money Long Short Credit Fund (Fund) was established in August 2017 as an actively managed portfolio focusing on exploiting long and short mispricing in credit markets. The portfolio primarily invests in debt securities, hybrids and derivatives.

The Fund is managed to similar investment mandate to the Smarter Money Higher Income Fund but with additional facility to leverage, take short positions and invest in non-AUD denominated securities.

RATING CONSIDERATIONS

Strengths

- Two senior portfolio managers have been cohesively working together since the establishment of CCI in 2011.
- Experienced and well-resourced investment team.
- Investment process, rigour to research and modelling similar to Smarter Money Higher Income Fund.
- Back-tested simulated performance results for the Fund illustrate strong investment performance versus investment objective.
- Downside risks from leverage are controlled by conducting scenario stress testing and placing gearing limits on various types of securities.
- The use of separate capital lenders and custodian allows Fund to access lower cost of borrowings and assists to reduce the rehypothecation risks.
- The risk management procedure is embedded in the overall process and is deemed satisfactory.

Weaknesses

- The Fund has a very short "live" performance history of 5 months.
- While the two senior portfolio managers do not have extensive experience in short selling and the use of credit derivatives, a new member of the team has relevant experience in trading long and short credit derivatives positions.
- 20.5% performance fee structure is deemed expensive on a relative basis and hurdle rate low in comparison to the Fund's stated investment objective.

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Rating Definitions

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

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

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

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

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

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Organisation

Smarter Money Investments Pty Ltd (SMI) (ACN 153 555 867) was founded in October 2011 and is a Sydney-based boutique specialist active cash and fixed interest Australian investment management company.

SMI outsources its portfolio management responsibilities to its 50% shareholder Coolabah Capital Investments Pty Ltd (CCI), which collectively manages over $2.0bn in cash and fixed-income investments for institutional and retail clients.

CCI's wholly-owned subsidiary, Coolabah Capital Institutional Investments Pty Ltd ACN 153 327 872, holds AFSL Licence No 482238. SMI is authorised representative #000414337 of Coolabah Capital Institutional Investments Pty Ltd and authorised representative #414337 of Yellow Brick Road Investment Services Pty Limited that holds Australian Financial Services Licence No. 255016.

SMI is the investment manager and CCI is the sub-manager for the Smarter Money Long Short Credit Fund (Fund), which is an actively managed portfolio comprised of debt securities, hybrids and derivatives that aims to target a return that exceeds the RBA cash rate plus 4.0% - 6.0% p.a. after fees and ordinary expenses, over a rolling three-year period.

Fundamentally the Fund is managed to similar investment mandate to the Smarter Money Higher Income Fund but with additional facility to leverage, take short positions and invest in non-AUD denominated securities.

Business Philosophy

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

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

SMI/CCI's strategy is to grow the business in accordance with its investment style, being an active cash and variable debt/hybrid securities manager focussed on delivering positive absolute returns in all cycles. This active investment approach seeks to identify securities that have been inefficiently priced by the market—in isolation or relative to key peers—and are therefore deemed inexpensive and attractive on a risk versus return basis.

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People and Resources

CCI's full-time key investment team consists of two senior portfolio managers (PMs), two junior portfolio managers/quant analysts, three credit analysts, one quantitative analyst, a portfolio management director, a senior operations analyst, and a financial controller. The team is also supported by two part-time researchers (focussing on credit research, quantitative analysis, risk management and derivatives pricing).

The two senior PMs (Joye and Harvey) are regarded as highly experienced in managing and trading portfolios of Australian cash securities and bonds with an established six-year plus track-record, applying their highly active style initially via Smarter Money Higher Income Fund and the Smarter Money Active Cash Fund.

Joye focuses on idea generation, day-to-day portfolio management, and running the junior PMs and the analysts/advisers. Harvey has a more macro role concentrating on macro-market indicators, risk management, compliance and general mentoring.

The two junior PMs joined in 2016 and assist with execution in the unlisted bond and ASX markets while also having quantitative research responsibilities.

The three full-time credit analysts and two part-time advisers have previously held senior roles within the credit and debt capital markets divisions at major financial institutions or asset managers and have been recruited on the following attributes:

- Extensive multi-cycle experience
- Buy-side credit/risk analyst experience
- Funds management/bank trading experience
- Personal knowledge/relationship with PMs

CCI's active security selection and investment style is an ongoing process, based on bottom-up and top-down quantitative valuation analysis applying several different models to identify securities that are trading below fair value with acceptable levels of risk. This is augmented by a macroeconomic and traditional asset due diligence overlay. Full credit analyst reviews of an asset can be instigated by any of the four PMs.

Adding any new investment to the Fund is dependent on the asset receiving a positive credit recommendation from one of the independent analysts, which is a process that grants analysts negative veto rights over all investments on risk grounds only. The two PMs individually also have veto rights on all long and short positions and must jointly agree investments.

