CITY OF PARRAMATTA

Monthly Investment Report

June 2023

IMPERIUM MARKETS

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Summary

Quick Market Update

Financial markets were aided in June on hopes that global central banks may be approaching the peak of their interest rate hike cycle, with several signalling a pause may be appropriate for the foreseeable future. Globally amongst central banks, there has been a focus on services inflation, and on a forward looking basis, a need for firms to shift to absorbing rising labour costs in margins as demand slows.

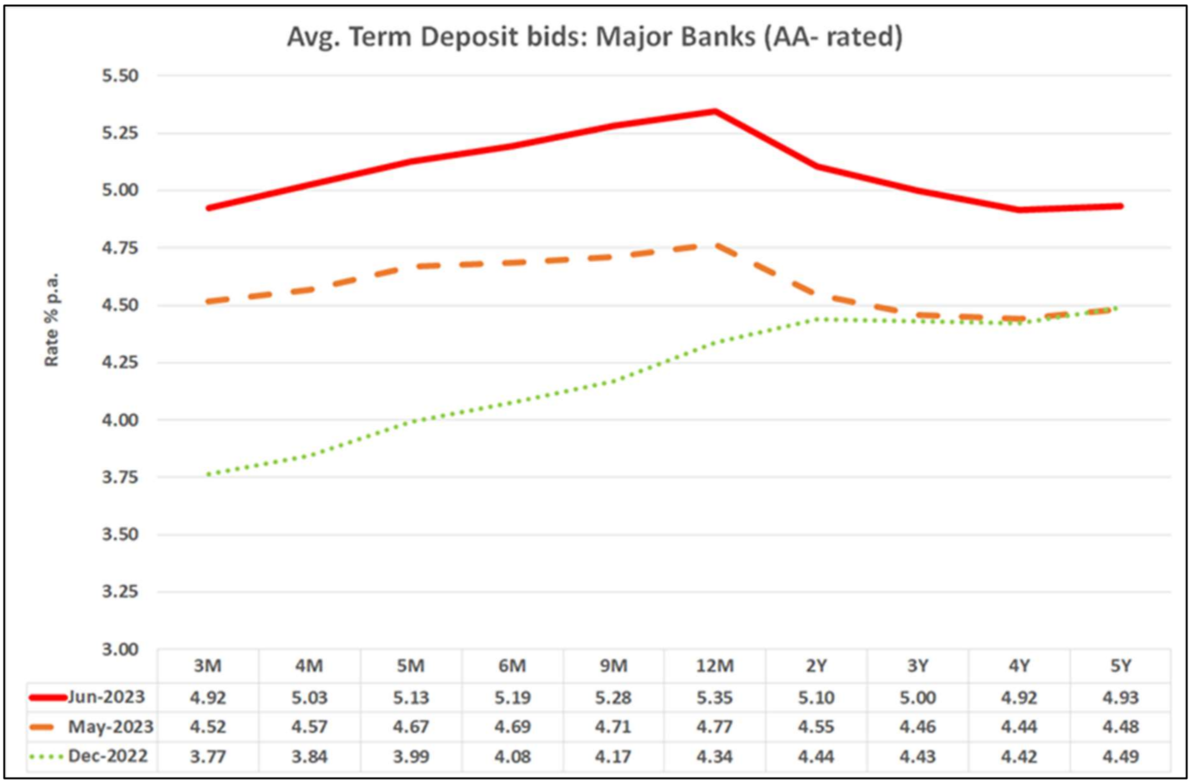
Domestically, the RBA's recent decisions to increase interest rates after the pause in April have been centred around an assessment of upside risks to inflation from sticky services inflation and shifts in wage and price setting behaviour. The RBA's bias argues towards a hike in July, though their April instinct to pause in anticipation of a full forecast update makes July's meeting less certain.

Term Deposits

Term Deposits (fixed and floating) account for around 68% of the total investment portfolio at month-end. Council's term deposit portfolio was yielding 3.39% p.a. at month-end, with a weighted average duration of around 295 days or ~10 months. We note the following:

- The highest deposit rate from any rated ADI in the market is now ~5.75% p.a. for years;
- The highest deposit rates amongst the "AA-" rated ADIs (major banks) is now yielding between 5.45%-5.55% p.a. (depending on terms between 6m – 5 years);
- The highest deposit rates amongst the "A" rated ADIs was yielding between 5.50%-5.65% p.a. (depending on terms between 6m – 5 years);
- The highest deposit rates amongst the "BBB" rated ADIs was yielding between 5.50% 5.75% p.a. (depending on terms between 6m – 5 years)

Deposit rates rose around ~50bp across the short-end of the curve (3-12 months) over June, following the RBA's decision to hike earlier in the month, whilst flagging further rate hikes may be required. In absolute headline terms, deposits offered by the major banks continue to be lower in the long-end (2 5 year rates) compared to the shorter-end (6-12 month rates), reflective of the major banks belief that interest rate cuts may be delivered in future years once inflation has peaked and is under control:



Source: Imperium Markets

'New' investments close to or above 5¼-5½% p.a. is currently available if Council can place a proportion of funds between 12 months to 3 years. With recessionary fears being priced in coming years, investors may take an 'insurance policy' against future rate cuts by investing across 3-5 year fixed deposits and locking in rates above or close to 5½% p.a. (small allocation only), although this is primarily being offered by the lower rated ("BBB") ADIs.

Senior FRNs

Council's senior floating rate notes (FRNs) make up around 8% of the total investment portfolio at month-end. The market valuation of Council's FRNs collectively rose around **+0.01% (actual)** in June 2023 (**or +$4,944 in dollar terms**).

Summary	31 May 2023	30 June 2023	Net Flow ($)	Monthly Change %
Face Value	$38,900,000	$40,100,000	$1,200,00	+3.08%
Market Value	$38,999,658	$40,204,602	+$4,944	+0.01%

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 +$111,656** *(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 rose around +**$2,774 in dollar terms or +0.02% (actual)** for the month:

Summary	31 May 2023	30 June 2023	Net Flow ($)	Monthly Change %
Face Value	$12,050,000	$12,050,000	$0	+0.00%
Market Value	$12,064,099	$12,066,873	+$2,774	+0.02%

At month-end, Council's "BBB" rated FRNs are now marked at an **unrealised capital gain of ~$16,977**.

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 2.23 years.

We believe these investments were sensible at the time of investment 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 ~6% of Council's total investment portfolio. **The Fund returned +1.92% (actual) during June**. Both domestic and international shares performed well to end the financial year, boosting overall returns of the Fund.

Summary	31 May 2023	30 Jun 2023	Investment ($)	Net Return ($)	Net Return (%)
Market Value	$29,711,818	$30,280,970	$0	+$569,152	+1.92%

Asset markets remain firmly focused on the trend that inflation appears to only be falling slowly, labour markets remain resilient and while the US Federal Reserve may prefer to hold policy, the data may yet force another rate hike.

On the macroeconomic outlook, the supply recovery continues on a slow, steady, sustainable path; and while demand has decelerated it has not turned into a significant force. A key dilemma for central banks and markets is the fact that monetary policy works with long and variable lags, and this has been the fastest and largest tightening cycle for several decades. In addition, yield curve inversion analysis had been pointing to late 2023 for recession.

This highlights a key debate on the outlook - should focus be on leading or lagging indicators? Employment, inflation and wages are all lagging reflections of the economic cycle. Spending data and forward guidance are leading indicators. For the consumer, despite higher nominal wages, spending has remained constrained in real terms as the scars of the supply shocks has increased prices. Thus, with the positive impulse from government cash handouts dissipating and concurrent monetary tightening grinding, the overall impact the market largely still sees is a recession as a base case outlook for late 2023.

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 3% of Council's total investment portfolio. **The Fund returned +0.95% (actual) in June**, as the market valuation of the fund's assets in global credit securities increased during the month.

