



# Monthly Investment Review

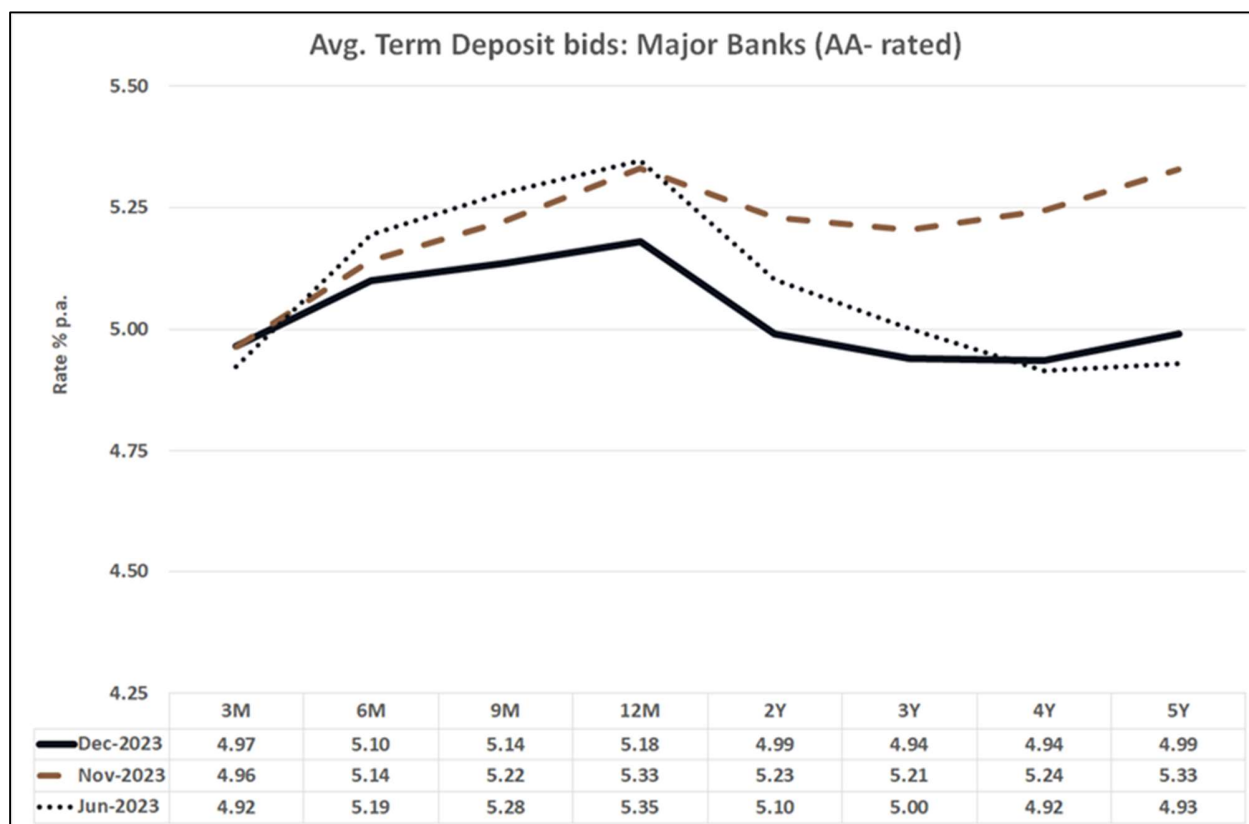


December 2023

## Market Update Summary

Financial markets continued their strong rally in December as inflation continues to ease and growing hopes that central banks will move towards an easing cycle (cut official interest rates) in 2024.

Over December, major bank deposit rates fell ~5-10bp for 6-12 month tenors, as the market turns its attention to potential rate cuts in 2024. Interestingly, at the longer-end (2-5 years), deposit rates offered by the majors banks fell between ~25-30bp with the banks clearly pricing in rate cuts in 2024 and into 2025. Rates are now inverse again across the longer-tenors (1-5 year rates), with the peak rate offered in the 12 month tenor.



Source: Imperium Markets

With a global economic downturn and multiple interest rate cuts 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 5% p.a. (small allocation only).

## City of Parramatta Council's Portfolio Summary

### Term Deposits

Term Deposits (fixed and floating) account for around 64% of the total investment portfolio at month-end. Council's term deposit portfolio was yielding 4.01% p.a. at month-end, with a weighted average duration of around 212 days or ~7 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 **+0.07% (actual)** in December 2023 (or **+\$32,711 in dollar terms**). Once new FRN of \$1m was purchased during the month.

Summary	November 2023	December 2023	Net Flow (\$)	Monthly Change %
Face Value	\$48,700,000	\$49,700,000	\$1,000,000	+2.12%
Market Value	\$48,815,431	\$49,848,142	\$1,032,711	+0.07%

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 +\$148,246** (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 **\$6,688 in dollar terms or +0.06% (actual)** for the month. A new \$1m QBank (BBB-) FRN was purchased during the month.

Summary	November 2023	December 2023	Net Flow (\$)	Monthly Change %
Face Value	\$10,300,000	\$11,300,000	\$1,000,000	+2.05%
Market Value	\$10,317,207	\$11,323,895	\$1,006,688	+0.06%

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 1.86 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. 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. Separately, in recent months, Council purchased fixed bonds with BoQ (BBB+) and Judo (BBB-) Bank at discounted values – these are likely to result in capital gains as they mature and were originally purchased at above +5% and +6% yields respectively.

## TCorp Long-Term Growth Fund

The NSW TCorp Fund accounts for ~6½% of Council's total investment portfolio. **The Fund returned +3.08% (actual) during December.** Domestic and international shares rallied again this month, as well as bonds (yields fell), contributing to overall returns of the Fund.

Summary	Nov 2023	Dec 2023	Investment (\$)	Net Return (\$)	Net Return (%)
Market Value	\$30,711,280	\$31,655,723	\$0	+\$944,443	+3.08%

Asset markets rallied strongly again in December, with equities surging, credit spreads tightening and bond yields falling; all driven by an expectation that the rate tightening cycle is finished and speculation for rate cuts in 2024 brought forward. The driver has been the macroeconomic data, evidence that inflation pressures continue to ease, and that growth data is slowing. Central bankers are trying to maintain their tough talk, but markets are no longer listening, as consensus has made a shift toward a 'goldilocks' outlook for softer growth but no hard landing and inflation falling back to target.

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 +1.32% (actual) in December**, as the market valuation of the fund's assets in global credit securities increased during the month.

Summary	Nov 2023	Dec 2023	Difference (\$)	Difference (%)
Market Value	\$15,160,095	\$15,359,881	+\$199,786	+1.32%

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 lower.

## Cash Accounts

Cash accounts make up around 10½% 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 \$1.085m 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 (fluctuations can be up or down \$1m on any month).

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	\$10,367,665	\$1,085,165
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.