Biographies of the key investment professionals involved in the investment, governance, risk management and compliance follow:

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

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

Christopher Joye is co-founder of SMI/CCI and is Co-CIO and Portfolio Manager. Joye has 18 years capital markets experience gained as an investment banker, economist and fund manager having previously worked for Goldman Sachs in London and Sydney in mergers and acquisitions and principal investments and the Reserve Bank of Australia in special projects. He was an economic advisor to the Howard and Rudd Governments and served as a Director of The Menzies Research Centre think-tank. Joye was also the founder and portfolio manager of the funds management and research group, Rismark International, which was sold to an investment bank in 2010. Joye's main responsibilities at SMI are:

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

Darren Harvey is a co-founder of SMI/CCI and is Co-CIO and Portfolio Manager. Harvey has 31 years of experience in investment management in Australia and overseas with Deutsche Bank as a proprietary trader running fixed-income and derivatives investments across both the Australian and global markets. He retired from Deutsche Bank in 1999 to run his own family office. Harvey is responsible for:

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

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

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

Ed Teh is a full-time Senior Credit Analyst & Compliance Manager with CCI, joining the business in 2013. Teh has more than 18 years relevant research and funds management experience. Teh has previously worked as Director of Debt Products & Global Risk at Bank of America Merrill Lynch as well as a Senior Credit Analyst of fixed income credit

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research at ING Investment Management and Assistant Vice President of Corporate Risk Management at Citigroup. Teh is responsible for credit risk analysis, risk management, compliance and governance reporting.

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

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

Jason Lindeman joined Coolabah Capital Investments, which manages Smarter Money Investments' funds, in 2017 in a full-time role as a senior credit analyst. Jason has over 15 years buy-side experience specialising in fundamental and technical credit analysis across the capital structure. Previously at Hadron Capital LLP, a London based global relative value and event driven multi-asset class hedge fund, he was jointly responsible for the Credit Long/Short absolute return portfolio. The strategy sought relative value and catalyst driven investments, with portfolio views expressed using Corporate Bonds, Hybrids, Credit Default Swaps and Loans. Prior to Hadron, Jason was the Credit Portfolio Manager at RBC Capital Markets London, responsible for the European Credit Proprietary Trading Portfolio. He built and continually developed the credit process at both funds, while hiring, training and managing the relevant credit analyst teams. At Credit Suisse Capital Markets London, Jason was a Private Equity/Private Placements Analyst, investing proprietary capital in sub investment grade public companies, via the issuance of privately placed structured debt and equity securities. He was involved in the entire investment process from initial on-site due diligence, credit analysis, negotiation of terms, documentation and ongoing portfolio maintenance. Previous roles include Credit Risk Management at Credit Suisse London and NAB Corporate Banking in both London & Melbourne. Jason has a Bachelor of Economics and Post Graduate Diploma in Applied Finance and Investment.

Ying Yi Ann Cheng joined Coolabah Capital Investments, which manages Smarter Money Investments' funds, in 2017 as a full-time portfolio management director focussing on market research, analysis and technical factors, while also assuming responsibility for external stakeholder management. She spent the majority of her career at Citibank in London, where she was a Vice President, specialising in G10 and Emerging Market currencies, advising hedge fund clients and sovereign asset managers on alpha generating and risk management strategies. She was most recently at RBC Capital Markets working within fixed-income and credit. Prior to the sell side, Ying Yi had interned at Colonial First State and PwC in various quantitative roles. She has also held various advisory roles with tech start-ups in London and Sydney. After receiving a 99.95 ATAR for her HSC studies, ranking her in the top 0.05% of all secondary students, Ying Yi graduated with honours in Actuarial Science from the University of New South Wales, where she was the recipient of a Co-op Scholarship and included on the Dean's Honour Roll for her year of exchange at NYU's Stern School of Business.

Kai Lin joined CCI in 2017 as a full time quantitative analyst focusing on assets pricing. Prior to joining CCI, Lin worked as a data scientist at CBA where he built machine learning models to protect consumer propensities. Lin has also been involved in data mining projects with heavy use of R, Python, Hadoop etc.

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

The two key members of the investment team are PMs, Darren Harvey and Christopher Joye. Each PM brings complimentary trading and analytical skill to the investment process and strategy, supported by internally generated quantitative valuation and credit research, which is supplemented by externally sourced third-party research and data.

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

However, as the two PMs are significant shareholders in the business, collectively owning 75% of CCI, which in turn owns 50% of SMI, and investment guidelines are transparent, prescriptive and monitored by a quantitative risk management system and overseen by an investment committee with independent members this risk is, to some extent, mitigated. CCI also has key man insurance in place covering Joye and Harvey.

Currently equity ownership within the investment team applies to the senior PMs, the junior PMs, and the two credit analysts after CCI established an employee share plan that is available to all staff. Part-time researchers are classed as "contractors" and remunerated on a base salary and/or hourly basis.

Remuneration comprises base salaries and bonuses that are determined by CCI's board based on a score-card that accounts for performance.

