CITY OF PARRAMATTA

Monthly Investment Report

July 2023

IMPERIUM MARKETS

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Summary

Quick Market Update

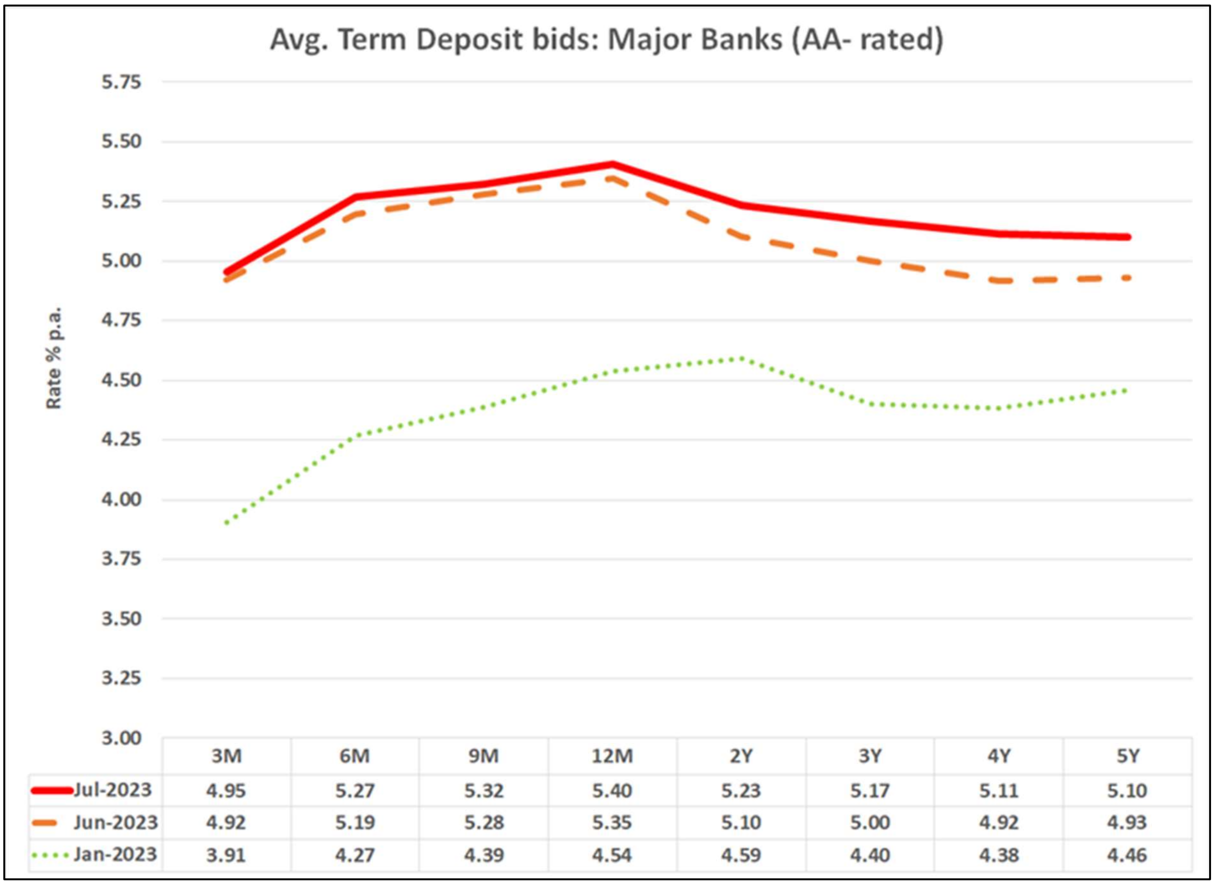
Risk markets were boosted over July about the prospects of inflation cooling and terminal interest rates peaking across several developed economies. Domestically, the latest CPI figure was largely used to justify a further pause at the RBA's Board meeting on 1st August on the basis of lower than expected core inflation together with the other uncertainties associated with the lags of monetary policy and the economic outlook. The RBA remains on a slight tightening bias, signalling further hike(s) may be required as it is determined to bring inflation back towards its target band.

Term Deposits

Term Deposits (fixed and floating) account for around 67% of the total investment portfolio at month-end. Council's term deposit portfolio was yielding 3.40% p.a. at month-end, with a weighted average duration of around 283 days or ~9½ months. We note the following:

- The highest deposit rate from any rated ADI in the market is now ~5½% p.a. for years;
- The highest deposit rates amongst the "AA-" rated ADIs (major banks) is now yielding between 5.30%-5.40% p.a. (depending on terms between 6m – 2 years);
- The highest deposit rates amongst the "A" rated ADIs was yielding between 5.20%-5.25% p.a. (depending on terms between 6m – 2 years);
- The highest deposit rates amongst the "BBB" rated ADIs was yielding between 5.30%-5.60% p.a. (depending on terms between 6m – 5 years).

Over July, across the short-end of the curve (3-12 months), major bank deposit rates marginally rose, on average, from the previous month. The RBA remains on a slight tightening bias, signalling further hike(s) may be required to bring inflation back towards their target band. Deposit rates offered by the major banks continue to be lower in the long end (2-5 years) compared to the shorter-end (6-12 months), reflective of the major banks believing that rate cuts may be required in future years once inflation has peaked and under control.



Source: Imperium Markets

'New' investments close to or above 5¼-5½% p.a. is currently available if Council can place a proportion of funds between 9-12 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 5¼-5½% p.a. (small allocation only), although this is primarily being offered by the lower rated ("BBB") ADIs.*

Senior FRNs

Council's senior floating rate notes (FRNs) make up around 8% of the total investment portfolio at month-end. The market valuation of Council's FRNs collectively rose around **+0.13% (actual)** in July 2023 (**or +$49,652 in dollar terms**). A single FRN was sold during the month with Council realising capital gains of $6,900 on the $2m parcel.

Summary	30 June 2023	31 July 2023	Net Flow ($)	Monthly Change %
Face Value	$40,100,000	$38,100,000	-$2,000,00	-4.87%
Market Value	$40,204,602	$38,247,353	-$2,006,900	+0.13%

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 +$154,407** *(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 +**$15,922 in dollar terms or +0.13% (actual)** for the month:

Summary	30 June 2023	31 July 2023	Net Flow ($)	Monthly Change %
Face Value	$12,050,000	$12,050,000	$0	+0.00%
Market Value	$12,066,873	$12,082,795	+$15,922	+0.13%

At month-end, Council's "BBB" rated FRNs are now marked at an **unrealised capital gain of ~$32,899**.

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 2.15 years.

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

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

TCorp Long-Term Growth Fund

The NSW TCorp Fund accounts for ~6% of Council's total investment portfolio. **The Fund returned +1.76% (actual) during July**. Both domestic and international shares provided modest gains again this month, boosting overall returns of the Fund.

Summary	30 Jun 2023	31 Jul 2023	Investment ($)	Net Return ($)	Net Return (%)
Market Value	$30,281,213	$30,815,068	$0	+$533,855	+1.76%

The resolution of the US debt ceiling has enabled stronger than expected Federal spending through the early months of the new financial year. Government spending has a rapid transmission into the economy, compared to the long and variable lags and impact of monetary policy, and this is working to soften the slowdown in growth that is underway. However, this is placing more of the burden of reducing inflation onto monetary policy. Headline inflation continues to grind lower and while core inflation measures too are slowing, the pace has not been sufficient to convince central banks that their job of tightening policy is done.

The action and guidance from Central Banks in the past few months show that their intent is to keep going on hiking rates. This sends a clear message that monetary policy over-tightening is now a key risk for asset markets. History shows that while tighter monetary policy does not always end in recession, it does, particularly if credit conditions are tightening at the same time, end with something 'breaking'. As a consequence, financial risk is more elevated, where the stress around US Regional Banks in Q1 could manifest in other areas of financial assets in the quarters ahead and this could be the trigger that tips economies into recession. The economic outlook and pathway ahead remains potholed by a high level of uncertainty.

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

CFS Global Credit Income

The CFS Global Credit Income Fund accounts for around 3% of Council's total investment portfolio. **The Fund returned +1.20% (actual) in July**, as the market valuation of the fund's assets in global credit securities increased during the month.

