10.4. Investment and Loan Borrowings Report as at 31 December 2024 and 31 January 2025

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ATTACHMENTS	1. Monthly Investment Review December 2024 [**10.4.1** - 21 pages] 2. Monthly Investment Review January 2025 [**10.4.2** - 21 pages]
CSP LINK	5. Our Civic Leadership 5.1 Lead North Sydney's strategic direction

PURPOSE:

The purpose of this report is to provide details of the performance of Council's investments and loans for the months ending 31 December 2024 and 31 January 2025.

EXECUTIVE SUMMARY:

- All investments have been made in accordance with the Local Government Act and Regulations and Council's Financial Investments Policy.

- For the month of December, the total investment portfolio (Term Deposits, Floating Rate Notes and Bonds) provided a return of +0.34% (actual), or +4.11% p.a. (annualised), under-performing the benchmark AusBond Bank Bill Index return of +0.38% (actual), or +4.53% p.a. (annualised).

- Returns on investments exceed the December YTD budget by $1,098,000.

- For the month of January, the total investment portfolio (Term Deposits, Floating Rate Notes and Bonds) provided a return of +0.35% (actual), or +4.19% p.a. (annualised), under-performing the benchmark AusBond Bank Bill Index return of +0.38% (actual), or +4.59% p.a. (annualised).

- Returns on investments exceed the January YTD budget by $1,357,000.

- Underperformance against the benchmark for both months is due to Council holding term deposits made in a low inflation environment, and a higher than usual percentage held as cash to pay for expected project costs.

RECOMMENDATION:

1. THAT the report on Investments held at 31 December 2024 and 31 January 2025, prepared in accordance with clause 212 of the Local Government (General) Regulation 2021, and the information on Loan Borrowings be received.

Background

Clause 212 of the Local Government (General) Regulation 2021, states that 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, also 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.

Total Cash and Investment Balance and Reserves

The total cash and investment balances are, at 31 December 144,332,716 and at 31 January $141,737,524. Most of this balance is held in reserves to be spent on certain activities and projects. Reserves fall into one of two categories:

- external restrictions (Council is obliged by legislation, or contract, to spend the funds on certain projects and activities); and
- internal allocations (Council has resolved to spend the funds on certain projects and activities).

The following tables detail the reserves, held as at 31 December 2024 and 31 January 2025. Council held an unrestricted cash balance of $25.6 million at 31 December and $21.6 million at 31 January, indicating it has funded all its reserves. The unrestricted cash balance tends to be high in the first half of the financial year due to the timing of receipts of rates.

As per the September 2024 quarterly budget review, part of the internal reserves will be reallocated to fund the increased project costs of the North Sydney Olympic Pool in the second half of the year.

As at 31 December 2024	
External Restrictions and Internal Allocations	
External restrictions	
Developer contributions – general	$42,444,282
Domestic waste management	$15,027,735
Unexpended Special Rates	$1,396,541
Unspent borrowings - North Sydney Olympic Pool redevelopment	$8,622,679
Specific purpose grants	$4,441,739
Other specific purpose contributions	$2,067,543
Total external restrictions	**$74,000,519**
Internal allocations	
Capital works	$9,315,444
Community housing - capital purchases	$960,101
Community housing - major maintenance	$490,657

As at 31 December 2024	
External Restrictions and Internal Allocations	
Deposits, retentions, and bonds	$14,995,441
Employees leave entitlement	$7,127,000
I.T. hardware and software	$1,046,730
Income producing projects	$496,330
Olympic Pool Redevelopment	$9,717,472
Plant and vehicle replacement	$2,835,537
Total internal allocations	**$46,984,712**
Total Restrictions and Allocations	**$120,985,231**
Unrestricted Cash and Investments	$23,347,485
Total Cash and Investments	**$144,332,716**

As at 31 January 2025	
External Restrictions and Internal Allocations	
External restrictions	
Developer contributions – general	$42,583,355
Domestic waste management	$15,669,379
Unexpended Special Rates	$1,575,700
Unspent borrowings - North Sydney Olympic Pool redevelopment	$8,620,949
Specific purpose grants	$4,053,207
Other specific purpose contributions	$2,045,743
Total external restrictions	**$74,548,333**
Internal allocations	
Capital works	$9,336,860
Community housing - capital purchases	$960,101
Community housing - major maintenance	$490,657
Deposits, retentions, and bonds	$14,971,705
Employees leave entitlement	$7,127,000
I.T. hardware and software	$1,086,375
Income producing projects	$544,448
Olympic Pool Redevelopment	$9,717,472
Plant and vehicle replacement	$3,428,793
Total internal allocations	**$47,663,411**
Total Restrictions and Allocations	**$122,211,744**
Unrestricted Cash and Investments	$19,525,780
Total Cash and Investments	**$141,737,524**

Investment Portfolio

The tables on the next page detail the performance of Council's investment portfolio (excluding cash deposits) to the benchmark for the months of December 2024 and January 2025 - and annualised for the year-to-date (including investments that have matured prior to that date).

	December 2024	Annualised YTD
Actual Return	0.34%	4.11%
Benchmark	0.38%	4.52%
Variance	-0.04%	-0.41%

	January 2025	Annualised YTD
Actual Return	0.35%	4.19%
Benchmark	0.39%	4.59%
Variance	-0.04%	-0.40%

The portfolio underperformance, as compared to the benchmark, is due to rises in the RBA official cash rate and long-term investments that were placed before those increases were made and a higher than usual percentage of investments held as cash to pay for expected project costs.

December 2024		
Asset Type	**Market Value**	**Portfolio Breakdown**
Term Deposits	$113,500,000	78.63%
Cash	$23,432,579	16.24%
Fixed Bonds	$6,000,000	4.16%
Floating Rate Notes (FRNs)	$1,400,137	0.97%
	$144,332,716	**100.00%**

January 2025		
Asset Type	**Market Value**	**Portfolio Breakdown**
Term Deposits	$108,500,000	76.55%
Cash	$25,838,221	18.23%
Fixed Bonds	$6,000,000	4.23%
Floating Rate Notes (FRNs)	$1,399,303	0.99%
	$141,737,524	**100.00%**

For December 2024, Council's average duration of term deposits, which comprised 78.63% of the investment portfolio, is approximately 147 days. For January 2025, term deposits comprise 76.55% of the investment portfolio and average duration is approximately 136 days. The average duration continues to fall to align maturities with expected outflows on the capital works program.

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. All investments accord with Council's Financial Investments Policy.

Council continues to seek independent advice for investments and are 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 Reports (Attachment 1 December 2024 and Attachment 2 January 2025) prepared by Council's investment advisor, Arlo Advisory. The reports contain advice about optimal investment options but also note that Council's scope to act on that advice is limited by its cash flow requirements. Council has considerable requirements for short term investments and deposits at call to fund its Capital Works budget including the North Sydney Olympic Pool project.

Summary of Returns from Investments (includes Fair Value adjustments)

The actual investment returns for the year-to-date 31 December 2024 are $1,097,826 more than the revised year-to-date budget and for the year-to-date 31 January 2025 are $1,357,119 more than the revised year-to-date budget.

Year	Original Annual Budget	Revised Annual Budget	YTD Budget	YTD	YTD Actual FV adjustment	YTD Budget to Actual Variance
December 2024						
2024/25	$2,534,059	$3,034,059	$1,433,196	$2,532,533	-$1,511	$1,097,826
January 2025						
2024/25	$2,534,059	$3,034,059	$1,699,840	$3,059,252	-$2,293	$1,357,119
Previous Years						
Year	**Original Annual Budget**	**Revised Annual Budget**		**Final Result Interest**	**Final Result FV adjustments**	**Final Budget to Actual Variance**
2023/24	$2,490,000	$5,490,000		$5,413,310	$5,334	-$71,356
2022/23	$1,384,350	$3,340,000		$3,685,634	$4,647	$350,281
2021/22	$1,182,500	$1,362,500		$1,302,826	$64,865	$5,191

Floating Rate Notes (FRNs) 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 seen a decrease of $2,293.

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:

December 2024			
Long Term Rating Range (Standard & Poors)	**Invested**	**Maximum Policy Holding**	**Distribution**
AA Category	$112,932,579	100.00%	78.24%
A Category	$30,000,000	60.00%	20.79%
BBB Category	$1,400,137	35.00%	0.97%
Unrated ADIs (NR)	$0	10.00%	0.00%

January 2025			
Long Term Rating Range (Standard & Poors)	**Invested**	**Maximum Policy Holding**	**Distribution**
AA Category	$105,338,221	100.00%	74.32%
A Category	$35,000,000	60.00%	24.69%
BBB Category	$1,399,303	35.00%	0.99%
Unrated ADIs (NR)	$0	10.00%	0.00%

Loan Borrowings

Council's Loan Borrowing Policy is the framework for Council's borrowing activities. This 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 three 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**
1/07/2024	$4,505,143.19			
31/07/2024	$4,261,152.46	$45,648.83	$243,990.71	$ 289,639.54
31/10/2024	$4,014,689.49	$43,176.57	$246,462.97	$ 289,639.54
31/01/2025	$3,765,729.20	$40,679.25	$248,960.29	$ 289,639.54
30/04/2025	$3,513,002.06	$36,912.40	$252,727.14	$ 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
Note: This On-Street Parking Management System is now redundant, having been replaced in July 2024.

Loans 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 released, as required, to fund project cash outflows. At 31 May 2024, these loan funds had been fully expended.

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**
01/07/2024	$28,935,444.66			
30/10/2024	$28,391,663.57	$613,431.43	$543,781.09	$1,157,212.52
29/04/2025	$27,836,354.32	$601,903.27	$555,309.25	$1,157,212.52

In July 2024, Council established a $20 million TCorp loan facility to fund further budget requirements of the redevelopment of North Sydney Olympic Pool. Drawdown on the facility was processed on 27 July 2024. The funds were invested with a maturity profile to match cash flow requirements of the project. The funds were restricted and are being released, as required, to fund project cash outflows. As at 31 December 2024 $8.6 million was restricted and as at 31 January 2025, $8.6 million.

This loan is a fixed loan financing option, fully amortising the drawn down amount of $20,000,000 over 10 years, fixed interest rate with semi-annual repayments of interest and principal. The loan details are:

Loan amount:	$20,000,000.00			
Loan term:	10 years			
From:	26/07/2024			
To:	26/07/2034			
Interest rate:	5.29%p.a.(fixed)			
Repayment:	Semi-Annual			
Dates	**Principal Outstanding**	**Interest**	**Principal**	**Payment**
27/07/2024	$20,000,000.00			
28/01/2025	$19,228,419.44	$529,000.00	$771,580.56	$1,300,580.56

Consultation Requirements

Community engagement is not required.

Financial/Resource Implications

Returns are higher than budgeted in the months of December and January due to phasing of the Capital Works program. An adjustment to income is included in the December Quarter Review.

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 consider it prudent to provide monthly reporting of loans.

Monthly Investment Review

December 2024

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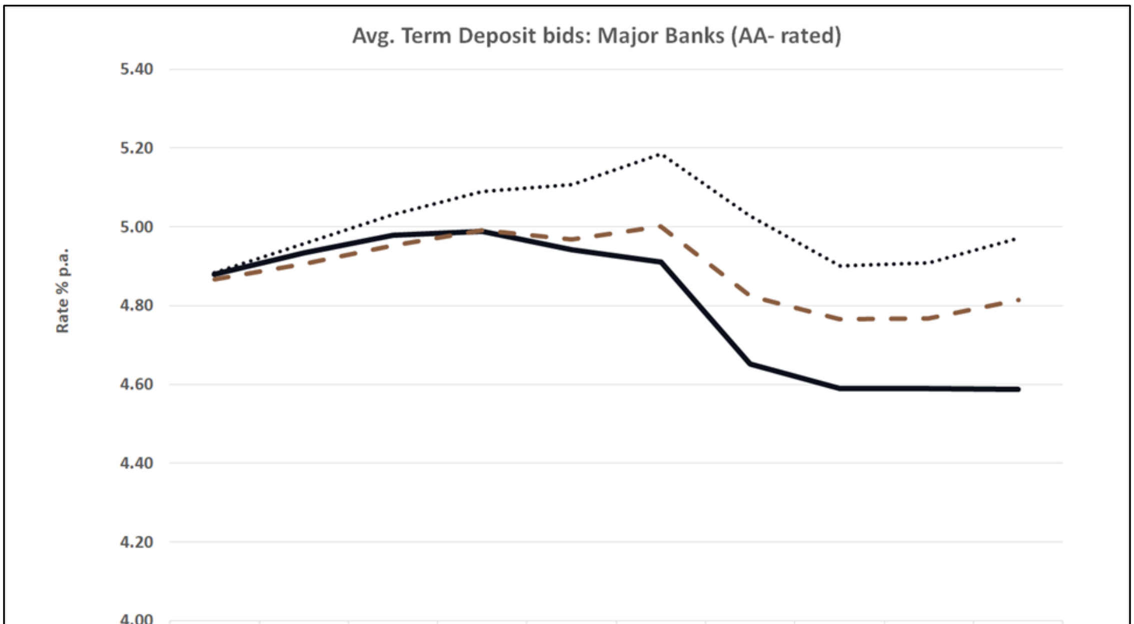
Market Update Summary

Risk markets were largely negative in December as financial markets assessed high valuations, uncertainties surrounding tax and tariff policies from the administration of US President-elect Trump, and prospects of global central banks becoming more cautious in 2025 due to sticky inflation.

