ATTACHMENT DOCUMENT
FOR
COUNCIL MEETING

Tuesday 29 June 2021

Michael Urquhart
GENERAL MANAGER

AGENDA

1. Walgett Shire Council's Portfolio report from Imperium Markets – April 2021

Investment Report

01/05/2021 to 31/05/2021

Portfolio Valuation as at 31/05/2021

Issuer	Rating	Type	Alloc	Interest	Purchase	Maturity	Rate	Value	Accrued	Accrued MTD
AMP Bank	BBB	TD	GENERAL	At Maturity	30/11/2020	02/06/2021	0.7000	1,000,000.00	3,509.59	594.52
AMP Bank	BBB	TD	GENERAL	At Maturity	02/12/2020	09/06/2021	0.7000	1,000,000.00	3,471.23	594.52
BOQ	BBB+	TD	GENERAL	At Maturity	16/09/2020	16/06/2021	0.7000	1,000,000.00	4,947.95	594.52
AMP Bank	BBB	TD	GENERAL	At Maturity	16/12/2020	23/06/2021	0.7000	1,000,000.00	3,202.74	594.52
AMP Bank	BBB	TD	GENERAL	At Maturity	26/08/2020	30/06/2021	0.8000	1,000,000.00	6,115.07	679.45
BOQ	BBB+	TD	GENERAL	Annual	02/07/2018	07/07/2021	3.1500	1,000,000.00	28,824.66	2,675.34
BOQ	BBB+	TD	GENERAL	At Maturity	11/11/2020	11/08/2021	0.5400	1,000,000.00	2,988.49	458.63
Commonwealth Bank	AA-	FRTD	GENERAL	Quarterly	24/08/2016	23/08/2021	1.1406	500,000.00	125.00	125.00
Commonwealth Bank	AA-	FRTD	GENERAL	Quarterly	31/08/2016	31/08/2021	1.0903	500,000.00	59.74	59.74
Auswide Bank	BBB	TD	GENERAL	At Maturity	03/03/2021	03/09/2021	0.5000	1,000,000.00	1,232.88	424.66
ING Direct	A	TD	GENERAL	Annual	14/09/2016	14/09/2021	3.1200	500,000.00	11,112.33	1,324.93
AMP Bank	BBB	TD	GENERAL	At Maturity	25/11/2020	29/09/2021	0.7000	1,000,000.00	3,605.48	594.52
MyState Bank	BBB	TD	GENERAL	At Maturity	17/03/2021	06/10/2021	0.4000	1,000,000.00	832.88	339.73
Westpac	AA-	FRTD	GENERAL	Quarterly	16/11/2016	16/11/2021	1.2394	1,000,000.00	509.34	509.34
BOQ	BBB+	TD	GENERAL	At Maturity	18/11/2020	17/11/2021	0.5500	1,000,000.00	2,938.36	467.12
NAB	AA-	TD	GENERAL	Annual	21/11/2018	22/11/2021	3.0000	1,000,000.00	15,616.44	2,547.95
Newcastle Permanent	BBB	TD	GENERAL	Annual	11/02/2019	16/02/2022	3.0500	1,000,000.00	8,773.97	2,590.41
Newcastle Permanent	BBB	TD	GENERAL	Quarterly	10/04/2019	13/04/2022	2.7000	1,000,000.00	3,698.63	2,293.15

Issuer	Rating	Type	Alloc	Interest	Purchase	Maturity	Rate	Value	Accrued	Accrued MTD
AMP Bank	BBB	TD	GENERAL	At Maturity	20/04/2021	20/04/2022	0.7000	1,000,000.00	805.48	594.52
Members Equity Bank	BBB	TD	GENERAL	Annual	10/05/2017	11/05/2022	3.4700	1,000,000.00	2,091.51	2,091.51
BOQ	BBB+	TD	GENERAL	Annual	02/07/2018	06/07/2022	3.5000	1,000,000.00	32,027.40	2,972.60
AMP Bank	BBB	TD	GENERAL	Annual	10/03/2021	07/09/2022	0.7500	1,000,000.00	1,705.48	636.99
AMP Bank	BBB	TD	GENERAL	Annual	01/02/2019	31/01/2024	3.1500	1,000,000.00	10,356.16	2,675.34
BOQ	BBB+	TD	GENERAL	Annual	12/06/2019	12/06/2024	2.5500	1,000,000.00	24,731.51	2,165.75
AMP Bank	BBB	TD	GENERAL	Annual	07/08/2019	07/08/2024	2.0000	1,000,000.10	16,328.77	1,698.63
BOQ	BBB+	TD	GENERAL	Annual	06/08/2020	06/08/2025	1.3000	1,000,000.00	10,649.32	1,104.11
Commonwealth Bank	AA-	CASH	GENERAL	Monthly	31/05/2021	31/05/2021	0.0000	516,816.81	-	-
Macquarie Bank	A+	CASH	GENERAL	Monthly	31/05/2021	31/05/2021	0.4000	2,010,781.74	934.91	934.91
Commonwealth Bank	AA-	CASH	GENERAL	Monthly	31/05/2021	31/05/2021	0.0000	2,343,050.86	-	-
TOTALS								**29,370,649.51**	**201,195.29**	**32,342.41**

Monthly Investment Report

May 2021

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Impact of COVID-19 to Council's Portfolio

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

With regards to financial markets, shares (equities) experienced a significant correction in March 2020 but have since, recovered substantially due to the unprecedented fiscal and monetary policy support from global central banks and governments. **The RBA cut rates to record lows on 3rd November 2020 to 0.10%.** Equities have continued their rally over the course of 2021 with the accelerated rollout of multiple vaccines and ongoing fiscal stimulus. Longer-term bond yields have also risen over the past few months on the prospects of higher inflation over coming years.

With regards to the medium-longer term outlook for financial markets, of importance is the RBA's outlook and stance on the current situation:

1. The RBA's official cash rate will remain unchanged at its emergency level of 0.10% until its objectives of full employment and inflation are reached.
2. They suggested the NAIRU could be in the low 4s, or even the high 3s, well below the current unemployment rate of ~5½%;
3. **The Board does not expect the conditions for a rate hike "*to be met until 2024 at the earliest*".**

The largest impact to Council's investment portfolio is with regards to its largest exposure being assets held in bank term deposits (fixed and floating), which accounts for around ~83% of Council's total investment. **The biggest risk that Council faces over the medium-longer term in this environment is not the potential loss of capital (given all the banks are well capitalised and regulated by APRA), but the rapid loss of interest income as interest rates have plummeted**.

Council's term deposit portfolio was yielding 1.61% p.a. at month-end, with a weighted average duration of around 330 days or 11 months. **This relatively short average duration will only provide some income protection against the low interest rate environment in the immediate future**. As existing deposits mature however, they will inevitably be reinvested at much lower prevailing rates.

Given official rates have fallen to record lows, Council is likely to see a rapid decline in interest income over future financial years. Its budgeted income over the medium-longer term needs to be revised to reflect the low interest rate environment. Returns between 0.40%-0.80% p.a. may potentially be the "norm" over the next few financial years, especially if rolling the majority of surplus funds for terms less than 2-3 years. Yields may in fact be lower if electing to invest for terms under 12 months.

Council's Portfolio & Compliance

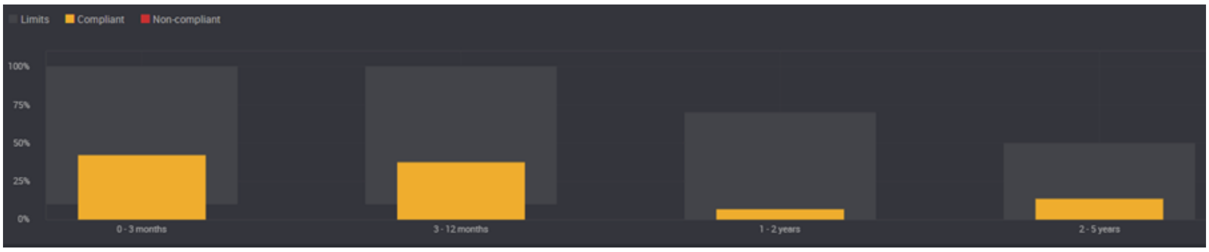
Asset Allocation

The majority of the portfolio is directed to fixed and floating rate term deposits (83.42%). The remainder of the portfolio is held in various cash accounts with CBA and Macquarie (16.58%).

