Monthly Investment Report

August 2022

IMPERIUM MARKETS

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Summary

Market Update

The COVID-19 pandemic has adversely impacted financial markets, which in turn, has also affected Council's investment portfolio. We provide a quick summary in this section.

After global central banks set official interest rates back to emergency levels during the height of the pandemic (2020), financial markets have transitioned to the recovery phase. Ongoing supply chain issues, China's zero-COVID strategy and the war in Ukraine has resulted in surging inflation. Longer-term bond yields have risen significantly in 2022 as central banks undertake aggressive interest rate hikes to try and control inflation. Importantly though when interpreting the stance of monetary policy, it is not just about the cash rate, but how broader financial conditions are influencing the economic outlook, **with markets now factoring the possibility of a global recession as early as the second half of 2023**. **The RBA increased the official cash rate by another 50bp to 1.85% in early August 2022 and is looking to move towards their neutral setting of 2½% by calendar year-end**, although the "*timing of future interest rate increases will be guided by the incoming data and the Board's assessment of the outlook for inflation and the labour market*".

Term Deposits

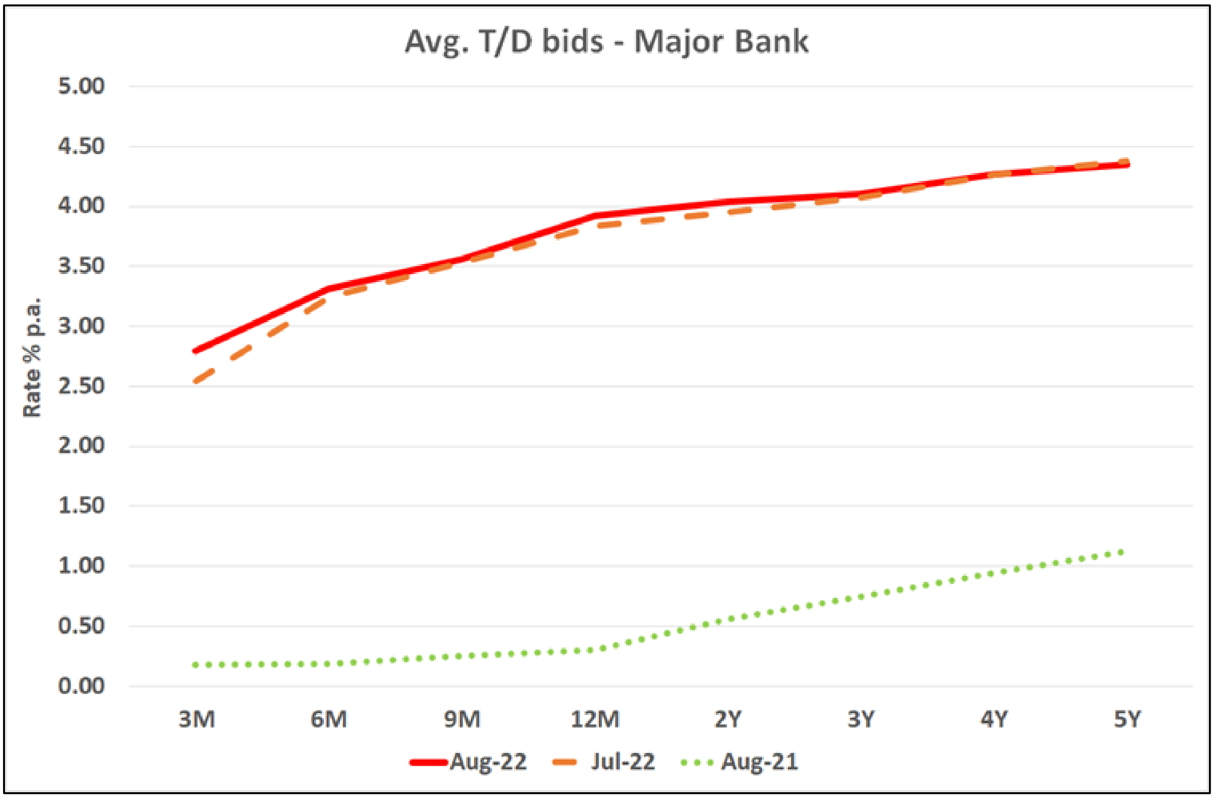
Term Deposits (fixed and floating) account for around 74% of the total investment portfolio at month-end.

Council's term deposit portfolio was yielding 2.03% p.a. at month-end, with a weighted average duration of around 431 days or ~1.18 years. The current average yield remains very attractive given the dramatic falls in the official cash rate. We note the following:

- The highest deposit rate from any rated ADI in the market is now ~5.00% p.a. for 5 years;
- The highest deposit rates amongst the "AA-" rated ADIs (major banks) is now yielding between 4.10%-4.70% p.a. (depending on terms between 12m – 5 years);
- The highest deposit rates amongst the "A" rated ADIs was yielding between 4.00%-4.90% p.a. (depending on terms between 12m – 5 years);
- The highest deposit rates amongst the "BBB" rated ADIs was yielding between 4.15%-5.00% p.a. (depending on terms between 12m – 5 years).

Despite more rate rises on the horizon, given an upward sloping deposit curve, maintaining a slightly longer duration position will continue to outperform (averaging) shorter durations, particularly as markets have already factored in future rate rises.

The deposit market has seen a significant shift in longer-term deposit rates over the past year. The long-end of the deposit curve (+12 months) remained flat over August (compared to July) despite more rate rises in the near future, and partly driven by the market's expectation of an impending global recession:



Source: Imperium Markets

'New' investments above 3½% p.a. now appears likely if Council can place an allocation of its surplus funds for terms of 12 months to 2 years. *With recessionary fears being priced in coming years, investors may take an insurance policy by investing across 3-5 year fixed deposits and locking in rates above 4½% p.a. (small allocation only).*

Senior FRNs

Council's senior floating rate notes (FRNs) make up around 3½% of the total investment portfolio at month-end. The market valuation of Council's FRNs collectively rose around **+0.17% (actual)** in August 2022 (**or +$31,819 in dollar terms**).

Summary	31 July 2022	31 August 2022	Net Flow ($)	Monthly Change %
Face Value	$18,850,000	$18,850,000	$0	+0.00%
Market Value	$18,820,760	$18,852,580	+$31,819	+0.17%

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 +$9,530** *(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 **+$9,253 in dollar terms or +0.17% (actual)** for the month:

Summary	31 July 2022	31 August 2022	Net Flow ($)	Monthly Change %
Face Value	$5,500,000	$5,500,000	$0	+0.00%
Market Value	$5,488,541	$5,497,793	+$9,253	+0.17%

At month-end, Council's "BBB" rated FRNs are now marked at an **unrealised capital loss of ~$2,207**.

Senior Bonds

Since September 2020, Council has collectively invested $31m 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 1.07% p.a., with a current weighted average duration of 2.88 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 ~5% of Council's total investment portfolio. **The Fund returned -0.50% (actual) during August**. International shares fell this month as the US Fed signalled its aggressive rate hike cycle was far from finished. Bond yields continue to rise (valuations fell), contributing to the losses this month.

