Monthly Investment Review

CITY OF PARRAMATTA

November 2023

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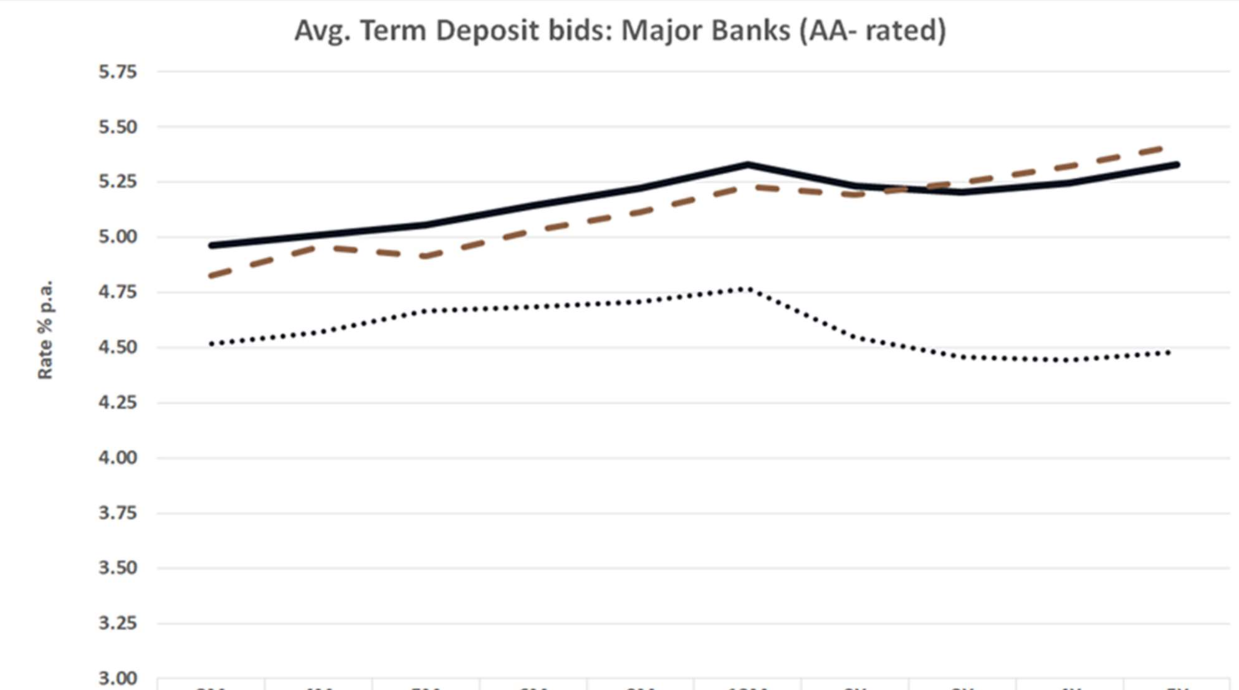
Market Update Summary

Financial markets rebounded strongly in November with inflation across many advanced economies seemingly past their peak and on a downward trend. There was also growing expectations that the US may start cutting official interest rates as early as mid-2024, which aided risk markets. Domestically, although inflation has also eased, the RBA remains on a tightening bias, with some industries continuing to experience unsustainably high levels of inflation and above what the Board is willing to tolerate.

Over November, major bank deposit rates rose ~10bp between 6-12 month tenors, following the RBA's decision to hike again. In contrast, at the very long-end (3-5 years), deposit rates offered by the major banks fell between ~5-10bp with the banks reacting to the softer monthly inflation figure, as well as the movement in global bond yields. Rates remain flat across the longer-tenors (1-5 year rates), reflective of the major banks believing that we are approaching the peak of the interest rates cycle and potentially, future rate cuts may need to be delivered should inflation be returning back to target.



	3M	4M	5M	6M	9M	12M	2Y	3Y	4Y	5Y
Nov-2023	4.96	5.01	5.05	5.14	5.22	5.33	5.23	5.21	5.24	5.33
Oct-2023	4.83	4.95	4.92	5.03	5.12	5.23	5.19	5.25	5.32	5.42
May-2023	4.52	4.57	4.67	4.69	4.71	4.77	4.55	4.46	4.44	4.48

Source: Imperium Markets

With a global economic downturn being priced in coming years, investors may take an 'insurance policy' against a potentially lower rate environment by investing across 2-5 year fixed deposits, targeting rates above or close to 5¼-5½% p.a. (small allocation only).

City of Parramatta Council’s Portfolio Summary

Term Deposits

Term Deposits (fixed and floating) account for around 59% of the total investment portfolio at month-end. Council’s term deposit portfolio was yielding 3.71% p.a. at month-end, with a weighted average duration of around 227 days or ~7½ months. Where liquidity permits, we recommend increasing the overall duration closer to 9-12 months incrementally over the current financial year.

Senior FRNs

Council’s senior floating rate notes (FRNs) make up around 10% of the total investment portfolio at month-end. The market valuation of Council’s FRNs collectively rose around **+0.03% (actual)** in November 2023 (**or +$17,035 in dollar terms**). Three new FRNs were purchased whilst two were sold at a small capital profit during the month.

Summary	October 2023	November 2023	Net Flow ($)	Monthly Change %
Face Value	$42,800,000	$48,700,000	$5,900,000	+13.79%
Market Value	$42,904,525	$48,815,431	$5,893,872	+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 +$115,535** *(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 **-$6,896 in dollar terms or -0.07% (actual)** for the month. A Bendigo (BBB+) FRN was sold during the month at a small capital profit.

Summary	October 2023	November 2023	Net Flow ($)	Monthly Change %
Face Value	$12,050,000	$10,300,000	-$1,750,000	-14.52%
Market Value	$12,076,746	$10,317,207	-$1,752,643	-0.07%

At month-end, Council’s “BBB” rated FRNs are now marked at an **unrealised capital gain of ~$17,311**.

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 1.81years.

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 +3.77% (actual) during November**. Domestic and international shares rallied this month, as well as bonds (yields fell), contributing to overall returns of the Fund.

Summary	Oct 2023	Nov 2023	Investment ($)	Net Return ($)	Net Return (%)
Market Value	$29,596,089	$30,711,280	$0	+$1,115,191	+3.77%

Financial markets reacted to expectations that central banks could keep interest rates higher for longer than previously anticipated, as they fight to curb inflation that remains stubbornly high across many countries.

Central banks remain in the spotlight, though at this point of the cycle there is divergence in messaging. The US Federal Reserve (Fed), who is observing resilient growth, delivered a "*hawkish hold*" at its meeting on the 1st of November, essentially signalling that while rates are near their peak one further hike may still be needed. Domestically, whilst Governor Bullock has signalled discomfort over the stickiness of inflation, markets have somewhat discounted another rate hike.

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 +1.48% (actual) in November**, as the market valuation of the fund's assets in global credit securities increased during the month.

Summary	Oct 2023	Nov 2023	Difference ($)	Difference (%)
Market Value	$14,938,691	$15,160,095	+$221,404	+1.48%

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 +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 15½% 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 4.50% 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 FY2023-2024

Council's budgeted income for FY2023-2024 has been revised to $18.565m. Based on an average total investment portfolio size of around $480m, that equates to a budgeted yield of around 3.87% for the current financial year.

For the financial year to date, the cumulative interest revenue earned was roughly $53k below 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 (e.g. it has largely been flat over the past 3 months from August to November).

