CITY OF PARRAMATTA

Monthly Investment Report

April 2023

IMPERIUM MARKETS

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Summary

Market Update Summary

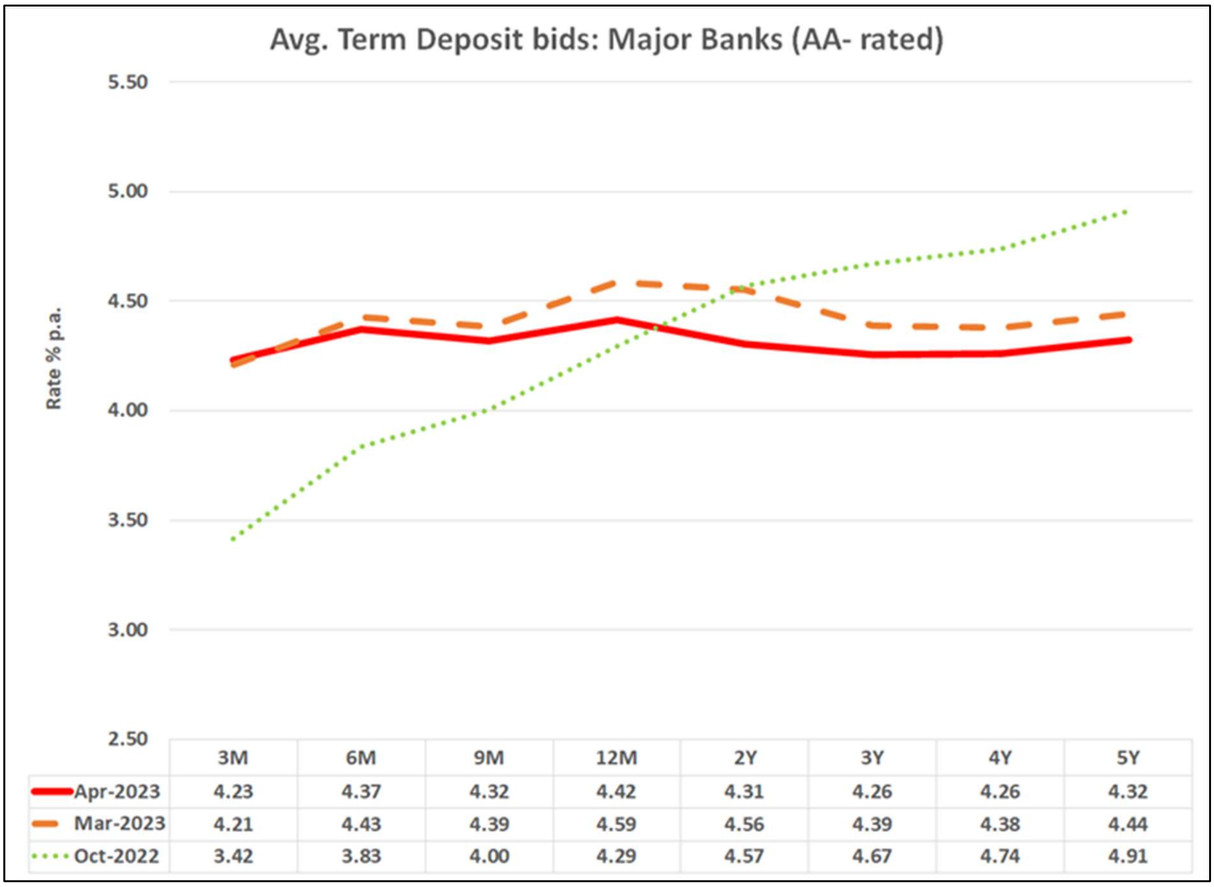
Financial markets were aided in April following early signs of inflation peaking across several developed economies. Markets continue to adjust their forecasts regarding future interest rate expectations accordingly, with the peak of the interest rate cycle potentially month(s) away, if not already set across several global central banks. Domestically, the RBA paused in April and is likely to do the same again in May following the latest inflation reading which suggests inflation may have already peaked in Australia.

Term Deposits

Term Deposits (fixed and floating) account for around 69% of the total investment portfolio at month-end. Council's term deposit portfolio was yielding 2.65% p.a. at month-end, with a weighted average duration of around 315 days or ~10½ months. We note the following:

- The highest deposit rate from any rated ADI in the market is now ~4.95% p.a. for 5 years;
- The highest deposit rates amongst the "AA-" rated ADIs (major banks) is now yielding between 4.30%-4.55% p.a. (depending on terms between 12m – 5 years);
- The highest deposit rates amongst the "A" rated ADIs was yielding between 4.40%-4.50% p.a. (depending on terms between 12m – 5 years);
- The highest deposit rates amongst the "BBB" rated ADIs was yielding between 4.60% 4.95% p.a. (depending on terms between 12m – 5 years).

Despite the aggressive rate hikes, over the past few months, the deposit market has already factored in the current rate hike cycle. Deposit rates in the long-end (12m-5yr tenors) from the major banks (rated AA-) fell around 10-20bp on average during April (compared to March), with the market starting to price in the possibility that we may have reached the peak of the interest rate cycle:



Source: Imperium Markets

'New' investments close to or above 4¼ - 4½% p.a. is currently available if Council can place the majority of its surplus funds for terms of 12 months to 3 years. *With recessionary fears being priced in coming years, investors may take an 'insurance policy' against future rate cuts by investing across 3-5 year fixed deposits and locking in rates above or close to 4½% p.a. (small allocation only), although this is primarily being offered by the lower rated ("BBB") ADIs.*

Senior FRNs

Council's senior floating rate notes (FRNs) make up around 7½% of the total investment portfolio at month-end. The market valuation of Council's FRNs collectively rose around **+0.12% (actual)** in April 2023 (**or +$45,265 in dollar terms**).

Summary	31 Mar 2023	30 Apr 2023	Net Flow ($)	Monthly Change %
Face Value	$36,900,000	$36,900,000	$0	+0.00%
Market Value	$36,972,702	$37,017,967	+$45,265	+0.12%

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 +$125,021** *(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 +**$5,103 in dollar terms or +0.05% (actual)** for the month:

Summary	31 Mar 2023	30 Apr 2023	Net Flow ($)	Monthly Change %
Face Value	$10,050,000	$10,050,000	$0	+0.00%
Market Value	$10,061,059	$10,066,163	+$5,103	+0.05%

At month-end, Council's "BBB" rated FRNs are now marked at an **unrealised capital gain of ~$16,267**.

Senior Bonds

Since September 2020, Council has an outstanding $29m placed in Northern Territory Treasury Corporation (NTTC) fixed bonds rated AA- (same as the domestic major banks), locking in yields between 0.90%-1.40% p.a. The weighted average yield on these investments was 1.09% p.a., with a current weighted average duration of 2.40 years.

We believe these investments were sensible given the unprecedented low rate environment and the RBA's forward guidance at the time of investment (no rate rises "*until at least 2024*"). We reiterate that the NTTC bonds are a 'retail' offering and not 'wholesale' issuances. Given the lack of liquidity and high penalty costs if they were to be sold/redeemed prior to the maturity date, they are considered to be a hold-to-maturity investment and will be marked at par value ($100.00) throughout the term of investment.

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

TCorp Long-Term Growth Fund

The NSW TCorp Fund accounts for ~6% of Council's total investment portfolio. **The Fund returned +1.20% (actual) during April**. International and domestic shares provided modest gains as the market starts to factor in the peak of the inflation and interest rate cycle.

Summary	31 Mar 2023	30 Apr 2023	Investment ($)	Net Return ($)	Net Return (%)
Market Value	$29,447,803	$29,802,406	$0	$354,603	+1.20%

Central banks have been caught between a "*rock and a hard place*" with the recent banking crisis in the US and Europe, and still high inflation not giving them any leeway to pivot towards easier policy. Instead, liquidity tools have been engaged to sort the recent banking crisis while further hikes in rates have been delivered to maintain the pressure on lowering inflation.

