

8.8. Investment and Loan Borrowings Report held as at 31 August 2021

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ATTACHMENTS:

1. North Sydney Council Monthly Report August 2021 [8.8.1 - 20 pages]
2. North Sydney Council Reporting Pack August 2021 [8.8.2 - 24 pages]

PURPOSE:

The report provides details of the performance of Council's investment portfolio and borrowing limits for the period ending 31 August 2021.

EXECUTIVE SUMMARY:

Investment Portfolio:

The Investment portfolio (excluding cash balances) held as at 31 August 2021 had a market value of \$89.0 million, with an annualised return of 1.33% for the year to date, 1.30% above the reportable BBSW Bank Bill Index of 0.03%.

Cash deposits at call total \$44.7 million much of which is rates paid in advance. Steps were taken in August to invest and reduce the cash deposit at call balance before end of August 2021. Recommendations were sought from our investment advisors who advised to establish a new Cash Management Accelerator Account with the Macquarie Bank that will generate interest income of 0.40% p.a. for balances up to \$10 million and 0.20% p.a. on every dollar above \$10 million. Council staff lodged the account opening application documents with the Macquarie bank on 23 August 2021. It was expected that the new account setup will take about 2 to 3 business days but unfortunately, the new account setup with the bank has proven to be a lengthy and convoluted process as the bank took almost 4 weeks with the account being activated only on 21 September 2021. A Cash balance transfer to the Macquarie Cash Management Accelerator Account was completed by the Council staff on the same day bringing the cash deposit at call total to \$23 million as at 21 September 2021.

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

The actual returns for cash and investments for the year to date as at 31 August 2021 were \$198,724 which was \$15,391 more than the year-to-date budgeted estimate. The medium-longer term outlook for financial markets indicate that the RBA's official cash rate will remain unchanged at its emergency level of 0.10% until its objectives of full employment and inflation are reached and that rate rises are not expected until at least 2024.

Historically, returns on cash (i.e. "at call" accounts) and short-term investments have been quite strong. However, with the low official cash rate, market variability in monthly returns may mean the short to medium term investment returns could be flat or potentially slightly negative. The capacity for Council staff to invest in a manner that meets liquidity requirements whilst achieving the "enhanced" benchmark returns (as detailed in the Investment Policy) is increasingly limited. However, the best available returns are still actively sought when surplus funds are invested.

Borrowings:

Council entered into a fixed interest loan of \$9.5 million with quarterly interest and principal payments on 31 July 2018. The principal outstanding as at 31 August 2021 is \$7,037,040.24. Council has made provision for future borrowings of \$31 million to assist in the funding to complete the redevelopment of North Sydney Olympic Pool.

FINANCIAL IMPLICATIONS:

Council's total investment portfolio performance for the financial year to date is 1.30% above the benchmark (1.33% against 0.03%). The actual returns for cash and investments for the year to date as at 31 August 2021 were \$198,724 which was \$15,391 more than the year-to-date budgeted estimate.

The budgeted investment returns over the medium term needs to reflect the current low interest rate environment which is likely to continue over the next financial years.

Investment returns will continue to be monitored and reported to ensure the estimate is consistent with the actual returns.

RECOMMENDATION:

1. THAT the report on Investments and Loan Borrowings held as at 31 August 2021 be received.

LINK TO COMMUNITY STRATEGIC PLAN

The relationship with the Community Strategic Plan is as follows:

5. Our Civic Leadership

5.1 Council leads the strategic direction of North Sydney

BACKGROUND

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

- a. Invested under Section 625 of the Local Government Act 1993. This report must include certification that the investments have been made in accordance with the Act and the Regulations made thereunder, the revised Investment Order issued by the Minister for Local Government and Council's Financial Investment Policy.
- b. Borrowed under Section 624 of the Local Government Act. This report must comply with the borrowings Order issued by the Minister for Local Government and Council's Debt Management Policy.

CONSULTATION REQUIREMENTS

Community engagement is not required.

DETAIL

Investment Portfolio

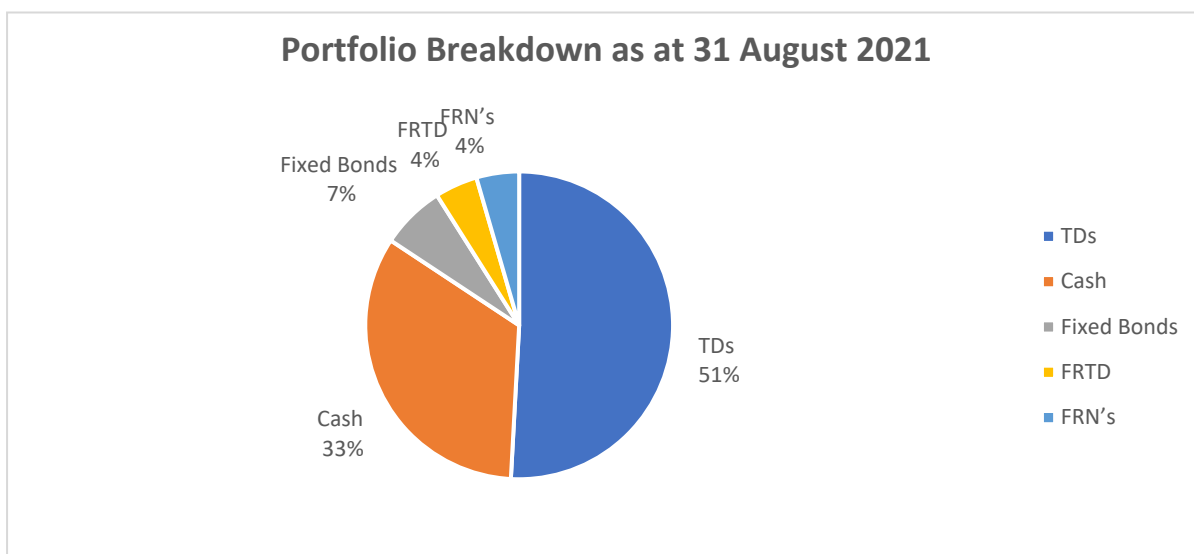
The following table provides details of the performance of Council's investment portfolio (excluding cash deposits) against the benchmark for the month of August 2021 and annualised for the year to date as at 31 August 2021 (including investments which have matured prior to 31 August 2021).

| | August 2021 | Annualised YTD as at 31 August 2021 |
|---------------|-------------|-------------------------------------|
| Actual Return | 0.11% | 1.33% |
| Benchmark | 0.00% | 0.03% |
| Variance | 0.11% | 1.30% |

The portfolio performance continues to be driven by the handful of the longer-dated deposits that were locked-in prior to the current interest rate cuts, as well as the FRNs locked in at attractive margins.

| Asset Type | Market Value as at 31 August 2021 | Portfolio Breakdown as at 31 August 2021 |
|-----------------------------|-----------------------------------|--|
| Term Deposits | \$68,000,000.00 | 50.86% |
| Cash | \$44,700,089.97 | 33.43% |
| Fixed Bonds | \$9,000,000.00 | 6.73% |
| FRTD | \$6,000,000.00 | 4.49% |
| Floating Rate Notes (FRN's) | \$5,997,720.05 | 4.49% |

| | | |
|--|-------------------------|----------------|
| | \$133,697,810.02 | 100.00% |
|--|-------------------------|----------------|



Council's average duration of term deposits which comprise approximately half of the investment portfolio is approximately 601 days, thus reducing the exposure to declining interest rates experienced with investment renewals.

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

Council continues to seek independent advice for all investments and is actively managing the portfolio to ensure that returns are maximised taking into account diversification and risk. A complete analysis of the performance is covered in the Monthly Investment Report prepared by Council's Investment advisor. (refer attachment 1)

The actual investment returns for the year to date as at 31 August 2021 have been reviewed and are \$15,391 more than the year-to-date budgeted estimate.

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

| Year | Original Annual Budget | Revised Annual Budget | YTD Budget (August) | YTD/Annual Actual (August) | YTD/Annual Actual FV adjustments (August) | YTD Budget to Actual Variance (August) |
|---------|------------------------|-----------------------|---------------------|----------------------------|---|--|
| 2021/22 | \$1,100,000 | \$1,100,000 | \$183,333 | \$195,663 | \$3,061 | \$15,391 |
| 2020/21 | \$1,350,000 | \$1,350,000 | | \$1,222,664 | \$93,735 | -\$33,601 |

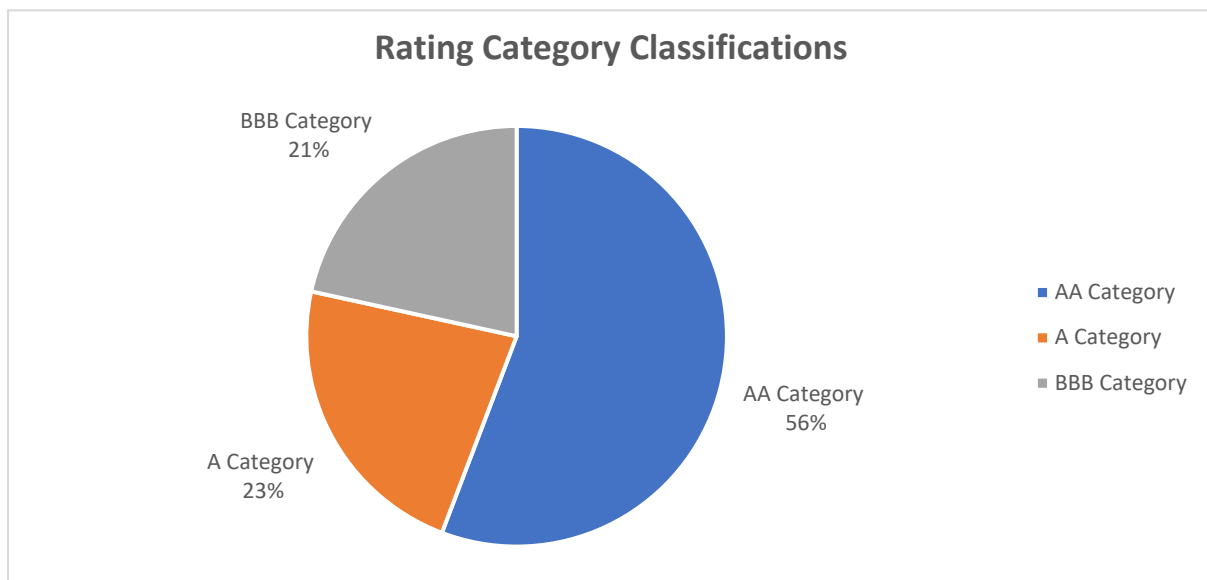
| Year | Original Annual Budget | Revised Annual Budget | YTD Budget (August) | YTD/Annual Actual (August) | YTD/Annual Actual FV adjustments (August) | YTD Budget to Actual Variance (August) |
|---------|------------------------|-----------------------|---------------------|----------------------------|---|--|
| 2019/20 | \$1,500,000 | \$1,529,055 | | \$1,896,660 | -\$4,944 | \$362,661 |
| 2018/19 | \$1,590,000 | \$1,730,000 | | \$2,253,497 | \$91,056 | \$614,553 |

Floating Rate Notes (FRN's) are required to be revalued each month using the fair value (FV) method which is an estimate in time of the potential market value of the investment. As at 31 August 2021 the YTD movement of FRN's has been an increase in returns of \$3,061.

Financial Investment Policy

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

| Long Term Rating Range | Invested as at 31 August 2021 | Maximum Policy Holding | Distribution as at 31 August 2021 |
|------------------------|-------------------------------|------------------------|-----------------------------------|
| AA Category | \$74,582,933 | 100.00% | 55.78% |
| A Category | \$30,266,476 | 60.00% | 22.64% |
| BBB Category | \$28,848,401 | 35.00% | 21.58% |
| Unrated ADIs (NR) | \$0 | 10.00% | 0.00% |



Loan Borrowings

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

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

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

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

The current Debt Facility is as follows:

The current facility is a fixed loan financing option, fully amortising the drawn down amount of \$9,500,000.00 over 10 years, fixed interest rate with quarterly repayments of interest and principal.

The current loan details are as follows:

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

The next loan instalment is due on 30 October 2021.

Loan Funded Capital Projects as at 31 August 2021:

Project 1: Upgrading the Car Park in Alexander Street, Crows Nest

A \$5 million loan has been sourced to fund this project.

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

Project 2: Upgrading of On-Street Parking Management System

A **\$4.5 million** loan has been sourced to fund this project.

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

Future Borrowings

Council has made provision for future borrowings of \$31 million to assist in the funding to complete the redevelopment of North Sydney Olympic Pool. As per Council's Resolution of the 28 September 2020 meeting, prior to accessing these funds, comparative loan rates will be obtained from TCorp and the major banks to ensure market competitiveness. This process and timeframe will be presented to the next MANEX meeting, subsequent to this in line with an approved timetable, funds will be negotiated. Following negotiations, a report will be presented to Council before finalising the loan option for financing the NSOP complex redevelopment.