With the RBA cutting interest rates in November 2020 to 0.10% and flagging conditions for a rate hike is "*unlikely to be until 2024 at the earliest*", the priority should be to lock in any remaining attractive medium-longer dated fixed deposits or fixed bonds that may still be available to address reinvestment risk as margins continue to compress.

Term to Maturity

The portfolio is sufficiently liquid with around 80% of the total investment portfolio maturing within 12 months, which is well above the minimum 20% limit in aggregate across 0-3 month and 3-12 month terms.



Where ongoing liquidity requirements permit Council to invest in attractive 3-5 year investments, we recommend this be allocated to medium-term fixed term deposits (refer to respective sections below).

Compliant	Horizon	Invested ($)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available ($)
✓	0 - 3 months	$12,370,649	42.12%	10%	100%	$17,000,000
✓	3 - 12 months	$11,000,000	37.45%	10%	100%	$18,370,650
✓	1 - 2 years	$2,000,000	6.81%	0%	70%	$18,559,455
✓	2 - 5 years	$4,000,000	13.62%	0%	50%	$10,685,325
✓	5 - 10 years	$0	0.00%	0%	25%	$7,342,662
		$29,370,650	**100.00%**			

Counterparty

As at the end of May, Council had a marginal overweight position to AMP Bank (BBB) by around $1.66m. Exposures are also dependent on the overall movement in the portfolio's balances which can drop during periods of high capital expenditure. Going forward, future deposits with AMP Bank (BBB) should be redeemed until the portfolio is rebalanced.

Overall, the portfolio is well diversified across the investment grade credit spectrum (BBB- or higher), with zero exposure to the unrated ADIs.

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	CBA	AA-	$3,859,868	13.14%	50%	$10,825,457
✓	NAB	AA-	$1,000,000	3.40%	50%	$13,685,325
✓	Westpac	AA-	$1,000,000	3.40%	50%	$13,685,325
✓	Macquarie Bank	A+	$2,010,782	6.85%	40%	$9,737,478
✓	ING Bank	A	$500,000	1.70%	40%	$11,248,260
✓	BOQ	BBB+	$7,000,000	23.83%	25%	$342,662
✓	Auswide Bank	BBB	$1,000,000	3.40%	25%	$6,342,662
X	AMP Bank	BBB	$9,000,000	30.64%	25%	**-$1,657,338**
✓	ME Bank	BBB	$1,000,000	3.40%	25%	$6,342,662
✓	Newcastle PBS	BBB	$2,000,000	6.81%	25%	$5,342,662
✓	MyState Bank	BBB	$1,000,000	3.40%	25%	$6,342,662
			$29,370,650	**100%**		

In September 2020, ratings agency **S&P downgraded AMP Bank by one notch to "BBB"** stating its view that "*the overall creditworthiness of the AMP group is weaker*" and that "*the group is exposed to challenges that may disrupt its overall strategic direction and its ability to effectively execute its strategy.*"

We have no issues with Council's investments with AMP Bank, given they are super-senior ranked assets, extremely low risk and high up the bank capital structure.

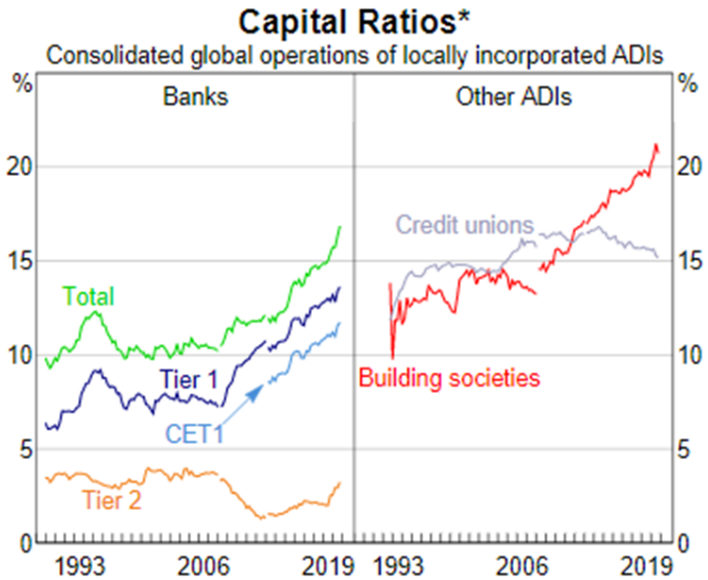
We remain supportive of the regional and unrated ADI sector (and have been even throughout the GFC period). They continue to remain solid, incorporate strong balance sheets, while exhibiting high levels of capital – typically, much higher compared to the higher rated ADIs. Some unrated ADIs have up to 25-40% more capital than the domestic major banks, and well above the Basel III requirements.

RBA Governor Lowe has commented that they have not seen any signs of stress in the financial system and that unlike during the GFC, the banks (all ADIs) now have cash, are well capitalised and are acting as "shock absorbers" in the current crisis.

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 continued 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.

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. **APRA's mandate is to "*protect depositors*" and provide "*financial stability*".**

The biggest single risk that depositors face in the current low interest rate environment is not capital or credit risk, but reinvestment risk. <u>Interest rates are now at their effective lower bound of 0.10%.</u>



* Per cent of risk-weighted assets; break in March 2008 due to the introduction of Basel II for most ADIs; break in March 2013 due to the introduction of Basel III for all ADIs

Source: APRA

Credit Quality

Overall, the portfolio remains well diversified from a credit ratings perspective, with exposure down to the lower rated regional ADIs. The “BBB” rated category is now marginally above the Policy limits by around $440k and will have to be avoided for ‘new’ investments in the interim.

From a ratings perspective, the BBB (and unrated) banks now generally dominate the number of ADIs issuing deposits within the investment grade space. We anticipate more investors will naturally allocate a higher proportion of their assets into this sector once credit growth returns over coming years. However, given most banks are highly liquid during the current pandemic, most of the “BBB” rated banks are currently not seeking wholesale funding.

As such, in the interim, we could see a shift towards a larger proportion of assets being directed towards the higher rated ADIs given the lack of appetite amongst the lower rated ADIs.

All other ratings categories are within the Policy limits:

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AA Category	$5,859,868	20%	100%	$23,510,782
✓	A Category	$2,510,782	9%	80%	$20,985,738
X	BBB Category	$21,000,000	71%	70%	**-$440,545**
✓	Unrated ADIs	$0	0%	10%	$2,937,065
		$29,370,650	**100%**		

Performance

Council's performance for the month ending 31 May 2021 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	0.01%	0.03%	0.05%	0.14%	0.16%
AusBond Bank Bill Index	0.00%	0.01%	0.01%	0.06%	0.06%
Council's T/D Portfolio^	**0.14%**	**0.40%**	**0.78%**	**1.50%**	**1.67%**
Outperformance	**0.14%**	**0.39%**	**0.77%**	**1.44%**	**1.61%**

^Total portfolio performance excludes Council's cash account holdings. Overall returns would be lower if cash was included.

Performance (Annualised)	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	0.10%	0.10%	0.10%	0.16%	0.16%
AusBond Bank Bill Index	0.05%	0.04%	0.02%	0.06%	0.06%
Council's T/D Portfolio^	**1.61%**	**1.61%**	**1.58%**	**1.64%**	**1.67%**
Outperformance	**1.56%**	**1.57%**	**1.56%**	**1.58%**	**1.61%**

^Total portfolio performance excludes Council's cash account holdings. Overall returns would be lower if cash was included.

For the month of May, the total portfolio (excluding cash) provided a solid return of +0.14% (actual) or +1.61% p.a. (annualised), outperforming the benchmark AusBond Bank Bill Index return of +0.00% (actual) or +0.05% p.a. (annualised). The outperformance continues to be driven by a combination of those deposits invested beyond 12 months. However, the higher yielding deposits are fast maturing, and those deposits will inevitably be reinvested at lower prevailing rates unless a longer duration is undertaken.

Investors using the Imperium Markets platform have reduced the invisible costs associated with brokerage, and thereby lift client portfolio returns as investors are able to deal in deposits directly with the ADIs and execute at the best price possible.

We are pleased that Council remains amongst the best performing in the state of NSW where deposits are concerned, earning on average, around $80,000 in additional interest income compared to its peers (as per the January 2021 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.

