

Coolabah Floating-Rate High Yield Fund

June 2025



Investment Rating Report

Investment Rating: SUPERIOR

Product Complexity: COMPLEX

Fund Details

Investment Manager:

Coolabah Capital Investments (Retail) Pty. Ltd.

Investment Structure:

Open-ended Australian unit trust

Wholesale/Retail: Both

Category: Fixed Interest

Investment Style: Alternative fixed income. High-yielding, geared Australian floating-rate notes

Inception: 5 December 2022

Management Fee: Management fee and costs of 1.00% total. (Assisted Investor Class)

Performance Fee: Nil

Distribution: Quarterly

Responsible Entity: Equity Trustees Limited

Investment Objective: To provide investors with a portfolio of investment-grade Australian floating-rate notes with enhanced yields

The Fund now has a 29-month track record and has performed strongly in absolute returns and even more so on a risk-adjusted basis.

The credit default risk of the portfolio is deemed very low. The Australian bank FRN market has historically exhibited excellent returns per unit of risk, has minimal negative credit rating risk, and is highly liquid. The underlying portfolio applies gearing cost-effectively, utilising RBA 'back-stopped' repurchase agreements (repos).

The Fund can be considered a high-quality alternative to typical high-yield sub-investment grade bond strategies. Its portfolio carries a much stronger credit rating and lower default risk.

We note the following:

- The Fund has negligible interest-rate risk (being an FRN portfolio).
- Target returns for the Fund are not fixed and will vary based on credit market conditions specific to the Australian bank FRN market. The key drivers of realised returns are market inflation expectations, movements in the official cash rate, bank bill swap rates (BBSWs), and credit spreads for the Fund's specific FRN holdings.
- The Australian bank FRN market has historically exhibited exceptional returns per unit of risk, has minimal default risk, and is highly liquid. Therefore, the underlying portfolio is well suited to being geared to enhance returns. Nevertheless, the high level of leverage does create significant mark-to-market volatility/drawdown risk. On a historical back-tested basis, these risks are comparable to global high-yield bonds while providing better hypothetical returns.
- The Manager is a very adept data-driven relative-value manager and will use these techniques in both the selection of FRN securities and the dynamic determination of gearing levels.

Performance – May 2025

Period	Fund	Benchmark	Excess
1 month	1.52%	0.64%	0.87%
3 months	0.98%	1.19%	-0.20%
6 months	3.17%	2.59%	0.58%
1 year	7.20%	5.35%	1.85%
Inception p.a.	9.83%	5.31%	4.52%

Inception was December 2022

Benchmark is Bloomberg AusBond Credit FRN 0+ Yr Index

Source: Coolabah Capital Investments

Review Summary

The Coolabah Floating-Rate High Yield Fund (the 'Fund') is a portfolio of Australian bank senior and subordinated floating-rate notes (FRNs) to which leverage is applied up to a maximum of 400% of total gross exposure. As of April 2025, approximately 72% of the portfolio was senior bank FRNs and 27% subordinated bank FRNs (Tier 2) with an average credit rating of A+.

Investment Rating & Foresight Complexity Indicator

A **SUPERIOR** rating indicates the highest level of confidence that the Fund can deliver a risk-adjusted return in line with its investment objectives. The investment manager's support for this strategy is very well-resourced and continues to be enhanced.

Designation as a **COMPLEX** product reflects the public market liquidity and pricing transparency, simple fee structure, and the standard nature of the underlying asset class of Australian bank bonds. Conversely, it factors in the risk augmentation that is introduced by the high level of gearing in the Fund, both mark-to-market NAV and drawdown risk.

Fund Details

Fund Name	Coolabah Floating-Rate High Yield Fund (Managed Fund)
Dominant Strategy	A portfolio of investment-grade Australian Floating-Rate Notes (FRNs) with enhanced yields
Fund Type	Alternative High Yield; Short Duration Fixed Income
Investment Manager	Coolabah Capital Investments (Retail) Pty. Ltd.
Sub-Investment Manager	Coolabah Capital Institutional Investments Pty. Ltd.
Trustee/RE	Equity Trustees Limited
KEY FEATURES	
Fund Inception	5 December 2022
Domicile	Sydney, Australia
Legal Form	Registered open-ended Australian unit trust
APIR Codes	Assisted Investor Class: ETL5010AU; Institutional Class: ETL6855AU
Geographic Mandate	Australian floating-rate notes with a focus on major bank issuers
Open	Yes
Management and Administration Fee	Management fee and costs of 1.00% total. (Assisted Investor Class)
Performance Fee	Nil
Benchmark	Bloomberg AusBond Credit FRN 0+ Yr Index (BAFRN0).
Distributions	Quarterly on 30 June, 30 September, 31 December, 31 March
FUM	AU\$1,486M as of March 2025
Minimum Subscription	AU\$1,000 (Assisted Investor Class)
Subsequent Subscription	AU\$1,000 (or \$100 per month for a regular savings plan)
Entry Fee	No
Exit Fee	0.05% exit spread paid to unitholders in the trust
Fund Term	Open-ended
Reporting	Online 24/7, monthly reports, quarterly/annual distribution and tax statements
Redemptions	Daily
PRIMARY CONTACT	
Name and Title	Gary Walsh, Head of Asset Origination
Email Address	gary.walsh@coolabahcapital.com
Telephone Number	1300 901 711
Website	www.coolabahcapital.com

Investment Profile

BACKGROUND

Coolabah Capital Investments Pty. Ltd. ('CCI' or the 'Manager') is 62% owned by its investment team and 38% owned by the Pinnacle Investment Management Group Ltd. (ASX: PNI), an Australia-based multi-affiliate investment firm. Coolabah Capital Investments (Retail) Pty. Ltd. (CCIR) is a wholly-owned subsidiary of CCI and was established to offer investors fixed-income products with a low volatility profile.

