8.3. Investment and Loan Borrowings Report held as at 28 February 2022

AUTHOR: Christian Menday, Manager Financial Services

ENDORSED BY: Margaret Palmer, Director Corporate Services

ATTACHMENTS:
1. Monthly Investment Advisor's Report for February 2022 [**8.4.1** - 19 pages]

PURPOSE:

The report provides details of the performance of Council's investment portfolio and borrowing limits for the period ending 28 February 2022.

EXECUTIVE SUMMARY:

Investment Portfolio:

The Investment Portfolio (excluding cash balances) held for the period ending 28 February 2022 had a market value of $92,925,461. The annualised returns were 1.35%. This return exceeded the Australian Bond Bank Bill performance benchmark by 1.31%.

Cash deposits at call were $32,515,230 with $26,525,645 of these held in interest bearing accounts. $5,989,585 cash is held in Council's non-interest-bearing transaction account with the Commonwealth Bank to meet day-to-day operational needs.

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

The actual year to date returns for cash and investments for February 2022 was $913,000 compared to a year-to-date budget of $733,333.

The Reserve Bank of Australia (RBA) has indicated that interest rates may rise later in this year if the economy tracks in line with its central forecast scenario.

Historically, returns on cash (i.e. "at call" accounts) and short-term investments have been quite strong. 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:

Loan Facility for Council Projects

Council entered into a fixed interest loan of $9.5 million with quarterly interest and principal payments on 31 July 2018. The principal outstanding as at February 2022 is $6,598,875.

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

North Sydney Olympic Pool Redevelopment

Council has made provision for borrowings of $31 million to partially fund the redevelopment of North Sydney Olympic Pool. Drawdown is pending the further consideration of the Council.

FINANCIAL IMPLICATIONS:

Council's total investment portfolio performance for the financial year to date is 1.31% above the benchmark (1.35% against 0.04%). The actual returns for cash and investments for the year-to-date are $913,000 compared to year-to-date budget of $733,333.

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 28 February 2022 be received.

LINK TO COMMUNITY STRATEGIC PLAN

The relationship with the Community Strategic Plan is as follows:

5. Our Civic Leadership
5.1 Council leads the strategic direction of North Sydney

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 February 2022 and annualised for the year to date 28 February 2022 (including investments which have matured prior to 28 February 2022).

	February 2022	**Annualised YTD as at 28 February 2022**
Actual Return	0.10%	1.35%
Benchmark	0.01%	0.04%
Variance	0.09%	1.31%

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

Asset Type	Market Value as at 28 February 2022	Portfolio Breakdown as at 28 February 2022
Term Deposits	$75,250,000	60.00%
Cash (Interest Bearing)	$26,525,645	21.15%
Cash (Non-Interest Bearing)	$5,989,585	4.77%
Fixed Bonds	$9,000,000	7.17%
FRTD	$6,000,000	4.78%
Floating Rate Notes (FRN's)	$2,675,461	2.13%
	$125,440,691	**100.00%**

Council's average duration of term deposits which comprise approximately 60% of the investment portfolio was approximately 802 days as at 28 February 2022.

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

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

The actual investment returns for the year-to-date 28 February 2022 have been reviewed and are $179,667 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 (February)	YTD/Annual Actual (February)	YTD/Annual Actual FV adjustments (February)	YTD Budget to Actual Variance (January)
2021/22	**$1,100,000**	**$1,100,000**	**$733,333**	**$944,851**	**-$31,851**	**$179,667**
2020/21	$1,350,000	$1,350,000		$1,222,664	$93,735	-$33,601
2019/20	$1,500,000	$1,529,055		$1,896,660	-$4,944	$362,661
2018/19	$1,590,000	$1,730,000		$2,253,497	$91,056	$614,553

Floating Rate Notes (FRN's) are required to be revalued each month using the Fair Value (FV) method which is an estimate in time of the potential market value of the investment. As of 28 February 2022, the YTD movement of FRN's has been a decrease of $31,851.

Financial Investment Policy

As at the end of January, 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 28 February 2022	Maximum Policy Holding	Distribution as at 28 February 2022
AA Category	$68,997,599	100.00%	55.00%
A Category	$36,022,063	60.00%	28.72%
BBB Category	$20,421,029	35.00%	16.28%
Unrated ADIs (NR)	$0	10.00%	0.00%

Loan Borrowings

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

The Policy's objective is to control Council's exposure to movements in interest rates through the application of fixed, floating or a combination of 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 over 10 years, fixed interest rate with quarterly repayments of interest and principal.

The current loan details are:

Loan amount:	$ 9,500,000.00			
Loan term:	10 years			
From:	31/07/2018			
To:	31/07/2028			

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

The next loan instalment is due on 30 April 2022.

