10.7. Investment and Loan Borrowings Report as at 31 March 2023

AUTHOR	Christian Menday, Manager Financial Services
ENDORSED BY	Shane Sullivan, Acting Director Corporate Services
ATTACHMENTS	1. Imperium Markets North Sydney Monthly Report March 2023 [**10.7.1** - 21 pages]
CSP LINK	5. Our Civic Leadership 5.1 Lead North Sydney's strategic direction 5.2 Strong civic leadership and customer focussed services

PURPOSE:

This purpose of this report is to provide details of the performance of Council's investment portfolio and borrowings for the period ending 31 March 2023 in accordance with clause 212 of the Local Government Regulation (NSW) 2021 which requires that the Responsible Accounting Officer must make a monthly report to Council setting out all details of money invested under Section 625 of the Local Government Act.

EXECUTIVE SUMMARY:

- This report outlines Council's investment portfolio and performance as at 31 March 2023.

- All investments have been made in accordance with the Act, Regulations, Council's Investment Policy and the specific conditions of the TCorp Loan Agreement.

- For the month of March, the total portfolio (T/Ds, FRNs and Bonds) provided a return of +0.22% (actual) or +2.67% p.a. (annualised), marginally under-performing the benchmark AusBond Bank Bill Index return of +0.28% (actual) or +3.38% p.a. (annualised). Council's investment adviser considers this underperformance to be temporary.

- Returns on investments exceed original YTD budget by $1.45 million due to higher than expect cash balances and higher than expected interest rates.

- Investments will continue to be managed to ensure liquidity to meet operational requirements.

RECOMMENDATION:
1.THAT the report on Investments held on 31 March 2023, prepared in accordance with clause 212 of the Local Government (General) Regulation 2021 and information on Loan Borrowings, be received.

Background

The Responsible Accounting Officer must provide Council with a monthly report detailing all Funds 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.

It is also prudent to report loan balances and compliance with:

- borrowing orders issued by the Minister for Local Government, and
- Council's Debt Management Policy.

Investment Portfolio

The following table details the performance of Council's investment portfolio (excluding cash deposits) to benchmark for the month of March 2023 and annualised for the year-to-date 31 March 2023 (including investments that have matured prior to that date).

	March 2023	**Annualised YTD**
Actual Return	0.22%	2.67%
Benchmark	0.28%	3.39%
Variance	-0.06%	-0.72%

The portfolio underperformance as compared to the benchmark is due to recent sharp rises in the RBA official cash rate and long-term investments placed when inflation expectations were low, before those increases were made. Council's investment advisor, as per the attached report, expects this relative underperformance to be temporary. The report further notes that North Sydney Council's deposits portfolio ranks among the best performing when compared to other NSW councils.

Asset Type	**Market Value**	**Portfolio Breakdown**
Term Deposits	$130,250,000	86.92%
Cash	$7,938,784	5.30%
Fixed Bonds	$9,000,000	6.01%
Floating Rate Notes (FRNs)	2,646,918	1.77%
	$149,835,702	**100.00%**

Council's average duration of term deposits, which comprise 86.92% of the investment portfolio, is approximately 346 days.

All funds have been invested in accordance with the Act and the Regulations made thereunder. 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. Funds invested also comply with the credit quality conditions contained in Council's loan agreement with TCorp.

Council continues to seek independent advice for investments and is actively managing the portfolio to ensure that returns are maximised, considering diversification and risk. A complete analysis of the performance is covered in the Monthly Investment Report (Attachment 1) prepared by Council's investment advisor Imperium Markets. The report contains advice about optimal investment options but also notes that Council's scope to act on that advice is limited by its cash flow requirements. Council has considerable requirements for short term investments to fund its ambitious Capital Works budget ($95 million for 2022/23).

Council's Investment Policy and the contractual requirements of the loan agreement with TCorp are biased towards major and large institutions. This limits the scope to invest in regional institutions. The loan agreement with TCorp prohibits investing with non-rated institutions. Staff monitor rates available from rated regional institutions (as advised by Imperium) but finds that major and large institutions tend to outperform them in the shorter terms currently required. Two term deposits totalling $5,000,000 were placed with the BBB+ rated regional, Bendigo and Adelaide Bank, in March. Bendigo was found to have the superior quote on the days the deposits were placed. Council's investment advisor on page seven of the attached report notes an emerging trend towards the "normal" pre-pandemic marketplace in which regional banks offer more competitive rates than majors.

Summary of Returns from Investments (includes Fair Value adjustments)

The actual investment returns for the year-to-date 31 March 2023 are $424,000 more than the revised year-to-date budget. They are $1.45 million than the original YTD budget. This result is driven by higher-than-forecast interest rates, and a higher-than-expected cash balance due to (i) delays to capital projects caused by wet weather, and (ii) Covid lockdowns in the 2021/22 Financial Year.

Year	Original Annual Budget	Revised Annual Budget	YTD Budget (March)	YTD/ Annual Actual (March)	YTD/Annual Actual FV adjustments (March)	YTD Budget to Actual Variance (March)
2022/23	**$1,290,000**	**$2,790,000**	**$2,092,000**	**$2,512,000**	**$4,000**	**$424,000**
2021/22	$1,100,000	$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	$1,350,000	$1,529,055		$1,896,660	-$4,944	$362,661

Floating Rate Notes (FRN's) are required to be revalued each month using the Fair Value (FV) method, an estimate of the market value of the investment. The YTD movement of FRN's has been an increase of $4,000.

Financial Investment Policy

All categories are within the Policy limits for credit ratings. The portfolio remains well diversified, with credit quality rated as BBB or higher. The maximum holding limit in each rating category and the target credit quality weighting for Council's portfolio are:

Long Term Rating Range (Standard & Poors)	Invested	Maximum Policy Holding	Distribution
AA Category	$88,188,784	100.00%	58.86%
A Category	$38,250,272	60.00%	25.53%
BBB Category	$23,396,646	35.00%	15.61%
Unrated ADIs (NR)	$0	10.00%	0.00%

Credit Quality Limits in TCorp Loan Agreement

The TCorp Loan Agreement imposes credit quality limits additional to Council's Financial Investment Policy. In cases where the loan agreement imposes a credit quality limit more conservative than the Financial Investment Policy, Council's contractual obligations prevail and the more conservative limit will be applied. 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 (Standard and Poors/Moody's)	Invested	Maximum Allowed	Distribution
AA+ to AA-/Aa1 to Aa3 Category	$88,188,784	100%	58.85%
A+ to A/A1 to A2 Category	$38,250,272	100%	25.53%
A-/A3 Category	$0	40%	0.00%
BBB+/Baa1 Category	$20,000,000	20%	13.35%
BBB/Baa2 Category	$3,396,646	10%	2.27%
BBB-/Baa3 Category	$0	5%	0.00%
Unrated	$0	0%	0.00%