Key measures of the supply chain show broadening evidence that the shocks from the pandemic and then Ukraine war are gradually dissipating. Will this be quick enough to temper central banks, who continue to guide that inflation is their greater concern verses growth? Europe is facing a more persistent inflation environment in contrast to the US and Australia. That said, central bank tightening is now in the end phase. Markets are again speculating for near term rate cuts but the hurdle for this is expected to be high unless of course a hard landing manifests. This points to higher volatility persisting in asset markets in the coming quarter(s).

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

CFS Global Credit Income

The CFS Global Credit Income Fund accounts for around 3% of Council's total investment portfolio. **The Fund returned +0.54% (actual) in April**, as the market valuation of the fund's assets in global credit securities remained modestly rose during the month.

Summary	31 Mar 2023	30 Apr 2023	Difference ($)	Difference (%)
Market Value	$14,424,425	$14,502,805	+$78,380	+0.54%

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

With a running yield of around +5% 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 7½% of Council's investment portfolio at month-end. Council's cash accounts are likely to yield up to 0.15% p.a. (at most) above the official cash rate over coming years i.e. yield up to 3.75% p.a. at current yields, but likely higher if the RBA continues to increase official rates. Short-dated term deposits will continue to outperform overnight cash accounts in most cases so we recommend keeping cash levels at a bare minimum to meet ongoing liquidity requirements.

Council's Budgeted Income for FY2022-2023

Council's budgeted income for FY2022-2023 has been revised to $13.221m. Based on an average total investment portfolio size of around $500m, that equates to a budgeted yield of around 2.64% for the current financial year.

For the month ending April 2023, the cumulative interest revenue earned was roughly $1.55m above the revised budgeted income. We exercise caution given the volatility from the TCorp Long-Term Growth Fund during any month.

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

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

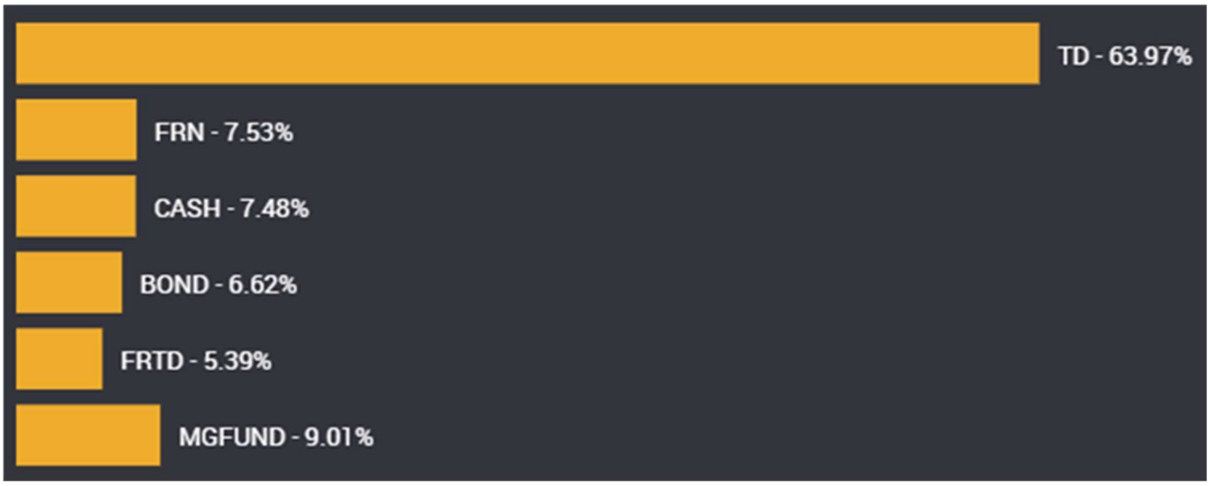
Council's Portfolio & Compliance

Asset Allocation

As at the end of April 2023, the portfolio was mainly directed to fixed and floating rate term deposits (69%). The remaining portfolio is directed to FRNs (8%), overnight cash accounts (7%), bonds (6%), 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 widened over the past year – new issuances should be considered again on a case by case scenario.

In the interim, fixed deposits for 12 months to 3 years remains appealing. With recessionary fears being priced in coming years, investors can choose to allocate some longer-term surplus funds and undertake an insurance policy against any potential future rate cuts by investing across 3-5 year fixed deposits, locking in and targeting yields close to or above 4½% p.a. (mainly available from the regional banks).



Term to Maturity

Overall, the portfolio remains well diversified from a maturity perspective with around 17% 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	$247,162,580	50.28%	20%	100%	$244,413,856
✓	1 – 2 years	$130,269,734	26.50%	0%	70%	$213,833,772
✓	2 – 5 years	$84,341,717	17.16%	0%	50%	$210,604,145
✓	5 – 10 years	$29,802,406	6.06%	0%	25%	$43,934,059
		$491,576,436	**100.00%**			

Counterparty

As at the end of April 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.

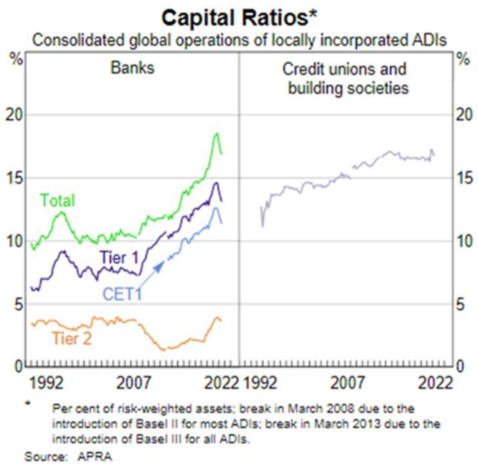
Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	BoQ Covered	AAA	$904,289	0.18%	50.00%	$244,883,930
✓	Bendigo Covered	AAA	$4,010,135	0.82%	50.00%	$241,778,083
✓	Suncorp Covered	AAA	$540,678	0.11%	50.00%	$245,247,540
✓	ING Covered	AAA	$1,507,990	0.31%	50.00%	$244,280,228
✓	ANZ	AA-	$5,563,082	1.13%	40.00%	$191,067,493
✓	CBA	AA-	$23,387,927	4.76%	40.00%	$173,242,648
✓	NAB	AA-	$134,413,970	27.34%	40.00%	$62,216,605
✓	Northern Territory	AA-	$32,000,000	6.51%	40.00%	$164,630,575
✓	Westpac	AA-	$37,900,000	7.71%	40.00%	$158,730,575
✓	Citibank NA	A+	$999,827	0.20%	25.00%	$121,894,282
✓	Macquarie	A+	$28,961	0.01%	25.00%	$122,865,148
✓	Suncorp	A+	$10,500,906	2.14%	25.00%	$112,393,203
✓	UBS AG	A+	$3,235,177	0.66%	25.00%	$119,658,932
✓	CFS Global CI	A	$14,502,805	2.95%	25.00%	$108,391,304
✓	ICBC	A	$98,547,849	20.05%	25.00%	$24,346,261
✓	ING Bank Aus.	A	$9,000,000	1.83%	25.00%	$113,894,109
✓	Aus. Military Bank	BBB+	$8,000,000	1.63%	15.00%	$65,736,465
✓	Aus. Unity Bank	BBB+	$9,000,000	1.83%	15.00%	$64,736,465
✓	BoQ	BBB+	$18,002,671	3.66%	15.00%	$55,733,794
✓	Bendigo-Adelaide	BBB+	$2,855,511	0.58%	15.00%	$70,880,955
✓	Hume Bank	BBB+	$4,500,000	0.92%	15.00%	$69,236,465
✓	QT Mutual Bank	BBB+	$995,835	0.20%	15.00%	$72,740,631
✓	AMP Bank	BBB	$10,164,273	2.07%	15.00%	$63,572,192
✓	Bank Australia	BBB	$2,707,090	0.55%	15.00%	$71,029,376
✓	CUA	BBB	$2,505,056	0.51%	15.00%	$71,231,409
✓	P&N Bank	BBB	$7,000,000	1.42%	15.00%	$66,736,465
✓	Judo Bank	BBB-	$5,000,000	1.02%	15.00%	$68,736,465
✓	The Mutual	BBB-	$3,000,000	0.61%	15.00%	$70,736,465
✓	Bank of Sydney	Unrated	$5,000,000	1.02%	1.02%	$0
✓	Summerland CU	Unrated	$3,000,000	0.61%	1.00%	$1,915,764
✓	Warwick CU	Unrated	$3,000,000	0.61%	1.00%	$1,915,764
✓	TCorpIM LTG	Unrated	$29,802,406	6.06%	10.00%	$19,355,238
			$491,576,436	**100.00%**		

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 eight years. Over the same time, banks' assets have grown by 44%. Some of the extra capital is supporting growth in the banking system itself but clearly, there has been a strengthening in overall resilience and leverage in the system is lower.