Track Record

The senior PMs, Joye and Harvey, have established CCI/SMI with a six-year-plus track-record in the top decile of enhanced cash/short-term fixed interest managers.

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

Prior to establishing SMI/CCI in 2011, Joye worked as an analyst with Goldman Sachs in London and Sydney, and the Reserve Bank of Australia. He subsequently served as a portfolio manager helping run $250m of assets securing patented structured loans between 2007 and 2011 that had an "A" rating from Mercer and generated strong absolute returns during the global financial crisis and thereafter. He was the principal author of the 2003 Prime Minister's Home Ownership Task Force report on

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the demand- and supply-sides of the housing market and advised the Rudd Government on the development of a $20bn investment program into mortgage-backed securities during the GFC. In 2010, he helped draft the first terms of reference for Treasurer Joe Hockey's Financial System Inquiry and has led the public debate on Australian bank and housing risks in his capacity as a Contributing Editor with the Australian Financial Review.

Investment Process

Investment Philosophy

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

- On the basis of return targets of CPI plus 3-4% p.a. and empirical mean-variance optimisation analysis, CCI believes Australian savers' asset-allocation decisions have historically resulted in them taking on unnecessarily high exposures to equities, including listed Australian and global equities, unlisted commercial property equities, and private equity. At the same time, CCI is of the opinion savers have historically had insufficiently high portfolio weights to cash securities, FRNs, and fixed-rate bonds, which have offered relatively attractive risk-adjusted returns.
- CCI believes that with a central bank that has a formal "inflation-targeting" mandate (as documented under the Statement on the Conduct of Monetary Policy), Australian cash securities and FRNs have delivered attractive "real" or inflation-adjusted returns. The RBA cash rate plus 1% per annum has yielded strong real, inflation-adjusted returns of approximately 3.5% per annum since 1990.
- CCI believes that there is a role in diversified portfolios for active credit strategies with little interest rate/duration risk. Duration is deemed the source of majority of fixed-income volatility and the risk of capital loss. CCI finds that over the last 16 years the likelihood of realising a negative monthly return in stocks was 38% even after accounting for dividends. The probability of a negative month in fixed-rate bonds was also reasonably high at around 27%. Yet in FRNs, which strip out interest rate risk, only 2.9% of the 204 months between 1999 and 2015 were negative.
- CCI believes that there are inherent unexploited inefficiencies in the Australian cash and fixed-income markets due to: (1) weak economic incentives in the form of very low fees encouraging very passive, hold-to-maturity investment styles and a paucity of active investment management (and top human talent), which means asset pricing is not as efficient as it should be; and (2) opaque price discovery as a function of the fact that wholesale bonds settled through the ASX-owned Austraclear do not require prices to be publicly disclosed, which means that rapid information flows are thwarted. This again opens opportunities for nimble active managers to exploit these discrepancies.
- While CCI argues that long-term duration is impossible to predict, they believe that the interest rate-related financial markets do present systematically attractive short-term opportunities to exploit pricing inefficiencies around major macroeconomic events, such as RBA cash rate decisions, and the release of tier-one economic data.
- CCI believes that active managers can add considerable value by dynamically adjusting portfolios for relative value opportunities between cash, bonds and listed income securities. CCI believe that the combination of human talent on a cross asset-class basis

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with a commitment to comprehensive quantitative asset pricing (valuation) on both a bottom-up and top-down basis supported by more traditional qualitative due diligence—to enable CCI to identify and exploit mispriced assets to deliver "alpha", or risk-adjusted excess total returns, over and above the passive yield provided by those assets.

Investment Style

CCI's investment style can be described as an absolute fixed-interest strategy, seeking to generate an absolute return above the RBA cash rate by 4.0% to 6.0% p.a. over a rolling three-year period net of fees. This is achieved through managing to a broad investment mandate using a combination of debt securities, hybrids and derivatives issued either by Australian entities or overseas entities and actively taking long or short positions on those securities should conclusions from the manager's analysis indicate that securities are trading below or above their fair value. In addition, derivatives and leverage can be applied by the Fund to enhance returns.

The investment framework focusses on determining the fair value of a security using a variety of quantitative methods, and hence assets that are trading above or below fair value, after adjusting for a range of risk factors, including the probability of default, recovery rates, credit ratings, capital structure position, time to maturity, industry sector, issue sizes, and liquidity. If the securities are deemed trading above their fair value, then the fund manager would short sell the securities and buy back when the securities have decreased in value, generating profits even in declining markets. On the other hand, if the securities are deemed trading below their fair value, then the manager would long the securities for a potential increase in value.

