8.6. Investment and Loan Borrowings Report held as at 31 March 2022

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ENDORSED BY: Margaret Palmer, Director Corporate Services

ATTACHMENTS:
1. Monthly Investment Advisor's Report for March 2022 [**8.6.1** - 19 pages]

PURPOSE:

The report provides details of the performance of Council's investment portfolio and borrowing limits for the period ending 31 March 2022.

EXECUTIVE SUMMARY:

Investment Portfolio:

The Investment Portfolio (excluding cash balances) held for the period ending 31 March 2022 had a market value of $88,896,207. The annualised returns were 1.33%. This return exceeded the Australian Bond Bank Bill performance benchmark by 1.29%.

Cash deposits at call were $32,469,476 with $26,532,191 of these held in interest bearing accounts. $5,937,285 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 March 2022 were $978,000 compared to a year-to-date budget of $811,500.

The Reserve Bank of Australia (RBA) Governor indicated interest rate raises are plausible later in 2022 but he remains cautious on moving too quickly; possibly impeding employment growth and higher wages.

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 March 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. At its meeting of The Council endorsed drawdown of the facility before 30 June 2022; Staff is working with TCorp to arrange an appropriate window to do so.

FINANCIAL IMPLICATIONS:

Council's total investment portfolio performance for the financial year to date is 1.29% above the benchmark (1.33% against 0.04%). The actual year to date returns for cash and investments for March 2022 were $978,000 compared to a year-to-date budget of $811,500.

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 at 31 March 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 March 2022 and annualised for the year-to-date 31 March 2022 (including investments which have matured prior to 31 March 2022).

	March 2022	**Annualised YTD as at 31 March 2022**
Actual Return	0.10%	1.33%
Benchmark	0.00%	0.04%
Variance	0.10%	1.29%

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 31 March 2022	Portfolio Breakdown as at 31 March 2022
Term Deposits	$71,250,000	58.71%
Cash (Interest Bearing)	$26,532,191	21.86%
Cash (Non-Interest Bearing)	5,937,285	4.89%
Fixed Bonds	$9,000,000	7.42%
FRTD	$6,000,000	4.94%
Floating Rate Notes (FRN's)	$2,646,207	2.18%
	$121,365,683	**100.00%**

Council's average duration of term deposits which comprise approximately 60% of the investment portfolio was approximately 812 days as at 31 March 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 31 March 2022 have been reviewed and are $166,725 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 (March)	YTD/Annual Actual (March)	YTD/Annual Actual FV adjustments (March)	YTD Budget to Actual Variance (March)
2021/22	**$1,100,000**	**$1,100,000**	**$811,500**	**$1,039,330**	**- $61,105**	**$166,725**
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 31 March 2022, the YTD movement of FRN's has been a decrease of $61,105.

Financial Investment Policy

As at the end of March, 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 31 March 2022	Maximum Policy Holding	Distribution as 31 March 2022
AA Category	$68,935,777	100.00%	56.80%
A Category	$32,027,713	60.00%	26.39%
BBB Category	$20,402,193	35.00%	16.81%
Unrated ADIs (NR)	$0	10.00%	0.00%

Loan Borrowings

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

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

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

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

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 31 March 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. At its meeting of 28 March 2022, the Council considered item 10.8. NSOP Redevelopment Loan Proposal and resolved to drawdown the $31 million facility prior to 30 June 2022; Staff is working with TCorp to arrange an appropriate window to do this.

Monthly Investment Report

March 2022

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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.

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 significantly in recent months as central banks remove their easing policy measures (i.e. quantitative easing), whilst also flagging substantial increases to official interest rates. **Markets are now bracing an environment where central banks will move from their excessively loose policy measures to a potentially aggressive tightening cycle**.

Domestically, Governor Lowe has conceded that interest rate rises starting later in 2022 was deemed "*a plausible scenario*", but he remains cautious on moving too quickly as that might impede a lower unemployment rate and higher wages growth.

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 1.16% p.a. at month-end, with a weighted average duration of around 812 days or ~2¼ years. **This average duration will provide some income protection against the low interest rate environment over the next 12 months**.