Council's Term Deposit Portfolio & Recommendation

As at the end of May 2021, Council's deposit portfolio was yielding 1.61% p.a. (unchanged from the previous month), with an average duration of around 330 days (~11 months).

Where possible, we recommend Council extends this average duration. In the low interest rate environment, the biggest collective risk that the local government sector has faced over the post-GFC era has been the dramatic fall in interest rates - from 7¼% to the historical low levels of 0.10%.

As the past decade has highlighted (post-GFC era), we have seen too many portfolios' roll a high proportion of their deposits between 3-6 months, resulting in their deposits being reinvested at lower prevailing rates. That is, depositors have overpaid for liquidity and generally not insured themselves against the low interest rate environment by diversify their funding across various tenors (out to 5 years) but rather placed all their 'eggs in one basket' and kept all their deposits short. **Reinvestment risk has collectively been and continues to be the biggest detriment to depositors' interest income over the post-GFC period**.

At the time of writing, we see value in:

ADI	LT Credit Rating	Term	T/D Rate
ICBC, Sydney	A	5 years	1.40% p.a.
NAB	AA-	5 years	1.30% p.a.
ICBC, Sydney	A	4 years	1.12% p.a.
NAB	AA-	4 years	1.00% p.a.
ICBC, Sydney	A	3 years	0.85% p.a.
NAB	AA-	3 years	0.80% p.a.
ICBC, Sydney	A	2 years	0.60% p.a.
NAB	AA-	2 years	0.60% p.a.

The above deposits are suitable for investors looking to provide some income protection and mitigate reinvestment/rollover risk in the low interest rate environment.

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
Judo Bank	Unrated ADI	9-12 months	~0.70% p.a.
BNK Bank	Unrated ADI	6 months	~0.60% p.a.
ME Bank	BBB	12 months	~0.50% p.a.
BoQ	BBB+	6 months	0.45% p.a.
BoQ	BBB+	9-12 months	0.40% p.a.
CBA	AA-	12 months	~0.38% p.a.
AMP Bank	BBB	9-12 months	0.35% p.a.^
NAB	AA-	12 months	0.35% p.a.
Westpac	AA-	12 months	~0.35% p.a.
Bendigo	BBB+	9-12 months	0.35% p.a.

^ AMP T/Ds – contact us to receive an additional 0.20% p.a. rebated commission on top of the rate shown

Amongst the investment grade sector, short-dated term deposits (maturing less than 12 months) are yielding under 0.50% p.a. (most are under 0.40% p.a.). We believe there is not much value being offered in short-dated deposits.

In contrast, there is an upward pick-up in yield for investors that can take advantage of 2-5 year fixed T/Ds whilst official rates are stuck at depressed levels for the foreseeable future. If Council does not require high levels of liquidity and can stagger its investments longer-term, it will be rewarded over coming years if it can roll for a minimum term of 2 years (rolling for 3-5 years is even better, where possible), potentially yielding, on average, more than double or triple the return compared to those investors that purely invest in short-dated deposits.

Senior FRNs Review

Over May, amongst the senior major bank FRNs, physical credit securities widened by around 5bp at the long-end of the curve. Secondary market securities remain relatively expensive on the back of the RBA announcing its $200bn quantitative easing (QE) package (doubled in Feb 2021).

A new 5 year senior major bank FRN would now be issued around the +50bp, which remains tight on a historical basis. We may finally see some primary issuances in Q3-Q4 this year from the major banks as the RBA's term funding facility (TFF) ends as of 30 June 2021. The lack of supply from new (primary) issuances has played a major role with the rally in credit markets over the past year.

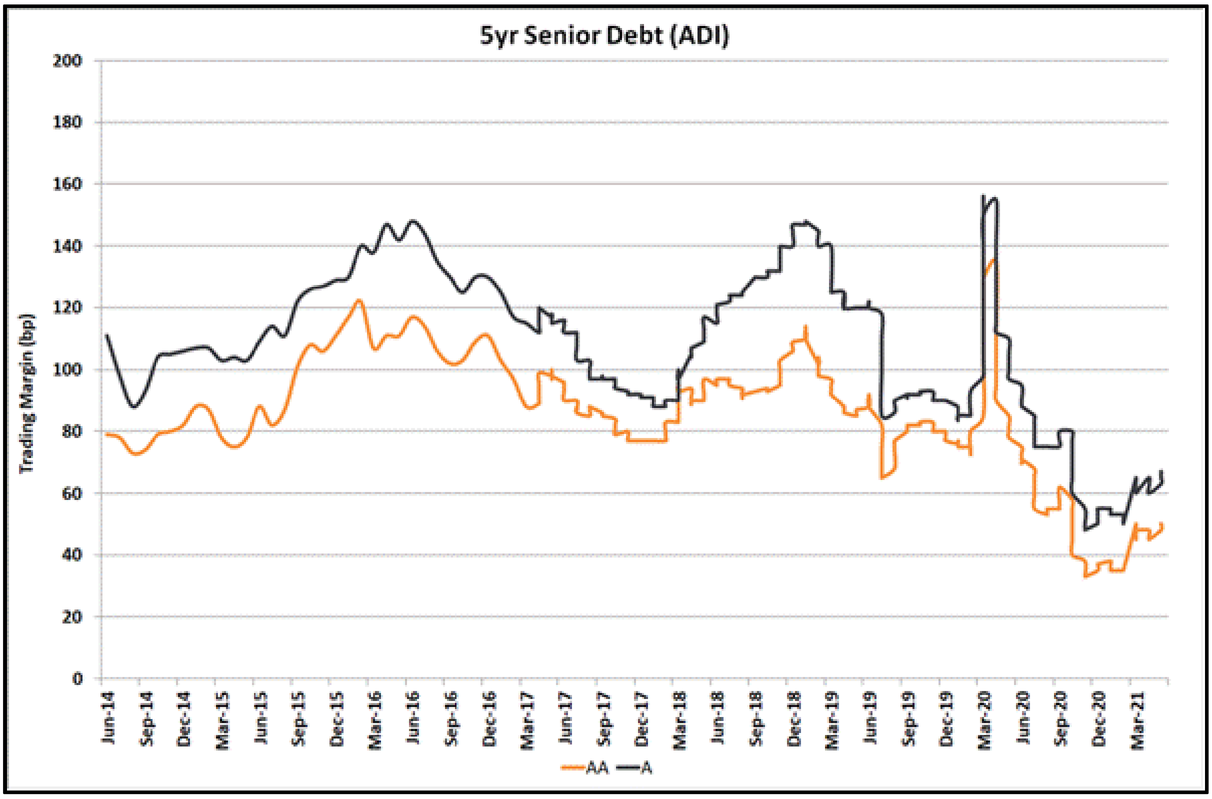
During the month, HSBC Sydney Branch (AA-) issued a new 3 year senior FRN at +42bp, printing $500m, tightening from initial guidance of +50bp, after receiving orders in excess of $1.4bn. While it tightened 8bp from initial guidance, relative to where the domestic major banks were being marked, we thought this was issued at a relatively fair level. Separately, China Everbright Bank, Sydney Branch (BBB+) issued a 3 year senior FRN deal at +68bp, tightening from +73bp and printed $300m.

Amongst the "A" and "BBB" rated sector, the securities were also marked around 2-5bp wider at the long-end of the curve. While turnover in the secondary market is still predominately dominated by commonwealth, semi-government and major bank senior paper, given the lack of supply, we have started to observe that even a handful of regional bank senior paper has sometimes been trading inside "mid" levels over recent months.

Credit securities remain tight on a historical level but are looking slightly more attractive following the widening experienced over the past few 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 ensuing years (in a relatively stable credit environment).

Senior FRNs (ADIs)	31/05/2021	30/04/2021
"AA" rated – 5yrs	+50bp	+45bp
"AA" rated – 3yrs	+27bp	+27bp
"A" rated – 5yrs	+67bp	+60bp
"A" rated – 3yrs	+45bp	+42bp
"BBB" rated – 3yrs	+55bp	+52bp

Source: IBS Capital



Source: IBS Capital

We now generally **recommend switches** ('benchmark' issues only) into new attractive primary issues (or longer-dated alternatives), 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-2022 for the "A" rated ADIs; and
- Within 12 months for the "BBB" rated ADIs (consider case by case).

Investors holding onto the above senior FRNs ('benchmark' issues only) in their last 1-2 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.