In the deposit market, over December, at the very short-end of the curve (less than 6 months), the average deposit rates offered by the major banks were relatively unchanged compared to where they were the previous month (November). The biggest moves have been seen at the long-end of the curve. The average rates being offered for 1-5 year terms dropped another 10-23bp compared to where they were in November. The market had reacted after the RBA somewhat pivoted and removed their slight tightening bias in their latest Board meeting in early December.



	3M	4M	5M	6M	9M	12M	2Y	3Y	4Y	5Y
Dec-2024	4.88	4.93	4.98	4.99	4.94	4.91	4.65	4.59	4.59	4.59
Nov-2024	4.87	4.91	4.95	4.99	4.97	5.00	4.82	4.77	4.77	4.81
Jun-2024	4.88	4.96	5.03	5.09	5.11	5.19	5.03	4.90	4.91	4.97

Source: Imperium Markets

With rate cuts and a global economic downturn priced in over the next few years, investors should consider diversifying and taking an ‘insurance policy’ against a potentially lower rate environment by investing across 1-5 year fixed deposits and locking in rates above 4¾% p.a. (small allocation only).

North Sydney Council' Portfolio & Compliance

Asset Allocation

As at the end of December 2024, the portfolio was mainly directed to fixed term deposits (79%). The remaining portfolio is directed to FRNs (1%), fixed bonds (4%) and overnight cash accounts (16%).

Senior FRNs are starting to become slightly expensive on a historical basis, although new issuances should continue to be considered on a case by case scenario. In the interim, staggering a mix of fixed deposits between 12 months to 3 years remains a more optimal strategy to maximise returns over a longer-term cycle.

With multiple rate cuts and a global economic downturn being priced in coming years, investors can choose to allocate a small proportion of longer-term funds and undertake an insurance policy against any potential future rate cuts by investing across 1-5 year fixed deposits, locking in and targeting yields above 4¾% p.a. Should inflation be within the RBA's target band of 2-3% over the longer-term, returns around 4¾% p.a. or higher should outperform benchmark.

However, noting the significant capital outflows expected in the near term, Council is currently largely restricted to investing into very short-term investments (under 6-12 months). This is suitable to invest in short-dated fixed term deposits or high yielding cash accounts.

Term to Maturity

Overall, the portfolio remains lightly diversified from a maturity perspective. Around 9% of assets is directed to medium-term assets (1-2 years), which has resulted in solid performance 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 $88m at month-end.

Where liquidity permits (once immediate capital projects are finalised), we recommend new surplus funds be directed to 1-3 year horizon given this will help optimise returns over the long-run. We suggest this be allocated to any remaining attractive fixed term deposits.

In the interim, given the large ongoing capital expenditure flagged in the short-term, 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	$77,832,716	53.93%	10%	100%	$66,500,000
✓	91 - 365 days	$54,000,000	37.41%	20%	100%	$90,332,716
✓	1 - 2 years	$12,500,000	8.66%	0%	70%	$88,532,901
✓	2 - 5 years	$0	0.00%	0%	50%	$72,166,358
✓	5 - 10 years	$0	0.00%	0%	25%	$36,083,179
		$144,332,716	**100.00%**			

Arlo Advisory

Counterparty

As at the end of December, all individual limits comply with the Policy. We remind Council exposures to individual ADIs are driven by the portfolio's movements throughout any month. Overall, the portfolio is lightly diversified across the investment grade spectrum, with no exposure to the unrated ADIs (high credit quality).

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	ANZ (Suncorp)	AA-	$5,000,000	3.46%	30.00%	$38,299,815
✓	CBA	AA-	$28,432,579	19.70%	30.00%	$14,867,236
✓	NAB	AA-	$42,000,000	29.10%	30.00%	$1,299,815
✓	NTTC Treasury	AA-	$6,000,000	4.16%	30.00%	$37,299,815
✓	Westpac	AA-	$31,500,000	21.82%	30.00%	$11,799,815
✓	ICBC Sydney	A	$15,000,000	10.39%	15.00%	$6,649,907
✓	BOQ	A-	$15,000,000	10.39%	15.00%	$6,649,907
✓	Newcastle PBS	BBB+	$1,400,137	0.97%	10.00%	$13,033,134
			$144,332,716	**100.00%**		

On 31st July 2024, ANZ's takeover of Suncorp Bank was formalised, and ratings agency S&P upgraded Suncorp's long-term credit rating to that of its parent company immediately (now rated AA-). Any future investments with Suncorp will now be reflected under the parent company being ANZ.

Credit Quality

The portfolio remains lightly diversified from a credit ratings perspective, with all assets classified as investment grade (rated BBB- or higher). As at the end of December 2024, all categories were within the Policy limits, with the majority rated AA or A rated:

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AA Category	$112,932,579	78.24%	100%	$31,400,137
✓	A Category	$30,000,000	20.79%	60%	$56,599,630
✓	BBB Category	$1,400,137	0.97%	35%	$49,116,314
✓	Unrated ADIs	$0	0.00%	10%	$14,433,272
		$144,332,716	**100.00%**		

Performance

Council's performance for the month ending December 2024 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	0.36%	1.08%	2.17%	2.17%	4.36%	4.13%	3.18%
AusBond Bank Bill Index	0.38%	1.12%	2.24%	2.24%	4.47%	4.18%	3.19%
Council's T/D Portfolio	0.36%	1.05%	1.98%	1.98%	3.91%	3.55%	2.92%
Council's FRN Portfolio	0.47%	1.41%	2.83%	2.83%	5.72%	5.36%	4.36%
Council's Bond Portfolio	0.10%	0.30%	0.59%	0.59%	1.18%	1.17%	1.17%
Council's Portfolio^	**0.34%**	**1.00%**	**1.89%**	**1.89%**	**3.73%**	**3.41%**	**2.82%**
Rel. Performance	**-0.03%**	**-0.12%**	**-0.36%**	**-0.36%**	**-0.74%**	**-0.77%**	**-0.37%**

^Total portfolio performance excludes Council's cash account holdings.

Performance (% p.a.)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	4.35%	4.35%	4.35%	4.35%	4.36%	4.13%	3.18%
AusBond Bank Bill Index	4.53%	4.50%	4.50%	4.50%	4.47%	4.18%	3.19%
Council's T/D Portfolio	4.30%	4.22%	3.97%	3.97%	3.91%	3.55%	2.92%
Council's FRN Portfolio	5.72%	5.70%	5.69%	5.69%	5.72%	5.36%	4.36%
Council's Bond Portfolio	1.23%	1.19%	1.18%	1.18%	1.18%	1.17%	1.17%
Council's Portfolio^	**4.11%**	**4.02%**	**3.78%**	**3.78%**	**3.73%**	**3.41%**	**2.82%**
Rel. Performance	**-0.42%**	**-0.48%**	**-0.72%**	**-0.72%**	**-0.74%**	**-0.77%**	**-0.37%**

^Total portfolio performance excludes Council's cash account holdings.

For the month of December, the total investment portfolio (excluding cash) provided a solid return of +0.34% (actual) or +4.11% p.a. (annualised), underperforming the benchmark AusBond Bank Bill Index return of +0.38% (actual) or +4.53% p.a. (annualised). This relative 'underperformance' has been due to the unexpected aggressive rate hikes undertaken by the RBA since May 2022. Whilst this 'underperformance' may continue in the short-term, we do anticipate this to be fairly temporary, especially if the RBA is approaching the end of its rate hike cycle.

Note this ongoing period of underperformance is also highly dependent on reinvesting maturing funds at prevailing market rates *beyond 6 month tenors*. With large capital outflows, maturing funds are largely being spent or kept in low yielding short-dated assets. Council should also remind itself it has consistently 'outperformed' over longer-term time periods (last +10yrs).

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 as this optimises the overall returns of the portfolio in the long-run.

Recommendations for Council

Term Deposits

As at the end of December 2024, Council's deposit portfolio was yielding **4.22% p.a.** (up 2bp from the previous month), with a weighted average duration of around 147 days (~5 months). We recommend Council slightly increases this weighted average duration, should cash flows allow in future.

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

Please refer to the section below for further details on the Term Deposit market.

Securities

Primary (new) **FRNs** (with maturities between 3-5 years) continue to be appealing (particularly for those investors with portfolios skewed towards fixed assets) and should be considered on a case by case scenario.

Please refer to the section below for further details on the FRN market.

Council's Senior FRNs Sale/Switch Recommendations

We recommend Council retains the Newcastle FRN at this stage (still yielding close to 5½% p.a.). This is now likely to be simply held to maturity (4th Feb 2025) with no rate cuts imminent in the immediate future.

Council's Senior Bonds

During October 2020, Council placed $3m in the Northern Territory Treasury Corporation (NTTC), locking in a yield of 1.00% p.a. for a 5 year term. 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. $6m x 0.25% = $15,000) as it was introduced by Imperium Markets (sister company of Arlo Advisory). We believe these investments were prudent at the time of investment especially after the rate cut delivered in early November 2020 to 0.10% 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.

Term Deposit Market Review

Current Term Deposits Rates

As at the end of December, we see value in the following:

ADI	LT Credit Rating	Term	Rate % p.a.
ING Bank	A	5 years	4.92%
BoQ	A-	5 years	4.85%
Westpac	AA-	5 years	4.68%
ING Bank	A	4 years	4.84%
BoQ	A-	4 years	4.80%
Westpac	AA-	4 years	4.64%
ING Bank	A	3 years	4.79%
Suncorp	AA-	3 years	4.69%
Westpac	AA-	3 years	4.59%
ING Bank	A	2 years	4.80%
Suncorp	AA-	2 years	4.72%
BoQ	A-	2 years	4.60%
Westpac	AA-	2 years	4.59%
NAB	AA-	2 years	4.55%

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 (*we stress that rates are indicative, dependent on daily funding requirements and different for industry segments*):

ADI	LT Credit Rating	Term	Rate % p.a.
AMP	BBB+	12 months	4.95%
ING	A	12 months	4.93%
NAB	AA-	12 months	4.90%
ICBC Sydney	A	12 months	4.86%
Suncorp	AA-	12 months	4.90%
Westpac	AA-	12 months	4.68%
BankVIC	BBB+	9 months	5.11%
BoQ	A-	9 months	5.05%
AMP	BBB+	9 months	5.00%
NAB	AA-	9 months	4.95%
Suncorp	AA-	9 months	4.90%
BoQ	A-	6 months	5.20%
Bendigo-Adelaide	A-	6 months	5.05%
NAB	AA-	6 months	4.95%
Suncorp	AA-	6 months	4.92%
NAB	AA-	3 months	5.00%
Westpac	AA-	3 months	4.92%