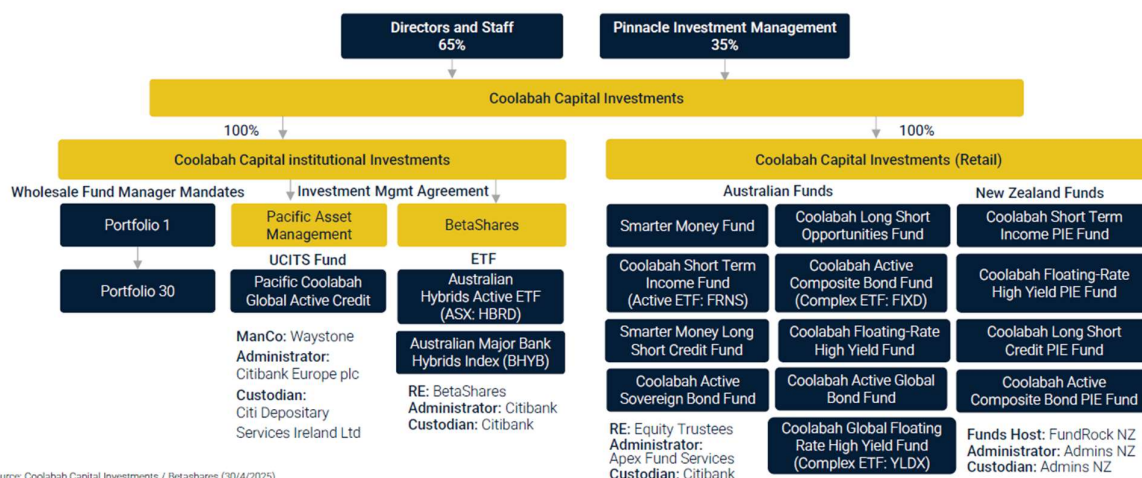
CCI was established in 2011 and launched its first fund in February 2012. It has continued to grow strongly in all facets. It currently manages 29 institutional mandates and 16 retail funds, with a combined FUM of approximately \$14.6BN (as at March 2025). This includes one of the fastest-growing ETMFs in Australia, Betashare's Active Australian Hybrids Fund (ASX: HBRD), which has over \$2.4BN in FUM. CCI is a fixed-income quant-driven relative-value house, as opposed to a credit house, and has a singular focus on floating-rate instruments for the Fund.

There has been a solid expansion in the Manager's product set in recent years, including this Fund (started in 2022), the Active Composite Bond Fund and the Global Active Credit and Active Global Bond Funds (both global fixed-income strategies managed from CCI's London office) and more recently, a global version of the FRN Fund, the Coolabah Global Floating-Rate High Yield Fund. All such products are firmly based on the Manager's core expertise while providing for differing risk-return solutions, with the Active Composite Bond, Global Active Credit and Active Global Bond Funds enabling investors to adopt a directional position on interest rates. We note that the previously named Smarter Money Higher Income Fund, a cash-enhanced strategy, has been renamed the Coolabah Short-term Income Fund and is listed on the ASX as an ETF (ASX: FRNS).

CCI's team has continued to grow strongly. As at March 2025, it comprised 53 full-time executives (compared to 47 last year), 12 portfolio managers/traders, and 20 analysts covering the functions of market technicals/strategy, credit analysis, macro strategy and data science. The staff collectively have decades of fixed-interest trading, quantitative and credit-research experience. CCI's investment team and their families have invested approximately \$10M-\$20M of their personal capital into CCI's strategies, which provides for a strong alignment of interests. Profits have been re-invested in the business, mainly in additional staff, systems and technology.

CCI opened a London office in 2020, a New Zealand office in 2024, and a Miami office in 2025, in addition to its existing Sydney and Melbourne offices.

FUND MANAGEMENT STRUCTURE



Source: Coolabah Capital Investments

OBJECTIVE

The Coolabah Floating-Rate High Yield Fund's objective is to provide investors with exposure to a portfolio of investment-grade Australian floating-rate notes with enhanced yields. The Fund had a running yield of 7.29% p.a. (before fees and expenses) as of April 2025, which will vary over time based on the 3-month bank bill swap rate (90-day BBSW) and credit spreads applicable to the sector. The target return is a function of 2 components. The first component is coupons received over the tenor of the bond (the

'running yield'). The second is the expected capital uplift based primarily, but not solely, on the price discount provided in primary market issuances.

At any given time, the running yield will be a function of the 90-day BBSW. While the interest rate paid on bank bonds can be fixed or floating, most domestic bonds pay floating-rate interest. The Fund is a 100% FRN investment strategy. Australian FRNs pay an income determined as a margin over the 90-day BBSW (which is set at the issuance of the bond). This 'margin plus base rate' resets every quarter based on changes in the 90-day BBSW market. This ensures a very short duration exposure that resets every 90 days.

The net asset value (NAV) of the Fund will vary as a function of 3 factors: 1) changes in market credit spreads applicable to individual FRNs held in the portfolio; 2) credit rating changes to any FRN holding (a relatively rare occurrence in Australian banks); and 3) a material widening in FRN bid-ask spreads, particularly during extreme market dislocation events. Of the 3 factors, the first is far and away the most material and persistent. Investors must bear in mind that while the Australian bank FRN market has a very low degree of volatility, the application of gearing up to a limit of 400% gross exposure introduces material NAV (but not coupon) risk (see Performance section for an illustration of this risk).

FUNDS UNDER MANAGEMENT

As of March 2025, the strategy's FUM was approximately \$1,486M. The growth is impressive, considering the Fund was only launched in December 2022. CCI has FUM of approximately \$14.6BN for a predominantly institutional client base. As noted, CCI manages 45 portfolios, including retail funds, listed funds and separately managed mandates. According to the Manager, all the strategies use the same underlying 'alpha' engine, with each strategy's portfolio being driven by its specific risk parameters.

With the Manager's overseas expansion now well and truly afoot, and the associated launch of its global fixed-income products, CCI believes its overall FUM capacity across all the strategies is ~\$50bn. Pinnacle, which has offices in London and New York, is leading CCI's overseas expansion in conjunction with their UK affiliate, Pacific Asset Management, who also partnered with CCI on a UCITS fund for that market. They are exploring the best structures for offering the manager's capabilities in overseas markets.

INVESTMENT UNIVERSE

The Fund is permitted to invest in senior and subordinated FRNs issued by Australian banks and insurance companies. The interest rates on these bonds are enhanced using gearing of up to 75%, provided via the use of RBA 'back-stopped' repurchase agreements ('repos'). The portfolio has 100% Australian-dollar currency exposure. It is also permitted to invest in cash and cash-equivalent securities for liquidity purposes. The section below provides an overview of FRNs and the Manager's gearing methods.