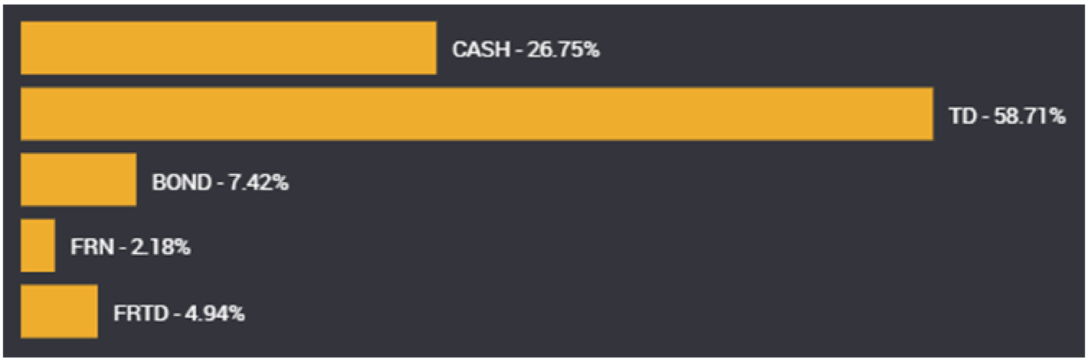
With markets bringing forward expectations of official rate hikes, this has seen a significant shift in longer term deposit rates over recent weeks. Future investments above 2.00% p.a. is now possible if Council can continue to place the majority of its surplus funds for a minimum term of 2 years**.**

Council's Portfolio & Compliance

Asset Allocation

As at the end of March 2022, the portfolio was mainly directed to fixed and floating rate term deposits (63.65%). The remaining portfolio is directed to FRNs (2.18%), fixed bonds (7.42%) and overnight cash accounts (26.75%).

Senior FRNs are now becoming more attractive as spreads widened significantly over March – 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 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 43% 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 $9m 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	$32,469,476	26.75%	10%	100%	$88,896,207
X	91 - 365 days	$16,000,000	13.18%	20%	100%	$105,365,683
✓	1 - 2 years	$21,250,000	17.51%	0%	70%	$63,705,978
✓	2 - 5 years	$51,646,207	42.55%	0%	50%	$9,036,634
✓	5 - 10 years	$0	0.00%	0%	25%	$30,341,421
		$121,365,683	**100.00%**			

Although the 3-12 month allocation is underweight relative to the min. 20% limit, this is more than offset by the large allocation (~27%) to the 0-3 month horizon (highly liquid).

Counterparty

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

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	CBA	AA-	$16,437,712	13.54%	30.00%	$19,971,993
✓	NAB	AA-	$15,000,000	12.36%	30.00%	$21,409,705
✓	NTTC Treasury	AA-	$9,000,000	7.42%	30.00%	$27,409,705
✓	Suncorp	AA-	$1,248,065	1.03%	30.00%	$35,161,640
✓	Westpac	AA-	$27,250,000	22.45%	30.00%	$9,159,705
✓	Macquarie	A+	$15,027,713	12.38%	15.00%	$3,177,140
✓	ICBC Sydney	A	$17,000,000	14.01%	15.00%	$1,204,852
✓	BOQ	BBB+	$10,000,000	8.24%	10.00%	$2,136,568
✓	AMP Bank	BBB	$6,004,051	4.95%	10.00%	$6,132,517
✓	Auswide Bank	BBB	$3,000,000	2.47%	10.00%	$9,136,568
✓	Newcastle PBS	BBB	$1,398,142	1.15%	10.00%	$10,738,426
			$121,365,683	**100.00%**		