The maximum counterparty limits and the target allowed limit are as per the following table:

Institution	Long Term Rating Range (Standard and Poors/Moody's)	Invested	Maximum Allowed	Distribution
AMP Bank Ltd	BBB/Baa2 Category	$2,000,000	5%	1.33%
Bendigo and Adelaide Bank Ltd	BBB+/Baa1 Category	$10,000,000	10%	6.67%
BOQ Ltd	BBB+/Baa1 Category	$10,000,000	10%	6.67%
Commonwealth Bank of Australia	AA+ to AA-/Aa1 to Aa3 Category	$29,938,784	100%	19.98%
ICBC Sydney Branch	A+ to A/A1 to A2 Category	$17,000,000	100%	11.35%
NAB Ltd	AA+ to AA-/Aa1 to Aa3 Category	$28,000,000	100%	18.70%
Newcastle Greater Mutual Group	BBB/Baa2 Category	$1,396,646	5%	0.93%
Northern Territory Treasury	AA+ to AA-/Aa1 to Aa3 Category	$9,000,000	100%	6.01%
Suncorp Bank Ltd	A+ to A/A1 to A2 Category	$21,250,272	100%	14.18%
Westpac Bank Ltd	AA+ to AA-/Aa1 to Aa3 Category	$21,250,000	100%	14.18%

Loan Borrowings

Council's Loan Borrowing Policy is the framework for Council's borrowing activities. It defines responsibilities and parameters for borrowing and related risk management activities. 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 a risk averse strategy.

Loan borrowings are 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 Street Carpark and On-street Carparking Management System Loan

This 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**
1/07/2022	$6,373,191.95			
29/07/2022	$6,147,427.51	$63,875.10	$225,764.44	$ 289,639.54
28/10/2022	$5,921,431.53	$63,643.56	$225,995.98	$ 289,639.54
27/01/2023	$5,691,791.50	$59,999.51	$229,640.03	$ 289,639.54
28/04/2023	$5,456,690.24	$54,538.28	$235,101.26	$ 289,639.54

Loan Funded Capital Projects

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 February 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 funds were restricted and are to be 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**
01/07/2022	$31,000,000			
28/10/2022	$30,499,987	$657,200	$500,013	$1,157,213
28/04/2023	$29,989,375	$646,600	$510,613	$1,157,213

Consultation requirements

Community engagement is not required.

Financial/Resource Implications

The December Quarterly Budget Review Statement increased the budgeted income from investments by $1.5 million to $2.9 million. This was due to higher-than-expected cash balances (due to delayed capital works) and interest rates greatly exceeding those available and foreseeable at the time the 2022/23 budget was made.

This report indicates a further upward revision is in order at the March review. The implications on resourcing of this windfall gain will be considered in more detail in the March Quarterly Review and the 2023/24 Budget.

Legislation

Section 625 of the Local Government Act (NSW) allows councils to invest money that is not currently required for any other purpose. It further specifies how councils may invest. It specifies investments must be in accordance with the local government minister's orders.

Clause 212 of the Local Government Regulation (NSW) 2021 requires that the Responsible Accounting Officer must make a monthly report to Council setting out all details of money invested under Section 625 of the Local Government Act.

Sections 621 to 624 of the Local Government Act give councils the ability to borrow money and specify some further regulations on that borrowing. Council's staff considers it prudent to provide monthly reporting of loans.

Monthly Investment Report

March 2023

IMPERIUM MARKETS

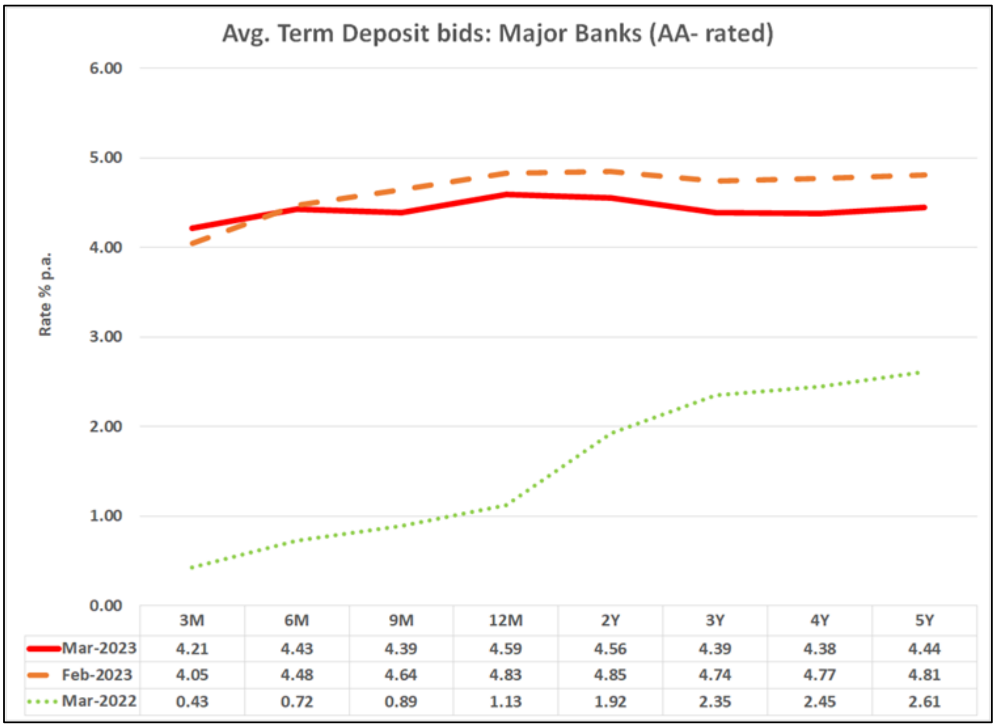
Imperium Markets Pty Ltd ABN: 87 616 579 527
Authorised Representative of Libertas Financial Planning Pty Ltd AFSL 429 718
Phone: +61 2 9053 2987
Email: michael.chandra@imperium.markets
Level 9 Suite 06, 70 Phillip Street, Sydney NSW 2000

IMPERIUM MARKETS

Market Update Summary

Volatility returned across risk markets in March after the collapse of Silicon Valley Bank (SVB) - the 16th largest bank in the US with US$209bn in assets as at 31 December 2022. Importantly, the US government vowed no depositors would lose money in the collapse and measures were taken by the US Treasury, US Fed and FDIC to prevent a US bank run on deposits. Risk markets reacted positively on assurances of central banks intervening to avoid a banking contagion, as well as pushing forward their expectations of rate cuts earlier than previously anticipated. Markets have been quick to revise their interest rate forecasts following the events surrounding the global banks, as well as central bank rhetoric. A pause by the RBA in April is now a strong possibility after the Board hinted that it may be *appropriate "to allow more time to assess the state of the economy*".