Senior & Subordinated FRNs – An Overview & Backdrop

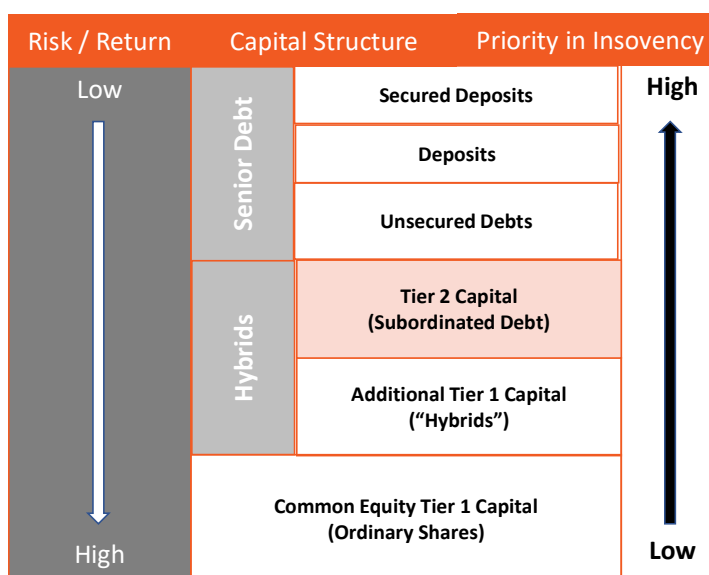
The Australian FRN market is dominated by investment-grade bonds issued predominantly by domestic and foreign banks and other lending institutions. The FRN market consists of senior and subordinated bonds, with the former being higher in the capital stack.

The diagram below is a simplified example of the capital structure in a hypothetical financial institution. It illustrates how different securities rank in priority of payment in the event of insolvency, including senior and subordinated debt. Priority is given to depositors and senior debt. Shareholders get paid last, if at all.

Secured debt, which is not a part of the Fund's strategy, is the first debt to be repaid in the event of a default and carries the highest ranking, above any other debt issued by a company. The debt is secured (backed) by collateral to reduce lending risk. If the borrower defaults, the holder of a secured bond can seize this collateral. Assets generally used as collateral include property, cash, receivables, plant and equipment owned by the borrower.

Senior (unsecured) debt has no specific collateral backing from the borrower. In the event of a default, senior unsecured creditors are prioritised ahead of other unsecured creditors but behind secured creditors.

Subordinated debt ranks behind other debt of the borrower in the event of default. Subordinated debt holders stand behind the senior debt holders in the hierarchy of creditors, i.e. they are lower in the capital stack.



Source: Foresight Analytics, VanEck

SENIOR UNSECURED

Around half of all outstanding Australian non-government bonds are bank bonds. Trends in bank bond issuance are driven by Australia's 5 largest banks – ANZ, Commonwealth Bank (CBA), National Australia Bank (NAB), Macquarie and Westpac (WBC). Together, these large banks hold about 90 per cent of banking assets and issue around three-quarters of senior unsecured bank bonds, although this varies over time in response to funding needs and market conditions. Senior Australian bank bonds have **seniority** over subordinated debts and hybrids, so these 2 subordinated classes actually bolster the credit quality of senior bank bonds.

SUBORDINATED BONDS

Subordinated bonds in Australia consist mainly of Tier 2 Capital securities issued by banks and insurers. This debt ranks above ordinary shares and Additional Tier 1 Capital (commonly known as hybrids), but they sit below senior debt. Subordinated bonds are more debt-like than hybrids as interest payments generally must be met, and the principal must be repaid at maturity whenever the issuing financial institution is solvent. However, when an entity is insolvent or the regulator determines a point of non-viability, subordinated bonds may stop making interest payments, and can be **converted to equity** or be **written off**. The purpose of Tier 2 Capital, as 'gone concern' capital, is that it can be absorbed as a loss to prevent the failure of financial institutions, which are important to the whole financial system.

For financial institutions, subordinated debt forms part of the buffer they are required to have (by APRA) in order to absorb potential losses in the event of financial distress. This capital protects depositors and policyholders so they can feel confident their money is safe. It also protects taxpayers from costly bail-outs.

How are subordinated bonds different to traditional bonds?

- **Loss absorption and non-viability.** Subordinated bonds form part of the regulatory capital that banks and insurers are required to hold to protect depositors and policyholders from unexpected losses. For this reason, they are designed to have 'loss-absorbing' features that trigger in circumstances of extreme distress (the "point of non-viability" as determined by APRA). The result may be that interest and capital payments owed to subordinated bondholders may be delayed or cease, or the principal may be converted to equity at a significantly lower value, (or be written off).
- **Higher risk means higher return.** The claims of subordinated bondholders rank below traditional bonds, depositors and other unsecured creditors. If the bank fails, subordinated bondholders will only be paid after all obligations to higher-ranking creditors are paid. As a result, subordinated bonds generally pay higher interest than traditional bonds.
- **Call risks.** Unlike hybrids, subordinated bonds generally have a maturity date at which time the institution must repay the principal. Australian-dollar floating-rate subordinated bonds typically also have a 'call date' at which there is an expectation the institution will repay the securities. Subordinated bonds are typically issued for 10 years with a call date that is 5 years from maturity, and issuers must obtain approval from APRA to call the bond early. The market usually prices the bonds

based on the assumption that they will be called at the specified call date. There is a risk that the issuer will not elect to call the securities at that date or that APRA will not grant approval, which could negatively affect the price of the security.

LEVERAGE – REPURCHASE AGREEMENTS

The Manager uses repurchase agreements (repos) to implement gearing in the Fund. Repos are frequently used by holders of debt securities to fund their positions. They play an important role in the smooth functioning of debt markets and are the main instrument used by the Reserve Bank to undertake its domestic market operations. A repo is an agreement between 2 parties under which one party sells a security to the other, with a commitment to buy back the security at a later date for a specified price. The difference between the sale and repurchase price reflects the rate of interest to be earned by the cash provider.

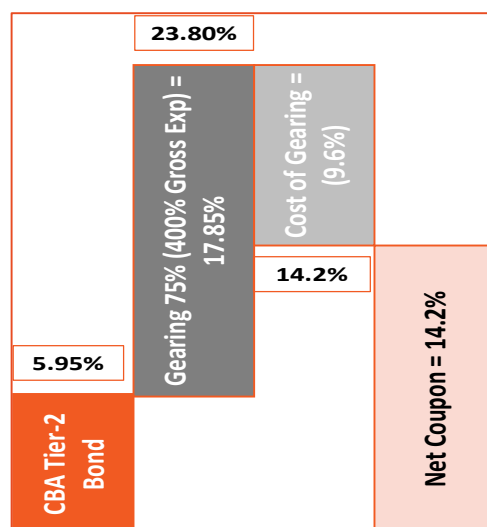
Since the price of the forward (or unwind) leg of a repo transaction is set in advance, the cash provider is only exposed to changes in the security's value if the counterparty defaults on the forward transaction. To limit the potential exposure to counterparty default, the cash provider may demand a margin (or 'haircut') on the security's value. If the securities' values change significantly during the life of a repo, either party may make a margin call or ask for the repo to be repriced to realign the cash value of the repo with the value of the securities. Within the Australian market, there is no fixed convention on the trigger for making a margin call. In the case of the Reserve Bank, movements in the security's value of more than 1% trigger such a call. For repos contracted on a tri-party basis, it is the responsibility of the tri-party agent to value the securities and determine whether a margin is owed.