The investment framework also considers how a security contributes to the overall risk and return characteristics and investment objective of the portfolio. CCI's investment style considers and leads to the following:

- Conventional credit research of both the issuer and the specific security with the analyst having negative veto over any investment on risk grounds.
- Top-down quant valuation analysis to assist in calculating the fair value of a security versus its peers after controlling for its risk factors using regression methods.
- Fundamental bottom-up quantitative valuation analysis that computes the probability of default, expected loss, and minimum required return on a security based on its capital structure position and the issuer's financials, including leverage and projected asset volatility, using option pricing technology.
- A macro-economic and intensive due diligence overlay that evaluates industry conditions, supply and demand technical, and all exogeneous factors that could impact asset pricing.
- Attribution analysis at the portfolio level to evaluate a security's contribution to overall return and risk.
- PM approval on pricing, sizing and entries and exits.

Investment Process

The Fund is managed to similar investment mandate to the Smarter Money Higher Income Fund but with additional facility to leverage, take short positions and invest in non-AUD denominated securities.

Based on the premise that value can be added through:

- Actively managing the fixed income portfolio (i.e. continuous management to source the best possible interest rates on deposits relative to credit risk).

- Active asset selection of debt/hybrid securities identified via top-down and bottom-up valuation analysis that can provide capital gains when mis-pricings normalise.
- Active asset-allocation within the portfolio between pure cash and risker debt/hybrid securities depending on the PM's views of the relative value available in each asset-class. When the credit sector is expensive they will revert to cash, and vice-versa. The Fund retains the ability to invest 100% in cash.
- Actively taking long and short positions on securities that are deemed trading below or above their fair value. However initially the manager will use credit market indices e.g. ITRAXX to adjust the credit exposure of the Fund.
- Actively using leverage that is up to 3x of the Fund's market value and derivatives to enhance the portfolio returns.

The investment process is regulated by the Investment & Governance Mandate (IGM) dated July 2017 which dictates, restricts and limits the universe of securities to an investable universe that reflects the characteristics of the investment strategy. See Table 2 for Portfolio Construction Policy.

Table 2: Portfolio Construction Policy

Portfolio Construction Policy	
Unrated/sub-investment grade debt	Maximum 30% (assuming maximum 3x leverage)
Subordinated bonds	Maximum 120% (assuming maximum 3x leverage)
Listed or unlisted securities ranking below subordinated bonds but above equities	Maximum 45% (assuming maximum 3x leverage)
Foreign denominated debt issued by non-Australian companies	30% maximum (assuming 3x leverage)
Australian or global shares (excl. ASX listed bonds)	0%
Long-term fixed-rate bonds (>24mths) unless swapped to floating with a major Australian bank	0%
At-Call Cash ETFs	20% per issuer
Investment in or funding of YBR-issued securities or YBR-issued loans	0%
Target return	Over 4% p.a. above RBA cash rate after fees
Target investment horizon	More than 12 months
Maximum risk	Less than 5%p.a. volatility over a rolling three-year period
Maximum leverage	3x fund market value
Target liquidity	Daily withdraw requests
Liquidity protections	Ability to access RBA's liquidity facilities as official RBA Eligible Counterparty via ISDAs with major Australian banks
Maximum interest rate duration of leveraged fund exposure	Maximum of 2 years (target less than 3 months)
Maximum credit spreads duration of leveraged fund exposure	Maximum of 5 years (target less than 3.5 years)
Target competition	Hedge funds and other alternatives

Source: Smarter Money Investments Pty Ltd (2017)

Table 3 below lists the Portfolio Construction Investment Limits.

Table 3: Portfolio Construction Investment Limits

Portfolio Construction Investment Limits	
Target weight to at-call bank deposits with APRA regulated ADI	0% to 5%
Target weight at-call deposits and term deposits with APRA-regulated ADI with maturities <12 months	0% to 5%

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Target weight to at-call deposits, term deposits and other cash equivalent securities less than 12 months plus RBA repo-eligible floating rate notes	0% to 10%
Min. exposure to cash instruments	0%
Max. target to debt and other permitted securities	300%
Maximum absolute exposure of long or short CDS contracts	200%
Maximum physical leverage	300% (this limits the fund to owning physical assets less than 3x fund market value)
Maximum leverage	300% (this limits the fund to having exposure to markets of less than 300% fund market value)
Maximum short credit exposure	-200%
Maximum (target) exposure to any one asset at origination, excluding ADI deposits	99% (assuming maximum 3x leverage)
Minimum (target) number of debt and other permitted securities	5 (50) issues
Maximum (target) exposure to any one issuer at origination, excluding ADI deposits	99% (assuming maximum 3x leverage)
Target weighted-average S&P credit rating (or Moodys where S&P not available) weighted to Leverage Fund Exposure	BBB
Max. portfolio weight to RMBS	99% (assuming maximum 3x leverage)

Source: Smarter Money Investments Pty Ltd (2017)

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

Table 4: Liquidity Guidelines

Liquidity Guidelines
The Fund will seek to actively manage its exposure to underlying assets with wide-bid-offer spreads while acknowledging that spreads vary on a daily- basis.
At origination 100% of the Fund's assets will have an expectation of daily liquidity under normal trading conditions

Source: Smarter Money Investments Pty Ltd (2017)

Portfolio Construction

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

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

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

Step 1 – Bottom-Up Credit Analysis

The Fund's IGM narrows the investable universe from which credit research is to be performed. Credit analysts carry out independent bottom-up research using current credit data and financial statements based on sector responsibilities. This is performed to determine the degree of risk involved and credit worthiness of investing in a security. The analysts also utilise CCI's proprietary credit rating model, which is a quantitative amalgam of rating agency approaches and provides a unique issuer rating that can be contrasted against public ratings. All "recommendations" are supported by written

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credit research reports. Approval from the credit analysts is required before proceeding with an investment.