Monthly Investment Report

August 2021



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Impact of COVID-19 to Council's Portfolio

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

With regards to financial markets, shares (equities) experienced a significant correction in March 2020 but have continued to surpass their all-time highs due to the unprecedented global fiscal and monetary policy support. **The RBA cut rates to record lows on 3rd November 2020 to 0.10%, consistent with most global central banks resetting their official rates back to emergency levels.** Despite the Delta variant causing a surge in global infections and imposing further lockdowns (including Australia), equity markets have continued their rally over the course of 2021, focusing on the accelerated vaccine rollout and gradual easing of restrictions. Longer-term bond yields have fallen sharply since the start of the calendar year, with the market pushing back on expectations of global central banks tightening in the immediate future.

With regards to the medium-longer term outlook for financial markets, of importance is the RBA's outlook and expectations for the Australian economy. They would like to see the following three economic indicators improve before they even consider increasing interest rates:

1. The unemployment rate to drop to around 4.0% (currently sitting at 4.6% and masked by a drop in the participation rate), noting it has not been below 4.5% since 2008;
2. *"Until actual (underlying) inflation is sustainably within the 2-3% target range"* (it has not been within their target band for the past 5 years); and
3. Wage growth to surpass +3% (it has not been above this level for the past 8 years).

The RBA's base case (forecast) suggests conditions for a rate rise **"will not be met until 2024"**.

The largest impact to Council's investment portfolio is with regards to its largest exposure being assets held in bank term deposits (fixed and floating), which accounts for around ~55% of Council's total investment. The biggest risk that Council faces over the medium-longer term in this environment is not the potential loss of capital (given all the banks are well capitalised and regulated by APRA), but the rapid loss of interest income as interest rates have plummeted.

Council's term deposit portfolio was yielding 1.38% p.a. at month-end, with a weighted average duration of around 601 days or ~1½ years. **This average duration will provide some income protection against the low interest rate environment over the next 12 months.** As existing deposits mature however, they will inevitably be reinvested at much lower prevailing rates.

Given official rates have fallen to record lows, Council is likely to see a rapid decline in interest income over future financial years. Its budgeted income over the medium-longer term needs to be revised to reflect the low interest rate environment. Returns between 0.40%-0.80% p.a. may potentially be the "norm" over the next few financial years, especially if rolling the majority of surplus funds for terms less than 2-3 years. Yields may in fact be lower if electing to invest for terms under 12 months.

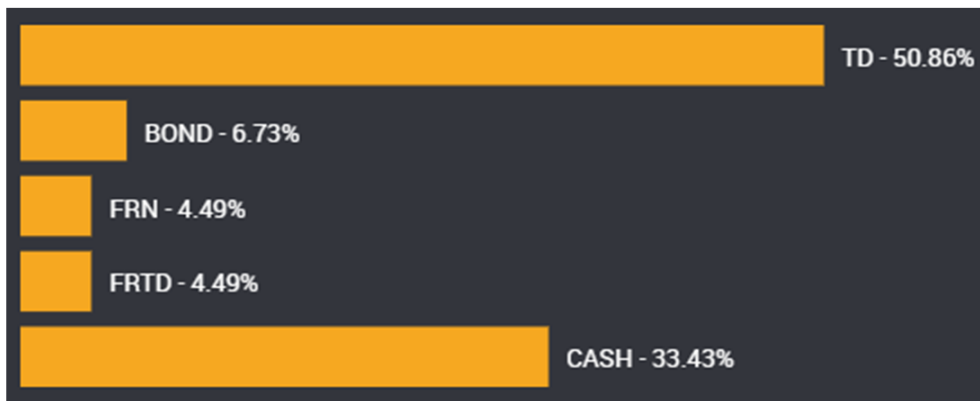


Council’s Portfolio & Compliance

Asset Allocation

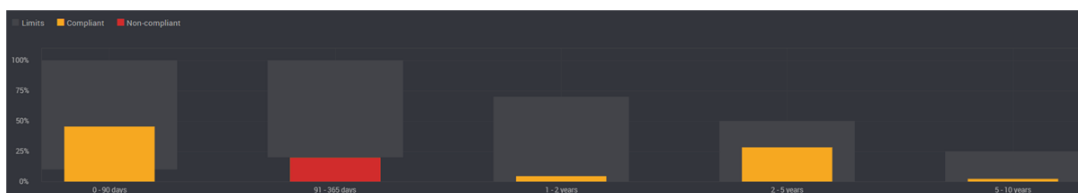
As at the end of August 2021, the portfolio was mainly directed to fixed and floating rate term deposits (55.35%). The remaining portfolio is directed to FRNs (4.49%), fixed bonds (6.73%) and overnight cash accounts (33.43%).

With the RBA cutting interest rates in November 2020 to 0.10%, the priority should be to lock in any remaining attractive medium-longer dated fixed deposits or fixed bonds that may still be available to address reinvestment risk as margins continue to compress.



Term to Maturity

Overall, the portfolio remains lightly diversified from a maturity perspective. Around 28% of assets is directed to medium-term assets (2-5 years), which is sensible in this low rate environment. There is still high capacity to invest in the medium-term horizon, with approximately \$29m at month-end.



The 3-12 month allocation is marginally below the minimum requirement of 20%, but this is more than offset by the high balance held in the 0-3 month horizon, indicating very high liquidity.

Where liquidity permits, we recommend new surplus funds be directed to 2-5 year horizons given this is where the most attractive value can be found. We suggest this be allocated to any remaining attractive fixed term deposits or fixed bonds to address reinvestment risk.



| Compliant | Horizon | Invested (\$) | Invested (%) | Min. Limit (%) | Max. Limit (%) | Available (\$) |
|-----------|---------------|----------------------|----------------|----------------|----------------|----------------|
| ✓ | 0 - 90 days | \$60,700,090 | 45.40% | 10% | 100% | \$72,997,720 |
| X | 91 - 365 days | \$26,259,620 | 19.64% | 20% | 100% | \$107,438,190 |
| ✓ | 1 - 2 years | \$6,000,000 | 4.49% | 0% | 70% | \$87,588,467 |
| ✓ | 2 - 5 years | \$37,738,100 | 28.23% | 0% | 50% | \$29,110,805 |
| ✓ | 5 - 10 years | \$3,000,000 | 2.24% | 0% | 25% | \$30,424,453 |
| | | \$133,697,810 | 100.00% | | | |

Counterparty

As at the end of August, all individual limits comply with the Policy apart from CBA (AA-) due to the excessive cash balance. We recommend deploying these surplus funds as soon as possible and invest with other rated banks in the medium-longer term horizon.

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 (\$) |
|-----------|----------------|--------|----------------------|----------------|----------------|----------------|
| X | CBA | AA- | \$44,541,363 | 33.31% | 30.00% | -\$4,432,020 |
| ✓ | NAB | AA- | \$9,041,570 | 6.76% | 30.00% | \$31,067,773 |
| ✓ | NTTC | AA- | \$9,000,000 | 6.73% | 30.00% | \$31,109,343 |
| ✓ | Westpac | AA- | \$12,000,000 | 8.98% | 30.00% | \$28,109,343 |
| ✓ | Suncorp | A+ | \$1,266,476 | 0.95% | 15.00% | \$18,788,195 |
| ✓ | ICBC Sydney | A | \$14,000,000 | 10.47% | 15.00% | \$6,054,672 |
| ✓ | ING Bank | A | \$15,000,000 | 11.22% | 15.00% | \$5,054,672 |
| ✓ | BOQ | BBB+ | \$8,000,000 | 5.98% | 10.00% | \$5,369,781 |
| ✓ | ME Bank | BBB+ | \$1,259,620 | 0.94% | 10.00% | \$12,110,161 |
| ✓ | AMP Bank | BBB | \$5,158,727 | 3.86% | 10.00% | \$8,211,054 |
| ✓ | Auswide Bank | BBB | \$10,000,000 | 7.48% | 10.00% | \$3,369,781 |
| ✓ | Beyond (Nexus) | BBB | \$3,000,000 | 2.24% | 10.00% | \$10,369,781 |
| ✓ | Newcastle PBS | BBB | \$1,430,054 | 1.07% | 10.00% | \$11,939,727 |
| | | | \$133,697,810 | 100.00% | | |

Effective 01/07/2021, BoQ formally acquired ME Bank for \$1.325bn. Subsequently, all ME Bank's senior assets including term deposits have been upgraded from BBB to BBB+ by S&P. With regards to counterparty limits, the two banks are still running separate ADI licences and so the individual exposures will continue to be shown separately. Once ME Bank formally withdraws its ADI licence, existing holdings with ME Bank will need to be aggregated with its parent company, BoQ. Council will need to keep this in mind when reinvesting maturing deposits with BoQ or ME Bank, and when placing 'new' surplus funds, so as not to be 'overweight' relative to the overall aggregate limits. There is also, however, a chance that BoQ may be upgraded from BBB+ to either A- or A by S&P over coming months/years, which would help with capacity limits.



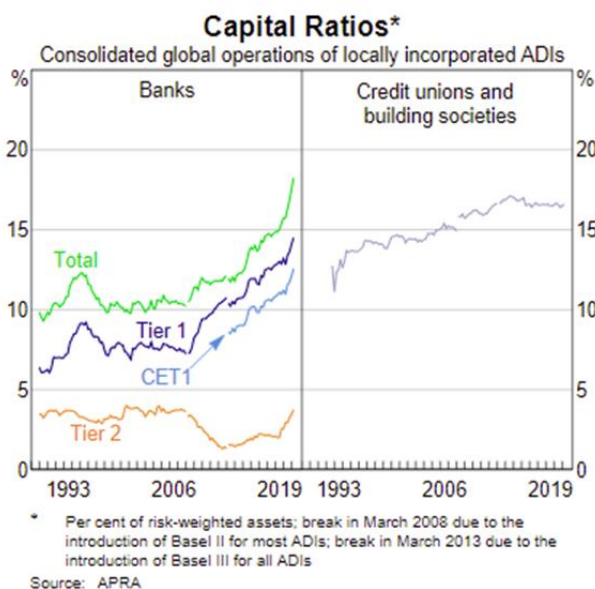
We remain supportive of the regional and unrated ADI sector (and have been even throughout the GFC period). They continue to remain solid, incorporate strong balance sheets, while exhibiting high levels of capital – typically, much higher compared to the higher rated ADIs. Some unrated ADIs have up to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

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

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

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

The biggest single risk that depositors face in the current low interest rate environment is not capital or credit risk, but reinvestment risk. Interest rates are now at their effective lower bound of 0.10%.





Credit Quality

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

From a ratings perspective, the BBB (and unrated) banks now generally dominate the number of ADIs issuing deposits within the investment grade space.

However, given most banks are fully liquid during the current pandemic, most of the “BBB” rated and Unrated ADIs are currently not seeking wholesale funding. As such, in the interim, we could see a shift towards a larger proportion of assets being directed towards the higher rated ADIs given the lack of appetite amongst the lower rated ADIs.

As at the end of August 2021, all categories were within the Policy limits:

| Compliant | Credit Rating | Invested (\$) | Invested (%) | Max. Limit (%) | Available (\$) |
|-----------|---------------|----------------------|----------------|----------------|----------------|
| ✓ | AA Category | \$74,582,933 | 55.78% | 100% | \$59,114,877 |
| ✓ | A Category | \$30,266,476 | 22.64% | 60% | \$49,952,210 |
| ✓ | BBB Category | \$28,848,401 | 21.58% | 35% | \$17,945,833 |
| ✓ | Unrated ADIs | \$0 | 0.00% | 10% | \$13,369,781 |
| | | \$133,697,810 | 100.00% | | |



Performance

Council's performance for the month ending 31 August 2021 is summarised as follows:

| Performance (Actual) | 1 month | 3 months | 6 months | FYTD | 1 year | 2 years |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Official Cash Rate | 0.01% | 0.03% | 0.05% | 0.02% | 0.13% | 0.32% |
| AusBond Bank Bill Index | 0.00% | 0.01% | 0.02% | 0.00% | 0.04% | 0.35% |
| Council's T/D Portfolio | 0.12% | 0.35% | 0.71% | 0.24% | 1.48% | 1.78% |
| Council's FRN Portfolio | 0.08% | 0.25% | 0.82% | 0.17% | 1.36% | 1.69% |
| Council's Bond Portfolio | 0.08% | 0.24% | 0.49% | 0.16% | - | - |
| Council's Portfolio[^] | 0.11% | 0.34% | 0.71% | 0.23% | 1.43% | 1.75% |
| Outperformance | 0.11% | 0.33% | 0.69% | 0.22% | 1.39% | 1.40% |

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

| Performance (% p.a.) | 1 month | 3 months | 6 months | FYTD | 1 year | 2 years |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Official Cash Rate | 0.10% | 0.10% | 0.10% | 0.10% | 0.13% | 0.32% |
| AusBond Bank Bill Index | 0.02% | 0.03% | 0.03% | 0.03% | 0.04% | 0.35% |
| Council's T/D Portfolio | 1.39% | 1.41% | 1.42% | 1.40% | 1.48% | 1.78% |
| Council's FRN Portfolio | 0.97% | 0.99% | 1.63% | 0.98% | 1.36% | 1.69% |
| Council's Bond Portfolio | 0.98% | 0.97% | 0.97% | 0.96% | - | - |
| Council's Portfolio[^] | 1.32% | 1.35% | 1.40% | 1.33% | 1.43% | 1.75% |
| Outperformance | 1.31% | 1.32% | 1.37% | 1.31% | 1.39% | 1.40% |

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

For the month of August, the total investment portfolio (excluding cash) provided a strong return of +0.11% (actual) or +1.32% p.a. (annualised), outperforming the benchmark AusBond Bank Bill Index return of +0.00% (actual) or +0.02% p.a. (annualised). The strong performance continues to be driven by the handful of the longer-dated deposits that were locked-in prior to the RBA's rate cuts, as well as the FRNs locked in at attractive margins.