Month-End	Cumulative Budget	Cumulative Investment Revenue	Difference ($)
Jul 2023	$1,547,083	$2,157,596	$610,513
Aug 2023	$3,094,167	$3,384,092	$289,925
Sep 2023	$4,641,250	$4,137,027	-$504,223
Oct 2023	$6,188,333	$4,976,807	-$1,211,526
Nov 2023	$7,735,417	$7,682,940	-$52,477
Dec 2023	$9,282,500		
Jan 2024	$10,829,583		
Feb 2024	$12,376,667		
Mar 2024	$13,923,750		
Apr 2024	$15,470,833		
May 2024	$17,017,917		
Jun 2024	$18,565,000		

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 economic downturn.

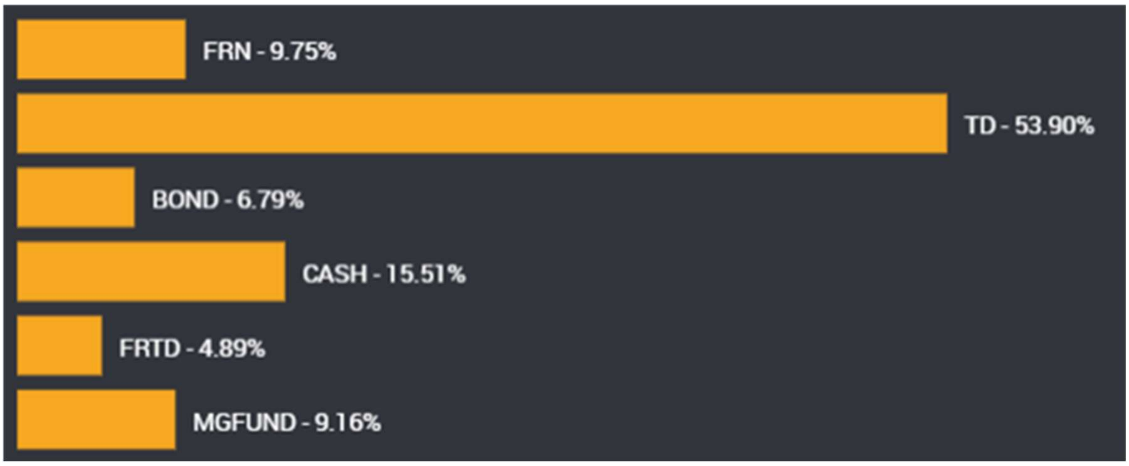
Council's Portfolio & Compliance

Asset Allocation

As at the end of November 2023, the portfolio was mainly directed to fixed and floating rate term deposits (59%). The remaining portfolio is directed to FRNs (10%), overnight cash accounts (16%), bonds (7%), 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 2 years. New issuances may be considered again on a case by case scenario. In the interim, staggering a mix of fixed deposits between 9-12 months to 3 years remains a more optimal strategy to maximise returns over a longer-term cycle.

With a global economic downturn 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 2-5 year fixed deposits, locking in and targeting yields close to or above 5¼-5½% p.a.



Term to Maturity

Overall, the portfolio remains well diversified from a maturity perspective with around 16% 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	$329,390,233	65.77%	20%	100%	$171,437,481
✓	1 – 2 years	$62,756,612	12.53%	0%	70%	$287,822,789
✓	2 – 5 years	$77,969,589	15.57%	0%	60%	$222,527,039
✓	5 – 10 years	$30,711,280	6.13%	0%	15%	$44,412,877
		$500,827,715	**100.00%**			

Counterparty

As at the end of November 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.

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	BoQ Covered	AAA	$902,891	0.18%	50.00%	$249,510,967
✓	Bendigo Covered	AAA	$5,209,542	1.04%	50.00%	$245,204,315
✓	Suncorp Covered	AAA	$539,924	0.11%	50.00%	$249,873,934
✓	ING Covered	AAA	$801,087	0.16%	50.00%	$249,612,770
✓	ANZ	AA-	$9,054,522	1.81%	40.00%	$191,276,564
✓	CBA	AA-	$32,386,818	6.47%	40.00%	$167,944,267
✓	NAB	AA-	$129,134,272	25.78%	40.00%	$71,196,814
✓	Northern Territory	AA-	$32,000,000	6.39%	40.00%	$168,331,086
✓	Westpac	AA-	$24,500,000	4.89%	40.00%	$175,831,086
✓	Citibank NA	A+	$1,000,847	0.20%	25.00%	$124,206,082
✓	Macquarie	A+	$2,426,538	0.48%	25.00%	$122,780,391
✓	Suncorp	A+	$5,750,583	1.15%	25.00%	$119,456,346
✓	UBS AG	A+	$5,750,617	1.15%	25.00%	$119,456,312
✓	CFS Global CI	A	$15,160,095	3.03%	25.00%	$110,046,834
✓	ICBC	A	$82,049,918	16.38%	25.00%	$43,157,011
✓	Aus. Military Bank	BBB+	$5,000,000	1.00%	15.00%	$70,124,157
✓	Aus. Unity Bank	BBB+	$6,000,000	1.20%	15.00%	$69,124,157
✓	BankVIC	BBB+	$5,000,000	1.00%	15.00%	$70,124,157
✓	BoQ	BBB+	$5,964,366	1.19%	15.00%	$69,159,791
✓	Bendigo-Adelaide	BBB+	$3,110,687	0.62%	15.00%	$72,013,470
✓	Hume Bank	BBB+	$4,500,000	0.90%	15.00%	$70,624,157
✓	QT Mutual Bank	BBB+	$996,855	0.20%	15.00%	$74,127,302
✓	AMP Bank	BBB	$4,168,669	0.83%	15.00%	$70,955,488
✓	Auswide Bank	BBB	$18,000,000	3.59%	15.00%	$57,124,157
✓	Bank Australia	BBB	$2,706,100	0.54%	15.00%	$72,418,057
✓	CUA	BBB	$2,502,104	0.50%	15.00%	$72,622,053
✓	G&C Mutual	BBB	$5,000,000	1.00%	15.00%	$70,124,157
✓	MyState	BBB	$3,000,000	0.60%	15.00%	$72,124,157
✓	P&N Bank	BBB	$11,500,000	2.30%	15.00%	$63,624,157
✓	Police Bank	BBB	$3,000,000	0.60%	15.00%	$72,124,157
✓	Judo Bank	BBB-	$17,500,000	3.49%	15.00%	$57,624,157
✓	QBank	BBB-	$4,000,000	0.80%	15.00%	$71,124,157
✓	The Mutual	BBB-	$8,500,000	1.70%	15.00%	$66,624,157

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	Summerland Bank	Unrated	$3,000,000	0.60%	1.00%	$2,000,000
✓	Transport CU	Unrated	$2,000,000	0.40%	1.00%	$3,000,000
✓	Unity Bank	Unrated	$5,000,000	1.00%	1.00%	$0
✓	Warwick CU	Unrated	$3,000,000	0.60%	1.00%	$2,000,000
✓	TCorpIM LTG	Unrated	$30,711,280	6.13%	10.00%	$19,371,491
			$500,827,715	**100.00%**		

ANZ's takeover of Suncorp was blocked by the Australian Competition and Consumer Commission (ACCC) in early August 2023, with the watchdog saying it was unconvinced the deal would deliver the public benefits claims put forward by ANZ (although ANZ has since appealed the decision).

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	**$342,115,881**	**68.31%**
Australia	$342,115,881	68.31%
Branches of Foreign Bank	**$112,300,534**	**22.42%**
China	$82,049,918	16.38%
Switzerland	$5,750,617	1.15%
United States	$24,500,000	4.89%
Foreign Subsidiary Banks	**$539,924**	**0.11%**
Netherlands	$539,924	0.11%
Global^	**$45,871,375**	**9.16%**
International	$45,871,375	9.16%
Total	**$500,827,715**	**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).