Summary	30 June 2023	31 July 2023	Difference ($)	Difference (%)
Market Value	$14,659,854	$14,835,438	+$175,584	+1.20%

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

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

Cash Accounts

Cash accounts make up around 8½% of Council's investment portfolio at month-end. Council's cash accounts are likely to yield up to 0.15% p.a. (at most) above the official cash rate over coming years i.e. yield up to 4.25% p.a. at current yields, but likely higher if the RBA continues to increase official rates. Short-dated term deposits will continue to outperform overnight cash accounts in most cases so we recommend keeping cash levels at a bare minimum to meet ongoing liquidity requirements.

Council's Budgeted Income for FY2023-2024

Council's budgeted income for FY2023-2024 has been set to $16.516m. Based on an average total investment portfolio size of around $480m, that equates to a budgeted yield of around 3.44% for the current financial year.

For the first month of the financial year, the cumulative interest revenue earned was roughly $693k above the revised budgeted income. In the upcoming financial year, we exercise caution given the volatility from the TCorp Long-Term Growth Fund during any month.

Month-End	Cumulative Budget	Cumulative Investment Revenue	Difference ($)
Jul 2023	$1,376,321	$2,069,330	$693,330
Aug 2023	$2,752,643		
Sep 2023	$4,128,964		
Oct 2023	$5,505,285		
Nov 2023	$6,881,606		
Dec 2023	$8,257,928		
Jan 2024	$9,634,249		
Feb 2024	$11,010,570		
Mar 2024	$12,386,891		
Apr 2024	$13,763,213		
May 2024	$15,139,534		
Jun 2024	$16,515,855		

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

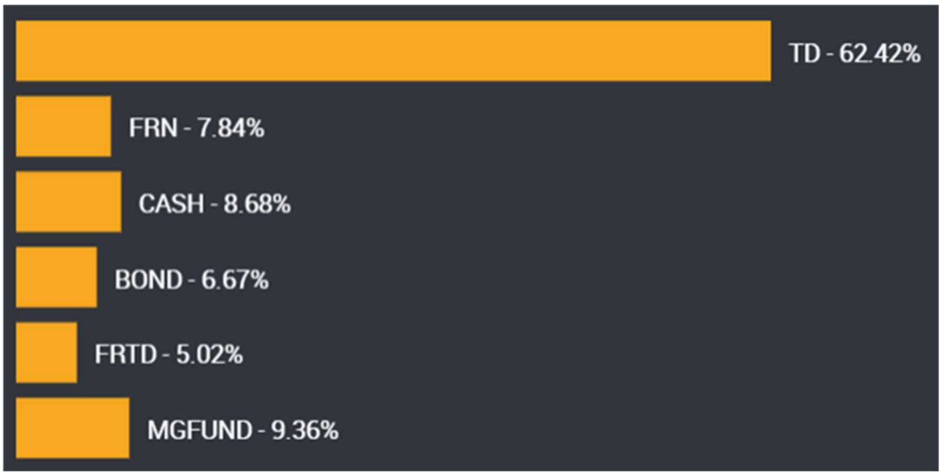
Council's Portfolio & Compliance

Asset Allocation

As at the end of July 2023, the portfolio was mainly directed to fixed and floating rate term deposits (67%). The remaining portfolio is directed to FRNs (8%), overnight cash accounts (8½%), bonds (6½%), and the managed funds with CFS Global Credit Income Fund and NSW T-Corp Long Term Growth Fund (9%, combined).

Senior FRNs remain relatively attractive as spreads have generally widened over the past 12-18 months – new issuances should now be considered again on a case by case scenario. In the interim, staggering a mix of fixed deposits between 9-12 months to 3 years remains a more optimal strategy to maximise returns over a longer-term cycle.

With recessionary fears being priced in coming years, investors can choose to allocate a small proportion of longer-term funds and undertake an insurance policy against any potential future rate cuts by investing across 3-5 year fixed deposits, locking in and targeting yields close to or above 5¼% p.a. (mainly available from the regional banks).



Term to Maturity

Overall, the portfolio remains well diversified from a maturity perspective with around 15% of assets directed to medium-term assets (2-5 years). All minimum and maximum criteria meet within the Policy guidelines:

Where liquidity permits, we recommend new surplus funds be directed to 1-3 year horizons given this is where the most attractive value can be found. We suggest this be allocated to any remaining attractive fixed term deposits (refer to respective sections below).

Compliant	Horizon	Invested ($)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available ($)
✓	0 - 365 days	$312,249,473	64.02%	20%	100%	$175,479,364
✓	1 – 2 years	$72,115,947	14.79%	0%	70%	$269,294,240
✓	2 – 5 years	$72,548,349	14.88%	0%	50%	$220,088,954
✓	5 – 10 years	$30,815,068	6.32%	0%	25%	$42,344,257
		$487,728,837	**100.00%**			

Counterparty

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	BoQ Covered	AAA	$904,046	0.19%	50.00%	$242,960,373
✓	Bendigo Covered	AAA	$5,215,609	1.07%	50.00%	$238,648,810
✓	Suncorp Covered	AAA	$534,984	0.11%	50.00%	$243,329,434
✓	ING Covered	AAA	$1,507,777	0.31%	50.00%	$242,356,642
✓	ANZ	AA-	$5,562,847	1.14%	40.00%	$189,528,688
✓	CBA	AA-	$22,388,321	4.59%	40.00%	$172,703,214
✓	NAB	AA-	$107,388,745	22.02%	40.00%	$87,702,790
✓	Northern Territory	AA-	$32,000,000	6.56%	40.00%	$163,091,535
✓	Westpac	AA-	$24,500,000	5.02%	40.00%	$170,591,535
✓	Citibank NA	A+	$1,000,867	0.21%	25.00%	$120,931,343
✓	Macquarie	A+	$29,253	0.01%	25.00%	$121,902,956
✓	Suncorp	A+	$12,503,481	2.56%	25.00%	$109,428,728
✓	UBS AG	A+	$3,242,721	0.66%	25.00%	$118,689,489
✓	CFS Global CI	A	$14,835,438	3.04%	25.00%	$107,096,771
✓	ICBC	A	$89,550,778	18.36%	25.00%	$32,381,431
✓	Aus. Military Bank	BBB+	$8,000,000	1.64%	15.00%	$65,159,326
✓	Aus. Unity Bank	BBB+	$9,000,000	1.85%	15.00%	$64,159,326
✓	BankVIC	BBB+	$5,000,000	1.03%	15.00%	$68,159,326
✓	Bank of Us	BBB+	$15,000,000	3.08%	15.00%	$58,159,326
✓	BoQ	BBB+	$10,502,067	2.15%	15.00%	$62,657,259
✓	Bendigo-Adelaide	BBB+	$4,865,364	1.00%	15.00%	$68,293,962
✓	Hume Bank	BBB+	$4,500,000	0.92%	15.00%	$68,659,326
✓	QT Mutual Bank	BBB+	$996,903	0.20%	15.00%	$72,162,423
✓	AMP Bank	BBB	$5,166,108	1.06%	15.00%	$67,993,218
✓	Auswide Bank	BBB	$6,000,000	1.23%	15.00%	$67,159,326
✓	Bank Australia	BBB	$2,711,681	0.56%	15.00%	$70,447,645
✓	CUA	BBB	$2,506,780	0.51%	15.00%	$70,652,545
✓	MyState	BBB	$5,000,000	1.03%	15.00%	$68,159,326
✓	P&N Bank	BBB	$11,000,000	2.26%	15.00%	$62,159,326
✓	Police Bank	BBB	$3,000,000	0.62%	15.00%	$70,159,326
✓	Judo Bank	BBB-	$18,000,000	3.69%	15.00%	$55,159,326
✓	QBank	BBB-	$2,000,000	0.41%	15.00%	$71,159,326
✓	The Mutual	BBB-	$8,500,000	1.74%	15.00%	$64,659,326

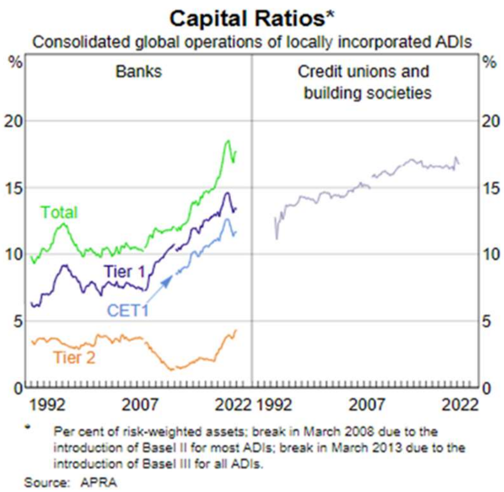
Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	Summerland CU	Unrated	$5,000,000	1.03%	1.03%	$0
✓	Transport CU	Unrated	$2,000,000	0.41%	1.03%	$3,000,000
✓	Unity Bank	Unrated	$5,000,000	1.03%	1.03%	$0
✓	Warwick CU	Unrated	$2,000,000	0.41%	1.03%	$3,000,000
✓	TCorpIM LTG	Unrated	$30,815,068	6.32%	10.00%	$17,957,815
			$487,728,837	**100.00%**		

As at the end of July 2023, Council did not have an overweight position to any single ADI. Overall, the portfolio is well diversified across the entire credit spectrum, including some exposure to the unrated ADIs.