Economic Commentary

International Market

Despite ongoing concerns regarding inflation and higher commodity prices, equity markets continued their positive momentum in May, providing positive returns across most major markets.

In the US, the S&P 500 Index gained +0.55%, while the tech-heavy NASDAQ Index fell -1.53%. Equities finished positively across Europe's main indices, led by France's CAC (+2.83%), Germany's DAX (+1.88%) and UK's FTSE (+0.76%).

The US payroll numbers in April disappointed, coming in at 266k against expectation of 1 million. **The unemployment rate unexpectedly ticked up from 6.0% to 6.1%** against expectations of a fall to 5.8%.

The US April core PCE deflator rose to +3.1% from +1.9%, its highest annual rate since 1992 and a little above the 2.9% expected.

President Biden outlined his Budget plan for FY22, proposing US$6 trillion of spending that would significantly boost discretionary spending and sharply raise taxes on corporates and high-income households.

European GDP data confirmed their recession with Q1 GDP at -0.6% q/q. With the vaccination programme back on track in the region and restrictions likely to ease, Q2 is expected to be much better.

The UK economy contracted by -1.5% q/q in Q1, but the monthly track showed a decent pick-in in growth in March, confirming that a strong rebound is underway as lockdown restrictions ease. The Bank of England kept all its policy settings unchanged, including its £875bn government bond buying target.

China's monthly activity data did not provide any support to risk appetite, with retail sales coming in weaker than expected (17.7% y/y vs 25% expected). The unemployment rate fell to 5.1% (the lowest since November 2019), while new home prices were up +0.5% m/m in April.

The RBNZ surprised the market by re-introducing its forecasts for their Official Cash Rate (held steady at 0.25%) into their Monetary Policy statement. **OCR forecasts point to a sequence of hikes from the Q3 of 2022**.

The MSCI World ex-Aus Index rose +1.22% for the month of May:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+0.55%	+10.31%	+38.10%	+15.83%	+14.93%	+12.07%
MSCI World ex-AUS	+1.22%	+9.15%	+38.37%	+12.59%	+12.31%	+8.42%
S&P ASX 200 Accum. Index	+2.34%	+8.48%	+28.23%	+9.95%	+10.11%	+8.82%

Source: S&P, MSCI

Domestic Market

The RBA kept its rates and guidance unchanged at its meeting in May, however it upgraded its baseline forecasts for economic growth and substantially reduced its unemployment forecasts. The RBA has lowered its unemployment rate forecasts to 4.5% by the end of 2022 (previously 5.5%), which is at the bottom end of model-based NAIRU estimates (NAIRU is pegged around 4.5-5.0%).

The RBA indicated it will not extend their 3yr yield target from the April 2024 bond to the November 2024 bond, which could signal their intention to announce a tapered QE3.

The underlying cash deficit for 2020-21 was revised almost $40bn lower to $161bn (7.8% of GDP) from $213.7bn (11%) at the previous budget in October 2020, on the back of the better-than-expected labour market recovery and elevated iron ore price. Deficits are forecast all the way to 2031-32. Gross debt is expected to be $829bn (40.2% of GDP) in 2020-21 before stabilising at around 51% of GDP in the medium term.

In terms of spending, the largest item was the Government's aged care package – at around $17.7bn over the forward estimates. But there were other big spends in the areas of Infrastructure ($15bn) and NDIS ($13.2bn). The Low and Middle-Income tax offset was extended a year ($7.8bn) and the Investment Asset Write Off was also extended.

Headline employment fell -30.6k in April, well below expectations of +20k. The unemployment rate fell by 0.2% to 5.5% from an upwardly revised 5.7%, partially driven by falling participation from 66.3% to 66.0%. Interestingly, youth unemployment fell 1.1% to 10.6%, its lowest since 2009. Underemployment also fell by 0.2% to 7.8%, its lowest level since May 2014.

The Wage Price Index (WPI) rose +0.6% q/q and +1.5% y/y in March, one-tenth higher than the consensus.

The trade surplus fell by $2.0bn to $5.6bn in March, driven mostly by higher imports (+4% m/m or $1.3bn).

Australia has now administered vaccine doses equivalent to 14.9% of the population, while only 2% of the population is now fully vaccinated.

The Australian dollar fell -0.66%, finishing the month at US77.25 cents (from US77.76 cents the previous month).

Credit Market

The main credit indices remained flat over May. The indices now trade back to their levels experienced in late 2020:

Index	May 2021	April 2021
CDX North American 5yr CDS	51bp	50bp
iTraxx Europe 5yr CDS	50bp	50bp
iTraxx Australia 5yr CDS	59bp	61bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	May 2021	April 2021
Bloomberg AusBond Bank Bill Index (0+YR)	+0.00%	+0.00%
Bloomberg AusBond Composite Bond Index (0+YR)	+0.26%	+0.56%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.07%	+0.07%
Bloomberg AusBond Credit Index (0+YR)	+0.22%	+0.54%
Bloomberg AusBond Treasury Index (0+YR)	+0.30%	+0.57%
Bloomberg AusBond Inflation Gov't Index (0+YR)	+0.90%	+1.61%

Source: Bloomberg

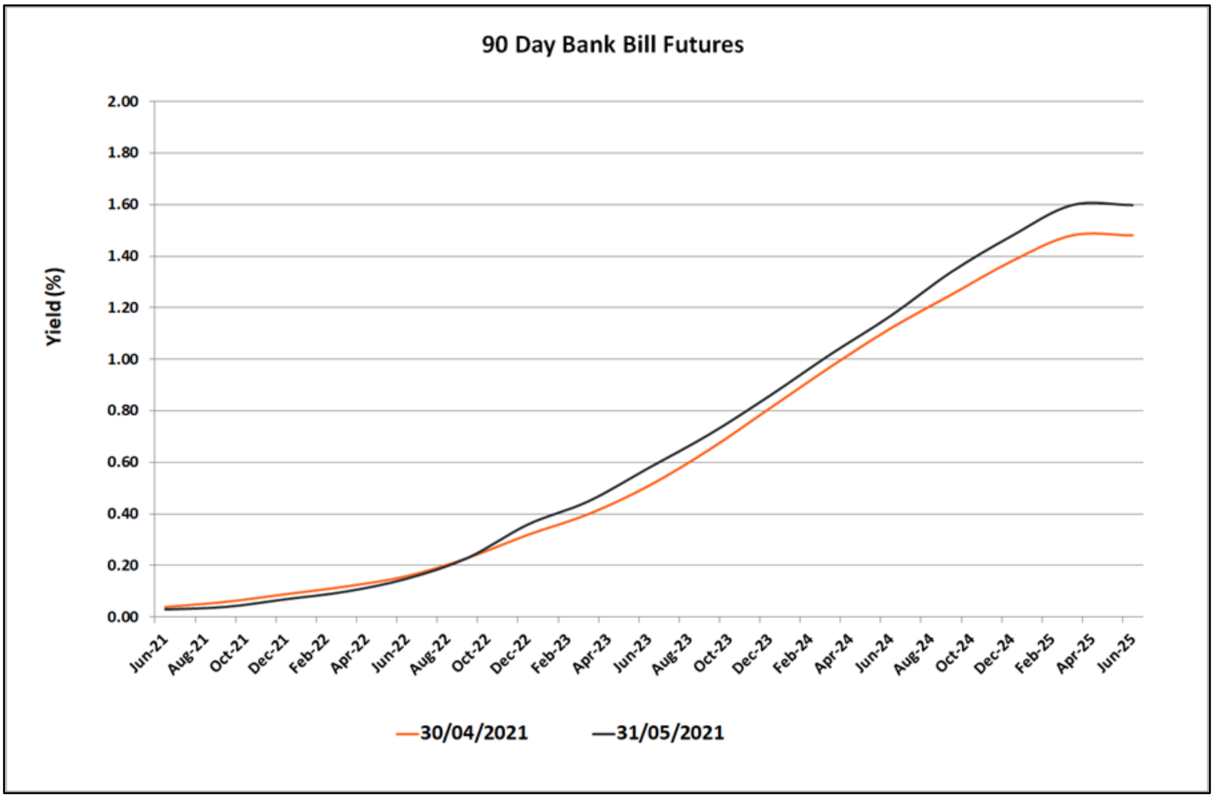
Other Key Rates

Index	May 2021	April 2021
RBA Official Cash Rate	0.10%	0.10%
90 Day (3 month) BBSW Rate	0.04%	0.04%
3yr Australian Government Bonds	0.10%	0.10%
10yr Australian Government Bonds	1.61%	1.65%
US Fed Funds Rate	0.00%-0.25%	0.00%-0.25%
10yr US Treasury Bonds	1.58%	1.65%