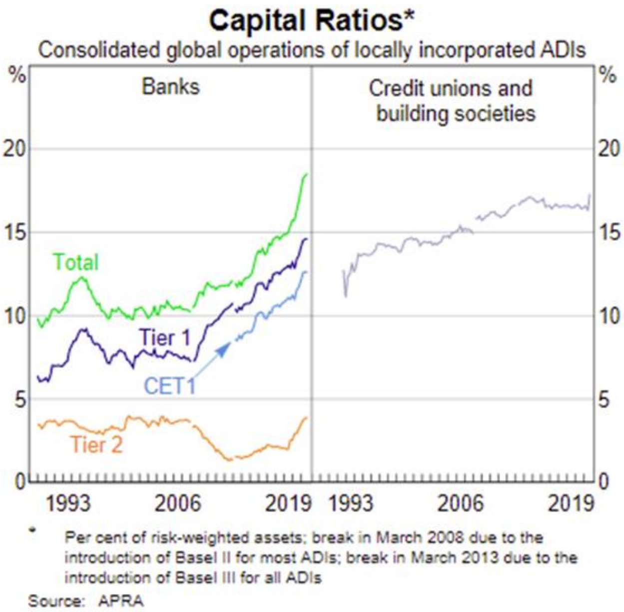
Effective 01/03/2022, ME Bank formally relinquished its banking (ADI) licence with APRA, following its acquisition by BoQ in mid-2021. All ME Bank assets are now part of its parent company, BoQ.

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.

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 (all ADIs) 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 (and international) ADIs continue to carry high levels of capital. There is minimal (if any) probability of any ADI defaulting on their deposits going forward – this was stress tested during the GFC. **APRA's mandate is to "*protect depositors*" and provide "*financial stability*".**



<u>Credit Quality</u>

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

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

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

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AA Category	$68,935,777	56.80%	100%	$52,429,906
✓	A Category	$32,027,713	26.39%	60%	$40,791,697
✓	BBB Category	$20,402,193	16.81%	35%	$22,075,796
✓	Unrated ADIs	$0	0.00%	10%	$12,136,568
		$121,365,683	**100.00%**		

Performance

Council's performance for the month ending 31 March 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%	0.08%	0.10%	0.14%
AusBond Bank Bill Index	0.00%	0.01%	0.02%	0.03%	0.04%	0.07%
Council's T/D Portfolio	0.10%	0.30%	0.62%	0.97%	1.33%	1.52%
Council's FRN Portfolio	0.09%	0.26%	0.79%	1.04%	1.61%	1.54%
Council's Bond Portfolio	0.10%	0.29%	0.57%	0.83%	1.08%	0.74%
Council's Portfolio^	**0.10%**	**0.30%**	**0.62%**	**0.96%**	**1.33%**	**1.50%**
Outperformance	**0.09%**	**0.29%**	**0.60%**	**0.94%**	**1.30%**	**1.42%**

^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%	0.14%
AusBond Bank Bill Index	0.04%	0.05%	0.04%	0.04%	0.04%	0.07%
Council's T/D Portfolio	1.16%	1.23%	1.25%	1.30%	1.33%	1.52%
Council's FRN Portfolio	1.03%	1.06%	1.59%	1.38%	1.61%	1.54%
Council's Bond Portfolio	1.13%	1.17%	1.15%	1.11%	1.08%	0.74%
Council's Portfolio^	**1.15%**	**1.22%**	**1.26%**	**1.28%**	**1.33%**	**1.50%**
Outperformance	**1.11%**	**1.17%**	**1.21%**	**1.25%**	**1.30%**	**1.42%**

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

For the month of March, the total investment portfolio (excluding cash) provided a strong return of +0.10% (actual) or +1.15% p.a. (annualised), easily outperforming the benchmark AusBond Bank Bill Index return of +0.00% (actual) or +0.04% 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 +1.33% p.a., outperforming bank bills by 1.30% 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.

<u>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 February 2022 Council Rankings), earning around $450,000 in additional interest income versus the average NSW Council</u>. We have been pro-active in our advice about protecting interest income and addressing reinvestment risk for many years and encouraged to maintain a long duration position. This is now reflected by the high performance of the investment portfolio.