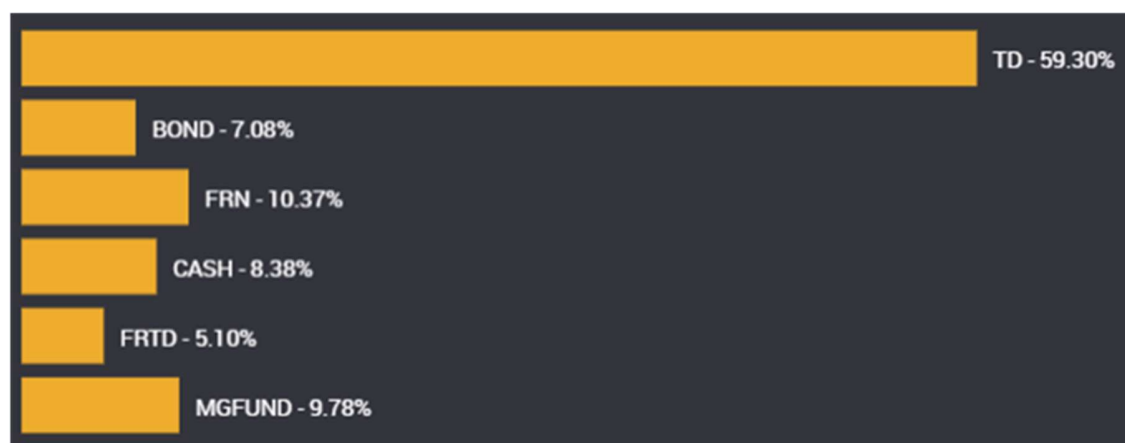
## Council’s Portfolio & Compliance

### Asset Allocation

As at the end of December 2023, the portfolio was mainly directed to fixed and floating rate term deposits (64%). The remaining portfolio is directed to FRNs (10%), overnight cash accounts (8%), bonds (7%), and the managed funds with CFS Global Credit Income Fund and NSW T-Corp Long Term Growth Fund (10%, 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 multiple rate cuts and 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 5% 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	\$318,573,537	66.27%	20%	100%	\$162,135,696
✓	1 - 2 years	\$51,251,605	10.66%	0%	70%	\$285,244,858
✓	2 - 5 years	\$79,228,368	16.48%	0%	60%	\$209,197,172
✓	5 - 10 years	\$31,655,723	6.59%	0%	15%	\$40,450,662
		<b>\$480,709,233</b>	<b>100.00%</b>			



## Counterparty

As at the end of December 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	\$903,246	0.19%	50.00%	\$239,451,370
✓	Bendigo Covered	AAA	\$5,209,886	1.08%	50.00%	\$235,144,730
✓	Suncorp Covered	AAA	\$547,861	0.11%	50.00%	\$239,806,756
✓	ING Covered	AAA	\$801,586	0.17%	50.00%	\$239,553,031
✓	ANZ	AA-	\$9,059,217	1.88%	40.00%	\$183,224,477
✓	CBA	AA-	\$32,389,621	6.74%	40.00%	\$159,894,072
✓	NAB	AA-	\$81,323,531	16.92%	40.00%	\$110,960,162
✓	Northern Territory	AA-	\$30,000,000	6.24%	40.00%	\$162,283,693
✓	Westpac	AA-	\$24,500,000	5.10%	40.00%	\$167,783,693
✓	Citibank NA	A+	\$1,000,469	0.21%	25.00%	\$119,176,839
✓	Macquarie	A+	\$2,428,474	0.51%	25.00%	\$117,748,835
✓	Suncorp	A+	\$5,752,384	1.20%	25.00%	\$114,424,925
✓	UBS AG	A+	\$5,757,654	1.20%	25.00%	\$114,419,654
✓	CFS Global CI	A	\$15,359,881	3.20%	25.00%	\$104,817,427
✓	ICBC	A	\$78,050,627	16.24%	25.00%	\$42,126,681
✓	Aus. Military Bank	BBB+	\$5,000,000	1.04%	15.00%	\$67,106,385
✓	Aus. Unity Bank	BBB+	\$6,000,000	1.25%	15.00%	\$66,106,385
✓	BankVIC	BBB+	\$5,000,000	1.04%	15.00%	\$67,106,385
✓	Bank of Us	BBB+	\$16,000,000	3.33%	15.00%	\$56,106,385
✓	BoQ	BBB+	\$5,984,934	1.25%	15.00%	\$66,121,451
✓	Bendigo-Adelaide	BBB+	\$3,111,703	0.65%	15.00%	\$68,994,682
✓	Hume Bank	BBB+	\$4,500,000	0.94%	15.00%	\$67,606,385
✓	QT Mutual Bank	BBB+	\$997,066	0.21%	15.00%	\$71,109,319
✓	AMP Bank	BBB	\$10,669,357	2.22%	15.00%	\$61,437,028
✓	Auswide Bank	BBB	\$24,000,000	4.99%	15.00%	\$48,106,385
✓	Bank Australia	BBB	\$2,708,503	0.56%	15.00%	\$69,397,882
✓	CUA	BBB	\$2,504,780	0.52%	15.00%	\$69,601,605
✓	G&C Mutual	BBB	\$5,000,000	1.04%	15.00%	\$67,106,385
✓	MyState	BBB	\$3,000,000	0.62%	15.00%	\$69,106,385
✓	P&N Bank	BBB	\$11,500,000	2.39%	15.00%	\$60,606,385
✓	Police Bank	BBB	\$3,000,000	0.62%	15.00%	\$69,106,385
✓	Judo Bank	BBB-	\$19,491,940	4.05%	15.00%	\$52,614,445
✓	QBank	BBB-	\$5,000,793	1.04%	15.00%	\$67,105,592
✓	The Mutual	BBB-	\$8,500,000	1.77%	15.00%	\$63,606,385

Compliant	Issuer	Rating	Invested (\$)	Invested (%)	Max. Limit (%)	Available (\$)
✓	Bank of Sydney	Unrated	\$5,000,000	1.04%	1.04%	\$0
✓	Summerland Bank	Unrated	\$3,000,000	0.62%	1.04%	\$2,000,000
✓	Unity Bank	Unrated	\$5,000,000	1.04%	1.04%	\$0
✓	Warwick CU	Unrated	\$1,000,000	0.21%	1.04%	\$4,000,000
✓	TCorpIM LTG	Unrated	\$31,655,723	6.59%	10.00%	\$16,415,200
			<b>\$480,709,233</b>	<b>100.00%</b>		

### 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
<b>Australian Owned ADI</b>	<b>\$319,837,487</b>	<b>66.53%</b>
Australia	\$319,837,487	66.53%
<b>Branches of Foreign Bank</b>	<b>\$108,308,281</b>	<b>22.53%</b>
China	\$78,050,627	16.24%
Switzerland	\$5,757,654	1.20%
United States	\$24,500,000	5.10%
<b>Foreign Subsidiary Banks</b>	<b>\$5,547,861</b>	<b>1.15%</b>
Lebanon	\$5,000,000	1.04%
Netherlands	\$547,861	0.11%
<b>Global<sup>^</sup></b>	<b>\$47,015,604</b>	<b>9.78%</b>
International	\$47,015,604	9.78%
<b>Total</b>	<b>\$480,709,233</b>	<b>100.00%</b>

Source: <https://www.apra.gov.au/register-of-authorized-deposit-taking-institutions>

<sup>^</sup>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 67% of Council's total investment portfolio is placed with domestic ADIs, while the remaining 33% 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 31/12/2023 (\$480.71m), we can roughly estimate that ~50% 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
Bank of Us	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
Bank of Sydney	Unrated	No
Summerland 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	\$239,837,379	50%
No	\$240,871,854	50%
	<b>\$480,709,233</b>	<b>100%</b>