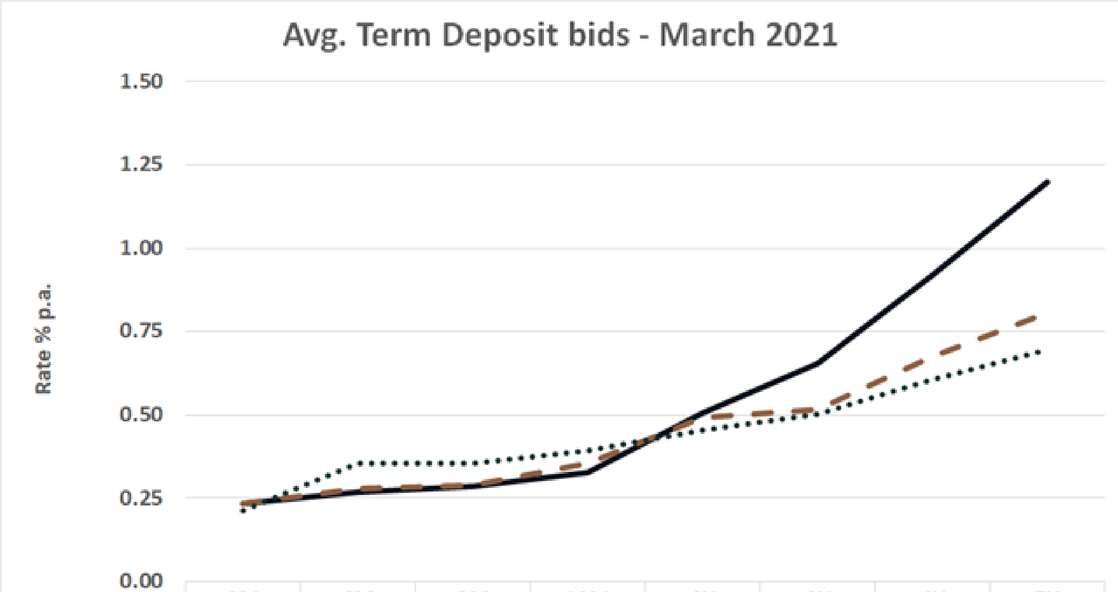
For those investors that do not require high levels of liquidity and can stagger their investments longer term, they will be rewarded over a longer-term cycle if they roll for an average min. term of 12 months, with a spread of investments out to 5 years (this is where we see current value). In a normal market environment (upward sloping yield curve), investors could earn over a cycle, on average, up to ¼-½% p.a. higher compared to those investors that entirely invest in short-dated deposits.

With rate cuts and a global economic downturn priced in over the next few years, investors should consider allocating some longer-term surplus funds and undertake an insurance policy by investing across 1-5 year fixed deposits and locking in rates above 4¾% p.a. This will provide some income protection if the RBA decides to start cutting rates over the second half of 2025.

Term Deposits Analysis

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) during mid-2020, 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. 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.

Term Deposit Rates – 12 months after pandemic (March 2021)



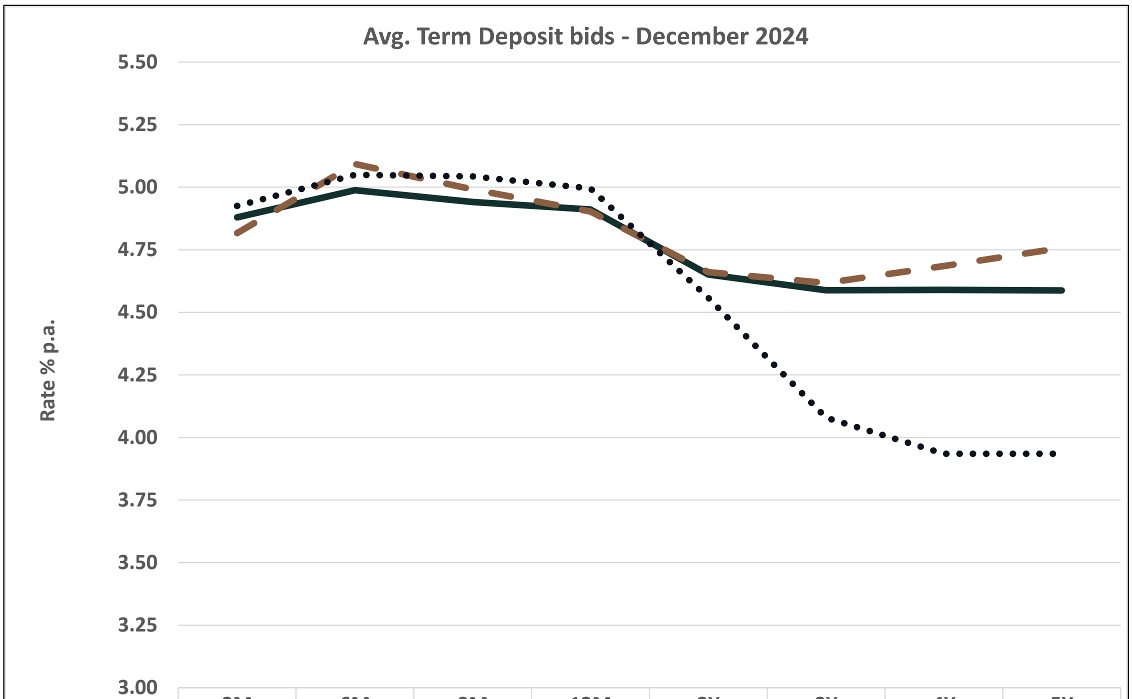
	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	0.23	0.27	0.29	0.33	0.51	0.65	0.92	1.20
A Rated	0.23	0.28	0.29	0.35	0.49	0.52	0.68	0.81
BBB Rated	0.21	0.36	0.35	0.39	0.45	0.50	0.61	0.70

Source: Imperium Markets

The abnormal marketplace experienced during the pandemic is starting to reverse as the competition for deposits slowly increases, partially driven by the RBA's term funding facility coming to an end. In recent months, we have started to periodically see some of the lower rated ADIs ("A" and "BBB" rated) offering slightly higher rates compared to the domestic major banks ("AA" rated) on different parts of the curve (i.e. pre-pandemic environment). 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 funds with the lower rated institutions (up to Policy limits), from which the majority are not lending to the Fossil Fuel industry or considered 'ethical'. We are slowly seeing this trend emerge, although the major banks always seem to react more quickly than the rest of the market during periods of volatility:

Term Deposit Rates – Currently (December 2024)



	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	4.88	4.99	4.94	4.91	4.65	4.59	4.59	4.59
A Rated	4.82	5.09	4.99	4.90	4.66	4.62	4.69	4.76
BBB Rated	4.93	5.05	5.04	5.00	4.56	4.08	3.94	3.94

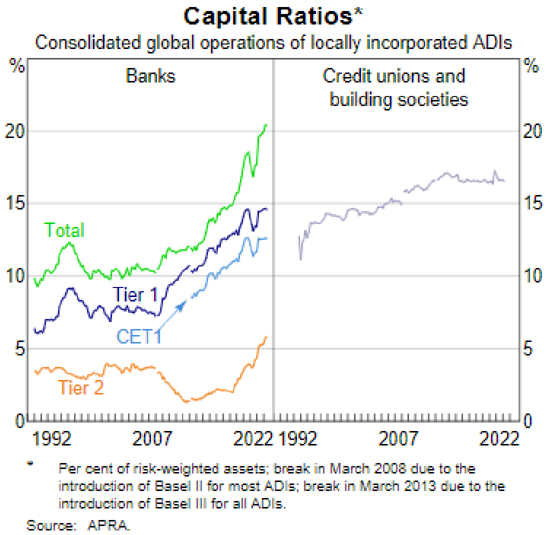
Source: Imperium Markets

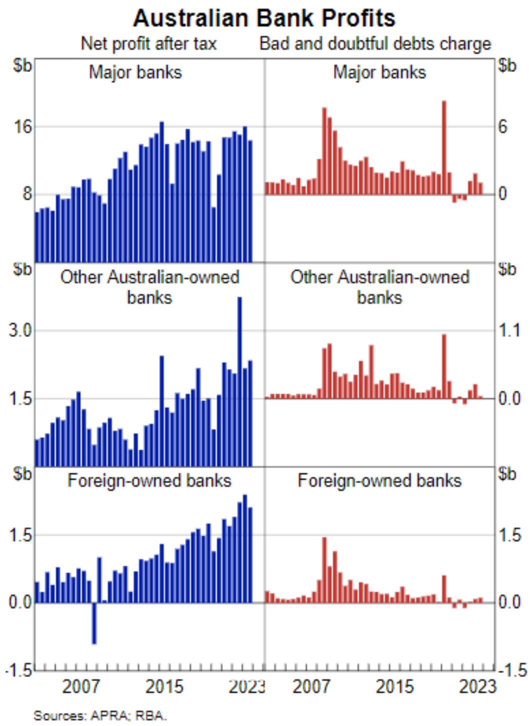
Financial Stability of the Banking (ADI) Sector

The RBA's latest Financial Stability report of 2024 reaffirms the strong balance sheet across the ADI sector. They noted that the risk of widespread financial stress remains limited due to the generally strong financial positions of most (individual) borrowers. Very few mortgage borrowers are in negative equity, limiting the impact on lenders (ADIs) in the event of default and supporting their ability to continue providing credit to the economy. Most businesses that have entered insolvency are small and have little debt, limiting the broader impact on the labour market and thus household incomes, and on the capital position of lenders (ADIs).

Australian banks (collectively the APRA regulated ADIs) have maintained prudent lending standards and are well positioned to continue supplying credit to the economy. A deterioration in economic conditions or temporary disruption to funding markets is unlikely to halt lending activity. Banks have anticipated an increase in loan arrears and have capital and liquidity buffers well above regulatory requirements (*see Capita Ratios chart below*). APRA's mandate is to "*protect depositors*" and provide "*financial stability*".

Over the past two decades, both domestic and international banks continue to operate and demonstrate high levels of profitability (*see Australian Bank Profits chart below*), which also includes two stress-test environments being the GFC (September 2008) and the COVID pandemic (March 2020):

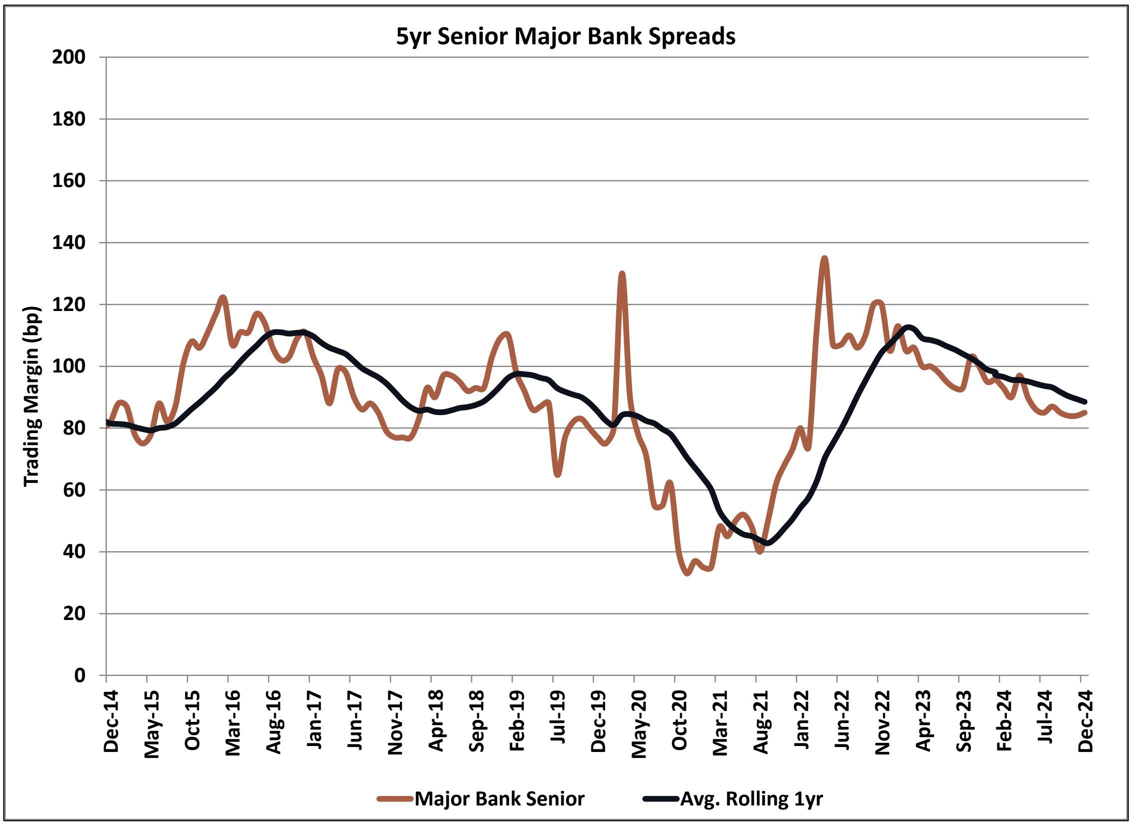




Arlo Advisory

Senior FRNs Market Review

Over December, amongst the senior major bank FRNs, physical credit securities slightly widened at the long-end of the curve. Long-term major bank senior securities are approaching the 'expensive' territory especially if the 5yr margin tightens towards +80bp. During the month, Westpac (AA-) issued a 1 year senior deal at +40bp.