The Manager executes repo transactions under Global Master Repurchase Agreements (GMRA), which provide for daily margining processes. The process is the same for all counterparties, though the thresholds for margin calls vary. Margining is done daily on a portfolio basis for each counterparty/fund combination; the loans are revalued to take into account accruing interest, and the securities held as collateral are revalued. If the exposure either way for that fund exceeds a dollar threshold (on average, around \$250K), then a margin call is made, typically for payment the following day. Accordingly, the Manager keeps sufficient cash buffers in all funds that use repo. The cash buffers are sized according to the collateral on repo, current market volatility conditions, and any other factors specific to that fund. Cash buffers are replenished using asset sales if required. Holding a cash buffer does, at the margin, produce a drag on the overall fund yield. However, at typically 5-10% in size, it is not very significant.

We note that the Manager implements repos on a bond-by-bond basis instead of applying them across the entire portfolio. This means the counterparty only has recourse to the bond. On the related issue of risk mitigation, the Manager chooses not to use prime brokers for any reason, including generating leverage.

Worked Example of Leverage in the Fund

The section below presents a worked example of the application of gearing in the Fund in the determination of the running yield payoff structure for a particular FRN holding in the portfolio. In this case, the underlying FRN is a CBA Tier-2 bond paying 2.9% over the 90-day BBSW (assumed to be 3.05%), thereby providing a coupon running yield of 5.95%. Assuming the maximum permissible level of gearing of 75% (a gross exposure of 400%) provides a total running yield of 23.80%. The assumed cost of gearing is 15 basis points above the RBA Cash Rate, which produces a cost of financing of 9.6%. Deducting this from the gross yield of 23.8% produces a net running yield of 14.2%. This example is illustrated in the waterfall chart below.



Source: Foresight Analytics

BANK FRNs – RATINGS CHANGE HISTORY

Credit spread changes are a persistent risk, both positive and negative. Separate from this, rating changes represent an episodic, sector-wide risk across Australian bank-issued bonds.

We note that historically, ratings have been quite consistent (low volatility) for both senior and subordinated bonds issued by the major banks. The implication of this is that credit spread changes represent the key risk. It also reinforces the point made in this report regarding the complementarity of the underlying asset class with a gearing overlay. The current ratings outlook is stable for all agencies.

Standard & Poor's (S&P) recently lifted the Banking Industry Country Risk Assessment (BICRA) score for Australia. On 3 April 2024, S&P revised the BICRA for Australia to Group 2 from Group 3, indicating a reduction in overall banking industry risks. This was accompanied by a change in the industry risk score, which was revised from 3 to 2 (lower is better). S&P noted that the Australian banking sector's improved regulatory and governance standards were the primary drivers for this upgrade. As a result of the BICRA revision, S&P also **upgraded** the Tier 2 bond ratings of Australian major banks, typically by one notch.

The Australian banking system now has the lowest BICRA score globally, along with Canada, Singapore and Hong Kong.

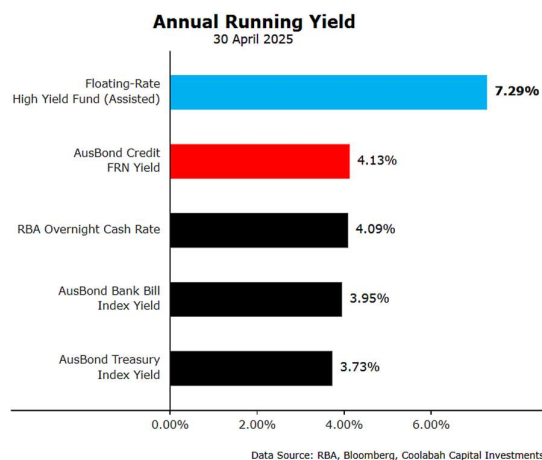
Allocation Context – Tactical & Strategic Perspectives

Tactical Perspective

From a tactical perspective, we believe the Fund offers 3 key attractions:

- 1) A seeming inconsistency in yields relative to capital stack positioning, which is favourable to Australian bank FRNs
 - 2) Potential downside protection over the foreseeable future based on Australian bank FRN credit spreads being above historical norms (and assuming mean reversion)
 - 3) During periods of rising rates, floating-rate instruments have historically outperformed the Australian composite bond asset class
- The chart below highlights this and illustrates a disparity in yields relative to capital stack positioning.

Exhibit 1: Yields vs Other Asset Class (Apr 2025)



Source: Coolabah Capital Investments

Exhibit 2: Aust. Bank FRNs – Credit Spreads



The second chart above speaks to the second dynamic and the notion of downside protection by way of mean reversion (from currently elevated credit spreads) to historical norms. In this regard, the allocation to FRNs is supported by the medium-term structural increase in rates but also on a short-term basis, with current spreads that look relatively attractive. This potentially provides an attractive entry point into the Fund, given the strong underlying fundamentals of banks.

Strategic Perspective

In our view, the strategic merit of the Fund relates to 2 key factors:

- 1) The financial resilience of the Australian banking sector (i.e. high credit ratings/low default risk)

2) The complementarity of the 2 components of the Fund, namely the quality of the underlying portfolio combined with the gearing overlay, the latter of which fundamentally changes the risk-return profile of the underlying portfolio

Regarding the first factor, we point potential investors to the Financial Stability Review (Chapter 3: The Australian Financial System) published by the RBA in October 2022. It concludes, 'The Australian financial system is resilient and well positioned to support the economy through a more challenging period for households and businesses, as interest rates increase to bring inflation back to the target band. Banks have strong capital and liquidity positions.'

Regarding the second factor, Australian bank FRNs exhibit a remarkable return per unit of volatility (and that volatility is comparatively low). Furthermore, Australian bank FRNs have historically performed well in periods of rising rates and have provided stable income and returns. During periods of key downside risk in an asset class where downside risk mitigation is of critical importance, the Australian bank FRNs have historically outperformed. Both these attributes are exceptionally important given the Fund's potentially high levels of gearing exposure.