Step 2 – Security Valuation

Securities that have been filtered through Step 1 are modelled by the quant analysts using up to 20 different proprietary valuation systems to estimate the fair value of securities versus their market values. The spread between values assist the PMs to determine whether to buy, hold, trim or sell a security. Securities market prices versus the PMs' determined fair value are monitored and reviewed daily using the internal quantitative models and external market data sourced from:

- Yieldbroker
- S&P Capital IQ
- Bloomberg
- And other dealer sources

Step 3 - Macro Analysis & Other Due Diligence

Steps 1 and 2 are supported with macro-economic analysis and additional industry and security due diligence driven by the PMs. This includes macro research focussing on short-term event risks such as GDP, inflation, jobless rate, RBA decisions etc. within T+3 months, mid-term macro events that will influence pricing over 6 to 12 months e.g. global macro growth paths and policy decisions, as well as longer-term secular drivers such as; conflict risks, demographic change through population growth and ageing etc. CCI deems that these variables may not be immediately evident through bottom-up credit analysis but may influence the future credit rating and price of a security and therefore its inclusion within the portfolio. The PMs further supplement the credit/quantitative research process with their own independent credit, valuation, other due diligence that will typically involve discussions with issuers, customers, competitors and other key stakeholders.

Step 4 – Portfolio Contribution/Attribution

Securities identified through steps 1 to 3 are incorporated, modelled and examined to ascertain their influence and contribution to the total portfolio from a risk and return perspective utilising the Bloomberg Asset & Investment Management (AIM) system, which evaluates the impact of all new investments on a wide range of portfolio attributes, including more than 20 different pre-trade compliances and other IGM rules.

Step 5 – Approval by Portfolio Managers

All final pricing, sizing, positioning (long and short), and timing is determined jointly by the PMs. In practice, Joye runs the process on an intra-day basis with Harvey having negative veto on all decisions and providing general risk and macro-market insights and mentoring to the overall team.

Buy / Sell Decisions

All trades are monitored and reviewed by:

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

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

Trigger points that instigate a security review are:

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

Use of Leverage

Compared to Smarter Money Higher Income Fund and the Smarter Money Active Cash Fund, the Smarter Money Long Short Credit Fund is permitted to use leverage to amplify the potential gains from securities' mispricing. The Fund can achieve leverage through either repurchase agreement

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(repos) or by borrowing via margin loans with its counterparties. Repo-eligible assets include; government bonds, senior bank bonds, and AAA RMBS.

The Fund can enter into the repurchase agreement (repo) transactions directly with RBA or one of the major banks by paying a low borrowing cost that is capped by the central bank's repo rates. The main advantage of using repo facilities is a lower cost of borrowing. However, not all the debt securities can be used as collateral for accessing capital. Subordinated debt, hybrids or high yield bonds cannot be levered using repo facilities.

The Fund can also access additional capital through obtaining loans from banks or brokers to make additional investments, which in general accept a wider range of securities as collateral for loans. However, the less restrictive requirements can come with higher cost of borrowing.

Unlike any other "hedge" funds, the Fund has been designed with the unique structure which separates the role of capital lenders and custodian, which was not normally the case for other hedge fund managers. NAB, CBA and ANZ are the main capital providers to the Fund, along with OneVue RE service Ltd, FundBPO, Equity Trustees, SMI and CCI. As a result, it allows the Fund to access a wider range of lenders, to generate competitive tension among the lenders leading to potential lower cost of borrowing. In addition, the separation of the custodian and lenders assists the reduction of the re-hypothecation risks.

Ability to Short Sell

A set of quantitative models are used to value the fair value spreads for the securities, supported and further reinforced by additional bottom up and top-down analysis. Securities that are deemed overvalued can be subject to short sale either via single name shorts and single name Credit Default Swaps (CDS). Currently, the Manager intends to adjust the credit exposure of the Fund using derivatives of credit market indices deemed suitable e.g. ITRAXX.

Implementation

Smarter Money Long Short Credit Fund is accessible via online application form available on the SMI website: www.smitrust.com.au.

Risk Management and Compliance

Risk Management

Investment Risk Management

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

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

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

Interest rate and credit risk is minimised by:

- Investing in cash and floating-rate debt securities and prohibited from investing in fixed-rate debt securities with more than 24 months term to maturity.
- Targeting a weighted-average S&P credit rating (or Moodys where S&P not available), of BBB- across the portfolio.
- Monitoring the Fund's maximum value-at-risk including basis credit risk estimates monthly.
- Conducting stress tests around various scenarios to determine their impact on the fund's value on a quarterly basis.