Council's Term Deposit Portfolio & Recommendation

As at the end of March 2022, Council's deposit portfolio was yielding an **attractive 1.16% p.a.** (down 1bp from the previous month), with an average duration of around 812 days (~2.23 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 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 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	3.72% p.a.
ICBC, Sydney	A	4 years	3.57% p.a.
ICBC, Sydney	A	3 years	3.34% p.a.
BoQ/ME Bank	BBB+	3 years	3.10% p.a.
NAB	AA-	3 years	3.00% p.a.
ICBC, Sydney	A	2 years	2.88% p.a.
BoQ/ME Bank	BBB+	2 years	2.60% p.a.
NAB	AA-	2 years	2.55% p.a.
Westpac	AA-	2 years	2.46% 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
ING Bank	A	12 months	1.68% p.a.
ICBC	A	12 months	1.65% p.a.
Suncorp	AA-	12 months	1.63% p.a.
NAB	AA-	12 months	1.60% p.a.
AMP Bank	BBB	11-12 months	1.60% p.a.^
BoQ / ME Bank	BBB+	12 months	1.55% p.a.
Bendigo-Adelaide	BBB+	12 months	1.55% p.a.

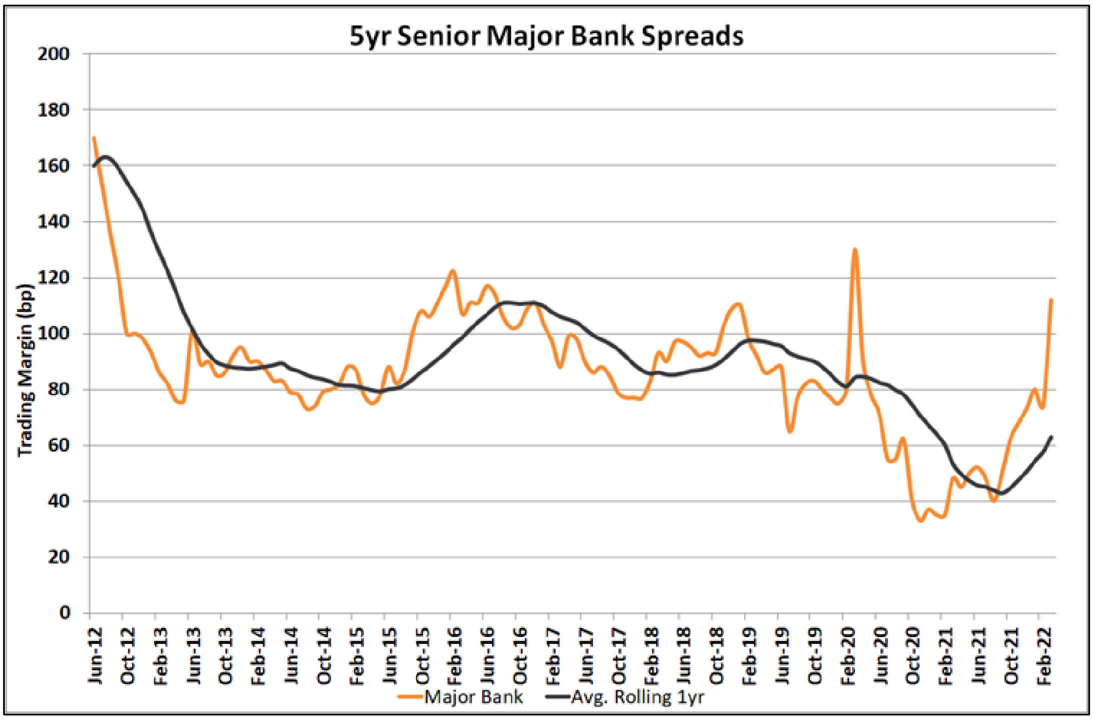
^ AMP T/Ds – contact us to receive an additional 0.20% p.a. rebated commission on top of the rate shown above

Amongst the investment grade sector, the majority of short-dated term deposits (maturing less than 12 months) are yielding under 1.60% p.a. Despite the uplift in outright rates recently, we believe there is still slightly better value in 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 6-12 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, up to double the return compared to those investors that purely invest in short-dated deposits.