Investment Philosophy

There are 5 key underlying philosophical/structural components to the creation and timing of the launch of the Fund:

- The Manager views the Fund as an alternative to high-yield investment strategies but with the comparative advantage of lower credit-default risk. Leveraging safer bank bonds carries less credit risk than investing in sub-investment grade instruments. The application of leverage is attractive from a risk-return perspective, given the complementarity of the relatively low-risk underlying portfolio of Tier 1 and Tier 2 bank floating-rate notes.
- Australian bank FRNs, both Senior (AA-) and Tier 2 (BBB+), currently provide superior yields relative to Australian equities, Australian bank stocks, Australian hybrids, and high-yield bonds despite being higher on the capital stack (lower risk). This implies that other asset class valuations have been sluggish in reflecting the evolving economic reality.
- There has been a material increase in credit spreads, with senior FRN and Tier-2 spreads trading above historical norms, implying a source of downside protection should spreads mean-revert.
- The floating-rate portfolio introduces limited interest-rate risk and will reflect any increases/decreases in the official cash rate (RBA Cash Rate and/or the bank bill swap rate).
- Repos are a safe, liquid and highly cost-effective source of leverage, in which bank FRNs are ultimately back-stopped by the RBA.

Investment Strategy

The Fund is comprised of 2 components: an underlying portfolio of senior and Tier Two Australian bank floating-rate notes (FRNs) and, secondly, the application of leverage expected to range from 50% to 75% (gross exposure of 275% to 400%). The weighted-average credit rating of the FRN portfolio is currently A+, and it has a near-zero-year interest-duration risk profile. As of April 2025, the portfolio consisted of approximately 72% senior bank FRNs and 27% subordinated bank FRNs (Tier 2) with an average credit rating of A+.

The portfolio is constructed and managed on a credit-spread-relative-value basis, which is very much the Manager's core investment style of seeking mispriced opportunities (the highest spread per unit of risk). Bonds added to the portfolio mostly (but don't always) come from primary market issuance (participants typically earn a higher margin in the primary versus secondary market). In many cases, this may involve the divestment of an existing portfolio holding based on a relative value assessment. As the Fund ages, there will naturally be bond holdings that reach maturity date and are hence repaid.

The emphasis on primary market issuance is higher than may typically be the case in a bond strategy. This makes inherent sense when considering the discount uplift provided by gearing. For example, what may have been a 1.5% discount becomes a 6% discount with 400% gross exposure.

The portfolio split between senior and subordinated bank notes will vary over time based on where the credit spreads of these sectors are trading relative to historical averages.

The level of leverage will be actively managed within the permitted range on a credit-spread-relative-value basis, i.e. how attractive the underlying assets are at any given time. For example, the Manager currently views both senior and Tier-2 bank bonds as attractive relative to historical averages and has applied a level of leverage at the upper half of the allowable range. Should these notes retreat to fair value, the level of leverage would likely be reduced. As leverage is implemented on a bond-by-bond basis, the level of leverage may also vary from bond to bond, again subject to relative-value assessments.

The Fund's key portfolio limits are tabled below:

Issuers	Net Market Value
Cash and cash equivalents	100%
Government & state governments	Unlimited
Any issuer rated AA- to AAA	140%
Any issuer rated A- to A+	60%
Any issuer rated BBB- to BBB+	40%
Maximum absolute exposure to one security	80%

Investment Process

CCI's investment process is singularly focused on identifying mispricings in liquid, generally investment-grade, credit securities that have a high probability of reverting to CCI's modelled fair-value target. The latter is designed to generate capital appreciation to augment the income paid by those securities.

CCI uses both top-down and bottom-up analyses as well as qualitative and quantitative valuation techniques. They have developed 60+ proprietary quantitative systems/valuation models that can interface directly with Bloomberg. These qualitative/quantitative models estimate 'fair value' credit spreads, adjusted for all bond risk factors (rating, maturity, liquidity, default risk, capital stack position). As credit spreads normalise/mean-revert, CCI generates capital gains on top of the interest paid on the bond.

The Manager attributes most of the value added (75%) to quantitative and qualitative fundamental valuation analysis.

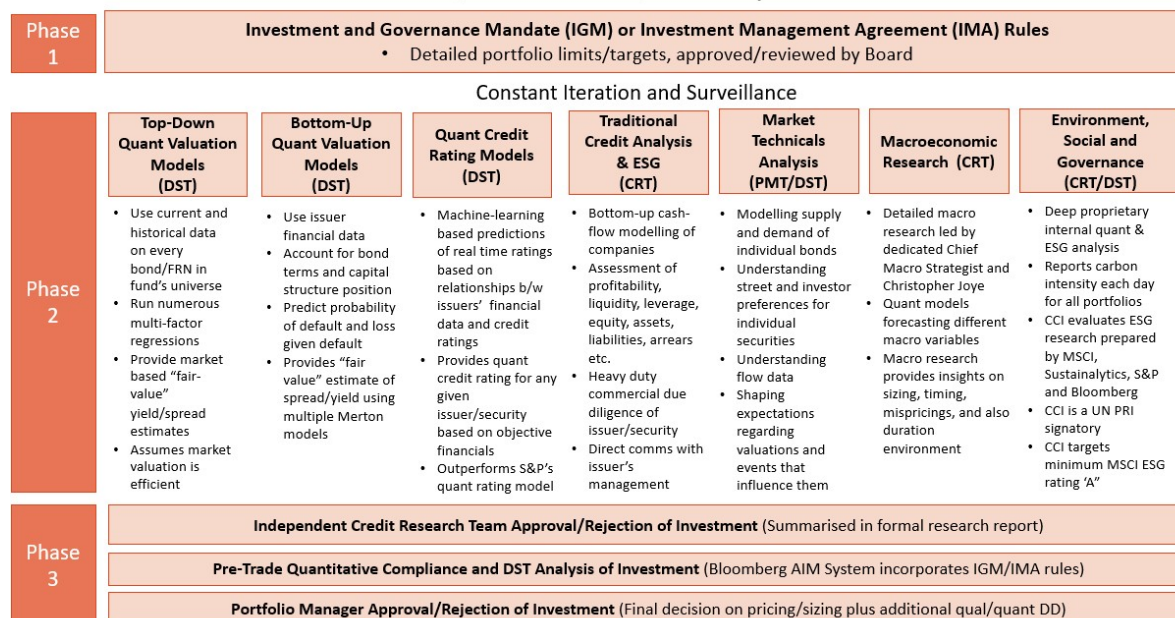
Factor	Contribution
Quantitative and Qualitative Fundamental Valuation	75.0%
Supply/Demand Technicals	12.5%
Macro-Market Sentiment (Behavioural)	12.5%

The investment process is multi-dimensional and consists of 3 key phases:

- The Investment and Governance Mandate (IGM) determines whether the Fund can acquire an asset or retain an existing asset.
- Potential investments are subject to traditional credit analysis (formalised in a report) and a range of quantitative valuation and credit assessment processes.
- The investment undergoes compliance and risk testing. The portfolio managers accept/reject and, where appropriate, finalise the pricing/sizing of the investment.