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As this Fund has the facility to leverage, it is critical to identify and control the Fund's downside risk resulting from leverage. Simulated returns for the Fund has been conducted since 2003 based on the actual performance of Smarter Money Higher Income Fund and Smarter Money Active Cash Fund (due to similar fundamentals of the Smarter Money Higher Income Fund and the Smarter Money Long Short Credit Fund).

Based on the Manager's simulation and testing, the leverage level is capped at 3.0x the Fund's Net Asset Value (NAV). Allowing for this range of leverage, the worst returns that the simulated portfolio would have experienced are during the 2007-08 GFC period. The Fund would have suffered a monthly loss ranging from 11.7% to 19.0% assuming there was no effort at all to in any way reduce leverage during this calamity, which is unrealistically conservative.

In practice the Fund targets a leverage of 2.5x. At this level, based on simulation, the Manager expects that the Fund is likely to achieve a gross return higher than the Australian equity market with only one third of the measured volatility. Consistent with the Fund's objectives.

The Manager has placed various restrictions on the levels of leverage on individual securities, dependent on:

- Magnitude of the assessed mispricing/alpha
- Assessed risk associated with realising that alpha; and
- Idiosyncratic risk of the asset itself in relation to the portfolio of assets that we hold.

Additional risk of loss to the Fund is amplified due to the facility to short sell securities. A short position creates the risk of losses that are capped at the debt's principle along with the repayment of coupons. The Manager monitors on an intraday basis securities' gains and losses as well as liquidity conditions to limit losses. However, there is no formal stop loss policy.

Administrative Risk Management

The following back-office functions are out-sourced:

- Responsible Entity – OneVue RE Services Limited
- Custodian and Fund administrator– FundBPO

Operational Risk Management

CCI has its own Business Continuity & Disaster Recovery Plan (BCDRP). The BCDRP focuses on mitigating the risks arising from people, systems and processes through which the organisation operates. CCI has access to 24/7 offsite emergency office infrastructure provided by Servcorp with all key systems abled to be accessed via the web and daily offsite backups. CCI uses the Complispace system for enterprise risk management, which embeds a range of CCI's internal policies including:

- BCDRP
- Conflicts of Interest Policy
- Soft Dollar Policy
- Trade Management Policy
- Derivatives Policy
- ESG Policy and
- Others

Derivatives

The Fund has the facility to go long and short assets or derivatives which the Manager has identified as mispriced. In addition, the Fund can use derivatives and futures to manage risk and/or gain exposure to investments.

Compliance

CCI runs extensive pre-trade and post-trade compliance of all investments via its Bloomberg AIM system with the results sent daily to the investment

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team, the RE and other stakeholders. CCI also has its own Risk & Compliance Committee with 3 of the 4 members being independent that meets monthly to evaluate all internal and external compliance. This is supplemented by an independent professional RE, OneVue RE Services Limited (OneVue). OneVue provides SMI and CCI with a monthly compliance assurance letter that involves randomised tests of individual investments. CCI has a documented compliance procedures manual in place and has established adequate processes to deal with any compliance breaches.

Fees and Costs

Smarter Money Long Short Credit Fund charges the following fees to investors. Fees shown are inclusive of GST.

Administration & Management Fee

- 1.25% p.a. investment management fee
- 0.25% p.a. administration fee covering all RE, administration, unit registry, and custody costs plus
- 0.30% p.a. indirect costs

Performance Fee

20.5% of the net excess out-performance versus the RBA official target cash rate, with a high-water mark. Accrued daily and assessed and payable six monthly.

Buy/Sell Spread

0.00%/0.10%

Liquidity

Withdraw requests are usually processed daily. Timing of any redemption of units is otherwise determined by the liquidity of the underlying investments and the efficiency of the platform administrator and SMI's administrator (FundBPO).

Performance

Smarter Money Long Short Credit Fund inception date was 31 August 2017.

Investment performance of the Fund against the RBA Cash Rate and excess return is provided in Table 7 below.

Table 7: Performance to 31 January 2017

	Net Return	RBA Cash Rate	Excess Return
1 Months (%)	0.45	0.13	0.32
3 Months (%)	1.26	0.38	0.88
Inception (% pa)	2.22	0.63	1.59

Source: Smarter Money Investments

Conclusion

Strengths

- The two senior portfolio managers have been working together since the establishment of CCI in 2011, indicating a cohesive investment environment.
- Experienced and well-resourced investment team.
- The "foundations" of the investment process and rigour to research and modelling is similar to Smarter Money Higher Income Fund.
- The back-tested simulated performance results for the Fund illustrate strong investment performance versus the target return of RBA Cash Rate plus 4% to 6%.
- Downside risks from leverage are acknowledge and controlled by conducting scenario stress testing and placing gearing limits on various types of securities.
- The use of separate capital lenders and custodian allows the Fund to access lower cost of borrowings and helps to reduce the rehypothecation risks.
- The risk management procedure is embedded in the overall process and is deemed satisfactory.