Source: IBS Capital

During December, there was a lack of new issuances from the ADIs heading into the holiday period, with only the following notable issuance:

- Bank of Queensland (A-) 1 year senior FRN at +65bp

Amongst the "A" rated sector, the securities widened by around 5bp at the longer-end of the curve, whilst the "BBB" was wider by around 8bp and is marked at a relatively attractive level. Overall, credit securities remain fair value on a historical basis without being overly exciting. FRNs will continue to play a role in investors' portfolios mainly based on their liquidity and the ability to roll down the curve and gross up returns over ensuing years (in a relatively stable credit environment), whilst also providing some diversification to those investors skewed towards fixed assets.

Senior FRNs (ADIs)	31/12/2024	29/11/2024
“AA” rated – 5yrs	+85bp	+84bp
“AA” rated – 3yrs	+70bp	+68bp
“A” rated – 5yrs	+100bp	+95bp
“A” rated – 3yrs	+83bp	+80bp
“BBB” rated – 3yrs	+118bp	+110bp

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 early 2027 for the “AA” rated ADIs (domestic major banks);
- On or before early 2026 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.

Senior Fixed Bonds – ADIs (Secondary Market)

With global inflation still high by historical standards, this has seen a significant lift in longer-term bond yields over the past 3 years (valuations have fallen) 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
AU3CB0278174	UBS	A+	Senior	26/02/2026	1.16	1.1000%	4.60%
AU3CB0280030	BoQ	A-	Senior	06/05/2026	1.35	1.4000%	4.80%
AU3CB0299337	Bendigo	A-	Senior	15/05/2026	1.37	4.7000%	4.77%
AU3CB0296168	BoQ	A-	Senior	27/01/2027	2.08	4.7000%	4.85%

Economic Commentary

International Market

Risk markets were largely negative in December as financial markets assessed high valuations, uncertainties surrounding tax and tariff policies from the administration of US President-elect Trump, and prospects of global central banks becoming more cautious in 2025 due to sticky inflation.

Across equity markets, the S&P 500 Index fell -2.50%, whilst the NASDAQ added +0.48%. Europe's main indices were mixed, with gains for both France's CAC (+2.01%) and Germany's DAX (+1.44%), while dropping for UK's FTSE (-1.38%).

As widely expected, the US Federal Reserve cut interest rates by 25bps to a range of 4.25%-4.50%. This marks a total of 100bp in cumulative rate cuts since September 2023. However, the Fed is now signalling a more gradual pace of reductions going forward, with a total of 50bp of cuts expected in 2025 (compared to the 100bp projected in September).

There were other central banks that made key decisions, including a 25bp cut from both the European Central Bank and Sweden's Riksbank, and a 50bp cut from Bank of Canada; while there was no change from both the Bank of England and Bank of Japan.

Europe's core CPI was +2.7% y/y vs. +2.8% expected, and headline CPI was +2.3% y/y vs. +2.3% expected.

The November US CPI rose by +0.3% m/m, matching the consensus. The core reading also increased by +0.3%, in line with expectations. This was the fourth consecutive month the core CPI printed with a +0.3% handle, implying a y/y running rate of +3.6%.

The US economy expanded at an annualised rate of +3.1% in Q4 2004, up from the previous estimate of +2.8%. Consumer spending increased by +3.7% during the quarter (the fastest pace since early 2023) driven by +5.6% surge in goods consumption and +2.8% rise in services spending.

The US unemployment rate ticked higher to 4.2% in November (the median forecast was 4.1%), with payrolls rising +227k, in line with consensus for 220k.

Canada's employment growth was a solid +50k, but it was a 0.3% rise in the unemployment rate to 6.8%.

The MSCI World ex-Aus Index fell -2.59% for the month of December:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	-2.50%	+2.07%	+23.31%	+7.26%	+12.73%	+11.07%
MSCI World ex-AUS	-2.59%	-0.18%	+17.41%	+4.80%	+9.64%	+8.21%
S&P ASX 200 Accum. Index	-3.15%	-0.80%	+11.44%	+7.41%	+8.06%	+8.51%

Source: S&P, MSCI

Domestic Market

The RBA kept rates on hold in its final meeting for 2024. However, of more importance is the growing confidence that the RBA has in its November inflation track ("*Board is gaining some confidence*"). They removed the prior hawkish language that "*policy will need to be sufficiently restrictive*".

Australia's GDP rose by +0.3% q/q (+0.8% y/y) in Q3, weaker than consensus (+0.5%) and the RBA at +0.5% q/q. Overall, growth remains very soft in annual terms and is still around its weakest (ex. COVID) since the early 1990s. Public sector spending remains an important support, with private sector growth flat.

Unemployment in November surprised sharply, falling 0.2% to 3.9% from 4.1% (consensus 4.2%). The unemployment rate is now back to its equal lowest since March 2024. Underemployment (those employed but wanting and able to work more hours) fell a 0.1% to 6.1%, its equal lowest since April 2023.

Retail Sales for October were better than expected at +0.6% m/m vs. +0.4% consensus.

Australian consumer sentiment fell by -2% m/m in December, reflecting renewed pessimism surrounding the economic outlook. The sub-indices for "economic outlook (next 12 months)" and "economic outlook (next 5 years)" declined -9.6% and -7.9%, respectively (with both metrics retracing half of their gains from the past two months).

Dwelling prices in November rose +0.1% m/m nationally and are up +5.5% y/y according to CoreLogic. Dwelling price growth remains strong in Brisbane (+0.6% m/m), Adelaide (+0.8% m/m) and Perth (+1.1% m/m). Growth has slowed in Sydney with a small negative being seen in October and again in November (-0.2% m/m). Affordability remains challenged in Sydney.

The goods trade surplus beat expectations at $5.95bn vs. $4.5bn consensus.

The Australian dollar fell around -5.05%, finishing the month at US61.88 cents (from US65.17 cents the previous month).

Credit Market

The global credit indices marginally widened during the month. They remain near the levels seen in early 2022 (prior to the rate hike cycle from most central banks):

Index	December 2024	November 2024
CDX North American 5yr CDS	49bp	48bp
iTraxx Europe 5yr CDS	57bp	57bp
iTraxx Australia 5yr CDS	67bp	66bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	December 2024	November 2024
Bloomberg AusBond Bank Bill Index (0+YR)	+0.38%	+0.36%
Bloomberg AusBond Composite Bond Index (0+YR)	+0.51%	+1.14%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.43%	+0.37%
Bloomberg AusBond Credit Index (0+YR)	+0.71%	+0.86%
Bloomberg AusBond Treasury Index (0+YR)	+0.37%	+1.17%
Bloomberg AusBond Inflation Gov't Index (0+YR)	-0.26%	+1.34%

Source: Bloomberg

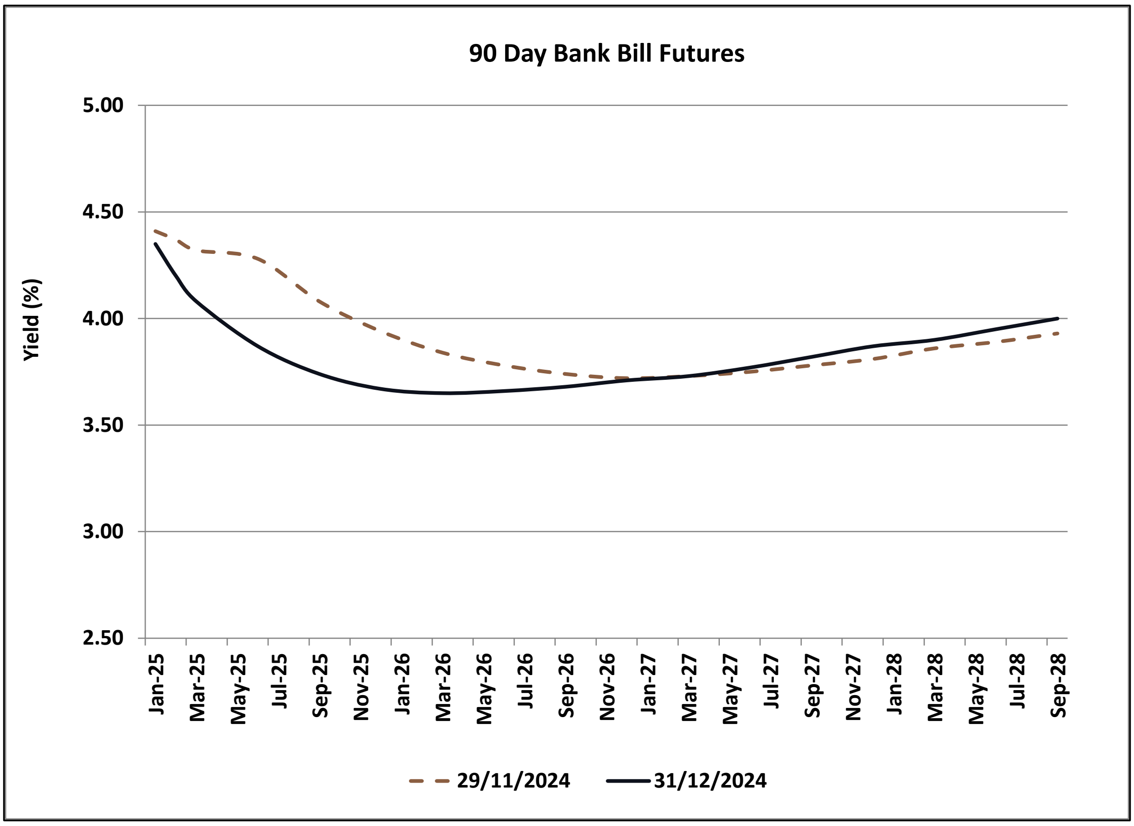
Other Key Rates

Index	December 2024	November 2024
RBA Official Cash Rate	4.35%	4.35%
90 Day (3 month) BBSW Rate	4.42%	4.43%
3yr Australian Government Bonds	3.82%	3.91%
10yr Australian Government Bonds	4.38%	4.34%
US Fed Funds Rate	4.25%-4.50%	4.50%-4.75%
2yr US Treasury Bonds	4.25%	4.13%
10yr US Treasury Bonds	4.58%	4.18%

Source: RBA, ASX, US Department of Treasury

90 Day Bill Futures

Bill futures fell at the short-end of the curve this month, following the movement in the global bond market. The focus from the market remains on when rate cuts will be delivered in 2025:

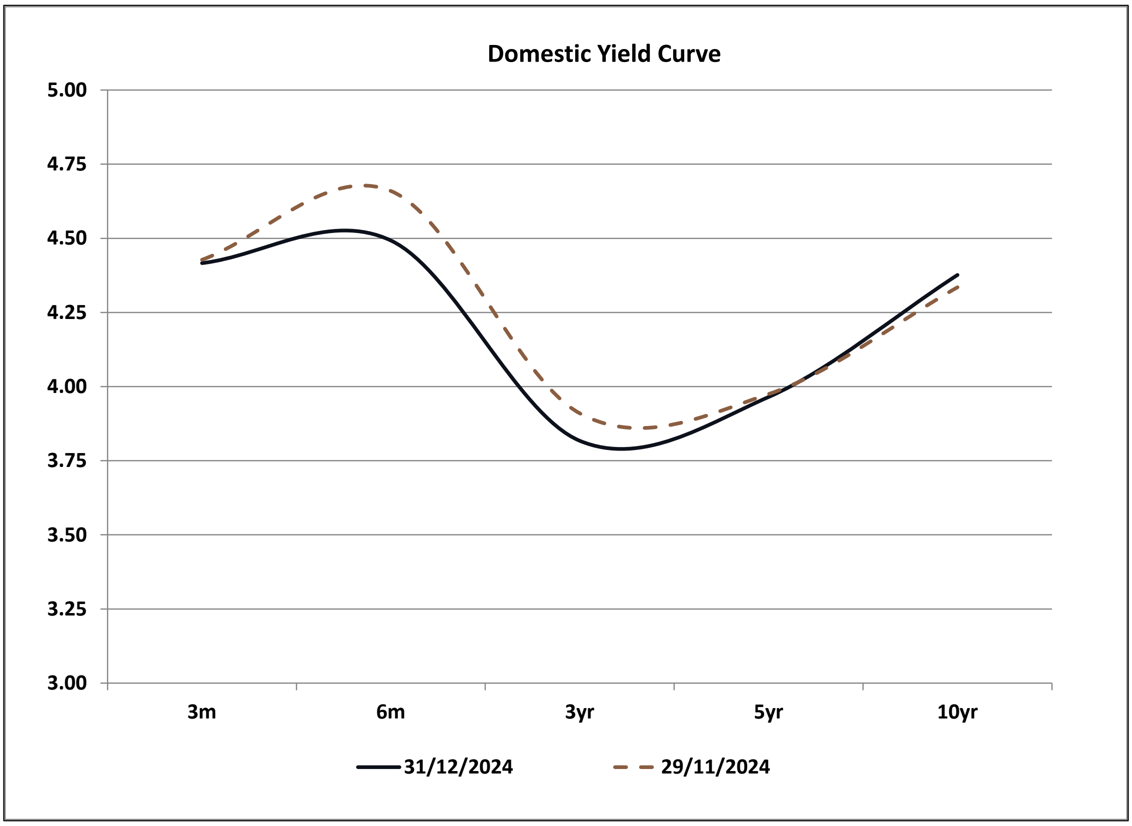


Source: ASX

Fixed Interest Outlook

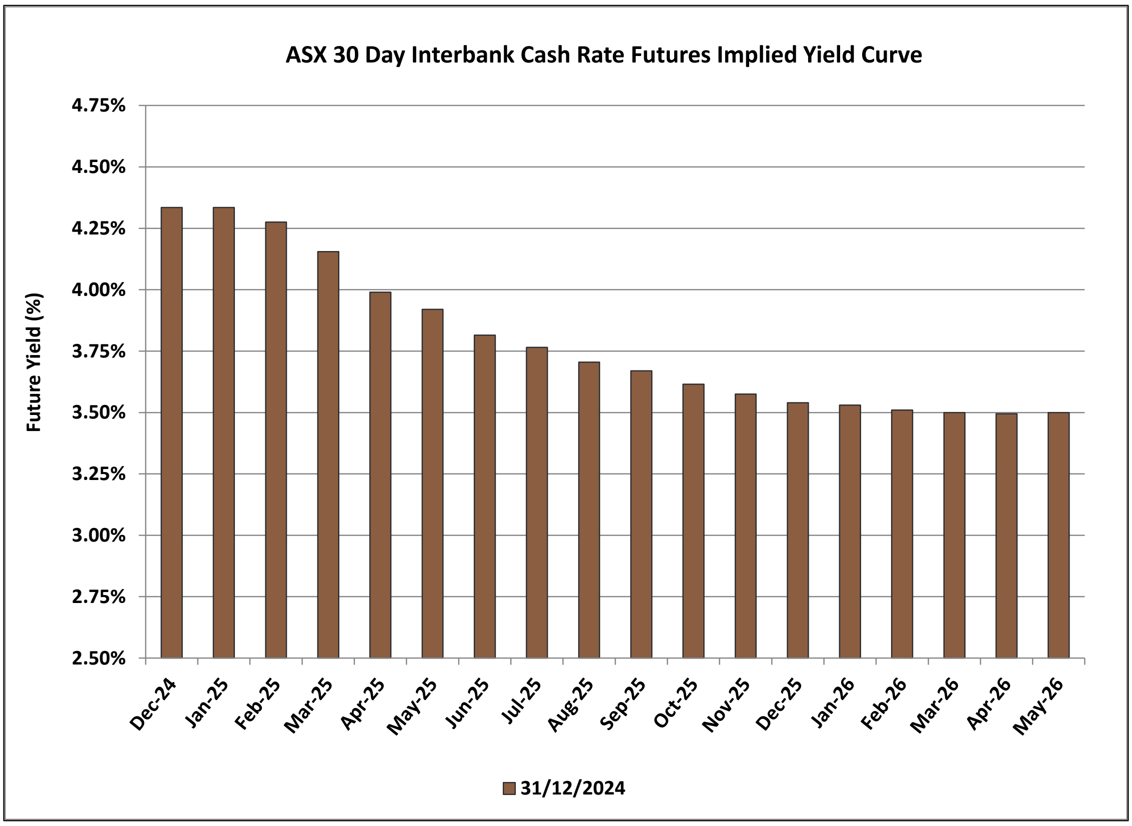
In delivering the US central bank's 25bp rate cut during its December meeting, the Fed also signalled it probably would only lower twice more in 2025 (down from the four projected in September), according to the "dot plot" matrix of individual FOMC members' future rate expectations. Fed Chair Powell's press conference also confirmed the Fed is going to be much more cautious in 2025, reflective of sticky inflation combined with President-elect Trump's proposed economic policies (which is expected to exacerbate price pressures).

In the RBA Board's December statement, the RBA removed their hawkish stance and commented "*recent data on inflation and economic conditions are still consistent with these forecasts, and the Board is gaining some confidence that inflation is moving sustainably towards target*". Growing confidence in the inflation forecast is important as it lessens the probability of the RBA needing to hold rates for even longer, or the tail risk of them having to hike rates further. Therefore, there is little urgency to adjust policy settings while both inflation and the unemployment rate are evolving gradually. The next quarterly CPI data will be published in late January.



Source: ASX, RBA

Financial markets are currently expecting the first RBA rate cut by March-April, with up to three rate cuts priced in by the end of 2025:



Source: ASX

Monthly Investment Review

January 2025

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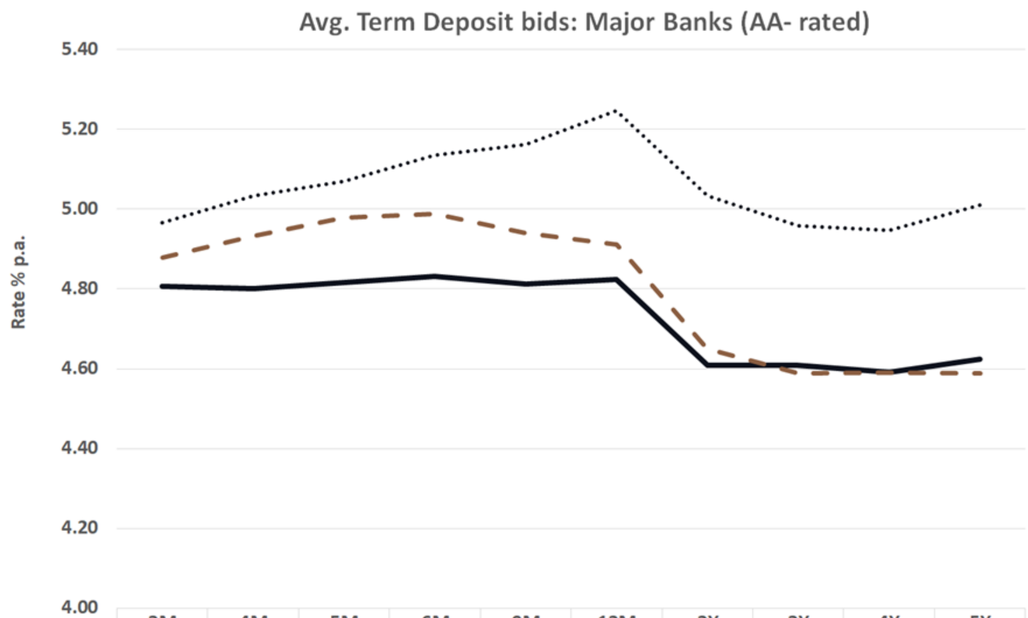
Market Update Summary

Risk markets rebounded strongly in January as financial markets again focused on expectations of additional rate cuts being priced over 2025 amid signs that inflation was continuing to ease.

In the deposit market, over January, at the very short-end of the curve (less than 6 months), the average deposit rates offered by the major banks fell up to 16bp compared to where they were last month (December). The major banks were quick to adjust their short-term rates in response to the lower than expected inflation print, with most bringing forward their rate cut expectations to potentially as early as February, if not March. In contrast, the average rates being offered for 1-5 year terms remained relatively flat compared to where they were in December, a reflection that the expectations for the number of rate cuts has remained unchanged.



	3M	4M	5M	6M	9M	12M	2Y	3Y	4Y	5Y
Jan-2025	4.81	4.80	4.82	4.83	4.81	4.82	4.61	4.61	4.59	4.62
Dec-2024	4.88	4.93	4.98	4.99	4.94	4.91	4.65	4.59	4.59	4.59
Jul-2024	4.97	5.03	5.07	5.13	5.16	5.25	5.03	4.96	4.95	5.01

Source: Imperium Markets

With rate cuts and a global economic downturn priced in over 2025, investors should consider diversifying and taking an 'insurance policy' against a potentially lower rate environment by investing across 1-5 year fixed deposits and locking in rates above 4½% p.a. (small allocation only).

North Sydney Council' Portfolio & Compliance

Asset Allocation

As at the end of January 2025, the portfolio was mainly directed to fixed term deposits (77%). The remaining portfolio is directed to FRNs (1%), fixed bonds (4%) and overnight cash accounts (18%).

Senior FRNs are starting to become slightly expensive on a historical basis, although new issuances should continue to be considered on a case by case scenario. In the interim, staggering a mix of fixed deposits between 12 months to 3 years remains a more optimal strategy to maximise returns over a longer-term cycle.

With multiple rate cuts and a global economic downturn being priced in 2025, investors can choose to allocate a small proportion of longer-term funds and undertake an insurance policy against upcoming rate cuts by investing across 1-5 year fixed deposits, locking in and targeting yields above 4½% p.a. Should inflation be within the RBA's target band of 2-3% over the longer-term, returns around 4½% p.a. or higher should outperform benchmark.

However, noting the significant capital outflows expected in the near term, Council is currently largely restricted to investing into very short-term investments (under 6-12 months). This is suitable to invest in short-dated fixed term deposits or high yielding cash accounts.

Term to Maturity

Overall, the portfolio remains lightly diversified from a maturity perspective. Around 9% of assets is directed to medium-term assets (1-2 years), which has resulted in solid performance 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 $86m at month-end.

Where liquidity permits (once immediate capital projects are finalised), we recommend new surplus funds be directed to 1-3 year horizon given this will help optimise returns over the long-run. We suggest this be allocated to any remaining attractive fixed term deposits.

In the interim, given the large ongoing capital expenditure flagged in the short-term, 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	$79,237,524	55.90%	10%	100%	$62,500,000
✓	91 - 365 days	$50,000,000	35.28%	20%	100%	$91,737,524
✓	1 - 2 years	$12,500,000	8.82%	0%	70%	$86,716,267
✓	2 - 5 years	$0	0.00%	0%	50%	$70,868,762
✓	5 - 10 years	$0	0.00%	0%	25%	$35,434,381
		$141,737,524	**100.00%**			

Counterparty

As at the end of January, all individual limits comply with the Policy. We remind Council exposures to individual ADIs are driven by the portfolio's movements throughout any month. Overall, the portfolio is lightly diversified across the investment grade spectrum, with no exposure to the unrated ADIs (high credit quality).

