Monthly Investment Report

December 2022

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

Summary

Market Update Summary

Recession fears gathered pace across financial markets in December after hawkish messaging by various global central banks. Hopes for a gentler US Federal Reserve faded amid stubbornly hot inflation with the central bank raising its forecast of how long interest rates have to stay elevated to cool inflation.

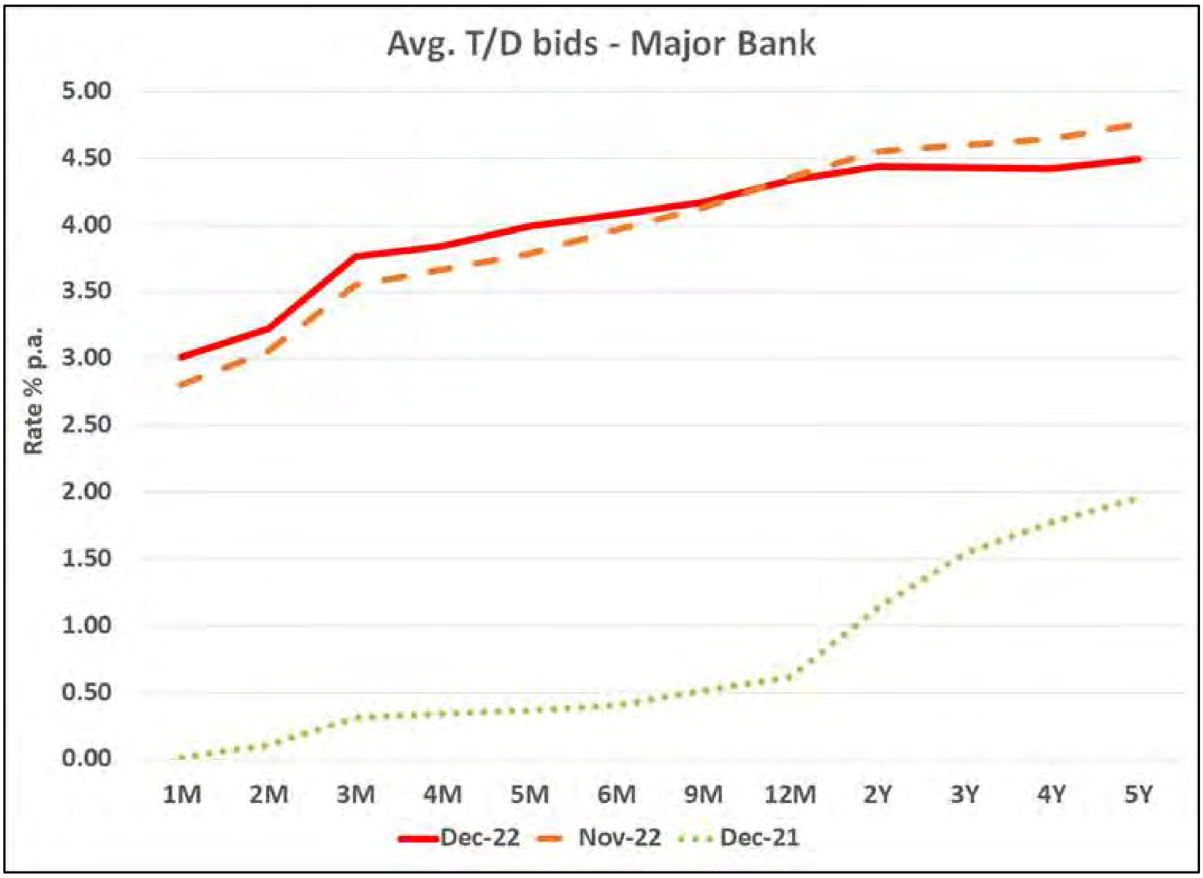
Domestically, The RBA's December Board Meeting Minutes contained a mixture of positive and negative developments. On the less hawkish side, the RBA is growing more confident about easing global growth and lower goods price inflation as supply chain disruptions resolve, but on the more hawkish side, the Board notes the balance of risks on Australian wages growth had shifted to the upside. Importantly and perhaps because of these mixed signals - the Board considered a wider range of options for policy at this meeting, including for the first time since interest rates were first increased in May, a pause in the rate rise cycle.

Term Deposits

Term Deposits (fixed and floating) account for around 75% of the total investment portfolio at month-end. Council's term deposit portfolio was yielding 2.33% p.a. at month-end, with a weighted average duration of around 366 days or ~12 months. We note the following:

- The highest deposit rate from any rated ADI in the market is now ~5.30% p.a. for 5 years;
- The highest deposit rates amongst the "AA-" rated ADIs (major banks) is now yielding between 4.60%-4.95% p.a. (depending on terms between 12m – 5 years);
- The highest deposit rates amongst the "A" rated ADIs was yielding between 4.55%-5.30% p.a. (depending on terms between 12m – 5 years);
- The highest deposit rates amongst the "BBB" rated ADIs was yielding between 4.55%-5.05% p.a. (depending on terms between 12m – 5 years).

Despite more rate rises on the horizon, given an upward sloping deposit curve, maintaining a slightly longer duration position will continue to outperform (averaging) shorter durations. The deposit market has largely already factored in the current rate hike cycle, reflected by the flattening of the curve demonstrated by the longer-term tenors (+2yrs) over the past few months (the market is also factoring in a recession over coming years).



Source: Imperium Markets

'New' investments above 4¼-4½% p.a. now appears likely if Council can continue to place the majority of its surplus funds for terms of 12 months to 2 years. *With recessionary fears being priced in coming years, investors may take an insurance policy by investing across 3-5 year fixed deposits and locking in rates above 4½% p.a. (small allocation only).*

Senior FRNs

Council's senior floating rate notes (FRNs) make up around 6% of the total investment portfolio at month-end. The market valuation of Council's FRNs collectively fell around **-0.03% (actual)** in December 2022 (**or -$9,757 in dollar terms**).

Summary	30 Nov 2022	31 Dec 2022	Net Flow ($)	Monthly Change %
Face Value	$29,350,000	$30,650,000	$1,300,000	+4.39%
Market Value	$29,372,591	$30,662,834	-$9,757	-0.03%

We highlight that Council's FRNs are senior ranked assets and high in the bank capital structure. We expect that, if held to maturity, the FRNs will pay back its original face value ($100.00), along with its quarterly coupons throughout the life of the security. That is, we do not expect Council to lose any capital or interest payments from its current holding in its senior FRNs given all banks continue to maintain high capital buffers as required by APRA.

At month-end, Council's FRNs are now marked at an **unrealised capital gain of +$19,888** *(noting some were purchased at a slight discount to par in the secondary market).*

BBB rated senior FRNs

As per all FRNs, we have no issues with Council's investments in "BBB" rated senior FRNs given all counterparties continue to hold robust balance sheets with high levels of capital. On a mark-to-market basis, collectively they fell around **$6,395 in dollar terms or -0.09% (actual)** for the month:

Summary	30 Nov 202	30 Nov 2022	Net Flow ($)	Monthly Change %
Face Value	$5,500,000	$6,800,000	$1,300,000	+23.64%
Market Value	$5,479,440	$6,773,045	-$6,395	-0.09%

At month-end, Council's "BBB" rated FRNs are now marked at an **unrealised capital loss of ~$26,851**.

Senior Bonds

Since September 2020, Council has an outstanding $29m placed in Northern Territory Treasury Corporation (NTTC) fixed bonds rated AA- (same as the domestic major banks), locking in yields between 0.90%-1.40% p.a. The weighted average yield on these investments was 1.09% p.a., with a current weighted average duration of 2.73 years.

We believe these investments were sensible given the unprecedented low rate environment and the RBA's forward guidance at the time of investment (no rate rises "*until at least 2024*"). We reiterate that 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.

During August 2021, Council purchased $600k in the ING (AAA) covered fixed bond at a yield of 1.16% p.a., which we thought was an attractive yield given the super-senior and highly ranked asset. This is likely to be held for at least 3-4 years, with a view to reassess depending on the prevailing market conditions. Given it is now trading at a significant discount to par, we recommend buying additional units if available, to average-in at a more attractive yield.

TCorp Long-Term Growth Fund

The NSW TCorp Fund accounts for ~5½% of Council's total investment portfolio. **The Fund returned -3.06% (actual) during December**. Domestic and international shares fell as the US Fed quashed any hopes of a pivot in terms of when they are likely to keep official interest rates at current elevated levels.

Summary	30 Nov 2022	31 Dec 2022	Investment ($)	Net Return ($)	Net Return (%)
Market Value	$29,115,848	$28,224,872	$0	-$890,976	-3.06%

The US Federal Reserve (Fed) recently raised its forecast of how long interest rates have to stay elevated to cool inflation that has been hurting businesses and threatening spending. The European

Central Bank (ECB) also warned that more rate hikes are coming. Inflation is showing signs of easing, but at a relatively slow pace. The Fed's aggressive policy risks hitting the brakes on the economy too hard, while at the same time economic growth is already slowing because of pressure from inflation. That could result in a recession, which analysts expect in some form within 2023, though the severity and duration is difficult to forecast.

