8.4. Investment and Loan Borrowings Report held as at 30 June 2022

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ATTACHMENTS:
1. Investment Held Report as at 30 June 2022 [**8.4.1** - 19 pages]

PURPOSE:

The report provides details of the performance of Council's investment portfolio and borrowing limits for the period ending 30 June 2022.

EXECUTIVE SUMMARY:

Investment Portfolio:

The Investment Portfolio (excluding cash balances) held for the period ending 30 June 2022 had a market value of $108,892,446. The annualised returns were 1.26%. This return exceeded the Australian Bond Bank Bill performance benchmark by 1.16%.

Cash deposits at call were $34,793,355 with $33,053,075 of these held in interest bearing accounts. $1,740,280 cash is held in Council's non-interest-bearing transaction account with the Commonwealth Bank to meet day-to-day operational needs.

The investment portfolio is managed to ensure liquidity to meet operational requirements and to fund outflows on major projects. Cashflow is monitored and assessed on an on-going basis.

The actual year to date returns for cash and investments to 30 June 2022 were $1,179,000 compared to a year-to-date budget of $1,300,000.

The Reserve Bank of Australia (RBA) Board increased the official cash rate by 50 basis points to 0.85% citing the need to control unexpectedly high inflation. The RBA Governor commented that it was reasonable to expect the official cash rate will reach 2.5% but did not indicate when or how fast this is expected to occur. The RBA Board had also increased the official cash rate by 25 basis points to 0.35% in May.

Recent increases in the official cash rate are starting to flow though to term deposit rates bringing the prospect of improving returns for new investments in the coming months. The best available returns are actively sought when surplus funds are invested.

Borrowings:

Loan Facility for Council Projects

Council entered into a fixed interest loan of $9.5 million with quarterly interest and principal payments on 31 July 2018. The principal outstanding as at 30 June 2022 is $6,373,192.

The projects funded are outlined in the body of the report.

North Sydney Olympic Pool Redevelopment

In January 2022 Council established a $31 million TCorp loan facility to partially fund the redevelopment of North Sydney Olympic Pool. Drawdown on the facility was processed on 28 April 2022. The drawdown rate is 4.24%. The funds will be restricted and then released as required to fund project cash outflows.

FINANCIAL IMPLICATIONS:

Council's total investment portfolio performance for the financial year to date is 1.16% above the benchmark (1.26% against 0.10%). The actual year to date returns for cash and investments to 30 June 2022 were $1,179,000 compared to a year-to-date budget of $1,300,000.

Investment returns will continue to be monitored and reported.

RECOMMENDATION:
1. THAT the report on Investments and Loan Borrowings held on 30 June 2022 be received.

LINK TO COMMUNITY STRATEGIC PLAN

The relationship with the Community Strategic Plan is as follows:

5. Our Civic Leadership
5.1 Council leads the strategic direction of North Sydney
5.2 Council is well governed, and customer focused

BACKGROUND

The Responsible Accounting Officer must provide Council with a monthly report detailing all funds:

a. Invested under Section 625 of the Local Government Act 1993. This report must include certification that the investments have been made in accordance with the Act and the Regulations made thereunder, the revised Investment Order issued by the Minister for Local Government and Council's Financial Investment Policy.

b. Borrowed under Section 624 of the Local Government Act. This report must comply with the borrowings Order issued by the Minister for Local Government and Council's Debt Management Policy.

CONSULTATION REQUIREMENTS

Community engagement is not required.

DETAIL

Investment Portfolio

The following table provides details of the performance of Council's investment portfolio (excluding cash deposits) against the benchmark for the month of June 2022 and annualised for the year-to-date 30 June 2022 (including investments which have matured prior to 30 June 2022).

	June 2022	Annualised YTD as at 30 June 2022
Actual Return	0.10%	1.26%
Benchmark	0.05%	0.10%
Variance	0.05%	1.16%

The portfolio performance continues to be driven by a handful of the longer-dated deposits that were locked-in prior to the interest rate cuts of recent years. Council's Floating-Rate Notes (FRNs) were locked in at attractive margins.

Asset Type	Market Value as at 30 June 2022	Portfolio Breakdown as at 30 June 2022
Term Deposits	$91,250,000	63.51%
Cash (Interest Bearing)	33,053,075	23.00%
Cash (Non-Interest Bearing)	1,740,280	1.21%
Fixed Bonds	$9,000,000	6.26%
FRTD	$6,000,000	4.18%
Floating Rate Notes (FRNs)	$2,642,446	1.84%
	$143,685,801	**100.00%**

Council's average duration of term deposits which comprise approximately 64% of the investment portfolio was approximately 579 days as at 30 June 2022.

Investment returns continue to exceed the indicative benchmark (Ausbond Bank Bill Index). All funds have been invested in accordance with the Act and the Regulations made thereunder and with Council's Financial Investment Policy. Council's investment portfolio complies with the revised Investment Order issued by the Minister for Local Government, which places restrictions on the type of investments permitted. These restrictions have placed greater emphasis on obtaining competitive investment options and the need for sound investment advice from Council's independent advisor.

Council continues to seek independent advice for all investments and is actively managing the portfolio to ensure that returns are maximised taking into account diversification and risk. A complete analysis of the performance is covered in the Monthly Investment Report prepared by Council's investment advisor (refer to attachment).

The actual investment returns for the year-to-date 30 June 2022 have been reviewed and are $121,000 less than the year-to-date budgeted estimate.

Summary of Returns from Investments (includes Fair Value adjustments):

Year	Original Annual Budget	Revised Annual Budget	YTD Budget (June)	YTD/Annual Actual (June)	YTD/Annual Actual FV adjustments (June)	YTD Budget to Actual Variance (June)
2021/22	**$1,100,000**	**$1,300,000**	**$1,300,000**	$1,244,337	-$64,865	**$1,179,472**
2020/21	$1,350,000	$1,350,000		$1,222,664	$93,735	-$33,601
2019/20	$1,500,000	$1,529,055		$1,896,660	-$4,944	$362,661
2018/19	$1,590,000	$1,730,000		$2,253,497	$91,056	$614,553

Floating Rate Notes (FRN's) are required to be revalued each month using the Fair Value (FV) method which is an estimate in time of the potential market value of the investment. As of 30 June 2022, the YTD movement of FRN's has been a decrease of $64,865.