The processes and the models are refined continuously. For example, the quantitative credit-rating model has been enhanced by adding a machine-learning-based prediction model. The manager has always been active in price discovery as well as opportunistic in market-making on the buy side where appropriate.

QUANTITATIVE and QUALITATIVE process



Source: Coolabah Capital Investments

BOTTOM-UP VALUATION

CCI undertakes rigorous bottom-up quantitative asset valuations to price assets based on (a) the issuer's financial characteristics, (b) the asset's capital structure position, and (c) statistical estimates of the probability of default and the expected loss in light of (a) and (b). These bottom-up models include several different state-of-the-art 'Merton' methods. These use option-pricing technology and parametric and non-parametric expected-loss models, including techniques that utilise decades of rating agency data on defaults and recovery rates.

RATINGS ANALYSIS

CCI calculates its own ratings for credit securities. For example, CCI calculates default probabilities for the major banks over a 3-year horizon daily. They have mapped these default probabilities onto implied credit ratings, using global historical default rates within different S&P ratings since 1920.

TOP-DOWN VALUATION

CCI has also developed multi-factor, top-down, regression-based valuation models that assume current market prices are correct to price assets based on their individual characteristics: credit rating, maturity, liquidity, capital structure position, industry sector and the terms of the security in question. These top-down statistical valuation models have very high explanatory power and are used to identify day-to-day anomalies in secondary asset pricing and to inform CCI about the expected valuations of new primary issues.

RESPONSIBLE INVESTING

CCI considers environmental, social and governance (ESG) factors to be crucial to its investment process and to have potentially profound consequences for the performance of its investments, including downside risks and upside mispricing potential.

Nuanced ESG factors are often overlooked by the market and credit rating agencies when assessing the creditworthiness and valuations of fixed-income securities. CCI continues to be deeply engaged with its target companies, relevant regulators and government stakeholders, dynamically evaluating the status of different ESG factors and seeking to understand their future path. It is essential that CCI be able to identify and monetise alpha-generating opportunities. ESG is therefore, a core part of their quantitative and qualitative due diligence and wider investment process.

CCI is cognisant of several benchmarks for assessing ESG issues and is a signatory of the UN Principles for Responsible Investment (PRI). CCI actively monitors the development of such principles and their adoption by rating agencies and regulators. CCI also

performs deep proprietary research on ESG factors and has published academic research exploring and quantifying the alpha and beta benefits from ESG inputs across different asset classes and countries.

In addition to performing proprietary internal analysis, CCI evaluates ESG research prepared by industry-leading external providers such as MSCI, Sustainalytics, S&P and Bloomberg when assessing a company's resilience to long-term, industry-material ESG risks. Insights provided by these experts assist CCI in identifying risks and opportunities that may not be captured by conventional financial analysis. CCI compiles the MSCI ESG risk rating for each of their exposures and targets a minimum weighted average portfolio MSCI ESG rating of 'A' to help ensure that their portfolios are not exposed to unexpected shocks. Portfolio ESG ratings are reported monthly to investors. The Floating-Rate High Yield Fund has a weighted average portfolio MSCI ESG rating of 'AA'.

Investment Team

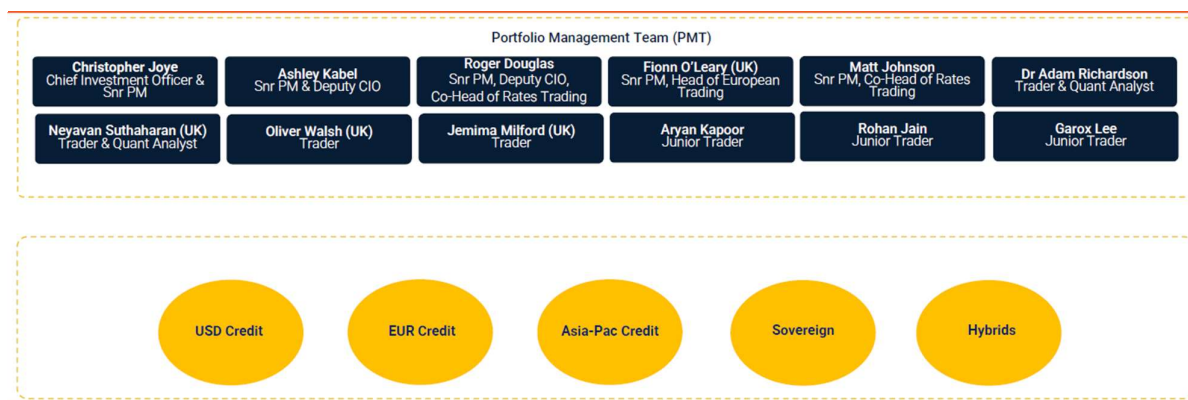
CCI's team has continued to grow strongly. As at March 2025, it currently comprised 53 full-time executives (47 last year), 12 portfolio managers/traders, and 20 analysts covering the functions of market technicals/strategy, credit analysis, macro strategy and data science. The staff collectively have decades of fixed-interest trading, quantitative and credit-research experience.

CCI's investment team is large and very well resourced compared to many of its peers, reflecting the highly active and quantitatively complex nature of CCI's investment strategies. The CCI team is managed by Christopher Joye, who is both Chief Investment Officer and Senior Portfolio Manager.

The team is divided into 5 trading 'pods': USD Credit, European Credit, Asia-Pac Credit (including Australia), Sovereign, and the Hybrids pod.

This structure is sensible, given the larger team and the move to different time zones and trading geographies. It has also served to reduce the impractical reliance upon Chris Joye or the deputy CIOs for trade execution sign-off across differing time zones. This is **not** a license to act independently of firm-wide investment views. It's a license to apply the investment process, undertake the quantitative valuation, absorb the credit research, undertake the market technical analysis and execute trades without having to seek pre-trade individual sign-offs from Chris Joye or the Deputy CIOs. There are well-understood and communicated guardrails that 'supervise' these actions.