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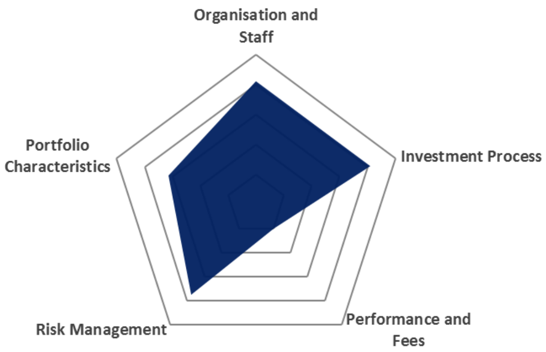
Weaknesses

- The Fund has a very short "live" performance history of 5 months.
- While the two senior portfolio managers do not have extensive experience in short selling and the use of credit derivatives, a new member of the team has relevant experience in trading long and short credit derivatives positions.
- 20.5% performance fee structure is deemed expensive on a relative basis and hurdle rate low in comparison to the Fund's stated investment objective.

Rating Summary



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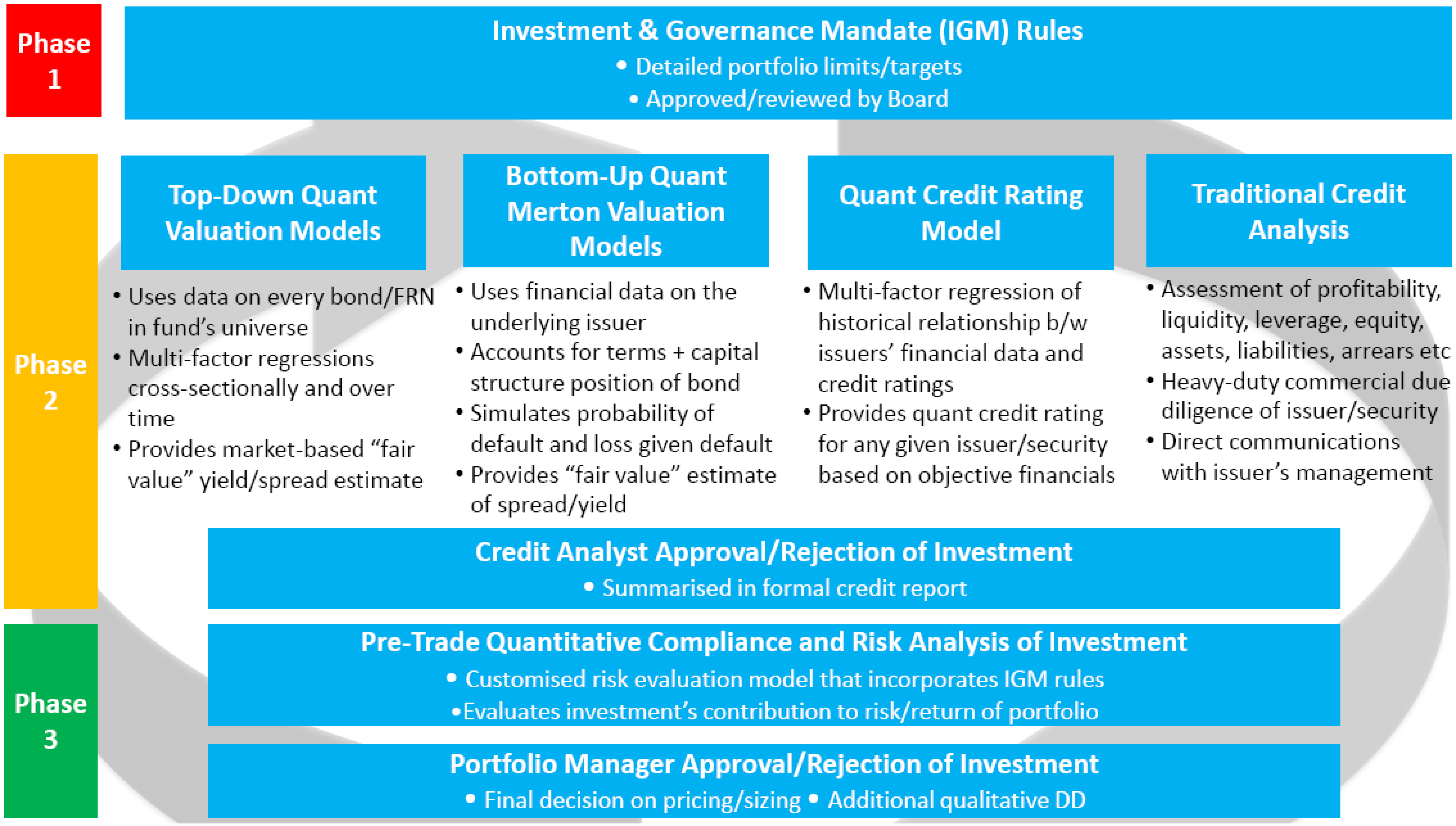
APPENDIX 1: PORTFOLIO CONSTRUCTION – DECISION-MAKING PROCESS