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) 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 30/11/2023 ($500.83m), 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+	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
G&C Mutual	BBB	No
MyState	BBB	No
P&N Bank	BBB	No
Police Bank	BBB	No
QBank	BBB-	No
Judo Bank	BBB-	No
The Mutual Bank	BBB-	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	$281,985,856	56%
No	$218,841,859	44%
	$500,827,715	**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	$7,453,444	1%	100%	$493,374,270
✓	AA Range or Major Banks	$227,075,612	45%	100%	$273,752,102
✓	A Category	$112,138,597	22%	80%	$288,523,575
✓	BBB Category	$110,448,781	22%	30%	$39,799,533
✓	Unrated ADI Category	$13,000,000	3%	10%	$37,082,771
✓	TCorpIM Funds	$30,711,280	6%	25%	$94,495,648
		$500,827,715	**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), with some capacity to invest in the "BBB" rated category.

Performance

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

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	0.35%	1.03%	2.06%	1.72%	3.79%	2.41%	1.64%
AusBond Bank Bill Index	0.35%	1.03%	2.08%	1.77%	3.76%	2.38%	1.59%
PCC Internal Benchmark*	0.65%	1.09%	2.44%	1.99%	4.59%	2.95%	2.28%
PCC Cash Portfolio	0.37%	1.09%	2.18%	1.82%	4.03%	2.65%	1.93%
PCC T/D Portfolio	0.29%	0.89%	1.75%	1.49%	3.00%	2.36%	2.01%
PCC FRN Portfolio	0.46%	1.40%	2.75%	2.33%	5.07%	3.66%	3.05%
PCC Bond Portfolio	0.10%	0.30%	0.58%	0.49%	1.14%	1.12%	1.08%
PCC Credit Fund	1.48%	1.96%	4.39%	3.41%	7.16%	2.96%	2.55%
PCC TCorp Growth Fund	3.77%	-0.06%	3.36%	1.42%	5.48%	0.39%	4.35%
PCC's Total Portfolio	**0.55%**	**0.90%**	**2.01%**	**1.62%**	**3.56%**	**2.33%**	**2.10%**
Rel. Perf. (BBI)	**0.20%**	**-0.13%**	**-0.07%**	**-0.15%**	**-0.21%**	**-0.05%**	**0.51%**
Rel. Perf. (Int. Bench.)	**-0.10%**	**-0.19%**	**-0.42%**	**-0.37%**	**-1.03%**	**-0.63%**	**-0.18%**

**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 benchmarks 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 November, the total investment portfolio (including cash) provided a return of +0.55% (actual) or +6.89% p.a. (annualised), outperforming the AusBond Bank Bill Index return of +0.35% (actual) or +4.34% p.a. (annualised), whilst underperforming Council's internal benchmark return of +0.65% (actual) or +8.23% 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 (also driven recently during the RBA's rate hike cycle).

The annualised returns as of November 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	4.35%	4.18%	4.14%	4.15%	3.79%	2.41%	1.64%
AusBond Bank Bill Index	4.34%	4.18%	4.19%	4.28%	3.76%	2.38%	1.59%
PCC Internal Benchmark*	8.23%	4.43%	4.92%	4.81%	4.59%	2.95%	2.28%
PCC Cash Portfolio	4.60%	4.43%	4.39%	4.40%	4.03%	2.65%	1.93%
PCC T/D Portfolio	3.63%	3.63%	3.51%	3.59%	3.00%	2.36%	2.01%
PCC FRN Portfolio	5.73%	5.75%	5.55%	5.65%	5.07%	3.66%	3.05%
PCC Bond Portfolio	1.27%	1.21%	1.16%	1.17%	1.14%	1.12%	1.08%
PCC Credit Fund	19.60%	8.09%	8.95%	8.33%	7.16%	2.96%	2.55%
PCC TCorp Growth Fund	56.83%	-0.24%	6.82%	3.42%	5.48%	0.39%	4.35%
PCC’s Total Portfolio	**6.89%**	**3.66%**	**4.05%**	**3.92%**	**3.56%**	**2.33%**	**2.10%**
Rel. Perf. (BBI)	**2.55%**	**-0.52%**	**-0.14%**	**-0.37%**	**-0.21%**	**-0.05%**	**0.51%**
Rel. Perf. (Int. Bench.)	**-1.34%**	**-0.77%**	**-0.87%**	**-0.89%**	**-1.03%**	**-0.63%**	**-0.18%**

Recommendations for Council

Term Deposits

As at the end of November 2023, Council's **deposit** portfolio was yielding **3.71% p.a.** (up 20bp from the previous month), with a weighted average duration of around 227 days (~7½ months).

There is growing belief that a global economic downturn is forthcoming and so locking in rates close to or above 5½% p.a. across 1-3 year tenors may provide some income protection against a lower rate environment over coming years.

We recommend Council increases its weighted average duration closer to 9-12 months incrementally over the current financial year.

Please refer to the section below for further details on the Term Deposit market.

Securities

Primary (new) Senior **FRNs** (with maturities between 3-5 years) continue to be appealing (particularly for those investors with portfolios skewed towards fixed assets) and should be considered on a case by case scenario. Please refer to the section below for further details on the FRN market.

Council FRNs – Recommendations for Sale/Switches

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 (up to hundreds of thousands of dollars in previous financial years). There will be an opportunity to switch/sell out of the following FRN(s) in coming months:

Issuer	Rating	Maturity Date	ISIN	Face Value	Trading Margin	Capital Price ($)	~Unrealised Gain ($)
Citibank	A+	17/11/2024	AU3FN0051561	$1,000,000	+74.0bp	$100.085	$847

This strategy has boosted overall returns and will continue to do so going forward. The current financial year's realised gains are shown as follows:

Issuer	Rating	Maturity Date	ISIN	Face Value	Trading Margin	Capital Price ($)	Realised Gain ($)
NAB	AA-	21/01/2025	AU3FN0052510	$2,000,000	+53.0bp	$100.345	$6,900
Suncorp	A+	30/07/2024	AU3FN0049144	$2,000,000	+59.0bp	$100.192	$4,800
NAB	AA-	30/05/2025	AU3FN0069373	$2,000,000	+57.0bp	$100.548	$9,316
Suncorp	AAA	24/04/2025	AU3FN0053880	$700,000	+71.0bp	$100.498	$3,486
Bendigo	BBB+	06/09/2024	AU3FN0050019	$1,750,000	+76.0bp	$100.151	$2,642
				Total Realised Gains FY2023-2024			**$27,144**

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%	0.12	Annually
24/11/2020	16/12/2024	$1,000,000	0.90%	1.13	Annually
16/02/2021	16/06/2025	$1,000,000	0.90%	1.63	Annually
16/02/2021	15/06/2026	$5,000,000	1.00%	2.62	Annually
12/05/2021	17/06/2024	$3,000,000	0.80%	0.63	Annually
12/05/2021	16/06/2025	$3,000,000	1.10%	1.63	Annually
12/05/2021	15/06/2026	$3,000,000	1.30%	2.62	Annually
20/05/2021	16/06/2025	$3,500,000	1.10%	1.63	Annually
09/09/2021	16/12/2024	$2,500,000	0.90%	1.13	Semi-Annually
09/09/2021	15/12/2026	$5,000,000	1.40%	3.13	Semi-Annually
	Totals / Wgt. Avg.	**$29,000,000**	**1.09%**	**1.81 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.

Separately, Council also purchased into the following fixed bonds. With yields rising significantly over the past 12-18 months, Council may consider purchasing additional units in these securities 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%	5.09%	-$58,330
BoQ	BBB+	06/09/2024	AU3CB0296168	$1,500,000	5.45%	5.55%	-$3,330

CFS Global Credit Income Fund

For the month of November, the CFS Global Credit Income Fund returned +1.48% (actual), outperforming the AusBond Bank Bill Index return of +0.35% (actual), whilst underperforming the AusBond Credit Index return of +1.84% (actual).

