

COOL FUTURES FUNDS MANAGEMENT & COOL FUTURES HEDGE FUND

Cool Futures Funds Management was established in September 2015 and is the Investment Manager for the Cool Futures Hedge Fund - which was incorporated as a small private Cayman Islands based Hedge Fund in November 2015 with four members and minimal AUM - currently applying for Mutual Fund registration. Cool Futures Funds Management was instrumental in establishing the Cool Futures Hedge Fund to *hedge our bets* on the directions of both climate and climate policy; and to highlight, and over time potentially exploit, some of the significant and disruptive scientific, economic and financial consequences flowing from the following strategic investment CAGW¹ observations, questions and positions:

- Today's low interest rates are unprecedented in human history. Central Banks and governments and international banks and agencies are unsustainably tampering with and distorting global markets. With the possible exception of the mid 1930s – which did not go quite so low - “*Interest rates appear to be lower than at any time in the past 5000 years*”². How can savers and investors obtain a positive return in the future and how have and how will the *Classe Politique* negotiate the moral hazards of spiralling government debt, money printing, low and negative interest rates and related bureaucratic urges to interfere with and control various markets?
- If the evidence strongly suggests the sign, magnitude and timing of the next major climate shift - in the context of the above political, economic and financial circumstances currently prevailing in the developed economies of the West - what positions should you consider taking, to optimize your returns whilst minimizing risks? Using a new, low-noise variant on the *Fourier transform*³, our Director of Science Dr David Evans⁴, found an interesting pattern in the sun. His work strongly suggests that the next major climate shift is cooling, significant and soon – suggesting the beginning of a sustained and significant cooling around 2017 or shortly thereafter, with the 2020s cooler than the previous three decades. As we approach 2017 and, with better data, we believe we will be better able to further refine the timing and scale of the cooling.
- If your understanding of the science is that:
 - (i) carbon dioxide plays only a minor role in ‘warming the planet’ and,
 - (ii) plays a fundamental role in ‘greening the planet’, and that
 - (iii) as modern fossil fuel power generation is non-polluting in terms of emissions of carbon dioxide and water vapour⁵; is good for plant life; and in high demand in the developing world⁶ - what positions should you consider taking, to optimize investment returns whilst minimizing risks?
- We believe that Western governments have unilaterally, through subsidies, taxes, quotas and artificial markets, encouraged inefficient economic activity and the misallocation of vast resources into unproductive activities to ‘save the planet from global warming’. In our view this has held back economic growth. Most of these same governments are now also experiencing unsustainable debt and low growth levels; where central banks, fearful of unprecedented deflationary pressures are blindly

¹ Catastrophic Anthropogenic (man-made) Global Warming or CAGW

² Bank of England chief economist, Andrew Haldane, Open University Speech page 3 and chart page 19, June 2015 - “*Interest rates appear to be lower than at any time in the past 5000 years (Chart 5)*”

³ A method that, like the Fourier transform, estimates the component sinusoids (smooth waves) in a time series. However it is much more sensitive than the Fourier transform, so that it can find those sinusoids even in the presence of more noise (interference), in time series in which the Fourier transform cannot make a good estimate of the constituent sinusoids. However it does this at the expense of computing time -- it can take hundreds of times longer than the Fourier transform to compute.

⁴ Dr David Evans is an electrical engineer and mathematician, who earned six university degrees in mathematics and electrical engineering over ten years, including a PhD from Stanford University in electrical engineering (digital signal processing): PhD. (E.E), M.S. (E.E.), M.S. (Stats) from Stanford University, B.E. (Hons, University Medal), M.A. (Applied Math), B.Sc. from the University of Sydney. He is an expert in Fourier analysis and signal processing, and trained with Professor Ronald Bracewell, late of Stanford University. In addition he was instrumental in building the carbon accounting system Australia uses to estimate carbon changes in its biosphere, for the Australian Greenhouse Office. David's detailed research findings can be found at www.sciencespeak.com

⁵ Note: carbon dioxide is not a pollutant or contaminant and nor is it listed as a pollutant on the US EPA List of Hazardous Air Pollutants <https://www.epa.gov/haps/initial-list-hazardous-air-pollutants-modifications>

⁶ From the Summary - Climate Action Tracker Update – 1 Dec 2015 - Globally, in total, 2,440 coal fired power plants are currently planned for construction. China for example, is currently building 368 new coal fired power plants with plans for a further 803. http://climateactiontracker.org/assets/publications/briefing_papers/CAT_Coal_Gap_Briefing_COP21.pdf

trusting that repeats of QE inflation stimulus will keep them in the game; and that some of these same governments under budgetary pressures have already acted as below, raises the following questions:

- a) Why did it take so long for some governments to begin cutting the subsidies, quotas, taxes and artificial markets of the 'save the planet from global warming' movement?
- b) In what circumstances and when, will the other respective governments cut them?
- c) In terms of 'saving the planet', how much exactly have these, taxes, quotas and artificial markets impacted on the misallocation of assets and the miscalculation of asset values in each nation, market and asset class and how much can be profitably extracted?
- d) Why is it that no thorough 'due diligence audit' has been undertaken and made public, at any senior level, or at any stage, on any of the science, economics and finance of the now massive US\$1.5 trillion per annum global warming industry⁷ ?
- e) Can the Cool Futures Hedge Fund act as a catalyst?