### **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	\$7,462,579	2%	100%	\$473,246,654
✓	AA Range or Major Banks	\$177,272,369	37%	100%	\$303,436,864
✓	A Category	\$108,349,488	23%	80%	\$276,217,898
✓	BBB Category	\$141,969,075	30%	30%	\$2,243,695
✓	Unrated ADI Category	\$14,000,000	3%	10%	\$34,070,923
✓	TCorpIM Funds	\$31,655,723	7%	25%	\$88,521,585
		<b>\$480,709,233</b>	<b>100.00%</b>		

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 December 2023 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	0.36%	1.06%	2.09%	2.09%	3.89%	2.59%	1.76%
AusBond Bank Bill Index	0.37%	1.06%	2.15%	2.15%	3.89%	2.56%	1.71%
PCC Internal Benchmark*	0.64%	1.55%	2.65%	2.65%	5.13%	3.19%	2.48%
PCC Cash Portfolio	0.38%	1.12%	2.21%	2.21%	4.14%	2.83%	2.04%
PCC T/D Portfolio	0.33%	0.93%	1.83%	1.83%	3.13%	2.47%	2.08%
PCC FRN Portfolio	0.47%	1.38%	2.81%	2.81%	5.19%	3.85%	3.13%
PCC Bond Portfolio	0.12%	0.33%	0.61%	0.61%	1.17%	1.13%	1.10%
PCC Credit Fund	1.32%	2.96%	4.78%	4.78%	7.91%	3.51%	2.78%
PCC TCorp Growth Fund	3.08%	5.45%	4.54%	4.54%	12.16%	1.29%	5.22%
<b>PCC's Total Portfolio</b>	<b>0.55%</b>	<b>1.30%</b>	<b>2.18%</b>	<b>2.18%</b>	<b>4.09%</b>	<b>2.51%</b>	<b>2.23%</b>
<b>Rel. Perf. (BBI)</b>	<b>0.18%</b>	<b>0.24%</b>	<b>0.03%</b>	<b>0.03%</b>	<b>0.20%</b>	<b>-0.05%</b>	<b>0.52%</b>
<b>Rel. Perf. (Int. Bench.)</b>	<b>-0.10%</b>	<b>-0.25%</b>	<b>-0.47%</b>	<b>-0.47%</b>	<b>-1.04%</b>	<b>-0.68%</b>	<b>-0.25%</b>

\*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 December, the total investment portfolio (including cash) provided a return of +0.55% (actual) or +6.63% p.a. (annualised),** outperforming the AusBond Bank Bill Index return of +0.37% (actual) or +4.43% p.a. (annualised), whilst underperforming Council's internal benchmark return of +0.64% (actual) or +7.86% 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 December 2023 are shown in the following table:

<b>Performance (% p.a.)</b>	<b>1 month</b>	<b>3 months</b>	<b>6 months</b>	<b>FYTD</b>	<b>1 year</b>	<b>2 years</b>	<b>3 years</b>
Official Cash Rate	4.35%	4.27%	4.18%	4.18%	3.89%	2.59%	1.76%
AusBond Bank Bill Index	4.43%	4.26%	4.31%	4.31%	3.89%	2.56%	1.71%
PCC Internal Benchmark*	7.86%	6.29%	5.32%	5.32%	5.13%	3.19%	2.48%
PCC Cash Portfolio	4.60%	4.52%	4.43%	4.43%	4.14%	2.83%	2.04%
PCC T/D Portfolio	3.97%	3.74%	3.66%	3.66%	3.13%	2.47%	2.08%
PCC FRN Portfolio	5.64%	5.60%	5.65%	5.65%	5.19%	3.85%	3.13%
PCC Bond Portfolio	1.45%	1.32%	1.22%	1.22%	1.17%	1.13%	1.10%
PCC Credit Fund	16.67%	12.26%	9.69%	9.69%	7.91%	3.51%	2.78%
PCC TCorp Growth Fund	42.85%	23.44%	9.21%	9.21%	12.16%	1.29%	5.22%
<b>PCC's Total Portfolio</b>	<b>6.63%</b>	<b>5.25%</b>	<b>4.37%</b>	<b>4.37%</b>	<b>4.09%</b>	<b>2.51%</b>	<b>2.23%</b>
<b>Rel. Perf. (BBI)</b>	<b>2.20%</b>	<b>0.99%</b>	<b>0.06%</b>	<b>0.06%</b>	<b>0.20%</b>	<b>-0.05%</b>	<b>0.52%</b>
<b>Rel. Perf. (Int. Bench.)</b>	<b>-1.22%</b>	<b>-1.04%</b>	<b>-0.95%</b>	<b>-0.95%</b>	<b>-1.04%</b>	<b>-0.68%</b>	<b>-0.25%</b>

## Recommendations for Council

### Term Deposits

As at the end of December 2023, Council's **deposit** portfolio was yielding **4.01% p.a.** (up 30bp from the previous month), with a weighted average duration of around 212 days (~7 months).

There is growing belief that multiple interest rate cuts and a global economic downturn is forthcoming and so locking in rates close to or above 5% 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	+76.0bp	\$100.047	\$469

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
<b>Total Realised Gains FY2023-2024</b>							<b>\$27,144</b>



## 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
24/11/2020	16/12/2024	\$1,000,000	0.90%	0.96	Annually
16/02/2021	16/06/2025	\$1,000,000	0.90%	1.46	Annually
16/02/2021	15/06/2026	\$5,000,000	1.00%	2.46	Annually
12/05/2021	17/06/2024	\$3,000,000	0.80%	0.46	Annually
12/05/2021	16/06/2025	\$3,000,000	1.10%	1.46	Annually
12/05/2021	15/06/2026	\$3,000,000	1.30%	2.46	Annually
20/05/2021	16/06/2025	\$3,500,000	1.10%	1.46	Annually
09/09/2021	16/12/2024	\$2,500,000	0.90%	0.96	Semi-Annually
09/09/2021	15/12/2026	\$5,000,000	1.40%	2.96	Semi-Annually
<b>Totals / Wgt. Avg.</b>		<b>\$27,000,000</b>	<b>1.09%</b>	<b>1.86 yrs</b>	

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. Where attractive, Council may consider purchasing additional units in these securities in the secondary market to 'average-in' a better overall purchase price.

Issuer	Rating	Maturity Date	ISIN	Face Value	Purchase Yield	Current Yield	Unrealised Gain / Loss (\$)
ING	AAA	19/08/2026	AU3CB0282358	\$600,000	1.16%	4.63%	-\$50,393
BoQ	BBB+	06/09/2024	AU3CB0296168	\$1,500,000	5.45%	5.06%	+\$17,648
Judo	BBB-	26/09/2025	AU3CB0292480	\$2,000,000	6.60%	6.61%	-\$1,180

## CFS Global Credit Income Fund

For the month of December, the CFS Global Credit Income Fund returned +1.32% (actual), outperforming the AusBond Bank Bill Index return of +0.37% (actual), whilst underperforming the AusBond Credit Index return of +2.10% (actual).

Risk markets rallied, encouraged by hopes for a soft landing for the US economy and rate cuts in 2024. Credit market returns were enhanced by the combined impact of tighter spreads and lower yields.