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	ANZ (Suncorp)	AA-	$5,000,000	3.53%	30.00%	$37,521,257
✓	CBA	AA-	$30,838,221	21.76%	30.00%	$11,683,036
✓	NAB	AA-	$37,000,000	26.10%	30.00%	$5,521,257
✓	NTTC Treasury	AA-	$6,000,000	4.23%	30.00%	$36,521,257
✓	Westpac	AA-	$26,500,000	18.70%	30.00%	$16,021,257
✓	ICBC Sydney	A	$15,000,000	10.58%	15.00%	$6,260,629
✓	Bendigo	A-	$10,000,000	7.06%	15.00%	$11,260,629
✓	BOQ	A-	$10,000,000	7.06%	15.00%	$11,260,629
✓	Newcastle PBS	BBB+	$1,399,303	0.99%	10.00%	$12,774,450
			$141,737,524	**100.00%**		

On 31st July 2024, ANZ's takeover of Suncorp Bank was formalised, and ratings agency S&P upgraded Suncorp's long-term credit rating to that of its parent company immediately (now rated AA-). Any future investments with Suncorp will now be reflected under the parent company being ANZ.

Credit Quality

The portfolio remains lightly diversified from a credit ratings perspective, with all assets classified as investment grade (rated BBB- or higher). As at the end of January 2025, all categories were within the Policy limits, with the majority rated AA or A rated:

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AA Category	$105,338,221	74.32%	100%	$36,399,303
✓	A Category	$35,000,000	24.69%	60%	$50,042,514
✓	BBB Category	$1,399,303	0.99%	35%	$48,208,830
✓	Unrated ADIs	$0	0.00%	10%	$14,173,752
		$141,737,524	**100.00%**		

Performance

Council's performance for the month ending January 2025 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	0.36%	1.08%	2.17%	2.54%	4.36%	4.18%	3.30%
AusBond Bank Bill Index	0.38%	1.12%	2.25%	2.63%	4.48%	4.24%	3.32%
Council's T/D Portfolio	0.36%	1.06%	2.05%	2.35%	3.94%	3.62%	3.01%
Council's FRN Portfolio	0.47%	1.41%	2.83%	3.32%	5.74%	5.42%	4.50%
Council's Bond Portfolio	0.11%	0.31%	0.60%	0.70%	1.19%	1.18%	1.18%
Council's Portfolio^	**0.35%**	**1.02%**	**1.96%**	**2.24%**	**3.76%**	**3.48%**	**2.91%**
Rel. Performance	**-0.03%**	**-0.10%**	**-0.29%**	**-0.39%**	**-0.72%**	**-0.76%**	**-0.41%**

^Total portfolio performance excludes Council's cash account holdings.

Performance (% p.a.)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	4.35%	4.35%	4.35%	4.35%	4.36%	4.18%	3.30%
AusBond Bank Bill Index	4.59%	4.53%	4.52%	4.51%	4.48%	4.24%	3.32%
Council's T/D Portfolio	4.32%	4.29%	4.11%	4.02%	3.94%	3.62%	3.01%
Council's FRN Portfolio	5.72%	5.73%	5.69%	5.70%	5.74%	5.42%	4.50%
Council's Bond Portfolio	1.29%	1.23%	1.20%	1.20%	1.19%	1.18%	1.18%
Council's Portfolio^	**4.19%**	**4.11%**	**3.92%**	**3.84%**	**3.76%**	**3.48%**	**2.91%**
Rel. Performance	**-0.40%**	**-0.42%**	**-0.59%**	**-0.68%**	**-0.72%**	**-0.76%**	**-0.41%**

^Total portfolio performance excludes Council's cash account holdings.

For the month of January, the total investment portfolio (excluding cash) provided a solid return of +0.35% (actual) or +4.19% p.a. (annualised), underperforming the benchmark AusBond Bank Bill Index return of +0.39% (actual) or +4.59% p.a. (annualised). This relative 'underperformance' has been due to the unexpected aggressive rate hikes undertaken by the RBA since May 2022. Whilst this 'underperformance' may continue in the short-term, we do anticipate this to be fairly temporary, especially if the RBA will look to cut rates in coming months.

Note this ongoing period of underperformance is also highly dependent on reinvesting maturing funds at prevailing market rates *beyond 6 month tenors*. With large capital outflows, maturing funds are largely being spent or kept in low yielding short-dated assets. Council should also remind itself it has consistently 'outperformed' over longer-term time periods (last +10yrs).

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 as this optimises the overall returns of the portfolio in the long-run.

Recommendations for Council

Term Deposits

As at the end of January 2025, Council's deposit portfolio was yielding **4.14% p.a.** (down 8bp from the previous month), with a weighted average duration of around 136 days (~4½ months). We recommend Council slightly increases this weighted average duration, should cash flows allow in future.

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

Please refer to the section below for further details on the Term Deposit market.

Securities

Primary (new) **FRNs** (with maturities between 3-5 years) continue to be appealing (particularly for those investors with portfolios skewed towards fixed assets) and should be considered on a case by case scenario.

Please refer to the section below for further details on the FRN market.

Council's Senior FRNs Sale/Switch Recommendations

We recommend Council retains the Newcastle FRN at this stage (still yielding close to 5½% p.a.). This will now be simply held to maturity (4th Feb 2025), whereby Council will receive the face value of $1.4m.

Council's Senior Bonds

During October 2020, Council placed $3m in the Northern Territory Treasury Corporation (NTTC), locking in a yield of 1.00% p.a. for a 5 year term. 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. $6m x 0.25% = $15,000) as it was introduced by Imperium Markets (sister company of Arlo Advisory). We believe these investments were prudent at the time of investment especially after the rate cut delivered in early November 2020 to 0.10% 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.

Term Deposit Market Review

Current Term Deposits Rates

As at the end of January, we see value in the following:

ADI	LT Credit Rating	Term	Rate % p.a.
Westpac	AA-	5 years	4.75%
BoQ	A-	5 years	4.75%
Hume Bank	BBB+	5 years	4.50%
Westpac	AA-	4 years	4.70%
BoQ	A-	4 years	4.70%
Hume Bank	BBB+	4 years	4.50%
Australian Military	BBB+	3 years	4.76%
Westpac	AA-	3 years	4.60%
BoQ	A-	3 years	4.50%
Australian Military	BBB+	2 years	4.80%
NAB	AA-	2 years	4.60%
Hume Bank	BBB+	2 years	4.60%
Westpac	AA-	2 years	4.55%
BoQ	A-	2 years	4.50%

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 (*we stress that rates are indicative, dependent on daily funding requirements and different for industry segments*):

ADI	LT Credit Rating	Term	Rate % p.a.
ICBC Sydney	A	12 months	4.85%
NAB	AA-	12 months	4.80%
Westpac	AA-	12 months	4.76%
Suncorp	AA-	12 months	4.75%
NAB	AA-	9 months	4.85%
ICBC Sydney	A	9 months	4.84%
Regional Australia	BBB+	9 months	4.80%
ICBC Sydney	A	6 months	4.93%
NAB	AA-	6 months	4.90%
Bendigo-Adelaide	A-	6 months	4.90%
Regional Australia	BBB+	6 months	4.90%
NAB	AA-	3 months	4.95%
ICBC Sydney	A	3 months	4.90%

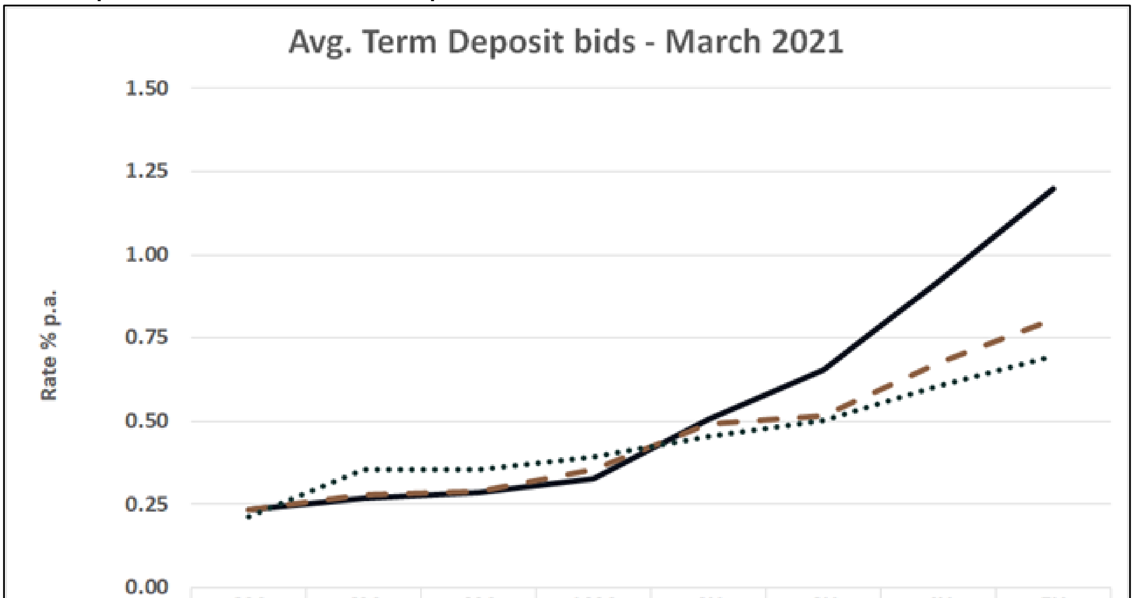
For those investors that do not require high levels of liquidity and can stagger their investments longer term, they will be rewarded over a longer-term cycle if they roll for an average min. term of 12 months, with a spread of investments out to 5 years (this is where we see current value). In a normal market environment (upward sloping yield curve), investors could earn over a cycle, on average, up to ¼-½% p.a. higher compared to those investors that entirely invest in short-dated deposits.

With rate cuts and a global economic downturn priced in over 2025, investors should consider allocating some longer-term surplus funds and undertake an insurance policy by investing across 1-5 year fixed deposits and locking in rates above 4½% p.a. This will provide some income protection if the RBA decides to start cutting rates in coming months.

Term Deposits Analysis

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) during mid-2020, 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. 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.

Term Deposit Rates – 12 months after pandemic (March 2021)



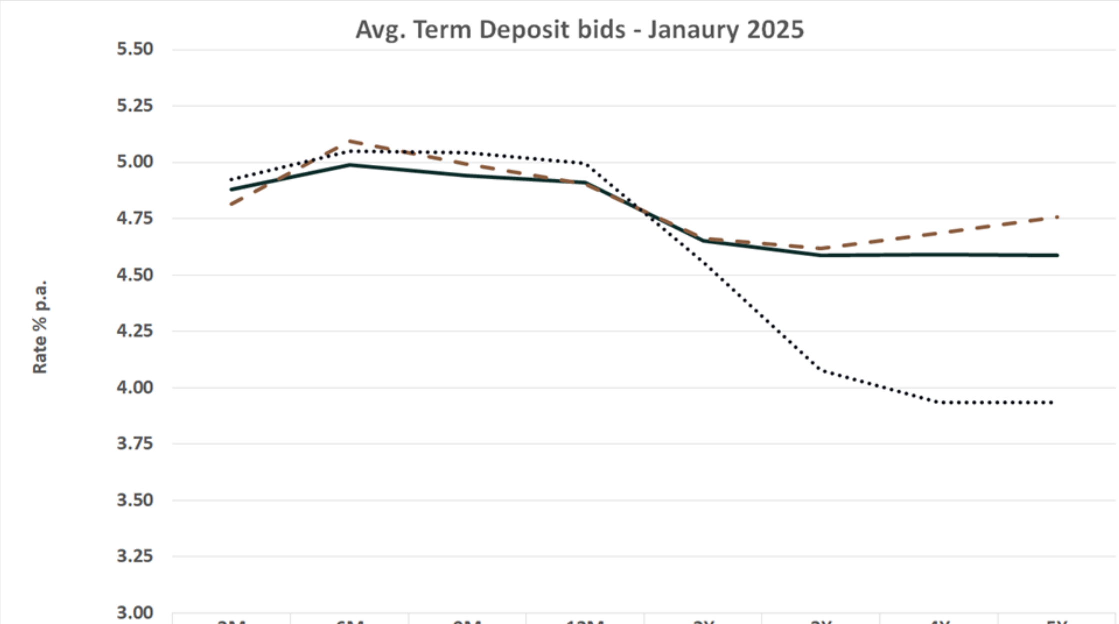
	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	0.23	0.27	0.29	0.33	0.51	0.65	0.92	1.20
A Rated	0.23	0.28	0.29	0.35	0.49	0.52	0.68	0.81
BBB Rated	0.21	0.36	0.35	0.39	0.45	0.50	0.61	0.70