Financial Investment Policy

As at the end of June, all categories were within the Policy limits for credit ratings and the portfolio remains well diversified, with all asset credit quality classified as BBB or higher. The maximum holding limit in each rating category and the target credit quality weighting for Council's portfolio are as per the following table:

Long Term Rating Range	Invested as 30 June 2022	Maximum Policy Holding	Distribution as 30 June 2022
AA Category	$91,236,753	100.00%	63.50%
A Category	$32,047,692	60.00%	22.30%
BBB Category	$20,401,356	35.00%	14.20%
Unrated ADIs (NR)	$0	10.00%	0.00%

Loan Borrowings

Council's Loan Borrowing Policy provides the framework for Council's borrowing activities and defines key responsibilities and the operating parameters within which borrowing and related risk management activities are carried out.

The Policy's objective is to control Council's exposure to movements in interest rates through the application of fixed, floating or a combination thereof to maintain its risk averse strategy.

Loan borrowing will be undertaken in line with the following principles:

a) That the capital cost of infrastructure be recognised over the period during which the benefits will be enjoyed.
b) That loan funds are a resource to fund the replacement and upgrading of existing infrastructure and fund the creation of new infrastructure.
c) That loan funds will be limited to:
    - acquisition or enhancement of income producing assets.
    - construction and/or upgrading of buildings; and
    - infrastructure assets that have a life expectancy of greater than 10 years.

Council has two debt facilities

Alexander Avenue Carpark and Onstreet Carparking Management System Loan

This loan is a fixed loan financing option, fully amortising the drawn down amount of $9,500,000 over 10 years, fixed interest rate with quarterly repayments of interest and principal.

The loan details are:

Loan amount:	$ 9,500,000.00			
Loan term:	10 years			
From:	31/07/2018			
To:	31/07/2028			
Interest rate:	4.02%p.a.(fixed)			
Repayment:	**Quarterly**			
Dates	**Principal Outstanding**	**Interest**	**Principal**	**Payment**
1/07/2021	$7,253,977.04			
31/07/2021	$7,037,040.24	$72,702.74	$216,936.80	$ 289,639.54
30/10/2021	$6,817,929.20	$70,528.49	$219,111.04	$ 289,639.54
29/01/2022	$6,598,874.84	$70,585.18	$219,054.36	$ 289,639.54
30/04/2022	$6,373,191.95	$63,956.66	$225,682.88	$ 289,639.54

The next loan instalment is due on 31 July 2022.

Loan Funded Capital Projects as at 30 June 2022:

Project 1: Upgrading the Car Park in Alexander Street, Crows Nest
$5 million loan was sourced to fund project.

Current length of Loan as per the Long-Term Financial Plan (LTFP): 10 years to 2028

Project 2: Upgrading of On-Street Parking Management System
$4.5 million loan was sourced to fund project.

Current length of Loan as per LTFP: 10 years to 2028

Loan for North Sydney Olympic Pool Redevelopment

In January 2022 Council established a $31 million TCorp loan facility to partially fund the redevelopment of North Sydney Olympic Pool. Drawdown on the facility was processed on 28 April 2022. The drawdown rate is 4.24%. The funds will be restricted and released as required to fund project cash outflows.

This loan is a fixed loan financing option, fully amortising the drawn down amount of $31,000,000 over 20 years, fixed interest rate with semi-annual repayments of interest and principal.

The loan details are:

Loan amount:	$ 31,000,000.00			
Loan term:	20 years			
From:	28/04/2022			
To:	28/04/2042			
Interest rate:	4.24%p.a.(fixed)			
Repayment:	**Semi-Annual**			
Dates	**Principal Outstanding**	**Interest**	**Principal**	**Payment**
28/04/2022	$31,000,000.00			
30/06/2022	$31,000,000.00			

The first loan instalment is due on 28 October 2022.

Monthly Investment Report

June 2022

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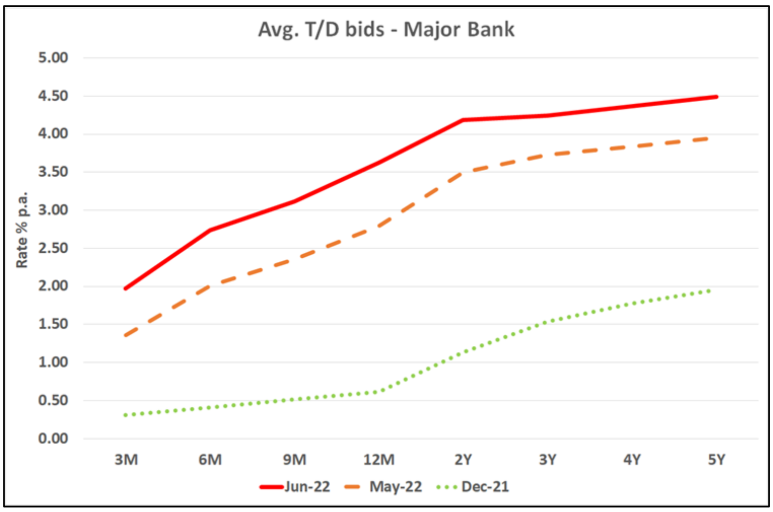
Impact of COVID-19 to Council's Portfolio

The COVID-19 pandemic has adversely impacted financial markets, which in turn, has also affected Council's investment portfolio. We provide a quick summary in this section.

The RBA cut rates to record lows on 3rd November 2020 to 0.10%, consistent with most global central banks resetting their official rates to emergency levels. As global markets transitioned to the recovery phase, supply chain issues has resulted in surging inflationary pressures. Longer-term bond yields have risen significantly in recent months as central banks reverse their easing policy measures (i.e. quantitative easing), whilst also moving to undertake aggressive hikes to mitigate surging inflation. Importantly though when interpreting the stance of monetary policy, it is not just about the cash rate, but how broader financial conditions are influencing the economic outlook, **with markets now factoring the possibility of a recession in 2024-2025 as official rates move higher**. **The RBA increased the official cash rate by another 50bp to 0.85% in early June 2022 and flagged further rate rises over coming months**.