Despite the aggressive rate hikes, the deposit market has already factored in the current rate hike cycle. Interestingly, deposit rates have shifted lower over March especially at the 1-5 year part of the curve (by around 25-35bp) following contagion fears within the banking sector and the potential for rate hikes towards the back-end of 2023 or early 2024:



	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Mar-2023	4.21	4.43	4.39	4.59	4.56	4.39	4.38	4.44
Feb-2023	4.05	4.48	4.64	4.83	4.85	4.74	4.77	4.81
Mar-2022	0.43	0.72	0.89	1.13	1.92	2.35	2.45	2.61

Source: Imperium Markets

'New' investments close to or above 4¼ - 4½% p.a. is currently available if Council can place the majority of its surplus funds for terms of 12 months to 3 years. *With recessionary fears being priced in coming years, investors may take an 'insurance policy' against future rate cuts by investing across 3-5 year fixed deposits and locking in rates above or close to 4½% p.a. (small allocation only).* ***<u>However due to upcoming capital outflows, this is currently restricting investments to shorter-tenors</u>***.

Council's Portfolio & Compliance

Asset Allocation

As at the end of March 2023, the portfolio was mainly directed to fixed term deposits (87%). The remaining portfolio is directed to FRNs (2%), fixed bonds (6%) and overnight cash accounts (5%).

Senior FRNs remain relatively attractive as spreads have widened over the past year – new issuances should now be considered again on a case by case scenario. In the interim, fixed deposits for 12 months to 3 years remains appealing following the spike in medium-to longer-term yields during the rate hike cycle.

With recessionary fears being priced in coming years, investors can choose to allocate some longer-term surplus funds and undertake an insurance policy against any potential future rate cuts by investing across 3-5 year fixed deposits, locking in and targeting yields close to or above 4½% p.a.

However, noting the significant capital outflows expected in the near term, Council is currently largely hand-cuffed to investing into very short-term investments (under 6 months). This is suitable to invest in short-dated fixed term deposits.

Term to Maturity

Overall, the portfolio remains lightly diversified from a maturity perspective. Around 19% of assets is directed to medium-term assets (2-5 years), which has resulted in strong outperformance during the challenging economic environment over longer-term time periods. There is still high capacity to invest in the short-medium term horizon (1-2 years), with approximately $75m at month-end.

Where liquidity permits (once immediate capital projects are finalised), 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.

However in the interim, **given the large upcoming capital expenditure of $94.4m flagged for FY2023, Council is likely to invest across shorter-tenors to match the capital program's cash flow requirements**.

Compliant	Horizon	Invested ($)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available ($)
✓	0 - 90 days	$55,938,784	37.33%	10%	100%	$93,896,918
✓	91 - 365 days	$36,250,000	24.19%	20%	100%	$113,585,702
✓	1 - 2 years	$29,646,918	19.79%	0%	70%	$75,238,074
✓	2 - 5 years	$28,000,000	18.69%	0%	50%	$46,917,851
✓	5 - 10 years	$0	0.00%	0%	25%	$37,458,926
		$149,835,702	**100.00%**			

Counterparty

As at the end of March, 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-	$29,938,784	19.98%	30.00%	$15,011,927
✓	NAB	AA-	$28,000,000	18.69%	30.00%	$16,950,711
✓	NTTC Treasury	AA-	$9,000,000	6.01%	30.00%	$35,950,711
✓	Westpac	AA-	$21,250,000	14.18%	30.00%	$23,700,711
✓	Suncorp	A+	$21,250,272	14.18%	15.00%	$1,225,083
✓	ICBC Sydney	A	$17,000,000	11.35%	15.00%	$5,475,355
✓	BOQ	BBB+	$10,000,000	6.67%	10.00%	$4,983,570
✓	Bendigo	BBB+	$10,000,000	6.67%	10.00%	$4,983,570
✓	AMP Bank	BBB	$2,000,000	1.33%	10.00%	$12,983,570
✓	Newcastle PBS	BBB	$1,396,646	0.93%	10.00%	$13,586,924
			$149,835,702	**100.00%**		

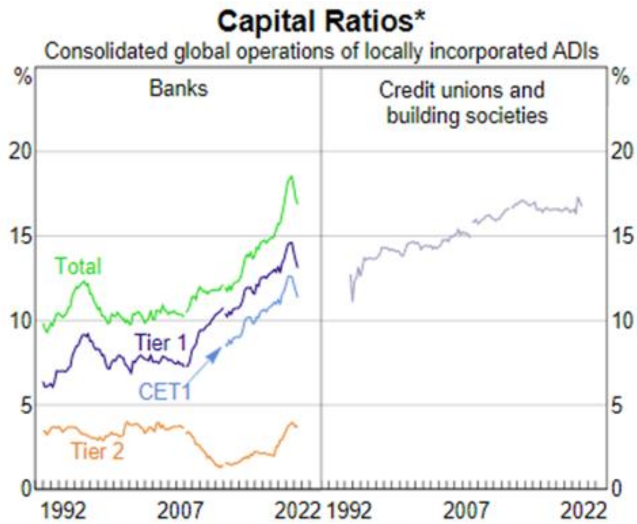
In late June 2022, Standard & Poor's downgraded Suncorp-Metway from AA- to A+ (negative watch). Suncorp recently announced that it is undertaking a strategic review of its banking operations. The downgrade reflects S&P's view that the Suncorp Group's likelihood of support for the bank had "*slightly*" diminished and that it was no longer a core part of the Group. In July 2022, ANZ (AA-) announced it was putting a bid to buy Suncorp's banking division for ~$3.9bn. Should that takeover be formalised, Suncorp-Metway's (A+) current credit rating is likely to be upgraded to ANZ's (AA-).

We remain supportive of the regional and unrated ADI sector (and have been even throughout the post-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.

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). The financial regulator, APRA has noted that the Common Equity Tier 1 capital of Australian banks now exceeds a quarter of a trillion dollars. It has increased by $110 billion, or more than 70%, over the past eight years. Over the same time, banks' assets have grown by 44%. Some of the extra capital is supporting growth in the banking system itself but clearly, there has been a strengthening in overall resilience and leverage in the system is lower.

We believe that deposit investments with the lower rated ADIs should be considered 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 (and international) ADIs continue to carry high levels of capital. There is minimal (if any) probability of any ADI defaulting on their deposits going forward – this was stress tested during the GFC and the pandemic period. **APRA's mandate is to "*protect depositors*" and provide "*financial stability*".**



* Per cent of risk-weighted assets; break in March 2008 due to the introduction of Basel II for most ADIs; break in March 2013 due to the introduction of Basel III for all ADIs.