We remain supportive of the regional and unrated ADI sector (and have been even throughout the post-GFC period). They continue to remain solid, incorporate strong balance sheets, while exhibiting high levels of capital – typically, much higher compared to the higher rated ADIs. Overall, the lower rated ADIs (BBB and unrated) are generally now in a better financial position then they have been historically (see the Capital Ratio figure below). The financial regulator, APRA has noted that the Common Equity Tier 1 capital of Australian banks now exceeds a quarter of a trillion dollars. It has increased by $110 billion, or more than 70%, over the past eight years. Over the same time, banks' assets have grown by 44%. Some of the extra capital is supporting growth in the banking system itself but clearly, there has been a strengthening in overall resilience and leverage in the system is lower.

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

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



Domestic versus International

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

ADI Category by APRA / Country of Region	Amount Invested	Percentage
Australian Owned ADI	**$324,249,847**	**66.48%**
Australia	$324,249,847	66.48%
Branches of Foreign Bank	**$117,293,499**	**24.05%**
China	$89,550,778	18.36%
Switzerland	$3,242,721	0.66%
United States	$24,500,000	5.02%
Foreign Subsidiary Banks	**$534,984**	**0.11%**
Netherlands	$534,984	0.11%
Global^	**$45,650,507**	**9.36%**
International	$45,650,507	9.36%
Total	**$487,728,837**	**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 66% of Council's total investment portfolio is placed with domestic ADIs, while the remaining 34% 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 31/07/2023 ($487.73m), we can roughly estimate that ~52% of the investments have some form of exposure.

Council's exposure is summarised as follows:

Counterparty	Credit Rating	Funding Fossil Fuel
BoQ Covered	AAA	Yes
Bendigo Covered	AAA	No
Suncorp Covered	AAA	No
ING Covered	AAA	Yes
ANZ	AA-	Yes
CBA	AA-	Yes
NAB	AA-	Yes
Northern Territory	AA-	Yes
Westpac	AA-	Yes
Citibank NA	A+	Yes
Macquarie	A+	Yes
Suncorp	A+	No
UBS AG	A+	No
CFS Global Credit^^	A	Yes
ICBC	A	No
Aus Military Bank	BBB+	No
Aus Unity Bank	BBB+	No
BOQ	BBB+	Yes
Bank of Us	BBB+	No
BankVIC	BBB+	No
Bendigo-Adelaide	BBB+	No
Hume Bank	BBB+	No
QT Mutual Bank	BBB+	No
AMP Bank	BBB	Yes
Auswide Bank	BBB	No
Bank Australia	BBB	No
CUA	BBB	No
MyState	BBB	No
P&N Bank	BBB	No
Police Bank	BBB	No
QBank	BBB-	No
Judo Bank	BBB-	No
The Mutual Bank	BBB-	No
Summerland CU	Unrated	No
Transport Mutual CU	Unrated	No
Unity Bank	Unrated	No
Warwick CU	Unrated	No
T-CorpIM LTG Fund^^	Unrated	Yes

^^The underlying exposure in these managed funds includes the domestic major banks.
Source: https://www.marketforces.org.au/info/compare-bank-table/

Summary	Amount	Invested %
Yes	$255,627,745	52%
No	$232,101,093	48%
	$487,728,837	**100%**

Transition to investments without major exposure to fossil fuels

Council has not made a decision to divest from the current portfolio of investments which have exposure to fossil fuels. To do so would have unfavourable implications to the credit quality, rating and interest income forecasts.

However, where possible, and within the ministerial and policy guidelines, Council will continue to favour newly issued fossil fuel free investment products, providing it does not compromise the risk and return profile.

In time it is Councils intention to move to a more balanced portfolio which has less exposure to fossil fuels, providing it is prudent to do so.

What would be implications on our portfolio credit rating?

By adopting a free fossil fuel policy or an active divestment strategy, this would eliminate the major banks rated “AA-“ as well as some other “A” rated banks (Citi, Macquarie and ING). Council would be left with a smaller sub-sector of banks to choose to invest with.

What would be risks and implications on Council’s portfolio performance?

Some implications include:

- High concentration risk – limiting Council to a selected number of banks;
- Increased credit/counterparty risk;
- May lead to a reduction in performance (e.g. most of the senior FRN issues are with the higher rated ADIs);
- Underperformance compared to other Councils which could result in a significant loss of income generated – could be in excess of hundreds of thousands of dollars per annum.

It may actually be contrary to Council’s primary objective to preserve capital as the investment portfolio’s risk would increase (all things being equal). Council may not be maximising its returns – this is one of the primary objectives written in the Investment Policy.

Credit Quality

Following the most recent adopted Policy, all aggregate ratings categories are currently within the Policy limits:

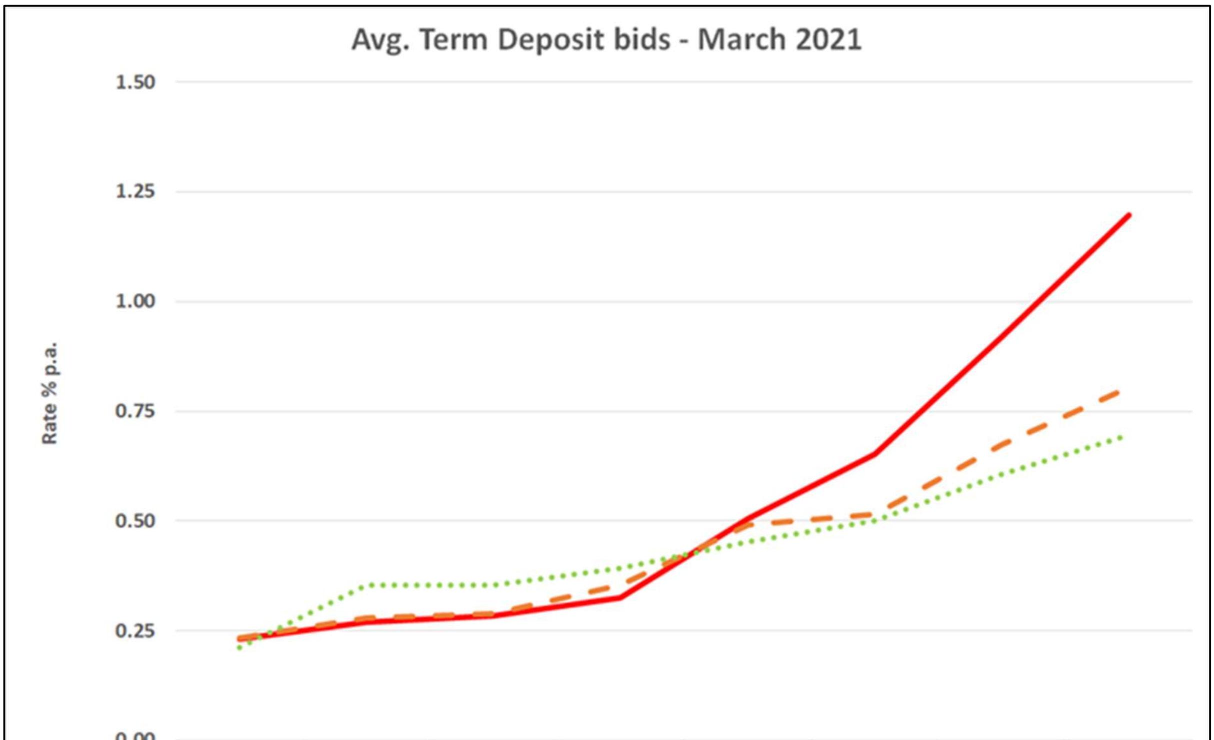
Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AAA Category	$8,162,416	2%	100%	$479,566,421
✓	AA Range or Major Banks	$191,839,912	39%	100%	$295,888,925
✓	A Category	$121,162,538	25%	80%	$269,020,532
✓	BBB Category	$121,748,902	25%	30%	$24,569,749
✓	Unrated ADI Category	$14,000,000	3%	10%	$34,772,884
✓	TCorpIM Funds	$30,815,068	6%	25%	$91,117,141
		$487,728,837	**100.00%**		