The largest impact to Council's investment portfolio is with regards to its largest exposure being assets held in bank term deposits (fixed and floating), which accounts for around ~68% of Council's total investment. The biggest risk that Council faces over the medium-longer term in this environment is not the potential loss of capital (given all the banks are well capitalised and regulated by APRA), but the rapid loss of interest income as interest rates plummeted to all-time lows during the pandemic.

Council's term deposit portfolio was yielding 1.27% p.a. at month-end, with a weighted average duration of around 579 days or ~1½ years. Despite official rates rising, given an upward sloping deposit curve, maintaining a slightly longer duration position will continue to outperform averaging shorter durations. With markets factoring in additional rate hikes over coming months, this has seen a significant shift in longer-term deposit rates, particularly over the past 6 months:



Source: Imperium Markets

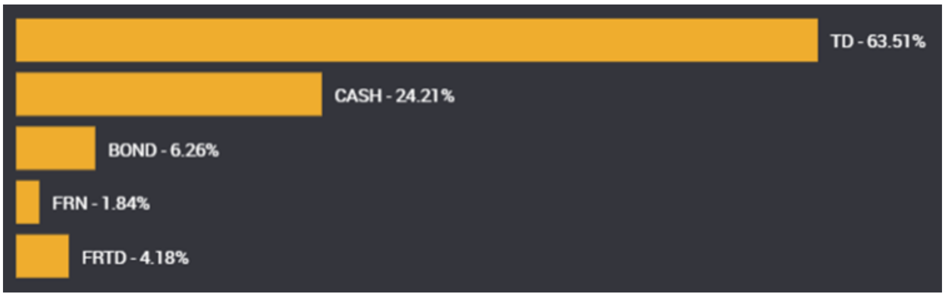
'New' investments above 3½% p.a. now appears likely if Council can continue to place the majority of its surplus funds for terms of 12 months to 2 years.

Council's Portfolio & Compliance

Asset Allocation

As at the end of June 2022, the portfolio was mainly directed to fixed and floating rate term deposits (68%). The remaining portfolio is directed to FRNs (2%), fixed bonds (6%) and overnight cash accounts (24%).

Senior FRNs are now becoming more attractive as spreads have widened in recent months – new issuances should now be considered again on a case by case scenario. In the interim, fixed deposits for 12 months to 3 years appear quite appealing following the spike in medium-to longer-term yields in recent months.



Term to Maturity

Overall, the portfolio remains lightly diversified from a maturity perspective. Around 36% of assets is directed to medium-term assets (2-5 years), which has resulted in strong outperformance during the challenging low rate environment. There is still high capacity to invest in the short-medium term horizon (1-2 years), with approximately $79m at month-end.

Where liquidity permits, we recommend new surplus funds be directed to 1-2 year horizon given this is where the most attractive value can be found. We suggest this be allocated to any remaining attractive fixed term deposits.

Compliant	Horizon	Invested ($)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available ($)
✓	0 - 90 days	$66,793,355	46.49%	10%	100%	$76,892,446
X	91 - 365 days	$4,000,000	2.78%	20%	100%	$139,685,801
✓	1 - 2 years	$21,250,000	14.79%	0%	70%	$79,330,061
✓	2 - 5 years	$51,642,446	35.94%	0%	50%	$20,200,454
✓	5 - 10 years	$0	0.00%	0%	25%	$35,921,450
		$143,685,801	**100.00%**			

Although the 3-12 month allocation is underweight relative to the min. 20% limit, this is more than offset by the large allocation (~46%) to the 0-3 month horizon (highly liquid).

Counterparty

As at the end of June, all individual limits comply with the Policy. Exposures to individual ADIs are driven by the portfolio's movements throughout any month. Overall, the portfolio is well diversified across the investment grade spectrum, with no exposure to the unrated ADIs.

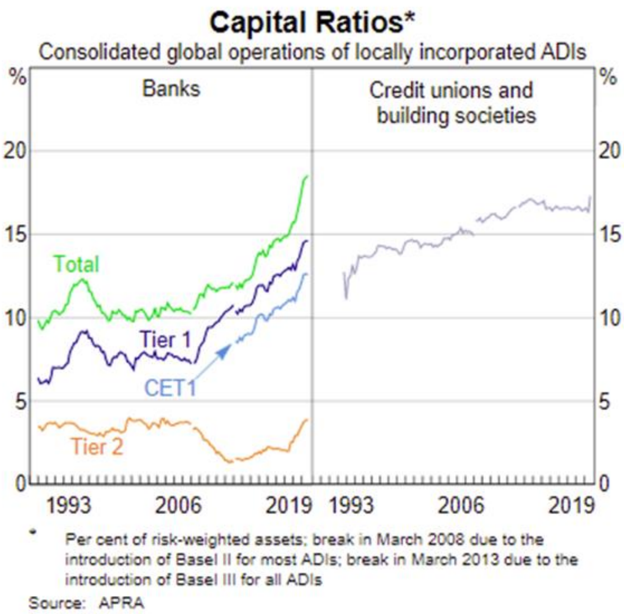
Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	CBA	AA-	$28,740,280	20.00%	30.00%	$14,365,460
✓	NAB	AA-	$25,000,000	17.40%	30.00%	$18,105,740
✓	NTTC Treasury	AA-	$9,000,000	6.26%	30.00%	$34,105,740
✓	Suncorp	AA-	$1,246,473	0.87%	30.00%	$41,859,267
✓	Westpac	AA-	$27,250,000	18.96%	30.00%	$15,855,740
✓	Macquarie	A+	$15,047,692	10.47%	15.00%	$6,505,178
✓	ICBC Sydney	A	$17,000,000	11.83%	15.00%	$4,552,870
✓	BOQ	BBB+	$10,000,000	6.96%	10.00%	$4,368,580
✓	AMP Bank	BBB	$6,005,383	4.18%	10.00%	$8,363,197
✓	Auswide Bank	BBB	$3,000,000	2.09%	10.00%	$11,368,580
✓	Newcastle PBS	BBB	$1,395,973	0.97%	10.00%	$12,972,607
			$143,685,801	**100.00%**		

We remain supportive of the regional and unrated ADI sector (and have been even throughout the GFC period). They continue to remain solid, incorporate strong balance sheets, while exhibiting high levels of capital – typically, much higher compared to the higher rated ADIs. Some unrated ADIs have up to 25-40% more capital than the domestic major banks, and well above the Basel III requirements.