Summary	31 Jul 2022	31 Aug 2022	Investment ($)	Net Return ($)	Net Return (%)
Market Value	$28,288,641	$28,147,395	$0	-$141,245	-0.50%

Central banks continued to deliver rate hikes as inflation has continued to make new highs in many countries. The focus was increasingly on growth risks and asset markets paid particular note to sentiment surveys where the significant concerns being expressed by consumers were increasingly being reflected by businesses. This environment is called stagflation and it does not happen very often, where growth is slowing below trend and inflation remains well above trend.

With leading indicators already signalling that the economy is slowing, a Federal Reserve focused on inflation and rates hikes is very likely to lead to a recession becoming reality. Central banks are in a tough position, as even though the double supply shocks (from the pandemic and then the Ukraine war) are largely responsible for inflation ramping higher, it is their mandate to bring it back towards target. The problem is that the supply situation needs to repair to ease many of the inflation pressures (e.g., gas). Hiking rates will dampen demand and using this tool to lower inflation means that demand will have to fall lower, probably into recession to even partly achieve their goal.

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

CFS Global Credit Income

The CFS Global Credit Income Fund accounts for around 2½% of Council's total investment portfolio. **The Fund returned +0.28% (actual) in August**, as the market valuation of the fund's assets in global credit securities rose during the month.

Summary	31 July 2022	31 August 2022	Difference ($)	Difference (%)
Market Value	$13,934,191	$13,973,261	+$39,070	+0.28%

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 +3½ - 4% p.a., we recommend Council retains this "grandfathered" Fund given the alternative to invest in cash and deposits (Council's approval list) are yielding comparably lower.

Cash Accounts

Cash accounts make up just under 10% 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 2.00% p.a. at current yields, but likely higher as the RBA increases official rates. Short-dated term deposits will continue to outperform overnight cash accounts in most cases so we recommend keeping cash levels at a bare minimum to meet ongoing liquidity requirements.

Council's Budgeted Income for FY2022-2023

Council's budgeted income for FY2022-2023 has currently been set to $8.18m. Based on an average total investment portfolio size of around $500m, that equates to a budgeted yield of around 1.64% for the financial year.

For the month ending August 2022, the cumulative interest revenue earned was roughly $1.331m above the budgeted income, largely driven by the strong rebound in in shares in July. 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	$681,731	$1,966,804	$1,285,073
Aug 2022	$1,363,462	$2,695,126	$1,331,664
Sep 2022	$2,045,193		
Oct 2022	$2,726,924		
Nov 2022	$3,408,655		
Dec 2022	$4,090,386		
Jan 2023	$4,772,117		
Feb 2023	$5,453,848		
Mar 2023	$6,135,579		
Apr 2023	$6,817,310		
May 2023	$7,499,041		
Jun 2023	$8,180,772		

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

The decision to adopt TCorp's Policy, whereby it has restricted the universe of complying investments and particularly the duration of investments - this has compounded and resulted in the significant drop in income generated over the past 2 years.

Council’s Portfolio & Compliance

Asset Allocation

As at the end of August 2022, the portfolio was mainly directed to fixed and floating rate term deposits (74%). The remaining portfolio is directed to FRNs (3%), overnight cash accounts (9%), bonds (6%), and the managed funds with CFS Global Credit Income Fund and NSW T-Corp Long Term Growth Fund (8%, combined).

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

Term to Maturity

Overall, the portfolio remains well diversified from a maturity perspective with around 20% of assets directed to medium-term assets (2-5 years). All minimum and maximum criteria meet within the Policy guidelines:

Where liquidity permits, we recommend new surplus funds be directed to 1-2 year horizons given this is where the most attractive value can be found. We suggest this be allocated to any remaining attractive fixed term deposits (refer to respective sections below).

Compliant	Horizon	Invested ($)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available ($)
✓	0 - 365 days	$246,571,050	44.61%	20%	100%	$306,148,154
✓	1 – 2 years	$167,899,006	30.38%	0%	70%	$219,004,437
✓	2 – 5 years	$110,101,753	19.92%	0%	50%	$166,257,849
✓	5 – 10 years	$28,147,395	5.09%	0%	25%	$110,032,405
		$552,719,204	**100.00%**			

Counterparty

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

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	BoQ Covered	AAA	$903,606	0.16%	100.00%	$551,815,598
✓	Suncorp Covered	AAA	$523,876	0.09%	100.00%	$552,195,327
✓	ING Covered	AAA	$705,143	0.13%	100.00%	$552,014,060
✓	CBA (BankWest)	AA-	$77,388,056	14.00%	100.00%	$475,331,147
✓	NAB	AA-	$161,247,396	29.17%	100.00%	$391,471,808
✓	Northern Territory	AA-	$34,000,000	6.15%	100.00%	$518,719,204
✓	Westpac	AA-	$46,900,000	8.49%	100.00%	$505,819,204
✓	Citibank NA	A+	$1,001,239	0.18%	30.00%	$164,814,522
✓	Macquarie	A+	$1,028,383	0.19%	30.00%	$164,787,378
✓	Suncorp	A+	$2,498,999	0.45%	30.00%	$163,316,762
✓	UBS AG	A+	$3,242,526	0.59%	30.00%	$162,573,235
✓	CFS Global CI	A	$13,973,261	2.53%	30.00%	$151,842,500
✓	ICBC	A	$95,250,000	17.23%	30.00%	$70,565,761
✓	ING Bank Aus.	A	$16,001,042	2.89%	30.00%	$149,814,719
✓	Aus. Military Bank	BBB+	$8,000,000	1.45%	10.00%	$47,271,920
✓	Aus. Unity Bank	BBB+	$6,000,000	1.09%	10.00%	$49,271,920
✓	BoQ	BBB+	$21,002,223	3.80%	10.00%	$34,269,698
✓	Bendigo-Adelaide	BBB+	$5,752,216	1.04%	10.00%	$49,519,704
✓	QT Mutual Bank	BBB+	$989,645	0.18%	10.00%	$54,282,275
✓	AMP Bank	BBB	$10,160,572	1.84%	5.00%	$17,475,389
✓	CUA	BBB	$1,753,624	0.32%	5.00%	$25,882,336
✓	Gateway	BBB	$4,000,000	0.72%	5.00%	$23,635,960
✓	MyState Bank	BBB	$6,000,000	1.09%	5.00%	$21,635,960
✓	P&N Bank	BBB	$5,000,000	0.90%	5.00%	$22,635,960
✓	Judo Bank	BBB-	$1,000,000	0.18%	0.18%	$0
✓	Bank of Sydney	Unrated	$250,000	0.05%	0.05%	$0
✓	TCorpIM LTG	Unrated	$28,147,395	5.09%	100.00%	$524,571,808
			$552,719,204	**100.00%**		