Each member of the Team at Cool Futures Funds Management has been actively involved in researching answers to these questions and observing the myriad of uncertainties generated by the 'save the planet from global warming' movement and especially the negative scientific, economic and financial consequences flowing from the artificial market trends, where the activities and uncertainties generated have been observed and analysed, for more than ten years.

Two years ago we decided that the tools, techniques and *modus operandi* of a well resourced and professionally run hedge fund provided a positive vehicle for extracting significant value from the more recently generated observations, questions and positions raised above. During this time, we have been working on the strategies, structure, and market entry strategies, researching and refining the new science, and also refining the economics and finance strategies underlying our investment methods and approach for both the Fund and the Investment Manager. This includes establishing two special purpose vehicles in the Cayman Islands as a base of operations for the Cool Futures Hedge Fund.

The Australian based team consulting to Cool Futures Funds Management, including some leading mathematicians, scientists, statisticians, engineers, natural resource consultants, modelers, science communicators, company directors and funds advisers, in applying the scientific method and sound engineering and finance due diligence standards to the above, has encapsulated this research and strategy into our proposed *Cool Futures science, economics and finance due diligence investment assessment processes*.

Cool Futures Funds Management believes there is a significant appetite for the unique selling proposition of the Cool Futures Hedge Fund. The three 'event driven' and overlapping 'phases' of investment are seen by the team to each present some unique opportunities to take investment positions based on these events – they include but are not limited to -

- a) the collapse of the global warming based subsidy dependent business model which the team sees as having already begun and is thus current and ongoing [e.g. optimal 'shorts'⁸]; and
- b) the general acceptance in the scientific literature that carbon dioxide is not the main cause of global warming⁹ - will over time enable the transition of the 'global warming paradigm' into the 'natural climate change paradigm'. The team sees the scientific and technology spin-offs

⁷ Climate Change Business Journal – 2015 as quoted in the Washington Times

<http://www.washingtontimes.com/news/2015/aug/11/climate-change-industry-now-15-trillion-global-bus/>

⁸ Shorting opportunities from the recent past most of which were identified from our analysis: Bulgaria, a pacesetter in renewable energy installations, achieving its 2020 16 per cent renewable target by 2013 because the subsidies were so generous forcing electricity prices so high - forcing the government to an election following which they proceeded to announce a price reduction financed by expropriating the (Czech owned) distribution company. Spain, Italy, Czech Republic, Romania and Greece have all also pared their subsidies for wind and solar renewables. Spain started taxing the regulatory-boosted profits of existing suppliers and limiting their operational hours of subsidy; Czech Republic's measures included the introduction of a retrospective 25 per cent "solar tax"; in 2013, Romania halved its subsidy to existing renewable plant. In their March 2016 Budget, the UK government, rather than cutting subsidies [presumably to avoid perceptions of contractual sovereign risk], added a tax known as the Climate Change Levy to renewable energy companies to the same effect.

⁹ Following the publication and acceptance of new science findings and papers on this topic such as this one at <http://sciencespeak.com/climate-basic.html>

generated utilising the newly available cash allocated to other areas of science and technology and away from ‘global warming science and industry’, as significant and profound. We have already identified some possible positions to take in some of the emerging transformative technologies that may be boosted by this acceptance and the funds released to more productive effect than was the case under the CAGW meme; and

- c) that climate change is natural and cyclic and now heading into a period of ‘global cooling’[cool type ‘longs’];

and that each investment phase or ‘event’ as described above offers better opportunities for the investors in the Cool Futures Hedge Fund if we are resourced to what our team considers to be best practice levels and thus able to attract the very specific additional skills and experience required to succeed.

At this point in time we are completing our application for Mutual Fund status as a Hedge Fund (Cayman Islands). We have engaged Custom House (Sydney) as Administrator; Ernst & Young (Sydney) as Auditor; Interactive Brokers (New York) as Prime Broker (application stage); Norton Smith & Co (Sydney) as Legal Counsel; Ernst & Young (Melbourne) for International Tax Advice and believe our unique proposition and the exciting opportunities will also attract high profile members to our Investment Advisory Committee and experienced specialist traders who would be keen to adopt and enhance our *Cool Futures science, economics and finance due diligence investment assessment processes*.

The Fund Information Memorandum, when issued, will enable sophisticated investors in the Cool Futures Hedge Fund from around the globe to understand they are investing in a speculative venture based on a new non-establishment paradigm and will therefore recognise the risks associated with such investments.

The Fund will have a high conviction thematic event multi-strategy style investment approach, able to invest or short across the capital structure as well as including private assets.