ORGANISATION CHART



Source: Coolabah Capital Investments

PORTFOLIO MANAGERS

Team Member	Role	Experience
Christopher Joye	CEO, CIO and Senior Portfolio Manager	Christopher is a financial economist and funds management professional. He has led the investment team since its inception. His prior experience includes Goldman Sachs (M&A) and the RBA in special projects. He also established the quantitative research group Rismark, which managed asset-backed securities.
Roger Douglas	Senior Portfolio Manager	Roger Douglas joined Coolabah in 2022 as a Senior Portfolio Manager based in the London and Sydney offices. Roger was previously jointly responsible for EUR30BN in credit strategies at Deutsche Asset Management as a portfolio manager and Co-Head of Fixed-Income Solutions EMEA.
Ashley Kabel	Deputy CIO, Portfolio Manager and Quant Analyst	Ashley joined CCI in 2017. She was the Director of Quantitative Strategies at The Cambridge Strategy in London between 2012 and 2016, and prior to that, she was an investment analyst with PM responsibilities covering FX, equities and fixed-income
Fionn O'Leary	Head of European Trading & Senior Portfolio Manager	Fionn joined Coolabah in 2023 as a Senior Portfolio Manager based in London. Fionn previously spent over a decade in various senior interest rate trading roles at Deutsche Bank in London, where he originally started his career in 2002.

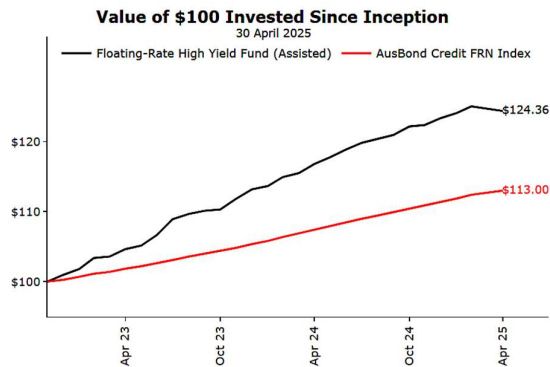
CREDIT/QUANT/RISK/TECHNICAL ANALYSTS

Team Member	Role	Experience
Shretan Dholakia	Chief Risk Officer	Shretan joined Coolabah Capital in 2020. He has 20+ years of experience in trading, portfolio investment and risk-compliance subject matter expertise. Prior to Coolabah, he advised KPMG clients on trade surveillance compliance under the Market Abuse Regulation (MAR) and conducted algorithmic trading model validations for both the first and second lines of defence.
Jason Lindeman	Head of Credit Research	Jason's prior experience involved credit analysis, credit trading and portfolio management in Australia and London.
Kieran Davies	Chief Macro Strategist	Kieran was the Chief Markets Economist for NAB and Chief Economist (Aust. and NZ) for Barclays Bank and ABN Amro Bank/RBS. He worked as Principal Adviser to the Commonwealth Treasury on macroeconomic and budget policy.
Ying Yi Ann Cheng	Portfolio Management Director and Market Technical Analyst	Ying Yi specialised in macro-hedge-fund sales at Citibank in London and Sydney and institutional fixed-income sales at RBC.
Kai Lin	Head of Data Science	Kai was a Data Scientist at CBA, building machine learning models.

Performance (as at April 2025)

The Fund was launched in December 2022 and now has a 29-month track record. We note the following:

- Since its inception, the Fund has delivered gross returns of 10.9% p.a. and net returns of 9.8% p.a. Over the last 12 months, the Fund has delivered net returns of 7.2%. While direct comparisons with other funds are difficult, as there really isn't a similar strategy in the Australian landscape, we note the Fund has outperformed many alternative high-yield strategies.
- With respect to the capital gains component of the Fund return, investors must bear in mind the uplift that comes from buying primary market issuance, i.e., Senior bonds typically sold at a circa 0.10%-0.25% discount to fair value and Tier 2 typically at a circa 0.25%-0.75% discount. Given the high turnover of all the CCI strategies, the ability to buy a large volume of primary issuance is significant.
- Over the last 12 months, the amount of leverage applied has been in a relatively narrow range, with gross exposure around the 300% to 330% level. In comparison, the since-inception average is 309%.
- Looking at risk-adjusted returns since inception, the Fund has performed very well, generating a Sharpe ratio of over 5.0x on a net return basis. Volatility has also been exceptionally low at approximately 1.4%. The Fund has not recorded a negative quarter, which is not unexpected given the high coupon rates are a material buffer to any periods of negative capital returns.

Exhibit 3: Performance Timeline

Source: Coolabah Capital Investments

Exhibit 4: Performance (May 2025)

Period	Fund	Benchmark	Excess
1 month	1.52%	0.64%	0.87%
3 months	0.98%	1.19%	-0.20%
6 months	3.17%	2.59%	0.58%
1 year	7.20%	5.35%	1.85%
Inception	9.83%	5.31%	4.52%

Returns greater than 1 year are annualised. Inception is Dec.2022

Fund Benchmark is Bloomberg AusBond Credit FRN 0+ Yr Index

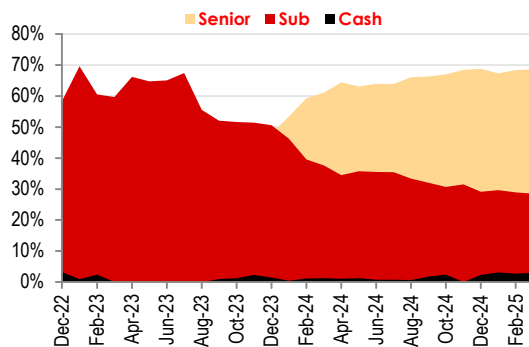
Portfolio Positioning (as at April 2025)

The tables and charts below detail key aspects of the Fund's portfolio positioning.

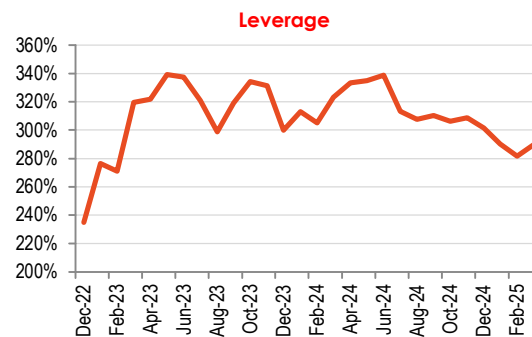
Exhibit 8: Portfolio Snapshot

Portfolio: April 2025			
Average Portfolio Credit Rating	A+	Modified Interest Rate Duration	0.35 years
Portfolio Weight to Cash Securities	1.70%	Number of Notes	88
Portfolio Weight to Bank Senior Bonds	71.82%	Gearing	302%
Portfolio Weight to Bank Tier-2 Bonds	26.48%	Annual Running Yield	7.29%
Average Maturity	3.09 years		

Source: Coolabah Capital Investments

Exhibit 9: Portfolio Composition Timeline

Source: Coolabah Capital Investments

Exhibit 10: Gearing Timeline**Compliance & Risk Management**

The Responsible Entity, Equity Trustees Limited, has the primary legal responsibility for monitoring the investment manager's compliance with the Fund's PDS and IGM. The Responsibility Entity has a Compliance Committee and a dedicated Compliance Manager. The Responsible Entity has appointed Apex Fund Services Pty. Ltd. (previously known as Mainstream Fund Services Pty. Ltd.) as the administrator for the Fund, responsible for processing investment applications, unit registry, distributions and redemptions, anti-money-laundering monitoring, investor reporting, and investor services. The Fund's assets and unit prices are also independently valued on a daily basis by the fund administrator, using the industry standard administration system, HiPortfolio.