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

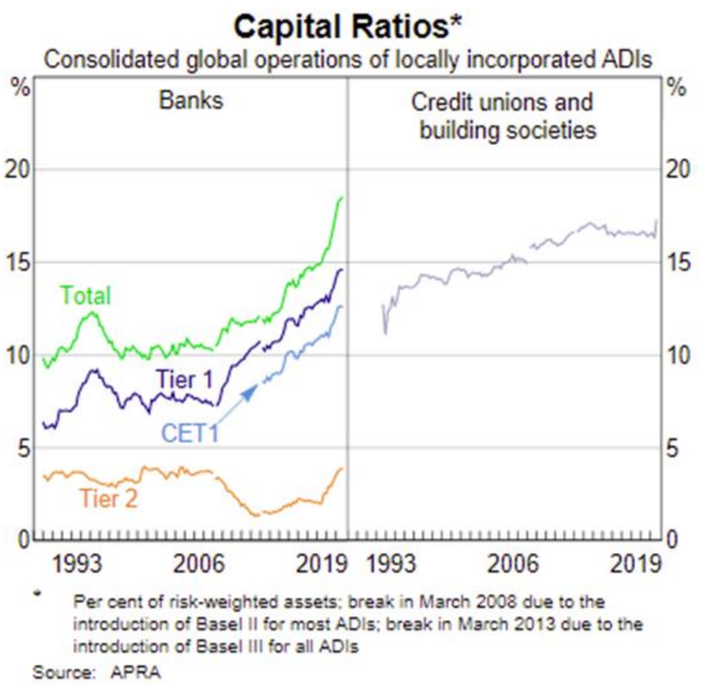
In April 2020, NSW Treasury Corporation imposed changes to the counterparty limits on the Investment Policy, with the major changes summarised as follows:

- A+ and A rated term deposits have maximum duration of 3 years;
- BBB+ rated assets have a maximum duration of 3 years;
- Limit of 5% to be placed with any BBB rated ADI with a maximum duration of 12 months;
- Limit of $1m to be placed with any BBB- rated ADI with a maximum duration of 12 months;
- Limit of $250k to be placed with any Unrated ADI with a maximum duration of 12 months;

We remain supportive of the regional and unrated ADI sector (and have been even throughout the 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). We believe that deposit investments with the lower rated ADIs should be considered going forward, particularly should 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*".**



We do not understand the covenants imposed by NSW Treasury Corporation and their concerns surrounding the "BBB" and unrated ADIs. The adopted Policy will not only increase concentration risk, but also lead to lower returns on Council's surplus investments over the long-term.

Given Council can only invest in senior-ranked assets with ADIs regulated by APRA, fundamentally, their concerns surrounding Council's investment in "BBB" rated senior ranked assets and deposits with the local credit unions are unwarranted.

While any potential future loans offered by TCorp are likely to be competitive against the traditional method through the major banks, any proposed recommendations led by TCorp needs to be weighed against the opportunity cost i.e. the loss of income throughout the term of which the covenants are imposed on Council. In the long-term, we believe the opportunity cost to Council in the form of lost interest would amount in the millions of dollars, per annum. This loss of income may also have a detrimental effect on the local community in terms of economic activity and employment.

(Other NSW Councils are in fact now getting a cheaper borrowing rate from the major banks compared to TCorp).

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	$348,431,103	63.04%
Australia	$348,431,103	63.04%
Branches of Foreign Bank	$145,392,526	26.30%
China	$95,250,000	17.23%
Switzerland	$3,242,526	0.59%
United States	$46,900,000	8.49%
Foreign Subsidiary Banks	$16,774,918	3.03%
Lebanon	$250,000	0.05%
Netherlands	$16,524,918	2.99%
Global^	$42,120,656	7.62%
International	$42,120,656	7.62%
Total	**$552,719,204**	**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 63% of Council's total investment portfolio is placed with domestic ADIs, while the remaining 37% is placed with international banks and corporate entities.

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

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

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

Fossil Fuel Investments

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

Using the following link http://www.marketforces.org.au/banks/compare, based on the Council's investment portfolio balance as at 31/08/2022 ($52.72m), we can roughly estimate that ~75% 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
Suncorp Covered	AAA	No
ING Covered	AAA	Yes
CBA (BankWest)	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
QT Mutual Bank	BBB+	No
AMP Bank	BBB	Yes
CUA	BBB	No
Gateway	BBB	No
MyState Bank	BBB	No
P&N Bank	BBB	No
Judo Bank	BBB-	No
Bank of Sydney	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	$140,442,155	25%
No	$412,277,049	75%
	$552,719,204	**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 adoption of the Policy in mid-April 2020, in order to adhere to the prohibitive restrictions imposed by NSW TCorp, Council decided to forego extra yield and has subsequently redeemed deposit investments amongst the BBB and Unrated ADI ratings category over the past year (with the exception of government guarantee parcels of $250k deposits).

All aggregate ratings categories are currently within the Policy limits:

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AAA Category, TCorp	$30,280,021	5%	100%	$522,439,183
✓	AA Range	$319,535,452	58%	100%	$233,183,752
✓	A+ or A	$132,995,451	24%	100%	$419,723,753
✓	A-	$0	0%	40%	$221,087,681
✓	BBB+	$41,744,084	8%	25%	$97,157,481
✓	BBB	$26,914,196	5%	10%	$28,357,724
✓	BBB- & Unrated ADIs	$1,250,000	0%	5%	$26,385,960
		$552,719,204	**100.00%**		

The main changes to the Credit Quality limits imposed by NSW Treasury Corporation were as follows:

- BBB+ rated assets: 30% less any BBB rated assets;
- BBB assets: maximum 10% of portfolio;
- Other (BBB- and Unrated ADIs): maximum 5% of portfolio;

With regards to the duration of each ratings category, based on weighted averages, the portfolio is within the Policy limits across all categories:

Compliant	Credit Rating	Invested ($)	Invested (%)	Wgt. Avg. Duration (Yrs)	Max Term (Yrs)	Wgt. Avg. Yield (%)^
✓	AAA, TCorp	$30,280,021	5%	4.87	n/a	0.20%
✓	AA Range	$319,535,452	58%	1.15	5.00	1.76%
✓	A+ or A	$132,995,451	24%	1.81	5.00	2.63%
✓	A-	$0	0%	0.00	3.00	0.00%
✓	BBB+	$41,744,084	8%	1.05	3.00	2.38%
✓	BBB	$26,914,196	5%	0.46	1.00	2.13%
✓	BBB- & Unrated ADIs	$1,250,000	0%	0.12	1.00	1.84%
		$552,719,204	**100.00%**	**1.47**		**1.95%**

^Assuming TCorp LTGF is yielding 0.00% and CFS Fund (A rated) is yielding 3.50%.

We note the significant pick-up in yield in the "BBB" rated categories compared to the "AA" rated ADIs. All these assets are for the same type of investment (term deposits and senior FRNs) and rank the same in the bank capital structure (senior ranking, extremely low risk assets). The weighted average duration of the "BBB" and lower rated ADIs is also much shorter than the higher rated ADIs.

As mentioned in the Counterparty section, we believe TCorp's Policy increases concentration risk and significantly reduces the Council's overall return over the long-term. If possible, Council should consider reviewing the Policy and potentially find alternative sources for a loan in the future given the substantial opportunity cost in the form of lost revenue (millions of dollars) through interest income. **We have been made aware that a handful of major banks were offering a lower borrowing rate than TCorp over the past few years to other NSW councils**.