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

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



Domestic versus International

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

ADI Category by APRA / Country of Region	Amount Invested	Percentage
Australian Owned ADI	**$298,047,522**	**60.63%**
Australia	$298,047,522	60.63%
Branches of Foreign Bank	**$139,683,025**	**28.42%**
China	$98,547,849	20.05%
Switzerland	$3,235,177	0.66%
United States	$37,900,000	7.71%
Foreign Subsidiary Banks	**$9,540,678**	**1.94%**
Netherlands	$9,540,678	1.94%
Global^	**$44,305,211**	**9.01%**
International	$44,305,211	9.01%
Total	**$491,576,436**	**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 61% of Council's total investment portfolio is placed with domestic ADIs, while the remaining 39% is placed with international banks and corporate entities.

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

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

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

Fossil Fuel Investments

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

Using the following link http://www.marketforces.org.au/banks/compare, based on the Council's investment portfolio balance as at 30/04/2023 ($491.58m), we can roughly estimate that ~65% of the investments have some form of exposure. This is likely to drift higher given the new Policy limits imposed by NSW Treasury Corporation.

Council's exposure is summarised as follows:

Counterparty	Credit Rating	Funding Fossil Fuel
BoQ Covered	AAA	Yes
Bendigo Covered	AAA	No
Suncorp Covered	AAA	No
ING Covered	AAA	Yes
ANZ	AA-	Yes
CBA	AA-	Yes
NAB	AA-	Yes
Northern Territory	AA-	Yes
Westpac	AA-	Yes
Citibank NA	A+	Yes
Macquarie	A+	Yes
Suncorp	A+	No
UBS AG	A+	No
CFS Global Credit^^	A	Yes
ICBC	A	No
ING Bank	A	Yes
Aus Military Bank	BBB+	No
Aus Unity Bank	BBB+	No
BOQ	BBB+	Yes
Bendigo-Adelaide	BBB+	No
Hume Bank	BBB+	No
QT Mutual Bank	BBB+	No
AMP Bank	BBB	Yes
Bank Australia	BBB	No
CUA	BBB	No
P&N Bank	BBB	No
Judo Bank	BBB-	No
The Mutual Bank	BBB-	No
Bank of Sydney	Unrated	No
Summerland CU	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	$317,210,889	65%
No	$174,365,548	35%
	$491,576,436	**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:

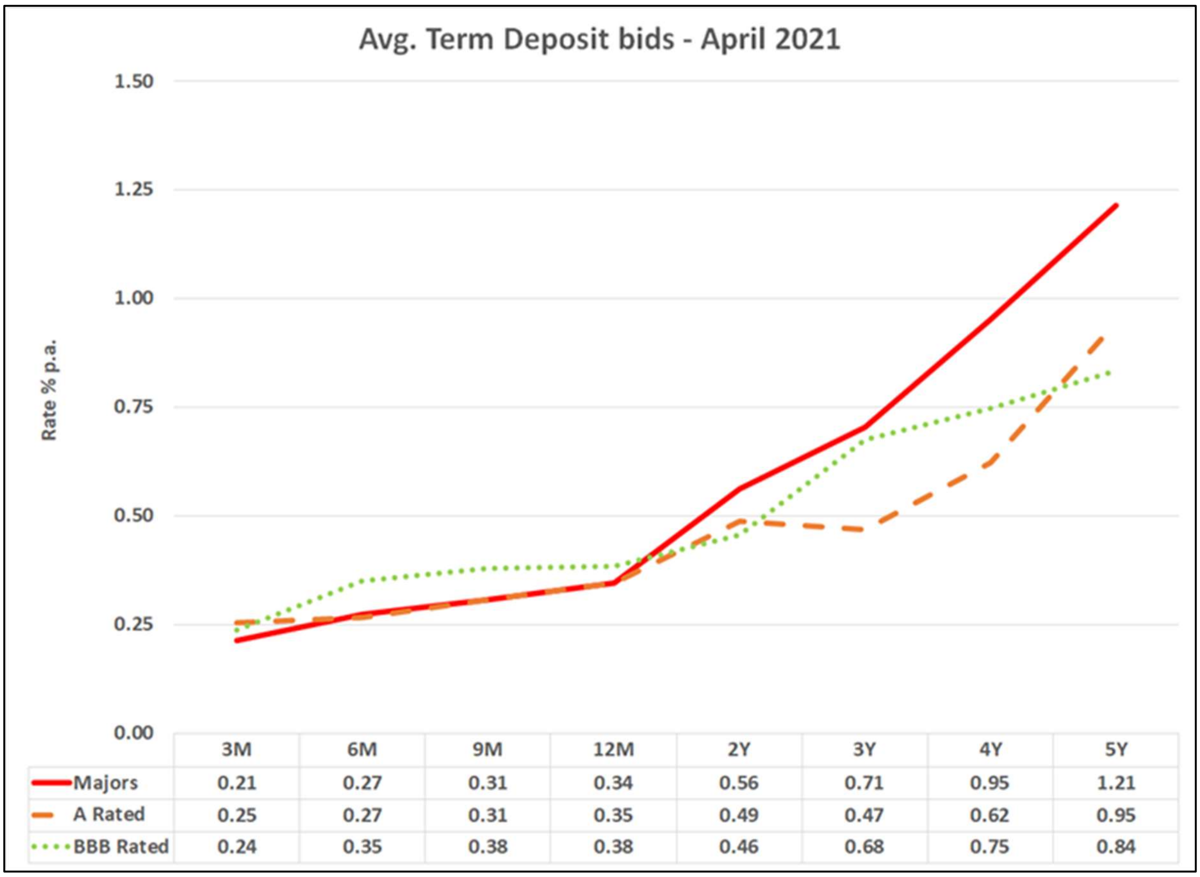
Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AAA Category	$6,963,092	1%	100%	$484,613,344
✓	AA Range or Major Banks	$233,264,978	47%	100%	$258,311,458
✓	A Category	$136,815,524	28%	80%	$256,445,625
✓	BBB Category	$73,730,436	15%	30%	$73,742,495
✓	Unrated ADI Category	$11,000,000	2%	10%	$38,157,644
✓	TCorpIM Funds	$29,802,406	6%	25%	$93,091,703
		$491,576,436	**100.00%**		

The portfolio remains well diversified across the entire credit spectrum, including some exposure to the unrated ADI sector. There is high capacity to invest in the higher rated ADIs (A or higher), particularly after the downgrades of BoQ and AMP Bank over the past few years, as all have now fallen back into the "BBB" rated category (previously in the "A" rated category).