Loan Funded Capital Projects as at 28 February 2022:

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

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

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

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

Loan for North Sydney Olympic Pool Redevelopment

Council has made provision for borrowings of $31 million to partially fund the redevelopment of North Sydney Olympic Pool. A facility has been established with TCorp but not drawn down. This matter is detailed in a separate report to this meeting.

Monthly Investment Report

February 2022

IMPERIUM MARKETS

Imperium Markets Pty Ltd ABN: 87 616 579 527
Authorised Representative of Libertas Financial Planning Pty Ltd AFSL 429 718
Phone: +61 2 9053 2987
Email: michael.chandra@imperium.markets
Level 9 Suite 02, 3 Spring Street, Sydney NSW 2000

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.

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. As global markets start to recover, inflationary pressures have emerged. This has resulted in longer-term bond yields to rise in recent months as central banks start to withdraw some of their other stimulatory policy measures (such as quantitative easing), whilst some have already started increasing official interest rates. **Markets are now bracing an environment where central banks will move from their excessively loose policy measures to a tightening cycle**. Geopolitical risks have escalated after Russia's move to invade Ukraine in February, with markets now factoring the ramifications on global economic growth after various sanctions were imposed by Western countries around the world.

Domestically, Governor Lowe has commented that interest rate rises starting later in 2022 were deemed "*a plausible scenario*", but he also stated "*it's still quite plausible that the first increase…is a year or longer away*".

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 ~64% 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 1.17% p.a. at month-end, with a weighted average duration of around 802 days or ~2.2 years. **This average duration will provide some income protection against the low interest rate environment over the next 12 months**.

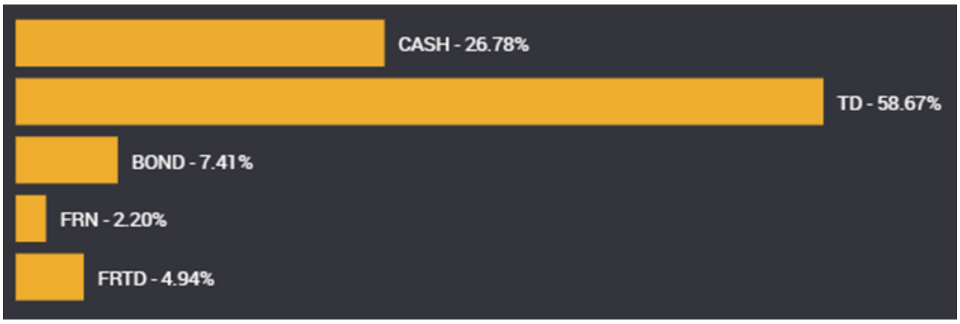
With markets bringing forward expectations of official rate hikes, this has seen a significant shift in longer term deposit rates over recent weeks. Future investments above 1.50% p.a. is now possible if Council can continue to place the majority of its surplus funds for a minimum term of 2 years.

Council's Portfolio & Compliance

Asset Allocation

As at the end of February 2022, the portfolio was mainly directed to fixed and floating rate term deposits (63.61%). The remaining portfolio is directed to FRNs (2.20%), fixed bonds (7.41%) and overnight cash accounts (26.78%).

While FRNs appear relatively expensive on a historical basis, they are starting to become slightly more attractive as spreads have widened – new issuances should now be considered again on a case by case scenario. In the interim, fixed deposits and secondary market fixed bonds for 2-3 years now appear quite appealing following the spike in longer-term rates in recent months.



Term to Maturity

Overall, the portfolio remains lightly diversified from a maturity perspective. Around 41% 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 $11m at month-end.

Where liquidity permits, we recommend new surplus funds be directed to 2-3 year horizon given this is where the most attractive value can be found. We suggest this be allocated to any remaining attractive fixed term deposits or secondary market fixed bonds to address reinvestment risk.

Compliant	Horizon	Invested ($)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available ($)
✓	0 - 90 days	$36,515,230	29.11%	10%	100%	$88,925,461
x	91 - 365 days	$16,000,000	12.76%	20%	100%	$109,440,691
✓	1 - 2 years	$21,250,000	16.94%	0%	70%	$66,558,483
✓	2 - 5 years	$51,675,461	41.20%	0%	50%	$11,044,885
✓	5 - 10 years	$0	0.00%	0%	25%	$31,360,173
		$125,440,691	**100.00%**			

Although the 3-12 month allocation is marginally underweight relative to the min. 20% limit, this is more than offset by the large allocation (29%) to the 0-3 month horizon (highly liquid).