Over the past 12 months, the total portfolio (excluding cash) returned an outstanding +1.43% p.a., outperforming bank bills by 1.39% p.a. This has been very strong given deposit rates reached their all-time lows and credit margins have generally contracted over the past 3 years.

We note most of the high-yielding deposits are fast maturing and will be reinvested at lower prevailing rates. With deposit margins tightening over the past few years, the FRN portfolio's performance has narrowed the gap compared to term deposits, although this is likely to reverse following the multiple interest rate cuts over the past year.

We are pleased that North Sydney Council remains amongst the best performing Councils in the state of NSW where deposits are concerned (as per our June 2021 Council Rankings), earning around \$300,000 in additional interest income versus the average NSW Council. We have been pro-active in our advice about protecting interest income and addressing reinvestment risk for many years and



encouraged to maintain a long duration position. This is now reflected by the high performance of the investment portfolio. Of the 29 individual deposits North Sydney Council held, 14 are still yielding higher than 1.50% p.a. That is, around half of the outstanding deposits held are currently earning more than the highest rate available in the market from any rated bank out to 5 years.

Council's Term Deposit Portfolio & Recommendation

As at the end of August 2021, Council's deposit portfolio was yielding an **attractive 1.38% p.a.** (down 1bp from the previous month), with an average duration of around 601 days (~1½ years). We recommend Council extends this average duration. In the low interest rate environment, the biggest collective risk that the local government sector has faced over the post-GFC era has been the dramatic fall in interest rates - from 7¼% to the historical low levels of 0.10%.

As the past decade has highlighted (post-GFC era), we have seen too many portfolios' roll a high proportion of their deposits between 3-6 months, resulting in their deposits being reinvested at lower prevailing rates. That is, depositors have overpaid for liquidity and generally not insured themselves against the low interest rate environment by diversify their funding across various tenors (out to 5 years) but rather placed all their 'eggs in one basket' and kept all their deposits short. **Reinvestment risk has collectively been and continues to be the biggest detriment to depositors' interest income over the post-GFC period.**

At the time of writing, we see value in:

| ADI | LT Credit Rating | Term | T/D Rate |
|--------------|------------------|---------|-------------------------|
| ICBC, Sydney | A | 5 years | 1.40% p.a. |
| NAB | AA- | 5 years | 1.20% p.a. |
| ICBC, Sydney | A | 4 years | 1.20% p.a. |
| NAB | AA- | 4 years | 1.05% p.a. |
| ICBC, Sydney | A | 3 years | 0.94% p.a. |
| AMP Bank | BBB | 3 years | 0.80% p.a. [^] |
| NAB | AA- | 3 years | 0.80% p.a. |
| BoQ | BBB+ | 3 years | 0.80% p.a. |
| AMP Bank | BBB | 2 years | 0.75% p.a. [^] |
| NAB | AA- | 2 years | 0.60% p.a. |

[^] AMP T/Ds – contact us to receive an additional 0.20% p.a. rebated commission on top of the rate shown above

The above deposits are suitable for investors looking to provide some income protection and mitigate reinvestment/rollover risk in the low interest rate environment.



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 |
|----------|------------------|--------------|-------------|
| ME Bank | BBB+ | 9-12 months | ~0.50% p.a. |
| AMP Bank | BBB | 11-12 months | 0.45% p.a.^ |
| BoQ | BBB+ | 12 months | 0.43% p.a. |
| CBA | AA- | 12 months | ~0.41% p.a. |
| NAB | AA- | 12 months | 0.34% p.a. |

[^] AMP T/Ds – contact us to receive an additional 0.20% p.a. rebated commission on top of the rate shown above

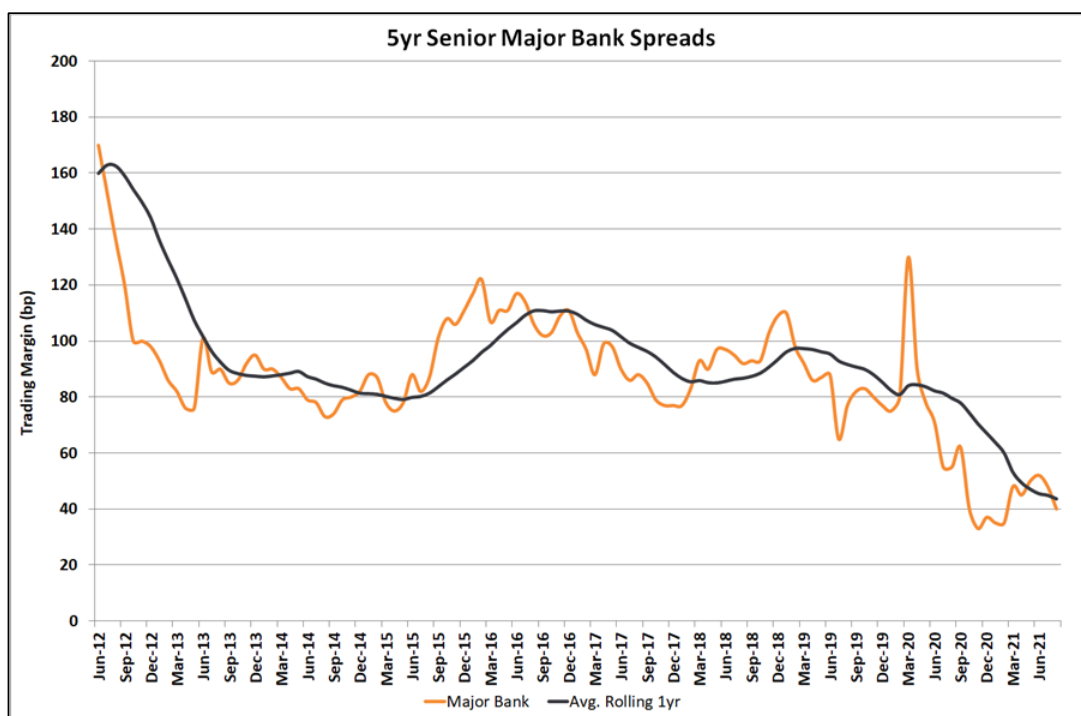
Amongst the investment grade sector, short-dated term deposits (maturing less than 12 months) are yielding under 0.50% p.a. (most are under 0.40% p.a.). We believe there is not much value being offered in short-dated deposits.

In contrast, there is an upward pick-up in yield for investors that can take advantage of 2-5 year fixed T/Ds whilst official rates are stuck at depressed levels at least for the next two to three years. For those investors that do not require high levels of liquidity and can stagger their investments longer-term, they will be rewarded over coming years if they roll for a minimum term of 2 years (we note some investors tend to roll for 3-5 years), potentially yielding, on average, more than double the return compared to those investors that purely invest in short-dated deposits.



Senior FRNs Review

Over August, amongst the senior major bank FRNs, physical credit securities tightened by around 4-8bp at the long-end of the curve. During the month, **NAB (AA-) issued a 5 year senior FRN at +41bp, tightening from initial guidance of +47bp, printing \$2.75bn** (orders above \$3.8bn). We thought this was issued at a very tight level on a historical basis. The other major banks may follow suit over coming months looking to refinance their upcoming maturities at the current very cheap (historic) levels.



Source: IBS Capital

United Overseas Bank, Sydney Branch (AA-) followed with their own 5 year senior FRN benchmark issue, printing \$450m at +41bp. NSW Treasury Corporation (AA+) issued a new March 2034 fixed bond at a yield of 1.82%, printing \$1.5bn.

Separately, ING Bank (Australia) issued a 5 year covered bond (AAA rated) security at +40bp (floating) or 1.10% s.a. (fixed), tightening from initial price guidance of +45bp. It was over 3 times oversubscribed with orders in excess of \$2.3bn, with ING printing \$625m in the floating tranche and \$125m in the fixed tranche. We favoured the fixed tranche given the immediately outlook for rates.

Amongst the “A” and “BBB” rated sector, the securities were also marked around 3-10bp tighter at the long-end of the curve. While turnover in the secondary market is still predominately dominated by commonwealth, semi-government and major bank senior paper, given the lack of supply, we have started to observe that even a handful of regional bank senior paper has sometimes been trading inside “mid” levels over recent months.



The lack of supply from new (primary) issuances has played a major role with the rally in credit markets over the past 1½ years, now appearing fairly expensive of a historical level. 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) | 31/08/2021 | 31/07/2021 |
|--------------------|------------|------------|
| "AA" rated – 5yrs | +40bp | +48bp |
| "AA" rated – 3yrs | +18bp | +22bp |
| "A" rated – 5yrs | +55bp | +65bp |
| "A" rated – 3yrs | +35bp | +40bp |
| "BBB" rated – 3yrs | +45bp | +48bp |

Source: IBS Capital

We now generally **recommend switches** ('benchmark' issues only) into new attractive primary issues (or longer-dated alternatives), out of the following senior FRNs that are maturing:

- **On or before mid-2024 for the "AA" rated ADIs (domestic major banks);**
- On or before mid-2022 for the "A" rated ADIs; and
- Within 12 months for the "BBB" rated ADIs (consider case by case).

Investors holding onto the above senior FRNs ('benchmark' issues only) in their last 1-2 years are now generally holding sub-optimal investments and are not maximising returns by foregoing realised capital gains. In the current low interest rate environment, any boost in overall returns should be locked in when it is advantageous to do so.



Council's Senior FRNs Sale/Switch Recommendations

Over the next few months, we recommend Council sells out of the following FRNs given yielding a low rate of return, if held to maturity (less than 0.3% p.a.):

- \$1.25m ME Bank (BBB) FRN maturing 18/07/2022 (ISIN: AU3FN0048948) – trading margin at **+11.0bp** or capital price of \$100.75 (capital gain **~\$9,600**);
- \$2.00m NAB (AA-) FRN maturing 19/06/2024 (ISIN: AU3FN0048724) – trading margin at **+18.0bp** or capital price of \$102.07 (capital gain **~\$41,500**).

The above sales would result in capital gains totalling **\$51,100**. Council can easily switch into a higher yielding complying asset which is returning much higher than 0.30% p.a., namely 2-5 year fixed term deposits or fixed bonds.

Senior Bonds

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

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

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



Senior Bonds - Northern Territory Treasury Corporation (NTTC)

We are aware of the following senior retail bond offering from Northern Territory Treasury Corporation (NTTC) effective 30th August 2021:

| Maturity Date | Rate % p.a. [^] | Interest Paid |
|-----------------------|--------------------------|---------------|
| 15/12/2022 | 0.40% | Annually |
| 15/12/2023 | 0.60% | Annually |
| 15/12/2024 | 0.90% | Semi-Annually |
| 15/12/2025 | 1.10% | Semi-Annually |
| 15/12/2026 | 1.40% | Semi-Annually |

^{^^}The rates offered in the above table can be reviewed and changed at any time from Treasury. The rate for broker sponsored applications will be dropped by 0.20% p.a. effective 1 October 2020.

Any investor interested in this product should avoid placing through the broker channel and contact Imperium Markets to receive the full commission of 0.25% (plus GST) on the face value of the investment, in the form of an additional rebate. If placed through the brokers, they are likely to keep the 0.25% commission (on the face value of the investment).

| Overview | Description |
|-----------------------|--|
| Issuer | Northern Territory Government |
| Credit Rating | Aa3 (Moody's), which is AA- equivalent (S&P) |
| Type | Fixed senior (retail) bonds |
| Program | Territory Bonds Issue 111 |
| Date for applications | 01/07/2021 – 30/11/2021 |
| Liquidity | Weekly redemptions available, subject to the prevailing market rate and administration costs ^{^^} |

^{^^} Note given this is a retail bond offering (min. parcel size of \$5,000), for wholesale investors, we would not consider this to be a liquid investment (the largest redemptions to date have only been \$200-\$300k).

The product should be viewed as a hold-to-maturity product, noting there are significant penalty costs including admin fees, the prevailing market interest rate, and factors in any associate commissions that were previously paid. Given the longer-term outlook for official interest rates, **any investor with capacity should consider placing a small parcel (up to \$5m) in the 15/12/2024, 15/12/2025 and 15/12/2026 maturities through Imperium Markets** to receive an effectively higher rate, once factoring in the rebated commission.



Economic Commentary

International Market

US Fed Chair Powell distanced the subject of Fed rate hikes from decisions about potentially tapering QE bond purchases later this year. Positive risk sentiment continued in financial markets as Powell indicated there would be stricter tests for any potential rate hikes, while remaining dovish on inflation.