Source: APRA

Credit Quality

The portfolio remains well diversified from a credit ratings perspective, with all assets classified as investment grade (rated BBB- or higher). As at the end of March 2023, all categories were within the Policy limits:

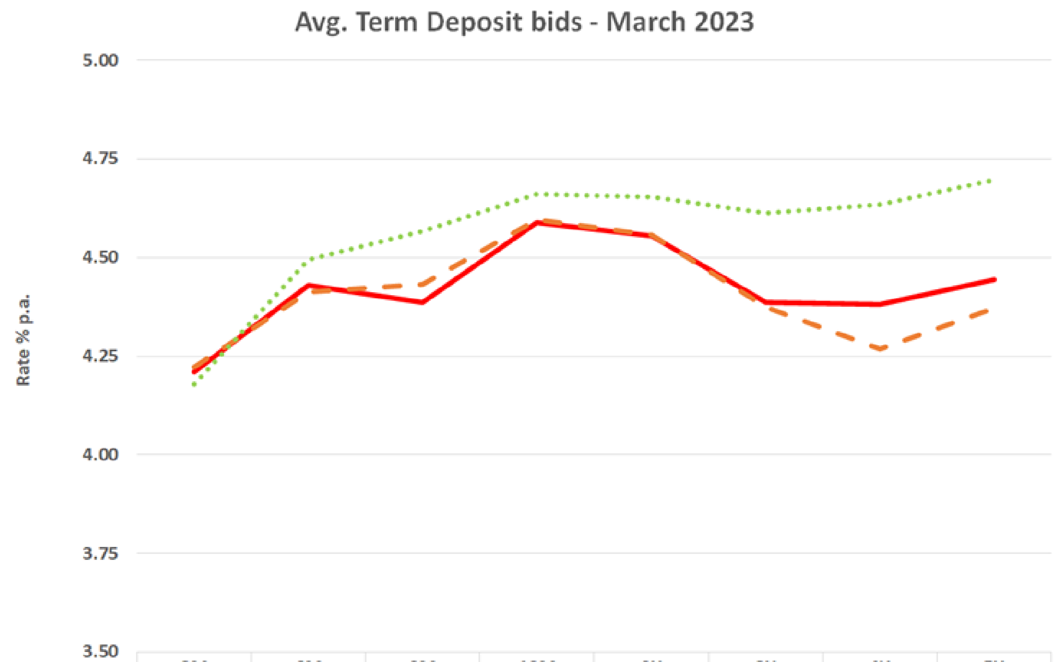
Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AA Category	$88,188,784	58.86%	100%	$61,646,918
✓	A Category	$38,250,272	25.53%	60%	$51,651,149
✓	BBB Category	$23,396,646	15.61%	35%	$29,045,850
✓	Unrated ADIs	$0	0.00%	10%	$14,983,570
		$149,835,702	**100.00%**		

Pre-pandemic (March 2020), a 'normal' marketplace meant the lower rated ADIs (i.e. BBB category) were offering higher rates on term deposits compared to the higher rated ADIs (i.e. A or AA rated). But due to the cheap funding available provided by the RBA via their Term Funding Facility (TFF) since mid-2020[1], allowing the ADIs to borrow as low as 0.10% p.a. fixed for 3 years, those lower rated ADIs (BBB rated) did not require deposit funding from the wholesale deposit from the likes of Council. Given the higher rated banks had more capacity to lend (as they have a greater pool of mortgage borrowers), they subsequently were offering higher deposit rates. In fact, some of the lower rated banks were not even offering deposit rates at all. As a result, most investors placed a higher proportion of their deposit investments with the higher rated (A or AA) ADIs over the past three years.

The abnormal marketplace experienced over the past few years is starting to reverse as the competition for deposits increases. We are now starting to see some of the lower rated ADIs ("BBB" rated) offering slightly higher rates compared to the higher rated banks ("A" or "AA" rated) on different parts of the curve. Some of this has been attributed to lags in adjusting their deposit rates as some banks (mainly the lower rated ADIs) simply set their rates for the week.

Going forward, investors should have a larger opportunity to invest a higher proportion of its surplus funds with the lower rated institutions (up to Policy limits), from which the majority are not lending to the Fossil Fuel industry. We are slowly seeing this trend emerge, as has been the case over the month of March 2023:

[1] The RBA's Term Funding Facility (TFF) allowed the ADI to borrow as low as 0.10% fixed for 3 years: https://www.rba.gov.au/mkt-operations/term-funding-facility/overview.html



	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	4.21	4.43	4.39	4.59	4.56	4.39	4.38	4.44
A Rated	4.22	4.41	4.43	4.60	4.56	4.37	4.27	4.37
BBB Rated	4.18	4.49	4.57	4.66	4.65	4.61	4.63	4.70

Source: Imperium Markets

Performance

Council's performance for the month ending 31 March 2023 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years
Official Cash Rate	0.30%	0.82%	1.53%	2.00%	2.11%	1.10%
AusBond Bank Bill Index	0.28%	0.79%	1.54%	1.97%	2.04%	1.03%
Council's T/D Portfolio	0.23%	0.65%	1.25%	1.74%	2.04%	1.68%
Council's FRN Portfolio	0.37%	1.07%	2.08%	2.83%	3.22%	2.41%
Council's Bond Portfolio	0.10%	0.29%	0.58%	0.88%	1.16%	1.12%
Council's Portfolio^	**0.22%**	**0.63%**	**1.22%**	**1.71%**	**2.00%**	**1.67%**
Outperformance	**-0.06%**	**-0.16%**	**-0.32%**	**-0.26%**	**-0.04%**	**0.63%**

^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	3.60%	3.35%	3.10%	2.67%	2.11%	1.10%
AusBond Bank Bill Index	3.39%	3.25%	3.11%	2.63%	2.04%	1.03%
Council's T/D Portfolio	2.74%	2.65%	2.52%	2.33%	2.04%	1.68%
Council's FRN Portfolio	4.47%	4.42%	4.21%	3.79%	3.22%	2.41%
Council's Bond Portfolio	1.17%	1.17%	1.17%	1.17%	1.16%	1.12%
Council's Portfolio^	**2.67%**	**2.59%**	**2.47%**	**2.28%**	**2.00%**	**1.67%**
Outperformance	**-0.73%**	**-0.66%**	**-0.65%**	**-0.35%**	**-0.04%**	**0.63%**

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

For the month of March, the total investment portfolio (excluding cash) provided a solid return of +0.22% (actual) or +2.67% p.a. (annualised), underperforming the benchmark AusBond Bank Bill Index return of +0.28% (actual) or +3.39% p.a. (annualised). This relative 'underperformance' has been due to the unexpected aggressive rate hikes undertaken by the RBA. Whilst this 'underperformance' may continue in the short-term, we do anticipate this to be temporary. Council should also remind itself it has consistently 'outperformed' over longer-term time periods as demonstrated by the longer-term returns of the overall investment portfolio.