Counterparty

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

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	CBA	AA-	$16,489,585	13.15%	30.00%	$21,142,622
✓	NAB	AA-	$15,000,000	11.96%	30.00%	$22,632,207
✓	NTTC	AA-	$9,000,000	7.17%	30.00%	$28,632,207
✓	Suncorp	AA-	$1,258,014	1.00%	30.00%	$36,374,193
✓	Westpac	AA-	$27,250,000	21.72%	30.00%	$10,382,207
✓	Macquarie	A+	$15,022,063	11.98%	15.00%	$3,794,041
✓	ICBC Sydney	A	$17,000,000	13.55%	15.00%	$1,816,104
✓	ING Bank	A	$4,000,000	3.19%	15.00%	$14,816,104
✓	BOQ	BBB+	$10,000,000	7.97%	10.00%	$2,544,069
✓	AMP Bank	BBB	$6,003,582	4.79%	10.00%	$6,540,487
✓	Auswide Bank	BBB	$3,000,000	2.39%	10.00%	$9,544,069
✓	Newcastle PBS	BBB	$1,417,447	1.13%	10.00%	$11,126,622
			$125,440,691	**100.00%**		

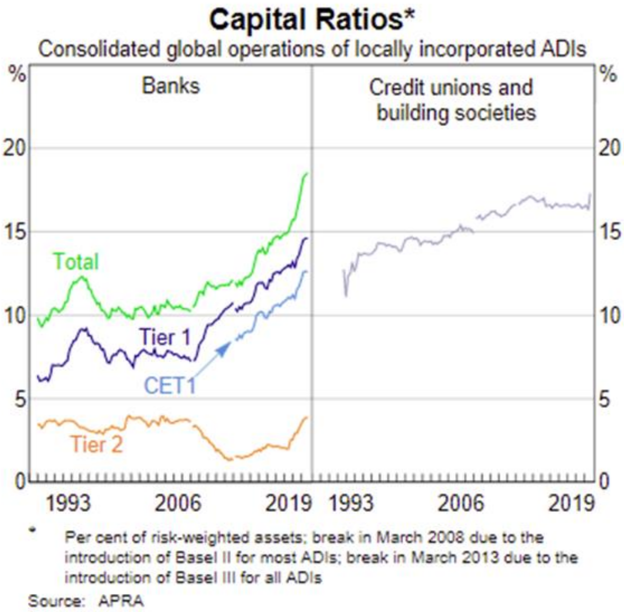
We remain supportive of the regional and unrated ADI sector (and have been even throughout the GFC period). They continue to remain solid, incorporate strong balance sheets, while exhibiting high levels of capital – typically, much higher compared to the higher rated ADIs. Some unrated ADIs have up to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

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

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

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.



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 February 2022, all categories were within the Policy limits:

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AA Category	$68,997,599	55.00%	100%	$56,443,092
✓	A Category	$36,022,063	28.72%	60%	$39,242,352
✓	BBB Category	$20,421,029	16.28%	35%	$23,483,213
✓	Unrated ADIs	$0	0.00%	10%	$12,544,069
		$125,440,691	**100.00%**		

Performance

Council's performance for the month ending 28 February 2022 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years
Official Cash Rate	0.01%	0.02%	0.05%	0.07%	0.10%	0.15%
AusBond Bank Bill Index	0.01%	0.01%	0.02%	0.02%	0.03%	0.12%
Council's T/D Portfolio	0.10%	0.31%	0.64%	0.88%	1.35%	1.55%
Council's FRN Portfolio	0.09%	0.26%	0.78%	0.95%	1.61%	1.57%
Council's Bond Portfolio	0.10%	0.29%	0.57%	0.74%	1.06%	-
Council's Portfolio^	**0.10%**	**0.31%**	**0.64%**	**0.86%**	**1.35%**	**1.53%**
Outperformance	**0.09%**	**0.29%**	**0.62%**	**0.84%**	**1.31%**	**1.41%**

^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%	0.10%	0.15%
AusBond Bank Bill Index	0.07%	0.06%	0.04%	0.03%	0.03%	0.12%
Council's T/D Portfolio	1.32%	1.26%	1.29%	1.32%	1.35%	1.55%
Council's FRN Portfolio	1.14%	1.06%	1.58%	1.43%	1.61%	1.57%
Council's Bond Portfolio	1.26%	1.17%	1.16%	1.11%	1.06%	-
Council's Portfolio^	**1.31%**	**1.25%**	**1.29%**	**1.30%**	**1.35%**	**1.53%**
Outperformance	**1.25%**	**1.19%**	**1.25%**	**1.27%**	**1.31%**	**1.41%**

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

For the month of February, the total investment portfolio (excluding cash) provided a strong return of +0.10% (actual) or +1.31% p.a. (annualised), outperforming the benchmark AusBond Bank Bill Index return of +0.01% (actual) or +0.07% 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 +1.35% p.a., outperforming bank bills by 1.31% 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 October 2021 Council Rankings), earning around $440,000 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, 6 are still yielding higher than 1.50% p.a. That is, around 21% of the outstanding deposits held are currently earning more than fifteen times the prevailing cash rate of 0.10%.

Council's Term Deposit Portfolio & Recommendation

As at the end of February 2022, Council's deposit portfolio was yielding an **attractive 1.17% p.a.** (down 2bp from the previous month), with an average duration of around 802 days (~2.2 years). We recommend Council maintains this average duration.