The Fund should be looked at with a long-term view, with a minimum holding period of +7 years. Given the exposure to the volatile asset of shares, Council should expect to see, on average, a negative month once every 3 months over a long-term holding period.

CFS Global Credit Income

The CFS Global Credit Income Fund accounts for around 2½% of Council's total investment portfolio. **The Fund returned +0.61% (actual) in December**, as the market valuation of the fund's assets in global credit securities increased during the month.

Summary	30 Nov 2022	31 Dec 2022	Difference ($)	Difference (%)
Market Value	$14,147,485	$14,233,799	+$86,314	+0.61%

The Fund holds a diverse range of securities across the global credit market. It remains very well diversified by issuer in order to mitigate default risk. It invests in nearly 600 corporate bonds from issuers in various countries and industry sectors. Any spread contraction going forward allows credit and asset-backed holdings to enjoy significant capital gains.

With a running yield of around +4 – 4½% p.a., we recommend Council retains this "grandfathered" Fund given the alternative to invest in cash and deposits (Council's approval list) are yielding comparably lower.

Cash Accounts

Cash accounts make up around 4% of Council's investment portfolio at month-end. Council's cash accounts are likely to yield up to 0.15% p.a. (at most) above the official cash rate over coming years i.e. yield up to 3.25% p.a. at current yields, but likely higher as the RBA increases official rates. Short-dated term deposits will continue to outperform overnight cash accounts in most cases so we recommend keeping cash levels at a bare minimum to meet ongoing liquidity requirements.

Council's Budgeted Income for FY2022-2023

Council's budgeted income for FY2022-2023 has been revised to $10.080m. Based on an average total investment portfolio size of around $500m, that equates to a budgeted yield of around 2.02% for the financial year.

For the month ending December 2022, the cumulative interest revenue earned was roughly $1.727m above the budgeted income, largely driven by the strong rebound in in shares in October and November 2022. We exercise caution given the volatility from the TCorp Long-Term Growth Fund during any month, as was the case this month, with the TCorp Fund falling another -$891k.

Month-End	Cumulative Budget	Cumulative Investment Revenue	Difference ($)
Jul 2022	$840,064	$1,966,804	$1,126,740
Aug 2022	$1,680,129	$2,695,126	$1,014,997
Sep 2022	$2,520,193	$2,607,147	$86,954
Oct 2022	$3,360,257	$4,706,137	$1,345,880
Nov 2022	$4,200,322	$6,578,791	$2,378,469
Dec 2022	$5,040,386	$6,767,315	$1,726,929
Jan 2023	$5,880,450		
Feb 2023	$6,720,515		
Mar 2023	$7,560,579		
Apr 2023	$8,400,643		
May 2023	$9,240,708		
Jun 2023	$10,080,772		

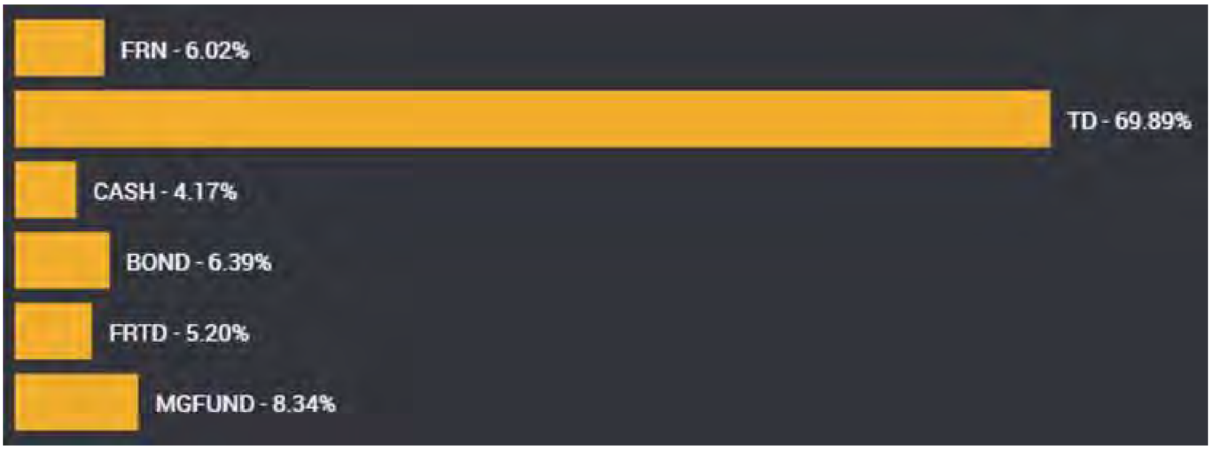
For the current financial year, we remain cautious given that risks remain to the downside, particularly if there is a continued selloff in equities and/or bonds as the market factors in a global recession.

Council's Portfolio & Compliance

Asset Allocation

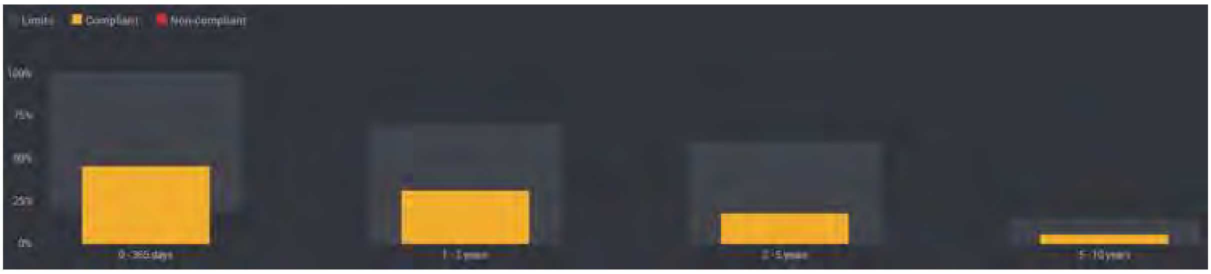
As at the end of December 2022, the portfolio was mainly directed to fixed and floating rate term deposits (75%). The remaining portfolio is directed to FRNs (6%), overnight cash accounts (4%), bonds (6%), and the managed funds with CFS Global Credit Income Fund and NSW T-Corp Long Term Growth Fund (8%, combined).

Senior FRNs are now becoming more attractive as spreads have widened in 2022 – new issuances should now be considered again on a case by case scenario. In the interim, fixed deposits for 12 months to 3 years appear quite appealing following the spike in medium-to longer-term yields this calendar year. With recessionary fears being priced in coming years, those investors that can allocate longer-term surplus funds may take an insurance policy by investing across 3-5 year fixed deposits and locking in rates above 4½% p.a.



Term to Maturity

Overall, the portfolio remains well diversified from a maturity perspective with around 18% of assets directed to medium-term assets (2-5 years). All minimum and maximum criteria meet within the Policy guidelines:



Where liquidity permits, we recommend new surplus funds be directed to 1-2 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 (refer to respective sections below).

Compliant	Horizon	Invested ($)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available ($)
✓	0 - 365 days	$231,618,481	45.48%	20%	100%	$277,695,107
✓	1 – 2 years	$158,551,873	31.13%	0%	70%	$197,967,639
✓	2 – 5 years	$90,918,363	17.85%	0%	50%	$214,669,790
✓	5 – 10 years	$28,224,872	5.54%	0%	25%	$48,172,167
		$509,313,588	**100.00%**			

Counterparty

As at the end of December 2022, Council did not have an overweight position to any single ADI. Overall, the portfolio is well diversified across the entire credit spectrum, including some exposure to the unrated ADIs.

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	BoQ Covered	AAA	$902,693	0.18%	50.00%	$253,754,101
✓	Bendigo Covered	AAA	$4,005,787	0.79%	50.00%	$250,651,007
✓	Suncorp Covered	AAA	$523,603	0.10%	50.00%	$254,133,191
✓	ING Covered	AAA	$1,504,841	0.30%	50.00%	$253,151,953
✓	ANZ	AA-	$4,033,549	0.79%	40.00%	$199,691,886
✓	CBA	AA-	$62,382,838	12.25%	40.00%	$141,342,598
✓	NAB	AA-	$132,850,999	26.08%	40.00%	$70,874,436
✓	Northern Territory	AA-	$32,000,000	6.28%	40.00%	$171,725,435
✓	Westpac	AA-	$37,900,000	7.44%	40.00%	$165,825,435
✓	Citibank NA	A+	$998,992	0.20%	25.00%	$126,329,405
✓	Macquarie	A+	$28,642	0.01%	25.00%	$127,299,756
✓	Suncorp	A+	$5,499,432	1.08%	25.00%	$121,828,965
✓	UBS AG	A+	$3,238,267	0.64%	25.00%	$124,090,130
✓	CFS Global CI	A	$14,233,799	2.79%	25.00%	$113,094,598
✓	ICBC	A	$97,050,000	19.06%	25.00%	$30,278,397
✓	ING Bank Aus.	A	$16,000,000	3.14%	25.00%	$111,328,397
✓	Aus. Military Bank	BBB+	$8,000,000	1.57%	15.00%	$68,397,038
✓	Aus. Unity Bank	BBB+	$9,000,000	1.77%	15.00%	$67,397,038
✓	BankVIC	BBB+	$3,000,000	0.59%	15.00%	$73,397,038
✓	BoQ	BBB+	$18,001,493	3.53%	15.00%	$58,395,546
✓	Bendigo-Adelaide	BBB+	$1,751,046	0.34%	15.00%	$74,645,992
✓	QT Mutual Bank	BBB+	$967,531	0.19%	15.00%	$75,429,507
✓	AMP Bank	BBB	$10,162,230	2.00%	15.00%	$66,234,808
✓	Auswide Bank	BBB	$3,000,000	0.59%	15.00%	$73,397,038
✓	Bank Australia	BBB	$1,302,065	0.26%	15.00%	$75,094,973
✓	CUA	BBB	$1,750,910	0.34%	15.00%	$74,646,128
✓	Gateway	BBB	$2,000,000	0.39%	15.00%	$74,397,038
✓	MyState Bank	BBB	$4,000,000	0.79%	15.00%	$72,397,038
✓	P&N Bank	BBB	$2,500,000	0.49%	15.00%	$73,897,038
✓	Police CU SA	Unrated	$2,500,000	0.49%	1.00%	$2,593,136
✓	TCorpIM LTG	Unrated	$28,224,872	5.54%	10.00%	$22,706,487
			$509,313,588	**100.00%**		