Source: Imperium Markets

The abnormal marketplace experienced during the pandemic is starting to reverse as the competition for deposits slowly increases, partially driven by the RBA's term funding facility coming to an end. In recent months, we have started to periodically see some of the lower rated ADIs ("A" and "BBB" rated) offering slightly higher rates compared to the domestic major banks ("AA" rated) on different parts of the curve (i.e. pre-pandemic environment). 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 funds with the lower rated institutions (up to Policy limits), from which the majority are not lending to the Fossil Fuel industry or considered ‘ethical’. We are slowly seeing this trend emerge, although the major banks always seem to react more quickly than the rest of the market during periods of volatility:

Term Deposit Rates – Currently (January 2025)



	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	4.88	4.99	4.94	4.91	4.65	4.59	4.59	4.59
A Rated	4.82	5.09	4.99	4.90	4.66	4.62	4.69	4.76
BBB Rated	4.93	5.05	5.04	5.00	4.56	4.08	3.94	3.94

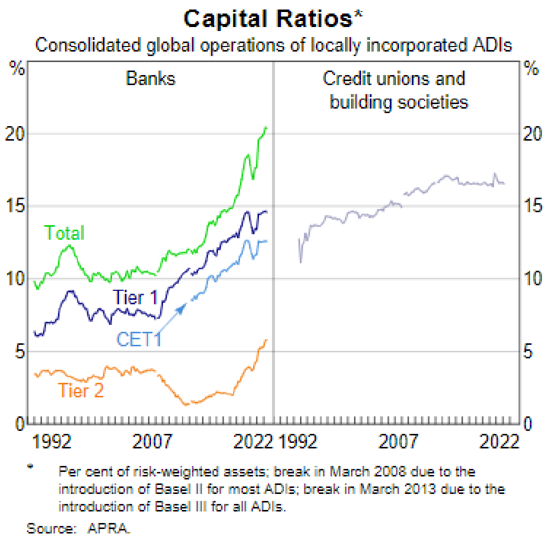
Source: Imperium Markets

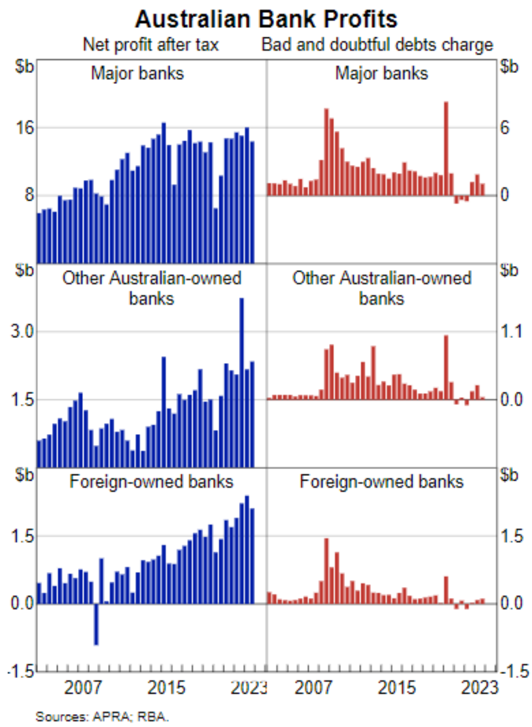
Financial Stability of the Banking (ADI) Sector

The RBA’s latest Financial Stability report of 2024 reaffirms the strong balance sheet across the ADI sector. They noted that the risk of widespread financial stress remains limited due to the generally strong financial positions of most (individual) borrowers. Very few mortgage borrowers are in negative equity, limiting the impact on lenders (ADIs) in the event of default and supporting their ability to continue providing credit to the economy. Most businesses that have entered insolvency are small and have little debt, limiting the broader impact on the labour market and thus household incomes, and on the capital position of lenders (ADIs).

Australian banks (collectively the APRA regulated ADIs) have maintained prudent lending standards and are well positioned to continue supplying credit to the economy. A deterioration in economic conditions or temporary disruption to funding markets is unlikely to halt lending activity. Banks have anticipated an increase in loan arrears and have capital and liquidity buffers well above regulatory requirements (*see Capita Ratios chart below*). APRA's mandate is to "*protect depositors*" and provide "*financial stability*".

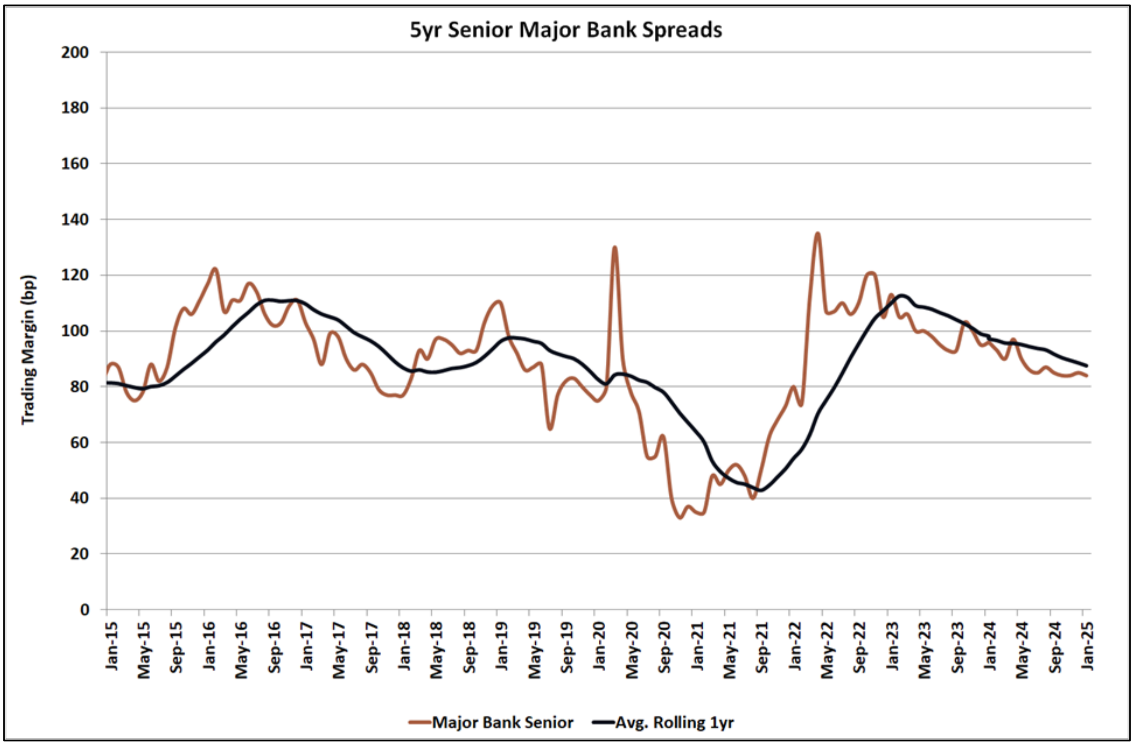
Over the past two decades, both domestic and international banks continue to operate and demonstrate high levels of profitability (*see Australian Bank Profits chart below*), which also includes two stress-test environments being the GFC (September 2008) and the COVID pandemic (March 2020):





Senior FRNs Market Review

Over January, amongst the senior major bank FRNs, physical credit securities marginally tightened at the longer-end of the curve. During the month, both CBA (AA-) and WBC (AA-) issued new 5 year senior securities at +84bp. Long-term major bank senior securities are approaching the 'expensive' territory especially if the 5yr margin tightens towards +80bp.



Source: IBS Capital

Outside of the two major banks, there was minimal new issuances from the ADIs during the holiday period, with only a handful of notable primary deals:

- OCBC (AA-) 3 year senior FRN at +70bp
- Newcastle Greater Mutual (BBB+) 5 year senior FRN at +125bp

Amongst the "A" rated sector, the securities tightened by around 5bp at the longer-end of the curve, whilst the "BBB" sector remained relatively flat. Overall, credit securities remain fair value on a historical basis without being overly exciting. FRNs will continue to play a role in investors' portfolios mainly based on their liquidity and the ability to roll down the curve and gross up returns over ensuing years (in a relatively stable credit environment), whilst also providing some diversification to those investors skewed towards fixed assets.

Senior FRNs (ADIs)	31/01/2025	31/12/2024
“AA” rated – 5yrs	+84bp	+85bp
“AA” rated – 3yrs	+70bp	+70bp
“A” rated – 5yrs	+95bp	+100bp
“A” rated – 3yrs	+78bp	+83bp
“BBB” rated – 3yrs	+117bp	+118bp

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-2027 for the “AA” rated ADIs (domestic major banks);
- On or before mid-2026 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.

Senior Fixed Bonds – ADIs (Secondary Market)

With global inflation remaining elevated by historical standards, this has seen a lift in longer-term bond yields over the past 3 years (valuations have fallen) 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 some 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
AU3CB0278174	UBS	A+	Senior	26/02/2026	1.07	1.10%	4.47%
AU3CB0280030	BoQ	A-	Senior	06/05/2026	1.26	1.40%	4.69%
AU3CB0299337	Bendigo	A-	Senior	15/05/2026	1.28	4.70%	4.56%
AU3CB0296168	BoQ	A-	Senior	27/01/2027	1.98	4.70%	4.72%

Economic Commentary

International Market

Risk markets rebounded strongly in January as financial markets again focused on expectations of additional rate cuts being priced over 2025 amid signs that inflation was continuing to ease.

Across equity markets, the S&P 500 Index rose +2.70%, whilst the NASDAQ gained +1.64%. Europe's main indices surged, with strong gains in Germany's DAX (+9.16%), France's CAC (+7.72%) and UK's FTSE (+6.13%).

US core CPI was +0.2% m/m against +0.3% expected, with the annual rate coming in at +3.2% y/y (below expectations of +3.3% y/y). Headline CPI was +0.4% m/m and +2.9% y/y as expected.

US Fed held rates as expected in January. Fed Chair Powell was however less hawkish in his press conference, saying, "*we do not need to be in a hurry to adjust our policy stance*".

The US unemployment rate fell 0.1%, to 4.1% in December (expectations were for unchanged at 4.2%). The official participation rate was unchanged at 62.5%, off a 62.8% cycle peak.

The Bank of Canada (BOC) cut rates by 25bp to 3.00% in line with expectations and the Riksbank also cut by 25bp to 2.25%. Canada's headline CPI for December came in at +1.8% y/y, down from +1.9% y/y in November. The core CPI however rose to +1.8% y/y, from +1.6% y/y over the month.

UK's core CPI printed 0.2% below consensus at +3.2% y/y, including a big drop in services inflation to +4.4% y/y (from +5.0% y/y). Q4 UK GDP is shaping up to be negative.

New Zealand's Q4 CPI data was broadly in line with market expectations, even if annual inflation remained steady at +2.2% rather than ticking down further.

China's Q4 GDP and December activity readings drew scepticism surrounding the +5.4% Q4 y/y GDP print. This was aided by somewhat curious large upward revisions to both Q2 and Q3 GDP, and the economy evidently regained some momentum last quarter, thanks to tailwinds from recent fiscal and monetary policy easing.

The MSCI World ex-Aus Index rose +3.44% for the month of January:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+2.70%	+5.87%	+24.66%	+10.18%	+13.37%	+11.72%
MSCI World ex-AUS	+3.44%	+5.30%	+20.01%	+7.92%	+10.54%	+8.78%
S&P ASX 200 Accum. Index	+4.57%	+5.11%	+15.17%	+11.44%	+7.97%	+8.65%

Source: S&P, MSCI

Domestic Market

Australia's Consumer Price Index (CPI) rose +0.2% in the December 2024 quarter and +2.4% y/y (below expectations of +2.5% y/y). Annual trimmed mean inflation was +3.2% y/y in the December 2024 quarter, down from +3.6% y/y in the September 2024 quarter.