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

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

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

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



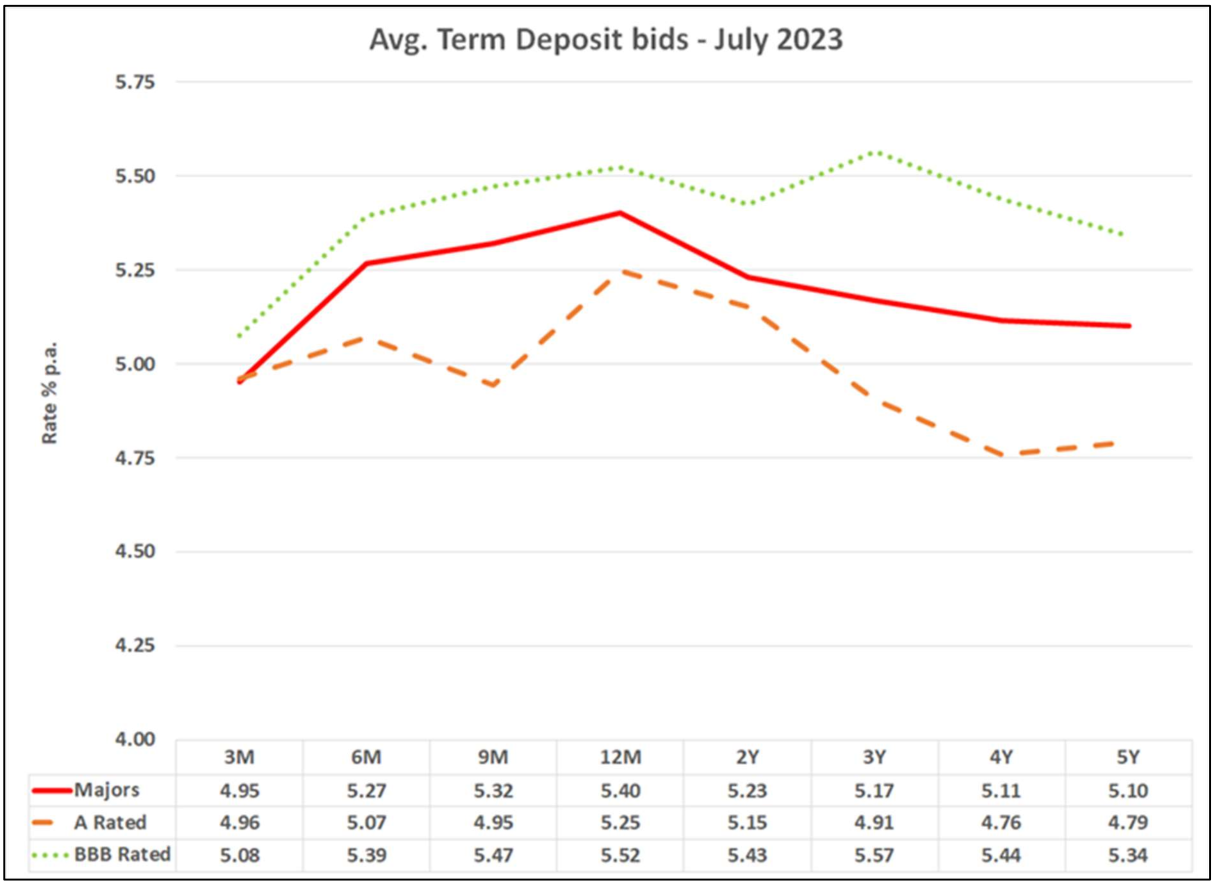
	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	0.23	0.27	0.29	0.33	0.51	0.65	0.92	1.20
A Rated	0.23	0.28	0.29	0.35	0.49	0.52	0.68	0.81
BBB Rated	0.21	0.36	0.35	0.39	0.45	0.50	0.61	0.70

Source: Imperium Markets

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

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

Term Deposit Rates – Currently (July 2023)



	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	4.95	5.27	5.32	5.40	5.23	5.17	5.11	5.10
A Rated	4.96	5.07	4.95	5.25	5.15	4.91	4.76	4.79
BBB Rated	5.08	5.39	5.47	5.52	5.43	5.57	5.44	5.34

Source: Imperium Markets

Performance

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

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	0.34%	1.00%	1.85%	0.34%	3.20%	1.73%	1.20%
AusBond Bank Bill Index	0.37%	0.97%	1.81%	0.37%	3.15%	1.67%	1.13%
PCC Internal Benchmark*	0.51%	1.25%	2.35%	0.51%	4.24%	2.26%	2.00%
PCC Cash Portfolio	0.36%	1.06%	1.97%	0.36%	3.43%	1.97%	1.52%
PCC T/D Portfolio	0.29%	0.78%	1.38%	0.29%	2.54%	1.96%	1.80%
PCC FRN Portfolio	0.46%	1.29%	2.42%	0.46%	4.38%	3.01%	2.57%
PCC Bond Portfolio	0.09%	0.28%	0.55%	0.09%	1.11%	1.10%	-
PCC Credit Fund	1.20%	2.29%	3.02%	1.20%	6.47%	1.68%	2.44%
PCC TCorp Growth Fund	1.76%	3.40%	5.25%	1.76%	8.93%	1.08%	6.63%
PCC's Total Portfolio	**0.42%**	**1.03%**	**1.92%**	**0.42%**	**3.25%**	**1.89%**	**1.94%**
Rel. Perf. (BBI)	**0.04%**	**0.06%**	**0.11%**	**0.04%**	**0.10%**	**0.22%**	**0.81%**
Rel. Perf. (Int. Bench.)	**-0.09%**	**-0.23%**	**-0.42%**	**-0.09%**	**-0.99%**	**-0.36%**	**-0.06%**

**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 July, the total investment portfolio (including cash) provided a return of +0.42% (actual) or +5.02% p.a. (annualised), outperforming the AusBond Bank Bill Index return of +0.37% (actual) or +4.48% p.a. (annualised), whilst underperforming Council's internal benchmark return of +0.51% (actual) or +6.16% p.a. (annualised).

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

The annualised returns as of July 2023 are shown in the following table:

Performance (% p.a.)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	4.10%	4.02%	3.77%	4.10%	3.20%	1.73%	1.20%
AusBond Bank Bill Index	4.48%	3.91%	3.69%	4.48%	3.15%	1.67%	1.13%
PCC Internal Benchmark*	6.16%	5.07%	4.79%	6.16%	4.24%	2.26%	2.00%
PCC Cash Portfolio	4.35%	4.27%	4.02%	4.35%	3.43%	1.97%	1.52%
PCC T/D Portfolio	3.52%	3.12%	2.80%	3.52%	2.54%	1.96%	1.80%
PCC FRN Portfolio	5.54%	5.21%	4.94%	5.54%	4.38%	3.01%	2.57%
PCC Bond Portfolio	1.11%	1.11%	1.11%	1.11%	1.11%	1.10%	-
PCC Credit Fund	15.05%	9.41%	6.19%	15.05%	6.47%	1.68%	2.44%
PCC TCorp Growth Fund	22.85%	14.18%	10.88%	22.85%	8.93%	1.08%	6.63%
PCC's Total Portfolio	**5.02%**	**4.14%**	**3.92%**	**5.02%**	**3.25%**	**1.89%**	**1.94%**
Rel. Perf. (BBI)	**0.54%**	**0.23%**	**0.23%**	**0.54%**	**0.10%**	**0.22%**	**0.81%**
Rel. Perf. (Int. Bench.)	**-1.14%**	**-0.93%**	**-0.87%**	**-1.14%**	**-0.99%**	**-0.36%**	**-0.06%**

Council's Term Deposit Portfolio & Recommendation

As at the end of July 2023, Council's deposit portfolio was yielding **3.40% p.a.** (up 1bp from the previous month), with a weighted average duration of around 283 days (~9½ months).