APRA's Chairman affirmed that the banks had satisfactorily moved towards an '*unquestionably strong*' capital position and that bank's stress testing contingency plans were now far better positioned that was previously the case years ago. ***RBA Governor Lowe has commented that they have not seen any signs of stress in the financial system and that unlike during the GFC, the banks now have cash, are well capitalised and are acting as "shock absorbers" in the current pandemic crisis.***

Overall, the lower rated ADIs (BBB and unrated) are generally now in a better financial position then they have been historically (see the Capital Ratio figure below). We believe that deposit investments with the lower rated ADIs should be continued going forward, particularly when they offer 'above market' specials. Not only would it diversify the investment portfolio and reduce credit risk, it would also improve the portfolio's overall returns. The lower rated entities are generally deemed to be the more 'ethical' ADIs compared to the higher rated ADIs.

In the current environment of high regulation and scrutiny, all domestic ADIs continue to carry high levels of capital, particularly amongst the lower ("BBB") and unrated ADIs. There is minimal (if any) probability of any ADI defaulting on their deposits going forward – this was stress tested during the GFC. **APRA's mandate is to "*protect depositors*" and provide "*financial stability*".**



Credit Quality

The portfolio remains well diversified from a credit ratings perspective, with all assets classified as investment grade (rated BBB- or higher).

From a ratings perspective, the “BBB” rated banks now generally dominate the number of ADIs issuing deposits within the investment grade space. There has been further signs of appetite developing in the wholesale deposit market as additional lower rated (“BBB” and unrated) ADIs have come to market to raise ‘new’ money. Over the coming year, we may start to see a more ‘normalised’ environment where the lower rated banks start to offer higher rates compared to the higher rated banks as the competition for deposits grow.

As at the end of June 2022, all categories were within the Policy limits:

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AA Category	$91,236,753	63.50%	100%	$52,449,048
✓	A Category	$32,047,692	22.30%	60%	$54,163,789
✓	BBB Category	$20,401,356	14.20%	35%	$29,888,675
✓	Unrated ADIs	$0	0.00%	10%	$14,368,580
		$143,685,801	**100.00%**		

Performance

Council's performance for the month ending 30 June 2022 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years
Official Cash Rate	0.07%	0.11%	0.13%	0.18%	0.18%	0.17%
AusBond Bank Bill Index	0.05%	0.07%	0.08%	0.10%	0.10%	0.08%
Council's T/D Portfolio	0.10%	0.29%	0.59%	1.26%	1.26%	1.42%
Council's FRN Portfolio	0.14%	0.38%	0.64%	1.42%	1.42%	1.43%
Council's Bond Portfolio	0.09%	0.28%	0.57%	1.12%	1.12%	-
Council's Portfolio^	**0.10%**	**0.29%**	**0.59%**	**1.26%**	**1.26%**	**1.39%**
Outperformance	**0.05%**	**0.22%**	**0.51%**	**1.16%**	**1.16%**	**1.31%**

^Total portfolio performance excludes Council's cash account holdings. Overall returns would be lower if cash was included.

Performance (% p.a.)	1 month	3 months	6 months	FYTD	1 year	2 years
Official Cash Rate	0.85%	0.43%	0.27%	0.18%	0.18%	0.17%
AusBond Bank Bill Index	0.61%	0.28%	0.17%	0.10%	0.10%	0.08%
Council's T/D Portfolio	1.20%	1.16%	1.19%	1.26%	1.26%	1.42%
Council's FRN Portfolio	1.75%	1.53%	1.30%	1.42%	1.42%	1.43%
Council's Bond Portfolio	1.13%	1.15%	1.16%	1.12%	1.12%	-
Council's Portfolio^	**1.21%**	**1.17%**	**1.19%**	**1.26%**	**1.26%**	**1.39%**
Outperformance	**0.59%**	**0.89%**	**1.03%**	**1.16%**	**1.16%**	**1.31%**

^Total portfolio performance excludes Council's cash account holdings. Overall returns would be lower if cash was included.

For the month of June, the total investment portfolio (excluding cash) provided a strong return of +0.10% (actual) or +1.21% p.a. (annualised), easily outperforming the benchmark AusBond Bank Bill Index return of +0.05% (actual) or +0.61% p.a. (annualised). The strong performance continues to be driven by the handful of the longer-dated deposits that were locked-in prior to the RBA's rate cuts, as well as the FRNs locked in at attractive margins.

Over the financial year, the total portfolio (excluding cash) returned an outstanding +1.26% p.a., outperforming bank bills by 1.16% p.a. This has been very strong given deposit rates reached their all-time lows and credit margins have generally contracted over the past 3 years.

We are pleased that North Sydney Council remains amongst the best performing Councils in the state of NSW where deposits are concerned (as per our April 2022 Council Rankings), earning around $578,000 in additional interest income versus the average NSW Council. We have been pro-active in our advice about protecting interest income and addressing reinvestment risk for many years and encouraged to maintain a long duration position. This is now reflected by the high performance of the investment portfolio.

Council's Term Deposit Portfolio & Recommendation

As at the end of June 2022, Council's deposit portfolio was yielding an **attractive 1.27% p.a.** (up 18bp from the previous month), with an average duration of around 279 days (~1½ years). We recommend Council maintains an average duration above 12 months where possible.

As the past decade or so has highlighted (post-GFC era), we have seen too many portfolios overpay for liquidity and generally not insured themselves by diversify their funding across various tenors. Those investors that can maintain a weighted average duration of +12-18 months are likely to yield, on average, up to 1% p.a. higher than those investors who maintain a weighted average duration of less than 6-9 months.

At the time of writing, we see value in:

ADI	LT Credit Rating	Term	T/D Rate
ICBC, Sydney	A	3 years	4.71% p.a.
BoQ/ME Bank	BBB+	3 years	4.55% p.a.
ICBC, Sydney	A	2 years	4.48% p.a.
ING	A	2 years	4.45% p.a.
MyState	BBB	2 years	4.40% p.a.
P&N Bank	BBB	2 years	4.25% p.a.
CBA	AA-	2 years	4.19% p.a.
Westpac	AA-	2 years	4.16% p.a.

The above deposits are suitable for investors looking to maintain diversification and lock-in a premium compared to purely investing short-term.