Global equity markets subsequently rallied again, setting new highs across various regions, with the focus primarily on vaccination targets and the easing of restrictions in those jurisdictions that still apply various forms of lockdowns. Across the US, the S&P 500 Index gained +2.90%, while the tech-heavy NASDAQ Index surged another +4.00%. Equities also gained across Europe's main indices, with gains led by Germany's DAX (+1.87%), UK's FTSE (+1.24%) and France's CAC (+1.02%).

The FDA granted full approval to the Covid-19 vaccine made by Pfizer Inc. and BioNTech which should increase confidence on the vaccine's safety and effectiveness.

US Federal Chair Powell hinted that the central bank will likely begin to withdraw some of its easy-money policies before year-end (QE bond purchases of US\$120bn per month) but unlikely to move on official rates anytime soon.

Momentum appears to be building again for the US fiscal packages which includes the US\$1 trillion infrastructure package and the US\$3.5 trillion framework by the end of September.

US core inflation moderated in July at +0.3% m/m vs. +0.4% expected (the annual rate was +4.3% y/y). Much of the re-opening pressure has now abated with certain measures of inflation back to their pre-pandemic levels.

The US unemployment rate fell to 4.4% in July with 943,000 jobs added during the month.

Canada's Q2 GDP figures came in very much weaker than expected at -0.25% q/q or -1.1% on an annualised basis.

Eurozone's GDP came in better than expected at +2%, driven by the strength in the Euro-periphery, with Portugal at +4.9%, Spain +2.8% and Italy +2.7%, against +0.9% for France and +1.5% for Germany.

RBNZ Governor Adrian Orr indicated that their overnight cash rate would likely have been raised in August after meeting its targets on inflation and employment, however the latest outbreak of Covid-19 and subsequent lockdown halted that decision.

The MSCI World ex-Aus Index rose +2.38% for the month of August:

| Index | 1m | 3m | 1yr | 3yr | 5yr | 10yr |
|--------------------------|--------|--------|---------|---------|---------|---------|
| S&P 500 Index | +2.90% | +7.58% | +29.21% | +15.95% | +15.81% | +14.01% |
| MSCI World ex-AUS | +2.38% | +5.73% | +28.04% | +13.20% | +12.98% | +10.26% |
| S&P ASX 200 Accum. Index | +2.50% | +5.97% | +28.15% | +9.87% | +10.94% | +10.31% |

Source: S&P, MSCI



Domestic Market

In its meeting in August, the RBA surprised markets by sticking to its taper plans of reducing purchases to \$4bn from \$5bn a week starting from early September, despite the protracted lockdowns in NSW and VIC. Snap lockdowns were also experienced across several other states.

RBA Governor Lowe Dr Lowe commented on the path of future rate hikes: “it will not be enough for inflation to just sneak across the 2% line for a quarter or two. We want to see inflation well within the target band and be confident that it will stay there”.

There appears to be a significant way before wage growth lifts above the RBA’s target of 3% y/y. There were only modest signs of recovery in private sector wages amid tighter labour markets prior to the current lockdowns, with public sector wage restraint currently a significant drag on overall wages growth. **The Wage Price Index (WPI) rose just +0.4% q/q and +1.7% y/y in the June quarter.**

Headline employment rose +2k to a record high 13.2m to remain 1.2% above pre-pandemic February 2020 levels. Employment in NSW declined broadly as expected, down -36k or -0.9% in the month, but was offset by gains elsewhere, notably in Victoria. **The unemployment rate fell 0.3% to 4.6% in July, mainly attributed to a 1.0% decline in the participation rate.** The underemployment rate rose 0.4% to 8.3%.

PM Morrison is trying to pressure states into sticking with the re-opening hurdles of 70% and 80% adult vaccination – those hurdles being reachable by October and November respectively.

Residential building approvals fell -6.7% m/m in June, the third consecutive month of declines, following a -7.6% fall in May and a -5.0% April. Meanwhile, Australian dwelling price rose +1.6% m/m and +16.1% y/y in July.

The trade surplus increased by \$1.2bn to a record high of \$10.5bn in June, driven by an increase in goods exports (+4% m/m to \$38.2bn), with both rural (+7% m/m to \$4.7bn) and non-rural goods (+2% m/m to \$31.4bn) increasing.

Retail sales fell in line with expectations, down -2.7% m/m in July. The decline in the month was driven by a sharp fall in NSW (-8.9% m/m) with Greater Sydney having been in lockdown since June 26.

The Australian dollar fell -0.62%, finishing the month at US73.35 cents (from US73.81 cents the previous month).

Credit Market

The main global credit indices tightened again over August in the risk-on environment. The indices now trade back to their levels experienced in late 2020:

| Index | August 2021 | July 2021 |
|----------------------------|-------------|-----------|
| CDX North American 5yr CDS | 46bp | 50bp |
| iTraxx Europe 5yr CDS | 45bp | 47bp |
| iTraxx Australia 5yr CDS | 58bp | 63bp |

Source: Markit



Fixed Interest Review

Benchmark Index Returns

| Index | August 2021 | July 2021 |
|--|-------------|-----------|
| Bloomberg AusBond Bank Bill Index (0+YR) | +0.00% | +0.00% |
| Bloomberg AusBond Composite Bond Index (0+YR) | +0.09% | +1.76% |
| Bloomberg AusBond Credit FRN Index (0+YR) | +0.05% | +0.11% |
| Bloomberg AusBond Credit Index (0+YR) | +0.06% | +1.00% |
| Bloomberg AusBond Treasury Index (0+YR) | +0.20% | +2.01% |
| Bloomberg AusBond Inflation Gov't Index (0+YR) | -0.43% | +2.70% |

Source: Bloomberg

Other Key Rates

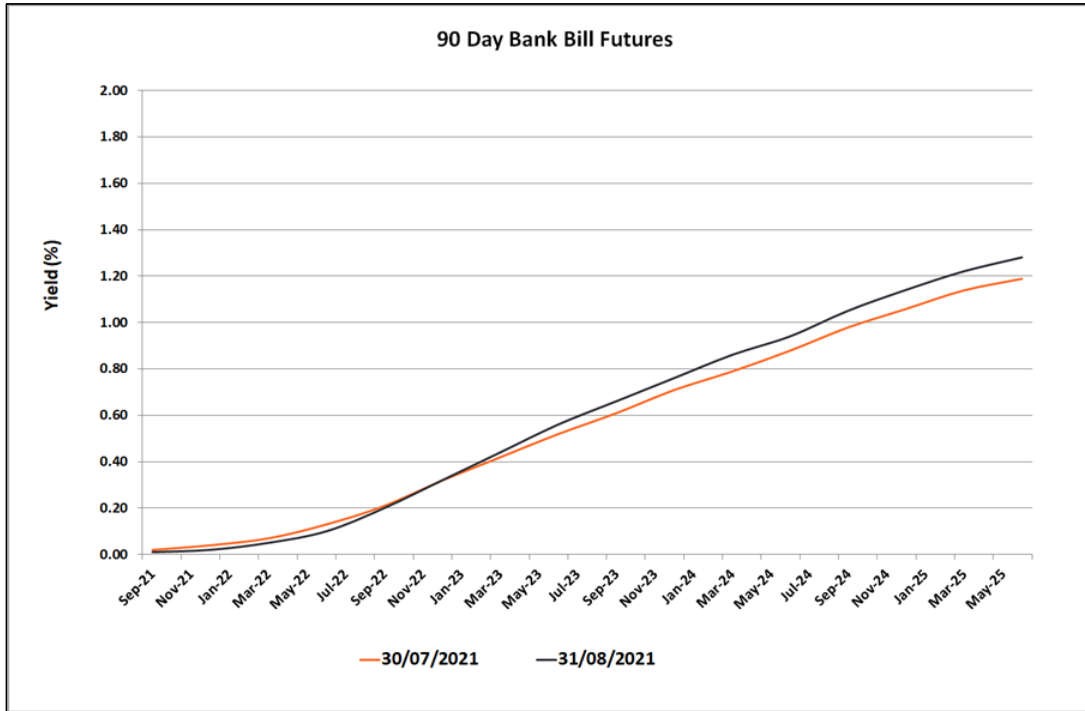
| Index | August 2021 | July 2021 |
|----------------------------------|-------------|-------------|
| RBA Official Cash Rate | 0.10% | 0.10% |
| 90 Day (3 month) BBSW Rate | 0.01% | 0.02% |
| 3yr Australian Government Bonds | 0.15% | 0.13% |
| 10yr Australian Government Bonds | 1.12% | 1.14% |
| US Fed Funds Rate | 0.00%-0.25% | 0.00%-0.25% |
| 10yr US Treasury Bonds | 1.30% | 1.24% |

Source: RBA, AFMA, US Department of Treasury



90 Day Bill Futures

Over August, bill futures marginally rose across the board as the vaccine rollout approaches the 70-80% target, with the market now focusing on the easing of restrictions across the country. Overall, bill futures continue to depict a low rate environment over the long-run, despite the steeping curve in recent months:



Source: ASX



Fixed Interest Outlook

Delta variant concerns have persisted, resulting in global bond yields to drift significantly lower over recent months. US Federal Reserve Chairman Powell reiterated that a decision to taper off the Fed's US\$120bn in monthly asset purchases does not mean it will be raising interest rates at the same time, whilst reiterating their view that rising inflationary pressures will largely prove 'transitory'. *In late August, the first US Fed hike was only fully priced by around March 2023.*

In Australia, sporadic outbreaks are likely to be controlled via short-lived restrictions until the vaccination rate lifts substantially, with a target set at 70-80%. The RBA has factored in these snap lockdowns as part of their economic projections. Conceivably, the RBA's base case scenario does not see rate hikes until 2024 (conditions for an official rate rise "***will not be met until 2024***"), while their upside scenario is consistent with rate hikes in 2023, dependent on the flow of ongoing economic data.

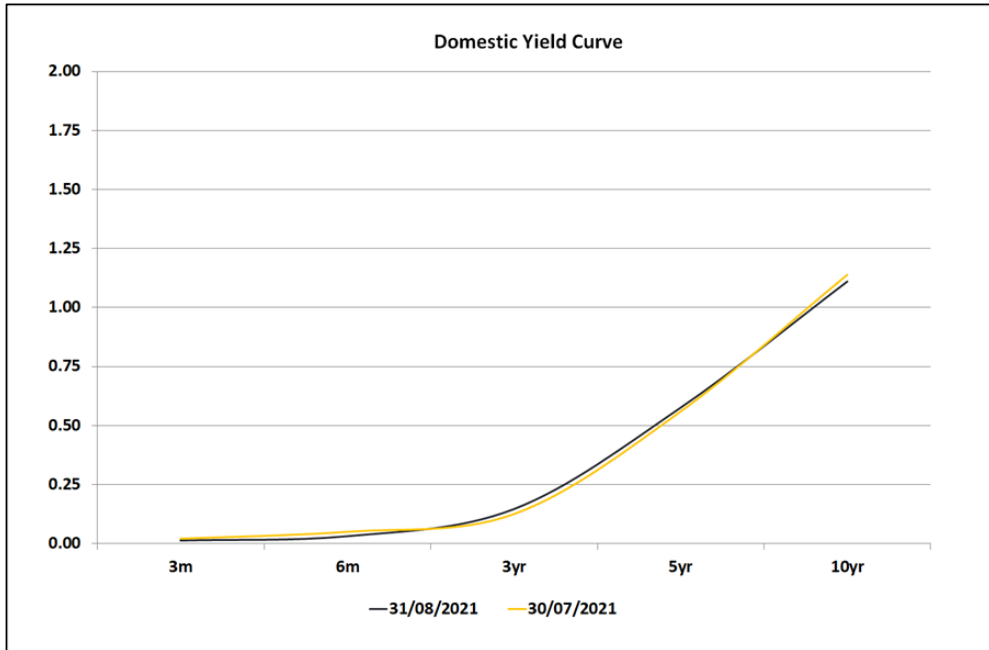
They would like to see the following three economic indicators improve before they even consider increasing interest rates:

1. The unemployment rate to drop to around 4% (currently at 4.6% but masked by a significant drop in the participation rate), and noting it has not been below 4.5% since 2008;
2. "*Until actual (underlying) inflation is sustainably within the 2-3% target range*" (it has not been within their target band for the past 5 years); and
3. Wage growth to surpass +3% (it has not been above this level for the past 8 years).

Governor Lowe has remained relatively dovish with his comments, indicating an earlier rate hike prior to 2024 would require "*strong, unequivocal evidence that the pick-up in the economy is translating into wages growth and inflation is sustainably higher*".

