

PRESS RELEASE

Sydney, 8th May 2024 – Foresight Analytics Upgrades Coolabah Floating-Rate High Yield Fund Rating to SUPERIOR.

Foresight Analytics & Ratings has recently completed a ratings assessment of the **Coolabah Floating-Rate High Yield Fund**.

The Analyst Rating for the strategy has been upgraded to **SUPERIOR** from **VERY STRONG** rating issued in May 2023. A **SUPERIOR** rating indicates the highest level of conviction that the Fund can deliver risk-adjusted returns in line with its investment objectives. The Fund is particularly well structured, applying leverage (typically circa 300%) to a portfolio of Australian bank senior and subordinated floating-rate notes (FRNs). The Australian bank FRN market has historically exhibited exceptional returns per unit of risk, has minimal default risk, and is highly liquid. In short, the underlying portfolio is well suited to be geared to enhance returns. Given current elevated coupon rates and the application of leverage, the Fund has generated attractive coupon-based returns since inception.

In addition to coupon returns, the Fund can generate returns from two additional sources. Specifically, Coolabah is a high turnover manager, has the ability to generate incremental returns from buying discounted primary issuance FRNs and subsequently selling in the secondary market. Secondly, Coolabah team have built strong tools and signals to generate returns from credit spread volatility on both senior and subordinated FRNs.

Coolabah Capital Investments Pty. Ltd. is 65% employee owned and 35% 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 15 public funds and 21 custom portfolios, with a combined FUM of approximately \$10.3BN (as at March 2024). This includes the fastest growing ETMF in Australia, Betashare's Active Australian Hybrids Fund (ASX: HBRD), which has over \$2.1BN in FUM. CCI is a fixed-income relative-value house, as opposed to a credit house, and has a singular focus on high grade investment grade instruments. The Smarter Money Fund is an actively managed, low-duration, enhanced-cash investment solution that invests in Australian investment-grade bonds (all floating-rate securities). The Fund targets returns of 1.0% p.a. to 2.0% p.a. (net of fees) in excess of the RBA cash rate, over a rolling 12-month period.

We note that since its launch 15-months ago, the Fund has generated an annual net return of 11.8%. From a risk-adjusted returns perspective, the Fund has performed exceptionally well, generating a Sharpe ratio of 5.5x gross (4.8x net). Volatility has also been exceptionally low at approximately 1.6%. The Fund has recorded no negative months, which is not unexpected given the high coupon rates are a material buffer to any periods of negative capital returns.

The designation as a **COMPLEX** product predominantly relates to the gearing overlay which, of course, will magnify the risk and return attributes of the underlying portfolio. That said, and partly offsetting this aspect, we note the public market liquidity and pricing transparency of the underlying portfolio, the simple fee structure, and the standard nature of the asset class of Australian floating rate bank bonds.

Coolabah's investment team is large and very well resourced compared to many of its peers, reflecting the highly active and quantitatively complex nature of Coolabah's investment strategies. The Coolabah team is managed by Christopher Joye, who is both Chief Investment Officer and Senior Portfolio Manager. Far from resting on its laurels, the team has continued to grow strongly over the last 12-months, or so. As at 1 May 2024, it comprises 47 full-time executives (34 last year), 11 portfolio managers/traders, 4 market technicals staff, 7 credit analysts, 1 chief macro strategist, 6 data science team members.

Broadly speaking, Foresight believes the Fund may be viewed as an alternative to high-yield sub-investment grade bond strategies, but with a portfolio that has a substantially higher credit rating (average A band), better liquidity, lower default risk and negligible duration exposure.

About Foresight Analytics' Investment Due Diligence Rating (Idd Rating)

The objective of Foresight Analytics' Investment Due Diligence Rating (IDD Rating) is to identify the best funds and opportunities for future investment. We assess the fund's historical risk-adjusted performance - compared to its peers - to form a holistic view of the manager's ability to deliver future returns. The IDD rating indicates the quality of the investment option within the context of a diversified portfolio and full investment cycle.

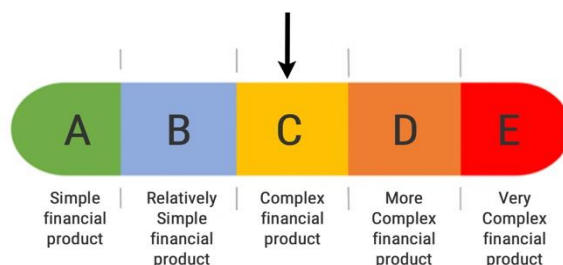
Foresight's analysts use a 5-point scale to determine how the fund will perform against a range of risk factors.

- **SUPERIOR** indicates the highest level of confidence that the fund can deliver a risk-adjusted return in line with its investment objectives and that it is highly suitable for inclusion on APLs.
- **VERY STRONG** indicates a very strong conviction that the fund can deliver a risk-adjusted return in line with its investment objectives and that it is suitable for inclusion on most APLs.
- **STRONG** indicates a strong likelihood that the fund can deliver a risk-adjusted return in line with its investment objectives and that it is suitable for inclusion on most APLs.
- **COMPETENT** indicates the fund may deliver a risk-adjusted return in line with its relevant benchmark and that it may be suitable for APLs.
- **WEAK** indicates the fund is unlikely to deliver a risk-adjusted return in line with its investment objective and that it is not suitable for most APLs.

A '**Hold**' designation is applied to a fund's rating if a material change impacts the fund manager, and we need to review the rating. A '**Sell**' designation indicates the Foresight Investment Ratings Committee considers risk factors to be elevated enough that maintaining an investment in the fund as part of their diversified portfolio is questionable.

Foresight Complexity Indicator

A Foresight Complexity Indicator (FCI) highlights the complexity of an investment product based on a range of indicators. These typically include its terms and conditions, performance-based fees, liquidity structure, financial leverage, use of derivatives, rare and niche asset class/opportunity set, currency exposure and the level of transparency offered for investors. Foresight believes these factors can disproportionately affect risk-adjusted return outcomes for investors even if a manager is very skilled. Investors can use FCI as a guide to portfolio position sizing within a diversified portfolio context.



The full research report is available for subscribers on the F360 Digital platform. The platform can be accessed via [Register | Sign In - Foresight Analytics \(foresight-analytics.com\)](#) by registered Financial Advisers & Sophisticated Investors.

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About Foresight Analytics

Foresight Analytics, an independent Sydney- based firm, provides investment ratings, data analytics, assurance and advisory solutions to leading investment management companies, superannuation funds and wealth groups across the Asia Pacific.

Foresight's innovative, evidence-based approach blends both human and forensic insights into the analyses of economies, markets, themes, investments products and portfolios. Foresight Analytics was founded in 2015 by Jay Kumar, a former executive of Morningstar, Optimix Investment Management, ANZ Wealth & Private Bank and the Reserve Bank of Fiji.

Foresight Analytics & Ratings platform provides investment and operational due diligence ratings on both public and private market strategies. As a niche investment ratings house, Foresight Analytics & Ratings focuses on complex alternative investments, including domestic and international alternative credit.

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