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

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

Term Deposit Rates – During Pandemic (April 2021)

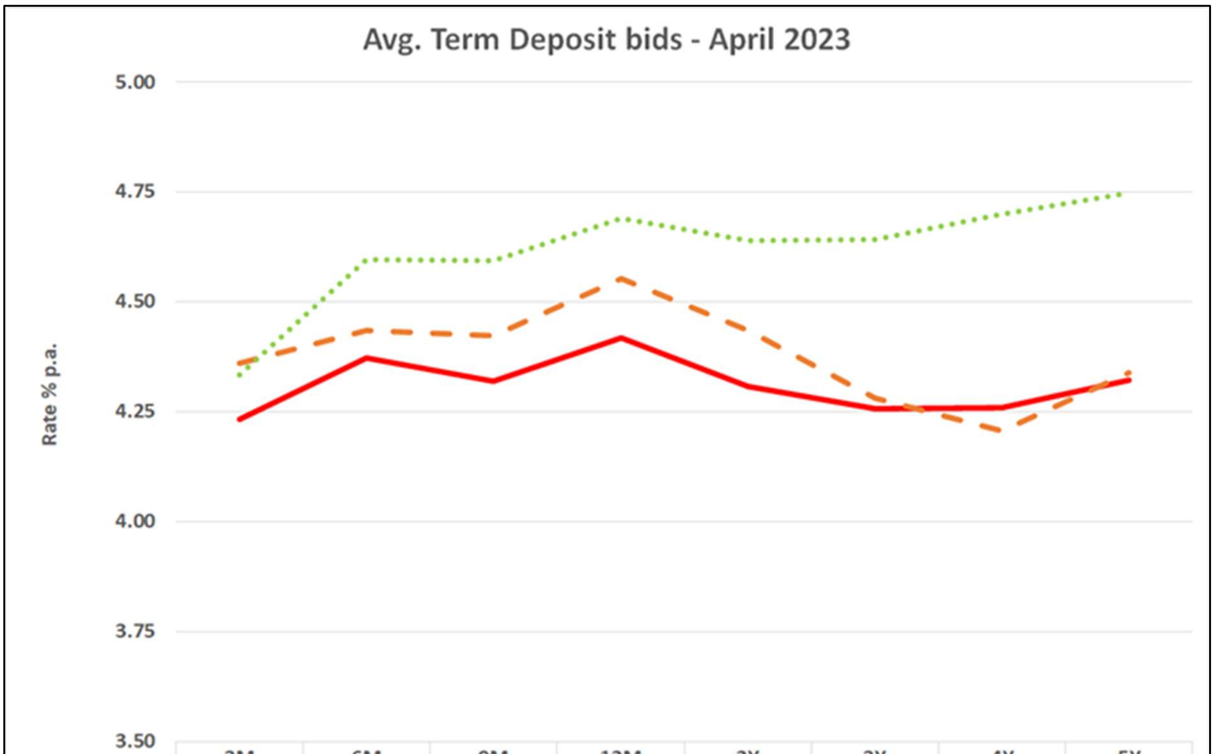


Source: Imperium Markets

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

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

Term Deposit Rates – Currently (April 2023)



	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	4.23	4.37	4.32	4.42	4.31	4.26	4.26	4.32
A Rated	4.36	4.44	4.42	4.55	4.44	4.28	4.21	4.34
BBB Rated	4.33	4.60	4.59	4.69	4.64	4.64	4.70	4.75

Source: Imperium Markets

Performance

Council's performance (actual returns) for the month ending 30 April 2023 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	0.29%	0.85%	1.61%	2.30%	2.40%	1.24%	0.89%
AusBond Bank Bill Index	0.30%	0.83%	1.60%	2.28%	2.37%	1.19%	0.81%
PCC Internal Benchmark*	0.41%	1.08%	2.28%	3.41%	3.41%	1.84%	1.79%
PCC Cash Portfolio	0.31%	0.91%	1.71%	2.48%	2.61%	1.50%	1.23%
PCC T/D Portfolio	0.21%	0.59%	1.19%	1.92%	2.21%	1.73%	1.71%
PCC FRN Portfolio	0.39%	1.12%	2.17%	3.29%	3.56%	2.55%	2.24%
PCC Bond Portfolio	0.09%	0.27%	0.55%	0.92%	1.10%	1.08%	-
PCC Credit Fund	0.54%	0.71%	3.66%	5.56%	3.25%	0.70%	2.80%
PCC TCorp Growth Fund	1.20%	1.80%	5.25%	9.22%	2.83%	2.17%	7.03%
PCC's Total Portfolio	**0.44%**	**0.89%**	**1.66%**	**2.53%**	**2.40%**	**1.63%**	**1.82%**
Rel. Perf. (BBI)	**0.14%**	**0.06%**	**0.05%**	**0.25%**	**0.03%**	**0.45%**	**1.00%**
Rel. Perf. (Int. Bench.)	**0.03%**	**-0.19%**	**-0.62%**	**-0.87%**	**-1.01%**	**-0.21%**	**0.03%**

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

For the month of April, the total investment portfolio (including cash) provided a return of +0.44% (actual) or +5.52% p.a. (annualised), outperforming the AusBond Bank Bill Index return of +0.30% (actual) or +3.77% p.a. (annualised), and Council's internal benchmark return of +0.41% (actual) or +5.09% p.a. (annualised). Term deposits (+0.21% actual) and fixed bonds (+0.09% actual) were the main detractors to performance this month.

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

The annualised returns as of 30 April 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	3.60%	3.52%	3.27%	2.77%	2.40%	1.24%	0.89%
AusBond Bank Bill Index	3.77%	3.45%	3.26%	2.75%	2.37%	1.19%	0.81%
PCC Internal Benchmark*	5.09%	4.50%	4.64%	4.10%	3.41%	1.84%	1.79%
PCC Cash Portfolio	3.85%	3.77%	3.48%	2.99%	2.61%	1.50%	1.23%
PCC T/D Portfolio	2.56%	2.46%	2.42%	2.30%	2.21%	1.73%	1.71%
PCC FRN Portfolio	4.79%	4.67%	4.43%	3.96%	3.56%	2.55%	2.24%
PCC Bond Portfolio	1.11%	1.12%	1.11%	1.11%	1.10%	1.08%	-
PCC Credit Fund	6.82%	2.96%	7.51%	6.72%	3.25%	0.70%	2.80%
PCC TCorp Growth Fund	15.68%	7.57%	10.87%	11.17%	2.83%	2.17%	7.03%
PCC's Total Portfolio	**5.52%**	**3.68%**	**3.37%**	**3.05%**	**2.40%**	**1.63%**	**1.82%**
Rel. Perf. (BBI)	**1.75%**	**0.23%**	**0.11%**	**0.30%**	**0.03%**	**0.45%**	**1.00%**
Rel. Perf. (Int. Bench.)	**0.43%**	**-0.81%**	**-1.27%**	**-1.06%**	**-1.01%**	**-0.21%**	**0.03%**

Council's Term Deposit Portfolio & Recommendation

As at the end of April 2023, Council's deposit portfolio was yielding **2.65% p.a.** (up 26bp from the previous month), with a weighted average duration of around 315 days (~10½ months).

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

At the time of writing, we see value in:

ADI	LT Credit Rating	Term	T/D Rate
P&N Bank	BBB	5 years	4.95% p.a.
P&N Bank	BBB	4 years	4.85% p.a.
AMP Bank	BBB	2-3 years	4.85% p.a.^
P&N Bank	BBB	3 years	4.80% p.a.
P&N Bank	BBB	2 years	4.70% p.a.
Hume Bank	BBB+	2 years	4.70% p.a.
BoQ	BBB+	2 years	4.65% p.a.
ING	A	2 years	4.40% p.a.
Suncorp	A+	2 years	4.40% p.a.
Westpac	AA-	2 years	4.39% p.a.
NAB	AA-	2 years	4.35% p.a.

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

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

ADI	LT Credit Rating	Term	T/D Rate
AMP Bank	BBB	11-12 months	4.90% p.a.^
Hume Bank	BBB+	12 months	4.80% p.a.
P&N Bank	BBB	12 months	4.80% p.a.
BoQ	BBB+	12 months	4.65% p.a.
BoQ	BBB+	6 & 9 months	4.60% p.a.
NAB	AA-	6-12 months	4.55% p.a.
Westpac	AA-	12 months	4.51% p.a.
ING	A	12 months	4.50% p.a.
Suncorp	A+	12 months	4.48% p.a.
Suncorp	A+	3 months	4.46% p.a.