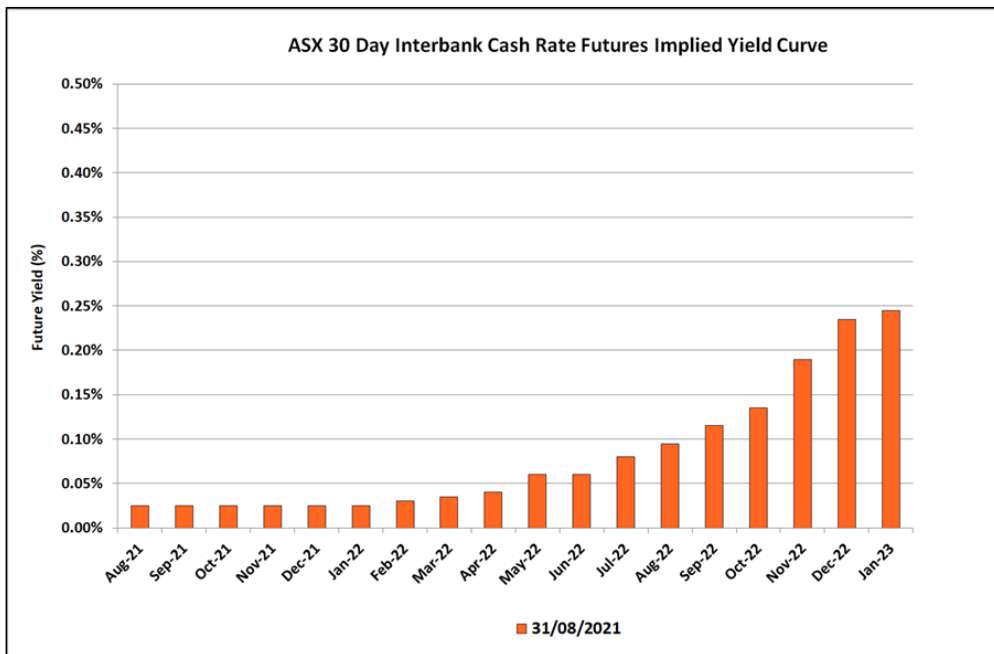
He has commented on the path of future rate hikes: "*it will not be enough for inflation to just sneak across the 2% line for a quarter or two. We want to see inflation well within the target band and be confident that it will stay there*".

The domestic bond market continues to suggest a prolonged low period of interest rates. Over the month, yields fell around 2bp at the long-end of the curve:



Source: AFMA, ASX, RBA

The market continues to factor in the possibility of a rate hike up to 25bp by the end of 2022, dependent on the speed of the recovery once the vaccination target is met and restrictions are eased:



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.



Investment Report

01/08/2021 to 31/08/2021



Portfolio Valuation as at 31/08/2021

| Issuer | Rating | Type | Alloc | Interest | Purchase | Maturity | Rate | Capital Value | Accrued | Accrued MTD |
|---------------------|--------|------|---------|-------------|------------|------------|--------|---------------|------------|-------------|
| Auswide Bank | BBB | TD | GENERAL | At Maturity | 05/09/2019 | 06/09/2021 | 1.8000 | 3,000,000.00 | 107,556.16 | 4,586.30 |
| Auswide Bank | BBB | TD | GENERAL | Annual | 15/10/2019 | 15/10/2021 | 1.6500 | 2,000,000.00 | 29,021.92 | 2,802.74 |
| Auswide Bank | BBB | TD | GENERAL | At Maturity | 31/10/2019 | 29/10/2021 | 1.6500 | 1,000,000.00 | 30,332.88 | 1,401.37 |
| Westpac | AA- | TD | GENERAL | Quarterly | 31/10/2019 | 29/10/2021 | 1.6100 | 6,000,000.00 | 8,733.70 | 8,204.38 |
| Nexus Mutual | BBB | TD | GENERAL | Annual | 29/11/2019 | 29/11/2021 | 1.8000 | 3,000,000.00 | 40,684.93 | 4,586.30 |
| Auswide Bank | BBB | TD | GENERAL | At Maturity | 29/11/2019 | 29/11/2021 | 1.7000 | 1,000,000.00 | 29,901.37 | 1,443.84 |
| ING Direct | A | TD | GENERAL | Annual | 21/01/2020 | 21/01/2022 | 1.6500 | 4,000,000.00 | 40,323.29 | 5,605.48 |
| ING Direct | A | TD | GENERAL | Annual | 17/02/2020 | 17/02/2022 | 1.6000 | 6,000,000.00 | 51,550.68 | 8,153.42 |
| ING Direct | A | TD | GENERAL | Annual | 28/02/2020 | 28/02/2022 | 1.6000 | 1,000,000.00 | 8,197.26 | 1,358.90 |
| ING Direct | A | TD | GENERAL | Annual | 02/03/2020 | 02/03/2022 | 1.5000 | 4,000,000.00 | 30,082.19 | 5,095.89 |
| Members Equity Bank | BBB+ | FRN | GENERAL | Quarterly | 18/07/2019 | 18/07/2022 | 1.0052 | 1,259,620.00 | 1,514.68 | 1,067.16 |
| Auswide Bank | BBB | TD | GENERAL | At Maturity | 12/08/2019 | 12/08/2022 | 1.9500 | 3,000,000.00 | 120,365.75 | 4,968.49 |
| AMP Bank | BBB | TD | GENERAL | Annual | 31/08/2020 | 31/08/2022 | 0.8000 | 3,000,000.00 | 65.75 | 65.75 |
| Westpac | AA- | FRTD | GENERAL | Quarterly | 31/08/2017 | 31/08/2022 | 1.0621 | 2,000,000.00 | 58.20 | 58.20 |
| Westpac | AA- | FRTD | GENERAL | Quarterly | 31/08/2017 | 31/08/2022 | 1.0621 | 2,000,000.00 | 58.20 | 58.20 |
| Westpac | AA- | FRTD | GENERAL | Quarterly | 18/09/2017 | 19/09/2022 | 1.0213 | 2,000,000.00 | 4,197.12 | 1,734.81 |
| NAB | AA- | TD | GENERAL | Annual | 31/08/2021 | 30/08/2023 | 0.6200 | 2,000,000.00 | 33.97 | 33.97 |
| AMP Bank | BBB | TD | GENERAL | Annual | 31/08/2021 | 31/08/2023 | 0.7500 | 2,000,000.00 | 41.10 | 41.10 |



| Issuer | Rating | Type | Alloc | Interest | Purchase | Maturity | Rate | Capital Value | Accrued | Accrued MTD |
|-----------------------------|--------|------|---------|-----------|------------|------------|--------|---------------|-----------|-------------|
| BOQ | BBB+ | TD | GENERAL | Annual | 06/09/2019 | 06/09/2023 | 1.9000 | 2,000,000.00 | 37,375.34 | 3,227.40 |
| BOQ | BBB+ | TD | GENERAL | Annual | 21/01/2020 | 22/01/2024 | 1.9500 | 2,000,000.00 | 23,827.40 | 3,312.33 |
| NAB | AA- | FRN | GENERAL | Quarterly | 19/06/2019 | 19/06/2024 | 0.9481 | 2,041,570.00 | 3,740.45 | 1,610.47 |
| Suncorp | A+ | FRN | GENERAL | Quarterly | 30/07/2019 | 30/07/2024 | 0.8005 | 1,266,476.25 | 904.67 | 849.85 |
| NAB | AA- | TD | GENERAL | Annual | 31/08/2021 | 28/08/2024 | 0.8200 | 3,000,000.00 | 67.40 | 67.40 |
| BOQ | BBB+ | TD | GENERAL | Annual | 29/10/2020 | 29/10/2024 | 0.9500 | 3,000,000.00 | 23,971.23 | 2,420.55 |
| ICBC Sydney Branch | A | TD | GENERAL | Annual | 10/11/2020 | 11/11/2024 | 1.0800 | 2,000,000.00 | 17,457.53 | 1,834.52 |
| Northern Territory Treasury | AA- | BOND | GENERAL | Annual | 30/10/2020 | 16/12/2024 | 0.9000 | 3,000,000.00 | 19,232.88 | 2,293.15 |
| Newcastle Permanent | BBB | FRN | GENERAL | Quarterly | 04/02/2020 | 04/02/2025 | 1.1350 | 1,430,053.80 | 1,218.96 | 1,218.96 |
| ICBC Sydney Branch | A | TD | GENERAL | Annual | 23/02/2021 | 24/02/2025 | 1.2000 | 2,000,000.00 | 12,493.15 | 2,038.36 |
| BOQ | BBB+ | TD | GENERAL | Annual | 28/02/2020 | 28/02/2025 | 2.0000 | 1,000,000.00 | 10,246.58 | 1,698.63 |
| ICBC Sydney Branch | A | TD | GENERAL | Annual | 29/07/2021 | 29/07/2025 | 1.1000 | 2,000,000.00 | 2,049.32 | 1,868.49 |
| NAB | AA- | TD | GENERAL | Annual | 30/10/2020 | 29/10/2025 | 0.9600 | 2,000,000.00 | 16,096.44 | 1,630.68 |
| ICBC Sydney Branch | A | TD | GENERAL | Annual | 10/11/2020 | 10/11/2025 | 1.2500 | 4,000,000.00 | 40,410.96 | 4,246.58 |
| ICBC Sydney Branch | A | TD | GENERAL | Annual | 11/12/2020 | 11/12/2025 | 1.2000 | 2,000,000.00 | 17,358.90 | 2,038.36 |
| Northern Territory Treasury | AA- | BOND | GENERAL | Annual | 29/10/2020 | 15/12/2025 | 1.0000 | 3,000,000.00 | 21,369.86 | 2,547.95 |
| ICBC Sydney Branch | A | TD | GENERAL | Annual | 23/02/2021 | 23/02/2026 | 1.4500 | 2,000,000.00 | 15,095.89 | 2,463.01 |
| Northern Territory Treasury | AA- | BOND | GENERAL | Annual | 27/08/2021 | 15/12/2026 | 1.5000 | 3,000,000.00 | 616.44 | 616.44 |
| Commonwealth Bank | AA- | CASH | GENERAL | Monthly | 31/08/2021 | 31/08/2021 | 0.0000 | 44,541,363.10 | - | - |
| AMP Bank | BBB | CASH | GENERAL | Monthly | 31/08/2021 | 31/08/2021 | 0.5500 | 158,726.87 | 74.15 | 74.15 |



| Issuer | Rating | Type | Alloc | Interest | Purchase | Maturity | Rate | Capital Value | Accrued | Accrued MTD |
|---------------|--------|------|-------|----------|----------|----------|------|----------------|------------|-------------|
| TOTALS | | | | | | | | 133,697,810.02 | 766,326.70 | 87,323.57 |



Counterparty Compliance as at 31/08/2021

Long Term Investments

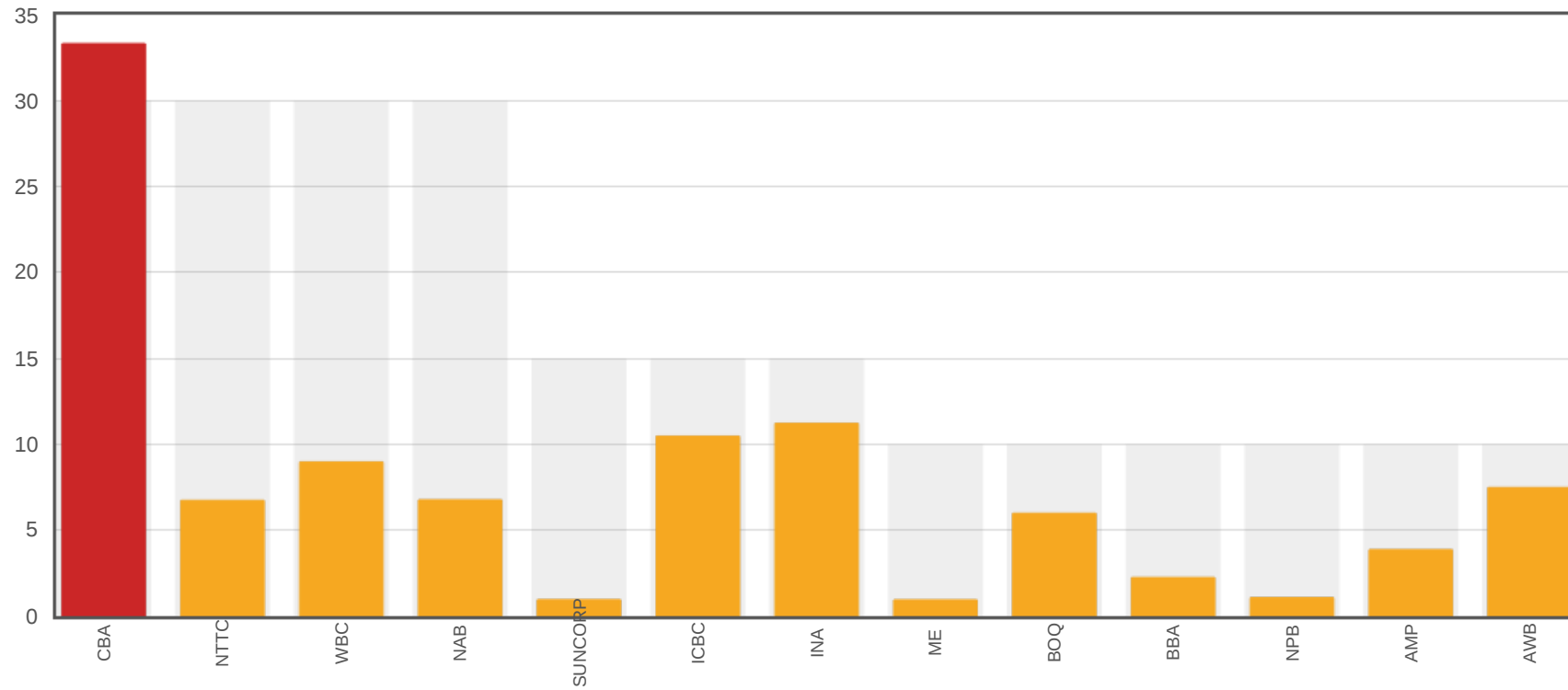
| Compliant | Bank Group | Term | Rating | Invested | Invested (%) | Limit (%) | Limit (\$) | Available |
|-----------|-----------------------------|------|--------|---------------|--------------|-----------|------------|---------------|
| ✘ | Commonwealth Bank | Long | AA- | 44,541,363.10 | 33.31 | 30.00 | - | -4,432,020.09 |
| ✔ | Northern Territory Treasury | Long | AA- | 9,000,000.00 | 6.73 | 30.00 | - | 31,109,343.01 |
| ✔ | Westpac | Long | AA- | 12,000,000.00 | 8.97 | 30.00 | - | 28,109,343.01 |
| ✔ | NAB | Long | AA- | 9,041,570.00 | 6.76 | 30.00 | - | 31,067,773.01 |
| ✔ | Suncorp | Long | A+ | 1,266,476.25 | 0.95 | 15.00 | - | 18,788,195.25 |
| ✔ | ICBC Sydney Branch | Long | A | 14,000,000.00 | 10.47 | 15.00 | - | 6,054,671.50 |
| ✔ | ING Direct | Long | A | 15,000,000.00 | 11.22 | 15.00 | - | 5,054,671.50 |
| ✔ | Members Equity Bank | Long | BBB+ | 1,259,620.00 | 0.94 | 10.00 | - | 12,110,161.00 |
| ✔ | BOQ | Long | BBB+ | 8,000,000.00 | 5.98 | 10.00 | - | 5,369,781.00 |
| ✔ | Beyond Bank | Long | BBB | 3,000,000.00 | 2.24 | 10.00 | - | 10,369,781.00 |
| ✔ | Newcastle Permanent | Long | BBB | 1,430,053.80 | 1.07 | 10.00 | - | 11,939,727.20 |
| ✔ | AMP Bank | Long | BBB | 5,158,726.87 | 3.86 | 10.00 | - | 8,211,054.13 |
| ✔ | Auswide Bank | Long | BBB | 10,000,000.00 | 7.48 | 10.00 | - | 3,369,781.00 |