We are pleased that North Sydney Council remains amongst the best performing Councils in the state of NSW where deposits are concerned. We have been pro-active in our advice about protecting interest income for many years and encouraged to maintain a slightly long duration position. This is now reflected by the strong consistent performance of the investment portfolio over the longer term horizons.

Council's Term Deposit Portfolio & Recommendation

As at the end of March 2023, Council's deposit portfolio was yielding **2.74% p.a.** (up 9bp from the previous month), with a weighted average duration of around 346 days (~11½ months). We recommend Council maintains an average duration close to 12 months, should cash flows allow.

Over a longer-term cycle, investors are rewarded if they can continue to maintain a slightly longer average duration. In a 'normal' marketplace, yields at the long-end are generally offered at a slight premium over shorter tenors.

At the time of writing, we see value in:

	LT Credit Rating	Term	T/D Rate
AMP	BBB	2-3 years	4.85% p.a.^
Hume Bank	BBB+	2 years	4.75% p.a.
ING	A	2 years	4.60% p.a.
P&N Bank	BBB	3 years	4.56% p.a.
P&N Bank	BBB	2 years	4.52% p.a.
BoQ	BBB+	2 years	4.50% p.a.
Suncorp	A+	2 years	4.45% p.a.
Westpac	AA-	2 years	4.32% p.a.
NAB	AA-	2 years	4.30% p.a.

^Contact us to get an additional 20bp rebated commission. Aggregate limits temporarily lifted to $10m (from $5m).

The above deposits are suitable for investors looking to maintain diversification and lock-in a slight 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
AMP	BBB	11-12 months	4.90% p.a.^
AMP	BBB	8-10 months	4.75% p.a.^
Hume Bank	BBB+	12 months	4.75% p.a.
ING	A	12 months	4.68% p.a.
MyState	BBB	12 months	4.66% p.a.
P&N Bank	BBB	12 months	4.61% p.a.
BoQ	BBB+	6 months	4.60% p.a.
Suncorp	A+	12 months	4.56% p.a.
BoQ	BBB+	12 months	4.55% p.a.
Macquarie	A+	12 months	4.50% p.a.
NAB	AA-	12 months	4.50% p.a.
Macquarie	A+	3-4 months	4.50% p.a.
NAB	AA-	6 months	4.50% p.a.
Westpac	AA-	12 months	4.41% p.a.
NAB	AA-	3 months	4.35% p.a.

^Contact us to get an additional 20bp rebated commission. Aggregate limits temporarily lifted to $10m (from $5m).

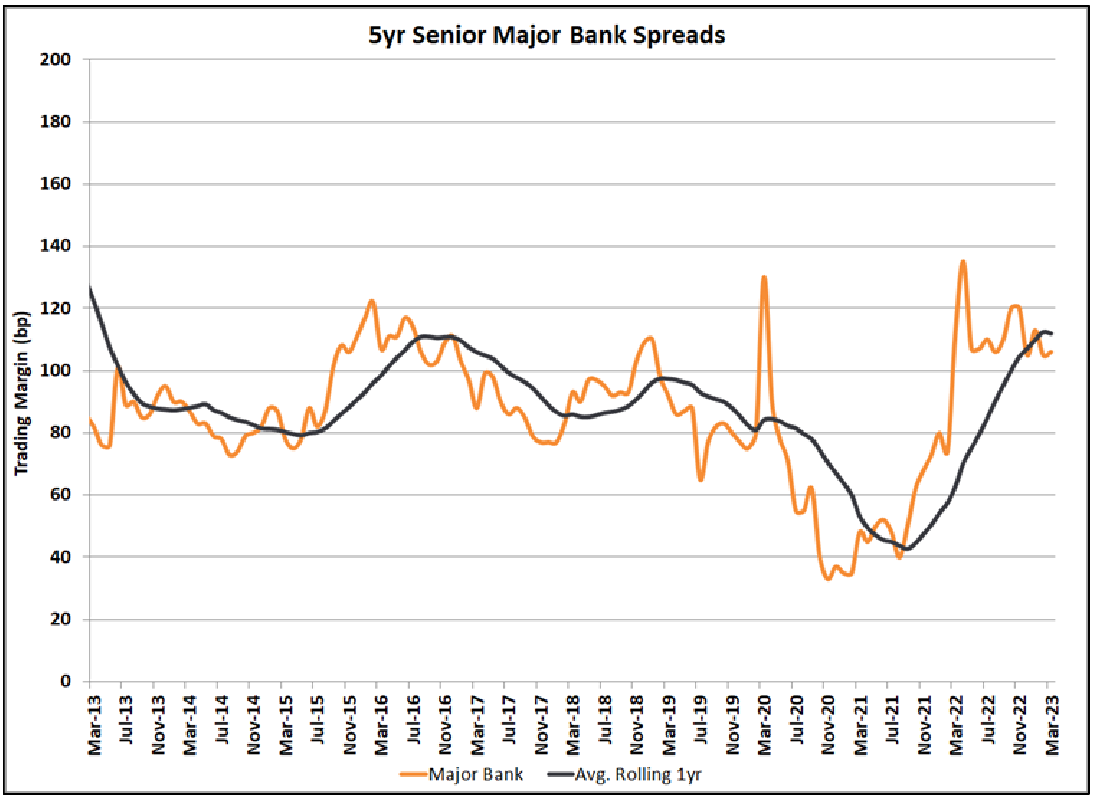
If Council does not require high levels of liquidity and can stagger its investments across the longer term horizons (2-5 years), it will be rewarded over coming years if it can roll for an average min. term of 12 months to 3 years (this is where we current value), yielding, on average, up to ¼-½% p.a. higher compared to those investors that entirely invest in short-dated (under 6 months) deposits.

With recessionary fears being priced in coming years, Council should consider allocating some longer-term surplus funds and undertake an insurance policy by investing across 3-5 year fixed deposits and locking in rates close to or above 4½ p.a. This will provide some income protection if central banks decide to cut rates in future years, assuming inflation is under control.

In the immediate future, given the significant outflows anticipated from capital projects, short-dated term deposits are suitable for North Sydney Council's purposes.