The manager is also alert to the possibility that while the global economy might experience a mild recession, the outlook for fixed income markets experiencing prolonged financial tightening could be more severe. This is what happened in 2000-01 when the Tech Crash erupted within a mild economic downturn. That said, the tightening of credit conditions is nothing like that of 2008, as today loan demand is already quite weak which offsets the fact that lenders have significantly tightened lending conditions.

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 ~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 +3.77% (actual) for the month of November. Both domestic shares (S&P ASX 200 Accumulation Index +5.03%) and international shares (MSCI World ex-Australia +8.87%) rallied strongly this month. Bonds also rebounded as yields fell/valuations rose (AusBond Composite Bond Index gained +2.97%).

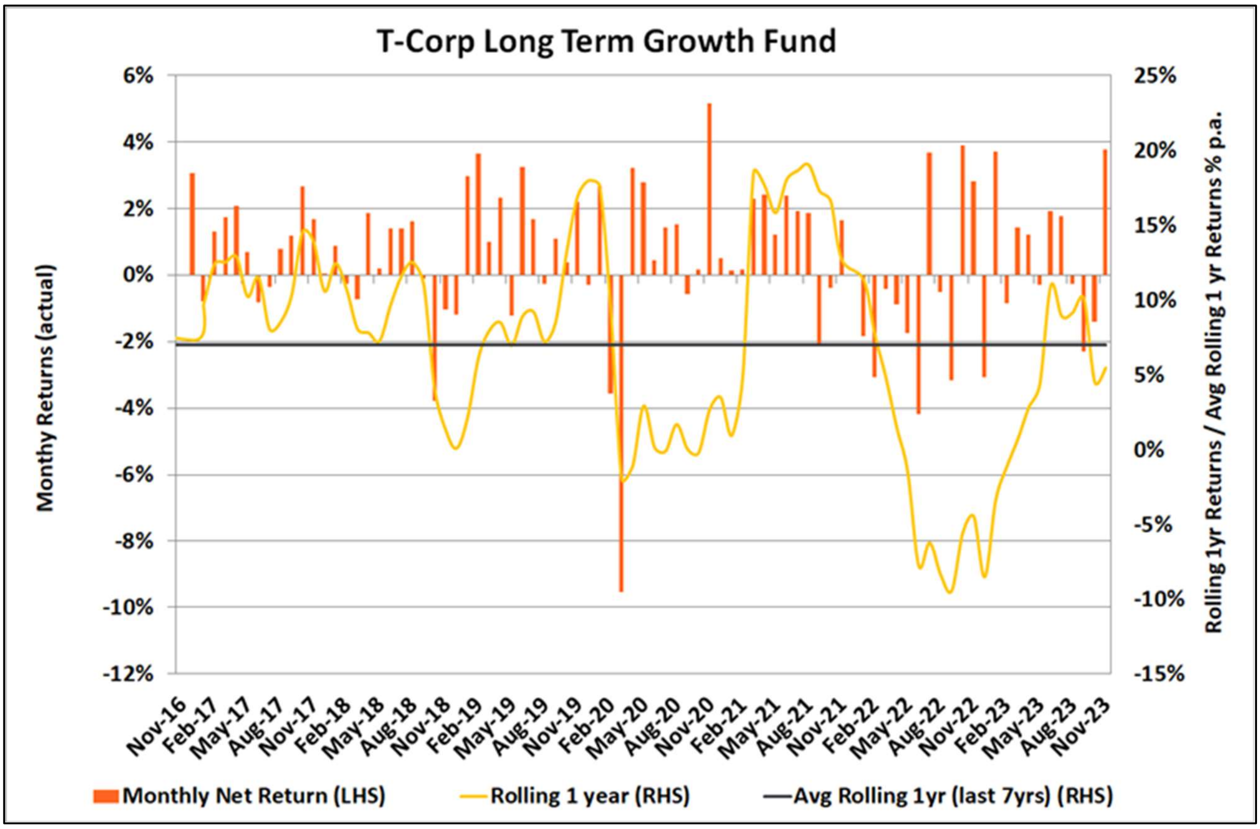
Central banks remain in the spotlight, though at this point of the cycle there is divergence in messaging. The US Federal Reserve (Fed), who is observing resilient growth, delivered a "*hawkish hold*" at its meeting on the 1st of November, essentially signalling that while rates are near their peak one further hike may still be needed. Domestically, whilst Governor Bullock has signalled discomfort over the stickiness of inflation, markets have somewhat discounted another rate hike.

A cyclical recession, similar to 2000-01, may still arrive in the coming year. For Europe and the UK, following the recent Q3 GDP releases, economies have already arrived at cyclical recession, with growth broadly flatlining through 2023 to date. Inflation is coming down, more gradually than the economic environment would have implied, but this is largely due to specific cyclical and structural forces in play as a result of the supply shocks that are taking longer to unravel. In contrast, the US economy has been supported by stronger than expected Federal Government spending through each quarter of 2023. Despite this, inflation has fallen, and wages growth is clearly easing, though both are still higher than the US Federal Reserve's (Fed) target levels. With the Fed firmly committed to delivering its inflation target and fiscal spending expected to gradually slow, the expected US recession may have been delayed but the pressure on demand continues to build. Markets continue to factor in multiple rate cuts in the US for 2024.

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 the elevated levels of inflation and remain hopeful that we have or already approached 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	143 (~1 in 3 months)
Positive Months	270
Total Months	413 (34.42 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)



Term Deposit Market Review

Current Term Deposits Rates

As at the end of November, we see value in:

Index	LT Credit Rating	Term	Rate % p.a.
P&N Bank	BBB	5 years	5.55%
P&N Bank	BBB	4 years	5.50%
BoQ	BBB+	5 years	5.50%
BoQ	BBB+	4 years	5.45%
P&N Bank	BBB	2-3 years	5.45%
ING	A	2 years	5.42%
ING	A	3 years	5.40%
BoQ	BBB+	2 years	5.35%
Suncorp	A+	2 years	5.32%
Westpac	AA-	2 years	5.18%
NAB	AA-	2 years	5.05%

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 (*we stress that rates are indicative, dependent on daily funding requirements and different for industry segments*):

Index	LT Credit Rating	Term	Rate % p.a.
Suncorp	A+	12 months	5.46%
ING	A	12 months	5.46%
Australian Unity	BBB+	12 months	5.45%
P&N Bank	BBB	12 months	5.45%
BoQ	BBB+	9-12 months	5.40%
Suncorp	A+	9 months	5.40%
ING	A	11 months	5.37%
Suncorp	A+	6 months	5.37%
Westpac	AA-	12 months	5.35%
NAB	AA-	12 months	5.30%
CBA (>$2m)	AA-	12 months	5.29%
BoQ	BBB+	6 months	5.20%
NAB	AA-	3 months	5.00%