During December 2022, we welcomed Council’s decision to adopt a new Investment Policy which not only allows for further diversification, but also reduces concentration risk and provides better opportunities to maximise the overall returns of the portfolio.

In late June 2022, Standard & Poor's downgraded Suncorp-Metway from AA- to A+ (negative watch). Suncorp recently announced that it is undertaking a strategic review of its banking operations. The downgrade reflects S&P’s view that the Suncorp Group’s likelihood of support for the bank had “*slightly*” diminished and that it was no longer a core part of the Group. In July 2022, ANZ (AA-) announced it was putting a bid to buy Suncorp’s banking division for ~$4bn. Should that takeover be formalised, Suncorp-Metway’s (A+) current credit rating is likely to be upgraded to ANZ’s (AA-).

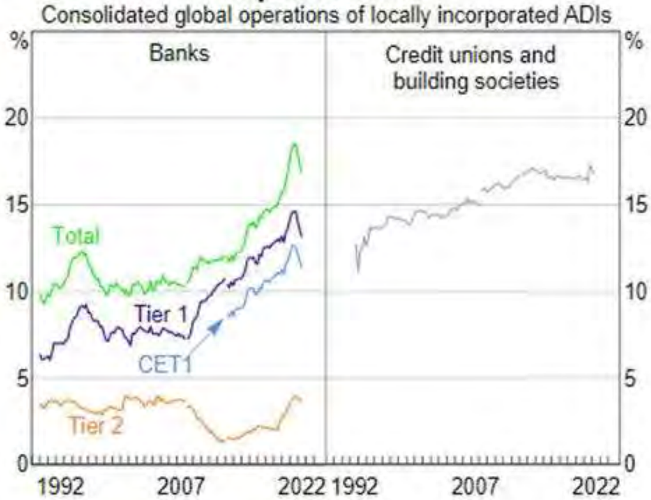
We note the lower rated ADIs (BBB and unrated) are generally now in a better financial position then they have been historically (see the Capital Ratio figure below). APRA’s outgoing Chair Wayne Byres recently noted that the Common Equity Tier 1 capital of Australian banks now exceeds a quarter of a trillion dollars. It has increased by $110 billion, or more than 70%, over the past eight years. Over the same time, banks’ assets have grown by 44%. Some of the extra capital is supporting growth in the banking system itself but clearly, there has been a strengthening in overall resilience and leverage in the system is lower.

We believe that deposit investments with the lower rated ADIs should be considered going forward, particularly when they offer ‘above market’ specials. Not only would it diversify the investment portfolio and reduce credit risk, it would also improve the portfolio’s overall returns. The lower rated entities are generally deemed to be the more ‘ethical’ ADIs compared to the higher rated ADIs.

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

Capital Ratios*

Consolidated global operations of locally incorporated ADIs



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

Source: APRA

Domestic versus International

Noting Council's (internationally) demographic ratepayer base, we summarise where its investments are currently placed:

ADI Category by APRA / Country of Region	Amount Invested	Percentage
Australian Owned ADI	**$312,143,048**	**61.29%**
Australia	$312,143,048	61.29%
Branches of Foreign Bank	**$138,188,267**	**27.13%**
China	$97,050,000	19.06%
Switzerland	$3,238,267	0.64%
United States	$37,900,000	7.44%
Foreign Subsidiary Banks	**$16,523,603**	**3.24%**
Lebanon	$16,523,603	3.24%
Netherlands	$42,458,670	8.34%
Global^	**$42,458,670**	**8.34%**
International	$509,313,588	100.00%
Total	**$312,143,048**	**61.29%**

Source: https://www.apra.gov.au/register-of-authorised-deposit-taking-institutions

^Global: The NSW TCorpIM LTGF and CFS Global Credit Income Fund invests in hundreds of underlying securities globally, from which the portfolio composition is likely to change regularly.

Overall, approximately 61% of Council's total investment portfolio is placed with domestic ADIs, while the remaining 39% is placed with international banks and corporate entities.

In response to global financial crisis (GFC), the Financial Stability Board (FSB) came up with a range of financial metrics to ascertain which banks were effectively deemed "*too big to fail*". A list of Globally Systemic Important Banks (G-SIBs) was developed, in which these banks required to hold much higher levels of capital compared to their smaller peers to ensure their financial stability under various stress test scenarios (e.g. another GFC).

We note that Council's exposure to the international banks are generally with such Globally Systemic Important Banks (G-SIBs), including ICBC (China), ING Bank (Netherlands), UBS (Switzerland), Credit Suisse (Switzerland), HSBC (Hong Kong) and Citibank (US).

Overall, we have no concerns with Council's exposure to international banks given they are largely considered to be globally systematic important banks that are '*too big to fail*'.

Fossil Fuel Investments

What is Council's current exposure to institutions that fund fossil fuels?

Using the following link http://www.marketforces.org.au/banks/compare, based on the Council's investment portfolio balance as at 31/12/2022 ($509.31m), we can roughly estimate that ~70% of the investments have some form of exposure. This is likely to drift higher given the new Policy limits imposed by NSW Treasury Corporation.

Council's exposure is summarised as follows:

Counterparty	Credit Rating	Funding Fossil Fuel
BoQ Covered	AAA	Yes
Bendigo Covered	AAA	No
Suncorp Covered	AAA	No
ING Covered	AAA	Yes
ANZ	AA-	Yes
CBA	AA-	Yes
NAB	AA-	Yes
Northern Territory	AA-	Yes
Westpac	AA-	Yes
Citibank NA	A+	Yes
Macquarie	A+	Yes
Suncorp	A+	No
UBS AG	A+	No
CFS Global Credit^^	A	Yes
ICBC	A	No
ING Bank	A	Yes
Aus Military Bank	BBB+	No
Aus Unity Bank	BBB+	No
BankVIC	BBB+	No
BOQ	BBB+	Yes
Bendigo-Adelaide	BBB+	No
QT Mutual Bank	BBB+	No
AMP Bank	BBB	Yes
Auswide Bank	BBB	No
Bank Australia	BBB	No
CUA	BBB	No
Gateway	BBB	No
MyState Bank	BBB	No
P&N Bank	BBB	No
Police CU SA	Unrated	No
T-CorpIM LTG Fund^^	Unrated	Yes

^^The underlying exposure in these managed funds includes the domestic major banks.

Source: https://www.marketforces.org.au/info/compare-bank-table/

Summary	Amount	Invested %
Yes	$358,243,708	70%
No	$151,069,880	30%
	$509,313,588	**100%**

Transition to investments without major exposure to fossil fuels

Council has not made a decision to divest from the current portfolio of investments which have exposure to fossil fuels. To do so would have unfavourable implications to the credit quality, rating and interest income forecasts.

However, where possible, and within the ministerial and policy guidelines, Council will continue to favour newly issued fossil fuel free investment products, providing it does not compromise the risk and return profile.

In time it is Councils intention to move to a more balanced portfolio which has less exposure to fossil fuels, providing it is prudent to do so.

What would be implications on our portfolio credit rating?

By adopting a free fossil fuel policy or an active divestment strategy, this would eliminate the major banks rated “AA-“ as well as some other “A” rated banks (Citi, Macquarie and ING). Council would be left with a smaller sub-sector of banks to choose to invest with.

What would be risks and implications on Council’s portfolio performance?

Some implications include:

- High concentration risk – limiting Council to a selected number of banks;
- Increased credit/counterparty risk;
- May lead to a reduction in performance (e.g. most of the senior FRN issues are with the higher rated ADIs);
- Underperformance compared to other Councils which could result in a significant loss of income generated – could be in excess of hundreds of thousands of dollars per annum.