Summary	31 May 2023	30 June 2023	Difference ($)	Difference (%)
Market Value	$14,522,449	$14,659,854	+$137,406	+0.95%

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 +5-5½% p.a., we recommend Council retains this "grandfathered" Fund given the alternative to invest in cash and deposits (Council's approval list) are yielding slightly lower.

Cash Accounts

Cash accounts make up around 8½% 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 4.25% p.a. at current yields, but likely higher if the RBA continues to increase 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 $13.221m. Based on an average total investment portfolio size of around $500m, that equates to a budgeted yield of around 2.64% for the current financial year.

For the financial year ending June 2023, the cumulative interest revenue earned was roughly $2.290m above the revised budgeted income. In the upcoming financial year, we exercise caution given the volatility from the TCorp Long-Term Growth Fund during any month.

Month-End	Cumulative Budget	Cumulative Investment Revenue	Difference ($)
Jul 2022	$1,101,748	$1,966,804	$865,056
Aug 2022	$2,203,497	$2,695,126	$491,629
Sep 2022	$3,305,245	$2,607,147	-$698,098
Oct 2022	$4,406,993	$4,706,137	$299,144
Nov 2022	$5,508,742	$6,578,791	$1,070,049
Dec 2022	$6,610,490	$6,767,315	$156,825
Jan 2023	$7,712,238	$8,210,705	$498,467
Feb 2023	$8,813,987	$8,921,298	$107,311
Mar 2023	$9,915,735	$10,362,481	$446,746
Apr 2023	$11,017,483	$12,569,604	$1,552,121
May 2023	$12,119,232	$13,615,571	$1,496,340
Jun 2023	$13,220,980	$15,510,783	$2,289,803

We remain cautious given that risks remain to the downside, particularly if there is another selloff in equities and/or bonds as the market factors in a global recession in 2024.

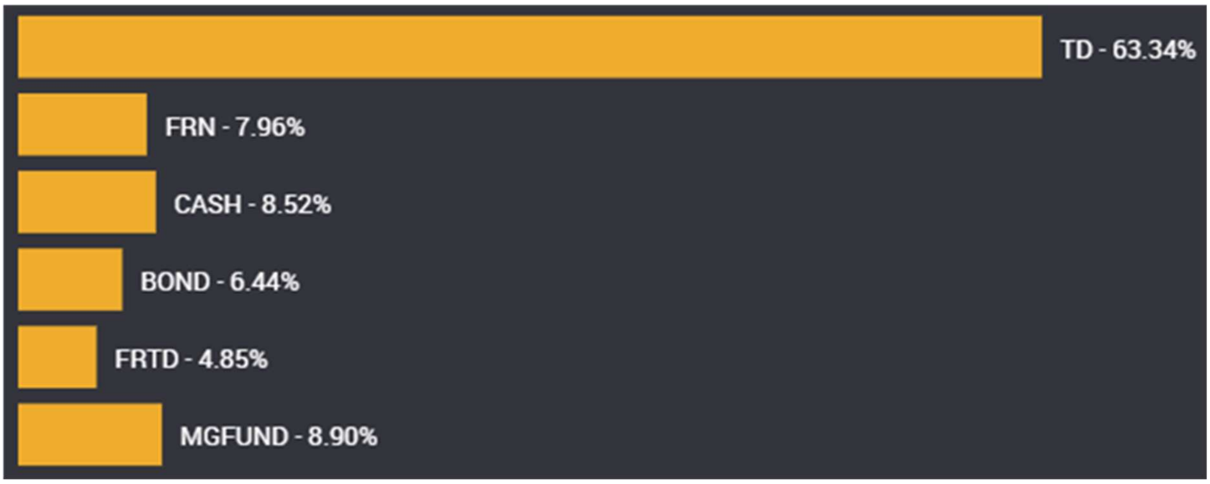
Council's Portfolio & Compliance

Asset Allocation

As at the end of June 2023, the portfolio was mainly directed to fixed and floating rate term deposits (68%). The remaining portfolio is directed to FRNs (8%), overnight cash accounts (8½%), bonds (6½%), and the managed funds with CFS Global Credit Income Fund and NSW T-Corp Long Term Growth Fund (9%, combined).

Senior FRNs remain relatively attractive as spreads have generally widened over the past 12-18 months – new issuances should now be considered again on a case by case scenario. In the interim, staggering a mix of fixed deposits between 9-12 months to 2 years remains a more optimal strategy to maximise returns over a longer-term cycle.

With recessionary fears being priced in coming years, investors can choose to allocate a small proportion of longer-term funds and undertake an insurance policy against any potential future rate cuts by investing across 3-5 year fixed deposits, locking in and targeting yields close to or above 5½% p.a. (mainly available from the regional banks).



Term to Maturity

Overall, the portfolio remains well diversified from a maturity perspective with around 15% 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 1-3 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	$327,941,129	64.92%	20%	100%	$177,225,014
✓	1 – 2 years	$73,368,923	14.52%	0%	70%	$280,247,378
✓	2 – 5 years	$73,575,121	14.57%	0%	50%	$229,524,565
✓	5 – 10 years	$30,280,970	5.99%	0%	25%	$45,493,951
		$505,166,144	**100.00%**			

Counterparty

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	BoQ Covered	AAA	$903,379	0.18%	50.00%	$251,679,693
✓	Bendigo Covered	AAA	$5,208,521	1.03%	50.00%	$247,374,551
✓	Suncorp Covered	AAA	$529,588	0.10%	50.00%	$252,053,484
✓	ING Covered	AAA	$1,506,205	0.30%	50.00%	$251,076,867
✓	ANZ	AA-	$5,558,475	1.10%	40.00%	$196,507,983
✓	CBA	AA-	$22,389,900	4.43%	40.00%	$179,676,557
✓	NAB	AA-	$115,083,782	22.78%	40.00%	$86,982,676
✓	Northern Territory	AA-	$32,000,000	6.33%	40.00%	$170,066,457
✓	Westpac	AA-	$24,500,000	4.85%	40.00%	$177,566,457
✓	Citibank NA	A+	$999,591	0.20%	25.00%	$125,291,944
✓	Macquarie	A+	$29,152	0.01%	25.00%	$126,262,384
✓	Suncorp	A+	$12,500,219	2.47%	25.00%	$113,791,317
✓	UBS AG	A+	$3,235,849	0.64%	25.00%	$123,055,687
✓	CFS Global CI	A	$14,659,854	2.90%	25.00%	$111,631,682
✓	ICBC	A	$89,548,318	17.73%	25.00%	$36,743,218
✓	Aus. Military Bank	BBB+	$8,000,000	1.58%	15.00%	$67,774,922
✓	Aus. Unity Bank	BBB+	$9,000,000	1.78%	15.00%	$66,774,922
✓	BankVIC	BBB+	$5,000,000	0.99%	15.00%	$70,774,922
✓	Bank of Us	BBB+	$15,000,000	2.97%	15.00%	$60,774,922
✓	BoQ	BBB+	$10,501,019	2.08%	15.00%	$65,273,902
✓	Bendigo-Adelaide	BBB+	$4,858,035	0.96%	15.00%	$70,916,887
✓	Hume Bank	BBB+	$4,500,000	0.89%	15.00%	$71,274,922
✓	QT Mutual Bank	BBB+	$995,007	0.20%	15.00%	$74,779,915
✓	AMP Bank	BBB	$10,165,468	2.01%	15.00%	$65,609,453
✓	Auswide Bank	BBB	$6,000,000	1.19%	15.00%	$69,774,922
✓	Bank Australia	BBB	$2,710,479	0.54%	15.00%	$73,064,443
✓	CUA	BBB	$2,502,334	0.50%	15.00%	$73,272,588
✓	MyState	BBB	$5,000,000	0.99%	15.00%	$70,774,922
✓	P&N Bank	BBB	$11,000,000	2.18%	15.00%	$64,774,922
✓	Police Bank	BBB	$3,000,000	0.59%	15.00%	$72,774,922
✓	Judo Bank	BBB-	$23,000,000	4.55%	15.00%	$52,774,922
✓	The Mutual	BBB-	$6,000,000	1.19%	15.00%	$69,774,922