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 +3.08% (actual) for the month of December.** Both domestic shares (S&P ASX 200 Accumulation Index +7.26%) and international shares (MSCI World ex-Australia +4.70%) continued their rally this month. Bonds also provided solid returns as yields fell/valuations rose (AusBond Composite Bond Index gained +2.69%).

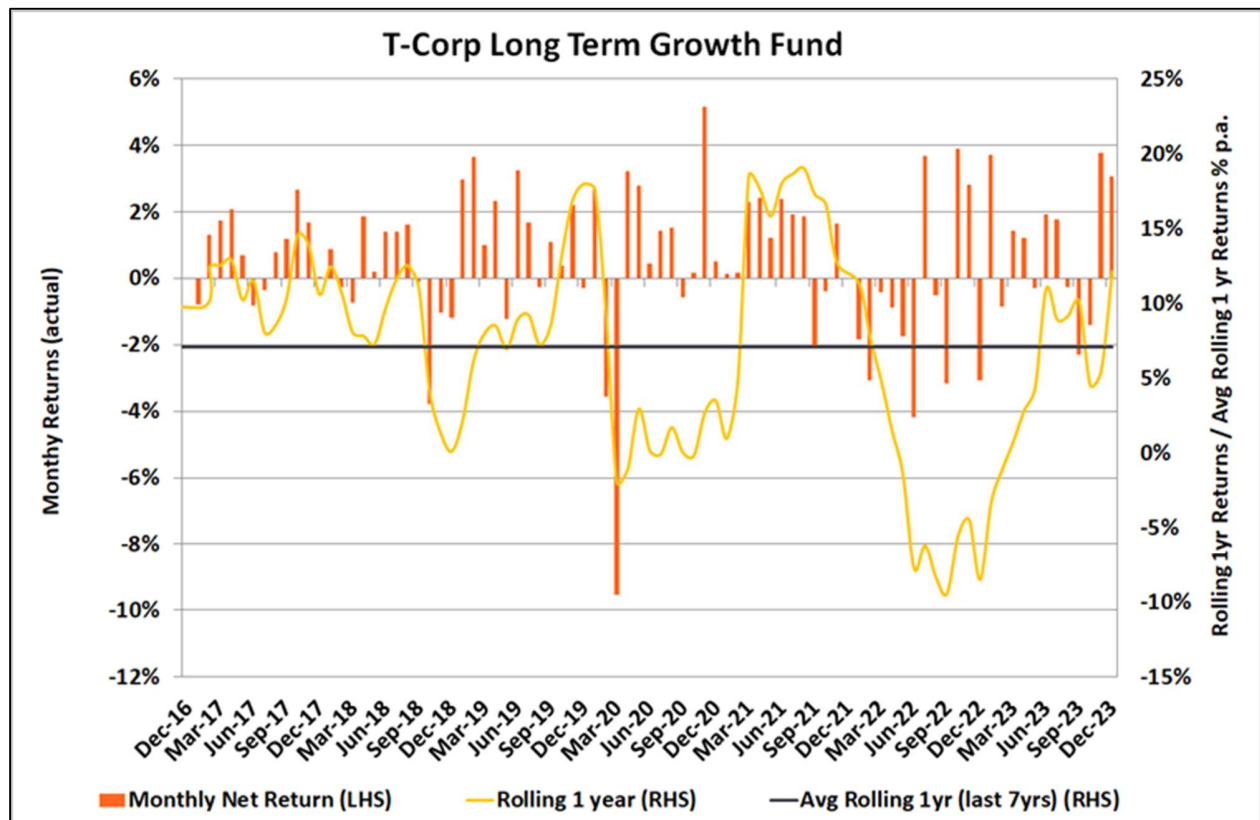
Asset markets rallied strongly again in December, with equities surging, credit spreads tightening and bond yields falling; all driven by an expectation that the rate tightening cycle is finished and speculation for rate cuts in 2024 brought forward. The driver has been the macroeconomic data, evidence that inflation pressures continue to ease, and that growth data is slowing. Central bankers are trying to maintain their tough talk, but markets are no longer listening, as consensus has made a shift toward a 'goldilocks' outlook for softer growth but no hard landing and inflation falling back to target.

Central banks have continued to raise rates throughout 2023 and talk tough despite inflation trending lower as the year progressed. This has been because growth has proven resilient. The challenge for 2024 will be whether inflation returning to target is enough to justify rate cuts if a recession is indeed avoided.

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 rate cuts will be delivered in 2024.

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	271
Total Months	414 (34.50 yrs)
Average Monthly Return	+0.65% (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 December, we see value in:

Index	LT Credit Rating	Term	Rate % p.a.
ING	A	2 years	5.14%
ING	A	5 years	5.08%
ING	A	3-4 years	5.03%
Suncorp	A+	1½ years	4.95%
BoQ	BBB+	2 years	4.90%
Suncorp	A+	2 years	4.85%
Westpac	AA-	2 years	4.74%
NAB	AA-	2 years	4.70%

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.
ING	A	12 months	5.32%
ING	A	9 months	5.22%
Suncorp	A+	9 months	5.17%
Suncorp	A+	12 months	5.15%
NAB	AA-	12 months	5.13%
NAB	AA-	6-11 months	5.10%
BoQ	BBB+	9 months	5.10%
Bendigo	BBB+	9 months	5.05%
BoQ	BBB+	12 months	5.05%
NAB	AA-	3-5 months	5.05%
Westpac	AA-	12 months	5.01%
BoQ	BBB+	3 months	5.00%

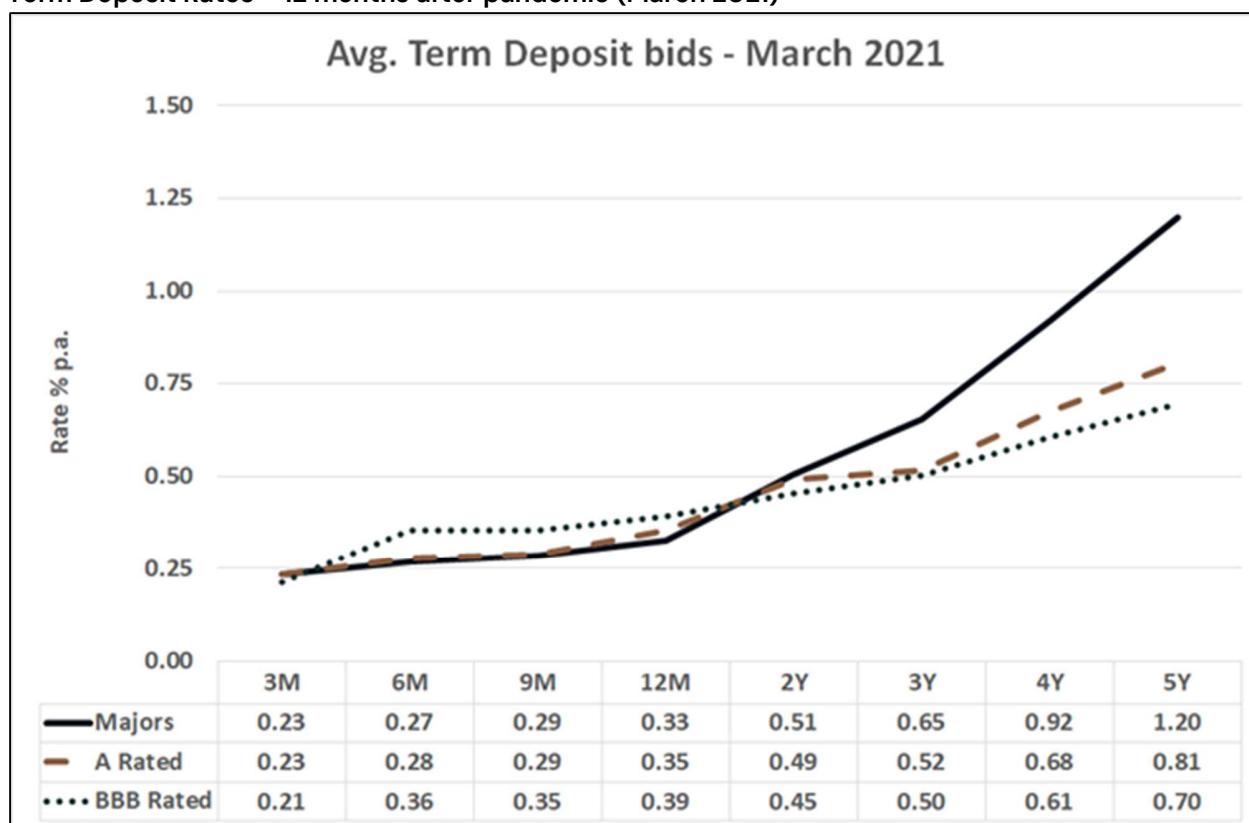
If Council does not require high levels of liquidity and can stagger a proportion of its investments across the longer term horizons (1–5 years), it will be rewarded over a longer-term cycle. Investing a spread of 12 months to 3 year horizons is likely to yield, on average, up to ¼–½% p.a. higher compared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