As the past decade has highlighted (post-GFC era), we have seen too many portfolios' roll a high proportion of their deposits less than 6 months (high turnover), 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	3 years	2.30% p.a.
MyState	BBB	3 years	2.20% p.a.
P&N Bank	AA-	3 years	2.10% p.a.
NAB	AA-	3 years	2.00% p.a.
ICBC, Sydney	A	2 years	1.82% p.a.
MyState Bank	AA-	2 years	1.70% p.a.
P&N Bank	AA-	3 years	1.70% p.a.
BoQ	AA-	2 years	1.65% p.a.
Westpac	AA-	2 years	1.60% p.a.

The above deposits are suitable for investors looking to provide some income protection and mitigate reinvestment/rollover risk for the next few years.

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
Judo Bank	BBB-	12 months	1.10% p.a.
AMP Bank	BBB	11-12 months	1.00% p.a.^
NAB	AA-	12 months	0.97% p.a.
ICBC	A	12 months	0.94% p.a.
ING Bank	A	12 months	0.90% p.a.
BoQ	BBB+	12 months	0.90% p.a.
ME Bank	BBB+	12 months	0.90% p.a.
P&N Bank	BBB	12 months	0.90% p.a.
Westpac	AA-	12 months	0.87% p.a.
CBA	AA-	12 months	0.85% p.a.
Bendigo	BBB+	12 months	0.85% p.a.

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

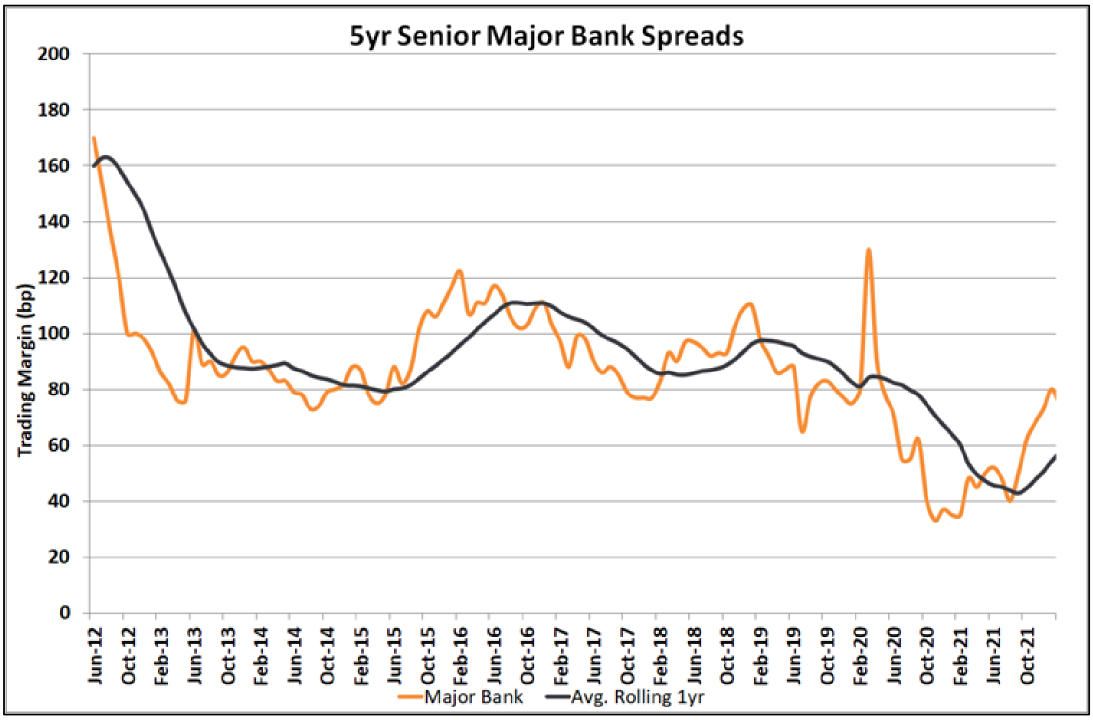
Amongst the investment grade sector, the majority of short-dated term deposits (maturing less than 12 months) are yielding under 0.90% p.a. Despite the uplift in outright rates recently, we generally believe there much better value in slightly longer-dated terms.

There is an upward pick-up in yield for investors that can take advantage of 2-3 year fixed T/Ds whilst official rates are stuck at very low levels at least for the next 12-18 months. For those investors that do not require high levels of liquidity and can stagger their investments longer-term, they will be rewarded over coming years if they roll for an average term of 18 months - 2 years (this is where we current value), yielding, on average, more than double the return compared to those investors that purely invest in short-dated deposits.