It may actually be contrary to Council’s primary objective to preserve capital as the investment portfolio’s risk would increase (all things being equal). Council may not be maximising its returns – this is one of the primary objectives written in the Investment Policy.

Credit Quality

Following the most recent adopted Policy in December 2022, all aggregate ratings categories are currently within the Policy limits:

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AAA Category	$6,936,925	1%	100%	$502,376,664
✓	AA Range or Major Banks	$269,167,385	53%	100%	$240,146,203
✓	A Category	$137,049,131	27%	80%	$270,401,739
✓	BBB Category	$65,435,276	13%	30%	$87,358,801
✓	Unrated ADI Category	$2,500,000	0%	10%	$48,431,359
✓	TCorpIM Funds	$28,224,872	6%	25%	$99,103,525
		$509,313,588	**100.00%**		

The portfolio remains well diversified across the entire credit spectrum, including some exposure to the unrated ADI sector.

There is high capacity to invest in the higher rated ADIs (A or higher), particularly after the downgrades of BoQ and AMP Bank over the past few years, as all have now fallen back into the "BBB" rated category (previously in the "A" rated category).

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

Going forward, with the RBA now removing these cheap borrowing facilities, this has meant the lower rated banks (BBB rated) have started to become more competitive as the market starts to 'normalise'. Investors should have a larger opportunity to start investing a higher proportion of their surplus funds with the lower rated institutions (within Policy limits), from which the majority are considered to be the more 'ethical' ADIs as they generally do not lend to the Fossil Fuel industry.

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

Performance

Council's performance (actual returns) for the month ending 31 December 2022 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	0.26%	0.71%	1.18%	1.18%	1.31%	0.70%	0.57%
AusBond Bank Bill Index	0.25%	0.74%	1.17%	1.17%	1.25%	0.64%	0.55%
PCC Internal Benchmark*	0.12%	1.06%	1.71%	1.71%	1.29%	1.18%	1.28%
PCC Cash Portfolio	0.27%	0.77%	1.28%	1.28%	1.52%	1.00%	0.94%
PCC T/D Portfolio	0.20%	0.59%	1.11%	1.11%	1.82%	1.55%	1.70%
PCC FRN Portfolio	0.35%	1.01%	1.78%	1.78%	2.53%	2.12%	1.95%
PCC Bond Portfolio	0.09%	0.28%	0.56%	0.56%	1.10%	1.06%	-
PCC Credit Fund	0.61%	2.74%	3.61%	3.61%	-0.72%	0.30%	0.50%
PCC TCorp Growth Fund	-3.06%	3.56%	3.44%	3.44%	-8.53%	1.92%	2.40%
PCC's Total Portfolio	**0.04%**	**0.80%**	**1.26%**	**1.26%**	**0.96%**	**1.31%**	**1.49%**
Outperf. (BBI)	**-0.21%**	**0.05%**	**0.09%**	**0.09%**	**-0.29%**	**0.67%**	**0.94%**
Outperf. (Int. Bench.)	**-0.09%**	**-0.27%**	**-0.45%**	**-0.45%**	**-0.33%**	**0.13%**	**0.21%**

**The Internal Benchmark returns are based on Council's individual benchmarks across the various asset classes it invests within its own portfolio. The following individual benchmark's are used for each asset class that Council invests in:*
Cash: RBA Cash Rate
Term Deposits: Deposit benchmark based on Council's weighted average duration using multiple ADIs average monthly rate
FRNs: AusBond Credit FRN Index
CFS Global Credit Income Fund: AusBond Credit Index
NSW TCorpIM Long-Term Growth Fund: Fund's return itself

For the month of December, the total investment portfolio (including cash) provided a return of +0.04% (actual) or +0.42% p.a. (annualised), underperforming the AusBond Bank Bill Index return of +0.25% (actual) or +2.98% p.a. (annualised), and Council's internal benchmark return of +0.12% (actual) or +1.46% p.a. (annualised). The TCorp Fund (-3.06% actual) was the main detractor to performance this month.

The longer-term outperformance continues to be anchored by the handful of longer-dated deposits that were locked-in prior to the RBA's rate cuts, as well as the FRNs locked in at attractive margins, boosted by the strategic sales implemented over the past few years. This is now reflected in the longer-term returns with the FRN portfolio now slightly ahead of fixed term deposits over 1-3 year time periods.

The annualised returns as of 31 December 2022 are shown in the following table:

Performance (% p.a.)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	3.10%	2.85%	2.35%	2.35%	1.31%	0.70%	0.57%
AusBond Bank Bill Index	2.98%	2.98%	2.33%	2.33%	1.25%	0.64%	0.55%
PCC Internal Benchmark*	1.46%	4.29%	3.42%	3.42%	1.29%	1.18%	1.28%
PCC Cash Portfolio	3.25%	3.08%	2.55%	2.55%	1.52%	1.00%	0.94%
PCC T/D Portfolio	2.40%	2.36%	2.21%	2.21%	1.82%	1.55%	1.70%
PCC FRN Portfolio	4.17%	4.06%	3.56%	3.56%	2.53%	2.12%	1.95%
PCC Bond Portfolio	1.11%	1.10%	1.10%	1.10%	1.10%	1.06%	-
PCC Credit Fund	7.42%	11.31%	7.28%	7.28%	-0.72%	0.30%	0.50%
PCC TCorp Growth Fund	-30.64%	14.87%	6.93%	6.93%	-8.53%	1.92%	2.40%
PCC's Total Portfolio	**0.42%**	**3.20%**	**2.52%**	**2.52%**	**0.96%**	**1.31%**	**1.49%**
Outperf. (BBI)	**-2.55%**	**0.22%**	**0.19%**	**0.19%**	**-0.29%**	**0.67%**	**0.94%**
Outperf. (Int. Bench.)	**-1.04%**	**-1.09%**	**-0.90%**	**-0.90%**	**-0.33%**	**0.13%**	**0.21%**

Council's Term Deposit Portfolio & Recommendation

As at the end of December 2022, Council's deposit portfolio was yielding **2.33% p.a.** (unchanged from the previous month), with a weighted average duration of around 366 days (~12 months). With an upward sloping deposit curve, investors are rewarded if they can continue to maintain a longer average duration.

Those investors that can maintain a weighted average duration of +12-18 months are likely to yield, on average, up to 1% p.a. higher than those investors who maintain a weighted average duration of less than 6-9 months.

We are pleased to see that City of Parramatta Council remains amongst the top performing Councils in the state of NSW where deposits are concerned, earning on average, more than $1,620,000 in additional interest income compared to its peers (as per our September 2022 rankings). 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.

At the time of writing, we see value in:

	LT Credit Rating	Term	T/D Rate
ICBC, Sydney	A	3 years	4.95% p.a.
ICBC, Sydney	A	2 years	4.90% p.a.
P&N Bank	BBB	3 years	4.90% p.a.
P&N Bank	BBB	2 years	4.85% p.a.
CBA	AA-	2 years	4.80% p.a.
Westpac	AA-	2 years	4.78% p.a.
Suncorp	A+	2 years	4.75% p.a.
NAB	AA-	2 years	4.65% p.a.
AMP Bank	BBB	2 years	4.55% p.a.^
BoQ	BBB+	2 years	4.50% p.a.

^Contact us for an additional 0.20% p.a. rebated commission. Rate changes daily. Current limit of $10m in aggregate.

The above deposits are suitable for investors looking to maintain diversification and lock-in a premium compared to purely investing short-term. For terms under 12 months, we believe the strongest value is currently being offered by the following ADIs (dependent on daily funding requirements):

ADI	LT Credit Rating	Term	T/D Rate
CBA	AA-	12 months	4.71% p.a.
P&N Bank	BBB	12 months	4.65% p.a.
Westpac	AA-	12 months	4.63% p.a.
Suncorp	A+	12 months	4.55% p.a.
NAB	AA-	12 months	4.50% p.a.
BoQ	BBB+	12 months	4.45% p.a.
AMP	BBB	12 months	4.40% p.a.^
BoQ	BBB+	6 months	4.35% p.a.
NAB	AA-	6 months	4.30% p.a.