Source: RBA, AFMA, US Department of Treasury

90 Day Bill Futures

Over May, bill futures marginally rose across the board on anticipation of a tapering in QE programs and rising inflationary expectations. Overall, bill futures continue to depict a low rate environment over the long-run, despite the steeping curve in recent months:



Source: ASX

Fixed Interest Outlook

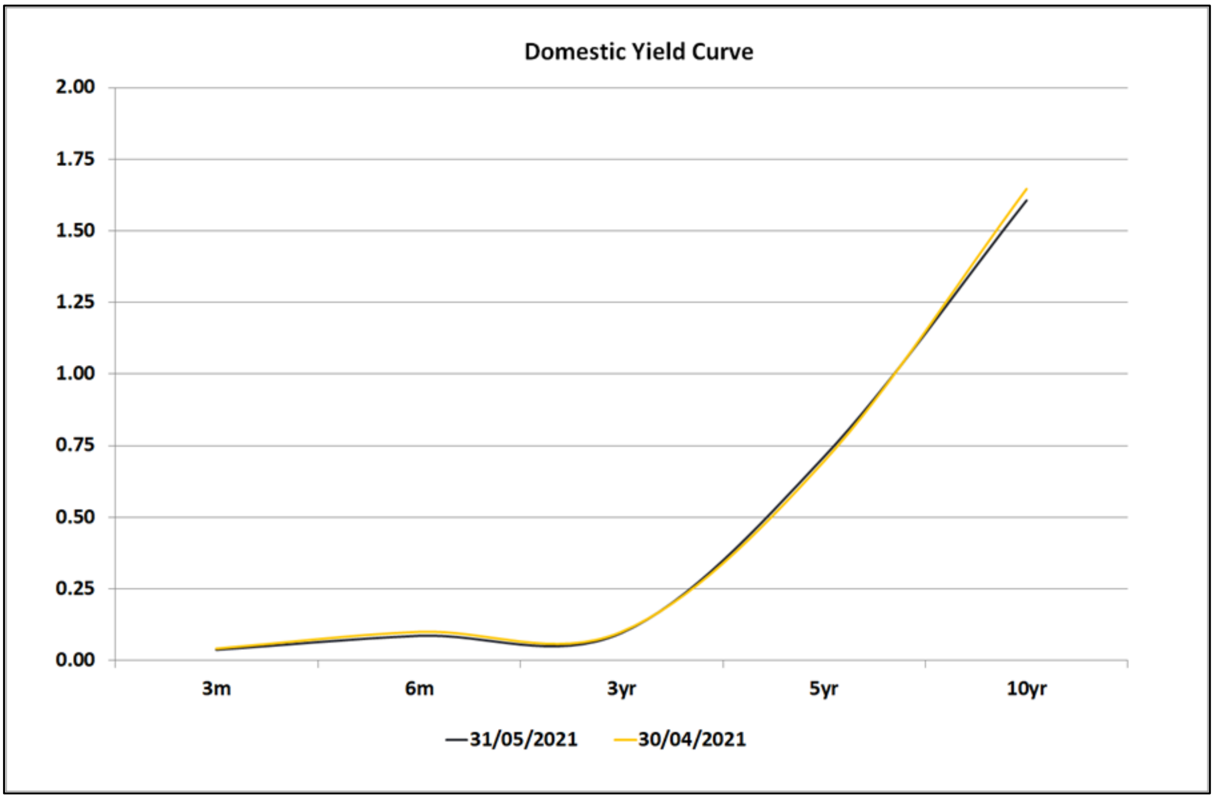
The unprecedented fiscal support for the global economy and the accelerated vaccine rollout in countries such as the US and the UK has aided financial markets. Further significant stimulus packages are also being proposed in the US, with President Biden announcing a $US2.25 trillion infrastructure plan – about half of it for physical infrastructure and the other half for social infrastructure.

US Fed Chair Powell appeared to be more optimistic on the outlook, saying "*we feel like we're at a place where the economy's about to start growing much more quickly and job creation coming much more quickly*". Powell remains cautious and has made it clear that it was "*not time yet*" to have a conversation about tapering its US$120bn monthly QE bond buying programme. He emphasised that the US was "*not close to*" the substantial progress toward its employment and price stability goals that has been set as the condition for contemplating its first steps of tapering.

Global central banks (including the RBA) have stressed that they will look through temporary increases in inflation from base effects and supply chain disruptions.

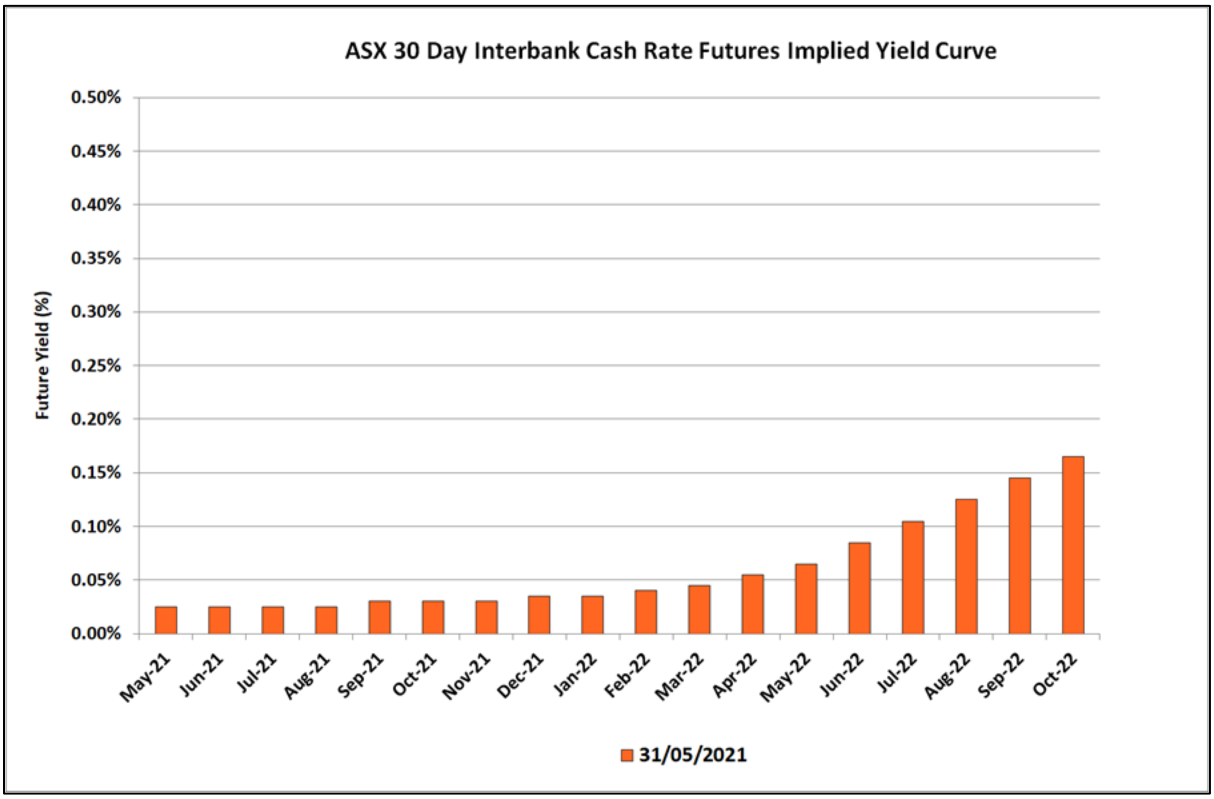
Domestically, the RBA is of the view that "*a materially lower unemployment rate*" (NAIRU of low 4s or even 3s) is needed to generate wages growth in excess of 3%, which is the level the RBA thinks is needed to deliver inflation sustainably within the 2-3% inflation target. The Bank does not see this occurring "***until 2024 at the earliest***", which underpins their rates guidance.