| Compliant | Bank Group | Term | Rating | Invested | Invested (%) | Limit (%) | Limit (\$) | Available |
|-----------|------------|------|--------|----------------|--------------|-----------|------------|-----------|
| TOTALS | | | | 133,697,810.02 | 100.00 | | | |



Counterparty Compliance - Long Term Investments



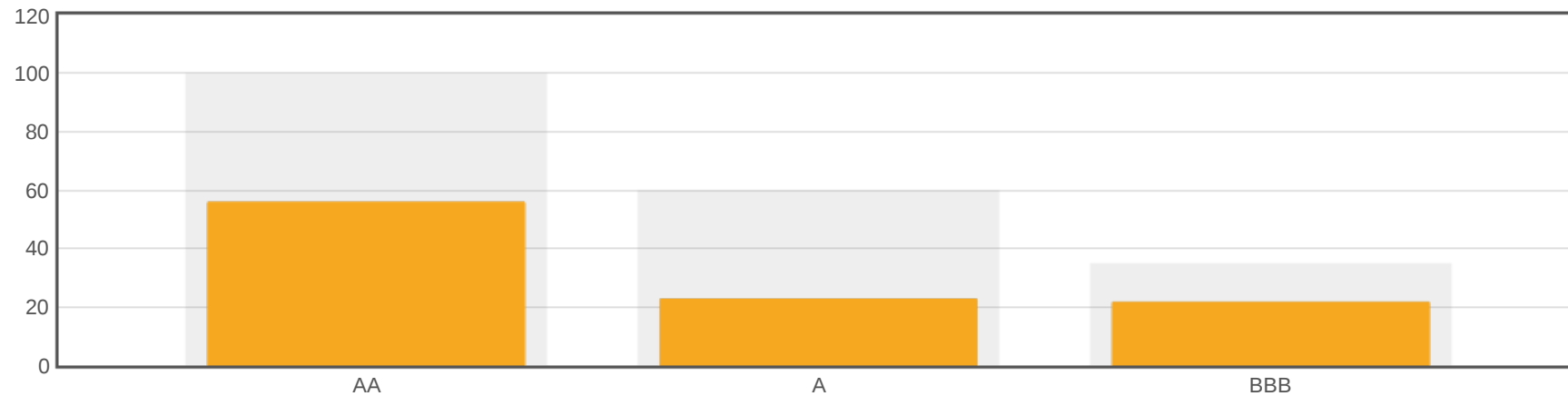


Credit Quality Compliance as at 31/08/2021

Long Term Investments

| Compliant | Rating | Invested (\$) | Invested (%) | Limit (%) | Available |
|---------------|--------|-----------------------|---------------|-----------|---------------|
| ✓ | AA | 74,582,933.10 | 55.78 | 100.00 | 59,114,876.92 |
| ✓ | A | 30,266,476.25 | 22.64 | 60.00 | 49,952,209.76 |
| ✓ | BBB | 28,848,400.67 | 21.58 | 35.00 | 17,945,832.84 |
| TOTALS | | 133,697,810.02 | 100.00 | | |

Credit Quality Compliance - Long Term Investments

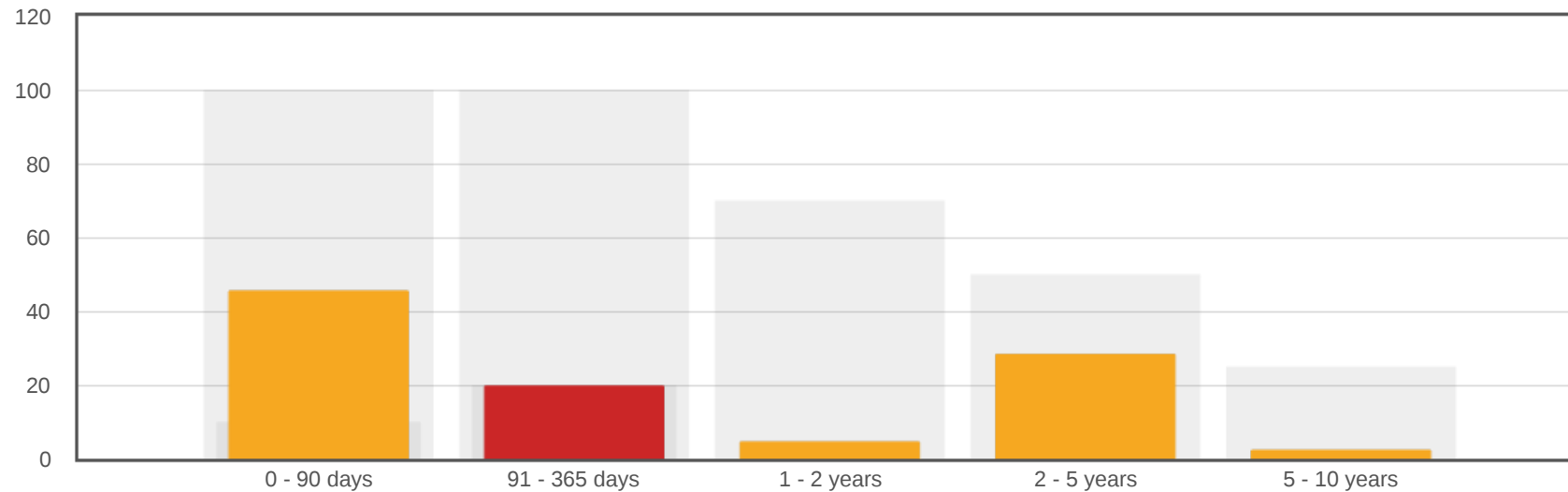




Maturity Compliance as at 31/08/2021

| Compliant | Term | Invested | Invested (%) | Min Limit (%) | Max Limit (%) | Available |
|---------------|---------------|-----------------------|---------------|---------------|---------------|----------------|
| ✓ | 0 - 90 days | 60,700,089.97 | 45.40 | 10.00 | 100.00 | 72,997,720.05 |
| ✗ | 91 - 365 days | 26,259,620.00 | 19.64 | 20.00 | 100.00 | 107,438,190.02 |
| ✓ | 1 - 2 years | 6,000,000.00 | 4.49 | 0.00 | 70.00 | 87,588,467.01 |
| ✓ | 2 - 5 years | 37,738,100.05 | 28.23 | 0.00 | 50.00 | 29,110,804.96 |
| ✓ | 5 - 10 years | 3,000,000.00 | 2.24 | 0.00 | 25.00 | 30,424,452.51 |
| TOTALS | | 133,697,810.02 | 100.00 | | | |

Maturity Compliance





Portfolio Comparison

From: 31/07/2021 To: 31/08/2021

| Issuer | Rating | Type | Rate | Purchase | Maturity | Interest | 31/07/2021 | 31/08/2021 | Difference |
|---------------------|--------|------|--------|------------|------------|-------------|--------------|--------------|---------------|
| NAB | AA- | TD | 0.8000 | 31/08/2020 | 31/08/2021 | At Maturity | 4,000,000.00 | - | -4,000,000.00 |
| NAB | AA- | TD | 0.8000 | 31/08/2020 | 31/08/2021 | At Maturity | 3,000,000.00 | - | -3,000,000.00 |
| Auswide Bank | BBB | TD | 1.8000 | 05/09/2019 | 06/09/2021 | At Maturity | 3,000,000.00 | 3,000,000.00 | - |
| Auswide Bank | BBB | TD | 1.6500 | 15/10/2019 | 15/10/2021 | Annual | 2,000,000.00 | 2,000,000.00 | - |
| Westpac | AA- | TD | 1.6100 | 31/10/2019 | 29/10/2021 | Quarterly | 6,000,000.00 | 6,000,000.00 | - |
| Auswide Bank | BBB | TD | 1.6500 | 31/10/2019 | 29/10/2021 | At Maturity | 1,000,000.00 | 1,000,000.00 | - |
| Nexus Mutual | BBB | TD | 1.8000 | 29/11/2019 | 29/11/2021 | Annual | 3,000,000.00 | 3,000,000.00 | - |
| Auswide Bank | BBB | TD | 1.7000 | 29/11/2019 | 29/11/2021 | At Maturity | 1,000,000.00 | 1,000,000.00 | - |
| ING Direct | A | TD | 1.6500 | 21/01/2020 | 21/01/2022 | Annual | 4,000,000.00 | 4,000,000.00 | - |
| ING Direct | A | TD | 1.6000 | 17/02/2020 | 17/02/2022 | Annual | 6,000,000.00 | 6,000,000.00 | - |
| ING Direct | A | TD | 1.6000 | 28/02/2020 | 28/02/2022 | Annual | 1,000,000.00 | 1,000,000.00 | - |
| ING Direct | A | TD | 1.5000 | 02/03/2020 | 02/03/2022 | Annual | 4,000,000.00 | 4,000,000.00 | - |
| Members Equity Bank | BBB+ | FRN | 1.0052 | 18/07/2019 | 18/07/2022 | Quarterly | 1,260,100.00 | 1,259,620.00 | -480.00 |
| Auswide Bank | BBB | TD | 1.9500 | 12/08/2019 | 12/08/2022 | At Maturity | 3,000,000.00 | 3,000,000.00 | - |
| Westpac | AA- | FRTD | 1.0860 | 31/08/2017 | 31/08/2022 | Quarterly | 2,000,000.00 | 2,000,000.00 | - |
| Westpac | AA- | FRTD | 1.0860 | 31/08/2017 | 31/08/2022 | Quarterly | 2,000,000.00 | 2,000,000.00 | - |
| AMP Bank | BBB | TD | 0.8000 | 31/08/2020 | 31/08/2022 | Annual | 3,000,000.00 | 3,000,000.00 | - |