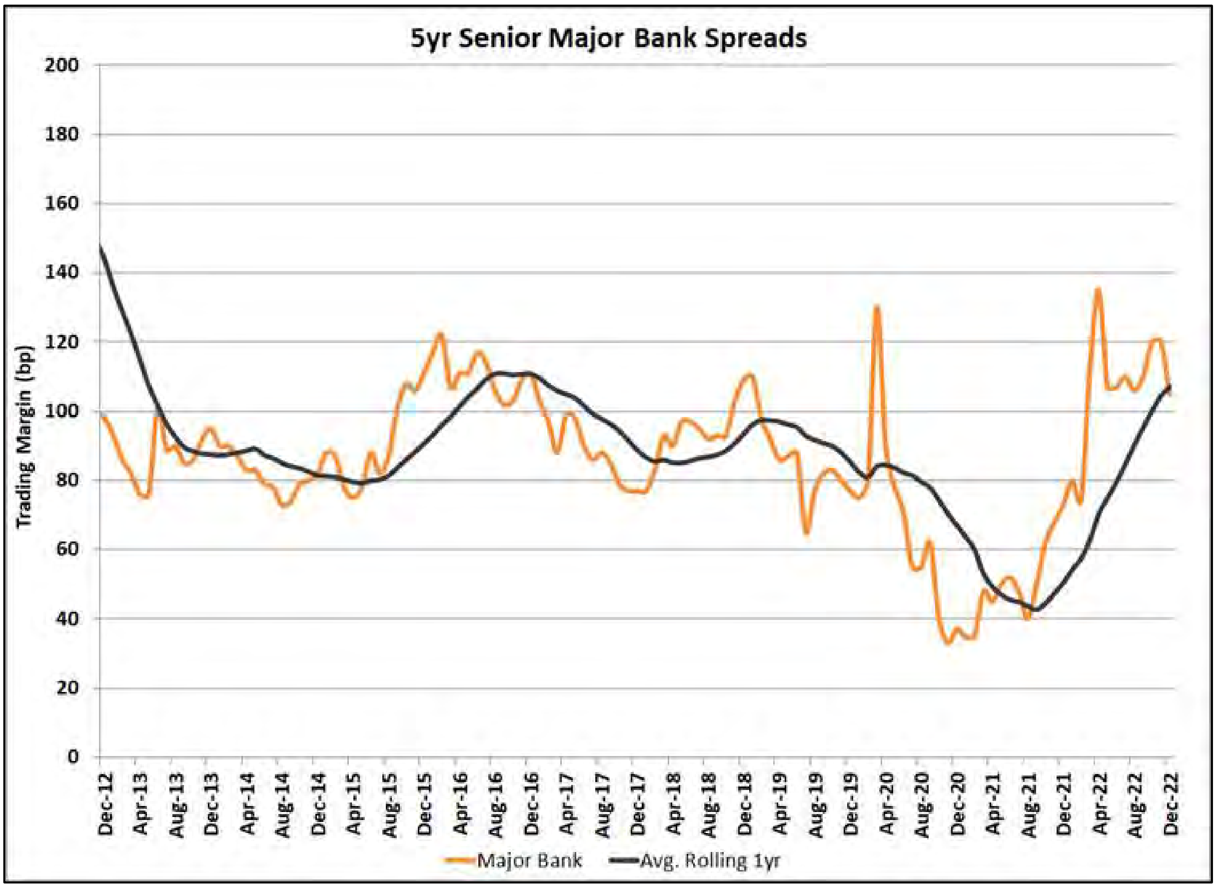
^Contact us for an additional 0.20% p.a. rebated commission. Rate changes daily. Current limit of $10m in aggregate

If Council does not require high levels of liquidity and can stagger its investments slightly longer-term, it will be rewarded over coming years if it can roll for an average min. term of 12 months-2 years (this is where we current value), yielding, on average, up to ½% p.a. higher compared to those investors that entirely invest in short-dated deposits (under 9 months).

With recessionary fears being priced in coming years, those investors that can allocate longer-term surplus funds may take an insurance policy by investing across 3-5 year fixed deposits and locking in rates above 4½% p.a.

Senior FRNs Review

Over December, amongst the senior major bank FRNs, physical credit securities tightened between 10-15bp at the long-end of the curve. Major bank senior securities are now looking fairly attractive again in a rising rate environment (5 year margins around the +100-105bp level):



Source: IBS Capital

During December, there were noticeable new primary issuances from:

- WBC (AA- rated) senior FRN for 1 year at +50bp
- Suncorp (A+) senior FRN for 3 years at +125bp

Amongst the "A" rated sector, the securities were marked up to 20bp tighter at the 3-5 year part of the curve, whilst the "BBB" rated sector was marked up to 5bp wider due to recent new issuances.

Credit securities are looking much more attractive given the widening of spreads in 2022. 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)	31/12/2022	30/11/2022
"AA" rated – 5yrs	+105bp	+120bp
"AA" rated – 3yrs	+82bp	+92bp
"A" rated – 5yrs	+125bp	+145bp
"A" rated – 3yrs	+105bp	+115bp
"BBB" rated – 3yrs	+165bp	+158bp

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 late 2024 for the "AA" rated ADIs (domestic major banks)**;
- On or before late 2023 for the "A" rated ADIs; and
- Within 6-9 months for the "BBB" rated ADIs (consider case by case).

Investors holding onto the above senior FRNs ('benchmark' issues only) in their last few years are now generally holding sub-optimal investments and are not maximising returns by foregoing realised capital gains. In the current challenging economic environment, any boost in overall returns should be locked in when it is advantageous to do so, particularly as switch opportunities become available.

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

Council FRNs – Recommendations for Sale/Switches

Following the selloff in credit assets in 2022, we now recommend Council holds its FRN portfolio at this stage. We will inform Council when there is an opportunity to sell out of any sub-optimal FRN and switch into a higher yielding complying asset.

This strategy has worked very well as Council has ultimately boosted the overall returns of the investment portfolio. A summary of the previous financial year's sales are as follows – given the turn in the market over the past few months, these sales would not have been undertaken unless Council was actively managing its portfolio prudently:

Issuer	Maturity Date	Month Sold	Face Value	Trading Margin	Capital Price	Realised Capital Gains
ME (BBB+)	18/07/2022	Jul 2021	$2,000,000	+15.0bp	$100.813	$16,260
TMB (BBB)	28/10/2022	Jul 2021	$1,000,000	+23.0bp	$100.839	$8,390
NAB (AA-)	19/06/2024	Aug 2021	$1,300,000	+18.25bp	$102.081	$27,053
ANZ (AA-)	29/08/2024	Aug 2021	$1,500,000	+19.0bp	$101.744	$26,160
UBS (A+)	08/03/2023	Sep 2021	$3,000,000	+23.0bp	$100.963	$28,890
B. Comm (A-)	28/10/2022	Sep 2021	$1,500,000	+25.0bp	$100.691	$10,365
WBC (AA-)	16/08/2024	Sep 2021	$1,600,000	+29.0bp	$101.682	$28,416
B. China (A)	17/10/2022	Oct 2021	$1,000,00	+29.0bp	$100.687	$6,870
Soc. Gen. (A)	17/07/2023	Nov 2021	$2,750,00	+33.0bp	$100.992	$27,280
C. Suisse (A+)	26/05/2023	Nov 2021	$6,500,00	+32.0bp	$101.252	$81,380
B. Aust. (BBB)	2/12/2022	Jan 2022	$1,000,000	+42.0bp	$100.431	$4,310
NPB (BBB)	6/02/2023	Jan 2022	$400,000	+35.0bp	$101.121	$5,088
NPB (BBB)	6/02/2023	Jan 2022	$1,000,000	+35.0bp	$101.121	$12,420
NPB (BBB)	6/02/2023	Jan 2022	$2,500,000	+35.0bp	$101.121	$28,025
HSBC (AA-)	27/09/2024	Jan 2022	$2,000,000	+40.0bp	$101.140	$22,800
				Total Realised Capital Gains FY2021-2022		**$333,707**

Council's Senior Fixed Bonds

Since September 2020, Council placed parcels in NTTC (AA-) fixed bonds as follows:

Investment Date	Maturity Date	Principal	Rate % p.a.^	Remaining Term (Yrs)	Interest Paid
30/09/2020	15/12/2023	$2,000,000	1.00%	0.96	Annually
24/11/2020	16/12/2024	$1,000,000	0.90%	1.96	Annually
16/02/2021	16/06/2025	$1,000,000	0.90%	2.46	Annually
16/02/2021	15/06/2026	$5,000,000	1.00%	3.46	Annually
12/05/2021	17/06/2024	$3,000,000	0.80%	1.46	Annually
12/05/2021	16/06/2025	$3,000,000	1.10%	2.46	Annually
12/05/2021	15/06/2026	$3,000,000	1.30%	3.46	Annually
20/05/2021	16/06/2025	$3,500,000	1.10%	2.46	Annually
09/09/2021	16/12/2024	$2,500,000	0.90%	1.96	Semi-Annually
09/09/2021	15/12/2026	$5,000,000	1.40%	3.96	Semi-Annually
	Totals / Wgt. Avg.	**$29,000,000**	**1.09%**	**2.73 yrs**	

We believe these investments were prudent especially after the rate cut delivered in early November 2020 and its subsequent forward guidance on official interest rates (no rate rises "*until at least 2024*"). The NTTC bonds are a 'retail' offering and not 'wholesale' issuances. Given the lack of liquidity and high penalty costs if they were to be sold/redeemed prior to the maturity date, they are considered to be a hold-to-maturity investment and will be marked at par value ($100.00) throughout the term of investment.

During August 2021, Council also purchased into the following AAA rated covered fixed bond with ING Bank Australia. With yields rising significantly in 2022, Council may consider purchasing additional units in this security in the secondary market at the current yield to 'average-in' a better overall purchase price.

Issuer	Rating	Maturity Date	ISIN	Face Value	Purchase Yield	Current Yield	Unrealised Gain / Loss ($)
ING	AAA	19/08/2026	AU3CB0282358	$600,000	1.16%	4.97%	-$74,651

Senior Fixed Bonds – ADIs (Secondary Market)

As global inflationary pressures have escalated, this has seen a significant lift in longer-term bond yields (valuations fell) as markets have reacted accordingly.