The Fund's assets are held on behalf of the Fund's investors by Apex.

CCI RISK GOVERNANCE

CCI has 2 dedicated compliance managers: Risk & Compliance Manager, Ron Kaushik, who is based in Sydney, and Chief Risk Officer, Shretan Dholakia, based in the London office. CCI's Investment Committee and Risk and Compliance Committee also monitor compliance. The Investment Committee comprises Darren Harvey (Chair), Melda Donnelly (Independent), Chris Joye (CIO), Robert Henricks (Independent), and Colin Roden (Independent). The Risk and Compliance Committee comprises experienced Super Fund Director, Melda Donnelly (Chair), former Super Fund Director, Robert Henricks (independent committee member) and James McNally (risk/compliance expert).

Detailed compliance procedures are in place, which include notification of significant events or breaches to the Compliance Committee and the Board, notification requirements, compliance reviews and audit requirements.

CCI RISK MANAGEMENT SYSTEMS

In 2017, CCI transitioned to the Bloomberg Asset and Investment Manager (AIM) system, which is an industrial-scale, fixed-income order management, portfolio management, compliance, middle-office and back-office asset management system. It is used by over 800 institutions to manage 30,000+ portfolios with collectively over \$20 trillion in assets. This system represents a significant ongoing cost, but it allows CCI to manage an unconstrained number of portfolios using global multi-asset strategies. CCI's Bloomberg AIM system enables the following analytics:

- Live portfolio revaluations and portfolio weights intra-day
- A dashboard view of individual portfolio exposures by security type, issuer and sector
- Pre-trade investment compliance across a large number of mandate rules
- Pre- and post-trade portfolio analytics, including modified duration, spread duration and credit rating distributions

AIM provides real-time position management and portfolio analysis, enabling managers to compare the portfolio to a benchmark, and allowing traders and risk managers to view aggregate risk metrics. CCI's core quantitative valuation models directly interface with Bloomberg and are automatically updated daily.

MIDDLE/BACK-OFFICE

CCI's internal middle office, which includes a dedicated CFO and an operations analyst, uses Visual Basic to automate settlement processing. CCI's retail funds' accounting, unit registry, tax, general fund administration and back-office services are outsourced to Apex Fund Services, a Sydney-based ASX-listed global fund administrator with operations in 8 countries. Apex Fund Services uses the HiPortfolio system for unit pricing and portfolio valuations.

CCI outsources all Responsible Entity services to Equity Trustees Limited, as well as its own independent compliance systems. Custody to Apex Fund Services.

CCI uses the CompliSpace enterprise-wide risk management, compliance and governance system. CompliSpace services over 600 clients in Australia, including numerous large institutional fund managers. They have offices in Sydney, Melbourne and Perth and staff in Adelaide and Canberra.

Transparency & Reporting

The Coolabah Capital website provides Fund details, documentation, performance, technical papers and – for researchers – detailed company structure and business management.

CCI provides:

- monthly summary performance and strategy reports via email or in the public section of the website;
- monthly portfolio composition files for institutional clients (via email or in a password-protected section of the website); and,
- monthly detailed historical performance files for institutional clients (in the password-protected section of the website).

Third-Party & Service Advisors

Fund Administrator	Apex Fund Services Pty. Ltd.
AFSL Licensee	Coolabah Capital Institutional Investments Pty. Ltd.
Trustee Services	Equity Trustees Limited
Compliance Services	CompliSpace
Legal Advisor	Corrs Chambers Westgarth
Accounting, Fee and Distribution Calculation	Apex Fund Services Pty. Ltd.
Taxation Advisor	EY Australia
Auditor	EY Australia
Insurance Provider	AXA XL Insurance Company SE (Cyber); Liberty International Underwriters; Berkshire Hathaway Specialty Insurance; Chubb Insurance Australia Ltd.
Fund Research	Data sources: Bloomberg; FT Interactive; Yieldbroker; S&P Capital IQ
IT Services	Sapphire IT Services; BlueByte
Portfolio Software	Bloomberg AIM System

Coolabah Floating-Rate High Yield Fund



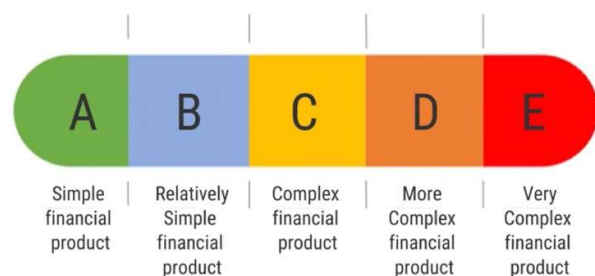
Investment Rating Scale

The Foresight Analytics' investment rating is an opinion on how well we believe a fund will perform against a range of risks.

Rating	Definition
Superior	Indicates the highest level of confidence that the fund can deliver a risk-adjusted return in line with the investment objectives of the fund.
Very Strong	Indicates a very strong conviction that the fund can deliver a risk-adjusted return in line with the investment objective of the fund.
Strong	Indicates a strong conviction that the fund can deliver a risk-adjusted return in line with the investment objective of the fund.
Competent	Indicates that the fund may deliver a return in line with the fund's relevant benchmark.
Weak	Indicates a view that the fund is unlikely to deliver a return in line with the investment objective of the fund and/or meet the return of its benchmark.

Foresight Complexity Indicator

Foresight Complexity Indicator (PCI) highlights the complexity of an investment by its terms and conditions' structure and transparency that may affect the investor's return.



Investment Rating & Foresight Complexity Methodology

Foresight Analytics and Ratings' methodology for its investment rating and research can be downloaded from its website.

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Financial Services Guide

A copy of the Foresight Analytics' Financial Services Guide can be provided by calling 02 8883 1369.