With a global economic slowdown and rate cuts 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 5% p.a. This will provide some income protection if central banks decide to cut rates in future years, assuming inflation has well and truly 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)

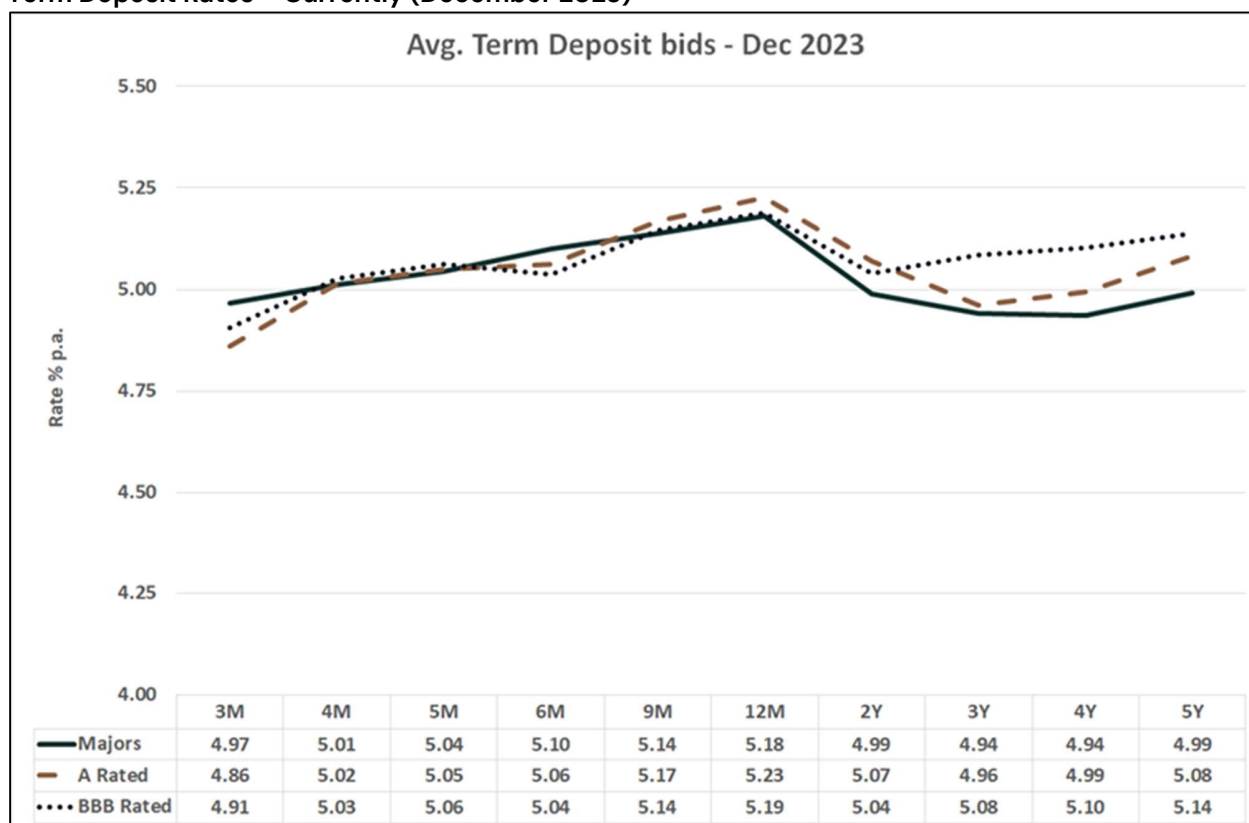


Source: Imperium Markets

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 few months have been an exception, with the major banks repricing more rapidly to the movement in the bond market than their lower rated counterparts. This reversed somewhat over December with the lower rated institutions lagging the major banks in dropping their rates:

### Term Deposit Rates – Currently (December 2023)



Source: Imperium Markets

### Regional & Unrated ADI Sector

Ratings agency S&P has commented that "*mergers remain compelling for mutual 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.

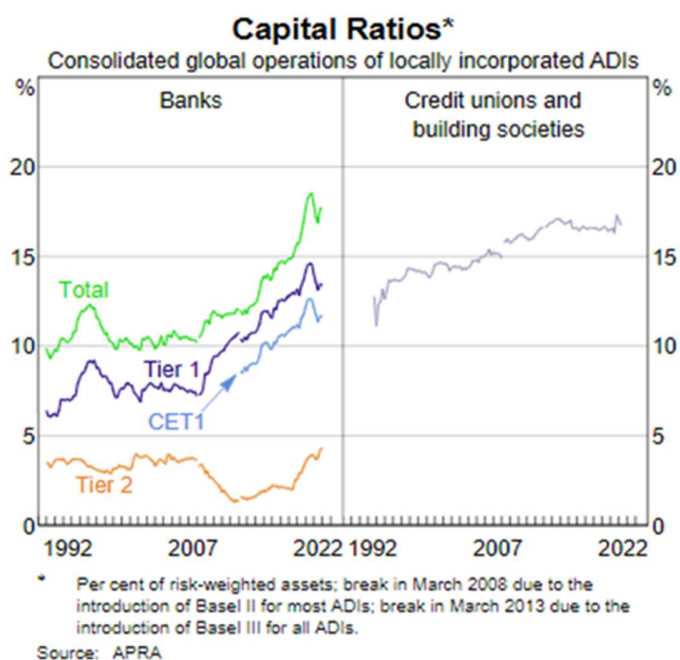
We remain supportive of the regional and unrated ADI sector (and have been even throughout the post-GFC period). They continue to remain solid, incorporate strong balance sheets, while exhibiting high levels of capital – typically, much higher compared to the higher rated ADIs. Some unrated ADIs have 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 than 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.