Performance

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

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	0.16%	0.34%	0.39%	0.27%	0.44%	0.28%	0.36%
AusBond Bank Bill Index	0.15%	0.33%	0.35%	0.28%	0.37%	0.21%	0.36%
PCC Internal Benchmark*	0.16%	0.56%	0.43%	0.60%	0.33%	0.91%	1.11%
PCC Cash Portfolio	0.17%	0.39%	0.49%	0.30%	0.65%	0.63%	0.76%
PCC T/D Portfolio	0.17%	0.49%	0.84%	0.34%	1.46%	1.44%	1.73%
PCC FRN Portfolio	0.26%	0.64%	0.94%	0.50%	1.80%	1.76%	1.75%
PCC Bond Portfolio	0.09%	0.27%	0.55%	0.19%	1.09%	-	-
PCC Credit Fund	0.28%	-0.45%	-1.23%	1.71%	-2.68%	0.39%	0.40%
PCC TCorp Growth Fund	-0.50%	-1.15%	-4.14%	3.15%	-8.39%	4.43%	3.46%
PCC's Total Portfolio	**0.16%**	**0.37%**	**0.41%**	**0.48%**	**0.52%**	**1.28%**	**1.53%**
Outperf. (BBI)	**0.00%**	**0.04%**	**0.06%**	**0.20%**	**0.15%**	**1.07%**	**1.17%**
Outperf. (Int. Bench.)	**0.00%**	**-0.20%**	**-0.02%**	**-0.12%**	**0.19%**	**0.37%**	**0.42%**

**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 August, the total investment portfolio (including cash) provided a return of +0.16% (actual) or +1.88% p.a. (annualised), outperforming the AusBond Bank Bill Index return of +0.15% (actual) or +1.84% p.a. (annualised), while underperforming Council's internal benchmark return of +0.16% (actual) or +1.89% p.a. (annualised). The TCorp Fund (-0.50% actual) was the biggest detractor to performance this month.

Over the past year, the total portfolio (including cash) returned +0.52% p.a., outperforming bank bills by 0.15% p.a. and Council's internal benchmark by +0.19% p.a.

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

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

Performance (% p.a.)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	1.85%	1.35%	0.77%	1.60%	0.44%	0.28%	0.36%
AusBond Bank Bill Index	1.84%	1.31%	0.70%	1.65%	0.37%	0.21%	0.36%
PCC Internal Benchmark*	1.89%	2.26%	0.85%	3.59%	0.33%	0.91%	1.11%
PCC Cash Portfolio	2.03%	1.55%	0.97%	1.79%	0.65%	0.63%	0.76%
PCC T/D Portfolio	2.05%	1.94%	1.67%	2.02%	1.46%	1.44%	1.73%
PCC FRN Portfolio	3.14%	2.56%	1.87%	2.98%	1.80%	1.76%	1.75%
PCC Bond Portfolio	1.10%	1.09%	1.09%	1.10%	1.09%	-	-
PCC Credit Fund	3.35%	-1.78%	-2.43%	10.50%	-2.68%	0.39%	0.40%
PCC TCorp Growth Fund	-5.72%	-4.47%	-8.05%	20.05%	-8.39%	4.43%	3.46%
PCC's Total Portfolio	**1.88%**	**1.47%**	**0.82%**	**2.85%**	**0.52%**	**1.28%**	**1.53%**
Outperf. (BBI)	**0.05%**	**0.16%**	**0.12%**	**1.20%**	**0.15%**	**1.07%**	**1.17%**
Outperf. (Int. Bench.)	**0.00%**	**-0.79%**	**-0.03%**	**-0.75%**	**0.19%**	**0.37%**	**0.42%**

Council's Term Deposit Portfolio & Recommendation

As at the end of August 2022, Council's deposit portfolio was still yielding an attractive **2.03% p.a.** (up 8bp from the previous month), with a weighted average duration of around 431 days (~1.18 years). With an upward sloping deposit curve, investors are rewarded if they can continue to maintain a longer average duration.

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

We are pleased to see that City of Parramatta Council remains amongst the top performing Councils in the state of NSW where deposits are concerned, earning on average, more than $2,130,000 in additional interest income compared to its peers (as per our May 2022 rankings). We have been pro-active in our advice about protecting interest income and addressing reinvestment risk for many years and encouraged to maintain a long duration position. This is now reflected by the high performance of the investment portfolio.

At the time of writing, we see value in:

ADI	LT Credit Rating	Term	T/D Rate
ICBC, Sydney	A	5 years	4.91% p.a.
ICBC, Sydney	A	4 years	4.78% p.a.
ICBC, Sydney	A	3 years	4.68% p.a.
ICBC, Sydney	A	2 years	4.56% p.a.
Australian Military	BBB+	3 years	4.55% p.a.
P&N Bank	BBB	3 years	4.50% p.a.
BoQ/ME	BBB+	3 years	4.50% p.a.
Westpac	AA-	3 years	4.47% p.a.
CBA	AA-	2 years	4.41% p.a.
Australian Military	BBB+	2 years	4.40% p.a.
P&N Bank	BBB	2 years	4.40% p.a.
Westpac	AA-	2 years	4.38% p.a.
NAB	AA-	2 years	4.35% p.a.

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

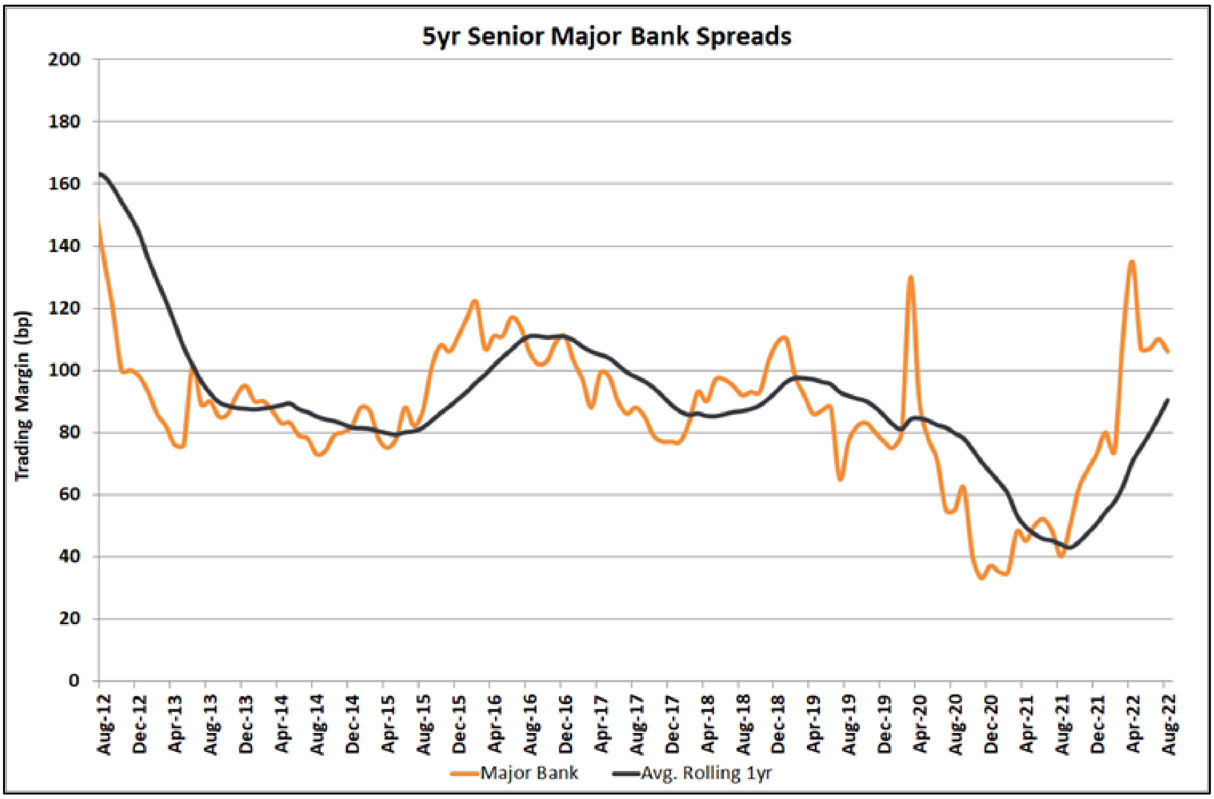
ADI	LT Credit Rating	Term	T/D Rate
AMP	BBB	12 months	4.25% p.a.
MyState	BBBB	12 months	4.25% p.a.
CBA	AA-	12 months	4.22% p.a.
BoQ/ME	BBB+	12 months	4.15% p.a.
Westpac	AA-	12 months	4.14% p.a.
NAB	AA-	12 months	4.10% p.a.
Suncorp	A+	12 months	4.10% p.a.
P&N Bank	BBB	12 months	4.10% p.a.
ING	A	12 months	4.05% p.a.
CBA	AA-	6 months	3.55% p.a.