Senior FRNs Review

Over March, amongst the senior major bank FRNs, physical credit securities widened significantly, by up to 37bp at the long-end of the curve. After the major banks (CBA, NAB and WBC) issued new 3 and/or 5 year securities in recent months, a new 5 year senior major bank security would now be issued around the +112bp level, the first time it has broken three figure mark since early 2019 (outside the brief spike in March 2020 due to the original COVID outbreak):



Source: IBS Capital

Amongst the “A” and “BBB” rated sector, the securities widened by up to 35bp at the long-end of the curve. There was ongoing activity in the primary market, highlighted by new issuances from:

- Bendigo-Adelaide Bank (BBB+): 3 year senior FRN / fixed bond at +98bp
- Westpac (AA-): 3 year senior FRN / fixed bond at +69bp

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

Senior FRNs (ADIs)	31/03/2022	28/02/2022
"AA" rated – 5yrs	+112bp	+75bp
"AA" rated – 3yrs	+84bp	+49bp
"A" rated – 5yrs	+120bp	+88bp
"A" rated – 3yrs	+95bp	+60bp
"BBB" rated – 3yrs	+105bp	+70bp

Source: IBS Capital

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

- **On or before mid-2024 for the "AA" rated ADIs (domestic major banks)**;
- On or before 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.

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.*

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	2.33	1.85%	3.06%
AU3CB0265593	Macquarie	A+	Senior	07/08/2024	2.36	1.75%	3.16%
AU3CB0265718	ING	AAA	Covered	20/08/2024	2.39	1.45%	3.17%
AU3CB0266179	ANZ	AA-	Senior	29/08/2024	2.42	1.55%	3.27%
AU3CB0266377	Bendigo	BBB+	Senior	06/09/2024	2.44	1.70%	3.25%
AU3CB0268027	BoQ	BBB+	Senior	30/10/2024	2.59	2.00%	3.35%
AU3CB0269710	ANZ	AA-	Senior	16/01/2025	2.80	1.65%	3.35%
AU3CB0269892	NAB	AA-	Senior	21/01/2025	2.81	1.65%	3.48%
AU3CB0270387	Macquarie	A+	Senior	12/02/2025	2.87	1.70%	3.47%
AU3CB0287415	Westpac	AA-	Senior	17/03/2025	2.96	2.70%	3.15%
AU3CB0280030	BoQ	BBB+	Senior	06/05/2026	4.10	1.40%	4.03%
AU3CB0282358	ING	AAA	Covered	19/08/2026	4.39	1.10%	3.54%

Economic Commentary

International Market

Equity markets proved resilient over March, despite the ongoing rout in global bond markets as investors incorporate the hawkish pivot by central banks. Helping equity markets this month was ongoing talks by Russia of de-escalating its war with Ukraine.

In the US, the S&P 500 Index gained +3.58%, while the NASDAQ added +3.41%. Europe's main indices were much more stable, with gains from UK's FTSE (+0.77%) and France's CAC (+0.02%), while Germany's DAX fell -0.32%.

The US Fed increased official rates by 25bp in a widely anticipated first move. The accompanying statement and dot plot remained hawkish, with a hike per meeting in the median dots for calendar 2022 (i.e. another 7½ hikes priced by the market this year). The Fed's inflation forecasts were revised higher to end 2022 at +4.3%, while slowing to +2.7% by the end 2023.

US Fed chair Jay Powell commented that "*nothing*" would prevent the Fed from raising rates by 50bp in May, with a willingness to "*hike by more than 25bp each time if needed*".

US CPI headline and core printed in line with expectations at +0.8%m/m (+7.9%y/y) and +0.5%m/m (+6.4%y/y) respectively. The headline print was a 40-year high reflecting higher gasoline, food and shelter costs.

US payrolls came in much stronger than expected at 678k against 423k expected. The unemployment rate also fell more than expected to 3.8% from 4.0% (consensus 3.9%).

The EU, US, UK and Canadian governments agreed to the exclusion of at least some Russian banks from the Swift global payments system and sanction the Russian central bank.

In Europe, core inflation again surprised to the upside, coming in at +2.7% y/y, above the ECB's +2% target. Headline inflation hit a new high of +5.8% y/y and, given recent moves in oil and gas prices, is likely to rise further in the coming months.

The Bank of England hiked rates by 25bp to 0.75%, although their commentary was slightly more dovish, with a softening rates outlook to further hikes described as "*might*" be needed in coming months, down from the "*is likely*" characterisation previously.

UK February CPI came in higher than expectations at +0.8% m/m (+0.6% expected) and +6.2% y/y, even before the new round of fuel and energy price pressures in the pipeline in coming months. The core measure was also up +0.8% m/m for +5.2% y/y.