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

At the time of writing, we see value in:

ADI	LT Credit Rating	Term	T/D Rate
P&N Bank	BBB	5 years	5.50% p.a.
P&N Bank	BBB	4 years	5.40% p.a.
AMP Bank	BBB	3 years	5.45% p.a. ^
AMP Bank	BBB	2 years	5.45% p.a.^
Australian Military	BBB+	2 years	5.36% p.a.
BoQ	BBB+	2 years	5.25% p.a.
P&N Bank	BBB	2 years	5.20% p.a.
Suncorp	A+	2 years	5.13% p.a.
Westpac	AA-	2 years	5.12% p.a.
NAB	AA-	2 years	5.10% p.a.
CBA	AA-	2 years	5.06% 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	5.50% p.a.^
AMP Bank	BBB	6-7 months	5.45% p.a.^
Heritage & People's Choice	BBB+	12 months	5.40% p.a.
BoQ	BBB+	9 months	5.40% p.a.
Australian Military	BBB+	12 months	5.36% p.a.
NAB	AA-	9-12 months	5.35% p.a.
NAB	AA-	6-8 months	5.30% p.a.
BoQ	BBB+	12 months	5.30% p.a.
Bendigo-Adelaide	BBB+	6-12 months	5.30% p.a.
Westpac	AA-	12 months	5.27% p.a.
Suncorp	A+	12 months	5.23% p.a.
CBA	AA-	12 months	5.22% p.a.
NAB	AA-	3 months	5.00% p.a.

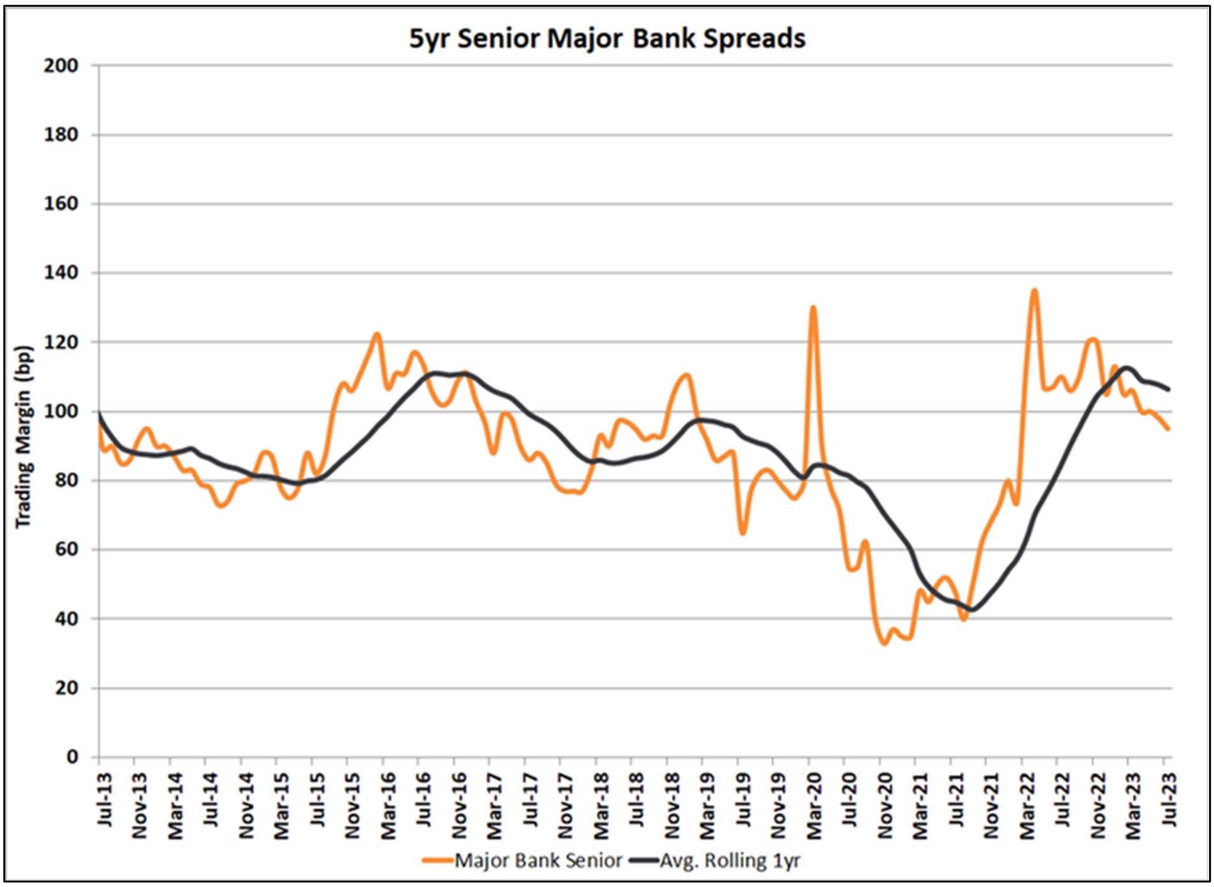
^Contact us to get an additional 20bp rebated commission. Aggregate limits temporarily lifted to $10m (from $5m).

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

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 5¼-5 ½% 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 July, amongst the senior major bank FRNs, physical credit securities tightened by around 1-3bp at the long-end of the curve. Major bank senior securities remain fairly attractive in the rising rate environment (5 year margins around the +95bp level):



Source: IBS Capital

During the month, there was a lack of primary (new) issuances amongst the ADIs. The main securities that were issued were the following:

- 5yr Suncorp (AAA) covered security at +105bp
- 1yr Bank of China (A) senior FRN at +70bp

Amongst the "A" and "BBB" rated sector, the securities were marked around 5bp tighter at the long-end of the curve. Credit securities are looking much more attractive given the widening of spreads over the past ~18 months. FRNs will continue to play a role in investor's portfolios mainly on the basis of their liquidity and the ability to roll down the curve and gross up returns over future years (in a relatively stable credit environment).

Senior FRNs (ADIs)	31/07/2023	30/06/2023
"AA" rated – 5yrs	+95bp	+98bp
"AA" rated – 3yrs	+74bp	+75bp
"A" rated – 5yrs	+115bp	+120bp
"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-2025 for the "AA" rated ADIs (domestic major banks)**;
- On or before mid-2024 for the "A" rated ADIs; and
- Within 6-9 months for the "BBB" rated ADIs (consider case by case).

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

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

Council FRNs – Recommendations for Sale/Switches

During the month, Council sold out of the following low yielding FRN:

Issuer	Rating	Maturity Date	ISIN	Face Value	Trading Margin	Capital Price ($)	Realised Gain ($)
NAB	AA-	21/01/2025	AU3FN0052510	$2,000,000	+53.0bp	$100.345	$6,900

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

Issuer	Rating	Maturity Date	ISIN	Face Value	Trading Margin	Capital Price ($)	~Unrealised Gain ($)
NAB	AA-	30/05/2025	AU3FN0069373	$2,000,000	+59.0bp	$100.496	$8,439
Suncorp	A+	30/07/2024	AU3FN0049144	$2,000,000	+61.0bp	$100.139	$10,431

We will inform Council when there is an opportunity to sell out of any future sub-optimal FRNs and switch into a higher yielding complying asset. This strategy has worked very well as Council has ultimately boosted the overall returns of the investment portfolio (up to hundreds of thousands of dollars in previous financial years).

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%	0.38	Annually
24/11/2020	16/12/2024	$1,000,000	0.90%	1.38	Annually
16/02/2021	16/06/2025	$1,000,000	0.90%	1.88	Annually
16/02/2021	15/06/2026	$5,000,000	1.00%	2.88	Annually
12/05/2021	17/06/2024	$3,000,000	0.80%	0.88	Annually
12/05/2021	16/06/2025	$3,000,000	1.10%	1.88	Annually
12/05/2021	15/06/2026	$3,000,000	1.30%	2.88	Annually
20/05/2021	16/06/2025	$3,500,000	1.10%	1.88	Annually
09/09/2021	16/12/2024	$2,500,000	0.90%	1.38	Semi-Annually
09/09/2021	15/12/2026	$5,000,000	1.40%	3.38	Semi-Annually
	Totals / Wgt. Avg.	**$29,000,000**	**1.09%**	**2.15 yrs**	

At the time of investment, these investments were relatively attractive especially after the rate cut delivered in early November 2020 to 0.10% and its subsequent forward guidance on official interest rates (no rate rises "*until at least 2024*"). The NTTC bonds are a 'retail' offering and not 'wholesale' issuances. Given the lack of liquidity and high penalty costs if they were to be sold/redeemed prior to the maturity date, they are considered to be a hold-to-maturity investment and will be marked at par value ($100.00) throughout the term of investment.