For those investors that do not require high levels of liquidity and can stagger their investments longer-term, they will be rewarded over coming years if they roll for an average min. term of 18 months to 2 years (this is where we current value), yielding, on average, up to ½%-1% p.a. higher compared to those investors that entirely invest in short-dated deposits.

With recessionary fears being priced in coming years, investors may take an insurance policy by investing across 3-5 year fixed deposits and locking in rates above 4½% p.a. (small allocation only).

Senior FRNs Review

Over August, amongst the senior major bank FRNs, physical credit securities tightened by around 4-5bp at the long-end of the curve. Major bank senior securities are now looking fairly attractive again in a rising rate environment (5 year margins around the +105-110bp level):



Source: IBS Capital

There was a noticeable pick-up in primary ('benchmark') issuances over August:

- Westpac (AA-) 3yr fixed and floating at +80bp
- CBA (AA-) 3 & 5yr fixed and floating at +80bp and +102bp respectively
- Suncorp (A+) 3yr fixed and floating at +93bp
- Mizuho (A) 3yr floating at +88bp
- HSBC (AA-) 5yr floating at +110bp
- Macquarie (A+) 1yr floating at +55bp

Amongst the "A" and "BBB" rated sectors, the securities were marked around 5bp tighter at the 3-5 year part of the curve. Credit securities are looking much more attractive given the widening of spreads in 2022. FRNs will continue to play a role in investor's portfolios mainly on the basis of their liquidity and the ability to roll down the curve and gross up returns over ensuing years (in a relatively stable credit environment).

Senior FRNs (ADIs)	31/08/2022	31/07/2022
“AA” rated – 5yrs	+106bp	+110bp
“AA” rated – 3yrs	+82bp	+88bp
“A” rated – 5yrs	+120bp	+125bp
“A” rated – 3yrs	+95bp	+100bp
“BBB” rated – 3yrs	+125bp	+130bp

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

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

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

Council FRNs – Recommendations for Sale/Switches

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

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

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

Council's Senior Fixed Bonds

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

Investment Date	Maturity Date	Principal	Rate % p.a.^	Remaining Term (Yrs)	Interest Paid
10/09/2020	15/12/2022	$2,000,000	0.90%	0.29	Annually
30/09/2020	15/12/2023	$2,000,000	1.00%	1.29	Annually
24/11/2020	16/12/2024	$1,000,000	0.90%	2.30	Annually
16/02/2021	16/06/2025	$1,000,000	0.90%	2.79	Annually
16/02/2021	15/06/2026	$5,000,000	1.00%	3.79	Annually
12/05/2021	17/06/2024	$3,000,000	0.80%	1.80	Annually
12/05/2021	16/06/2025	$3,000,000	1.10%	2.79	Annually
12/05/2021	15/06/2026	$3,000,000	1.30%	3.79	Annually
20/05/2021	16/06/2025	$3,500,000	1.10%	2.79	Annually
09/09/2021	16/12/2024	$2,500,000	0.90%	2.30	Semi-Annually
09/09/2021	15/12/2026	$5,000,000	1.40%	4.29	Semi-Annually
	Totals / Wgt. Avg.	**$31,000,000**	**1.07%**	**2.88 yrs**	

^Council has received the full rebated commission of 0.25% (plus GST) on the face value of investment on all these parcels (currently totalling $48,125).

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

During August 2021, Council also purchased into the following AAA rated covered fixed bond with ING Bank Australia. With yields rising significantly in recent 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%	4.59%	-$73,326

Senior Fixed Bonds – ADIs (Secondary Market)

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

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

ISIN	Issuer	Rating	Capital Structure	Maturity Date	~Remain. Term (yrs)	Fixed Coupon	Indicative Yield
AU3CB0255776	ING	AAA	Covered	07/09/2023	1.02	3.00%	4.09%
AU3CB0258465	Westpac	AA-	Senior	16/11/2023	1.21	3.25%	4.11%
AU3CB0265403	Suncorp	AA-	Senior	30/07/2024	1.91	1.85%	4.60%
AU3CB0265593	Macquarie	A+	Senior	07/08/2024	1.95	1.75%	4.63%
AU3CB0265718	ING	AAA	Covered	20/08/2024	1.97	1.45%	4.39%
AU3CB0266179	ANZ	AA-	Senior	29/08/2024	1.99	1.55%	4.40%
AU3CB0266377	Bendigo	BBB+	Senior	06/09/2024	2.01	1.70%	4.64%
AU3CB0268027	BoQ	BBB+	Senior	30/10/2024	2.17	2.00%	4.78%
AU3CB0269710	ANZ	AA-	Senior	16/01/2025	2.38	1.65%	4.48%
AU3CB0269892	NAB	AA-	Senior	21/01/2025	2.38	1.65%	4.45%
AU3CB0270387	Macquarie	A+	Senior	12/02/2025	2.45	1.70%	4.82%
AU3CB0287415	Westpac	AA-	Senior	17/03/2025	2.54	2.70%	4.45%
AU3CB0291508	Westpac	AA-	Senior	11/08/2025	2.94	3.90%	4.42%
AU3CB0291672	CBA	AA-	Senior	18/08/2025	2.96	4.20%	4.70%
AU3CB0280030	BoQ	BBB+	Senior	06/05/2026	3.68	1.40%	5.13%
AU3CB0282358	ING	AAA	Covered	19/08/2026	3.97	1.10%	4.74%
AU3CB0284149	BoQ	BBB+	Senior	27/10/2026	4.15	2.10%	5.12%
AU3CB0286037	Westpac	AA-	Senior	25/01/2027	4.40	2.40%	4.70%

CFS Global Credit Income Fund

For the month of August, the CFS Global Credit Income Fund returned +0.28% (actual), outperforming the AusBond Bank Bill Index return of +0.16% (actual) and AusBond Credit Index return of -1.42% (actual).

The ongoing market narrative is now evolving towards recession. Although a recession is indeed a risk but was not a certainty, the key lies with how central banks conduct monetary policy. The US Federal Reserve believes at a 2.5% rate that policy is neutral, however, they are signalling that policy rates need to go higher in order to bring inflation back to the target of 2% on average. Although this is a challenge, as the Federal Reserve's own forecasts show rates rising to 3.75% during 2023 before falling modestly in 2024. In contrast, the market's discount for the Federal Reserve policy has rates peaking at around 3.30% in 2022 and falling to around 2.75% in 2023. This reveals a significant mismatch, which is likely to result in further asset volatility.