For terms under 12 months, we believe the strongest value is currently being offered by the following ADIs (dependent on daily funding requirements):

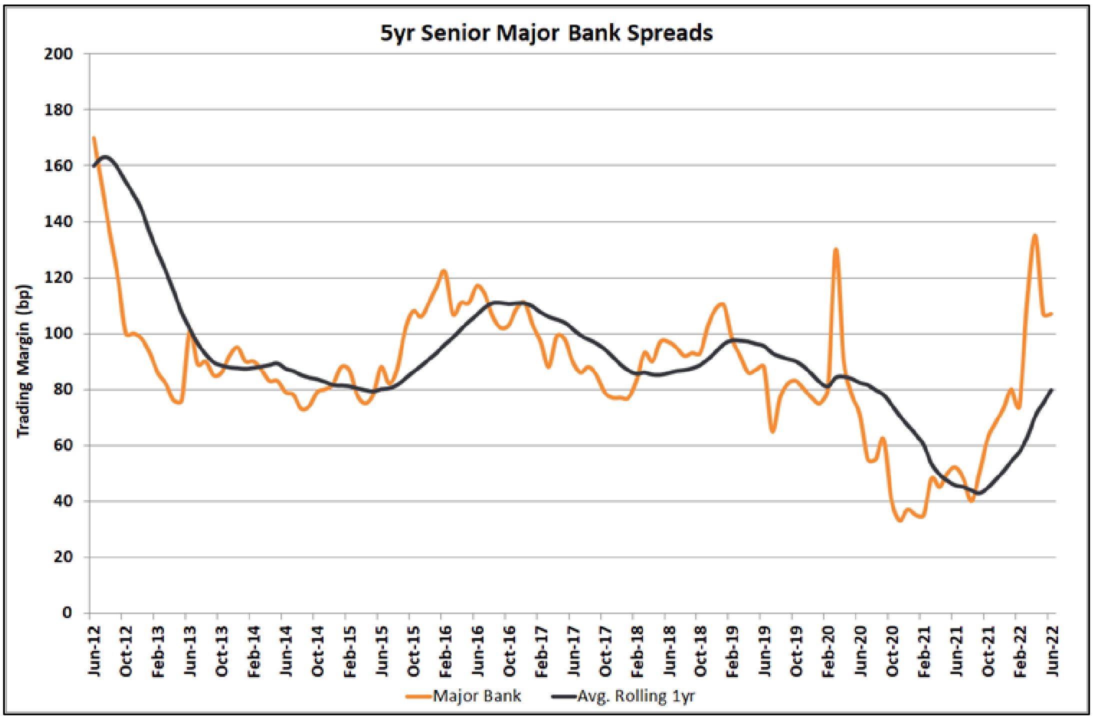
ADI	LT Credit Rating	Term	T/D Rate
ING	A	12 months	4.00% p.a.
Macquarie	A+	12 months	3.92% p.a.
CBA	AA-	12 months	3.85% p.a.
Westpac	AA-	12 months	3.81% p.a.
BoQ/ME Bank	BBB+	12 months	3.80% p.a.
Bendigo	BBB+	12 months	3.75% p.a.
NAB	AA-	12 months	3.70% p.a.

For those investors that do not require high levels of liquidity and can stagger their investments longer-term, they will be rewarded over coming years if they roll for an average min. term of 18 months to 2 years (this is where we current value), yielding, on average, up to ½%-1% p.a. higher compared to those investors that entirely invest in short-dated deposits.

IMPERIUM MARKETS

Senior FRNs Review

Over June, amongst the senior major bank FRNs, physical credit securities remained relatively flat at the long-end of the curve despite the selloff in the credit indices. Major bank senior securities are now looking fairly attractive again in a rising rate environment (5 year margins around the +105-110bp level):



Source: IBS Capital

Amongst the "A" and "BBB" rated sector, the securities also remained relatively flat at the long-end of the curve. There was very little new issuance during the month, with only BoQ (BBB+) being an exception, tapping their May 2025 Covered FRN rated AAA at +105bp.

Credit securities are looking much more attractive given the widening of spreads in recent months. FRNs will continue to play a role in investor's portfolios mainly on the basis of their liquidity and the ability to roll down the curve and gross up returns over ensuing years (in a relatively stable credit environment).

Senior FRNs (ADIs)	30/06/2022	31/05/2022
"AA" rated – 5yrs	+107bp	+107bp
"AA" rated – 3yrs	+90bp	+90bp
"A" rated – 5yrs	+125bp	+125bp
"A" rated – 3yrs	+100bp	+100bp
"BBB" rated – 3yrs	+110bp	+115bp

Source: IBS Capital

We now generally recommend switches ('benchmark' issues only) into new primary issues, out of the following senior FRNs that are maturing:

- **On or before mid-2024 for the "AA" rated ADIs (domestic major banks)**;
- On or before mid-2023 for the "A" rated ADIs; and
- Within 6-9 months for the "BBB" rated ADIs (consider case by case).

Investors holding onto the above senior FRNs ('benchmark' issues only) in their last few years are now generally holding sub-optimal investments and are not maximising returns by foregoing realised capital gains. In the current low interest rate environment, any boost in overall returns should be locked in when it is advantageous to do so, particularly as switch opportunities become available.

Primary (new) FRNs are now looking more appealing and should be considered on a case by case scenario.

Council's Senior FRNs Sale/Switch Recommendations

We recommend Council retains its remaining two FRNs at this stage. We will inform Council when there is an opportunity to sell these assets to boost the overall returns of the investment portfolio.

Council's Senior Bonds

During October 2020, Council placed two parcels of $3m (totalling $6m) with the Northern Territory Treasury Corporation (NTTC), locking in yields of 0.90% p.a. and 1.00% p.a. for a 4 and 5 year term respectively. In August 2021, it placed another $3m parcel with NTTC (AA-), locking in a yield of 1.50% p.a. for a 5 year term.

Council received the full rebated commission of 0.25% on the total face value of investments (i.e. $9m x 0.25% = $22,500) as it was introduced by Imperium Markets. We believe this was prudent given the low rate environment.

The NTTC bonds are a 'retail' offering and not 'wholesale' issuances. Given the lack of liquidity and high penalty costs if they were to be sold/redeemed prior to the maturity date, they are considered to be a hold-to-maturity investment and will be marked at par value ($100.00) throughout the term of investment.