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

Issuer	Rating	Maturity Date	ISIN	Face Value	Purchase Yield	Current Yield	Unrealised Gain / Loss ($)
ING	AAA	19/08/2026	AU3CB0282358	$600,000	1.16%	4.96%	-$63,270

Senior Fixed Bonds – ADIs (Secondary Market)

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

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

ISIN	Issuer	Rating	Capital Structure	Maturity Date	~Remain. Term (yrs)	Fixed Coupon	Indicative Yield
AU3CB0265403	Suncorp	A+	Senior	30/07/2024	1.00	1.85%	5.11%
AU3CB0266377	Bendigo	BBB+	Senior	06/09/2024	1.10	1.70%	5.19%
AU3CB0268027	BoQ	BBB+	Senior	30/10/2024	1.25	2.00%	5.36%
AU3CB0287498	Bendigo	BBB+	Senior	17/03/2025	1.63	3.00%	5.28%
AU3CB0293967	Bendigo	AAA	Covered	11/11/2025	2.28	5.10%	5.17%
AU3CB0280030	BoQ	BBB+	Senior	06/05/2026	2.77	1.40%	5.47%
AU3CB0284149	BoQ	BBB+	Senior	27/10/2026	3.24	2.10%	5.54%

CFS Global Credit Income Fund

For the month of July, the CFS Global Credit Income Fund returned +1.20% (actual), outperforming the AusBond Bank Bill Index return of +0.37% (actual) and the AusBond Credit Index return of +0.85% (actual).

Given the move in asset markets over the past few months, the Fund continues to hold a constructive view on duration particularly given the cautious outlook for risk markets remains challenging. The manager recognises that the path forward holds a high level of uncertainty.

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

With a running yield of ~5-5½% p.a., we recommend Council to retain this investment given the alternative investments in complying fixed interest products are largely earning below this rate of return.

NSW T-CorpIM Growth Fund

The Growth Fund returned +1.76% (actual) for the month of July. Domestic shares (S&P ASX 200 Accumulation Index +2.88%) and international shares (MSCI World ex-Australia +3.27%) were the main contributors to performance this month.

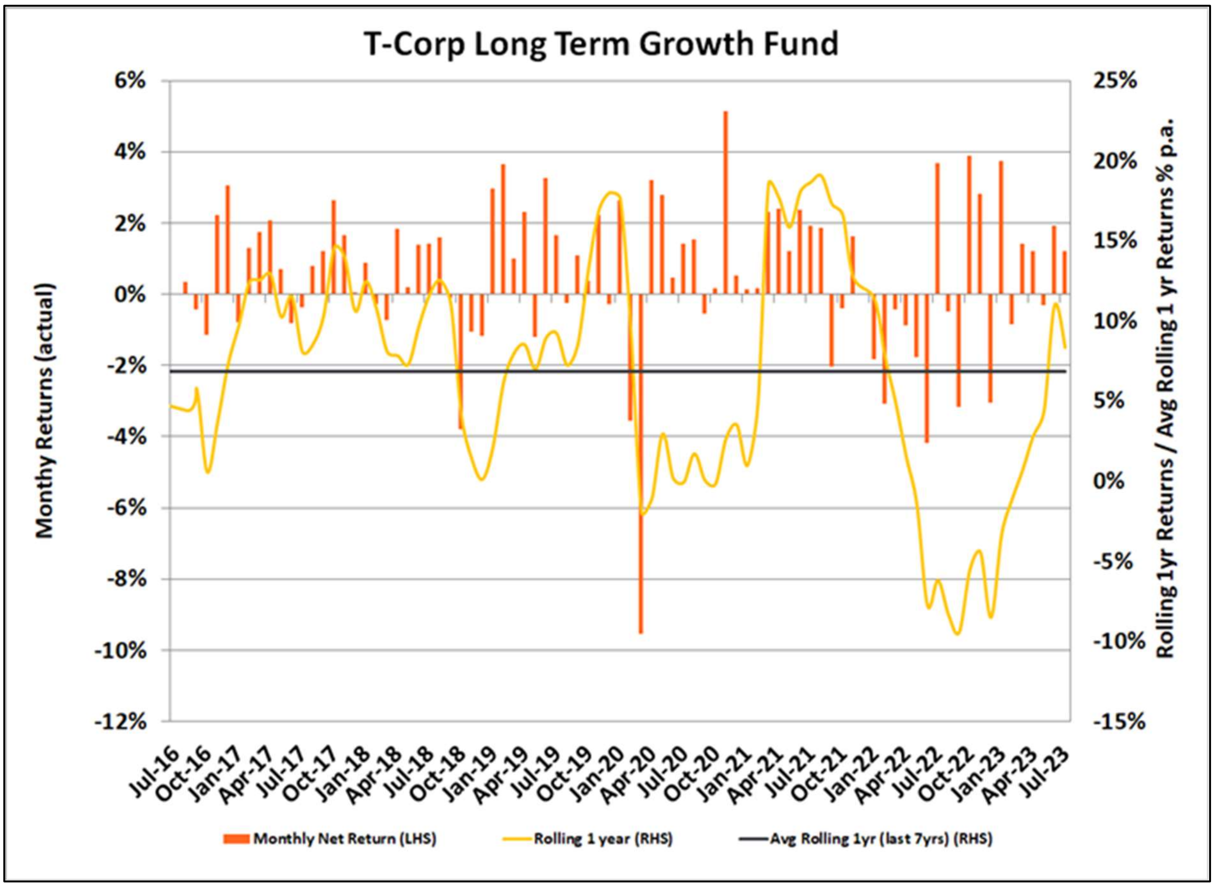
The resolution of the US debt ceiling has enabled stronger than expected Federal spending through the early months of the new financial year. Government spending has a rapid transmission into the economy, compared to the long and variable lags and impact of monetary policy, and this is working to soften the slowdown in growth that is underway. However, this is placing more of the burden of reducing inflation onto monetary policy. Headline inflation continues to grind lower and while core inflation measures too are slowing, the pace has not been sufficient to convince central banks that their job of tightening policy is done.

The action and guidance from Central Banks in the past few months show that their intent is to keep going on hiking rates. This sends a clear message that monetary policy over-tightening is now a key risk for asset markets. History shows that while tighter monetary policy does not always end in recession, it does, particularly if credit conditions are tightening at the same time, end with something ‘breaking’. As a consequence, financial risk is more elevated, where the stress around US Regional Banks in Q1 could manifest in other areas of financial assets in the quarters ahead and this could be the trigger that tips economies into recession. The economic outlook and pathway ahead remains potholed by a high level of uncertainty.

Overall, we remain cautious on the future performance of the T-Corp Growth Fund given the high volatility associated with a diversified growth fund, which generally allocates a range of 60%-80% in domestic and international shares. Investors are seeking relief from elevated levels of inflation and patiently awaiting the interest rate cycle to peak.

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

Since Inception	T-Corp Long Term Fund
Negative Months	140 (~1 in 3 months)
Positive Months	269
Total Months	409 (34.10 yrs)
Average Monthly Return	+0.65% (actual)
Median Monthly Return	+1.02% (actual)
Lowest 1 year Rolling Return	-21.12% p.a. (Nov 2008)
Highest 1 year Rolling Return	+29.89% p.a. (Jan 1994)



Economic Commentary

International Market

Risk markets were boosted over July about the prospects of inflation cooling and terminal interest rates peaking across several developed economies.

Across equity markets, the S&P 500 Index gained +3.11%, whilst the NASDAQ added +4.05%. Europe's main indices also provided solid returns, led by UK's FTSE (+2.23%), Germany's DAX (+1.85%) and France's CAC (+1.32%).

The US FOMC hiked rates by 25bp to 5.25%-5.50% as universally expected, the post-meeting Statement was almost unchanged, while there was minimal forward guidance given in the press conference. US GDP rose an annualised +2.4% in Q2, well above the +1.8% expected by consensus.

Annual US inflation rose at its slowest pace in more than two years in June, with underlying price pressures receding. The PCE price index rose +0.2% in June to be up +3.0% y/y, whilst the core PCE price index climbed +0.2% m/m, gaining +4.1% y/y.