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

ISIN	Issuer	Rating	Capital Structure	Maturity Date	~Remain. Term (yrs)	Fixed Coupon	Indicative Yield
AU3CB0255776	ING	AAA	Covered	07/09/2023	0.68	3.00%	4.34%
AU3CB0258465	Westpac	AA-	Senior	16/11/2023	0.89	3.25%	4.26%
AU3CB0265403	Suncorp	AA-	Senior	30/07/2024	1.59	1.85%	4.76%
AU3CB0265593	Macquarie	A+	Senior	07/08/2024	1.63	1.75%	4.84%
AU3CB0265718	ING	AAA	Covered	20/08/2024	1.63	1.45%	4.67%
AU3CB0266179	ANZ	AA-	Senior	29/08/2024	1.67	1.55%	4.54%
AU3CB0266377	Bendigo	BBB+	Senior	06/09/2024	1.70	1.70%	4.80%
AU3CB0268027	BoQ	BBB+	Senior	30/10/2024	1.84	2.00%	4.97%
AU3CB0269710	ANZ	AA-	Senior	16/01/2025	2.06	1.65%	4.62%
AU3CB0269892	NAB	AA-	Senior	21/01/2025	2.06	1.65%	4.63%
AU3CB0270387	Macquarie	A+	Senior	12/02/2025	2.13	1.70%	4.98%
AU3CB0287415	Westpac	AA-	Senior	17/03/2025	2.22	2.70%	4.57%
AU3CB0291508	Westpac	AA-	Senior	11/08/2025	2.62	3.90%	4.63%
AU3CB0291672	CBA	AA-	Senior	18/08/2025	2.64	4.20%	4.63%
AU3CB0280030	BoQ	BBB+	Senior	06/05/2026	3.34	1.40%	5.37%
AU3CB0282358	ING	AAA	Covered	19/08/2026	3.64	1.10%	4.94%
AU3CB0284149	BoQ	BBB+	Senior	27/10/2026	3.83	2.10%	5.38%
AU3CB0286037	Westpac	AA-	Senior	25/01/2027	4.08	2.40%	4.93%

CFS Global Credit Income Fund

For the month of December, the CFS Global Credit Income Fund returned +0.61% (actual), outperforming the AusBond Bank Bill Index return of +0.25% (actual) and the AusBond Credit Index return of -0.62% (actual).

Over the past few years, the economic environment was being largely defined by first the pandemic shock and then later by the energy price shock resulting from the war in Ukraine. However currently, the outlook is increasingly defined by the aggressive stance by central banks to tame inflation. Markets continue to react to any potential 'pivot' as central banks target a 'soft' landing as they continue their hike cycle.

Although it has been a relatively volatile environment for credit over the past few years, it has been one of Council's best performing assets over the longer-term. The portfolio continues to accumulate high running-income in excess of the benchmark across all corporate and financial sectors. The Fund holds a diverse range of securities across the global credit market. It remains very well diversified by issuer in order to mitigate default risk. It invests in nearly 600 corporate bonds from issuers in various countries and industry sectors. Any spread contraction going forward allows credit and asset-backed holdings to enjoy significant capital gains.

With a running yield of ~4-4½% p.a., we recommend Council to retain this investment given the alternative investments in complying fixed interest products are largely earning below this rate of return.

__NSW T-CorpIM Growth Fund__

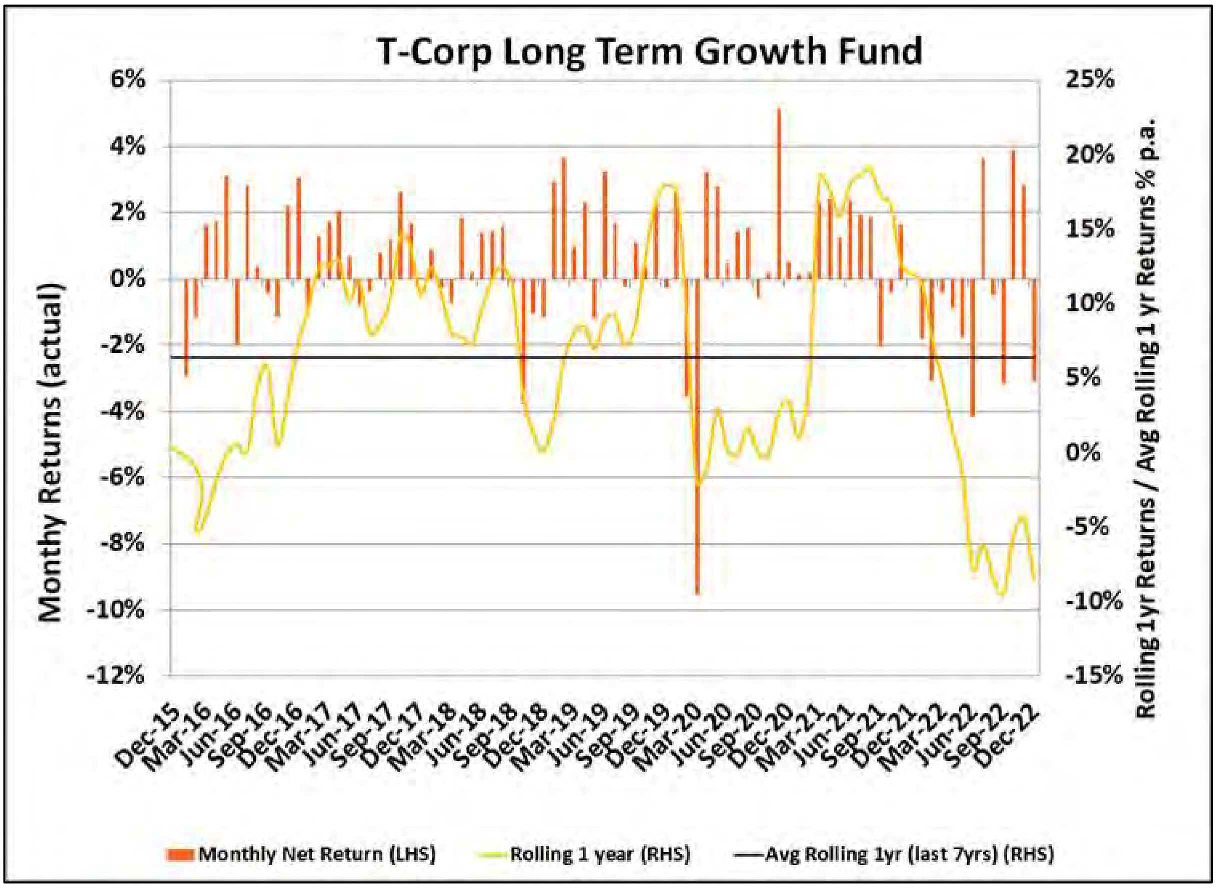
The Growth Fund returned -3.06% (actual) for the month of December. The falls this month were attributed to international shares (the MSCI World ex-Australia Index fell -4.39%) and domestic shares (the S&P ASX 200 Accumulation Index lost -3.21%). Also contributing to the losses was the exposure to fixed bonds (AusBond Composite Bond Index fell -2.06%).

The US Federal Reserve (Fed) recently raised its forecast of how long interest rates have to stay elevated to cool inflation that has been hurting businesses and threatening spending. The European Central Bank (ECB) also warned that more rate hikes are coming. Inflation is showing signs of easing, but at a relatively slow pace. The Fed's aggressive policy risks hitting the brakes on the economy too hard, while at the same time economic growth is already slowing because of pressure from inflation. That could result in a recession, which analysts expect in some form within 2023, though the severity and duration is difficult to forecast.

Overall, we remain cautious on the future performance of the T-Corp Growth Fund given the high volatility associated with a diversified growth fund, which generally allocates a range of 60%-80% in domestic and international shares. Investors are bracing for central banks to raise official rates more aggressively than previously anticipated to combat inflation driven by supply-chain bottlenecks, a global energy crunch and ongoing geopolitical risks.

The Fund should be looked at with a long-term view, with a minimum holding period of +7 years. Given the exposure to the volatile asset of shares, Council should expect to see, on average, a negative month once every 3 months over a long-term holding period.

Since Inception	T-Corp Long Term Fund
Negative Months	138 (~1 in 3 months)
Positive Months	264
Total Months	402 (33.5 yrs)
Average Monthly Return	+0.64% (actual)
Median Monthly Return	+1.02% (actual)
Lowest 1 year Rolling Return	-21.12% p.a. (Nov 2008)
Highest 1 year Rolling Return	+29.89% p.a. (Jan 1994)


T-Corp Long Term Growth Fund
Monthy Returns (actual)
Rolling 1yr Returns / Avg Rolling 1 yr Returns % p.a.
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
-12%
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%
Dec-15
Mar-16
Jun-16
Sep-16
Dec-16
Mar-17
Jun-17
Sep-17
Dec-17
Mar-18
Jun-18
Sep-18
Dec-18
Mar-19
Jun-19
Sep-19
Dec-19
Mar-20
Jun-20
Sep-20
Dec-20
Mar-21
Jun-21
Sep-21
Dec-21
Mar-22
Jun-22
Sep-22
Dec-22
Monthly Net Return (LHS)
Rolling 1 year (RHS)
Avg Rolling 1yr (last 7yrs) (RHS)

Economic Commentary

International Market

Recession fears gathered pace across financial markets in December after hawkish messaging by various global central banks. Hopes for a gentler US Federal Reserve faded amid stubbornly hot inflation with the central bank raising its forecast of how long interest rates have to stay elevated to cool inflation.