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

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

NSW T-CorpIM Growth Fund

The Growth Fund returned -0.50% (actual) for the month of August. The losses this month were attributed to international shares (the MSCI World ex-Australia Index fell -4.39%) and the exposure to fixed bonds (e.g. AusBond Composite Bond Index fell -2.54%). Offsetting these losses were domestic shares with the S&P ASX 200 Accumulation Index gaining +1.18%.

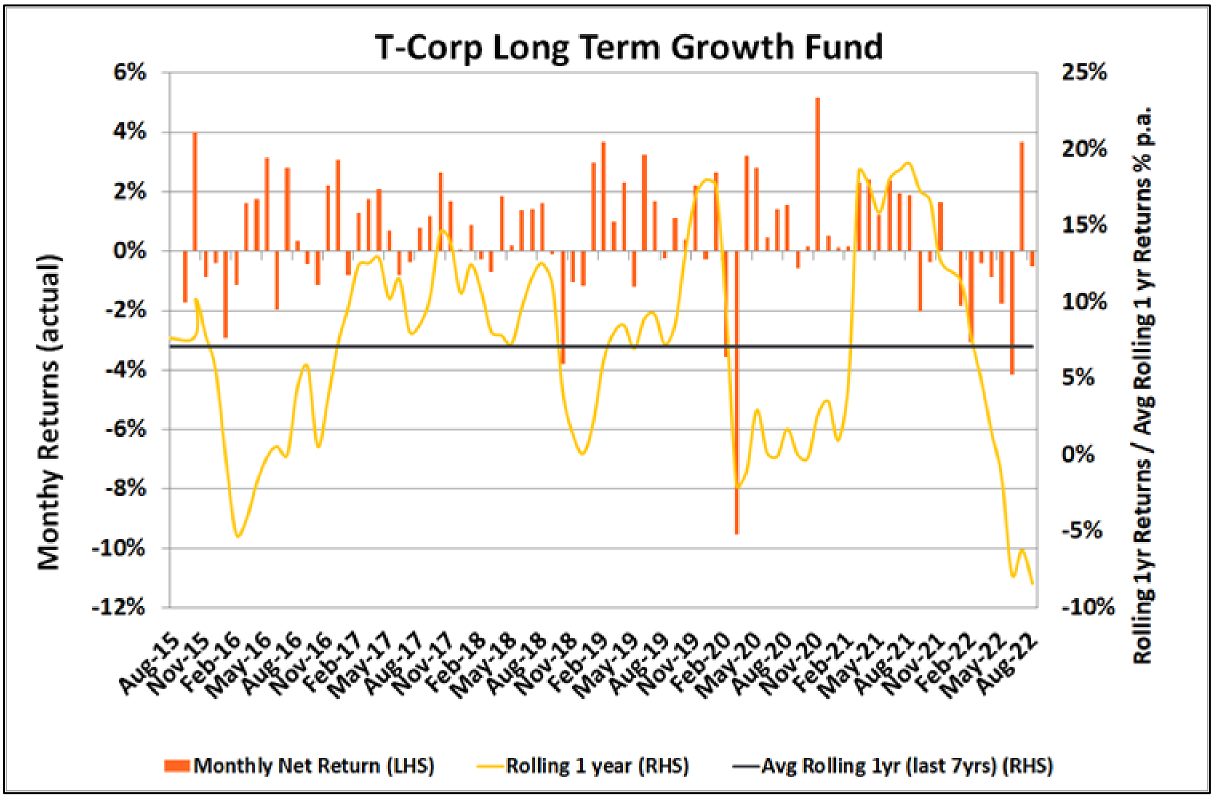
Central banks continued to deliver rate hikes as inflation has continued to make new highs in many countries. The focus was increasingly on growth risks and asset markets paid particular note to sentiment surveys where the significant concerns being expressed by consumers were increasingly being reflected by businesses. This environment is called stagflation and it does not happen very often, where growth is slowing below trend and inflation remains well above trend.

With leading indicators already signalling that the economy is slowing, a Federal Reserve focused on inflation and rates hikes is very likely to lead to a recession becoming reality. Central banks are in a tough position, as even though the double supply shocks (from the pandemic and then the Ukraine war) are largely responsible for inflation ramping higher, it is their mandate to bring it back towards target. The problem is that the supply situation needs to repair to ease many of the inflation pressures (e.g. gas). Hiking rates will dampen demand and using this tool to lower inflation means that demand will have to fall lower, probably into recession to even partly achieve their goal.

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	136 (~1 in 3 months)
Positive Months	262
Total Months	398 (33.2 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%
Monthy Returns (actual)
25%
20%
15%
10%
5%
0%
-5%
-10%
Rolling 1yr Returns / Avg Rolling 1 yr Returns % p.a.
Aug-15 Nov-15 Feb-16 May-16 Aug-16 Nov-16 Feb-17 May-17 Aug-17 Nov-17 Feb-18 May-18 Aug-18 Nov-18 Feb-19 May-19 Aug-19 Nov-19 Feb-20 May-20 Aug-20 Nov-20 Feb-21 May-21 Aug-21 Nov-21 Feb-22 May-22 Aug-22
Monthly Net Return (LHS)
Rolling 1 year (RHS)
Avg Rolling 1yr (last 7yrs) (RHS)

Economic Commentary

Financial markets remained volatile over August, reflecting shifting market expectations around central bank policy rates given competing forces of persistent inflation and slowing economic growth.

The US Federal Reserve delivered a stern warning that the central bank's campaign to lower inflation by raising interest rates is "*unconditional*" even if it leads to pain for households, businesses and, in turn, stock prices.

In the US, the S&P 500 Index fell -4.24%, while the NASDAQ lost -4.64%. Europe's main indices were also sold off, led by France's CAC (-5.02%), Germany's DAX (-4.81%) and UK's FTSE (-1.88%).

US CPI came in slightly lower than expected. Headline inflation was 0.0% m/m vs. +0.2% expected and core inflation was +0.3% m/m vs. +0.5% expected.

The US unemployment rate dropped from 3.6% to 3.5%, matching its pre-pandemic low, partly driven by a 0.1% fall in the participation rate to 62.1%.

UK's inflation came in higher than expected at +10.1% y/y against +9.8% expected, with more to come in October when energy bills are set to rise by 75%. Food prices rose +2.3% in July and +12.3% y/y.

The Bank of England hiked rates by 50bp to 1.75%, its largest hike in 27 years, taking the Bank Rate back to pre-GFC levels. The Bank now expects headline inflation to peak at 13.3% in October and to remain at elevated levels throughout much of 2023, before falling to its 2% target in 2025. The UK is forecast to enter recession from the fourth quarter of 2022, and the recession is expected to last for five quarters.

Canada's CPI inflation showed the expected cooling of the headline rate, down to +7.6% y/y, but core measures continued to rise, with the three key measures all rising to reach a +5-5½% range.

The RBNZ raised its overnight cash rate by 50bp to 3.00%, as universally expected. The RBNZ also slightly lifted its forecast for the cash rate to peak at 4.1% next year (previously 3.95%) and signalled a high chance of 50bp hikes at each of the next two meetings in October and November.