Canada's unemployment rate increased to 5.4% from 5.2%, amid high population growth and a lift in the participation rate. Headline CPI in June came in lower at +2.8% y/y vs. +3.0% expected. The core measures showed less improvement with the trimmed mean coming in at +3.7% y/y vs. +3.6% expected.

The ECB lifted its deposit rate by 25bps to 3.75% as widely expected. The statement noted that the ECB will ensure that rates remain sufficiently restrictive given that inflation was still expected to remain "*too high for too long*".

UK's CPI came in softer than expected on both the headline (+7.9% y/y vs, +8.2% expected) and core measures (+6.9% y/y vs. +7.1% consensus).

China's economic momentum is slowing with deflation a concern for markets. The economy grew at +0.8% q/q in Q2, down from the +2.2% recorded in Q1. On an annual basis, the economy grew at +6.3%, well below the +7.1% expected. China's CPI inflation declined from -0.2% y/y in May to 0.0% last month, a 28 month low, raising concerns of deflation.

The RBNZ held rates steady at 5.50% after 12 consecutive hikes that began in October 2021. NZ's Q2 headline CPI printed at +1.1% q/q, taking the annual rate to +6.0% y/y. This was down from +1.2% in Q1 or +6.7% on an annual basis.

The MSCI World ex-Aus Index rose +3.27% for the month of July:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+3.11%	+10.06%	+11.11%	+11.95%	+10.26%	+10.53%
MSCI World ex-AUS	+3.27%	+8.15%	+11.76%	+10.04%	+7.46%	+7.53%
S&P ASX 200 Accum. Index	+2.88%	+2.04%	+11.67%	+11.99%	+7.47%	+8.32%

Source: S&P, MSCI

Domestic Market

The RBA decided to keep interest rates unchanged at 4.10% in July to provide additional time to assess the outlook for the economy. The Statement somewhat strangely removed much of the commentary on upside risks to inflation that was present in the two previous months at which the RBA tightened.

Deputy Governor Michele Bullock will be Australia's next RBA Governor, taking over from current Governor Philip Lowe on September 18. The RBA is to move to eight meetings a year from February 2024 (instead of the current eleven). The quarterly Statement of Monetary Policy will be published with the Board meeting Statement in February, May, August and November, rather than the following Friday as is currently the case.

Headline inflation printed below both the market's expectation and the RBA's SoMP forecast profile. Q2 CPI was +0.8% q/q and +6.0% y/y (consensus +1.0%/+6.2%). The core trimmed mean was +0.9% q/q and +5.9% y/y (consensus +1.1%/+6.0%). For both headline and trimmed mean, it was the lowest quarterly read since September 2021. The details revealed greater than expected goods disinflation is now occurring, but services inflation – often seen as stickier - moved higher.

Australia's employment growth was double market expectations in June, rising +32.6k in the month (consensus +15k). The unemployment rate fell 0.1% to 3.5% and has averaged 3.5% since July 2022, having only moved lower in October 2022 to 3.4%.

Retail sales fell -0.8% m/m in June, much weaker than the 0.0% consensus.

Australian dwelling prices rose +1.1% m/m in June to be +3.4% above their recent February low. Sydney continues to lead the bounce in dwelling values, gaining +1.7% m/m to be +6.4% higher than February 2023.

Dwelling approvals surged in May, up +20.6% m/m (consensus +3.0%). The large rise was the result of a +59.4% m/m gain in the volatile attached dwelling approvals category, led by a spike in NSW apartment approvals.

The Australian dollar gained +0.78%, finishing the month at US66.82 cents (from US66.30 cents the previous month).

Credit Market

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

Index	July 2023	June 2023
CDX North American 5yr CDS	63bp	69bp
iTraxx Europe 5yr CDS	68bp	82bp
iTraxx Australia 5yr CDS	72bp	76bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	July 2023	June 2023
Bloomberg AusBond Bank Bill Index (0+YR)	+0.37%	+0.30%
Bloomberg AusBond Composite Bond Index (0+YR)	+0.52%	-1.95%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.46%	+0.41%
Bloomberg AusBond Credit Index (0+YR)	+0.85%	-1.08%
Bloomberg AusBond Treasury Index (0+YR)	+0.49%	-2.28%
Bloomberg AusBond Inflation Gov't Index (0+YR)	+0.92%	-2.38%

Source: Bloomberg

Other Key Rates

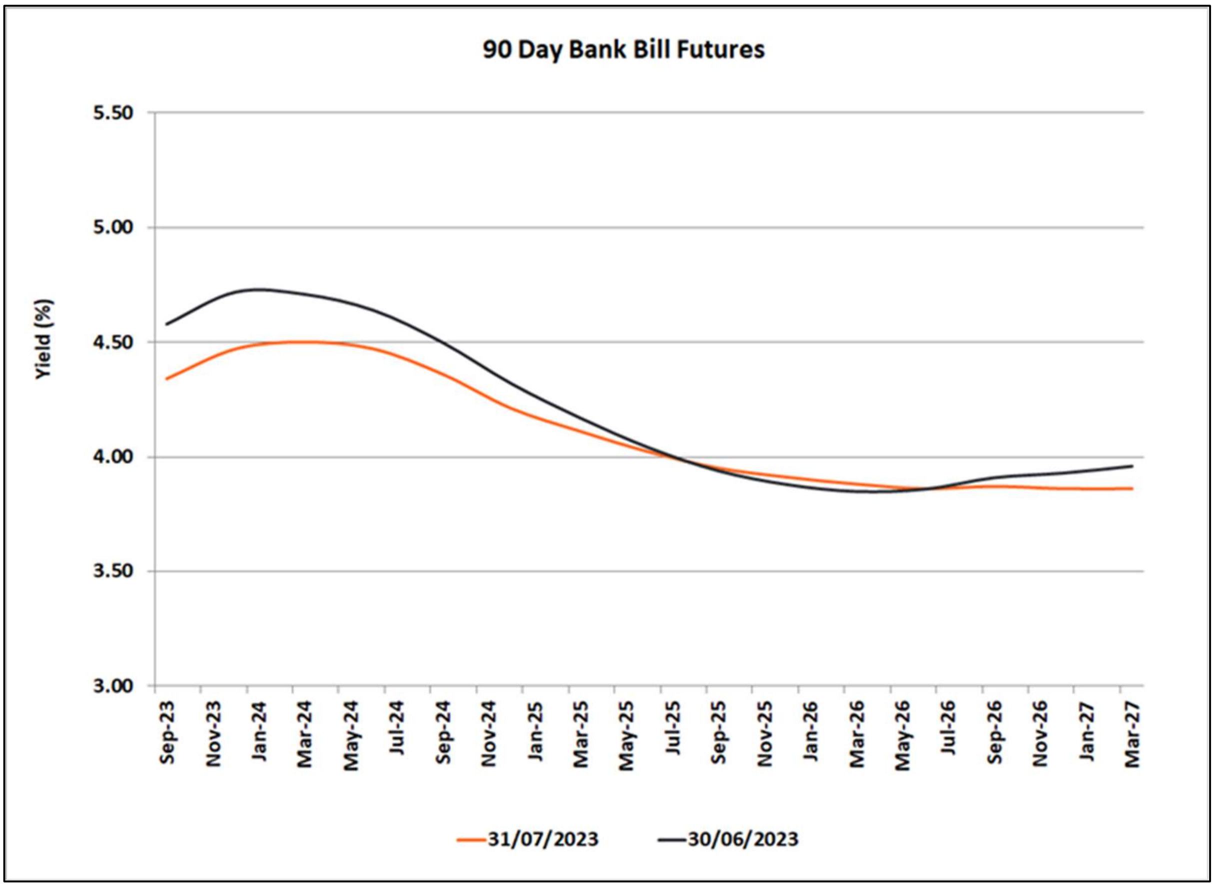
Index	July 2023	June 2023
RBA Official Cash Rate	4.10%	4.10%
90 Day (3 month) BBSW Rate	4.26%	4.35%
3yr Australian Government Bonds	3.87%	4.03%
10yr Australian Government Bonds	4.05%	4.03%
US Fed Funds Rate	5.25%-5.50%	5.00%-5.25%
2yr US Treasury Bonds	4.88%	4.87%
10yr US Treasury Bonds	3.97%	3.81%

Source: RBA, AFMA, US Department of Treasury

90 Day Bill Futures

Bill futures fell at the short-end of the curve this month, following the movement in the bond market. The RBA remains on a slight tightening bias and firm on its primary objective to bring inflation back within its target band. With the annual rate of CPI falling in the latest reading, the RBA may decide to pause if it views rates are sufficiently restrictive enough for inflation to keep trending downwards.