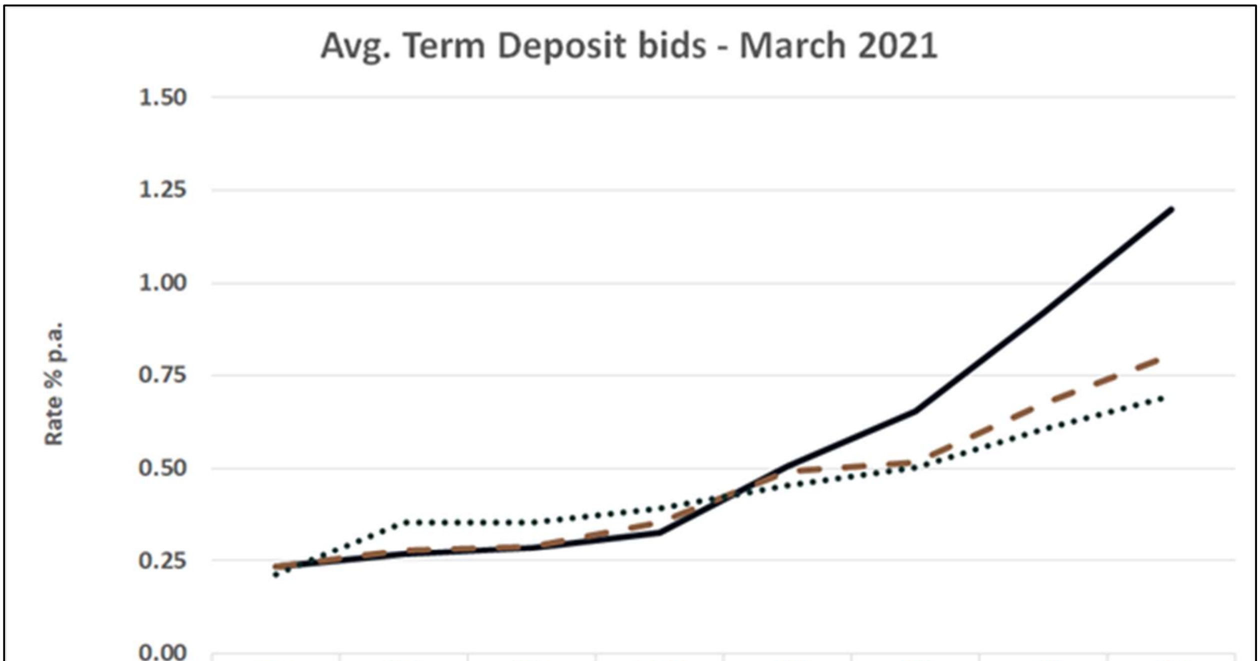
If Council does not require high levels of liquidity and can stagger a proportion of its investments across the longer term horizons (1-5 years), it will be rewarded over a longer-term cycle. Investing a spread of 12 months to 3 year horizons is likely to yield, on average, up to ¼-½% p.a. higher compared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

With a global economic slowdown being priced in coming years, investors should consider allocating some longer term surplus funds and undertake an insurance policy by investing across 2-5 year fixed deposits and locking in rates close to or above 5¼-5½% p.a. This will provide some income protection if central banks decide to cut rates in future years, assuming inflation has stabilised.

Term Deposits Analysis

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) during mid-2020, 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. 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.

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



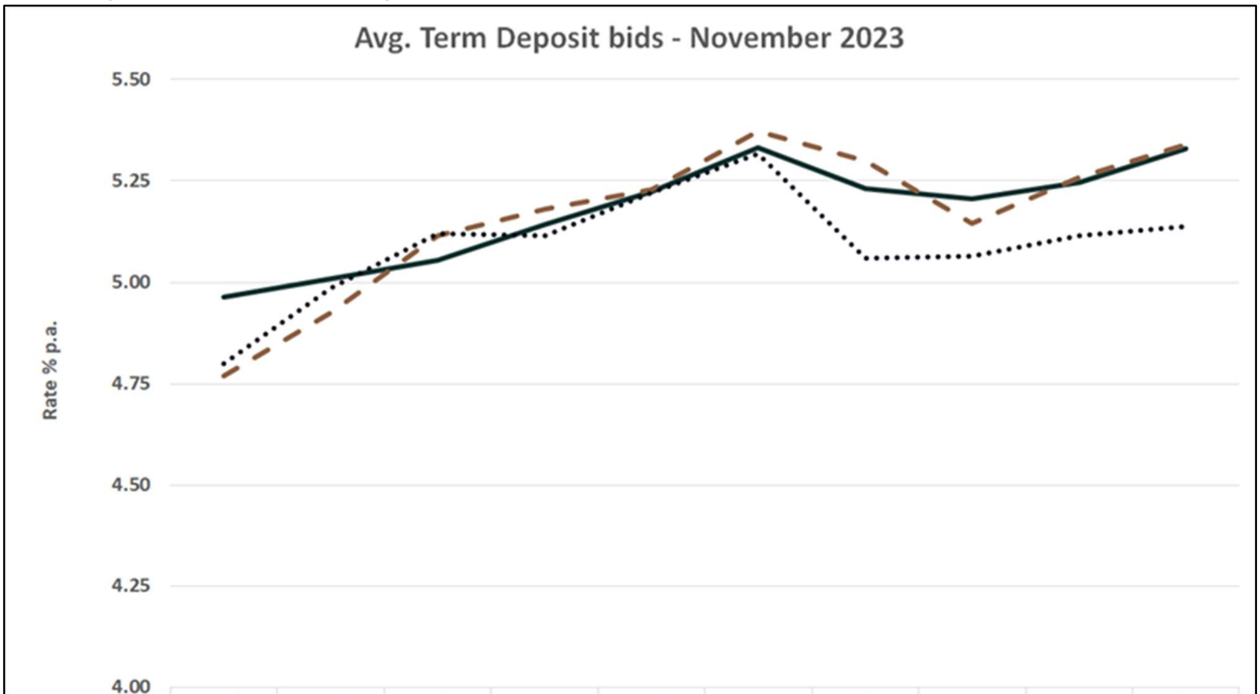
	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	0.23	0.27	0.29	0.33	0.51	0.65	0.92	1.20
A Rated	0.23	0.28	0.29	0.35	0.49	0.52	0.68	0.81
BBB Rated	0.21	0.36	0.35	0.39	0.45	0.50	0.61	0.70

Source: Imperium Markets

The abnormal marketplace experienced during the pandemic is starting to reverse as the competition for deposits slowly increases. In recent months, we have started to periodically see some of the lower rated ADIs ("A" and "BBB" rated) offering slightly higher rates compared to the domestic major banks ("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, although the past three months have been an exception, with the major banks repricing more rapidly to the movement in the bond market than their lower rated counterparts:

Term Deposit Rates – Currently (November 2023)



	3M	4M	5M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	4.96	5.01	5.05	5.14	5.22	5.33	5.23	5.21	5.24	5.33
A Rated	4.77	4.93	5.12	5.18	5.23	5.37	5.30	5.15	5.26	5.34
BBB Rated	4.80	4.99	5.12	5.12	5.22	5.32	5.06	5.06	5.11	5.14

Source: Imperium Markets

Regional & Unrated ADI Sector

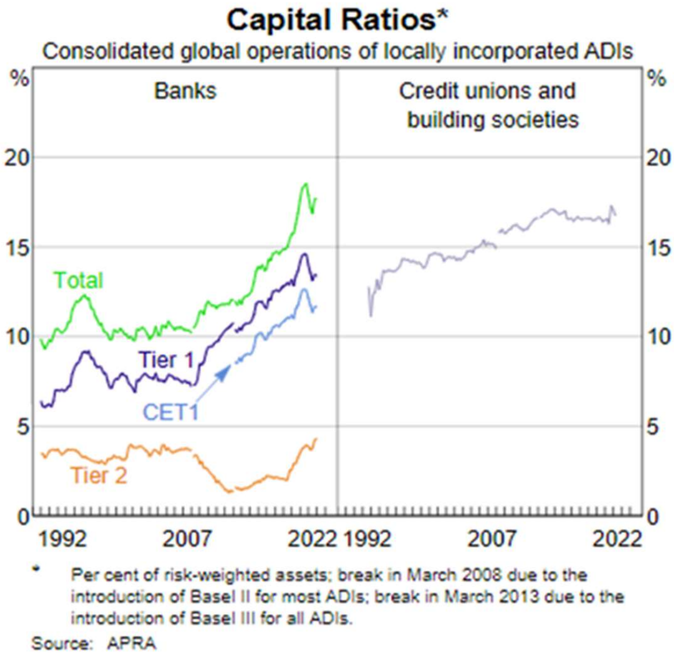
Ratings agency S&P has commented that "*mergers remain compelling for mutuals lenders*" in providing smaller lenders greater economies of scale and assisting them in being able to price competitively and will see "*the banking landscape will settle with a small number of larger mutual players*". S&P expects that consolidation to continue over the next two years.