Across equity markets, the S&P 500 Index fell -5.90%, while the NASDAQ lost -8.73%. Europe's main indices also fell, led by France's CAC (-3.93%), Germany's DAX (-3.29%) and UK's FTSE (-1.60%).

The US Fed lifted the funds rate by 0.50% to a range between 4.25-4.50%, a level not seen since 2007. The 50bp increase was a downshift following four consecutive hikes of 75bp. The new dot plot revealed the majority of Fed officials now expect the Funds rate to end next year at 5.125% (5% to 5.25% range), 50bp higher relative to the median projection in September. Fed Chair Powell reiterated the message that policy will need to remain tight for "*some time*" in order to restore price stability.

US CPI came in at +0.1% m/m for November and +7.1% y/y, two tenths below expectations and the smallest increase since August 2021. Core CPI came in at +0.2% and +6.0% y/y, one tenth below consensus.

The Bank of England hiked by 50bp to 3.50%, as expected. UK GDP for October came in at +0.5% against the +0.4% consensus.

The ECB delivered the anticipated 50bp hike in the deposit rate to 2.0%, dialled down from 75bp at each of the previous two meetings. Inflation in the eurozone in the year to November fell for the first time in 17 months, easing to +10.0% from +10.6%.

The Bank of Canada increased official rates by 50bp to 4.25%, but signalled openness to pausing in January. Canada's employment growth matched expectations with +10k job growth but the unemployment rate fell to 5.1% (expectations for a rise to 5.3%), near its lowest levels since the 1970s.

The Bank of Japan somewhat took the market by surprise by the expansion of the tolerance band around its Yield Curve Control (YCC) target to +/-0.5% from +/-0.25%, something that Governor Kuroda has been suggesting was not under consideration, since it would, he said, be equivalent to a rate rise.

China's soundings around its Covid situation also aided markets, hinting towards a pro-growth strategy instead of their ongoing strict zero-Covid strategy.

The MSCI World ex-Aus Index fell -4.39% for the month of December:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	-5.90%	+7.08%	-19.44%	+5.92%	+7.51%	+10.41%
MSCI World ex-AUS	-4.39%	+9.30%	-19.67%	+3.41%	+446%	+7.09%
S&P ASX 200 Accum. Index	-3.21%	+9.40%	-1.08%	+5.55%	+7.11%	+8.66%

Source: S&P, MSCI

Domestic Market

As widely expected, the RBA raised the cash rate by 25bp for the third consecutive Board meeting in December to 3.10%. The important final paragraph again notes that "*the Board expects to increase interest rates further over the period ahead*", but importantly added "*it is not on a pre-set course*" and concludes with the reaffirmation "*the Board remains resolute in its determination to return inflation to target and will do what is necessary to achieve that*".

The RBA's December Board Meeting Minutes contained a mixture of positive and negative developments. On the less hawkish side, the RBA is growing more confident about easing global growth and lower goods price inflation as supply chain disruptions resolve, but on the more hawkish side, the Board notes the balance of risks on Australian wages growth had shifted to the upside.

Importantly and perhaps because of these mixed signals - the Board considered a wider range of options for policy at this meeting, including for the first time since interest rates were first increased in May, a pause in the rate rise cycle.

Australia's GDP rose by +0.6% q/q (+5.9% y/y) and continues to reflect a strong economy where GDP is now 6.5% above pre-pandemic levels – stronger than most major economies.

The unemployment rate for November was unchanged at 3.4%, as the participation rate rose 0.2% to 66.8%, returning to its record high.

October's trade data saw the trade surplus coming in at $12.2bn, just $0.2bn below the previous month.

Australian dwelling prices fell -1.0% m/m in November, the seventh consecutive month of decline. The residential auction clearance rate dipped to its lowest level in almost five months as homebuyers factored in the impact of another jump in interest rates.

The Australian dollar gained +1.15%, finishing the month at US67.75 cents (from US66.98 cents the previous month).

Credit Market

The global credit indices widened over December as financial markets lost some of their recent (positive) momentum. They are now back to their levels earlier this year:

Index	December 2022	November 2022
CDX North American 5yr CDS	86bp	77bp
iTraxx Europe 5yr CDS	98bp	92bp
iTraxx Australia 5yr CDS	91bp	91bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	December 2022	November 2022
Bloomberg AusBond Bank Bill Index (0+YR)	+0.25%	+0.25%
Bloomberg AusBond Composite Bond Index (0+YR)	-2.06%	+1.55%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.34%	+0.42%
Bloomberg AusBond Credit Index (0+YR)	-0.62%	+1.35%
Bloomberg AusBond Treasury Index (0+YR)	-2.37%	+1.43%
Bloomberg AusBond Inflation Gov't Index (0+YR)	-2.74%	+2.48%

Source: Bloomberg

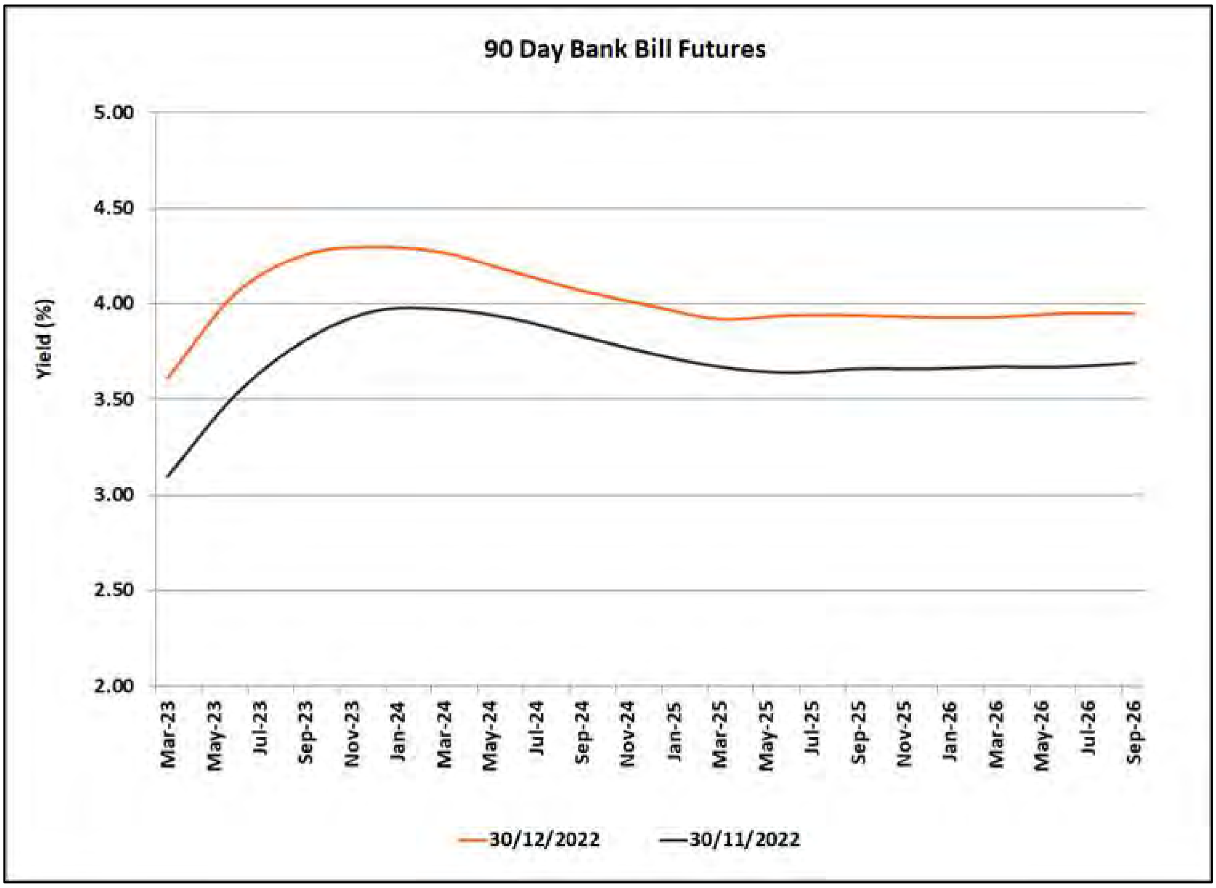
Other Key Rates

Index	December 2022	November 2022
RBA Official Cash Rate	3.10%	2.85%
90 Day (3 month) BBSW Rate	3.26%	3.09%
3yr Australian Government Bonds	3.51%	3.17%
10yr Australian Government Bonds	4.05%	3.53%
US Fed Funds Rate	4.25%-4.50%	3.75%-4.00%
3yr US Treasury Bonds	4.22%	4.13%
10yr US Treasury Bonds	3.88%	3.68%