The domestic bond market continues to suggest a prolonged low period of interest rates. Over the month, yields fell around 4bp at the long-end of the curve:



Source: AFMA, ASX, RBA

<u>RBA Governor Lowe has pushed back on market pricing of rate hikes as early as late 2022. Dr Lowe reiterated his 'best guidance' was that it is "*unlikely to see wages growth consistent with the inflation target before 2024. This is the basis for our assessment that the cash rate is very likely to remain at its current level until at least 2024*":</u>



Source: ASX

Disclaimer

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Investment Report

01/05/2021 to 31/05/2021

Portfolio Valuation as at 31/05/2021

Issuer	Rating	Type	Alloc	Interest	Purchase	Maturity	Rate	Value	Accrued	Accrued MTD
AMP Bank	BBB	TD	GENERAL	At Maturity	30/11/2020	02/06/2021	0.7000	1,000,000.00	3,509.59	594.52
AMP Bank	BBB	TD	GENERAL	At Maturity	02/12/2020	09/06/2021	0.7000	1,000,000.00	3,471.23	594.52
BOQ	BBB+	TD	GENERAL	At Maturity	16/09/2020	16/06/2021	0.7000	1,000,000.00	4,947.95	594.52
AMP Bank	BBB	TD	GENERAL	At Maturity	16/12/2020	23/06/2021	0.7000	1,000,000.00	3,202.74	594.52
AMP Bank	BBB	TD	GENERAL	At Maturity	26/08/2020	30/06/2021	0.8000	1,000,000.00	6,115.07	679.45
BOQ	BBB+	TD	GENERAL	Annual	02/07/2018	07/07/2021	3.1500	1,000,000.00	28,824.66	2,675.34
BOQ	BBB+	TD	GENERAL	At Maturity	11/11/2020	11/08/2021	0.5400	1,000,000.00	2,988.49	458.63
Commonwealth Bank	AA-	FRTD	GENERAL	Quarterly	24/08/2016	23/08/2021	1.1406	500,000.00	125.00	125.00
Commonwealth Bank	AA-	FRTD	GENERAL	Quarterly	31/08/2016	31/08/2021	1.0903	500,000.00	59.74	59.74
Auswide Bank	BBB	TD	GENERAL	At Maturity	03/03/2021	03/09/2021	0.5000	1,000,000.00	1,232.88	424.66
ING Direct	A	TD	GENERAL	Annual	14/09/2016	14/09/2021	3.1200	500,000.00	11,112.33	1,324.93
AMP Bank	BBB	TD	GENERAL	At Maturity	25/11/2020	29/09/2021	0.7000	1,000,000.00	3,605.48	594.52
MyState Bank	BBB	TD	GENERAL	At Maturity	17/03/2021	06/10/2021	0.4000	1,000,000.00	832.88	339.73
Westpac	AA-	FRTD	GENERAL	Quarterly	16/11/2016	16/11/2021	1.2394	1,000,000.00	509.34	509.34
BOQ	BBB+	TD	GENERAL	At Maturity	18/11/2020	17/11/2021	0.5500	1,000,000.00	2,938.36	467.12
NAB	AA-	TD	GENERAL	Annual	21/11/2018	22/11/2021	3.0000	1,000,000.00	15,616.44	2,547.95
Newcastle Permanent	BBB	TD	GENERAL	Annual	11/02/2019	16/02/2022	3.0500	1,000,000.00	8,773.97	2,590.41
Newcastle Permanent	BBB	TD	GENERAL	Quarterly	10/04/2019	13/04/2022	2.7000	1,000,000.00	3,698.63	2,293.15

Issuer	Rating	Type	Alloc	Interest	Purchase	Maturity	Rate	Value	Accrued	Accrued MTD
AMP Bank	BBB	TD	GENERAL	At Maturity	20/04/2021	20/04/2022	0.7000	1,000,000.00	805.48	594.52
Members Equity Bank	BBB	TD	GENERAL	Annual	10/05/2017	11/05/2022	3.4700	1,000,000.00	2,091.51	2,091.51
BOQ	BBB+	TD	GENERAL	Annual	02/07/2018	06/07/2022	3.5000	1,000,000.00	32,027.40	2,972.60
AMP Bank	BBB	TD	GENERAL	Annual	10/03/2021	07/09/2022	0.7500	1,000,000.00	1,705.48	636.99
AMP Bank	BBB	TD	GENERAL	Annual	01/02/2019	31/01/2024	3.1500	1,000,000.00	10,356.16	2,675.34
BOQ	BBB+	TD	GENERAL	Annual	12/06/2019	12/06/2024	2.5500	1,000,000.00	24,731.51	2,165.75
AMP Bank	BBB	TD	GENERAL	Annual	07/08/2019	07/08/2024	2.0000	1,000,000.10	16,328.77	1,698.63
BOQ	BBB+	TD	GENERAL	Annual	06/08/2020	06/08/2025	1.3000	1,000,000.00	10,649.32	1,104.11
Commonwealth Bank	AA-	CASH	GENERAL	Monthly	31/05/2021	31/05/2021	0.0000	516,816.81	-	-
Macquarie Bank	A+	CASH	GENERAL	Monthly	31/05/2021	31/05/2021	0.4000	2,010,781.74	934.91	934.91
Commonwealth Bank	AA-	CASH	GENERAL	Monthly	31/05/2021	31/05/2021	0.0000	2,343,050.86	-	-
TOTALS								**29,370,649.51**	**201,195.29**	**32,342.41**

Monthly Investment Report

May 2021

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Impact of COVID-19 to Council's Portfolio

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

With regards to financial markets, shares (equities) experienced a significant correction in March 2020 but have since, recovered substantially due to the unprecedented fiscal and monetary policy support from global central banks and governments. **The RBA cut rates to record lows on 3rd November 2020 to 0.10%.** Equities have continued their rally over the course of 2021 with the accelerated rollout of multiple vaccines and ongoing fiscal stimulus. Longer-term bond yields have also risen over the past few months on the prospects of higher inflation over coming years.

With regards to the medium-longer term outlook for financial markets, of importance is the RBA's outlook and stance on the current situation:

1. The RBA's official cash rate will remain unchanged at its emergency level of 0.10% until its objectives of full employment and inflation are reached.
2. They suggested the NAIRU could be in the low 4s, or even the high 3s, well below the current unemployment rate of ~5½%;
3. **The Board does not expect the conditions for a rate hike "*to be met until 2024 at the earliest*".**

The largest impact to Council's investment portfolio is with regards to its largest exposure being assets held in bank term deposits (fixed and floating), which accounts for around ~83% of Council's total investment. **The biggest risk that Council faces over the medium-longer term in this environment is not the potential loss of capital (given all the banks are well capitalised and regulated by APRA), but the rapid loss of interest income as interest rates have plummeted**.

Council's term deposit portfolio was yielding 1.61% p.a. at month-end, with a weighted average duration of around 330 days or 11 months. **This relatively short average duration will only provide some income protection against the low interest rate environment in the immediate future**. As existing deposits mature however, they will inevitably be reinvested at much lower prevailing rates.

Given official rates have fallen to record lows, Council is likely to see a rapid decline in interest income over future financial years. Its budgeted income over the medium-longer term needs to be revised to reflect the low interest rate environment. Returns between 0.40%-0.80% p.a. may potentially be the "norm" over the next few financial years, especially if rolling the majority of surplus funds for terms less than 2-3 years. Yields may in fact be lower if electing to invest for terms under 12 months.

Council's Portfolio & Compliance

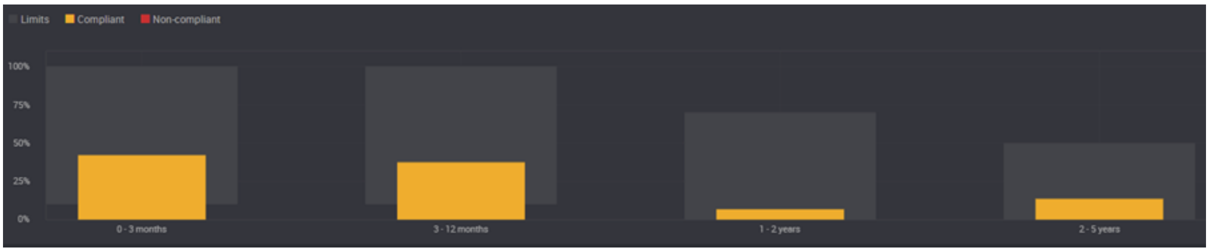
Asset Allocation

The majority of the portfolio is directed to fixed and floating rate term deposits (83.42%). The remainder of the portfolio is held in various cash accounts with CBA and Macquarie (16.58%).