Senior FRNs Review

Over March, amongst the senior major bank FRNs, physical credit securities remained relatively flat at the 5yr part of the curve, whilst widening around 8bp at the 3yr part of the curve. During March, ANZ (AA-) issued a dual 3 & 5 year senior security at +83bp and +106bp respectively, printing $4.25bn. Major bank senior securities remain fairly attractive again in a rising rate environment (5 year margins above the +105bp level):



Source: IBS Capital

There was a lack of primary issuances in March compared to February. Amongst the "A" rated sector, the securities were marked around 5bp tighter at the 3-5 year part of the curve, whilst the "BBB" rated sector was marked around 5bp wider – typically there are lags amongst the regional sector due to the lack of turnover in the secondary market.

Credit securities are looking much more attractive given the widening of spreads over the past year. 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)	31/03/2023	28/02/2023
“AA” rated – 5yrs	+106bp	+105bp
“AA” rated – 3yrs	+83bp	+75bp
“A” rated – 5yrs	+120bp	+125bp
“A” rated – 3yrs	+95bp	+90bp
“BBB” rated – 3yrs	+150bp	+145bp

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-2025 for the “AA” rated ADIs (domestic major banks)**;
- On or before mid-2024 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 challenging economic 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, but only when Council’s capital projects have been finalised.

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 these investments were prudent at the time of investment especially after the rate cut delivered in early November 2020 and the RBA's forward guidance on official interest rates (no rate rises "*until at least 2024*").

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.

IMPERIUM MARKETS

Senior Fixed Bonds – ADIs (Secondary Market)

As global inflationary pressures remain, this has seen a significant lift in longer-term bond yields over the past year (valuations fell) as markets have reacted sharply.

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	0.43	3.00%	4.29%
AU3CB0258465	Westpac	AA-	Senior	16/11/2023	0.63	3.25%	4.07%
AU3CB0265403	Suncorp	A+	Senior	30/07/2024	1.34	1.85%	4.31%
AU3CB0263275	Westpac	AA-	Senior	16/08/2024	1.38	2.25%	4.03%
AU3CB0265718	ING	AAA	Covered	20/08/2024	1.39	1.45%	4.23%
AU3CB0266179	ANZ	AA-	Senior	29/08/2024	1.43	1.55%	3.95%
AU3CB0266377	Bendigo	BBB+	Senior	06/09/2024	1.46	1.70%	4.33%
AU3CB0268027	BoQ	BBB+	Senior	30/10/2024	1.59	2.00%	4.44%
AU3CB0269710	ANZ	AA-	Senior	16/01/2025	1.80	1.65%	4.11%
AU3CB0269892	NAB	AA-	Senior	21/01/2025	1.81	1.65%	4.14%
AU3CB0270387	Macquarie	A+	Senior	12/02/2025	1.88	1.70%	4.30%
AU3CB0287415	Westpac	AA-	Senior	17/03/2025	1.97	2.70%	4.05%
AU3CB0291508	Westpac	AA-	Senior	11/08/2025	2.39	3.90%	4.14%
AU3CB0291672	CBA	AA-	Senior	18/08/2025	2.39	4.20%	4.07%
AU3CB0280030	BoQ	BBB+	Senior	06/05/2026	3.10	1.40%	4.57%
AU3CB0282358	ING	AAA	Covered	19/08/2026	3.40	1.10%	4.29%
AU3CB0284149	BoQ	BBB+	Senior	27/10/2026	3.59	2.10%	4.65%
AU3CB0286037	Westpac	AA-	Senior	25/01/2027	3.84	2.40%	4.36%

Economic Commentary

International Market

Volatility returned across risk markets in March after the collapse of Silicon Valley Bank (SVB) - the 16th largest bank in the US with US$209bn in assets as at 31 December 2022. Importantly, the US government vowed no depositors would lose money in the collapse and measures were taken by the US Treasury, US Fed and FDIC to prevent a US bank run on deposits.

US Treasury Secretary Yellen noted the US federal government "*is resolutely committed*" to mitigating financial-stability risks where necessary, adding that the government "*would be prepared to take additional actions if warranted*" to protect bank depositors if smaller lenders are threatened.

Adding to the banking uncertainty was reports that Credit Suisse Group had found "*material weakness*" in its reporting and control procedures, before borrowing CHF540bn from the Swiss National Bank and subsequently being bought out by UBS (approximately US$3.25bn).

Before the collapse of SVB, US Fed Chair Powell told Congress that recent data had been "*stronger than expected*" and "*the ultimate level of interest rates is likely to be higher than previously anticipated, and if necessary, we would be prepared to increase the pace of rate hikes*".

Across equity markets, the S&P 500 Index gained +3.51%, whilst the NASDAQ added +6.69%. Europe's main indices were mixed, with gains for Germany's DAX (+1.72%) and France's CAC (+0.75%), whilst the UK's FTSE fell (-3.10%).

US headline inflation came in in line with expectations at +0.4% m/m, as expected, while core inflation printed at +0.5% m/m (+0.4% expected). Core inflation is +5.1% in 3 month annualised terms, about the same as its 6 month annualised rate of +5.2%.

The US unemployment rate rose to 3.6% in February, above the expectation for 3.4%, amid a tick higher in the labour force participation rate to 62.5%, its highest level since March 2020.

The Bank of Canada (BoC) kept rates on hold at 4½% as widely expected.

The ECB delivered on its well-flagged 50bp hike to all its main interest rates, undeterred by recent market ructions.

Spanish CPI was +6.1% y/y from +5.9% and +5.7% expected. French CPI was +7.2% y/y from +7.0% and +7.0% expected. Headline German CPI was +1.0% m/m vs. +0.7% expected, taking the annual rate to +9.3% y/y (+9.0% expected).

The MSCI World ex-Aus Index rose +2.93% for the month of March:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+3.51%	+7.03%	-9.29%	+16.71%	+9.25%	+10.11%
MSCI World ex-AUS	+2.93%	+7.39%	-8.46%	+14.62%	+6.30%	+7.12%
S&P ASX 200 Accum. Index	-0.16%	+3.46%	+0.10%	+16.52%	+8.69%	+8.18%

Source: S&P, MSCI

Domestic Market

The RBA raised rates by 25bp to 3.60%, its tenth consecutive increase. The Statement was less hawkish, but in line with expectations, with the post-Meeting Statement deleting explicit guidance of "*further increases in interest rates will be needed over the months ahead*". The subsequent Minutes for March suggest the Board is evaluating the case for pausing, saying that "*Members agreed to reconsider the case for a pause at the following meeting*".

The monthly CPI indicator for February showed annual inflation dropping to +6.8% from January's +7.4%. It was noticeably lower than expectations of +7.2%.