Source: RBA, AFMA, US Department of Treasury

90 Day Bill Futures

Over December, bill futures rose across the board, with the market reacting to the US Fed's guidance about how long official rates are likely to remain elevated, erasing hopes of a potential drop in rates in 2023. The markets continue to factor in the possibility of a global recession over the next few years, highlighted by the drop in the futures pricing in early 2024:



Source: ASX

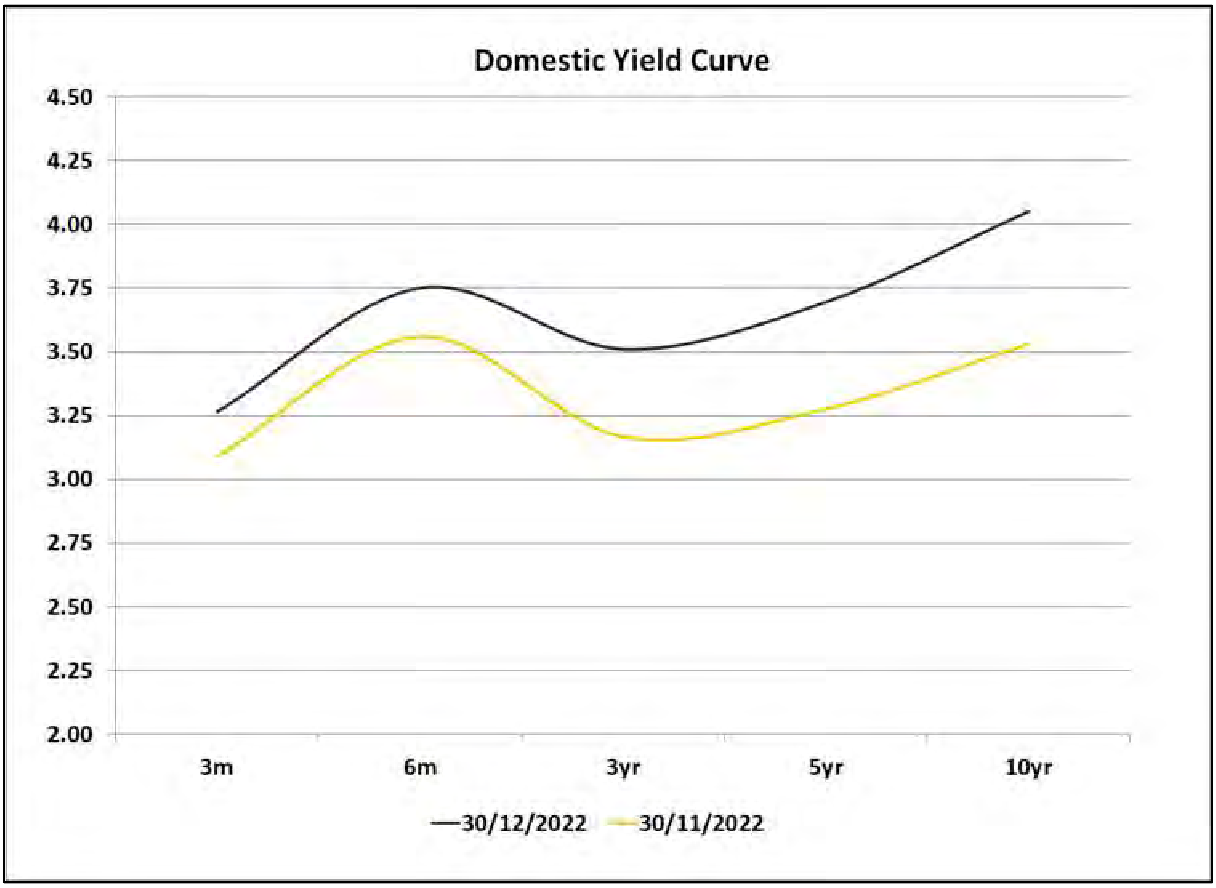
Fixed Interest Outlook

Markets have remained volatile as hopes for a gentler US Fed vanished amid stubbornly hot inflation. The central bank recently raised its forecast of how long interest rates have to stay elevated to cool inflation that has been hurting businesses and threatening spending. Markets are now factoring the peak of interest rate cycle in the US to be in the 5.25%-5.50% range (up from 5.00%-5.25%).

Domestically, the latest RBA minutes for the December meeting revealed the Board considered a wide range of options for policy, including a 50bp rate rise and, for the first time since interest rates were first increased in May, a pause in the rate rise cycle. The Board concluded that the arguments for the three different courses of action (no change, +25bp or +50bp) were strongest for increasing the Cash Rate by a further 25bp. The very fact that a pause in the rate rise cycle entered the RBA's thinking in December suggest that one may not be too far off.

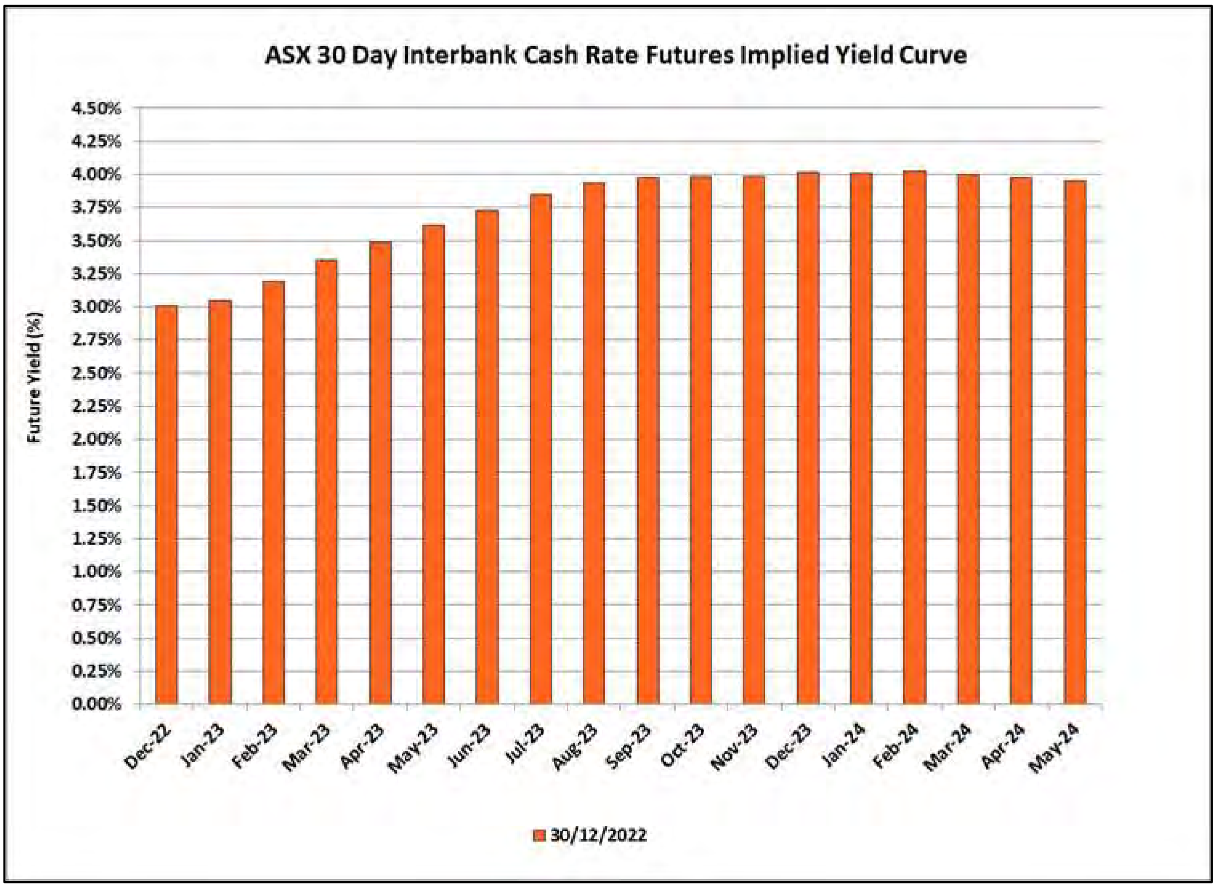
The RBA continues to signal that it expects to increase interest rates further over the period ahead, with an additional two to three 25bp hikes already largely priced into the market by Q2 2023, taking the cash rate up to 3.60%-3.85%. Thereafter, noting the lags in monetary policy, a pause around the end of Q1 or in Q2 is likely whilst the RBA monitors the economic data.

Over the month, yields rose up to 50bp at the long-end of the curve:



Source: AFMA, ASX, RBA

Markets are currently pricing in around 4 additional rate rises into 2023 (up to 4%). Fears of a looming global recession have actually seen rate cuts start to be priced in towards the start of 2024, although this seems unlikely for now.



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 (pro-rated for the term of investment) of the value of the investments transacted.