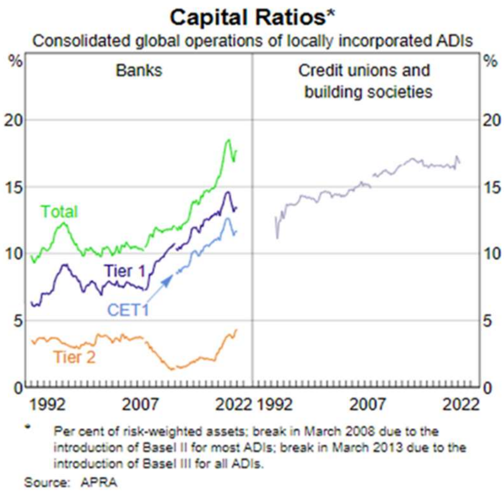
Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	Bank of Sydney	Unrated	$5,000,000	0.99%	0.99%	$0
✓	Summerland CU	Unrated	$5,000,000	0.99%	0.99%	$0
✓	Transport CU	Unrated	$2,000,000	0.40%	0.99%	$3,000,000
✓	Unity Bank	Unrated	$5,000,000	0.99%	0.99%	$0
✓	Warwick CU	Unrated	$2,000,000	0.40%	0.99%	$3,000,000
✓	TCorpIM LTG	Unrated	$30,280,970	5.99%	10.00%	$20,235,644
			$505,166,144	**100.00%**		

As at the end of June 2023, 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.

We remain supportive of the regional and unrated ADI sector (and have been even throughout the post-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. 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). The financial regulator, APRA has 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*"**



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	**$342,411,565**	**67.78%**
Australia	$342,411,565	67.78%
Branches of Foreign Bank	**$117,284,167**	**23.22%**
China	$89,548,318	17.73%
Switzerland	$3,235,849	0.64%
United States	$24,500,000	4.85%
Foreign Subsidiary Banks	**$529,588**	**0.10%**
Netherlands	$529,588	0.10%
Global^	**$44,940,825**	**8.90%**
International	$44,940,825	8.90%
Total	**$505,166,144**	**100.00%**

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 68% of Council's total investment portfolio is placed with domestic ADIs, while the remaining 32% 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), 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 30/06/2023 ($504.16m), we can roughly estimate that ~53% of the investments have some form of exposure.

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
Aus Military Bank	BBB+	No
Aus Unity Bank	BBB+	No
BOQ	BBB+	Yes
Bank of Us	BBB+	No
BankVIC	BBB+	No
Bendigo-Adelaide	BBB+	No
Hume Bank	BBB+	No
QT Mutual Bank	BBB+	No
AMP Bank	BBB	Yes
Auswide Bank	BBB	No
Bank Australia	BBB	No
CUA	BBB	No
MyState	BBB	No
P&N Bank	BBB	No
Police Bank	BBB	No
Judo Bank	BBB-	No
The Mutual Bank	BBB-	No
Bank of Sydney	Unrated	No
Summerland CU	Unrated	No
Transport Mutual CU	Unrated	No
Unity Bank	Unrated	No
Warwick CU	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	$267,601,179	53%
No	$237,564,965	47%
	$505,166,144	**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, all aggregate ratings categories are currently within the Policy limits:

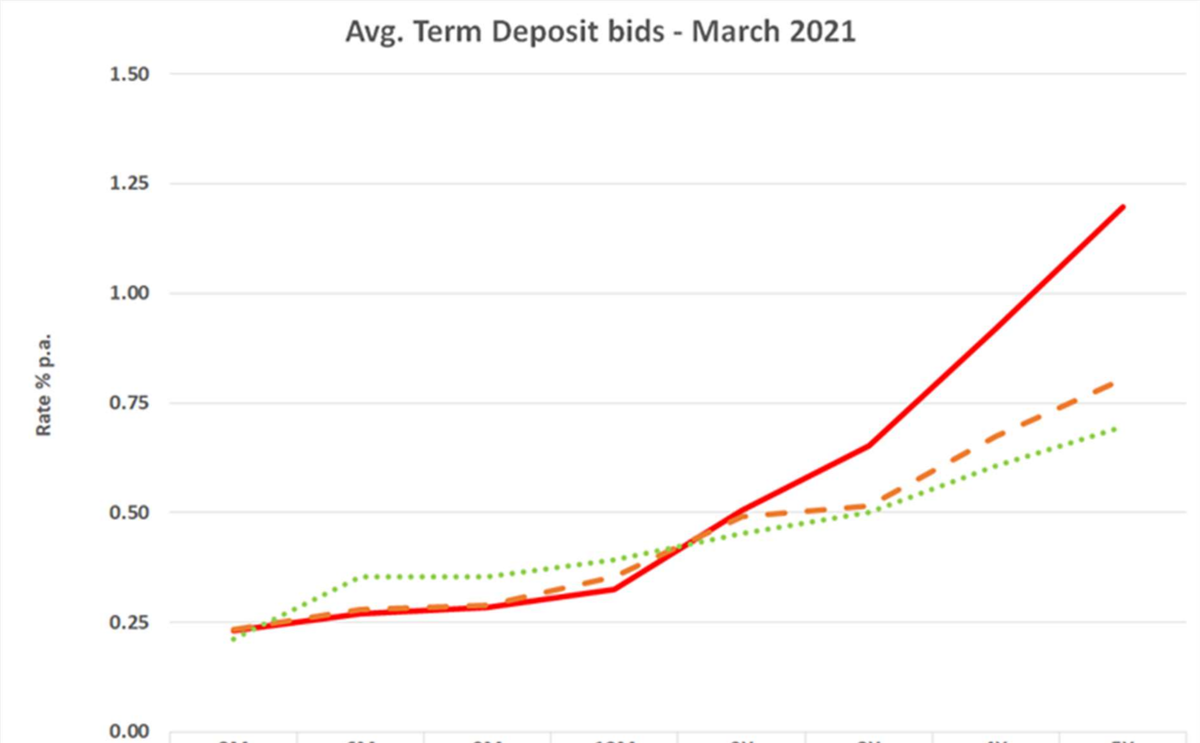
Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AAA Category	$8,147,692	2%	100%	$497,018,451
✓	AA Range or Major Banks	$199,532,157	39%	100%	$305,633,987
✓	A Category	$120,972,983	24%	80%	$283,159,932
✓	BBB Category	$127,232,341	25%	30%	$24,317,502
✓	Unrated ADI Category	$19,000,000	4%	10%	$31,516,614
✓	TCorpIM Funds	$30,280,970	6%	25%	$96,010,565
		$505,166,144	**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 three years.