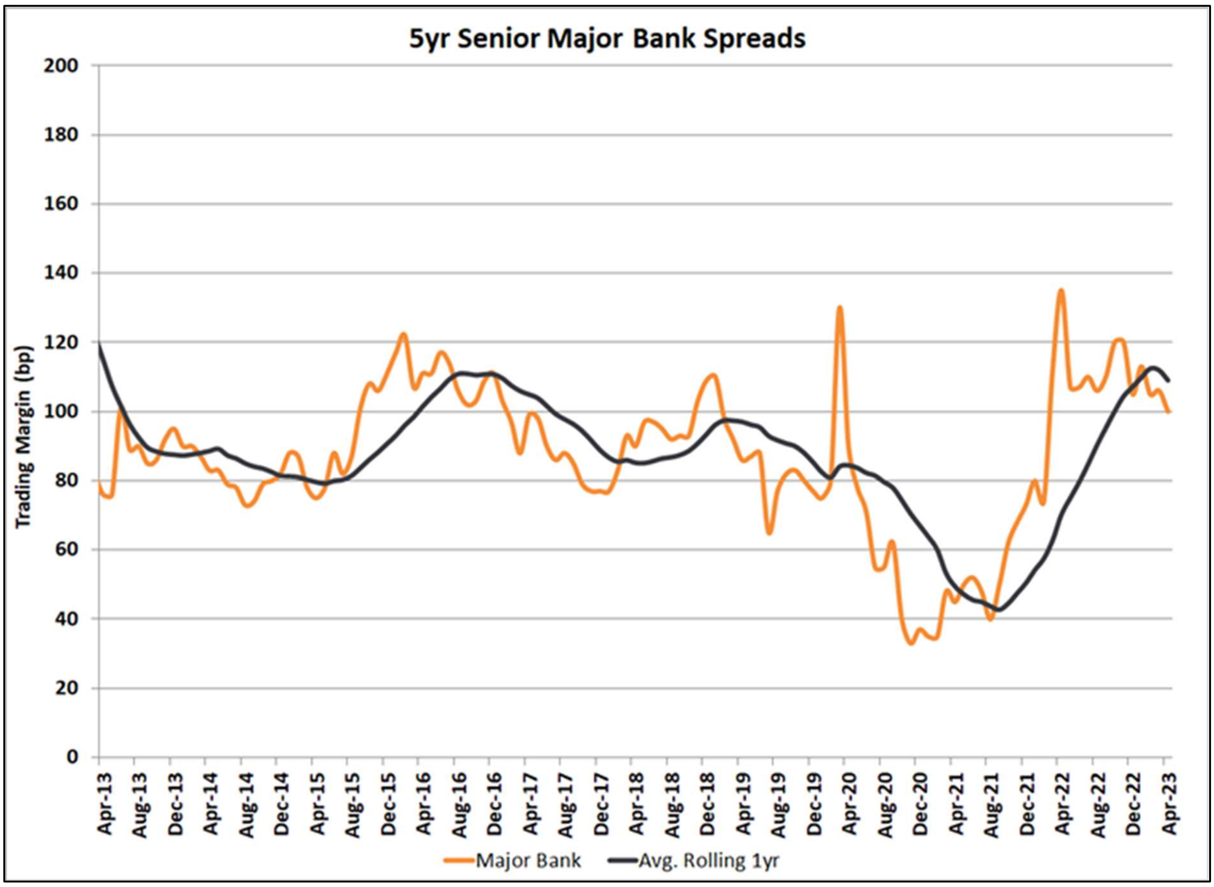
^Contact us to get an additional 20bp rebated commission. Aggregate limits temporarily lifted to $10m (from $5m).

If Council does not require high levels of liquidity and can stagger its investments across the longer term horizons (1-5 years), it will be rewarded over a longer-term cycle if it can roll for an average min. term of 12 months to 3 years (this is where we current value), yielding, on average, up to ¼-½% p.a. higher compared to those investors that entirely invest in short-dated (under 6 months) deposits.

With recessionary fears being priced in coming years, Council should consider allocating some longer-term surplus funds and undertake an insurance policy by investing across 3-5 year fixed deposits and locking in rates close to or above 4½ p.a. This will provide some income protection if central banks decide to cut rates in future years, and assuming inflation has peaked and is under control.

Senior FRNs Review

Over April, amongst the senior major bank FRNs, physical credit securities tightened by around 6-8bp at the long-end of the curve. Major bank senior securities remain fairly attractive again in a rising rate environment (5 year margins above the +100bp level):



Source: IBS Capital

There was a lack of primary issuances again over the month apart from BoQ's (AAA rated) covered FRN at +120bp at month-end. Amongst the "A" rated sector, the securities were marked around 5bp tighter at the 3-5 year part of the curve, whilst the "BBB" rated sector was marked around 15bp tighter (3yrs).

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

Senior FRNs (ADIs)	30/04/2023	31/03/2023
“AA” rated – 5yrs	+100bp	+106bp
“AA” rated – 3yrs	+75bp	+83bp
“A” rated – 5yrs	+115bp	+120bp
“A” rated – 3yrs	+90bp	+95bp
“BBB” rated – 3yrs	+135bp	+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 mid-2025 for the “AA” rated ADIs (domestic major banks)**;
- On or before mid-2024 for the “A” rated ADIs; and
- Within 6-9 months for the “BBB” rated ADIs (consider case by case).

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

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

Council FRNs – Recommendations for Sale/Switches

Following the selloff in credit assets over the past year, we now recommend Council retains the majority of its FRN portfolio at this stage. We now recommend switching out of the following FRN at the next best opportunity, most likely into a new attractive primary issuance:

Issuer	Rating	Maturity Date	ISIN	Face Value	Trading Margin	Capital Price ($)	~Unrealised Gain ($)
NAB	AA-	21/01/2025	AU3FN0052510	$2,000,000	+53.5bp	$100.350	$7,008

We will inform Council when there is an opportunity to sell out of any future sub-optimal FRNs and switch into a higher yielding complying asset.

This strategy has worked very well as Council has ultimately boosted the overall returns of the investment portfolio. The previous financial year's sales amounted to $333k – given the turn in the market over the past few years, these sales would not have been undertaken unless Council was actively managing its portfolio prudently.

Council's Senior Fixed Bonds

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

Investment Date	Maturity Date	Principal	Rate % p.a.^	Remaining Term (Yrs)	Interest Paid
30/09/2020	15/12/2023	$2,000,000	1.00%	0.63	Annually
24/11/2020	16/12/2024	$1,000,000	0.90%	1.63	Annually
16/02/2021	16/06/2025	$1,000,000	0.90%	2.13	Annually
16/02/2021	15/06/2026	$5,000,000	1.00%	3.13	Annually
12/05/2021	17/06/2024	$3,000,000	0.80%	1.13	Annually
12/05/2021	16/06/2025	$3,000,000	1.10%	2.13	Annually
12/05/2021	15/06/2026	$3,000,000	1.30%	3.13	Annually
20/05/2021	16/06/2025	$3,500,000	1.10%	2.13	Annually
09/09/2021	16/12/2024	$2,500,000	0.90%	1.63	Semi-Annually
09/09/2021	15/12/2026	$5,000,000	1.40%	3.63	Semi-Annually
	Totals / Wgt. Avg.	**$29,000,000**	**1.09%**	**2.40 yrs**	

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

During August 2021, Council also purchased into the following AAA rated covered fixed bond with ING Bank Australia. With yields rising significantly over the past 12 months, Council may consider purchasing additional units in this security in the secondary market at the current yield to 'average-in' a better overall purchase price.

Issuer	Rating	Maturity Date	ISIN	Face Value	Purchase Yield	Current Yield	Unrealised Gain / Loss ($)
ING	AAA	19/08/2026	AU3CB0282358	$600,000	1.16%	4.33%	-$57,576

Senior Fixed Bonds – ADIs (Secondary Market)

As global inflationary pressures remain, this has seen a significant lift in longer-term bond yields over the past year (valuations fell) 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
AU3CB0255776	ING	AAA	Covered	07/09/2023	0.36	3.00%	3.97%
AU3CB0258465	Westpac	AA-	Senior	16/11/2023	0.56	3.25%	4.10%
AU3CB0265403	Suncorp	A+	Senior	30/07/2024	1.27	1.85%	4.32%
AU3CB0263275	Westpac	AA-	Senior	16/08/2024	1.31	2.25%	4.10%
AU3CB0265718	ING	AAA	Covered	20/08/2024	1.32	1.45%	4.20%
AU3CB0266179	ANZ	AA-	Senior	29/08/2024	1.36	1.55%	4.10%
AU3CB0266377	Bendigo	BBB+	Senior	06/09/2024	1.39	1.70%	4.41%
AU3CB0268027	BoQ	BBB+	Senior	30/10/2024	1.52	2.00%	4.49%
AU3CB0269710	ANZ	AA-	Senior	16/01/2025	1.73	1.65%	4.08%
AU3CB0269892	NAB	AA-	Senior	21/01/2025	1.74	1.65%	4.03%
AU3CB0270387	Macquarie	A+	Senior	12/02/2025	1.81	1.70%	4.37%
AU3CB0287415	Westpac	AA-	Senior	17/03/2025	1.90	2.70%	4.08%
AU3CB0291508	Westpac	AA-	Senior	11/08/2025	2.32	3.90%	4.11%
AU3CB0291672	CBA	AA-	Senior	18/08/2025	2.32	4.20%	4.03%
AU3CB0280030	BoQ	BBB+	Senior	06/05/2026	3.03	1.40%	4.62%
AU3CB0282358	ING	AAA	Covered	19/08/2026	3.33	1.10%	4.31%
AU3CB0284149	BoQ	BBB+	Senior	27/10/2026	3.52	2.10%	4.66%
AU3CB0286037	Westpac	AA-	Senior	25/01/2027	3.77	2.40%	4.21%

CFS Global Credit Income Fund

For the month of April, the CFS Global Credit Income Fund returned +0.54% (actual), outperforming the AusBond Bank Bill Index return of +0.30% (actual) and the AusBond Credit Index return of +0.45% (actual).