IMPERIUM MARKETS

Senior FRNs Review

Over February, amongst the senior major bank FRNs, physical credit securities marginally tightened up to 5bp at the long-end of the curve. During the month, NAB (AA-) issued a dual 3 and 5 year deal at +47bp and +72bp respectively, printing $4bn across the four tranches. This followed new 5 year issuances from WBC (AA-) and CBA (AA-) at +70bp in January. We anticipate ANZ (AA-) may follow suit over coming months looking to refinance their upcoming maturities at these historically cheap levels:



Source: IBS Capital

Amongst the "A" and "BBB" rated sector, the securities remained relatively flat at the long-end of the curve. For a second consecutive month, there was much more activity in the primary market, highlighted by new issuances from:

- Newcastle Permanent Building Society (BBB): 5 year senior FRN at +100bp
- United Overseas Bank, Sydney Branch (AA-): 5 year senior FRN at +72bp
- Mizuho, Sydney Branch (A): 3 year senior FRN at +60bp
- Société Générale, Sydney Branch (A): 5 year senior FRN at +100bp

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 strong rally in credit markets over 2020. This has now started to reverse as monetary policy easing measures are progressively being withdrawn.

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)	28/02/2022	31/01/2022
"AA" rated – 5yrs	+75bp	+80bp
"AA" rated – 3yrs	+49bp	+47bp
"A" rated – 5yrs	+88bp	+90bp
"A" rated – 3yrs	+60bp	+60bp
"BBB" rated – 3yrs	+70bp	+70bp

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 early 2022 for the "AA" rated ADIs (domestic major banks)**;
- On or before early-mid 2023 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 few years are now generally holding sub-optimal investments and are not maximising returns by foregoing realised capital gains. In the current low interest rate environment, any boost in overall returns should be locked in when it is advantageous to do so, particularly as switch opportunities become available.

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

Council's Senior FRNs Sale/Switch Recommendations

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

Council's Senior Bonds

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

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

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

Senior Bonds - Northern Territory Treasury Corporation (NTTC)

Investors should be aware of the following senior retail bond offering from Northern Territory Treasury Corporation (NTTC) effective 21st February 2022:

Maturity Date	Rate % p.a.^	Interest Paid
15/06/2023	0.70%	Annually
15/06/2024	1.20%	Annually
15/06/2025	1.80%	Annually
15/06/2026	1.90%	Annually
15/06/2027	2.20%	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 112
Date for applications	**01/01/2022 – 31/05/2022**
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 interested should invest through Imperium Markets to receive an effectively higher rate, once factoring in the rebated commission. *These offers will need to be compared to other complying assets at the time of investment – term deposits are currently a better alternative.*

IMPERIUM MARKETS

Senior Fixed Bonds – ADIs (Secondary Market)

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

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

ISIN	Issuer	Rating	Capital Structure	Maturity Date	~Remain. Term (yrs)	Fixed Coupon	Indicative Yield
AU3CB0265403	Suncorp	AA-	Senior	30/07/2024	2.49	1.85%	2.05%
AU3CB0265593	Macquarie	A+	Senior	07/08/2024	2.52	1.75%	2.05%
AU3CB0265718	ING	AAA	Covered	20/08/2024	2.55	1.45%	2.00%
AU3CB0266179	ANZ	AA-	Senior	29/08/2024	2.58	1.55%	1.85%
AU3CB0266377	Bendigo	BBB+	Senior	06/09/2024	2.60	1.70%	2.13%
AU3CB0268027	BoQ	BBB+	Senior	30/10/2024	2.75	2.00%	2.32%
AU3CB0269710	ANZ	AA-	Senior	16/01/2025	2.96	1.65%	2.12%
AU3CB0269892	NAB	AA-	Senior	21/01/2025	2.98	1.65%	2.15%
AU3CB0270387	Macquarie	A+	Senior	12/02/2025	3.04	1.70%	2.36%
AU3CB0280030	BoQ	BBB+	Senior	06/05/2026	4.26	1.40%	2.77%
AU3CB0282358	ING	AAA	Covered	19/08/2026	4.55	1.10%	2.60%

Economic Commentary

International Market

Russia's invasion of Ukraine and US Fed policy expectations dominated the selloff in financial markets this month. Global leaders condemned the invasion and announced various sanctions, including (immediately) on Russian debt and to Russian banks, designed to cut the country off from accessing debt finance.

Unsurprisingly, the Rouble and Russian assets have collapsed with the Russian currency down as much as 24% on a single day in late February, while Russia's central bank doubled interest rates to 20% in attempt to stabilise the domestic economy.

Across US equity markets, the S&P 500 Index fell -3.14%, while the NASDAQ dropped -3.43%. Europe's main indices also fell led by Germany's DAX (-6.53%), France's CAC (-4.86%) and UK's FTSE (-0.08%).

US Fed rate hike pricing continues to see 6½ rate hikes still priced in 2022, while a 50bp move in March is around a 40% chance.

US CPI for both core and headline came in higher than expected by 0.1%. More importantly, price pressures were broad based. Core inflation was +0.6% m/m and +6.0% y/y, while headline was +0.6% m/m and +7.5% y/y, its highest since 1982.