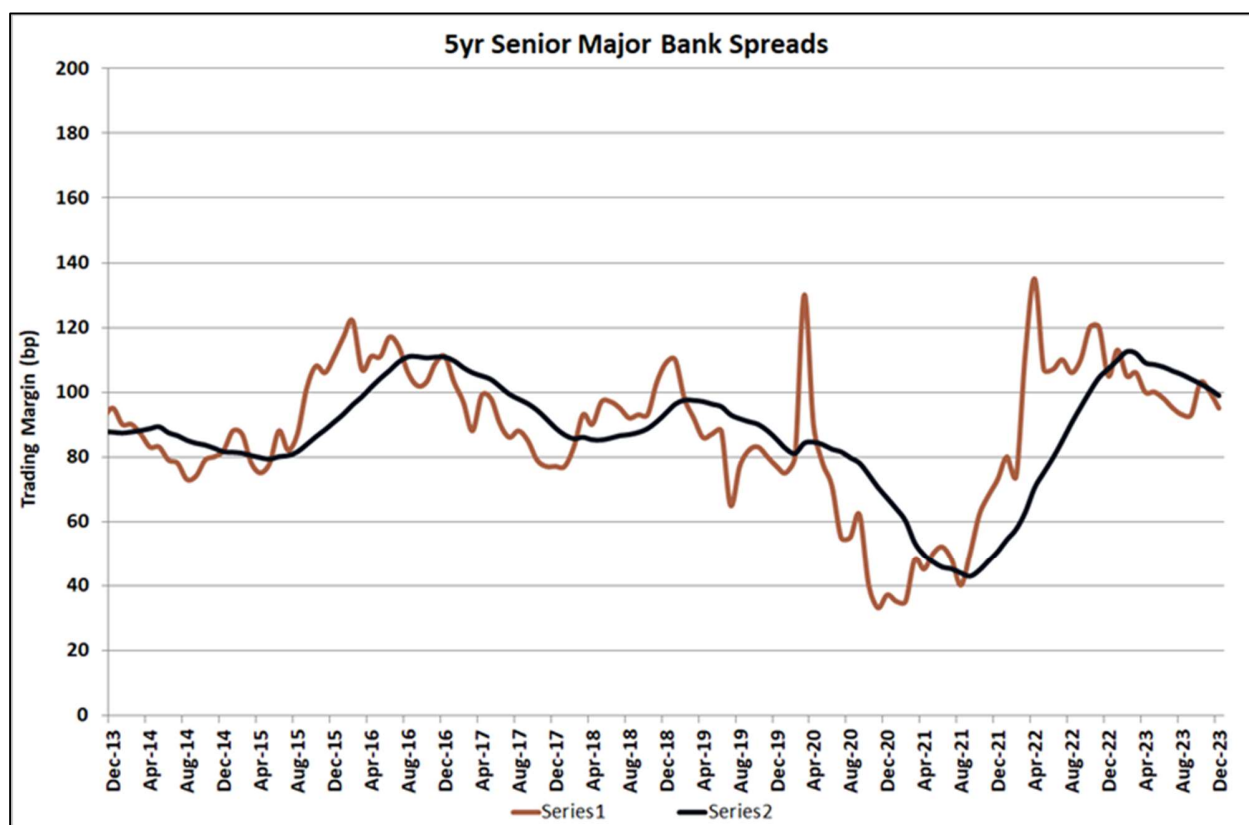
We believe that deposit investments with the lower rated ADIs should be considered going forward, particularly when they offer 'above market' specials. Not only would it diversify the investment portfolio and reduce credit risk, it would also improve the portfolio's overall returns. The lower rated entities 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 December, amongst the senior major bank FRNs, physical credit securities tightened by around 5-10bp at the long-end of the curve. Major bank senior securities remain at fair value on a historical basis (5yr margins around +95bp level).



Source: IBS Capital

During December, there was a lack of new issuances from the ADIs heading into the holiday period. The only two notable issuances were as follows:

- QBank (BBB-) 3yr senior FRN at +165bp
- BoQ (BBB+) 1yr senior FRN at +87bp

Amongst the “A” rated sector, the securities tightened by around 10bp at the longer-end of the curve. The “BBB” rated sector remained relatively flat, particularly given there is noticeably less secondary market trading. 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)	31/12/2023	30/11/2023
“AA” rated – 5yrs	+95bp	+100bp
“AA” rated – 3yrs	+71bp	+81bp
“A” rated – 5yrs	+125bp	+135bp
“A” rated – 3yrs	+97bp	+110bp
“BBB” rated – 3yrs	+148bp	+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	1.60	1.20%	5.02%
AU3CB0280030	BoQ	BBB+	Senior	06/05/2026	2.36	1.40%	5.22%
AU3CB0299337	Bendigo	BBB+	Senior	15/05/2026	2.39	4.70%	5.05%
AU3CB0296168	BoQ	BBB+	Senior	27/01/2027	3.09	4.70%	5.10%

## Economic Commentary

### International Market

Risk markets continued their rally in December on the back of easing inflation and central banks turning their focus on the timing of future interest rate cuts in 2024.

Across equity markets, the S&P 500 Index gained +4.42%, whilst the NASDAQ added +5.52%. Europe's main indices also experienced further gains, led by UK's FTSE (+3.75%), Germany's DAX (+3.31%) and France's CAC (+3.18%).

As widely expected, the US Federal Reserve held its policy rate unchanged at 5.25–5.50% for the third consecutive meeting. The Fed acknowledged US economic growth *"has slowed from its strong pace in the third quarter"* plus a recognition that *"inflation has eased over the past year"*. The US central bank also released its latest economic projections, and its latest 'dot plot' which shows each Fed official's projection for the central bank's key short-term interest rates. The new 'dot plot' effectively eliminated any further hints of rate hikes and showed an average of 75bp of interest rate cuts over 2024, and a further 100bp of cuts in 2025.

The latest US inflation data, which was released just prior to the US central bank policy meeting in mid-December, was in line with expectations, with headline consumer price index (CPI) rising +3.1% y/y and +0.1% m/m.

UK CPI surprised sharply lower in November, the headline falling -0.2% m/m and +3.9% y/y (+4.3% expected) and the core sliding to +5.1% y/y from +5.7% (consensus +5.6%).

The European Central Bank (ECB) and Bank of England (BoE) kept their respective interest rates steady. However unlike the Fed, both the ECB and BoE maintained higher interest rates had to continue. The BoE stated monetary policy was *"likely to need to be restrictive for an extended period of time"* and *"further tightening would be required if there were evidence of more persistent inflationary pressure"*.

The Bank of Canada held its policy rate at 5.00%, its third consecutive pause, whilst maintaining a tightening bias, noting *"the Governing Council is still concerned about risks to the outlook for inflation and remains prepared to raise the policy rate further if needed"*. Canada's employment rose a little ahead of expectation at +25k vs +14k expected. The unemployment ticked up to 5.8% from 5.7% as expected.