[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

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



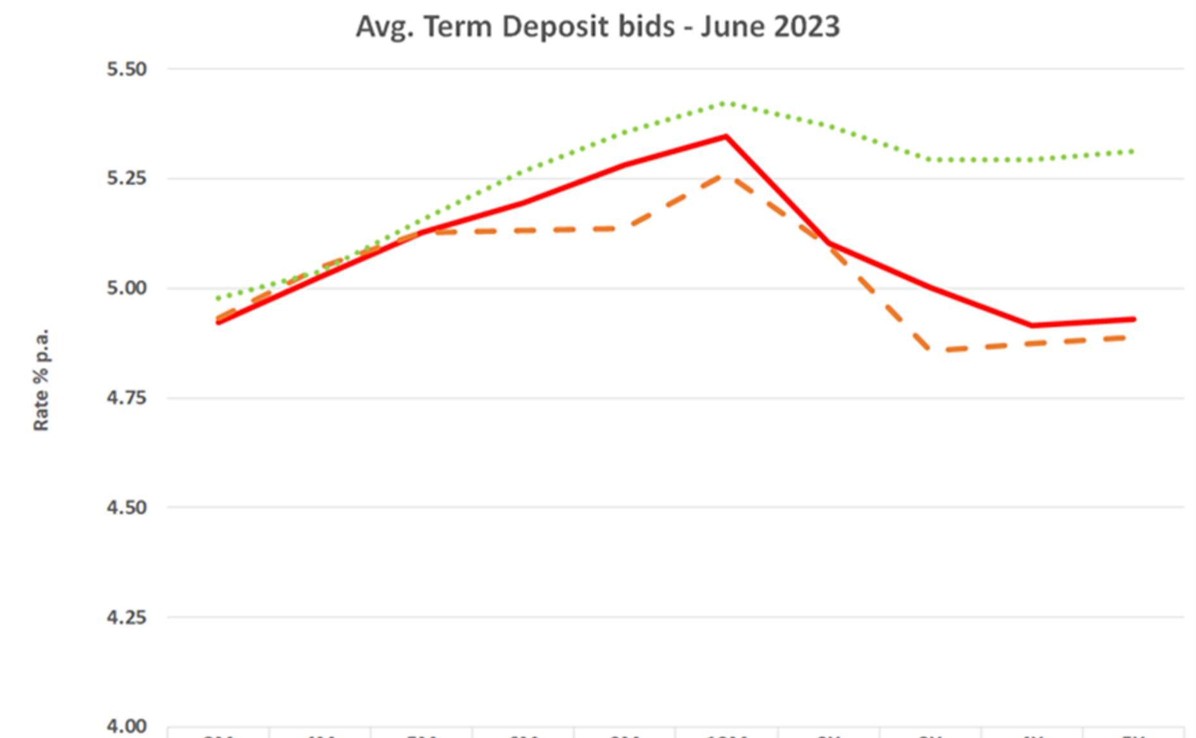
	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	0.23	0.27	0.29	0.33	0.51	0.65	0.92	1.20
A Rated	0.23	0.28	0.29	0.35	0.49	0.52	0.68	0.81
BBB Rated	0.21	0.36	0.35	0.39	0.45	0.50	0.61	0.70

Source: Imperium Markets

The abnormal marketplace experienced during the pandemic is starting to reverse as the competition for deposits increases. We are now starting to see some of the lower rated ADIs ("BBB" rated) offering slightly higher rates compared to the higher rated banks ("A" or "AA" rated) on different parts of the curve (i.e. pre-pandemic environment). Some of this has been attributed to lags in adjusting their deposit rates as some banks (mainly the lower rated ADIs) simply set their rates for the week.

Going forward, Council should have a larger opportunity to invest a higher proportion of its funds with the lower rated institutions (up to Policy limits), from which the majority are not lending to the Fossil Fuel industry. We are slowly seeing this trend emerge, as has been the case over the past month again:

Term Deposit Rates – Currently (June 2023)



	3M	4M	5M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	4.92	5.03	5.13	5.19	5.28	5.35	5.10	5.00	4.92	4.93
A Rated	4.93	5.05	5.13	5.13	5.14	5.26	5.10	4.86	4.87	4.89
BBB Rated	4.98	5.04	5.16	5.27	5.36	5.42	5.37	5.29	5.29	5.31

Source: Imperium Markets

Performance

Council's performance (actual returns) for the month ending June 2023 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	0.33%	0.95%	1.77%	2.97%	2.97%	1.56%	1.09%
AusBond Bank Bill Index	0.30%	0.90%	1.70%	2.89%	2.89%	1.48%	1.01%
PCC Internal Benchmark*	0.44%	1.15%	2.42%	4.17%	4.17%	2.08%	1.90%
PCC Cash Portfolio	0.35%	1.01%	1.89%	3.19%	3.19%	1.81%	1.42%
PCC T/D Portfolio	0.25%	0.69%	1.28%	2.41%	2.41%	1.87%	1.75%
PCC FRN Portfolio	0.41%	1.21%	2.32%	4.14%	4.14%	2.83%	2.45%
PCC Bond Portfolio	0.09%	0.28%	0.55%	1.11%	1.11%	1.09%	-
PCC Credit Fund	0.95%	1.63%	2.99%	6.71%	6.71%	0.95%	2.41%
PCC TCorp Growth Fund	1.92%	2.83%	7.28%	10.97%	10.97%	1.16%	6.45%
PCC's Total Portfolio	**0.38%**	**1.05%**	**1.87%**	**3.15%**	**3.15%**	**1.78%**	**1.87%**
Rel. Perf. (BBI)	**0.08%**	**0.15%**	**0.17%**	**0.26%**	**0.26%**	**0.30%**	**0.86%**
Rel. Perf. (Int. Bench.)	**-0.06%**	**-0.10%**	**-0.55%**	**-1.02%**	**-1.02%**	**-0.30%**	**-0.03%**

**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 June, the total investment portfolio (including cash) provided a return of +0.38% (actual) or +4.76% p.a. (annualised), outperforming the AusBond Bank Bill Index return of +0.30% (actual) or +3.72% p.a. (annualised), whilst underperforming Council's internal benchmark return of +0.44% (actual) or +5.49% p.a. (annualised).

The longer-term outperformance continues to be anchored by the handful of longer-dated deposits, 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 ahead of fixed term deposits over 1-3 year time periods.

The annualised returns as of June 2023 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	4.10%	3.85%	3.60%	2.97%	2.97%	1.56%	1.09%
AusBond Bank Bill Index	3.72%	3.67%	3.46%	2.89%	2.89%	1.48%	1.01%
PCC Internal Benchmark*	5.49%	4.71%	4.94%	4.17%	4.17%	2.08%	1.90%
PCC Cash Portfolio	4.35%	4.10%	3.85%	3.19%	3.19%	1.81%	1.42%
PCC T/D Portfolio	3.09%	2.80%	2.60%	2.41%	2.41%	1.87%	1.75%
PCC FRN Portfolio	5.07%	4.96%	4.74%	4.14%	4.14%	2.83%	2.45%
PCC Bond Portfolio	1.11%	1.11%	1.11%	1.11%	1.11%	1.09%	-
PCC Credit Fund	12.14%	6.71%	6.13%	6.71%	6.71%	0.95%	2.41%
PCC TCorp Growth Fund	25.97%	11.84%	15.23%	10.97%	10.97%	1.16%	6.45%
PCC's Total Portfolio	**4.76%**	**4.29%**	**3.80%**	**3.15%**	**3.15%**	**1.78%**	**1.87%**
Rel. Perf. (BBI)	**1.04%**	**0.62%**	**0.34%**	**0.26%**	**0.26%**	**0.30%**	**0.86%**
Rel. Perf. (Int. Bench.)	**-0.73%**	**-0.42%**	**-1.14%**	**-1.02%**	**-1.02%**	**-0.30%**	**-0.03%**

Council's Term Deposit Portfolio & Recommendation

As at the end of June 2023, Council's deposit portfolio was yielding **3.39% p.a.** (up 57bp from the previous month), with a weighted average duration of around 295 days (~10 months).

Over a longer-term cycle, investors are rewarded if they can continue to maintain a slightly longer average duration. In a 'normal' marketplace, yields at the long-end are generally offered at a slight premium over shorter tenors.

At the time of writing, we see value in:

ADI	LT Credit Rating	Term	T/D Rate
P&N Bank	BBB	5 years	5.75% p.a.
P&N Bank	BBB	4 years	5.75% p.a.
P&N Bank	BBB	3 years	5.75% p.a.
P&N Bank	BBB	2 years	5.70% p.a.
AMP Bank	BBB	2-3 years	5.55% p.a.^
ING	A	2 years	5.55% p.a.
BoQ	BBB+	2 years	5.50% p.a.
Suncorp	A+	2 years	5.40% p.a.
Australian Unity	BBB+	2 years	5.40% p.a.
Bendigo-Adelaide	BBB+	2 years	5.30% p.a.
Westpac	AA-	2 years	5.28% p.a.
NAB	AA-	2 years	5.25% p.a.

^Contact us to get an additional 20bp rebated commission. Aggregate limits temporarily lifted to $10m (from $5m).