| Issuer | Rating | Type | Rate | Purchase | Maturity | Interest | 31/07/2021 | 31/08/2021 | Difference |
|-----------------------------|--------|------|--------|------------|------------|-----------|--------------|--------------|--------------|
| Westpac | AA- | FRTD | 1.0213 | 18/09/2017 | 19/09/2022 | Quarterly | 2,000,000.00 | 2,000,000.00 | - |
| NAB | AA- | TD | 0.6200 | 31/08/2021 | 30/08/2023 | Annual | - | 2,000,000.00 | 2,000,000.00 |
| AMP Bank | BBB | TD | 0.7500 | 31/08/2021 | 31/08/2023 | Annual | - | 2,000,000.00 | 2,000,000.00 |
| BOQ | BBB+ | TD | 1.9000 | 06/09/2019 | 06/09/2023 | Annual | 2,000,000.00 | 2,000,000.00 | - |
| BOQ | BBB+ | TD | 1.9500 | 21/01/2020 | 22/01/2024 | Annual | 2,000,000.00 | 2,000,000.00 | - |
| NAB | AA- | FRN | 0.9481 | 19/06/2019 | 19/06/2024 | Quarterly | 2,041,924.00 | 2,041,570.00 | -354.00 |
| Suncorp | A+ | FRN | 0.8005 | 30/07/2019 | 30/07/2024 | Quarterly | 1,266,720.00 | 1,266,476.25 | -243.75 |
| NAB | AA- | TD | 0.8200 | 31/08/2021 | 28/08/2024 | Annual | - | 3,000,000.00 | 3,000,000.00 |
| BOQ | BBB+ | TD | 0.9500 | 29/10/2020 | 29/10/2024 | Annual | 3,000,000.00 | 3,000,000.00 | - |
| ICBC Sydney Branch | A | TD | 1.0800 | 10/11/2020 | 11/11/2024 | Annual | 2,000,000.00 | 2,000,000.00 | - |
| Northern Territory Treasury | AA- | BOND | 0.9000 | 30/10/2020 | 16/12/2024 | Annual | 3,000,000.00 | 3,000,000.00 | - |
| Newcastle Permanent | BBB | FRN | 1.1620 | 04/02/2020 | 04/02/2025 | Quarterly | 1,428,543.20 | 1,430,053.80 | 1,510.60 |
| ICBC Sydney Branch | A | TD | 1.2000 | 23/02/2021 | 24/02/2025 | Annual | 2,000,000.00 | 2,000,000.00 | - |
| BOQ | BBB+ | TD | 2.0000 | 28/02/2020 | 28/02/2025 | Annual | 1,000,000.00 | 1,000,000.00 | - |
| ICBC Sydney Branch | A | TD | 1.1000 | 29/07/2021 | 29/07/2025 | Annual | 2,000,000.00 | 2,000,000.00 | - |
| NAB | AA- | TD | 0.9600 | 30/10/2020 | 29/10/2025 | Annual | 2,000,000.00 | 2,000,000.00 | - |
| ICBC Sydney Branch | A | TD | 1.2500 | 10/11/2020 | 10/11/2025 | Annual | 4,000,000.00 | 4,000,000.00 | - |
| ICBC Sydney Branch | A | TD | 1.2000 | 11/12/2020 | 11/12/2025 | Annual | 2,000,000.00 | 2,000,000.00 | - |
| Northern Territory Treasury | AA- | BOND | 1.0000 | 29/10/2020 | 15/12/2025 | Annual | 3,000,000.00 | 3,000,000.00 | - |
| ICBC Sydney Branch | A | TD | 1.4500 | 23/02/2021 | 23/02/2026 | Annual | 2,000,000.00 | 2,000,000.00 | - |



| Issuer | Rating | Type | Rate | Purchase | Maturity | Interest | 31/07/2021 | 31/08/2021 | Difference |
|-----------------------------|--------|------|--------|------------|------------|----------|-----------------------|-----------------------|----------------------|
| Northern Territory Treasury | AA- | BOND | 1.5000 | 27/08/2021 | 15/12/2026 | Annual | - | 3,000,000.00 | 3,000,000.00 |
| AMP Bank | BBB | CASH | 0.5500 | 31/07/2021 | 31/07/2021 | Monthly | 158,726.87 | 158,726.87 | - |
| Commonwealth Bank | AA- | CASH | 0.0000 | 31/07/2021 | 31/07/2021 | Monthly | 32,257,164.89 | 44,541,363.10 | 12,284,198.21 |
| TOTALS | | | | | | | 118,413,178.96 | 133,697,810.02 | 15,284,631.06 |



Trades in Period

From: 01/08/2021 To: 31/08/2021

New Trades

| Issuer | Rating | Type | Alloc | Interest | Purchase | Maturity | Rate | Value | Ref |
|-----------------------------|--------|------|---------|----------|------------|------------|--------|----------------------|-----|
| Northern Territory Treasury | AA- | BOND | GENERAL | Annual | 27/08/2021 | 15/12/2026 | 1.5000 | 3,000,000.00 | |
| NAB | AA- | TD | GENERAL | Annual | 31/08/2021 | 28/08/2024 | 0.8200 | 3,000,000.00 | |
| NAB | AA- | TD | GENERAL | Annual | 31/08/2021 | 30/08/2023 | 0.6200 | 2,000,000.00 | |
| AMP Bank | BBB | TD | GENERAL | Annual | 31/08/2021 | 31/08/2023 | 0.7500 | 2,000,000.00 | |
| TOTALS | | | | | | | | 10,000,000.00 | |



Sell Trades

| Issuer | Rating | Type | Alloc | Interest | Purchase | Maturity | Sell | Rate | Value | Ref |
|--------|--------|------|-------|----------|----------|----------|------|------|-------|-----|
|--------|--------|------|-------|----------|----------|----------|------|------|-------|-----|

No entries for this item



Matured Trades

| Issuer | Rating | Type | Alloc | Interest | Purchase | Maturity | Rate | Value | Ref |
|---------------|--------|------|---------|-------------|------------|------------|--------|---------------------|-----|
| NAB | AA- | TD | GENERAL | At Maturity | 31/08/2020 | 31/08/2021 | 0.8000 | 3,000,000.00 | |
| NAB | AA- | TD | GENERAL | At Maturity | 31/08/2020 | 31/08/2021 | 0.8000 | 4,000,000.00 | |
| TOTALS | | | | | | | | 7,000,000.00 | |



Unrealised Gains / Losses as at 31/08/2021

| Issuer | Rating | Type | Purchase | Maturity | Allocation | Cost | Value | Purchase | Current | Unrealised |
|-----------------------------|--------|------|------------|------------|------------|----------------------|----------------------|----------|----------|------------------|
| Members Equity Bank | BBB+ | FRN | 18/07/2019 | 18/07/2022 | GENERAL | 1,250,000.00 | 1,259,620.00 | 100.0000 | 100.7696 | 9,620.00 |
| NAB | AA- | FRN | 19/06/2019 | 19/06/2024 | GENERAL | 2,000,000.00 | 2,041,570.00 | 100.0000 | 102.0785 | 41,570.00 |
| Suncorp | A+ | FRN | 30/07/2019 | 30/07/2024 | GENERAL | 1,250,000.00 | 1,266,476.25 | 100.0000 | 101.3181 | 16,476.25 |
| Northern Territory Treasury | AA- | BOND | 30/10/2020 | 16/12/2024 | GENERAL | 3,000,000.00 | 3,000,000.00 | 100.0000 | 100.0000 | - |
| Newcastle Permanent | BBB | FRN | 04/02/2020 | 04/02/2025 | GENERAL | 1,400,000.00 | 1,430,053.80 | 100.0000 | 102.1467 | 30,053.80 |
| Northern Territory Treasury | AA- | BOND | 29/10/2020 | 15/12/2025 | GENERAL | 3,000,000.00 | 3,000,000.00 | 100.0000 | 100.0000 | - |
| Northern Territory Treasury | AA- | BOND | 27/08/2021 | 15/12/2026 | GENERAL | 3,000,000.00 | 3,000,000.00 | 100.0000 | 100.0000 | - |
| TOTALS | | | | | | 14,900,000.00 | 14,997,720.05 | | | 97,720.05 |



Realised Gains / Losses

From: 01/08/2021 To: 31/08/2021

| Issuer | Rating | Type | Purchase | Maturity | Sale | Cost | Current | Purchase | Sale | Realised | Type |
|--------|--------|------|----------|----------|------|------|---------|----------|------|----------|------|
|--------|--------|------|----------|----------|------|------|---------|----------|------|----------|------|

No entries for this item



Interest Received in Period

From: 01/08/2021 To: 31/08/2021

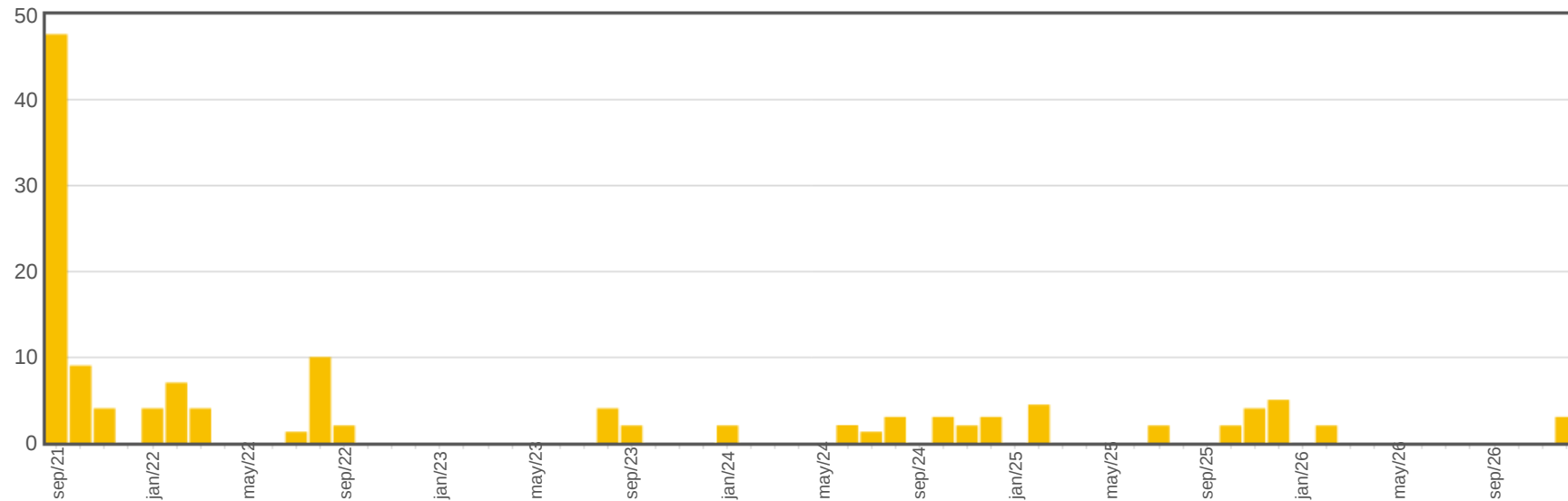
Periodic Interest

| Issuer | Rating | Type | Alloc | Frequency | Value | Purchase | Maturity | Coupon Date | Type | Rate | Received |
|---------------------|--------|------|---------|-------------|----------------------|------------|------------|-------------|----------|--------|------------------|
| NAB | AA- | TD | GENERAL | At Maturity | 4,000,000.00 | 31/08/2020 | 31/08/2021 | 31/08/2021 | Maturity | 0.8000 | 32,000.00 |
| NAB | AA- | TD | GENERAL | At Maturity | 3,000,000.00 | 31/08/2020 | 31/08/2021 | 31/08/2021 | Maturity | 0.8000 | 24,000.00 |
| AMP Bank | BBB | TD | GENERAL | Annual | 3,000,000.00 | 31/08/2020 | 31/08/2022 | 31/08/2021 | Periodic | 0.8000 | 24,000.00 |
| Westpac | AA- | FRTD | GENERAL | Quarterly | 2,000,000.00 | 31/08/2017 | 31/08/2022 | 31/08/2021 | Periodic | 1.0860 | 5,474.63 |
| Westpac | AA- | FRTD | GENERAL | Quarterly | 2,000,000.00 | 31/08/2017 | 31/08/2022 | 31/08/2021 | Periodic | 1.0860 | 5,474.63 |
| Newcastle Permanent | BBB | FRN | GENERAL | Quarterly | 1,400,000.00 | 04/02/2020 | 04/02/2025 | 04/08/2021 | Periodic | 1.1620 | 4,100.43 |
| TOTALS | | | | | 15,400,000.00 | | | | | | 95,049.69 |