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APPENDIX 2: SMARTER MONEY LONG SHORT CREDIT FUND PERFORMANCE (NET RETURN) ANALYSIS

Smarter Money Long-Short Credit

ATCHISON CONSULTANTS

Performance as of 31 January 2018

	1 month (%)	3 months (%)	Since Inception (%)
Smarter Money Long-Short Credit	0.46	1.26	2.12
RBA + 4% p.a.	0.46	1.37	2.29
RBA + 1.5% p.a.	0.25	0.75	1.25
Australia Fund Multi-Strategy Income	0.50	1.00	1.84

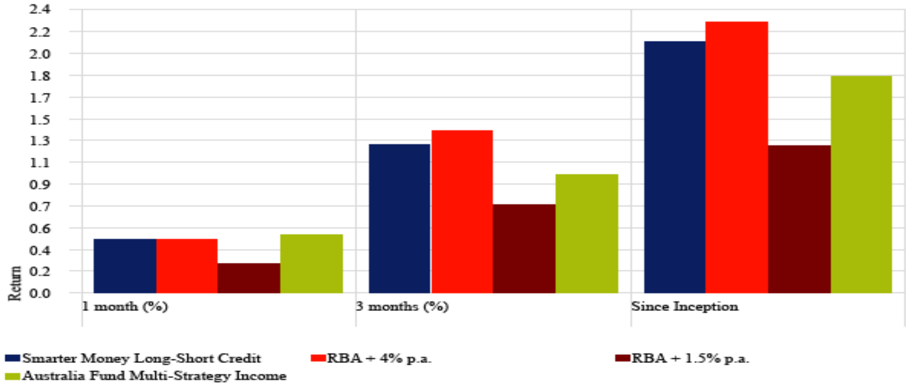
*Inception Date - 31 August 2017.

Risk Metrics vs RBA + 4% p.a. - Since inception to 31 January 2018

Time Period: 1/09/2017 to 31/01/2018

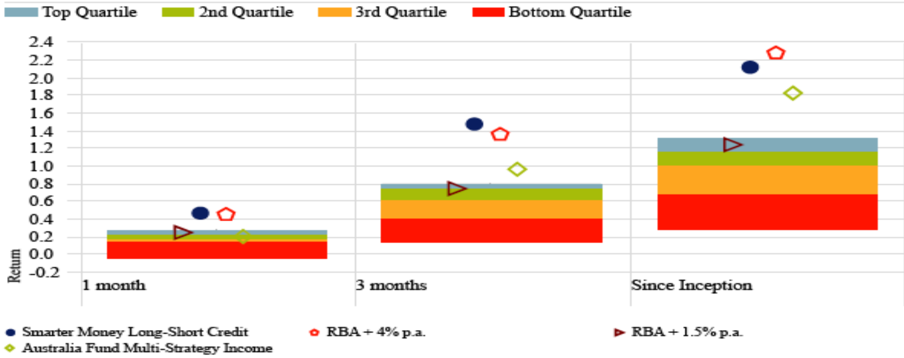
	Excess Return	Tracking Error	Sharpe Ratio	Info Ratio	Std Dev	Batting Average
Smarter Money Long-Short Credit	-0.16					40.00
Australia Fund Multi-Strategy Income	-0.45					40.00

Performance as of 31 January 2018



Performance Relative to Peer Group

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



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Sources of Information

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

- Institutional Grade IFSA/DDQ Questionnaire (Dated: June 2017)
- Long Short Credit Fund Presentation (Dated: September 2017)
- Product Information Sheet
- Smarter Money Long Short Credit Fund Product Disclosure Statement (Dated: July 2017)
- Smarter Money Long Short Credit Fund (the Fund): Non-Public Internal Investment & Governance Mandate (the IGM)
- Smarter Money Long Short Credit Fund(LSCF): Theoretical Analysis of Asset Class Exposure Limits
- Smarter Money Long Short Credit Fund(LSCF): Simulated Track-Record, Stress-Testing and Leverage Process White Paper
- Risk Management Policy (TMP) (Dated: November 2016)

Report Expiry Date

Date Report Prepared: 22 February 2018

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Statement of Analyst Interest and Certification, Warning and Disclosure

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Atchison Consultants

Atchison Consultants was established in 2001 by Ken Atchison and consists of a team of investment professionals based in Melbourne with extensive experience in all aspects of financial markets.

The principal focus of the business is the provision of advice, research and analysis across all components of managing investment portfolios by financial institutions, superannuation and insurance funds and investment managers.

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