The MSCI World ex-Aus Index rose +2.35% for the month:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+3.58%	-4.95%	+14.03%	+16.92%	+13.91%	+12.39%
MSCI World ex-AUS	+2.35%	-5.76%	+8.57%	+13.26%	+10.66%	+9.01%
S&P ASX 200 Accum. Index	+6.89%	+2.24%	+14.97%	+10.59%	+9.22%	+10.15%

Source: S&P, MSCI

Domestic Market

In its meeting in March, the RBA still sees it as too early to conclude that inflation is sustainably within the target range. It repeats that there are uncertainties about how persistent the pick-up in inflation will be given ongoing supply problems and adds recent energy market developments into the mix for consideration.

Governor Lowe said "*it is plausible that the cash rate will be increased later this year*". Inflation risks have "*clearly moved to the upside*" relative to the February statement given the war in Ukraine and sanctions against Russia, but Governor Lowe still thinks higher wages growth is needed to sustain inflation at 2-3% with a risk that moving rates too early would impede the opportunity to secure an even lower unemployment rate.

February's labour market data was very strong with unemployment falling 0.2% to 4.0%, its equal lowest in the history of the monthly survey that dates back to 1978. Employment was strong, up +77k (consensus +37k), which meant the unemployment rate fell even with the participation rate increasing 0.2% to 66.4%.

Retail sales for February were again much stronger than expected at +1.8% m/m (consensus +0.9%).

Credit growth was +0.6% m/m in January, slowing from last month's +0.8% rise and a touch below consensus for a +0.7% gain.

The trade surplus surprised to the upside, rising $4.1bn to $12.9bn in January, well above the consensus for $9bn.

The budget continues to improve more quickly than the government expected due both to higher revenues (income and company taxes) and lower spending (particularly on welfare). The forecast for the 2022-23 deficit has been revised down to $78.0bn, from an expected deficit of $98.9bn forecast in December.

The Australian dollar rose +4.18%, finishing the month at US74.82 cents (from US71.82 cents the previous month).

Credit Market

The global credit indices traded in a relatively narrow range over March despite the ongoing volatility in equity markets. The indices are back to their levels experienced in mid-2020:

Index	March 2022	February 2022
CDX North American 5yr CDS	67bp	66bp
iTraxx Europe 5yr CDS	73bp	68bp
iTraxx Australia 5yr CDS	86bp	88bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	March 2022	February 2022
Bloomberg AusBond Bank Bill Index (0+YR)	+0.00%	+0.01%
Bloomberg AusBond Composite Bond Index (0+YR)	-3.75%	-1.21%
Bloomberg AusBond Credit FRN Index (0+YR)	-0.29%	-0.01%
Bloomberg AusBond Credit Index (0+YR)	-3.05%	-1.07%
Bloomberg AusBond Treasury Index (0+YR)	-4.03%	-1.31%
Bloomberg AusBond Inflation Gov't Index (0+YR)	-4.27%	-1.18%