Maturity Cashflow as at 31/08/2021

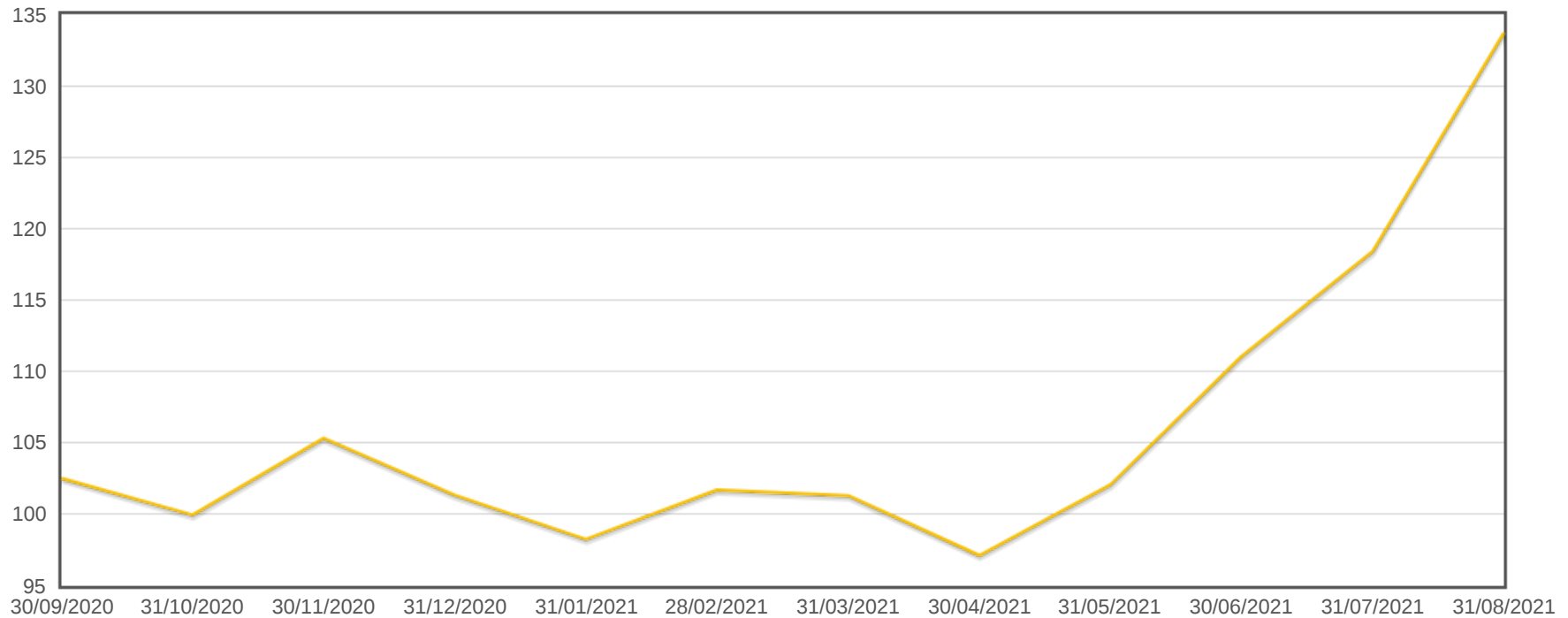
| Year | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Total |
|---------------|-----------|-----------|-----------|-----|-----|-----------|-----------|------------|------------|-----------|-----------|-----------|-----------------------|
| 2021 | - | - | - | - | - | - | - | - | 47,700,089 | 9,000,000 | 4,000,000 | - | 60,700,089.97 |
| 2022 | 4,000,000 | 7,000,000 | 4,000,000 | - | - | - | 1,259,620 | 10,000,000 | 2,000,000 | - | - | - | 28,259,620.00 |
| 2023 | - | - | - | - | - | - | - | 4,000,000 | 2,000,000 | - | - | - | 6,000,000.00 |
| 2024 | 2,000,000 | - | - | - | - | 2,041,570 | 1,266,476 | 3,000,000 | - | 3,000,000 | 2,000,000 | 3,000,000 | 16,308,046.25 |
| 2025 | - | 4,430,053 | - | - | - | - | 2,000,000 | - | - | 2,000,000 | 4,000,000 | 5,000,000 | 17,430,053.80 |
| 2026 | - | 2,000,000 | - | - | - | - | - | - | - | - | - | 3,000,000 | 5,000,000.00 |
| TOTALS | | | | | | | | | | | | | 133,697,810.02 |





Historical Portfolio Balances (in MM) as at 31/08/2021

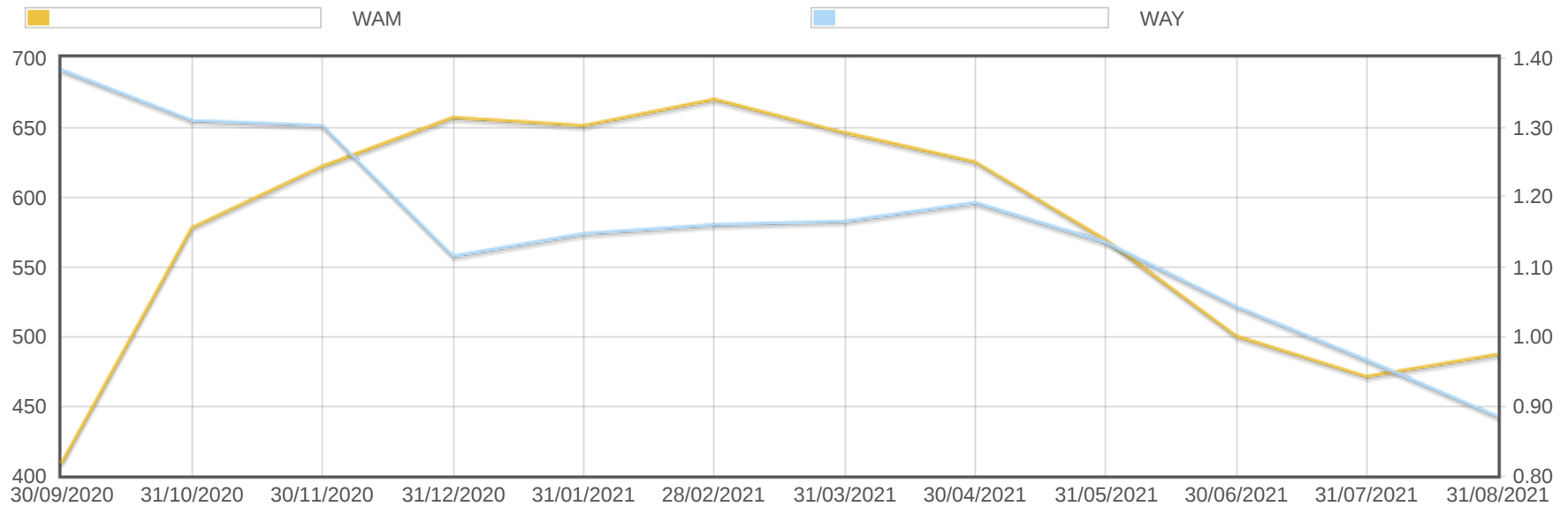
| 30/09/2020 | 31/10/2020 | 30/11/2020 | 31/12/2020 | 31/01/2021 | 28/02/2021 | 31/03/2021 | 30/04/2021 | 31/05/2021 | 30/06/2021 | 31/07/2021 | 31/08/2021 |
|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| 102.54 | 99.97 | 105.34 | 101.36 | 98.27 | 101.72 | 101.32 | 97.14 | 102.09 | 111.07 | 118.41 | 133.70 |





Historical Ratios as at 31/08/2021

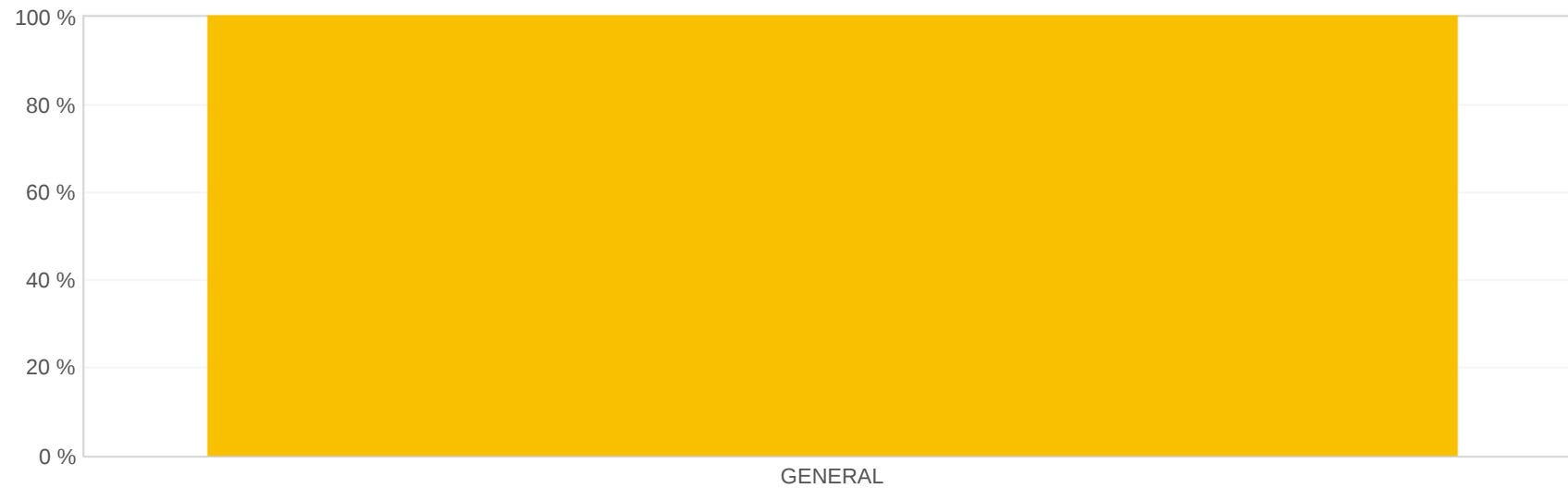
| | 30/09/2020 | 31/10/2020 | 30/11/2020 | 31/12/2020 | 31/01/2021 | 28/02/2021 | 31/03/2021 | 30/04/2021 | 31/05/2021 | 30/06/2021 | 31/07/2021 | 31/08/2021 |
|-----|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| WAM | 409 | 578 | 622 | 657 | 651 | 670 | 646 | 625 | 569 | 500 | 471 | 487 |
| WAY | 1.3823 | 1.3097 | 1.3025 | 1.1148 | 1.1471 | 1.1602 | 1.1652 | 1.1915 | 1.1344 | 1.0425 | 0.9656 | 0.8849 |





Allocation as at 31/08/2021

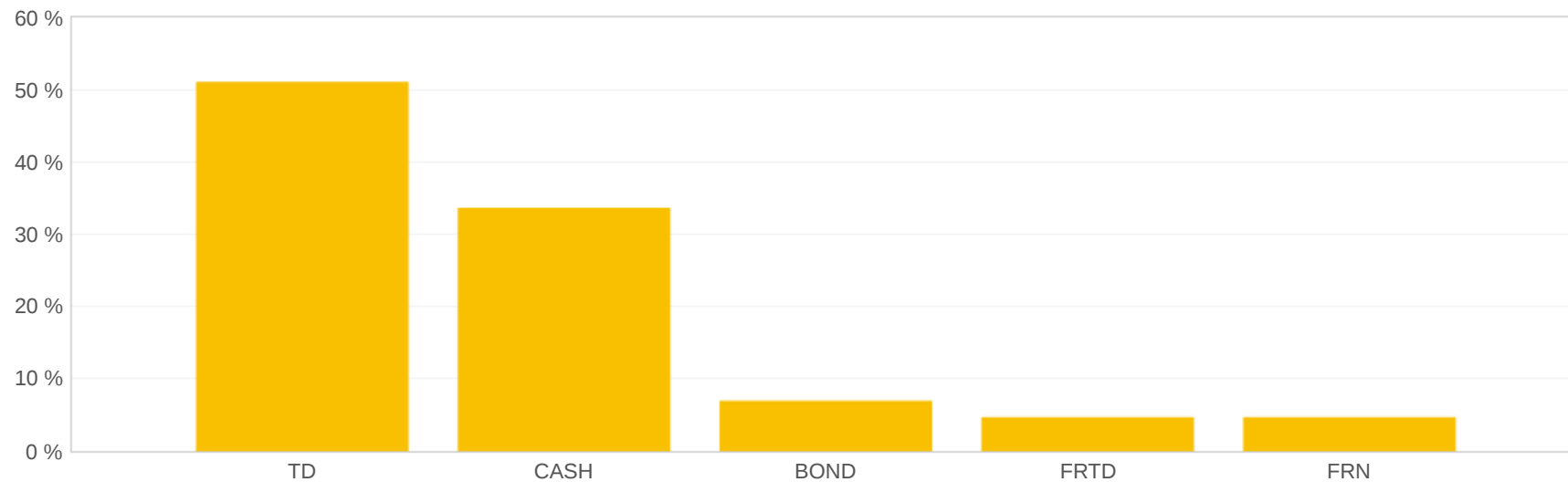
| Code | Number of trades | Invested | Invested (%) |
|---------------|------------------|-----------------------|--------------|
| GENERAL | 44 | 133,697,810.02 | 100.00 |
| TOTALS | 38 | 133,697,810.02 | 100.0 |





Asset Class as at 31/08/2021

| Code | Number of Trades | Invested | Invested (%) |
|---------------|------------------|-----------------------|--------------|
| TD | 26 | 68,000,000.00 | 50.86 |
| CASH | 5 | 44,700,089.97 | 33.43 |
| BOND | 3 | 9,000,000.00 | 6.73 |
| FRTD | 3 | 6,000,000.00 | 4.49 |
| FRN | 7 | 5,997,720.05 | 4.49 |
| TOTALS | 38 | 133,697,810.02 | 100.0 |





ADIs funding fossil fuels as at 31/08/2021

| | Number of Trades | Invested | Invested (%) |
|--------------------------|------------------|---------------|--------------|
| Not funding fossil fuels | 18 | 39,956,150.05 | 29.9 |
| Funding fossil fuels | 26 | 93,741,659.97 | 70.1 |