The Fund's interest rate duration positioning was the key driver of outperformance: bond markets rallied sharply amidst concerns about financial contagion and lower growth (whilst adjusting to the peak of the interest rate cycle), which benefited the duration positions the Fund had been building for several quarters.

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

With a running yield of ~5% p.a., we recommend Council to retain this investment given the alternative investments in complying fixed interest products are largely earning below this rate of return.

NSW T-CorpIM Growth Fund

The Growth Fund returned +1.20% (actual) for the month of April. The gains this month were attributed to international shares (the MSCI World ex-Australia Index rose +1.62%) and domestic shares (S&P ASX 200 Accumulation Index rose +1.85%). Also contributing to the gains was the exposure to fixed bonds (AusBond Composite Bond Index rose +0.19%) as yields fell on expectations about the potential peak of the interest rate cycle.

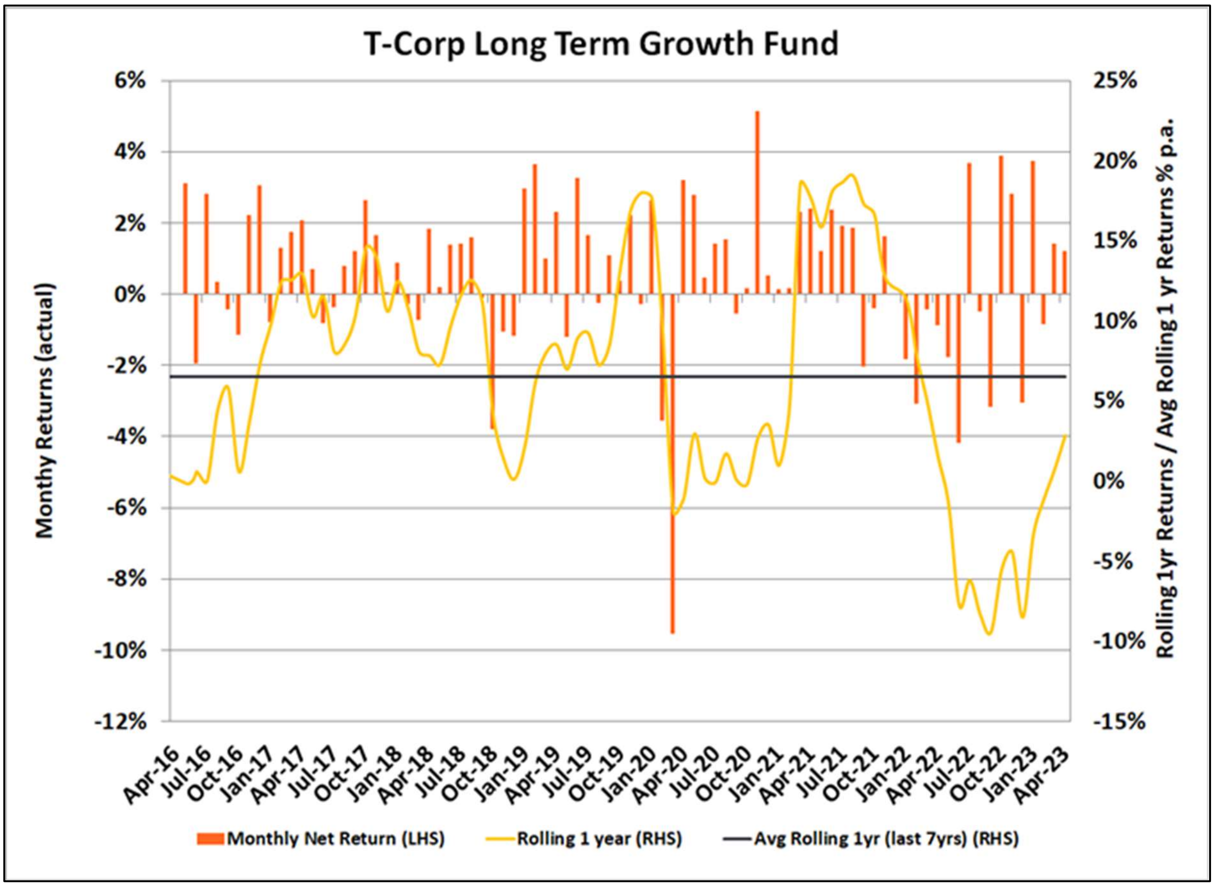
Central banks have been caught between a "*rock and a hard place*" with the recent banking crisis in the US and Europe, and still high inflation not giving them any leeway to pivot towards easier policy. Instead, liquidity tools have been engaged to sort the recent banking crisis while further hikes in rates have been delivered to maintain the pressure on lowering inflation.

Key measures of the supply chain show broadening evidence that the shocks from the pandemic and then Ukraine war are gradually dissipating. Will this be quick enough to temper central banks, who continue to guide that inflation is their greater concern verses growth? Europe is facing a more persistent inflation environment in contrast to the US and Australia. That said, central bank tightening is now in the end phase. Markets are again speculating for near term rate cuts but the hurdle for this is expected to be high unless of course a hard landing manifests. This points to higher volatility persisting in asset markets in the coming quarter(s).

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

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

Since Inception	T-Corp Long Term Fund
Negative Months	139 (~1 in 3 months)
Positive Months	267
Total Months	406 (33.83 yrs)
Average Monthly Return	+0.64% (actual)
Median Monthly Return	+1.02% (actual)
Lowest 1 year Rolling Return	-21.12% p.a. (Nov 2008)
Highest 1 year Rolling Return	+29.89% p.a. (Jan 1994)


T-Corp Long Term Growth Fund
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
-12%
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%
Monthy Returns (actual)
Rolling 1yr Returns / Avg Rolling 1 yr Returns % p.a.
Apr-16
Jul-16
Oct-16
Jan-17
Apr-17
Jul-17
Oct-17
Jan-18
Apr-18
Jul-18
Oct-18
Jan-19
Apr-19
Jul-19
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Jan-20
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Jan-21
Apr-21
Jul-21
Oct-21
Jan-22
Apr-22
Jul-22
Oct-22
Jan-23
Apr-23
Monthly Net Return (LHS)
Rolling 1 year (RHS)
Avg Rolling 1yr (last 7yrs) (RHS)

Economic Commentary

International Market

Financial markets were aided in April following early signs of inflation peaking across several developed economies. Across equity markets, the S&P 500 Index gained +1.46%, whilst the NASDAQ added +0.04%. Europe's main indices also gained, led by UK's FTSE (+3.13%), France's CAC (+2.31%) and Germany's DAX (+1.88%).

US CPI showed welcome, but not overwhelming, progress. Headline CPI rose less than expected, up +0.1% m/m and +5.0% y/y, down from +6.0% previously, the first monthly decline since November 2020. Core inflation, however, was in line with expectations at +0.4% m/m and +5.6% y/y.

The US unemployment rate fell 0.1% to 3.5% (3.6% expected) and average hourly earnings rose by an as expected +0.3% to be +4.2% up on a year ago down from +4.6% and +4.3% expected.