The US unemployment rate rose by 0.1% to 4.0%, above the consensus of 3.9%. The increase in the unemployment rate was attributed to a rise in labour force participation, by a statistically significant 0.28%, to 62.2%. Meanwhile, average hourly earnings rose +0.7%m/m vs +0.5% expected. On annual basis, wage growth jumped to +5.7%, but the last three-month annualised rate was an astonishing +7.7%.

EU inflation surpassed expectations and printed a new record high (post-2000). CPI for January climbed 0.1% to +5.1% y/y. ECB President Lagarde shocked markets with a dramatic shift in language, opening up the possibility of a 2022 rate hike.

The Bank of England raised interest rates for a second time in three months, to 0.50%, as it warned that surging energy bills would push inflation higher than expected, to more than 7% by April.

The RBNZ increased rates by 25bp to 1.00%, which was much more hawkish than the headline. The terminal rate forecast in their Monetary Policy Statement was revised significantly higher to around 3.35% from 2.60%, while the Bank also said it was happy to move by 50bp increments in the future.

The MSCI World ex-Aus Index fell -2.79% for the month:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	-3.14%	-4.23%	+14.77%	+16.25%	+13.10%	+12.34%
MSCI World ex-AUS	-2.79%	-4.08%	+9.45%	+12.79%	+10.31%	+8.89%
S&P ASX 200 Accum. Index	+2.14%	-1.72%	+10.19%	+8.43%	+8.48%	+9.56%

Source: S&P, MSCI

Domestic Market

In its meeting in February, there was an important shift in the RBA's inflation language, which opens up optionality for the Board. The Board is still "*prepared to be patient*" as they await more information on wages growth and the outlook and trajectory for inflation until they can conclude inflation is sustainably at target. The RBA's central scenario is consistent with discussing an interest rate increase later this year, with Governor Lowe indicating, "*but it is certainly plausible, if the economy tracks in line with our central forecast, that an interest rate increase will be on the agenda sometime later this year*".

The RBA's QE program has now ended. Just over $360bn of bonds have been purchased across all the bond buying operations of the past two years.

January labour market data was stronger than expected even with the disruptions caused from the Omicron variant. Employment rose +13k, with the unemployment rate coming in unchanged at 4.2%, while the participation rate rose by 0.1% to 66.2% (from 66.1%).

The wage price index (WPI) came in line with expectations at +0.7% q/q and +2.3% y/y. The result was on the soft side of +0.70% being +0.65% unrounded, with the detail of the release still only showing a gradual acceleration in base wages growth late last year.

Credit growth was +0.8% m/m in December, beating expectations for a +0.6% m/m rise but edging back from the upwardly revised +1.0% m/m increase in November.

Retail sales for January were much stronger than expected at +1.8% m/m (consensus +0.3%). The rise in January comes after a sharp fall in December (-4.4%), which followed an even sharper rise in November (+7.3%), driven by shifting seasonals and the bounce out of lockdowns.

The trade balance in December declined $1.4bn to $8.4bn surplus. That takes the trade surplus to its lowest level since March 2021, and around $5bn below its recent peak of $13.3bn in July 2021.

The Australian dollar rose +2.44%, finishing the month at US71.82 cents (from US70.11 cents the previous month).

Credit Market

The global credit indices widened significantly over February as financial markets continue to be sold off. The indices are back to their levels experienced in mid-2020:

Index	February 2022	January 2022
CDX North American 5yr CDS	66bp	60bp
iTraxx Europe 5yr CDS	68bp	59bp
iTraxx Australia 5yr CDS	88bp	75bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	February 2022	January 2022
Bloomberg AusBond Bank Bill Index (0+YR)	+0.01%	+0.00%
Bloomberg AusBond Composite Bond Index (0+YR)	-1.21%	-1.02%
Bloomberg AusBond Credit FRN Index (0+YR)	-0.01%	+0.01%
Bloomberg AusBond Credit Index (0+YR)	-1.07%	-0.57%
Bloomberg AusBond Treasury Index (0+YR)	-1.31%	-1.03%
Bloomberg AusBond Inflation Gov't Index (0+YR)	-1.18%	-1.20%