Senior Fixed Bonds – ADIs (Secondary Market)

As global inflationary pressures have escalated, this has seen a significant lift in longer-term bond yields (valuations fell) as markets have strongly factored in a tightening of global central bank policy measures (i.e. withdrawal of Quantitative Easing and lifting official interest rates).

This has resulted in some opportunities in the secondary market. We currently see value in the following fixed bond lines, with the majority now being marked at a significant discount to par (please note supply in the secondary market may be limited on any day):

ISIN	Issuer	Rating	Capital Structure	Maturity Date	~Remain. Term (yrs)	Fixed Coupon	Indicative Yield
AU3CB0255776	ING	AAA	Covered	07/09/2023	1.19	3.00%	3.93%
AU3CB0258465	Westpac	AA-	Senior	16/11/2023	1.38	3.25%	3.93%
AU3CB0265403	Suncorp	AA-	Senior	30/07/2024	2.08	1.85%	4.41%
AU3CB0265593	Macquarie	A+	Senior	07/08/2024	2.11	1.75%	4.49%
AU3CB0265718	ING	AAA	Covered	20/08/2024	2.14	1.45%	4.47%
AU3CB0266179	ANZ	AA-	Senior	29/08/2024	2.17	1.55%	4.31%
AU3CB0266377	Bendigo	BBB+	Senior	06/09/2024	2.19	1.70%	4.49%
AU3CB0268027	BoQ	BBB+	Senior	30/10/2024	2.34	2.00%	4.60%
AU3CB0269710	ANZ	AA-	Senior	16/01/2025	2.55	1.65%	4.41%
AU3CB0269892	NAB	AA-	Senior	21/01/2025	2.56	1.65%	4.41%
AU3CB0270387	Macquarie	A+	Senior	12/02/2025	2.62	1.70%	4.69%
AU3CB0287415	Westpac	AA-	Senior	17/03/2025	2.71	2.70%	4.51%
AU3CB0280030	BoQ	BBB+	Senior	06/05/2026	3.85	1.40%	5.09%
AU3CB0282358	ING	AAA	Covered	19/08/2026	4.14	1.10%	4.57%
AU3CB0284149	BoQ	BBB+	Senior	27/10/2026	4.33	2.10%	5.14%
AU3CB0286037	Westpac	AA-	Senior	25/01/2027	4.57	2.40%	4.77%

Economic Commentary

International Market

Risk assets plummeted in June as recessionary fears escalated given the surge in bond yields and the need for central banks to increase their hawkishness to control inflation.

In the US, the S&P 500 Index plunged -8.39%, while the NASDAQ fell -8.71%. Europe's main indices were also sold off, led by Germany's DAX (-11.15%), France's CAC (-8.44%) and UK's FTSE (-5.76%).

The US Federal Reserve increased rates by 75bp in June, the largest rate increase since 1994, taking the Fed funds target range to 1.50%-1.75%. This decision was instigated by their latest headline inflation reading being +1.0% m/m (against +0.7% expected), taking the annual rate to +8.6% y/y, its highest since 1981. The new Funds Rate projections show the median dot for end-2022 lifted from 1.75-2.00% to 3.25-3.50%.

US Fed Chair Powell said the Fed has an unconditional commitment to restoring price stability, commenting "*my colleagues and I are acutely focused on returning inflation to our 2% objective*" and that they would raise rates "*expeditiously*". He also commented that the path to achieving a soft landing is getting narrower.

The US unemployment rate remained unchanged at 3.6%, with gains filled from returning participation. Hourly earnings growth steady at +0.3% m/m.

The Bank of England (BoE) hiked rates by 25bp for its fifth back-to back rise, taking Bank Rate to 1.25%.

UK CPI came in no-worse than expected, lifting to an annual rate of +9.1% from +9.0%. Leading the +0.7% monthly rise was a +1.5% jump in food prices.

ECB President Lagarde said inflation is too high and that the ECB must act but went no further than to reiterate that rates will rise by 25bp in July.

Canada's latest CPI read came in well above expectations, headline CPI up to +7.7% in May from +6.8% and +7.3% expected.

The MSCI World ex-Aus Index fell -8.69% for the month of June:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	-8.39%	-16.45%	-11.92%	+8.77%	+9.33%	+10.76%
MSCI World ex-AUS	-8.69%	-16.56%	-15.60%	+5.49%	+5.98%	+7.70%
S&P ASX 200 Accum. Index	-8.77%	-11.90%	-6.47%	+3.34%	+6.83%	+9.29%

Source: S&P, MSCI

IMPERIUM MARKETS

Domestic Market

The RBA modestly surprised the market in its meeting in June, with its 50bp hike to the Official Cash Rate, moving it to 0.85%. It cited inflation was higher than they expected just a month ago, with pressure coming not just from global forces but also domestic influences, including higher gas and electricity prices as well as (more tellingly) tight labour markets and therefore an implied expectation that wages are in process of rising more sharply.

RBA Governor Lowe expected inflation will peak at a "*very high*" 7% late this year, from an earlier forecast of 6%. Dr Lowe also commented that it was "*reasonable*" to expect the cash rate to eventually reach 2.5%, in line with the midpoint of the inflation target, but he admitted it was "*unclear*" how high rates would go and how quickly.

The Board is still seen raising rates 50bp in July and August and reinstated the upgraded forecast for inflation to peak around 7% in Q4 this year (from 6% in May). Lowe emphasised that inflation did not need to return to target immediately, but also noted that the RBA needed to "*chart a credible path back to an inflation rate of 2 to 3%*".

The unemployment rate remain unchanged at 3.9% in May, with employment surging +60.6k. The participation rate moved up 0.3% to 66.7%, a new record high.

The trade surplus increased $0.8bn to $10.5bn in April (consensus $9.0bn). The increase was driven by a 1% rise in exports and a 0.7% fall in imports.

APRA finalised revisions to its prudential framework, as contained within APS 220. The final revisions are effectively as set out under the draft proposals published in November 2021. The new macroprudential policy sets out more quantitative measures including the requirement for ADIs to apply residential mortgage serviceability buffers (a loan interest buffer of at least 3.0% applied, unless determined otherwise by APRA).

The Australian dollar fell -4.15%, finishing the month at US68.89 cents (from US71.87 cents the previous month).