Strong Canada jobs report showed employment up +34.7k against +5k expected and the unemployment rate remained steady at 5.0%, rather than the consensus for a rise to 5.1%. The Bank of Canada held rates for the second consecutive meeting as expected.

UK employment growth was strong at 169k vs. 50k expected, while the unemployment rate ticked up 0.1% higher to 3.8%. BoE pricing now has a 90% chance of a 25bp rate hike in May (up from a 79% previously).

UK April CPI was a shocker, headline CPI only falling from +10.3% to +10.1% against +9.8% expected and the core measure unchanged at +6.2% against expectations for a fall to +6.0%.

The RBNZ raised rates by 50bp to 5.25%, against a strong market consensus for a smaller 25bp hike.

The International Monetary Fund (IMF) downgraded global growth forecasts made three months ago by 0.1% to +2.8% for 2023 and +3.0% for next year, following the +3.4% lift last year. The IMF noted "*the risks are weighted heavily to the downside, in part because of the financial turmoil of the last month and a half*".

Chinese activity data showed GDP rebounded more quickly than expected. Q1 GDP growth beat expectations by +0.2% at +2.2% q/q vs. +2.0% expected. Strength was seen by the consumer with retail sales +10.6% y/y vs. +7.5% expected.

The MSCI World ex-Aus Index rose +1.62% for the month of April:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+1.46%	+2.28%	+0.91%	+12.70%	+9.50%	+10.07%
MSCI World ex-AUS	+1.62%	+2.07%	+1.66%	+11.39%	+6.45%	+6.99%
S&P ASX 200 Accum. Index	+1.85%	-0.80%	+2.83%	+13.99%	+8.26%	+7.90%

Source: S&P, MSCI

Domestic Market

The RBA decided to leave interest rates unchanged at 3.60% in April, while it assesses the outlook for the economy and the impact of previous substantial interest rate increases.

In addition, the bias to tighten further was softened with prior phrasing of further tightening will be required replaced with further tightening may well be needed. This suggests that the RBA has downgraded its forecasts for growth and/or inflation from the February Statement on Monetary Policy when a cash rate of 3.75% was seen as being required to achieve the return of inflation to 3% by mid-2025.

RBA Governor Lowe commented that "*the decision to hold rates steady this month does not imply that interest rate increases are over*" and that "*at our next meeting, we will again review the setting of monetary policy with the benefit of an updated set of forecasts and scenarios*".

Core trimmed mean Q1 CPI came in 0.2% less than market expectations at +1.2% q/q and +6.6% y/y (consensus +1.4%/+6.7%). Headline inflation was a fraction above consensus at +1.4% q/q and +7.0% y/y, (consensus +1.3%/+6.9%). Overall, the inflation figures confirmed the widely held expectation that Australian inflation peaked late last year (Q4 2022), something now becoming clearly evident in goods price pressures, a trend in place in other parts of the world as supply chain disruptions heal and freight rates fall.

Employment grew +53.0k m/m in March, more than double the consensus of +20k. The unemployment rate held steady at 3.5%, where it has been since July 2022 and it remains around its lowest levels since the 1970s. The participation rate lifted by around 0.1% to 66.74% from 66.65%.

Australian dwelling prices rose +0.6% m/m in March. That is the first nationwide increase since April 2022 and comes after declines moderated to just +0.1% in February. Meanwhile dwelling approvals rose +4.0% m/m in February (consensus +10.0%), following the sharp -27.1% fall seen in February.

The February trade surplus was $13.8bn (consensus $11.2bn) from $11.3bn, largely driven by a big fall in imports (-9.1% m/m or -$4.3bn).

The Australian dollar lost -1.52%, finishing the month at US66.10 cents (from US67.12 cents the previous month).

Credit Market

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

Index	April 2023	March 2023
CDX North American 5yr CDS	79bp	78bp
iTraxx Europe 5yr CDS	86bp	88bp
iTraxx Australia 5yr CDS	91bp	92bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	April 2023	March 2023
Bloomberg AusBond Bank Bill Index (0+YR)	+0.30%	+0.28%
Bloomberg AusBond Composite Bond Index (0+YR)	+0.19%	+3.16%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.46%	+0.26%
Bloomberg AusBond Credit Index (0+YR)	+0.45%	+1.85%
Bloomberg AusBond Treasury Index (0+YR)	+0.01%	+3.53%
Bloomberg AusBond Inflation Gov't Index (0+YR)	+0.32%	+4.16%

Source: Bloomberg

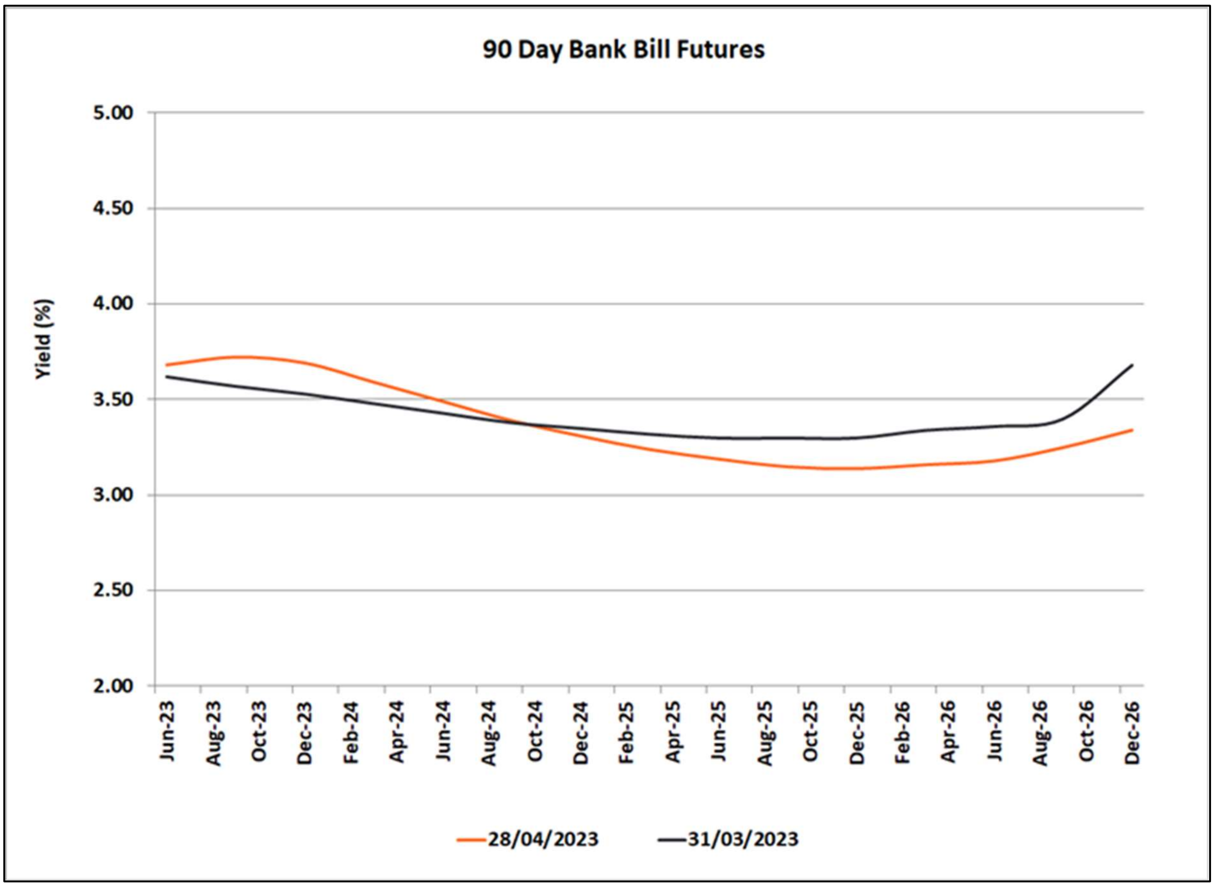
Other Key Rates

Index	April 2023	March 2023
RBA Official Cash Rate	3.60%	3.60%
90 Day (3 month) BBSW Rate	3.68%	3.72%
3yr Australian Government Bonds	3.00%	2.94%
10yr Australian Government Bonds	3.34%	3.30%
US Fed Funds Rate	4.75%-5.00%	4.75%-5.00%
2yr US Treasury Bonds	4.04%	4.06%
10yr US Treasury Bonds	3.44%	3.48%