The bills market continues to factor in the possibility of a recession over the next few years, highlighted by the drop in the futures pricing by the beginning of 2024:



Source: ASX

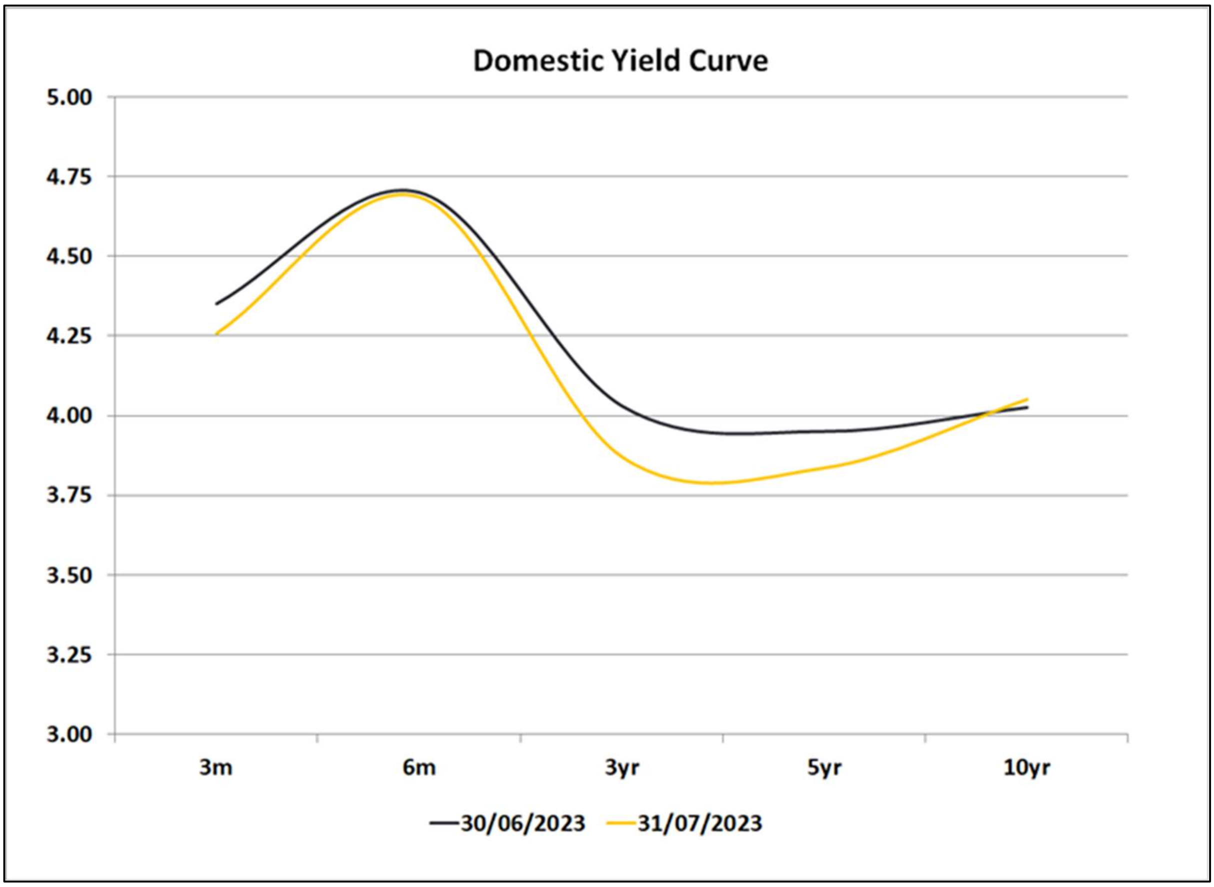
Fixed Interest Outlook

After the US Fed lifted rates to 5.25%-5.50%, markets continue to price around a 40% chance of a follow up hike by November, though pricing of cuts extended with over 130bp of cuts thereafter by the end of 2024.

Domestically, the latest CPI figure could be used to justify a further pause at the RBA's Board meeting on 1st August on the basis of lower than expected core inflation together with the other uncertainties associated with lags and the economic outlook that were used to justify the July pause. The main concern going forward remains sticky services inflation, which could impede the RBA's aim of getting inflation back to 3% by mid-2025.

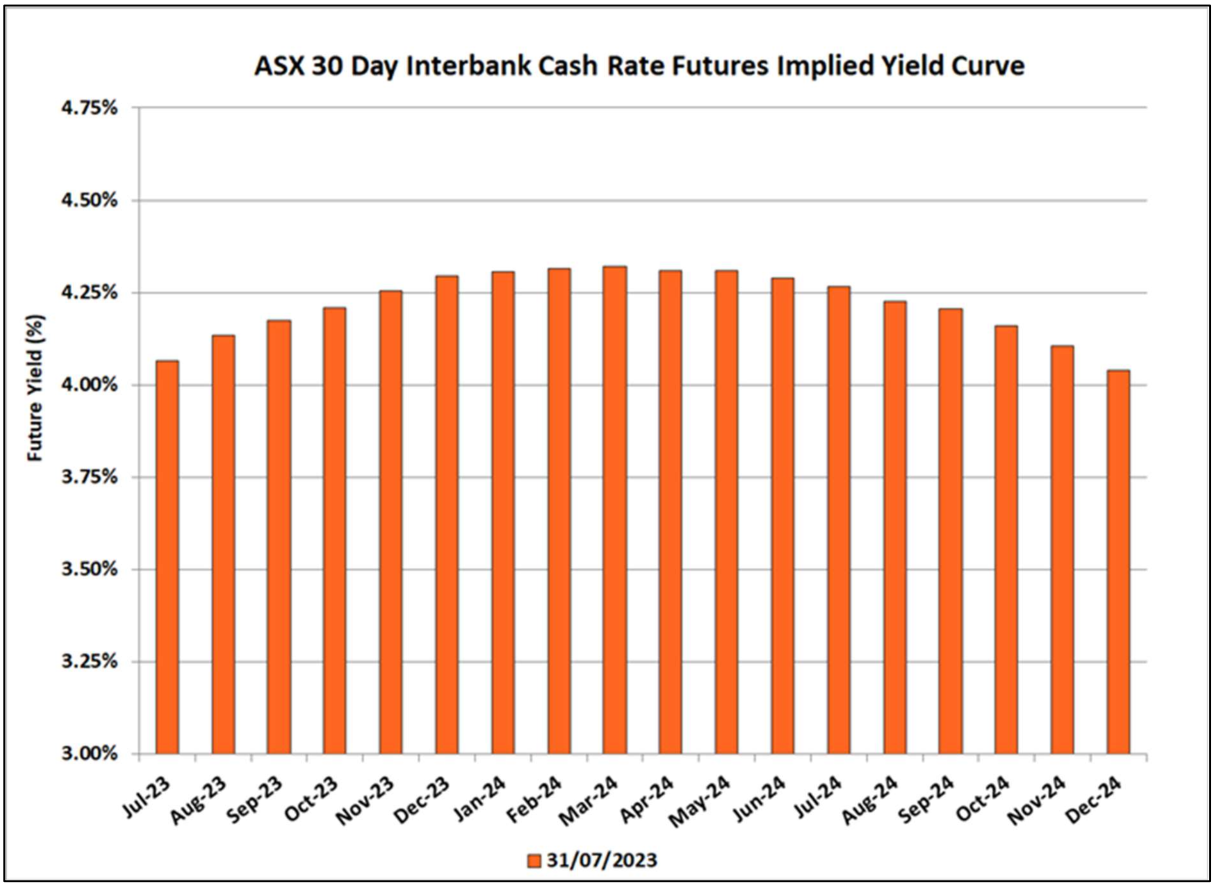
The overall inflation picture suggests the risk remains of some further tightening by the RBA in the next few months, but that at the same time we are close to the peak in interest rates.

Over the month, yields fell up to 16bp at the long-end of the curve:



Source: AFMA, ASX, RBA

Markets have been quick to revise their interest rate forecasts with one more rate hike priced by early 2024 (peak rate of ~4.35%). Rate cuts have now been pushed back to Q3-Q4 2024.



Source: ASX

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