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. Some unrated ADIs have up to 25-40% more capital than the domestic major banks, and well above the Basel III requirements.

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 nine 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.

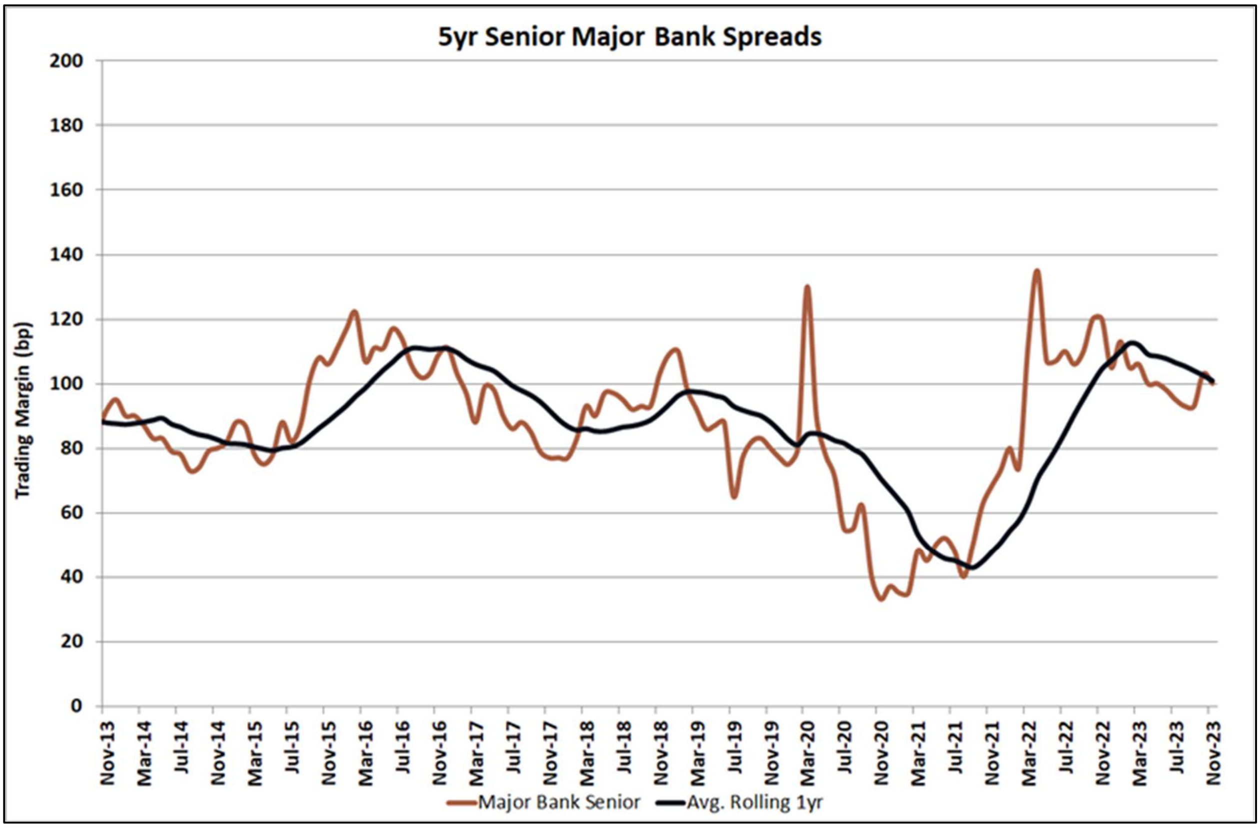
We believe that deposit investments with the lower rated ADIs should be considered going forward, particularly when they offer 'above market' specials. Not only would it diversify the investment portfolio and reduce credit risk, it would also improve the portfolio's overall returns. The lower rated entities 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*".



Senior FRNs Market Review

Over November, amongst the senior major bank FRNs, physical credit securities widened by around 1-3bp at the long-end of the curve. Major bank senior securities remain at fair value in the rising rate environment (5yr margins around +100bp level).



Source: IBS Capital

During November, there were new issuances from the following ADIs:

- CBA (AA-) 1yr senior FRN at +47bp
- NAB (AA-) 3 & 5yr senior securities (FRN/Fixed) at +85bp and +103bp respectively
- Police Bank (BBB) 3yr senior FRN at +155bp
- Rabobank (A+) 5yr senior security (FRN/Fixed) at +115bp
- Suncorp (A+) 3½yr senior security (FRN/Fixed) at +110bp
- UBS (A+) 3 & 5yr senior securities (FRN/Fixed) at +125bp and +145bp respectively
- QBank (BBB-) 3yr senior FRN at +165bp

Amongst the "A" rated sector, the securities widened by around 5-10bp at the longer-end of the curve, mainly driven by new issuances. The "BBB" rated sector remained relatively flat. Credit securities are looking much more attractive given the widening of spreads over the past ~2 years. 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)	30/11/2023	31/10/2023
"AA" rated – 5yrs	+100bp	+103bp
"AA" rated – 3yrs	+81bp	+80bp
"A" rated – 5yrs	+135bp	+125bp
"A" rated – 3yrs	+110bp	+105bp
"BBB" rated – 3yrs	+150bp	+150bp

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 2025 for the "AA" rated ADIs (domestic major banks);
- On or before 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) 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.

Senior Fixed Bonds – ADIs (Secondary Market)

With global inflation still high by historical standards, this has seen a significant lift in longer-term bond yields over the past 2 years (valuations have 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
AU3CB0273407	UBS	A+	Senior	30/07/2025	1.67	1.20%	5.42%
AU3CB0280030	BoQ	BBB+	Senior	06/05/2026	2.44	1.40%	5.54%
AU3CB0299337	Bendigo	BBB+	Senior	15/05/2026	2.46	4.70%	5.49%
AU3CB0296168	BoQ	BBB+	Senior	27/01/2027	3.16	4.70%	5.57%

Economic Commentary

International Market

There was a strong rally across risk markets in November following further signs of inflation easing globally, but also on expectations that the US may start cutting official interest rates as early as mid-2024. Global bonds rallied, with yields falling significantly at the long-end of the curve, reversing some of the losses experienced the past few months.

Across equity markets, the S&P 500 Index gained +8.92%, whilst the NASDAQ surged +10.70%. Europe's main indices also experienced large gains, led by Germany's DAX (+9.49%) and France's CAC (+6.17%). UK's FTSE posted modest gains (+1.80%).

The US FOMC held rates steady as expected during the month. The post-meeting statement saw two only minor changes: 'solid' growth was upgraded to 'strong', and there was some acknowledgement of higher longer-end yields, with tighter financial conditions mentioned alongside tighter credit conditions.

US CPI was unchanged in October against consensus for a +0.1% gain. In 3m annualised terms, core inflation eked higher to +3.4%, but the 6m annualised showed an ongoing downtrend at +3.2%. The US unemployment rate increased to 3.9% in October from 3.8% in September. Wages growth also eased during the month, with average hourly earnings rising +0.2%m/m and +4.1%y/y, down from +4.3% in September.

Canada added +17.5k jobs in October, its weakest job gain in more than a year. Meanwhile the unemployment rose 0.2% to 5.7%, the fourth monthly increase in the past six months.

Q3 Eurozone GDP printed at -0.1% against a flat expected outcome. Eurozone October CPI was up just +0.1% against +0.3% expected (annually down to a 2yr low of +2.9%), with core CPI down to +4.3% from +4.5%.

The Bank of England kept rates on hold at 5.25% for the second consecutive month which was in line with expectations.