Source: RBA, AFMA, US Department of Treasury

90 Day Bill Futures

Bill futures fell at the long-end of the curve in April, following the lower than expected inflation figures released at month-end. The markets continue to factor in the possibility of a global recession over the next few years, highlighted by the drop in the futures pricing in early 2024:



Source: ASX

Fixed Interest Outlook

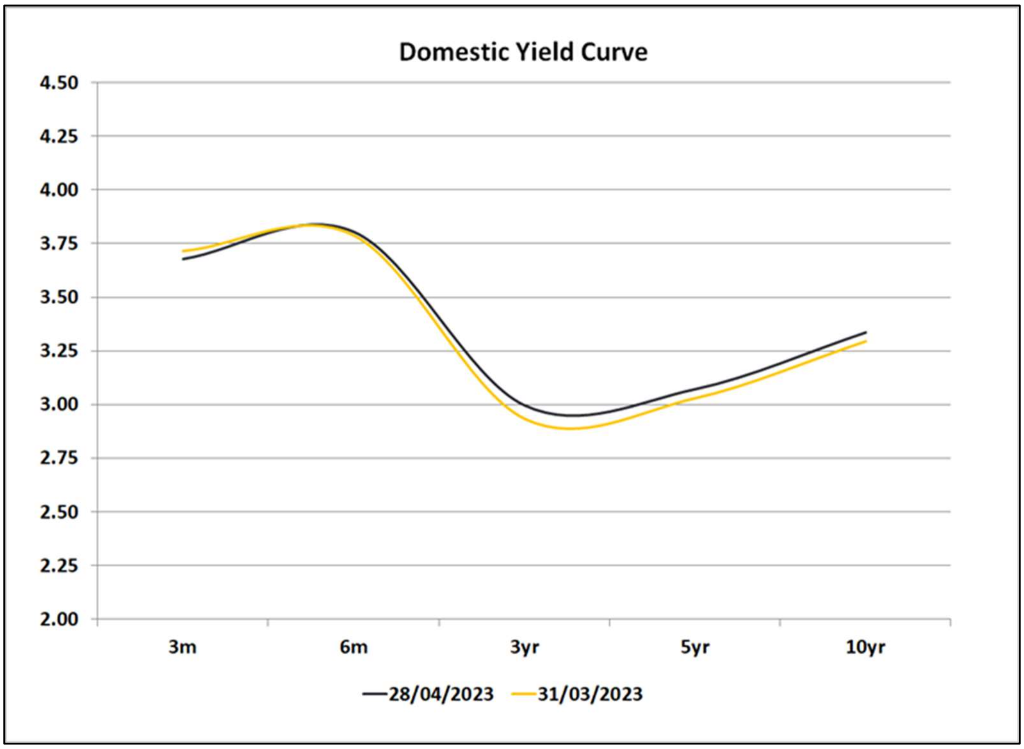
US money market rates ascribe more than an 80% probability to the Fed lifting the Funds rate by 0.25% to 5.00-5.25% on May 3 following the stronger than expected employment numbers.

Domestically, after announcing official interest rates would remain unchanged in April, the RBA's bias to tighten further was softened with prior phrasing of further tightening will be required replaced with further tightening may well be needed. With this pause, 3.60% may potentially mark the peak of interest rates for Australia this cycle as we envisage considerably slower growth in the second half of 2023, moderating inflation and an increase in the unemployment rate. But the RBA continues to suggest they will be agile and act depending on the economic data that is presented to them.

With the RBA having paused in April, the latest CPI data suggests the RBA remains on balance and is likely to pause again in May, waiting on further information on wages (WPI on 17th May and the Minimum Wage Decision) to assess whether the aim of returning inflation to 3% by mid-2025 remains plausible.

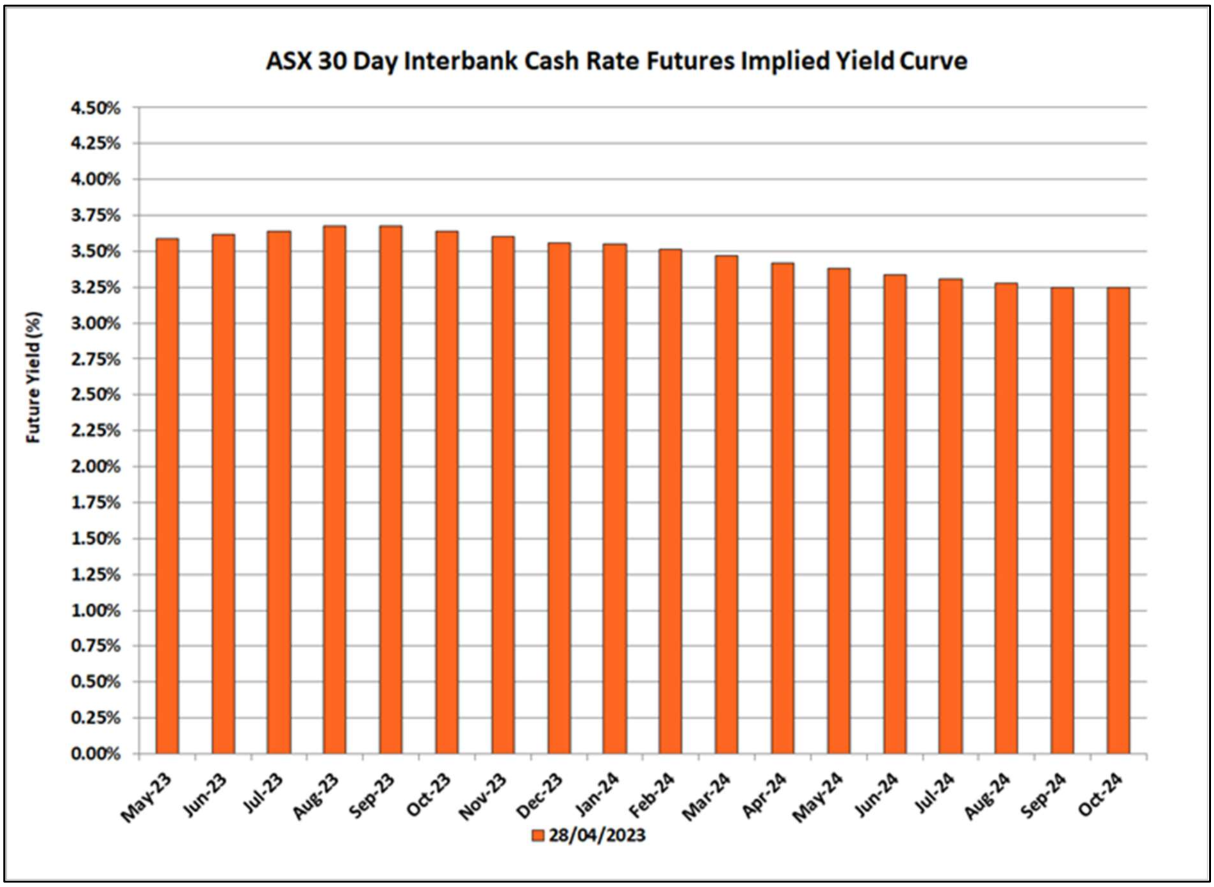
What would cause the Board to raise interest rates further? This would likely require in the near term, a significant inflation or wages shock, something that cannot be ruled out as the RBA has been quite reactive to surprises in this sense in recent months, though it also seems to have been comfortable with the prospect of a minimum wage increase as large as 7% being announced in the next few months. Medium term, further rate rises would likely require an accumulation of evidence that inflation was not tracking back towards the 2-3% target. The risk continues to be to the upside in the near term with the RBA to remain reactive to the data flow, especially around inflation and wages.

Over the month, yields remained relatively flat at the long-end of the curve:



Source: AFMA, ASX, RBA

With the RBA keeping rates on hold in April and a slightly softer inflation reading than anticipated, the market has changed its view to the next move bring a rate cut, against the RBA's rhetoric that rates may still need to move higher should inflation remain persistently high over the medium term.



Source: ASX

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