Credit Market

The global credit indices widened significantly over the month in the 'risk-off' environment. They are back to their levels experienced during the start of the pandemic (Q1 2020):

Index	June 2022	May 2022
CDX North American 5yr CDS	101bp	79bp
iTraxx Europe 5yr CDS	119bp	84bp
iTraxx Australia 5yr CDS	130bp	95bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	June 2022	May 2022
Bloomberg AusBond Bank Bill Index (0+YR)	+0.05%	+0.03%
Bloomberg AusBond Composite Bond Index (0+YR)	-1.48%	-0.89%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.05%	-0.08%
Bloomberg AusBond Credit Index (0+YR)	-1.34%	-0.58%
Bloomberg AusBond Treasury Index (0+YR)	-1.32%	-1.00%
Bloomberg AusBond Inflation Gov't Index (0+YR)	-2.23%	-2.28%

Source: Bloomberg

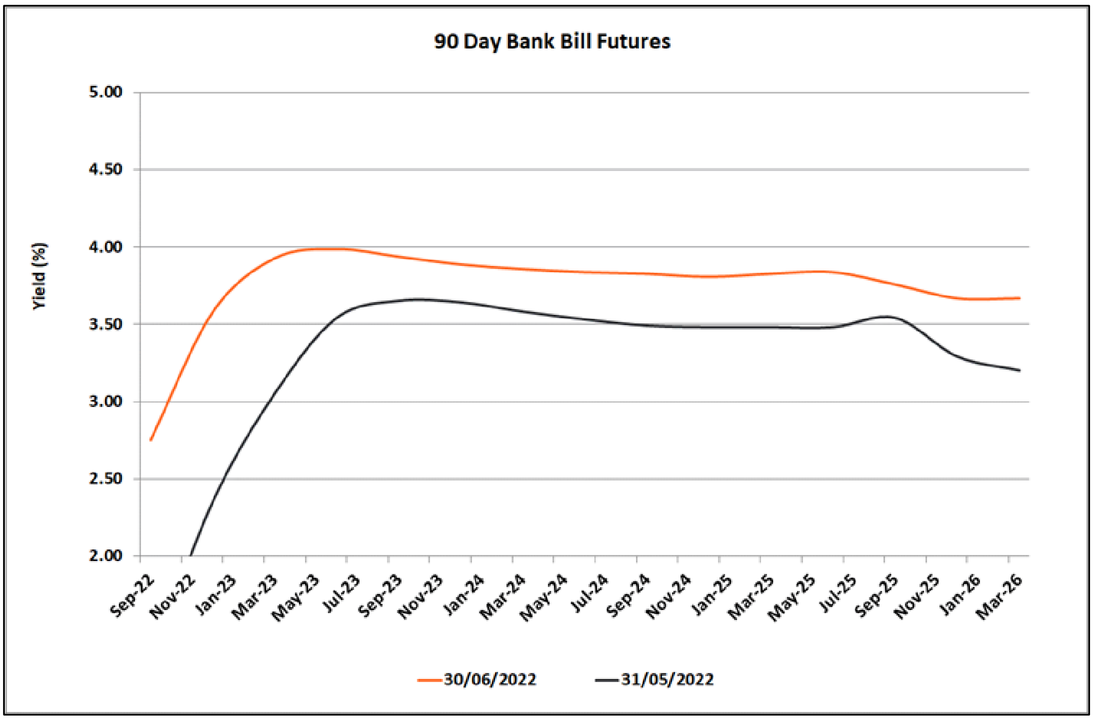
Other Key Rates

Index	June 2022	May 2022
RBA Official Cash Rate	0.85%	0.35%
90 Day (3 month) BBSW Rate	1.81%	1.18%
3yr Australian Government Bonds	3.16%	2.86%
10yr Australian Government Bonds	3.66%	3.35%
US Fed Funds Rate	1.50%-1.75%	0.75%-1.00%
10yr US Treasury Bonds	2.98%	2.85%

Source: RBA, AFMA, US Department of Treasury

90 Day Bill Futures

Over June, bill futures rose sharply at the short-end of the curve after the RBA hiked rates by 50bp and flagged further rate rises in the immediate future. The market continues to factor in the possibility of a recession over the next few years, highlighted by the drop in the futures pricing in 2024-2025:

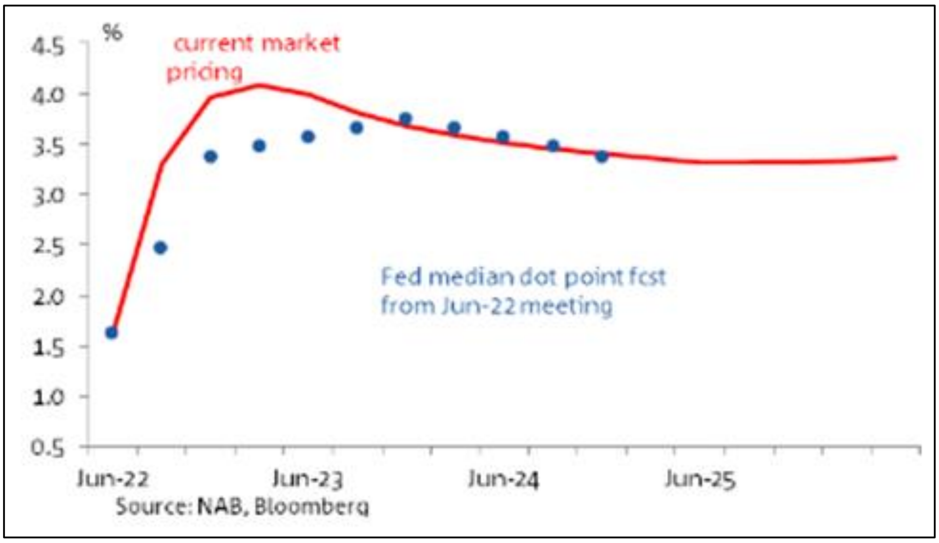


Source: ASX

Fixed Interest Outlook

US Fed Chair Powell reiterated their commitment to raising rates "*expeditiously*" (75bp of tightening on 27th July largely priced in), while acknowledging the path to achieving a soft landing is becoming narrower.