The unemployment rate came in at 4.0% in December (rising from 3.93% to 3.98%). Employment growth was a strong +56k. The strong employment increase confirms trend employment growth remains healthy at 31k. The underemployment rate fell 0.1% to 6.0%, back around its 2022 lows after having moved up to 6.7%.

The RBA as recently as November assessed that an unemployment rate of around 4.5% was consistent with full employment. Their model estimates point to something even higher, near 4.7%. The RBA in December took a notable step towards acknowledging that unemployment does not need to rise towards those levels for comfort on the inflation outlook to build.

Retail sales came in +0.8% m/m higher in November. Spending rose in all retail industries but was strongest in clothing and footwear (+1.6%), and department stores (+1.8%).

The Australian dollar rose around +0.60%, finishing the month at US62.25 cents (from US61.88 cents the previous month).

Credit Market

The global credit indices remained marginally tightened during the month. They remain near the levels seen in early 2022 (prior to the rate hike cycle from most central banks):

Index	January 2025	December 2024
CDX North American 5yr CDS	48bp	49bp
iTraxx Europe 5yr CDS	53bp	57bp
iTraxx Australia 5yr CDS	66bp	67bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	January 2025	December 2024
Bloomberg AusBond Bank Bill Index (0+YR)	+0.38%	+0.38%
Bloomberg AusBond Composite Bond Index (0+YR)	+0.19%	+0.51%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.47%	+0.43%
Bloomberg AusBond Credit Index (0+YR)	+0.44%	+0.71%
Bloomberg AusBond Treasury Index (0+YR)	+0.14%	+0.37%
Bloomberg AusBond Inflation Gov't Index (0+YR)	-0.23%	-0.26%

Source: Bloomberg

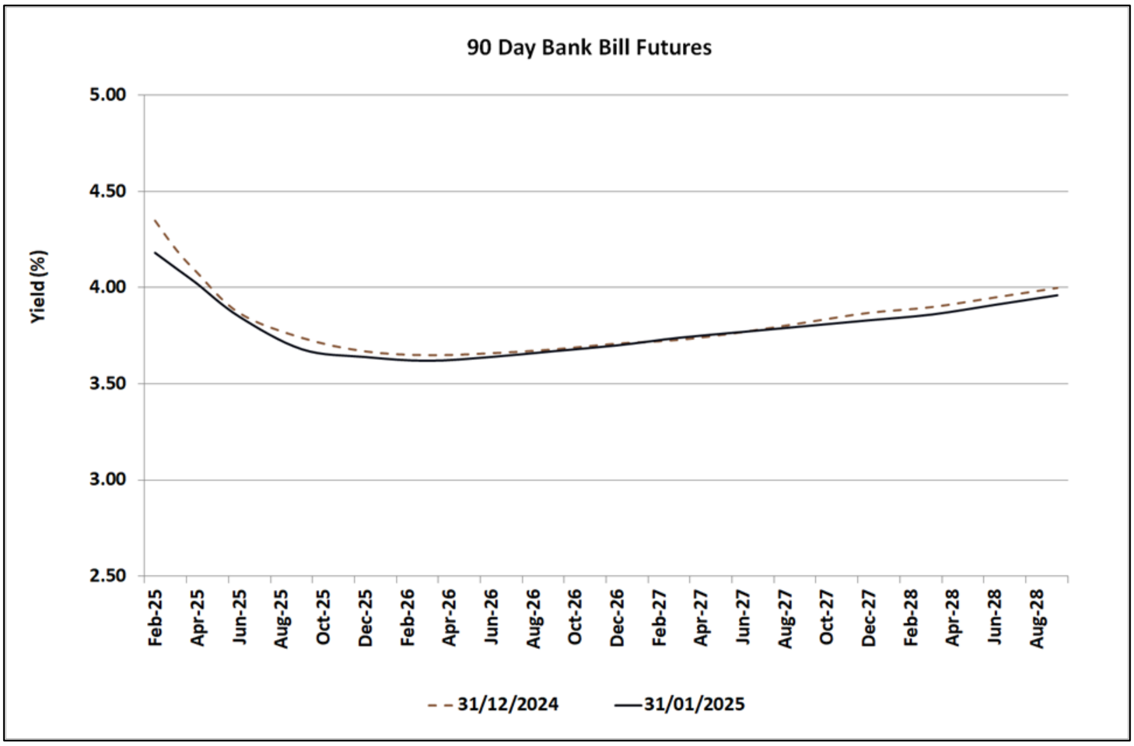
Other Key Rates

Index	January 2025	December 2024
RBA Official Cash Rate	4.35%	4.35%
90 Day (3 month) BBSW Rate	4.25%	4.42%
3yr Australian Government Bonds	3.80%	3.82%
10yr Australian Government Bonds	4.43%	4.37%
US Fed Funds Rate	4.25%-4.50%	4.25%-4.50%
2yr US Treasury Bonds	4.22%	4.25%
10yr US Treasury Bonds	4.58%	4.58%

Source: RBA, ASX, US Department of Treasury

90 Day Bill Futures

Bill futures surprisingly remained relatively flat this month, despite the lower than expected inflation print. The focus from the market remains on when rate cuts will be delivered in 2025, with the potential for a first cut as early as February or March:



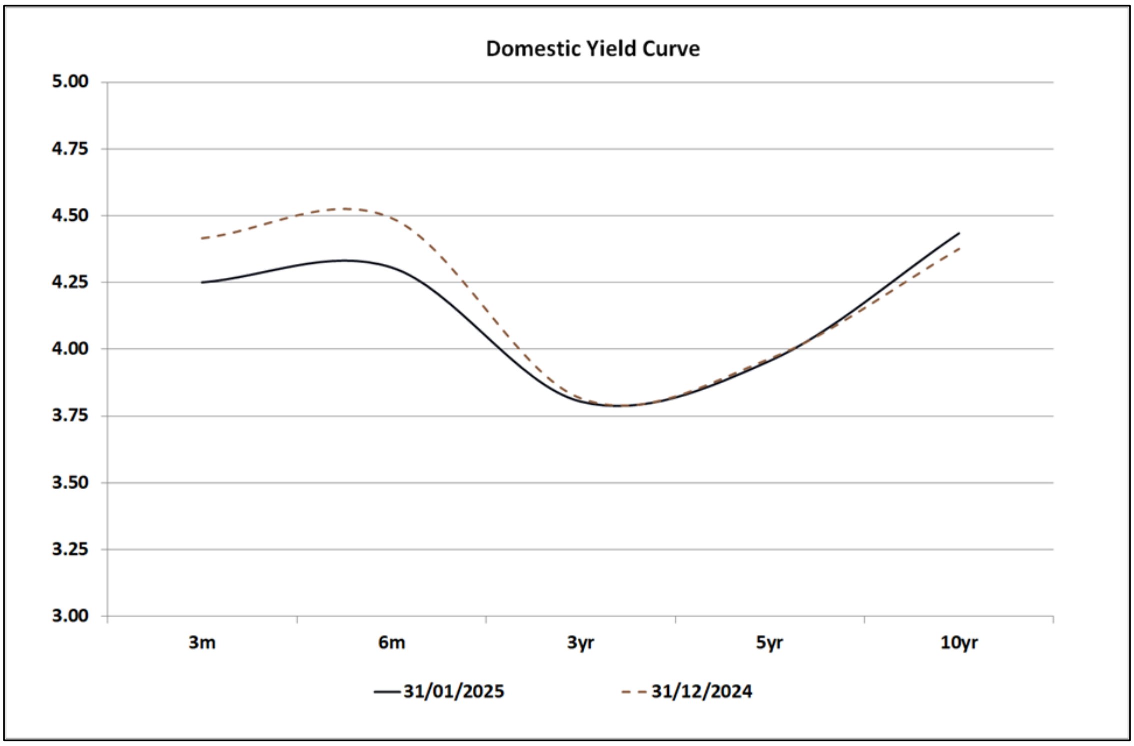
Source: ASX

Fixed Interest Outlook

US Fed Chair Powell's most recent press conference confirmed the Fed is going to be much more cautious in 2025 and "*do not need to be in a hurry to adjust our policy stance*", reflective of sticky inflation combined with President-elect Trump's proposed economic policies (which is expected to exacerbate price pressures). The futures market is now only pricing in two rate cuts in the US over 2025.

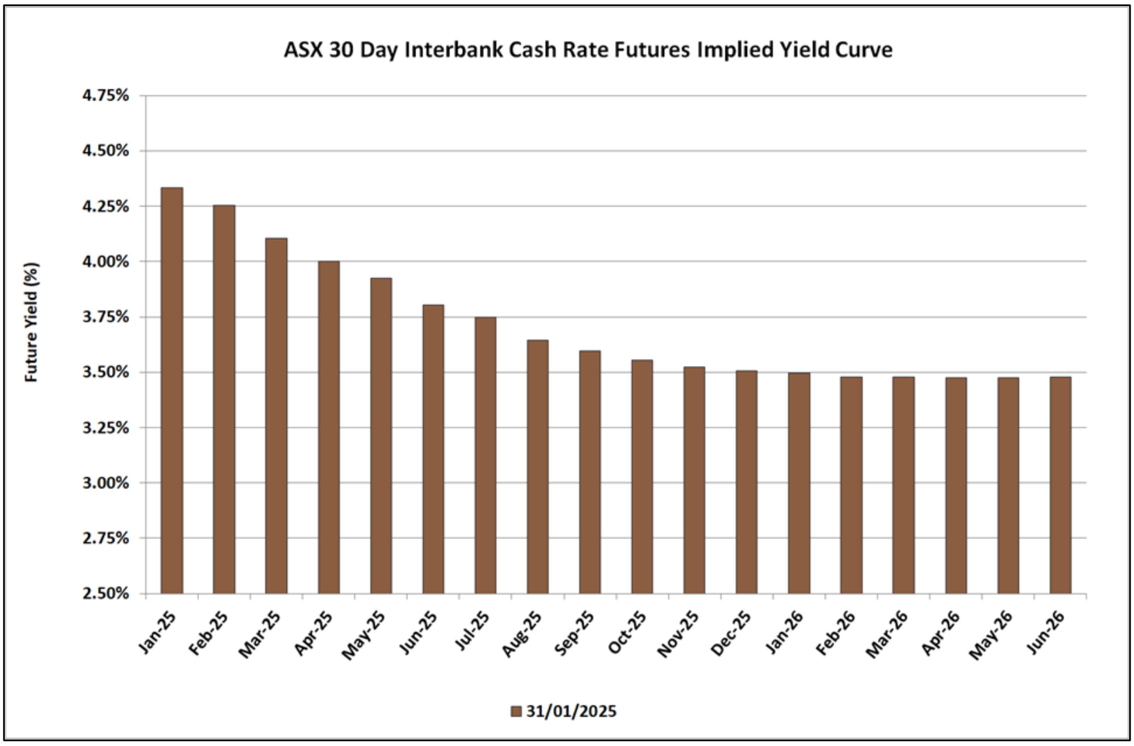
Domestically, the RBA's dovish pivot in December has been validated by the inflation outlook, with forecasts for Q4-24 trimmed mean CPI combining around +0.5% q/q, which was two-tenths below the November SMP forecasts. Inflation is not a barrier to rate cuts, especially as recent prints continue to show signs of easing. However, conditions in the labour market does not create much urgency to cut whilst the RBA's forecasts for an acceleration in activity growth remain intact.

Yields remained relatively flat at the long-end of the curve, whilst falling at the short-end, with markets anticipating an imminent rate cut.



Source: ASX, RBA

Financial markets have moved up their expectations of when the RBA will deliver their first rate cut over the next two months (inflation is not a barrier to a cut in February and the meeting is live.). Markets are pricing up to three rate cuts by the end of 2025:


ASX 30 Day Interbank Cash Rate Futures Implied Yield Curve
Future Yield (%)
4.75%
4.50%
4.25%
4.00%
3.75%
3.50%
3.25%
3.00%
2.75%
2.50%
Jan-25
Feb-25
Mar-25
Apr-25
May-25
Jun-25
Jul-25
Aug-25
Sep-25
Oct-25
Nov-25
Dec-25
Jan-26
Feb-26
Mar-26
Apr-26
May-26
Jun-26
31/01/2025

Source: ASX