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

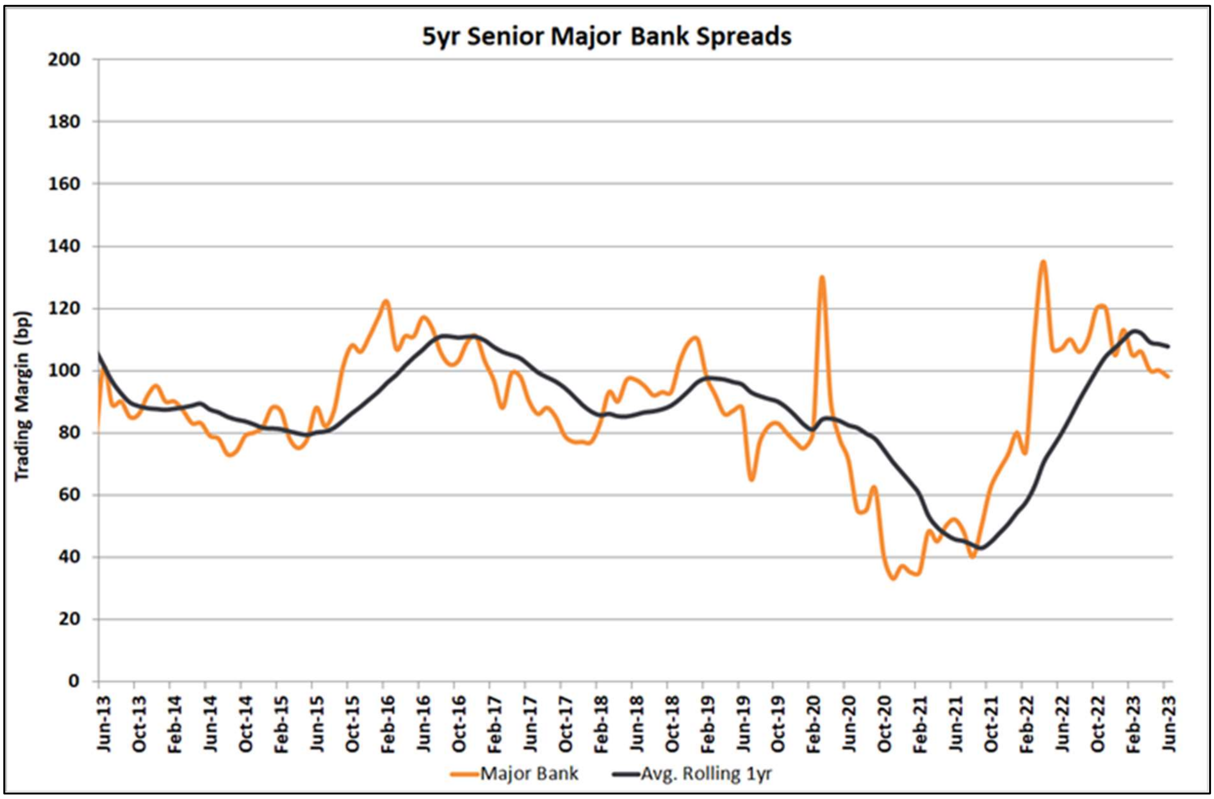
ADI	LT Credit Rating	Term	T/D Rate
P&N Bank	BBB	12 months	5.70% p.a.
AMP Bank	BBB	11-12 months	5.70% p.a.^
Hume Bank	BBB+	6 & 12 months	5.65% p.a.
ING	A	12 months	5.62% p.a.
AMP Bank	BBB	6-7 months	5.60% p.a.^
BoQ	BBB+	12 months	5.60% p.a.
MyState	BBB	12 months	5.60% p.a.
NAB	AA-	12 months	5.55% p.a.
CBA	AA-	12 months	5.55% p.a.
Suncorp	A+	6 months	5.50% p.a.
BoQ	BBB+	7 months	5.50% p.a.
NAB	AA-	6-9 months	5.45% p.a.
Westpac	AA-	12 months	5.43% p.a.
Bendigo-Adelaide	BBB+	12 months	5.40% p.a.
NAB	AA-	3 months	5.10% p.a.

^Contact us to get an additional 20bp rebated commission. Aggregate limits temporarily lifted to $10m (from $5m).

If Council does not require high levels of liquidity and can stagger a proportion of its investments across the longer term horizons (1-5 years), it will be rewarded over a longer-term cycle. Investing a spread of 12 months to 3 year horizons is likely to yield, on average, up to ¼-½% p.a. higher compared to those investors that entirely invest in short-dated deposits (under 6-9 months).

Senior FRNs Review

Over June, amongst the senior major bank FRNs, physical credit securities tightened by around 1-2bp at the long-end of the curve. Major bank senior securities remain fairly attractive again in the rising rate environment (5 year margins around the +95-100bp level):



Source: IBS Capital

During the month, there were primary (new) issuance from:

- 5yr Bendigo (AAA) covered FRN at +115bp
- 1yr IMB (BBB) senior FRN at +95bp
- 3yr AMP (BBB) senior FRN at +165bp
- 3yr RBC (AAA) covered FRN at +73bp

Amongst the “A” and “BBB” rated sector, the securities were marked around 5bp tighter at the long-end of the curve.

Credit securities are looking much more attractive given the widening of spreads over the past 12-18 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 future years (in a relatively stable credit environment).

Senior FRNs (ADIs)	30/06/2023	31/05/2023
"AA" rated – 5yrs	+98bp	+100bp
"AA" rated – 3yrs	+75bp	+76bp
"A" rated – 5yrs	+120bp	+125bp
"A" rated – 3yrs	+100bp	+100bp
"BBB" rated – 3yrs	+130bp	+135bp

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-2025 for the "AA" rated ADIs (domestic major banks)**;
- On or before mid-2024 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) are now generally holding sub-optimal investments and are not maximising returns by foregoing, potentially significant 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 over the past year, we now recommend Council retains the majority of its FRN portfolio at this stage. We now recommend switching out of the following FRNs at the next best opportunity, most likely into a new attractive primary issuance:

Issuer	Rating	Maturity Date	ISIN	Face Value	Trading Margin	Capital Price ($)	~Unrealised Gain ($)
NAB	AA-	21/01/2025	AU3FN0052510	$2,000,000	+53.0bp	$100.288	$5,754
NAB	AA-	30/05/2025	AU3FN0069373	$2,000,000	+60.0bp	$100.450	$7,644
Suncorp	A+	30/07/2024	AU3FN0049144	$2,000,000	+69.0bp	$100.009	$7,169

We will inform Council when there is an opportunity to sell out of any future sub-optimal FRNs 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. The previous financial year's sales amounted to $333k – given the turn in the market over the past few years, these sales would not have been undertaken unless Council was actively managing its portfolio prudently.

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%	0.46	Annually
24/11/2020	16/12/2024	$1,000,000	0.90%	1.47	Annually
16/02/2021	16/06/2025	$1,000,000	0.90%	1.96	Annually
16/02/2021	15/06/2026	$5,000,000	1.00%	2.96	Annually
12/05/2021	17/06/2024	$3,000,000	0.80%	0.97	Annually
12/05/2021	16/06/2025	$3,000,000	1.10%	1.96	Annually
12/05/2021	15/06/2026	$3,000,000	1.30%	2.96	Annually
20/05/2021	16/06/2025	$3,500,000	1.10%	1.96	Annually
09/09/2021	16/12/2024	$2,500,000	0.90%	1.47	Semi-Annually
09/09/2021	15/12/2026	$5,000,000	1.40%	3.46	Semi-Annually
	Totals / Wgt. Avg.	**$29,000,000**	**1.09%**	**2.23 yrs**	

At the time of investment, these investments were relatively attractive especially after the rate cut delivered in early November 2020 to 0.10% 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 over the past 12 months, 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%	5.20%	-$68,666

Senior Fixed Bonds – ADIs (Secondary Market)

As global inflationary pressures remain, this has seen a significant lift in longer-term bond yields over the past 12-18 months (valuations fallen) as markets have reacted sharply.