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

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	-4.24%	-4.29%	-12.55%	+10.56%	+9.86%	+10.89%
MSCI World ex-AUS	-4.39%	-5.82%	-16.46%	+7.22%	+6.17%	+7.67%
S&P ASX 200 Accum. Index	+1.18%	-2.39%	-3.43%	+5.51%	+8.13%	+9.34%

Source: S&P, MSCI

Domestic Market

As expected, the RBA raised the official cash rate by 50bp to 1.85%, the third consecutive 50bp increase. The Statement repeated that "*the Board expects to take further steps in the process of normalising monetary conditions over the months ahead*", but also added policy "*is not on a pre-set path*". The RBA is still prioritising achieving a soft landing if inflation expectations remain anchored as they currently believe it to be.

The RBA's Minutes flagged further hikes are on the way ("t*he Board expects to take further steps in the process of normalising monetary conditions over the months ahead*"), but is ambiguous thereafter as was the post-Meeting Statement. The RBA only sees core inflation falling to 3% in 2024, while wages growth is expected to be 3.9%.

The headline wage price index (WPI) excluding bonuses number printed at +0.7% q/q and +2.6% y/y, revealing a continued acceleration in wages growth alongside the earlier tightening in the labour market.

The July unemployment rate fell by 0.1% to 3.4% (consensus 3.5%), partially driven by the participation rate falling by 0.3% to 66.4%. Overall, employment fell sharply by -41k in July following the sharp rise of +88k in June.

The trade surplus came in at $17.7bn in June, up from a downwardly revised $15bn May number, well outpacing consensus forecasts for a fall to $14bn. The increase in the month was driven by a +5.1% rise in export values, led by iron ore, rural exports, and volatile non-monetary gold exports. Imports also rose in the month, up +0.7%.

Australian dwelling prices fell -1.3% m/m in July according to CoreLogic data as the pace of declines accelerated in the largest cities. Dwelling prices nationally are now 2.0% below their April peak but remain 23.3% higher than pre-pandemic April 2020 levels.

The Australian dollar fell -1½%, finishing the month at US69.02 cents (from US70.07 cents the previous month).

Credit Market

The global credit indices marginally widened over the month as risk markets were again largely sold off. They are back to their levels experienced during the start of the pandemic (Q1 2020):

Index	August 2022	July 2022
CDX North American 5yr CDS	92bp	83bp
iTraxx Europe 5yr CDS	120bp	110bp
iTraxx Australia 5yr CDS	109bp	123bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	August 2022	July 2022
Bloomberg AusBond Bank Bill Index (0+YR)	+0.15%	+0.14%
Bloomberg AusBond Composite Bond Index (0+YR)	-2.54%	+3.36%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.35%	+0.24%
Bloomberg AusBond Credit Index (0+YR)	-1.42%	+2.40%
Bloomberg AusBond Treasury Index (0+YR)	-2.74%	+3.55%
Bloomberg AusBond Inflation Gov't Index (0+YR)	-2.61%	+4.75%

Source: Bloomberg

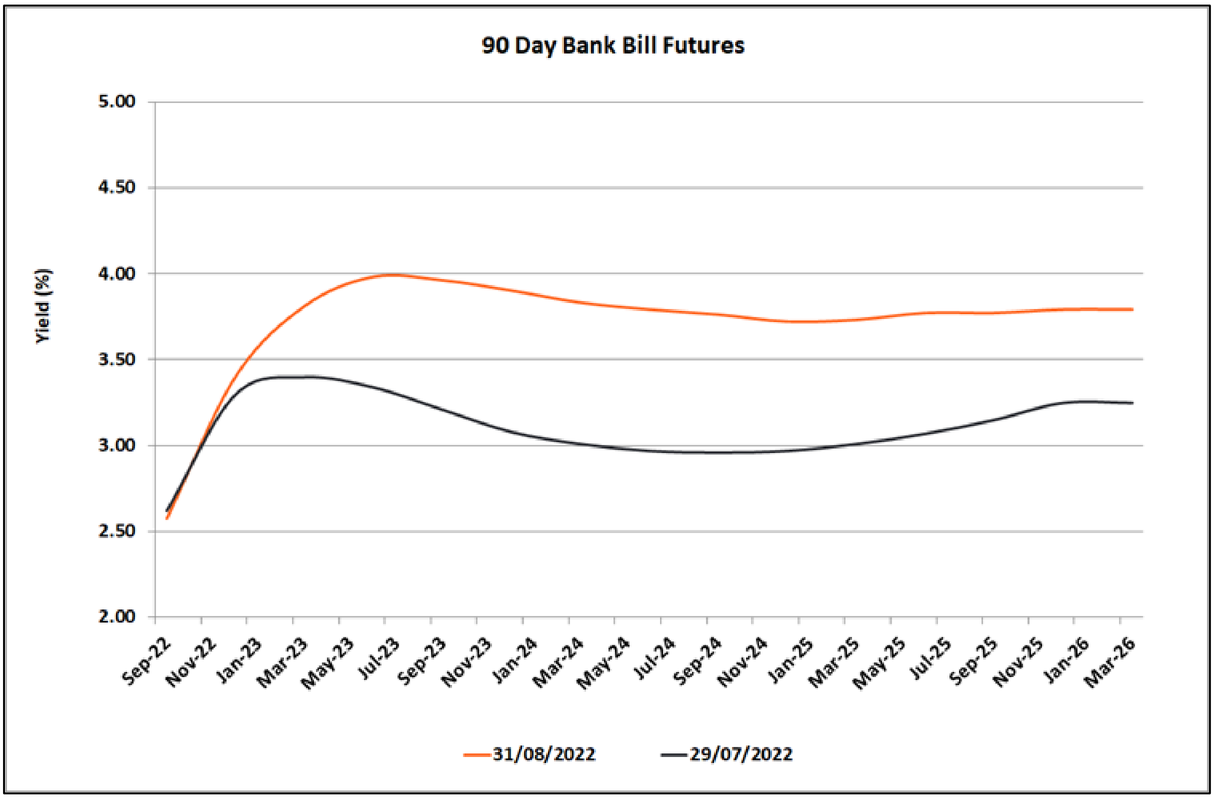
Other Key Rates

Index	August 2022	July 2022
RBA Official Cash Rate	1.85%	1.35%
90 Day (3 month) BBSW Rate	2.46%	2.12%
3yr Australian Government Bonds	3.25%	2.70%
10yr Australian Government Bonds	3.60%	3.06%
US Fed Funds Rate	2.25%-2.50%	2.25%-2.50%
3yr US Treasury Bonds	3.46%	2.83%
10yr US Treasury Bonds	3.15%	2.67%

Source: RBA, AFMA, US Department of Treasury

90 Day Bill Futures

Over August, bill futures rose across the board reacting to global central banks commentary suggesting they are still some time away before pivoting away from their hawkish stance. 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 2023-2024:



Source: ASX

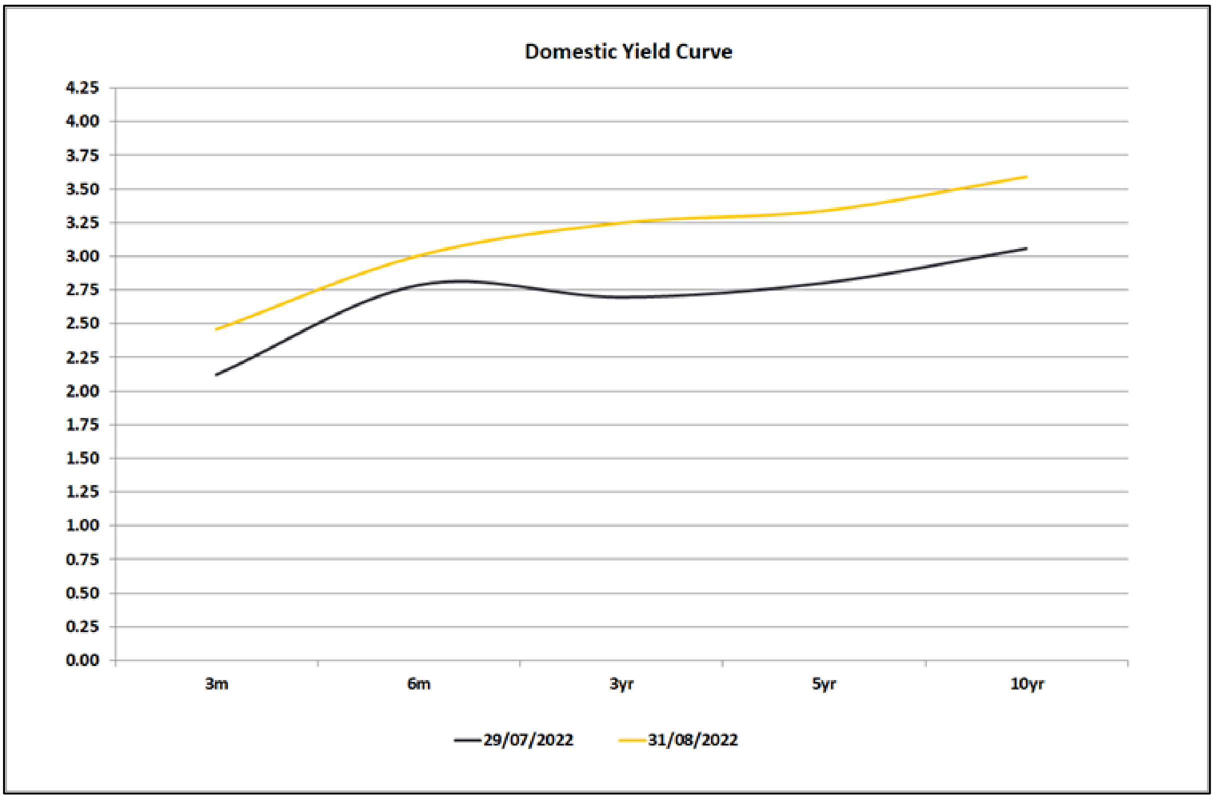
Fixed Interest Outlook

The US Federal Reserve delivered a stern warning that the central bank's campaign to lower inflation by raising interest rates is "*unconditional*" even if it leads to pain for households, businesses and, in turn, stock prices. Another 50bp hike is all but priced into their next meeting on 21st September, with the market now factoring a 75bp hike being more likely.

Domestically, the RBA's inflation forecasts were revised higher with inflation set to peak at 7.75% over 2022, remain high at 4% in 2023 and around 3% over 2024. While there is near-term uncertainty over the pace of additional rate hikes, on these forecasts, the RBA has little room to cut rates in 2023 as the market is currently pricing.

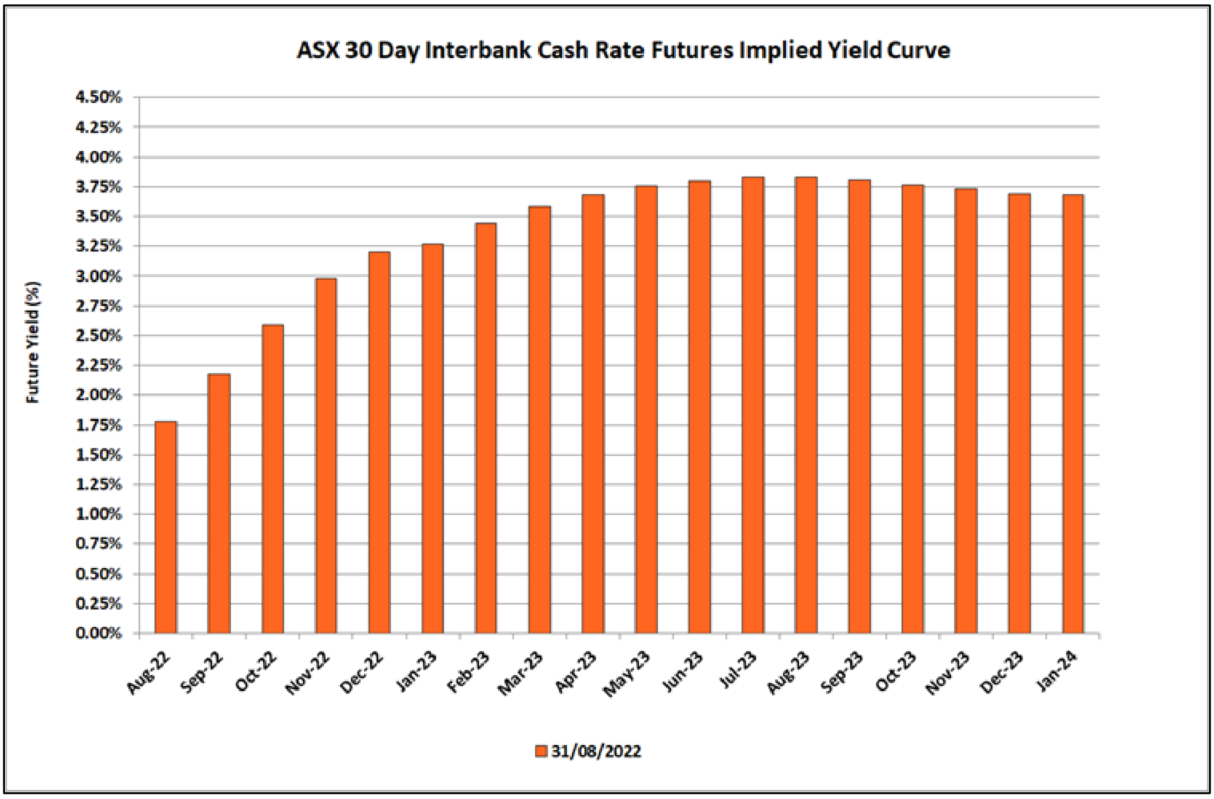
The speed of the RBA's rate rises in recent months reflects the need to rapidly recalibrate policy from emergency levels near zero to somewhat restrictive levels over a reasonably short period. The speed of the moves should help contain medium-term inflationary expectations, which the Bank continues to assess as well anchored.

The domestic bond market continues to suggest a prolonged low period of interest rates on a historical basis (10-year government bond yields just over 3½%). Over the month, yields rose up to 55bp at the long-end of the curve:



Source: AFMA, ASX, RBA

Markets are currently pricing in around 7-8 additional rate rises over the next two years (up to 3¾%), against the RBA's neutral setting of 2½%. Fears of a looming global recession have actually seen rate cuts start to be priced in towards the second half of 2023, although this seems unlikely for now**:**



Source: ASX

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