The MSCI World ex-Aus Index rose +4.70% for the month of December:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+4.42%	+11.24%	+24.23%	+8.29%	+13.73%	+9.94%
MSCI World ex-AUS	+4.70%	+11.00%	+22.04%	+5.70%	+11.09%	+6.83%
S&P ASX 200 Accum. Index	+7.26%	+8.40%	+12.42%	+9.24%	+10.28%	+7.93%

Source: S&P, MSCI

## Domestic Market

The RBA kept rates on hold at 4.35% as expected in its December meeting. The RBA Minutes continued in their recent tradition as reading more hawkish than the post-Meeting Statement. This was particularly the case this time around given it was not clear whether the case of a rate hike was genuinely discussed in December. Adding to the hawkish tone in the December Statement was the RBA's concerns over domestic driven inflation and the need to target the mid-point of the 2–3% inflation band, rather than just the top of the band.

The updated agreement between the RBA Board and the Government on key aspects of Australia's monetary and central banking framework revealed two significant changes. Firstly, the RBA will look to target the mid-point of the 2–3% inflation target. Secondly, the RBA has a dual mandate of sustained full employment and inflation (*"current maximum level of employment that is consistent with low and stable inflation"*).

Australia's unemployment rate increased to 3.9% in November (3.8% in October) despite the creation of more than 60,000 new jobs over the month. This was due to the rise in the participation rate which increased to a record high of 67.2% in November (67.0% in October) largely driven by high net migration which boosted domestic labour supply.

GDP rose by a weaker-than-expected +0.2% q/q (+2.1% y/y), signifying a clear further slowing in both domestic final demand and GDP growth, with the 'highlight' being flat Household Consumption in the quarter.

The October goods trade surplus rose to \$7.1bn (consensus \$7.5bn). Goods exports rose (+0.4% m/m or \$0.2bn) driven by 'metal ores and minerals' (+2.3% m/m or \$0.4bn) and 'metals' (+21.6% m/m or \$0.3bn).

The Australian dollar rose +2.89%, finishing the month at US68.40 cents (from US66.48 cents the previous month).

## Credit Market

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

Index	December 2023	November 2023
CDX North American 5yr CDS	56bp	63bp
iTraxx Europe 5yr CDS	60bp	68bp
iTraxx Australia 5yr CDS	72bp	75bp

Source: Markit

## Fixed Interest Review

### Benchmark Index Returns

Index	December 2023	November 2023
Bloomberg AusBond Bank Bill Index (0+YR)	+0.37%	+0.35%
Bloomberg AusBond Composite Bond Index (0+YR)	+2.69%	+2.97%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.51%	+0.45%
Bloomberg AusBond Credit Index (0+YR)	+2.10%	+1.84%
Bloomberg AusBond Treasury Index (0+YR)	+2.77%	+3.08%
Bloomberg AusBond Inflation Gov't Index (0+YR)	+4.65%	+2.47%

Source: Bloomberg

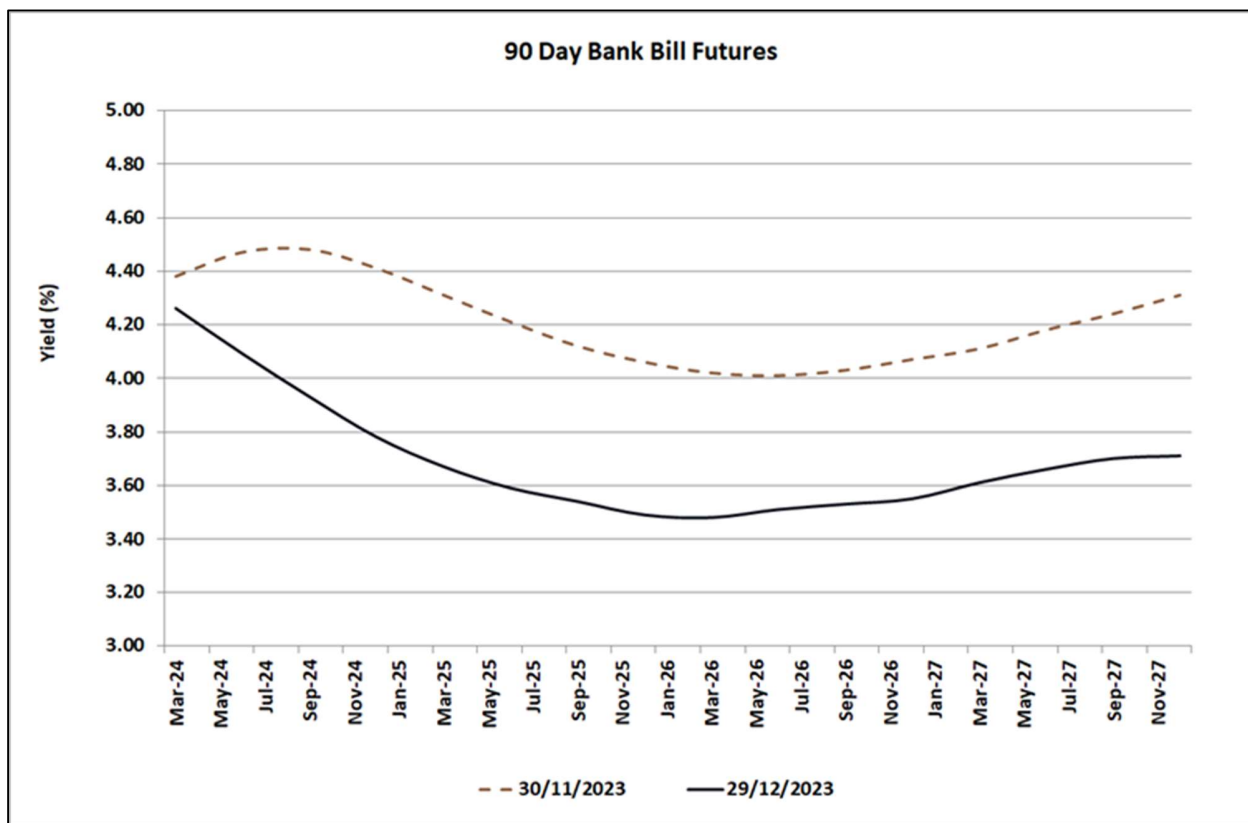
### Other Key Rates

Index	December 2023	November 2023
RBA Official Cash Rate	4.35%	4.35%
90 Day (3 month) BBSW Rate	4.36%	4.37%
3yr Australian Government Bonds	3.61%	4.01%
10yr Australian Government Bonds	3.97%	4.41%
US Fed Funds Rate	5.25%-5.50%	5.25%-5.50%
2yr US Treasury Bonds	4.23%	4.73%
10yr US Treasury Bonds	3.88%	4.37%

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 market has quickly turned and now focusing more on when the first rate cuts will be delivered in 2024:



Source: ASX

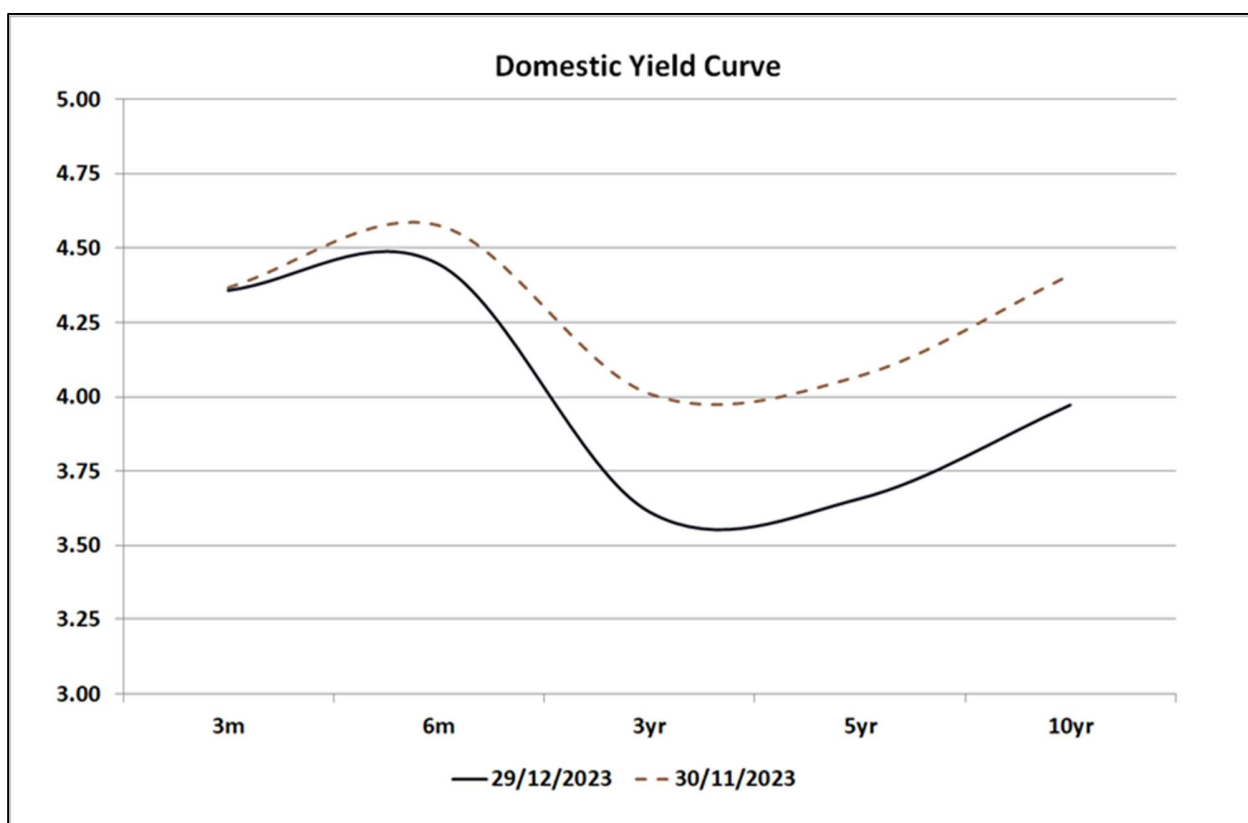


## Fixed Interest Outlook

Despite signs of easing, global inflation has remained somewhat sticky across advanced economies, with elevated energy prices remaining a risk to headline inflation. There is some uncertainty when central banks will start to cut official rates in 2024. Importantly, there was a change in stance by the US Federal Reserve as their latest 'dot plot' released in mid-December had no policymakers projecting further interest rate hikes for the first time since early 2021, with 17 of 19 Fed officials predicted lower rates by December 2024. Financial markets are now pricing in around 75–100bp of Fed rate cuts in 2024, with the first cut projected as early as March 2024.

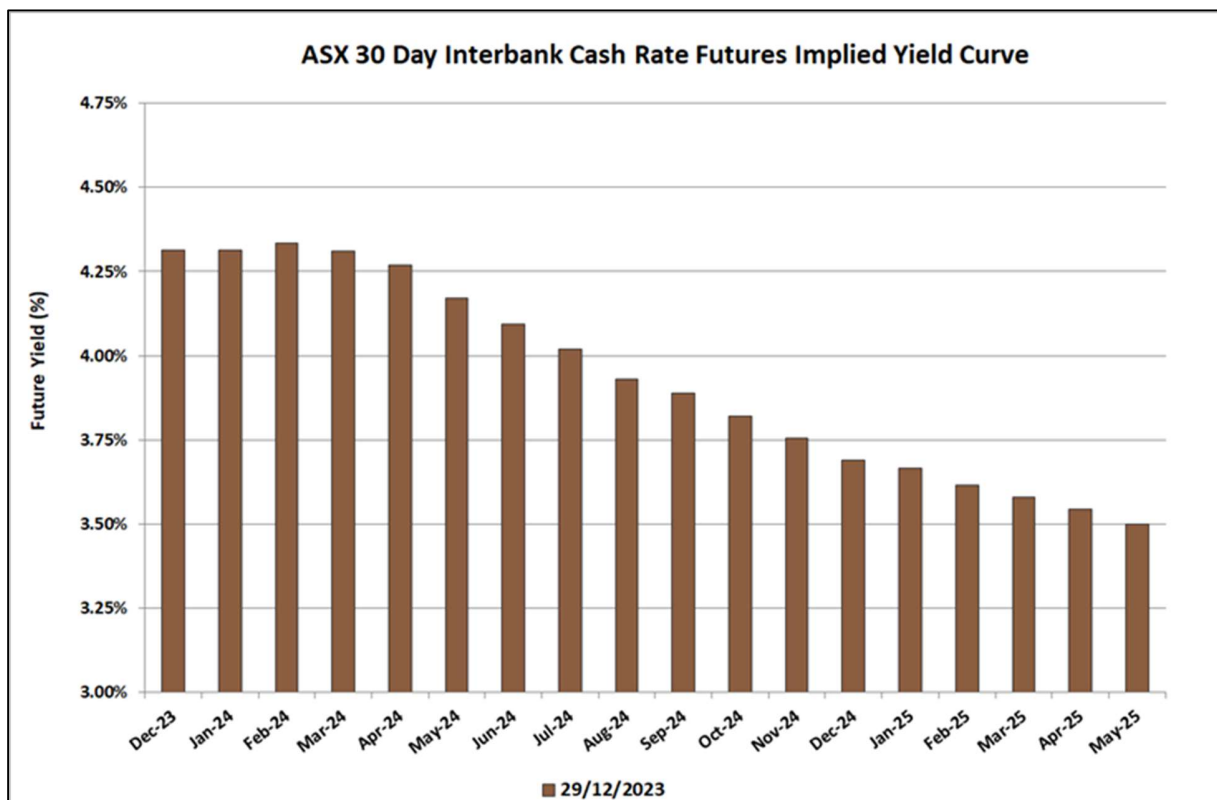
The Fed's pivot in monetary policy stance has reduced the risk of the RBA needing to raise rates its first meeting in 2024 (February). However, we note the RBA remains on a mild tightening bias, with the Board commenting that whilst the trend in global inflation has been favourable, it was heavily caveated, consistent with the RBA waiting for the Q4 CPI to determine whether further tightening is required rather than taking significant signal from recent offshore developments. Key data to influence the RBA ahead of its next policy meeting in February will be Q4 CPI on 31 January 2024 and before then the November Monthly Inflation Indicator on 10 January 2024 which has better coverage of key services sectors.

Over the month, yields fell by 44bp at the long end of the curve:



Source: ASX, RBA

The consensus from the broader market is that we have reached the peak of the interest rate cycle, though there are still a handful that believe the RBA will deliver one more rate hike (likely in Feb 2024). Interestingly, financial markets have pushed forward their rate cut expectations, with the first rate cut fully priced in by June 2024:



Source: ASX

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