Seeking absolute returns, the Fund will allocate capital into a number of promising investment opportunities resulting from what is seen as the current unsustainability of the subsidy dependent business model of the ‘warming paradigm’, where the examples of ‘shorting’ of vulnerable selected subsidy dependent ‘sustainable energy’ ventures is now viable and but one option¹⁰; and with the coming global cooling also involving some long term investments in base-load power generation, commodities, land and water asset revaluation¹¹, being another.

The Fund will launch with a proposed 2% Management Fee, a 0.5% Administration Fee and a Performance Fee of 20% where a high-water mark applies.

Having defined and designed the product (which we believe from feedback received to date, is a unique and attractive selling proposition); built the foundations and researched the applications and the methods; the Investment Manager is now up to the stage where further funding from a Seed Investor is required to complete our preparations for formal launch (currently planned for Q4 2016); and to fund the first year of operations as we promote and endeavour to grow the Fund; and thus begin to take positions accordingly and to earn fees.

First we must submit the completed Application for Mutual Fund registration¹².

In addition, our advice is that we need to finalise specific structures and tax advice relevant for each of our major anticipated client tax jurisdictions¹³ and, in particular, for the United States which, from feedback, is likely to be our initial major source of clients for the Fund.

¹⁰ Solyndra, Abengoa and now Sun Edison offer early and spectacular examples of the genus: Subsidy dependent business model collapse: Our considered view derived from our analysis is that without subsidies and without other artificial market forms of support, subsidy dependent businesses almost always collapse when government support is removed or amended by the reduction of the artificial market forms of support.

¹¹ Some examples: Wheat belts are likely to shrink as poles cool; demand for low cost efficient coal fired power and thermal coal is likely to expand to address the demands of a colder climate; ice breaker manufacture is already a growth industry; land use in places will likely vary and values change; resulting water security and related land value issues can be addressed by promising water treatment technologies.

¹² Funds for the full legal and regulatory costs for this Mutual Fund registration process are already in escrow awaiting submission of the relevant application documentation including the Cool Futures Hedge Fund Information Memorandum currently undergoing legal sign-off.

During the period from lodgement of the Mutual Fund application to registration (indicative only estimate 8-12 weeks) we will prepare for formal launch - with a soft launch in following up a lot of prior informal interest (subject to registration of course), as one element of the preparations. For our main launch, we plan to use a number of unusual and alternate media to publicize the Fund's existence and objectives. In addition, we anticipate that our geopolitical risk, due to the catalyst and disruptive nature of the Fund, can also be used as a means of gaining publicity. Presently, we believe that we only need approximately one percent of the global population of high net worth individuals¹⁴ to hear about the Cool Futures Hedge Fund and for only 2% of those people to positively act upon that information, for the Fund to achieve our initial AUM target.

A managed multi-channel public relations campaign (including through hedge fund journals and the financial press) coupled with climate skeptic blogs (the blogs read by scientists and engineers), crowdfunding and other alternate approaches, is envisaged to enable this unique investment proposition to be heard by that one percent of high net worth individuals as desired.

In our view, the Fund needs to be able to launch with the above in place and the Investment Manager needs to be able to cover expenses for the first fully operational year. This therefore means we will soon be seeking 'Seed Investment' to fuel the professional launch of the Cool Futures Hedge Fund and the rapid growth of Cool Futures Funds Management. We are considering significant fee discounts and benefits also accruing to the Seed Investors' investments in the Cool Futures Hedge Fund.

A Seed Investor may also add value to our Investment Advisory Committee; or help us meet or generate demand for this innovative financial product; or add value to the Investment Manager or the Fund in some other way.

If we were to achieve our AUM initial target of US\$600 million by end of Y5 and if we were to achieve a 15% growth in NAV over the 5 year period ending Y5, this would represent an IRR of 20% for the Seed Investors' total investment of US\$1 million for up to a 20% share of the Investment Manager. In addition to a maximum of a 20% participating shareholding in the Investment Management company, the Seed Investor/s may pay discounted Management Fees and may also obtain a discounted Performance Fee on their associated investments in the Cool Futures Hedge Fund.

Disclaimer

This is not an Information Memorandum or any other form of Offer Document.

This Update is intended solely for the use of the person to whom it has been delivered for the purpose of updating the recipient as to progress in the establishment of the Cool Futures Hedge Fund.

This Update therefore does not in any way constitute an offer to sell or a solicitation of an offer as this would require regulatory approval.

To ask questions or provide feedback on this Update, please contact Chris Dawson by email at:

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¹³ US, UK, EU, Switzerland, Middle East, Canada, Singapore, Australia and New Zealand are the major indicative regions of initial interest.

¹⁴ CSIRO - Australian attitudes to climate change and adaptation: 2010-2014 indicated the majority do not agree with the UN IPCC's conclusion that humans cause global warming and other surveys suggest more wealthy respondents are 'climate sceptics'.