The current US Fed dot plots is now pointing to 325bp of tightening in 2022, up from 175bp. The median projection for the funds rate is 3.375% by end 2022 (up from 1.875%), 3.75% by end 2023 (up from 2.625%) and 3.375% by end 2024 (up from 2.625%).

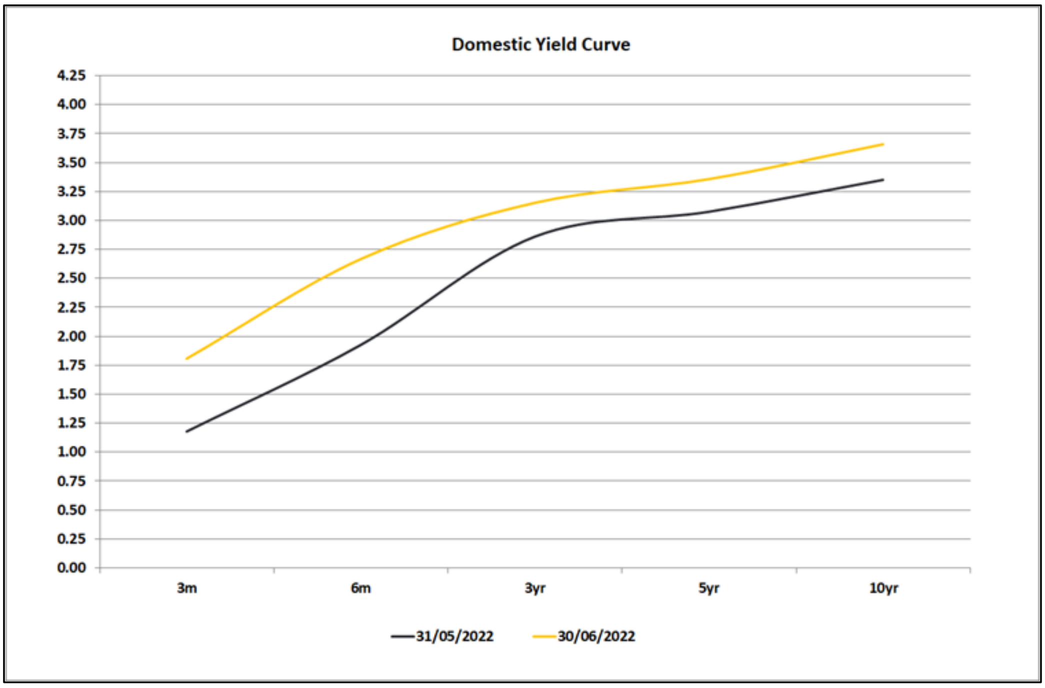


Domestically, after the RBA lifted rates by 50bp in June, they have clearly pivoted along with several other global central banks undertaking the same strategy, commenting "*given the current inflation pressures in the economy, and the still very low level of interest rates, the Board decided to move by 50bp [in June]. The Board expects to take further steps in the process of normalising monetary conditions in Australia over the months ahead".*

The combination reinforced the view that the previous level of extraordinary monetary support was no longer necessary, while a further deterioration in the inflation outlook compared to even the previous month (on higher energy and electricity prices), meant a quicker move was required.

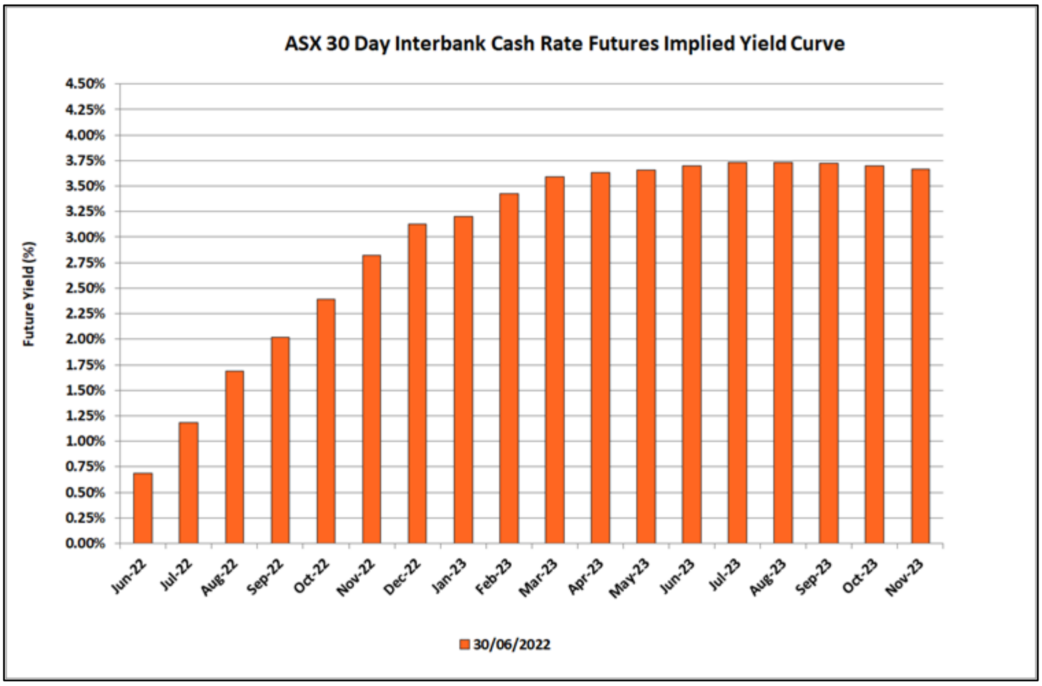
The RBA will continue to adjust rates in the months ahead. Inflation pressures remain strong and core inflation remains significantly higher than expected. With economic activity and the labour market remaining relatively strong for now, it is possible that the RBA will raise rates towards 1.60%-1.85% within the next two months (a further 75-100bp of tightening), with further 25bp moves expected later in the year to deliver a cash rate to at least around 2½-3% by the end of 2022.

The domestic bond market continues to suggest a prolonged low period of interest rates on a historical basis (10-year government bond yields still under 4%). Over the month, yields rose around 30bp at the long-end of the curve:



Source: AFMA, ASX, RBA

Markets are currently pricing in around twelve additional rate rises over the next two years (up to 3¾%), although if the recessionary fears come to fruition, the RBA is likely required to monitor its 'terminal rate'**:**



Source: ASX

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