Source: Bloomberg

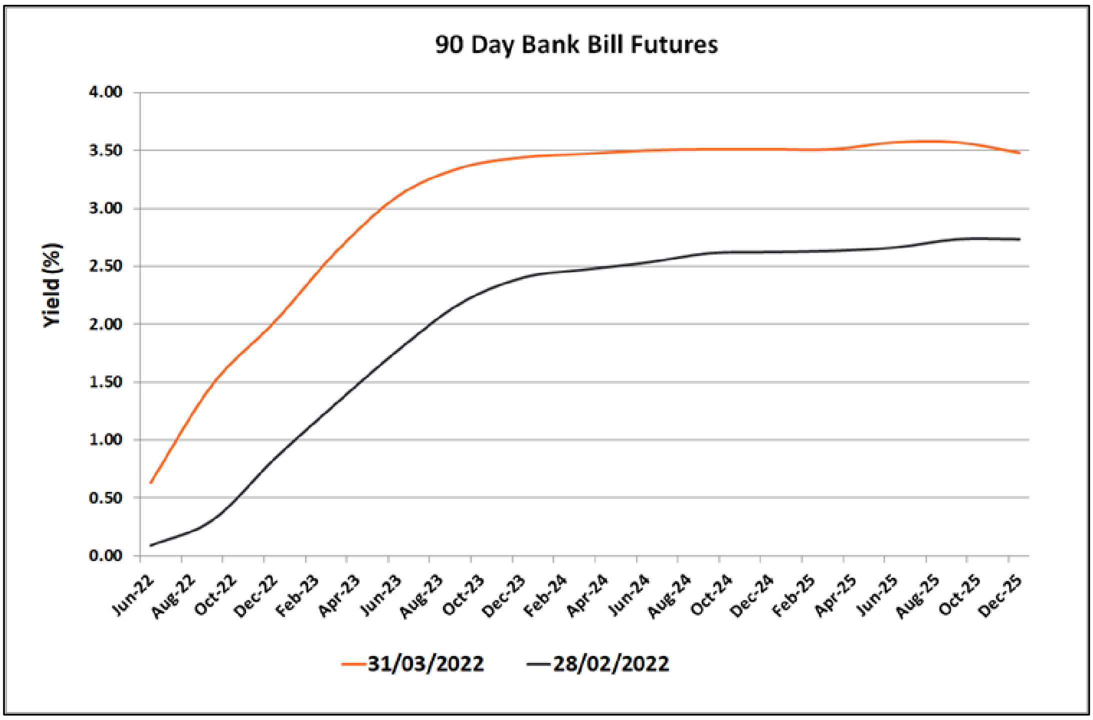
Other Key Rates

Index	March 2022	February 2022
RBA Official Cash Rate	0.10%	0.10%
90 Day (3 month) BBSW Rate	0.23%	0.08%
3yr Australian Government Bonds	2.31%	1.50%
10yr Australian Government Bonds	2.84%	2.13%
US Fed Funds Rate	0.25%-0.50%	0.00%-0.25%
10yr US Treasury Bonds	2.32%	1.83%

Source: RBA, AFMA, US Department of Treasury

90 Day Bill Futures

Over March, bill futures rose across the board as the market prepares itself for a higher interest rate environment. A sharp rise remains in 2022-2023 as markets anticipate aggressive rate cuts over the next 6-18 months as inflationary pressures continue to mount:



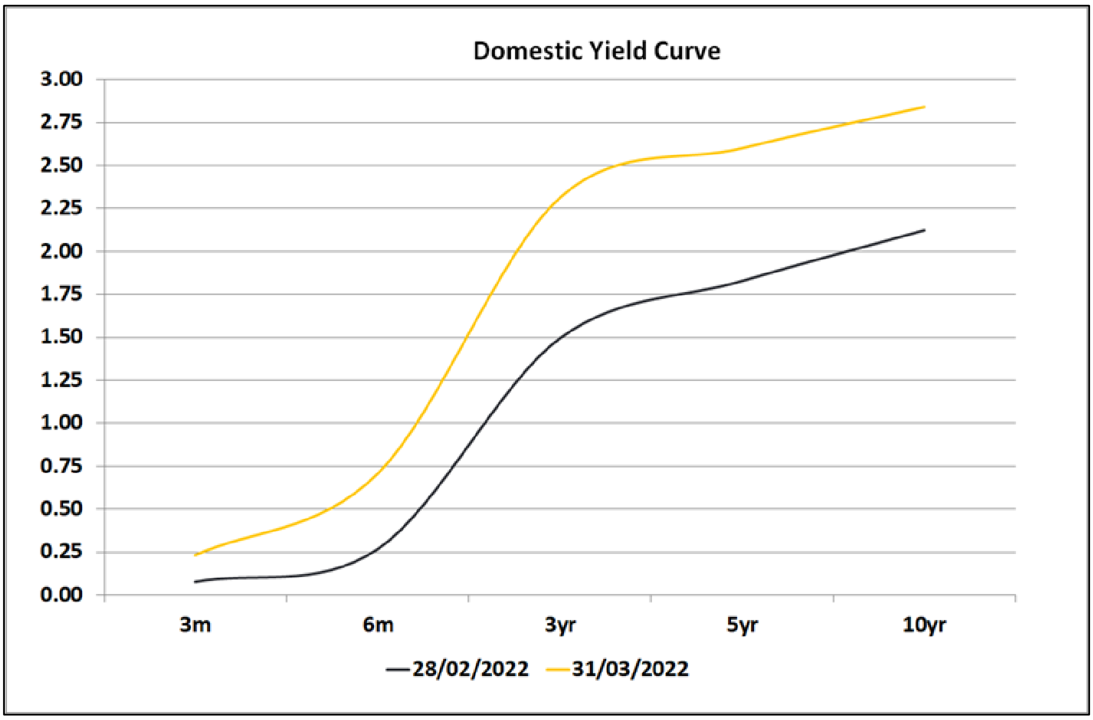
Source: ASX

Fixed Interest Outlook

After the US Fed hiked rates in March, the market is factoring in an additional 7½ rate rises this calendar year to stem the surge in inflation.

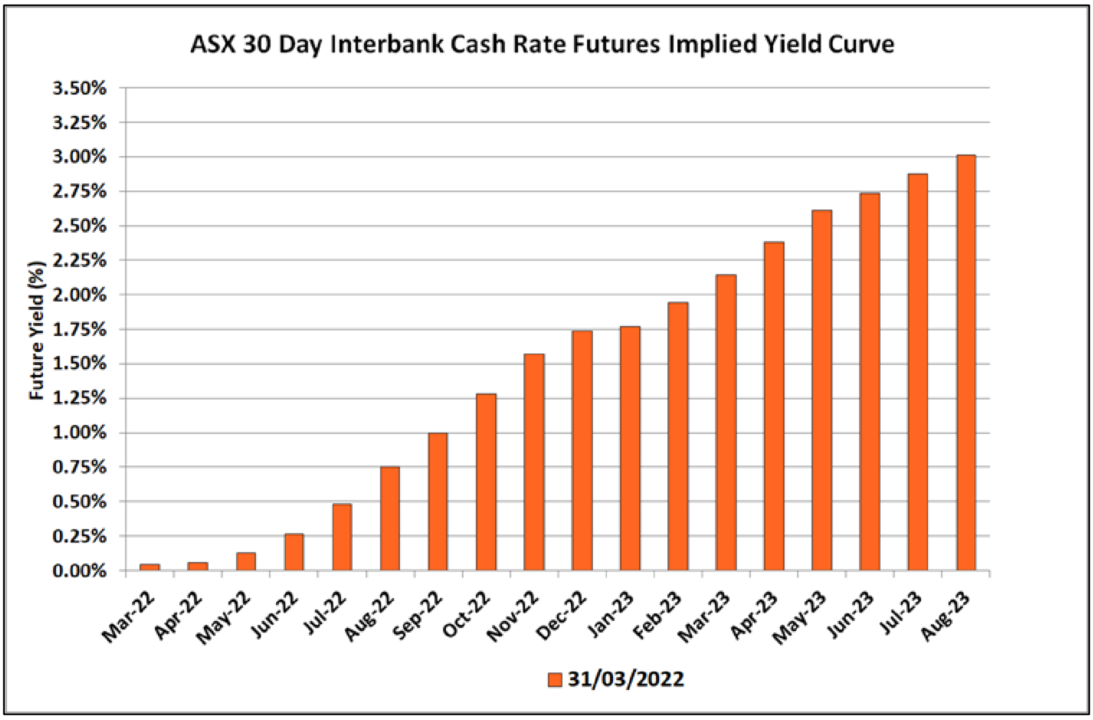
Domestically, Governor Lowe said "*it is plausible that the cash rate will be increased later this year*" as inflation risks have "*clearly moved to the upside*". However Governor Lowe still thinks higher wages growth is needed to sustain inflation at 2-3% with a risk that moving rates too early would impede the opportunity to secure an even lower unemployment rate. The strong labour market may push the RBA's decision to lift rates from emergency settings earlier than they previously anticipated.

The domestic bond market continues to suggest a prolonged low period of interest rates on a historical basis (longer-term still below 3% environment). Over the month, yields rose around 80bp 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 June 2022 and up to seven 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:



Source: ASX

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