With the RBA cutting interest rates in November 2020 to 0.10% and flagging conditions for a rate hike is "*unlikely to be until 2024 at the earliest*", the priority should be to lock in any remaining attractive medium-longer dated fixed deposits or fixed bonds that may still be available to address reinvestment risk as margins continue to compress.

Term to Maturity

The portfolio is sufficiently liquid with around 80% of the total investment portfolio maturing within 12 months, which is well above the minimum 20% limit in aggregate across 0-3 month and 3-12 month terms.



Where ongoing liquidity requirements permit Council to invest in attractive 3-5 year investments, we recommend this be allocated to medium-term fixed term deposits (refer to respective sections below).

Compliant	Horizon	Invested ($)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available ($)
✓	0 - 3 months	$12,370,649	42.12%	10%	100%	$17,000,000
✓	3 - 12 months	$11,000,000	37.45%	10%	100%	$18,370,650
✓	1 - 2 years	$2,000,000	6.81%	0%	70%	$18,559,455
✓	2 - 5 years	$4,000,000	13.62%	0%	50%	$10,685,325
✓	5 - 10 years	$0	0.00%	0%	25%	$7,342,662
		$29,370,650	**100.00%**			

Counterparty

As at the end of May, Council had a marginal overweight position to AMP Bank (BBB) by around $1.66m. Exposures are also dependent on the overall movement in the portfolio's balances which can drop during periods of high capital expenditure. Going forward, future deposits with AMP Bank (BBB) should be redeemed until the portfolio is rebalanced.

Overall, the portfolio is well diversified across the investment grade credit spectrum (BBB- or higher), with zero exposure to the unrated ADIs.

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	CBA	AA-	$3,859,868	13.14%	50%	$10,825,457
✓	NAB	AA-	$1,000,000	3.40%	50%	$13,685,325
✓	Westpac	AA-	$1,000,000	3.40%	50%	$13,685,325
✓	Macquarie Bank	A+	$2,010,782	6.85%	40%	$9,737,478
✓	ING Bank	A	$500,000	1.70%	40%	$11,248,260
✓	BOQ	BBB+	$7,000,000	23.83%	25%	$342,662
✓	Auswide Bank	BBB	$1,000,000	3.40%	25%	$6,342,662
X	AMP Bank	BBB	$9,000,000	30.64%	25%	**-$1,657,338**
✓	ME Bank	BBB	$1,000,000	3.40%	25%	$6,342,662
✓	Newcastle PBS	BBB	$2,000,000	6.81%	25%	$5,342,662
✓	MyState Bank	BBB	$1,000,000	3.40%	25%	$6,342,662
			$29,370,650	**100%**		

In September 2020, ratings agency **S&P downgraded AMP Bank by one notch to "BBB"** stating its view that "*the overall creditworthiness of the AMP group is weaker*" and that "*the group is exposed to challenges that may disrupt its overall strategic direction and its ability to effectively execute its strategy.*"

We have no issues with Council's investments with AMP Bank, given they are super-senior ranked assets, extremely low risk and high up the bank capital structure.

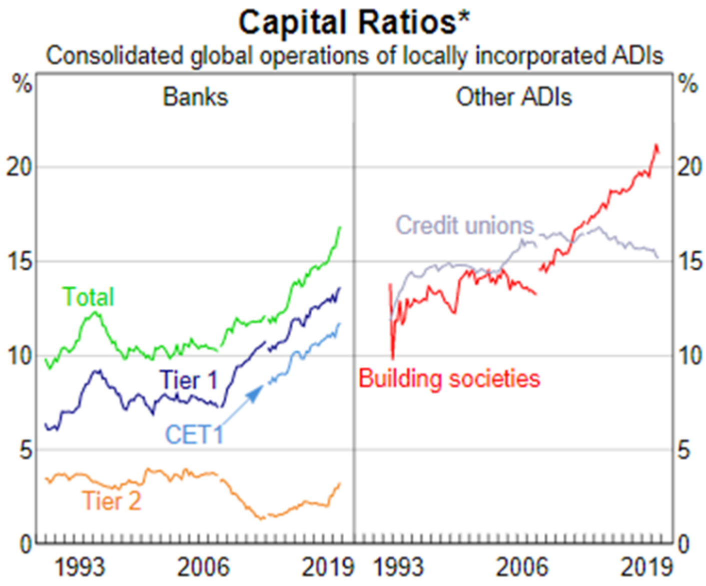
We remain supportive of the regional and unrated ADI sector (and have been even throughout the GFC period). They continue to remain solid, incorporate strong balance sheets, while exhibiting high levels of capital – typically, much higher compared to the higher rated ADIs. Some unrated ADIs have up to 25-40% more capital than the domestic major banks, and well above the Basel III requirements.

RBA Governor Lowe has commented that they have not seen any signs of stress in the financial system and that unlike during the GFC, the banks (all ADIs) now have cash, are well capitalised and are acting as "shock absorbers" in the current crisis.

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 continued 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.

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. **APRA's mandate is to "*protect depositors*" and provide "*financial stability*".**

The biggest single risk that depositors face in the current low interest rate environment is not capital or credit risk, but reinvestment risk. <u>Interest rates are now at their effective lower bound of 0.10%.</u>



* Per cent of risk-weighted assets; break in March 2008 due to the introduction of Basel II for most ADIs; break in March 2013 due to the introduction of Basel III for all ADIs

Source: APRA

Credit Quality

Overall, the portfolio remains well diversified from a credit ratings perspective, with exposure down to the lower rated regional ADIs. The "BBB" rated category is now marginally above the Policy limits by around $440k and will have to be avoided for 'new' investments in the interim.

From a ratings perspective, the BBB (and unrated) banks now generally dominate the number of ADIs issuing deposits within the investment grade space. We anticipate more investors will naturally allocate a higher proportion of their assets into this sector once credit growth returns over coming years. However, given most banks are highly liquid during the current pandemic, most of the "BBB" rated banks are currently not seeking wholesale funding.

As such, in the interim, we could see a shift towards a larger proportion of assets being directed towards the higher rated ADIs given the lack of appetite amongst the lower rated ADIs.

All other ratings categories are within the Policy limits:

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AA Category	$5,859,868	20%	100%	$23,510,782
✓	A Category	$2,510,782	9%	80%	$20,985,738
X	BBB Category	$21,000,000	71%	70%	**-$440,545**
✓	Unrated ADIs	$0	0%	10%	$2,937,065
		$29,370,650	**100%**		

Performance

Council's performance for the month ending 31 May 2021 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	0.01%	0.03%	0.05%	0.14%	0.16%
AusBond Bank Bill Index	0.00%	0.01%	0.01%	0.06%	0.06%
Council's T/D Portfolio^	**0.14%**	**0.40%**	**0.78%**	**1.50%**	**1.67%**
Outperformance	**0.14%**	**0.39%**	**0.77%**	**1.44%**	**1.61%**

^Total portfolio performance excludes Council's cash account holdings. Overall returns would be lower if cash was included.

Performance (Annualised)	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	0.10%	0.10%	0.10%	0.16%	0.16%
AusBond Bank Bill Index	0.05%	0.04%	0.02%	0.06%	0.06%
Council's T/D Portfolio^	**1.61%**	**1.61%**	**1.58%**	**1.64%**	**1.67%**
Outperformance	**1.56%**	**1.57%**	**1.56%**	**1.58%**	**1.61%**

^Total portfolio performance excludes Council's cash account holdings. Overall returns would be lower if cash was included.

For the month of May, the total portfolio (excluding cash) provided a solid return of +0.14% (actual) or +1.61% p.a. (annualised), outperforming the benchmark AusBond Bank Bill Index return of +0.00% (actual) or +0.05% p.a. (annualised). The outperformance continues to be driven by a combination of those deposits invested beyond 12 months. However, the higher yielding deposits are fast maturing, and those deposits will inevitably be reinvested at lower prevailing rates unless a longer duration is undertaken.

Investors using the Imperium Markets platform have reduced the invisible costs associated with brokerage, and thereby lift client portfolio returns as investors are able to deal in deposits directly with the ADIs and execute at the best price possible.

We are pleased that Council remains amongst the best performing in the state of NSW where deposits are concerned, earning on average, around $80,000 in additional interest income compared to its peers (as per the January 2021 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.