The unemployment rate in February fell to 3.54% (consensus 3.60%), back to its December level, while participation rebounded as expected to 66.6%

APRA said it would hold the "*serviceability buffe*r" – which banks add to market interest rates when assessing new borrowers – at 3% "*to maintain prudent lending standards*".

Retail sales grew +0.2% m/m in February and has been broadly flat at elevated levels since September last year. The level of retail sales is still 16% above pre-pandemic levels.

House price falls slowed in February with values falling by 0.14% nationwide, the smallest monthly fall since interest rates started rising in May last year. Dwelling approvals fell -27.6% m/m in January.

The January trade surplus was $11.7bn (consensus $12.25bn) from an upwardly revised December balance of $13.0bn. Imports rose +4.6% (or $2.1bn), driven by a surge in vehicle imports (+30.9% m/m or, $0.9bn) from already elevated levels. Exports rose by less, up +1.4% (or $0.8bn).

The Australian dollar lost -0.27%, finishing the month at US67.12 cents (from US67.30 cents the previous month).

Credit Market

The global credit indices widened over March as financial markets were concerned about a contagion from the banking sector. They are now back to their levels in early 2022 (prior to the rate hike cycle from most central banks):

Index	March 2023	February 2023
CDX North American 5yr CDS	78bp	75bp
iTraxx Europe 5yr CDS	88bp	80bp
iTraxx Australia 5yr CDS	92bp	87bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	March 2023	February 2023
Bloomberg AusBond Bank Bill Index (0+YR)	+0.28%	+0.24%
Bloomberg AusBond Composite Bond Index (0+YR)	+3.16%	-1.32%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.26%	+0.43%
Bloomberg AusBond Credit Index (0+YR)	+1.85%	-0.62%
Bloomberg AusBond Treasury Index (0+YR)	+3.53%	-1.58%
Bloomberg AusBond Inflation Gov't Index (0+YR)	+4.16%	-2.20%

Source: Bloomberg

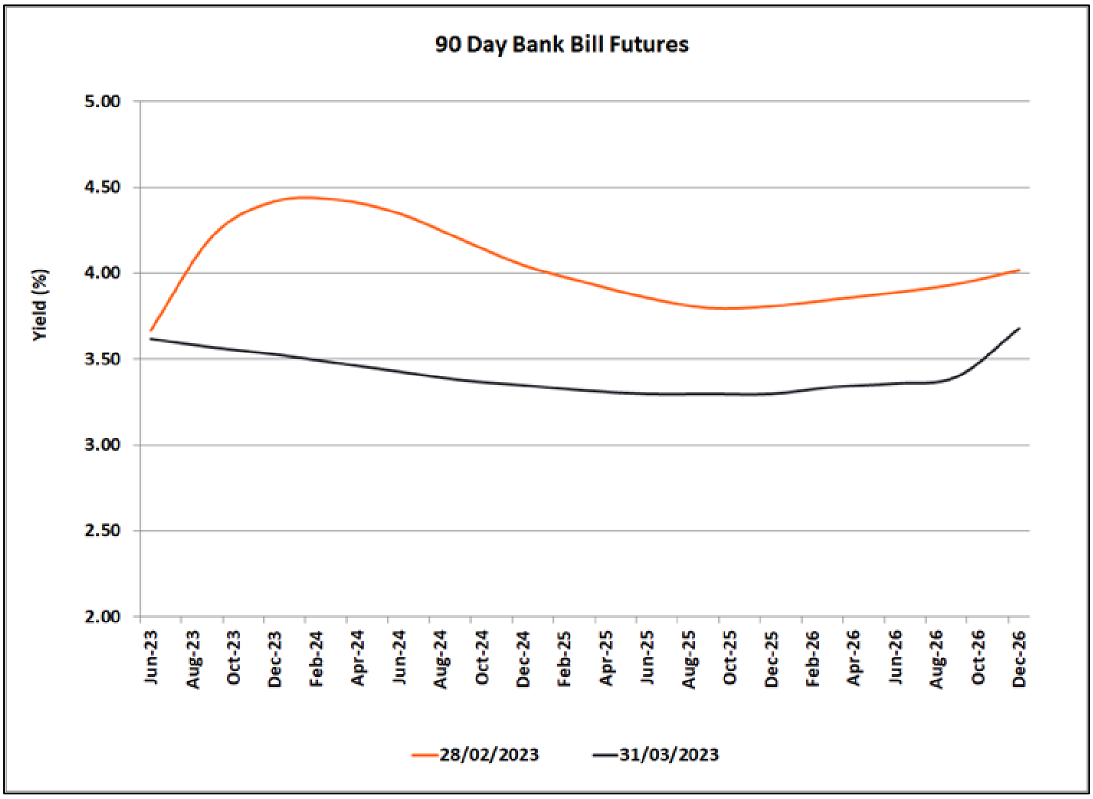
Other Key Rates

Index	March 2023	February 2023
RBA Official Cash Rate	3.60%	3.35%
90 Day (3 month) BBSW Rate	3.72%	3.56%
3yr Australian Government Bonds	2.94%	3.60%
10yr Australian Government Bonds	3.30%	3.85%
US Fed Funds Rate	4.75%-5.00%	4.50%-4.75%
2yr US Treasury Bonds	4.06%	4.81%
10yr US Treasury Bonds	3.48%	3.92%

Source: RBA, AFMA, US Department of Treasury

90 Day Bill Futures

Over March, bill futures fell significantly across the board, with the market reacting to the possibility that the RBA may not only pause as early as April, but maybe forced to cut rates later this year. The markets continue to factor in the possibility of a global recession over the next few years, highlighted by the drop in the futures pricing in early 2024:



Source: ASX

Fixed Interest Outlook

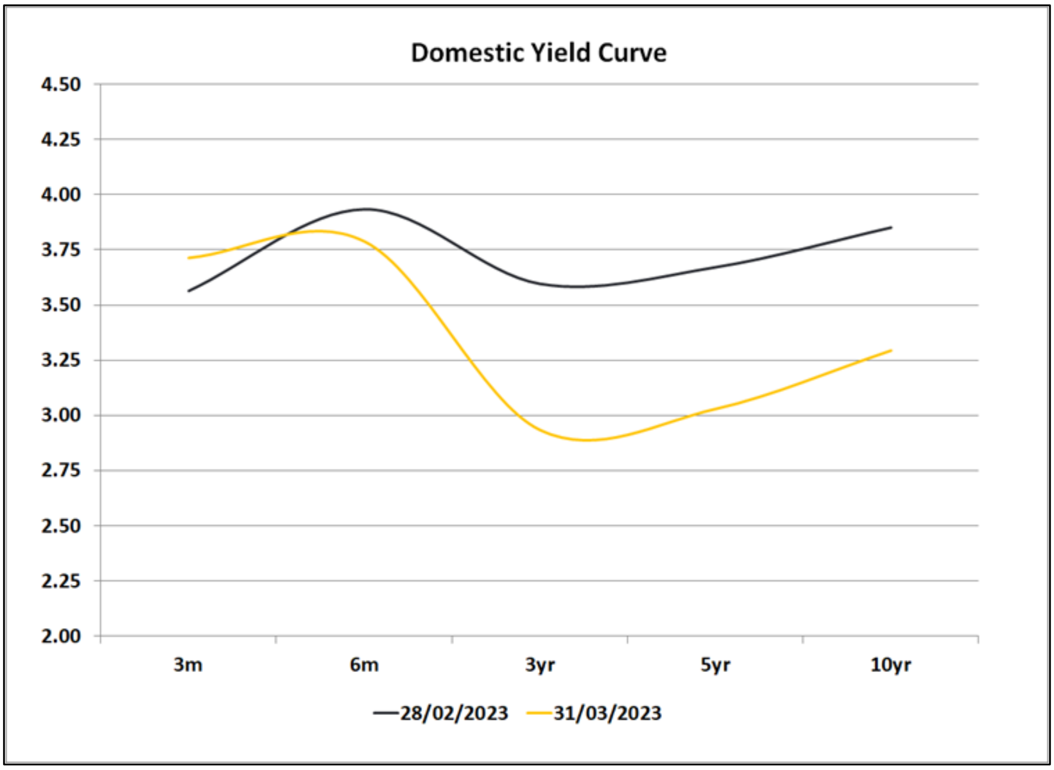
After lifting rates by 25bp to 4.75%-5.00%, the US Fed dot plots continues to pencil in one further hike to 5.00-5.25%. Fed Chair Powell indicated their base case was not any rate cuts this year, against some market expectations. The market's reaction to their statement was interpreted as dovish after they said "*some additional policy firming may be appropriate*" (toned down from the prior January statement that had "*ongoing increases in the target range will be appropriate*").

Domestically, after lifting rates by 25bp for a 10th consecutive meeting to 3.60%, the RBA removed February's pre-commitment to more hikes over coming months. There was a hint of data dependency with reference to "*when and how much further*" tightening of monetary policy will be needed. The market has interpreted this as a possible pause in April after the RBA's ten consecutive rate hikes.

Governor Lowe has commented "*with monetary policy now in restrictive territory, we are closer to the point where it will be appropriate to pause interest rate increases to allow more time to assess the state of the economy*".

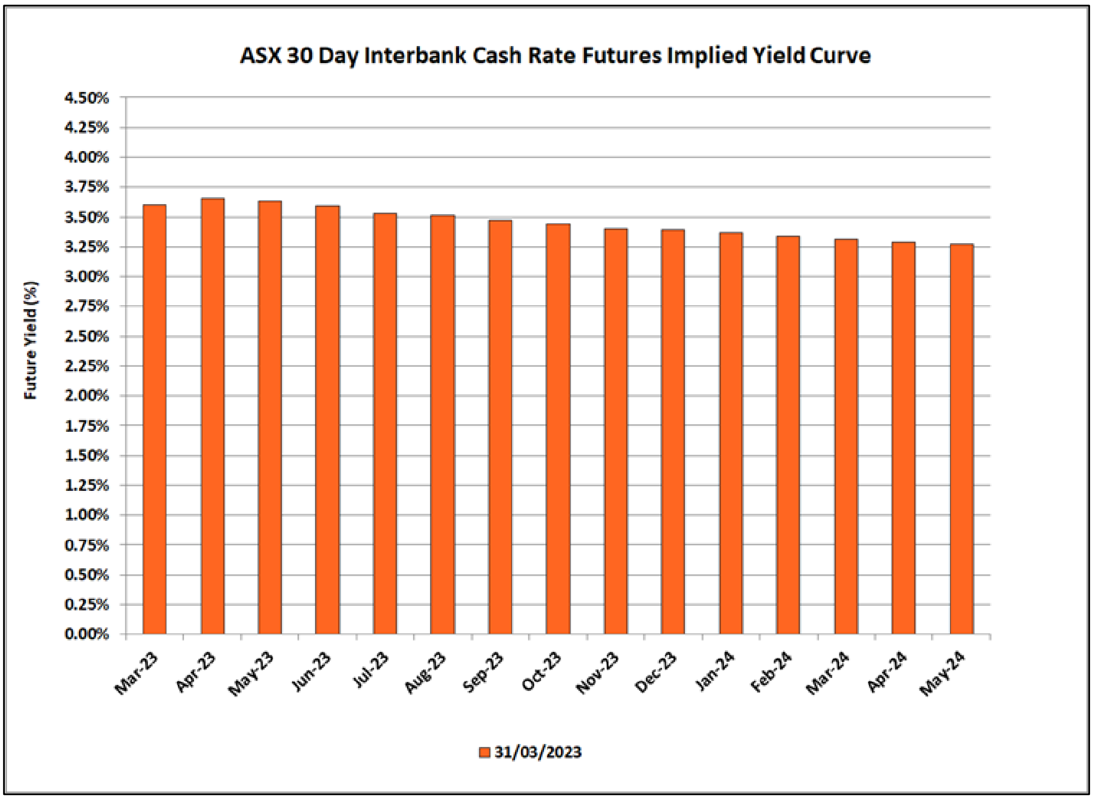
Markets have been quick to revise their interest rate forecasts following the events surrounding the global banks, as well as central bank rhetoric. A pause by the RBA in April is now a strong possibility (previously up to two rate hikes were still largely priced by the market the previous month).

Over the month, yields fell up to 66bp at the long-end of the curve:



Source: AFMA, ASX, RBA

A softer than expected monthly CPI reading along with fears of a banking crisis and a looming global recession have moved up the potential for a rate cut as early as late 2023 – previously markets were only factoring rate cuts in 2024.



Source: ASX

Disclaimer

Imperium Markets provides fixed income investment advisory services and a financial market platform through which clients and fixed income product providers may transact with each other.

The information in this document is intended solely for your use. The information and recommendations constitute judgements as of the date of this report and do not consider your individual investment objectives and adopted policy mandate.

Imperium Markets monitors the entire fixed income investible universe and recommends the best rate available to us, regardless of whether a product provider uses our market platform. You are responsible for deciding whether our recommendations are appropriate for your particular investment needs, objectives and financial situation and for implementing your decisions. You may use our platform to transact with your chosen product providers.

Imperium Markets charges a flat fee for our investment advice. Any commissions received are rebated to clients in full. If you choose a product provider who uses our market platform, the product provider pays us 1bp p.a. funding fee of the value of the investments transacted.