Chinese inflation data was soft but did not change the narrative given the recent run of soft data. CPI was -0.2% y/y vs. -0.1% expected and PPI -2.6% y/y vs. -2.7% expected.

The MSCI World ex-Aus Index rose +8.87% for the month of November:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+8.92%	+1.33%	+11.95%	+8.04%	+10.60%	+9.72%
MSCI World ex-AUS	+8.87%	+0.97%	+13.55%	+5.15%	+8.31%	+6.53%
S&P ASX 200 Accum. Index	+5.03%	-0.45%	+1.45%	+7.15%	+8.72%	+7.26%

Source: S&P, MSCI

Domestic Market

As expected, the RBA hiked by 25bp in its meeting in November to 4.35%. The markets' attention was however more focused on their much less-hawkish tightening bias. Key to that was the insertion of the qualifier "*whether*" when discussing the probability of further rate hikes ("*whether further tightening of monetary policy is required to ensure that inflation returns to target in a reasonable timeframe will depend upon the data and the evolving assessment of risks*").

The RBA revised its inflation track – now 3½% by end 2024 (up from 3¼%), and "*top of the target range of 2-3% by the end of 2025*".

The monthly (October) CPI indicator fell to +4.9% y/y from +5.6%. The figure excluding fuel, fruit & veg, and travel number was +5.1% from +5.5%, slowing but still elevated.

The Q3 wage price index (WPI) came in line with consensus for the quarter at +1.3%, but a little higher over the year at +4.0% y/y (consensus +3.9%). This data does not argue for a rate hike as early as December given the RBA's mild tightening bias, whilst a hike in February is still plausible given the inflation outlook.

Employment in October was much stronger than expected at +55.0k, but remains volatile; it has been trending at +28.3k. The unemployment rate rose 0.2% to 3.7% as expected, largely driven by the rise in the participation rate by 0.2% to 67.0%.

Retail sales fell -0.2% m/m in October (consensus +0.1%), partially driven by the rising popularity of Black Friday/Cyber Monday sales, delaying some spending from October's figures. Overall, the level of retail sales remains high relative to pre-pandemic trends.

Dwelling approvals for October beat expectations at +7.5% m/m vs. the +1.4% consensus.

The Australian dollar rose +4.76%, finishing the month at US66.48 cents (from US63.46 cents the previous month).

Credit Market

The global credit indices tightened significantly over November as risk markets rallied. They are now back to their levels in early 2022 (prior to the rate hike cycle from most central banks):

Index	November 2023	October 2023
CDX North American 5yr CDS	63bp	81bp
iTraxx Europe 5yr CDS	68bp	89bp
iTraxx Australia 5yr CDS	75bp	98bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	November 2023	October 2023
Bloomberg AusBond Bank Bill Index (0+YR)	+0.35%	+0.33%
Bloomberg AusBond Composite Bond Index (0+YR)	+2.97%	-1.85%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.45%	+0.37%
Bloomberg AusBond Credit Index (0+YR)	+1.84%	-0.77%
Bloomberg AusBond Treasury Index (0+YR)	+3.08%	-1.85%
Bloomberg AusBond Inflation Gov't Index (0+YR)	+2.47%	-1.35%

Source: Bloomberg

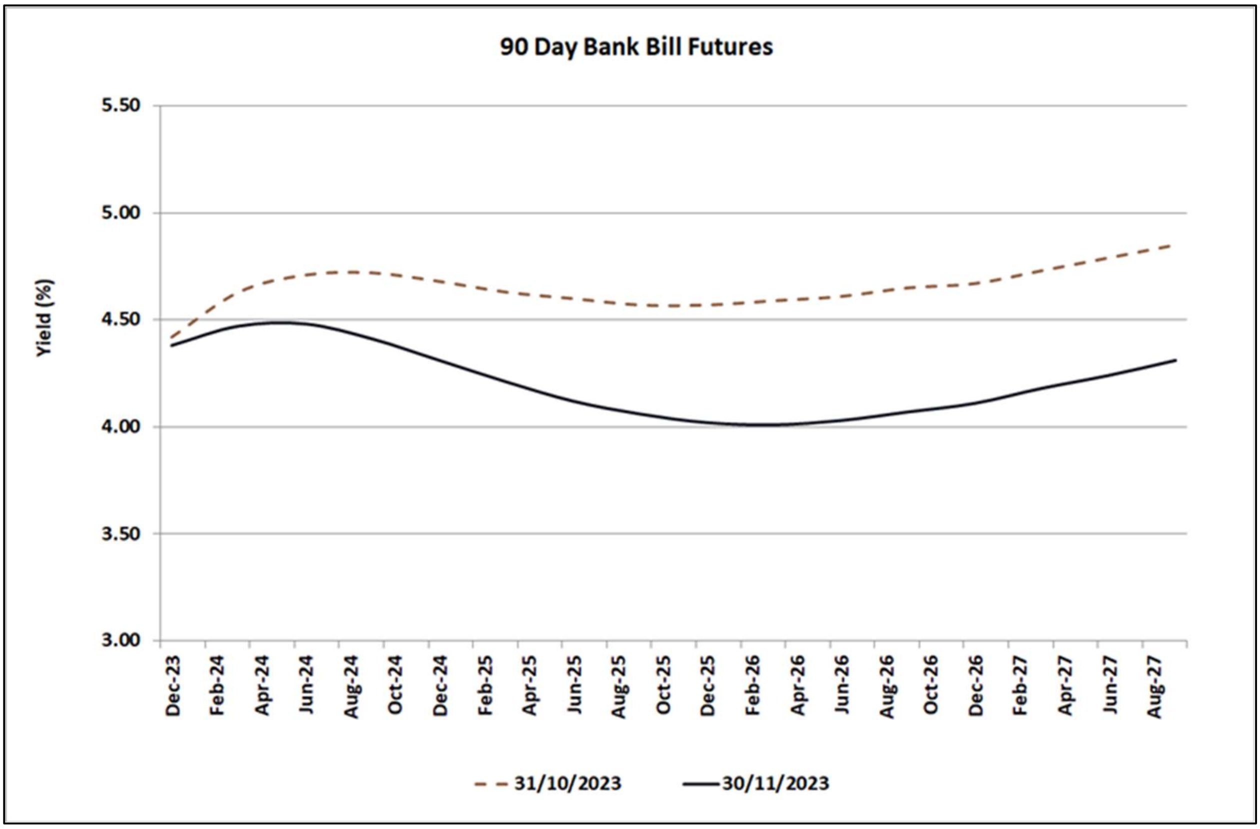
Other Key Rates

Index	November 2023	October 2023
RBA Official Cash Rate	4.35%	4.10%
90 Day (3 month) BBSW Rate	4.37%	4.35%
3yr Australian Government Bonds	4.01%	4.41%
10yr Australian Government Bonds	4.41%	4.93%
US Fed Funds Rate	5.25%-5.50%	5.25%-5.50%
2yr US Treasury Bonds	4.73%	5.07%
10yr US Treasury Bonds	4.37%	4.88%

Source: RBA, ASX, US Department of Treasury

90 Day Bill Futures

Bill futures fell across the board this month, following the movement in the global bond market. The RBA's tolerance for persistently high levels of inflation may force them to lift rates again by February. The bills market continues to factor in the possibility of an economic downturn over the next few years, highlighted by the drop in the futures pricing by mid-2024:



Source: ASX

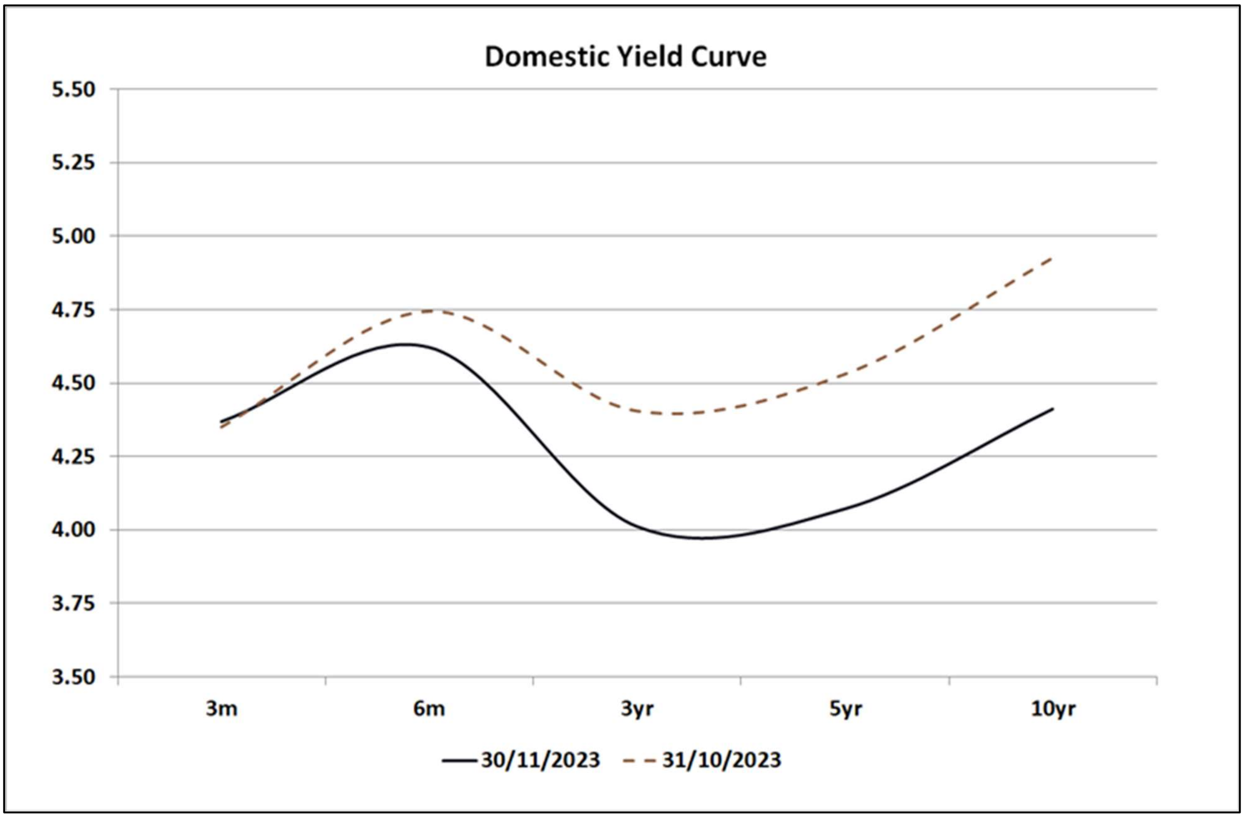
Fixed Interest Outlook

Global inflation has remained sticky across advanced economies, with energy prices remaining a significant risk to headline inflation. The near-term outlook around monetary policy is still firmly to the upside, particularly if progress on the downward trend of inflation stalls.

There is considerable uncertainty when central banks will start to cut official rates. The US Federal Reserve hinted they may potentially cut interest rates in 2024, commenting that "*the significant tightening in financial conditions in recent months, driven by higher longer-term yields*" in its latest policy meeting minutes. However, the Fed policy is to remain at a "*restrictive stance for some time until inflation is clearly moving down sustainably.*" The futures market nevertheless is still factoring around 100bp worth of cuts in 2024.

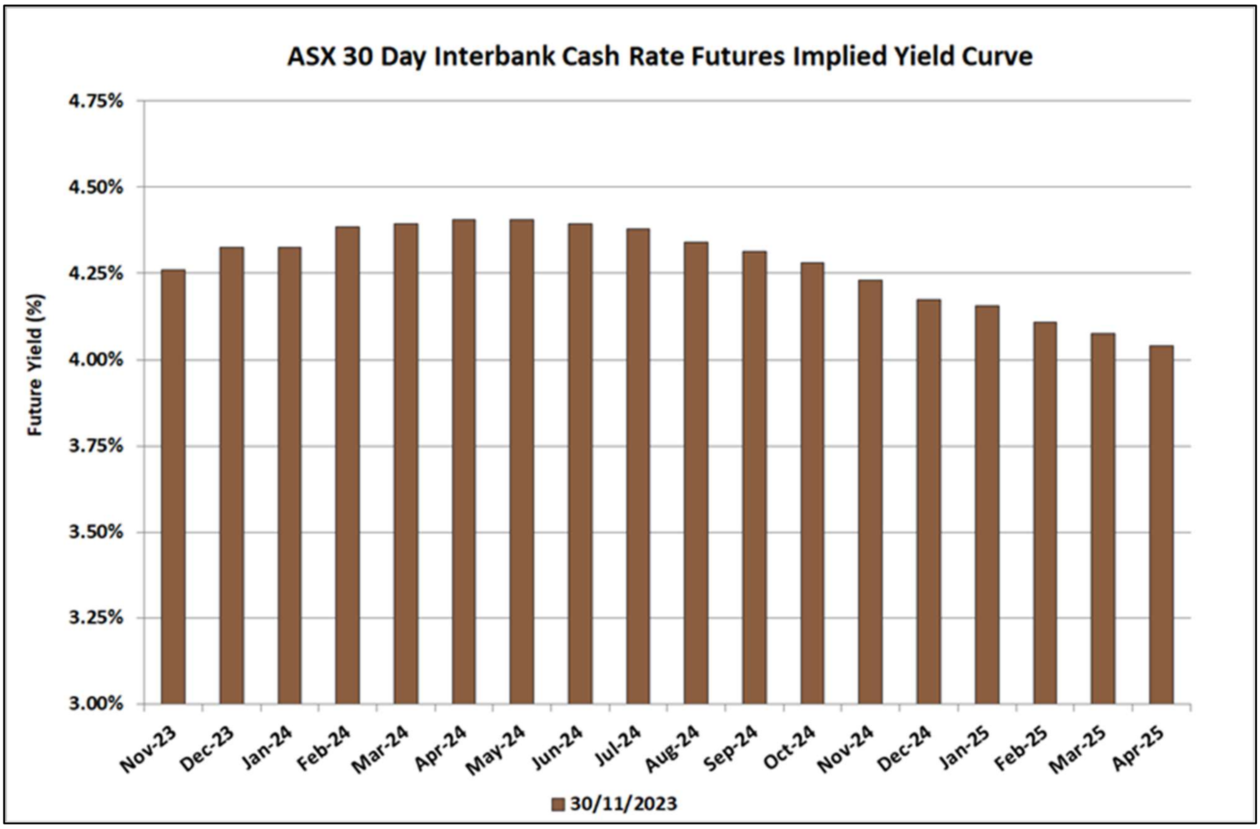
Domestically, the RBA remains committed to tightening the cash rate further if required, to ensure that inflation returns to target within a reasonable timeframe. The Board's tolerance for the sustained high levels of inflation is languishing and the market believes this may force its hand with another rate hike over coming meetings. RBA Governor Bullock recently commented that persistent domestic inflation is influenced less by global supply shocks and more by the demand-driven 'homegrown' factors.

Over the month, yields fell by 52bp at the long end of the curve:



Source: ASX, RBA

Some analysts believe we may have reached the peak of the monetary tightening cycle, whilst others believe there is at least one more rate hike to be delivered by the RBA (likely in Feb 2024). Interestingly, financial markets are currently anticipating a rate cut by the end of 2024:



Source: ASX

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