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

ISIN	Issuer	Rating	Capital Structure	Maturity Date	~Remain. Term (yrs)	Fixed Coupon	Indicative Yield
AU3CB0265403	Suncorp	A+	Senior	30/07/2024	1.09	1.85%	5.24%
AU3CB0266377	Bendigo	BBB+	Senior	06/09/2024	1.19	1.70%	5.42%
AU3CB0268027	BoQ	BBB+	Senior	30/10/2024	1.34	2.00%	5.53%
AU3CB0287498	Bendigo	BBB+	Senior	17/03/2025	1.72	3.00%	5.44%
AU3CB0293967	Bendigo	AAA	Covered	11/11/2025	2.37	5.10%	5.34%
AU3CB0280030	BoQ	BBB+	Senior	06/05/2026	2.85	1.40%	5.58%
AU3CB0282358	ING	AAA	Covered	19/08/2026	3.14	1.10%	5.09%
AU3CB0284149	BoQ	BBB+	Senior	27/10/2026	3.33	2.10%	5.62%

CFS Global Credit Income Fund

For the month of June, the CFS Global Credit Income Fund returned +0.95% (actual), outperforming the AusBond Bank Bill Index return of +0.30% (actual), while outperforming the AusBond Credit Index return of -1.08% (actual).

Inflation has seemingly started to turn lower, however it remains well above target which has induced central banks to tighten further. The overwhelming consensus suggests that US central bank policy is already in over-tightening mode, and historically when this occurs something breaks – the recent US regional bank turmoil is a good example. As such, credit markets as with most risk assets remain in a period of uncertainty as we head into the new financial year.

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 ~5-5½% 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 +1.92% (actual) for the month of June. Domestic shares (S&P ASX 200 Accumulation Index +1.76%) and international shares (MSCI World ex-Australia +5.95%) were the main contributors to performance this month.

Asset markets remain firmly focused on the trend that inflation appears to only be falling slowly, labour markets remain resilient and while the US Federal Reserve may prefer to hold policy, the data may yet force another rate hike.

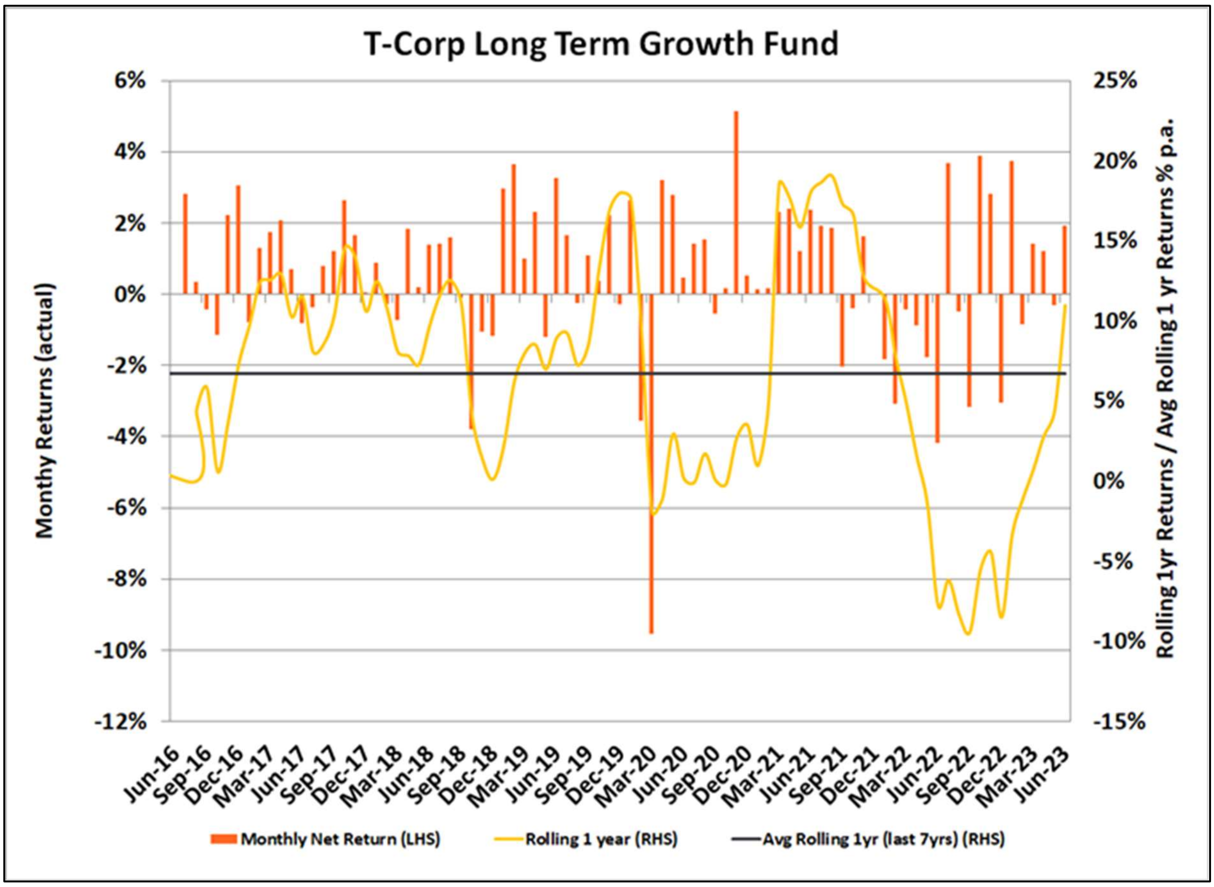
On the macroeconomic outlook, the supply recovery continues on a slow, steady, sustainable path; and while demand has decelerated it has not turned into a significant force. A key dilemma for central banks and markets is the fact that monetary policy works with long and variable lags, and this has been the fastest and largest tightening cycle for several decades. In addition, yield curve inversion analysis had been pointing to late 2023 for recession.

This highlights a key debate on the outlook - should focus be on leading or lagging indicators? Employment, inflation and wages are all lagging reflections of the economic cycle. Spending data and forward guidance are leading indicators. For the consumer, despite higher nominal wages, spending has remained constrained in real terms as the scars of the supply shocks has increased prices. Thus, with the positive impulse from government cash handouts dissipating and concurrent monetary tightening grinding, the overall impact the market largely still sees is a recession as a base case outlook for late 2023.

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 seeking relief from elevated levels of inflation and the peak of the interest rate cycle.

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	140 (~1 in 3 months)
Positive Months	268
Total Months	408 (34.00 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)



Economic Commentary

International Market

Financial markets were aided in June on hopes that global central banks may be approaching the peak of their interest rate hike cycle, with several signalling a pause may be appropriate for the foreseeable future.

Across equity markets, the S&P 500 Index gained +6.47%, whilst the NASDAQ added +6.59%. Europe's main indices also rebounded strongly, led by France's CAC (+4.25%), Germany's DAX (+3.09%) and UK's FTSE (+1.15%).

As widely expected, the US Fed delivered a hawkish pause. The funds rate was left unchanged at 5.00%-5.25% but economic forecasts were revised - GDP for 2023 was moved up to +1.0% from prior of +0.4%, with little change in 2024 (+1.1% from +1.2%) and 2025 (+1.8% from +1.9%); unemployment rate was lower at 4.1% for 2023 (prior 4.5%), with limited changes for 2024 (4.5% from 4.6%); core PCE at +3.9% for 2023 (prior +3.6%) and at +2.6% for 2024 and +2.2% for 2025.

US CPI, which was in line with expectations rising +0.1% m/m and +4.1%y/y from +4.9% (+0.1%/+4.1% expected). The headline easing was helped by a -5.6% drop in gasoline prices, declines in electricity and natural gas prices. Core inflation was also in line with expectations at +0.4% m/m and +5.3% y/y.