Source: Bloomberg

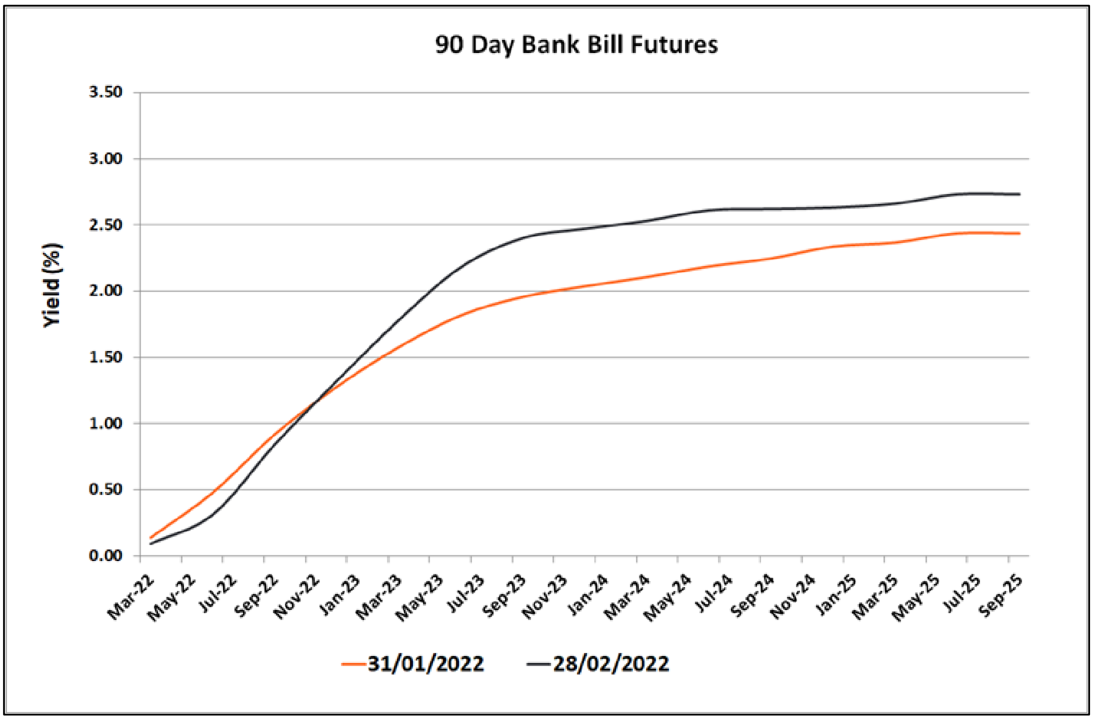
Other Key Rates

Index	February 2022	January 2022
RBA Official Cash Rate	0.10%	0.10%
90 Day (3 month) BBSW Rate	0.08%	0.08%
3yr Australian Government Bonds	1.50%	1.31%
10yr Australian Government Bonds	2.13%	1.94%
US Fed Funds Rate	0.00%-0.25%	0.00%-0.25%
10yr US Treasury Bonds	1.83%	1.79%

Source: RBA, AFMA, US Department of Treasury

90 Day Bill Futures

Over February, bill futures rose across the board as markets reacted to the US Fed accelerating their tightening cycle to control inflation:



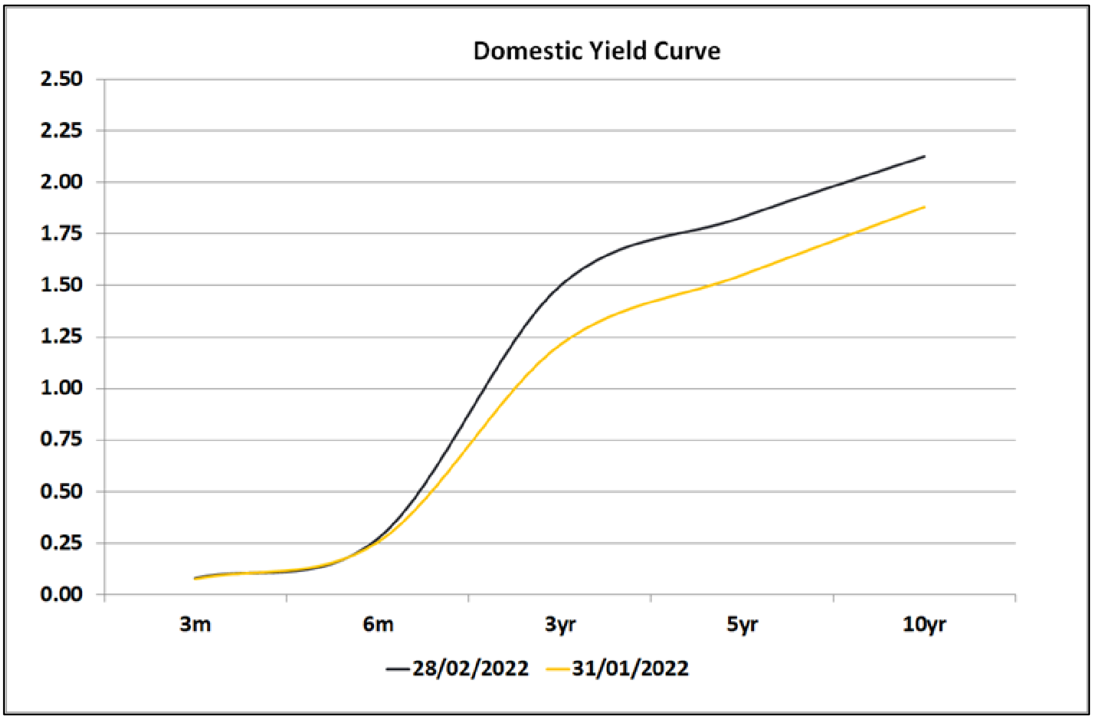
Source: ASX

Fixed Interest Outlook

Despite the selloff in financial markets, central bank rate hike expectations continue to be well priced by markets. In the US, there is roughly 6½ hikes priced for 2022, with the first move in March now almost a certainty following the Fed's ongoing rhetoric (the market is still pricing in a chance of a 50bp hike in March). The Fed's long-term forecast remains unchanged at 2.5%. The Fed acknowledges that it has achieved its target for inflation given that it has "*exceeded 2% for some time*" and commentary suggest that rate hikes will begin once labour market conditions have reached levels consistent with the Committee's assessments of maximum employment.

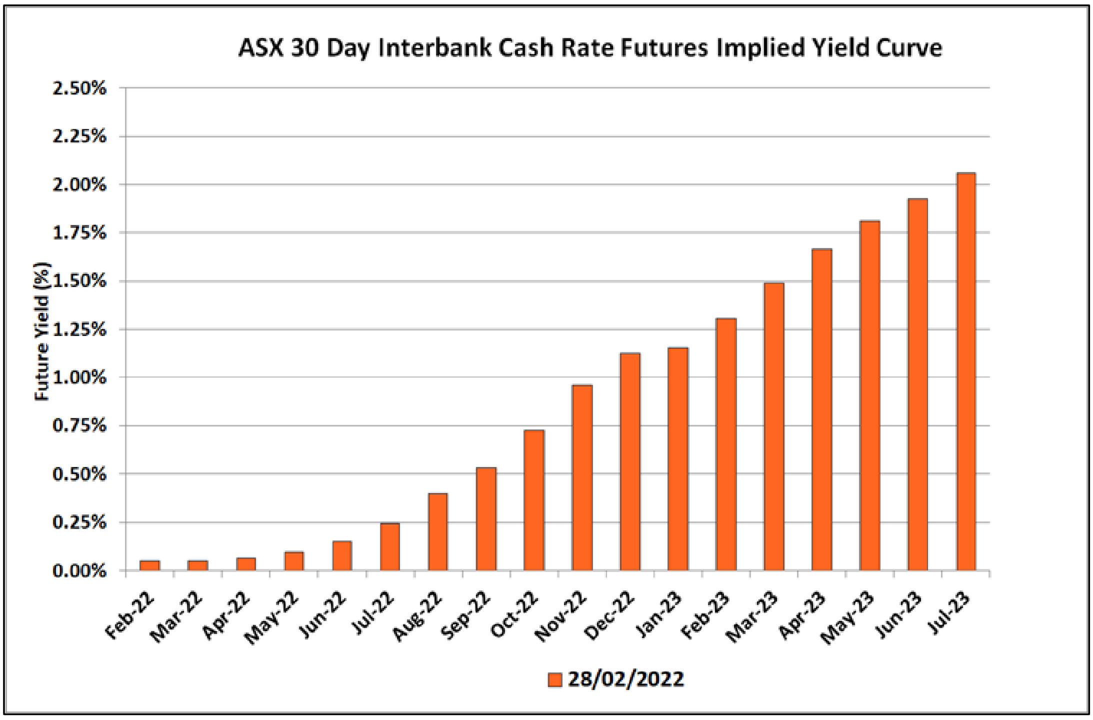
Domestically, there was an important shift in the RBA's inflation language in its February meeting, which opens up optionality for the Board. The Board is still "*prepared to be patient*" as they await more information on wages growth and the outlook and trajectory for inflation until they can conclude inflation is sustainably at target. Interest rate rises starting later in 2022 were deemed "*a plausible scenario*", but Governor Lowe commented "*it's still quite plausible that the first increase…is a year or longer away*".

The domestic bond market continues to suggest a prolonged low period of interest rates. Over the month, yields rose up to 25-30bp at the long-end of the curve:



Source: AFMA, ASX, RBA

Markets have brought forward RBA rate hike pricing following moves offshore with a full rate hike now priced by July 2022 and four hikes priced by December 2022, against the RBA's 'plausible' scenario of not seeing conditions for a hike at least until late 2022 or early 2023:


ASX 30 Day Interbank Cash Rate Futures Implied Yield Curve
Future Yield (%)
2.50%
2.25%
2.00%
1.75%
1.50%
1.25%
1.00%
0.75%
0.50%
0.25%
0.00%
Feb-22
Mar-22
Apr-22
May-22
Jun-22
Jul-22
Aug-22
Sep-22
Oct-22
Nov-22
Dec-22
Jan-23
Feb-23
Mar-23
Apr-23
May-23
Jun-23
Jul-23
28/02/2022

Source: ASX