The ECB lifted its deposit rate by 25bp to 3.50% and the Refinance rate to 4.0%, as expected, taking the cumulative tightening this cycle to 400bp. Euro area CPI inflation came in lower than expected. Headline was +6.1% y/y vs. +6.3% expected, and core was +5.3% y/y vs. +5.5% expected.

The UK unemployment rate dropped to 3.8% in the three months through April, below forecasts for an increase to 4%. UK inflation disappointed, again. Headline remained at +8.7% against expectations for a fall to +8.4%, while core rose to +7.1% from +6.8% (+6.8% expected).

The Bank of England (BoE) opted for shock 50bp rate hike, taking the Bank Rate to 5.00%. Rates were last seen at these levels back in 2008 before the GFC crash and a level that was typical right back to the early 1990s.

Canada reported Q1 GDP at 3.1% at a quarterly annualised rate, above the 2.5% consensus. The BoC shocked markets, hiking by 25bp to 4.75%. Further, the BoC assessed "*monetary policy was not sufficiently restrictive*", a hint of a follow up move in July with markets now 70% priced.

The MSCI World ex-Aus Index rose +5.95% for the month of June:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+6.47%	+8.30%	+17.57%	+12.81%	+10.36%	+10.73%
MSCI World ex-AUS	+5.95%	+6.43%	+16.75%	+10.54%	+7.42%	+7.73%
S&P ASX 200 Accum. Index	+1.76%	+1.01%	+14.78%	+11.12%	+7.16%	+8.56%

Source: S&P, MSCI

Domestic Market

The RBA raised rates by 25bp to 4.10%, surprising markets which were only pricing around a 35% chance of a move. The post-Meeting Statement said "*recent data indicate that the upside risks to the inflation outlook have increased and the Board has responded to this*".

The RBA Minutes revealed the Board again discussed the merits of hiking by 25bp or pausing in June, with arguments again "*finely balanced*". The RBA was also considering whether to sell its QE holdings. Any move to sell the bonds would be aimed at reducing interest-rate risk and stemming potential further losses.

Employment growth sharply exceeded expectations in May, up some +76k in the month (consensus +17.5k). The unemployment rate fell 0.1% to 3.6% (3.55 unrounded) and has remained around its current historically low level for the past year.

The Monthly CPI Indicator for May showed headline inflation of +5.6% y/y, a sharp fall from +6.8%.

Retail sales rose +0.7% m/m in May, much stronger than the +0.1% consensus.

Australian dwelling prices rose +1.2% m/m in May. That follows the +0.6% rise in March and a +0.5% rise in April, which broke a streak of 10 consecutive monthly declines.

The trade surplus for April eased back to $11.158bn, a little lower than the consensus for $13.650bn and down from $14.822bn in March.

The Council of Financial Regulators has backed APRA's enforcement of a 3% mortgage serviceability buffer when assessing home loan applicants, despite borrowers finding it increasingly difficult to refinance their mortgages with different lenders at higher interest rates.

The Australian dollar gained +2.08%, finishing the month at US66.30 cents (from US64.95 cents the previous month).

Credit Market

The global credit indices marginally tightened over June. They are now back to their levels in early 2022 (prior to the rate hike cycle from most central banks):

Index	June 2023	May 2023
CDX North American 5yr CDS	69bp	76bp
iTraxx Europe 5yr CDS	82bp	82bp
iTraxx Australia 5yr CDS	76bp	83bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	June 2023	May 2023
Bloomberg AusBond Bank Bill Index (0+YR)	+0.30%	+0.29%
Bloomberg AusBond Composite Bond Index (0+YR)	-1.95%	-1.21%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.41%	+0.34%
Bloomberg AusBond Credit Index (0+YR)	-1.08%	-0.51%
Bloomberg AusBond Treasury Index (0+YR)	-2.28%	-1.39%
Bloomberg AusBond Inflation Gov't Index (0+YR)	-2.38%	-0.65%

Source: Bloomberg

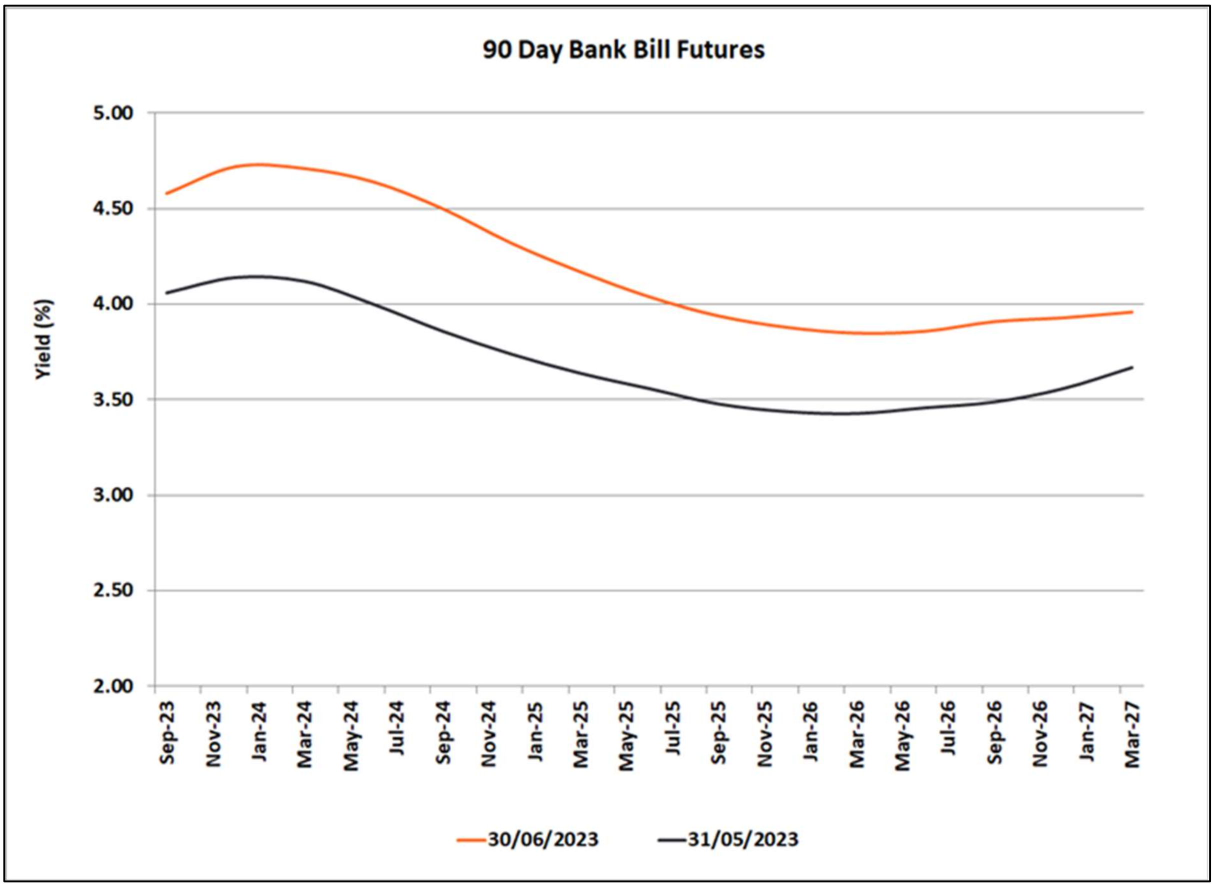
Other Key Rates

Index	June 2023	May 2023
RBA Official Cash Rate	4.10%	3.85%
90 Day (3 month) BBSW Rate	4.35%	3.98%
3yr Australian Government Bonds	4.03%	3.37%
10yr Australian Government Bonds	4.03%	3.61%
US Fed Funds Rate	5.00%-5.25%	5.00%-5.25%
2yr US Treasury Bonds	4.87%	4.40%
10yr US Treasury Bonds	3.81%	3.64%

Source: RBA, AFMA, US Department of Treasury

90 Day Bill Futures

Bill futures rose across the board in June with the RBA remaining on a slight tightening bias, signalling further rate hikes may be required to bring inflation towards their target band over coming years. 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

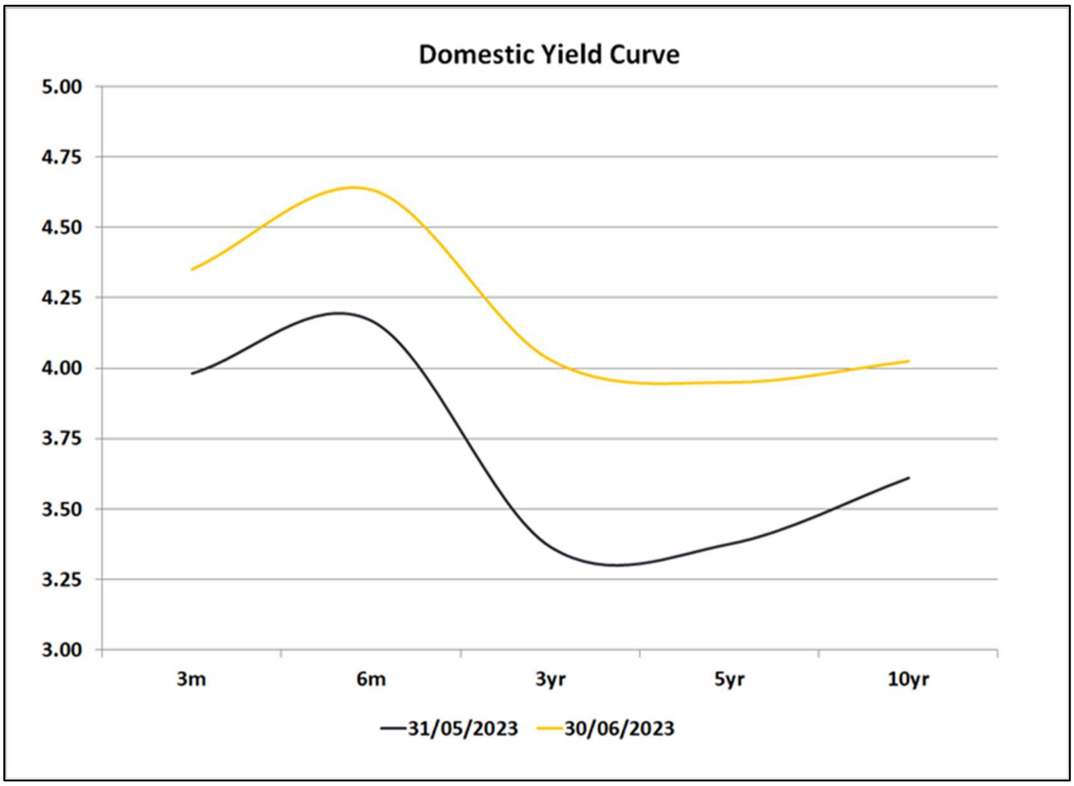
The median dot plot from the US Fed was revised higher in 2023 – while this was expected the surprise was that it was revised from 5.10% to 5.625% (economists had centred on it being revised to 5.375%). The 2024 median dot was revised to 4.675% from 4.375% and the 2025 to 3.375% from 3.125%.

Domestically, after delivering another 25bp hike in June, the RBA justified its decision commenting that "*recent data indicate that the upside risks to the inflation outlook have increased and the Board has responded to this*". The language in the post-Meeting Statement was hawkish with the key concluding paragraph unchanged, noting that "*some further tightening of monetary policy may be required*".

Going forward, the question is about what level of interest rates will be sufficient to return inflation to the nominated 3% level by mid-2025. The RBA remains absolutely committed to return inflation to target, rather than suffer the much larger costs of more persistent high inflation. The consequence of this will be even slower near-term growth and the risk of a bumpier landing for the economy.

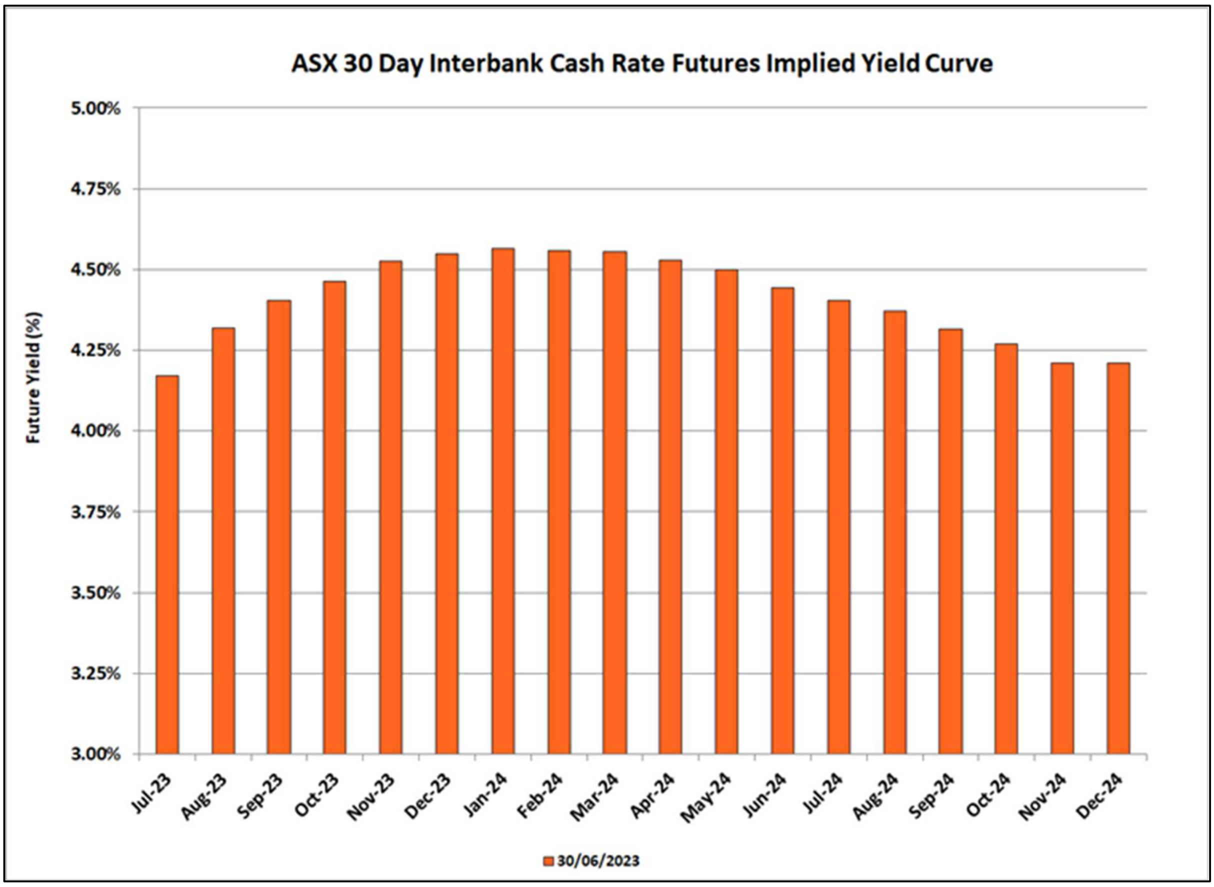
Whilst inflation has shown evidence of peaking, and although (as per the RBA's forecast) inflation may return to the band by 2025, the extended period of inflation above target amidst a tight labour market poses the risk of stronger wage and price expectations becoming imbedded.

Over the month, yields rose up to 67bp at the long-end of the curve:



Source: AFMA, ASX, RBA

Markets have been quick to revise their interest rate forecasts with additional rate hikes priced over the next two quarters. The RBA's bias argues towards a hike in July, though their April instinct to pause in anticipation of a full forecast update makes July's meeting less certain. Rate cuts have also now been pushed back to mid-late 2024.



Source: ASX

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