Council's Term Deposit Portfolio & Recommendation

As at the end of May 2021, Council's deposit portfolio was yielding 1.61% p.a. (unchanged from the previous month), with an average duration of around 330 days (~11 months).

Where possible, we recommend Council extends this average duration. In the low interest rate environment, the biggest collective risk that the local government sector has faced over the post-GFC era has been the dramatic fall in interest rates - from 7¼% to the historical low levels of 0.10%.

As the past decade has highlighted (post-GFC era), we have seen too many portfolios' roll a high proportion of their deposits between 3-6 months, resulting in their deposits being reinvested at lower prevailing rates. That is, depositors have overpaid for liquidity and generally not insured themselves against the low interest rate environment by diversify their funding across various tenors (out to 5 years) but rather placed all their 'eggs in one basket' and kept all their deposits short. **Reinvestment risk has collectively been and continues to be the biggest detriment to depositors' interest income over the post-GFC period**.

At the time of writing, we see value in:

ADI	LT Credit Rating	Term	T/D Rate
ICBC, Sydney	A	5 years	1.40% p.a.
NAB	AA-	5 years	1.30% p.a.
ICBC, Sydney	A	4 years	1.12% p.a.
NAB	AA-	4 years	1.00% p.a.
ICBC, Sydney	A	3 years	0.85% p.a.
NAB	AA-	3 years	0.80% p.a.
ICBC, Sydney	A	2 years	0.60% p.a.
NAB	AA-	2 years	0.60% p.a.

The above deposits are suitable for investors looking to provide some income protection and mitigate reinvestment/rollover risk in the low interest rate environment.

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
Judo Bank	Unrated ADI	9-12 months	~0.70% p.a.
BNK Bank	Unrated ADI	6 months	~0.60% p.a.
ME Bank	BBB	12 months	~0.50% p.a.
BoQ	BBB+	6 months	0.45% p.a.
BoQ	BBB+	9-12 months	0.40% p.a.
CBA	AA-	12 months	~0.38% p.a.
AMP Bank	BBB	9-12 months	0.35% p.a.^
NAB	AA-	12 months	0.35% p.a.
Westpac	AA-	12 months	~0.35% p.a.
Bendigo	BBB+	9-12 months	0.35% p.a.

^ AMP T/Ds – contact us to receive an additional 0.20% p.a. rebated commission on top of the rate shown

Amongst the investment grade sector, short-dated term deposits (maturing less than 12 months) are yielding under 0.50% p.a. (most are under 0.40% p.a.). We believe there is not much value being offered in short-dated deposits.

In contrast, there is an upward pick-up in yield for investors that can take advantage of 2-5 year fixed T/Ds whilst official rates are stuck at depressed levels for the foreseeable future. If Council does not require high levels of liquidity and can stagger its investments longer-term, it will be rewarded over coming years if it can roll for a minimum term of 2 years (rolling for 3-5 years is even better, where possible), potentially yielding, on average, more than double or triple the return compared to those investors that purely invest in short-dated deposits.

Senior FRNs Review

Over May, amongst the senior major bank FRNs, physical credit securities widened by around 5bp at the long-end of the curve. Secondary market securities remain relatively expensive on the back of the RBA announcing its $200bn quantitative easing (QE) package (doubled in Feb 2021).

A new 5 year senior major bank FRN would now be issued around the +50bp, which remains tight on a historical basis. We may finally see some primary issuances in Q3-Q4 this year from the major banks as the RBA's term funding facility (TFF) ends as of 30 June 2021. The lack of supply from new (primary) issuances has played a major role with the rally in credit markets over the past year.

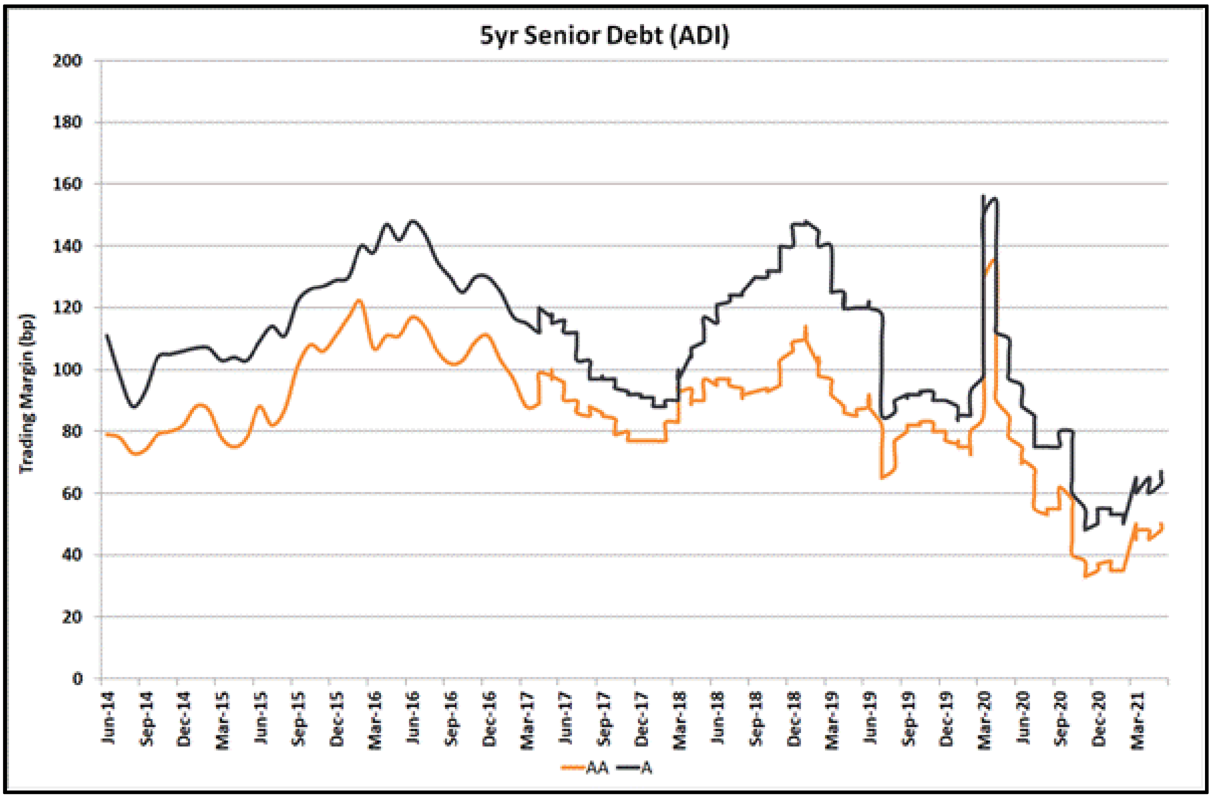
During the month, HSBC Sydney Branch (AA-) issued a new 3 year senior FRN at +42bp, printing $500m, tightening from initial guidance of +50bp, after receiving orders in excess of $1.4bn. While it tightened 8bp from initial guidance, relative to where the domestic major banks were being marked, we thought this was issued at a relatively fair level. Separately, China Everbright Bank, Sydney Branch (BBB+) issued a 3 year senior FRN deal at +68bp, tightening from +73bp and printed $300m.

Amongst the "A" and "BBB" rated sector, the securities were also marked around 2-5bp wider at the long-end of the curve. While turnover in the secondary market is still predominately dominated by commonwealth, semi-government and major bank senior paper, given the lack of supply, we have started to observe that even a handful of regional bank senior paper has sometimes been trading inside "mid" levels over recent months.

Credit securities remain tight on a historical level but are looking slightly more attractive following the widening experienced over the past few 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 ensuing years (in a relatively stable credit environment).

Senior FRNs (ADIs)	31/05/2021	30/04/2021
"AA" rated – 5yrs	+50bp	+45bp
"AA" rated – 3yrs	+27bp	+27bp
"A" rated – 5yrs	+67bp	+60bp
"A" rated – 3yrs	+45bp	+42bp
"BBB" rated – 3yrs	+55bp	+52bp

Source: IBS Capital



Source: IBS Capital

We now generally **recommend switches** ('benchmark' issues only) into new attractive primary issues (or longer-dated alternatives), 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-2022 for the "A" rated ADIs; and
- Within 12 months for the "BBB" rated ADIs (consider case by case).

Investors holding onto the above senior FRNs ('benchmark' issues only) in their last 1-2 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.

Economic Commentary

International Market

Despite ongoing concerns regarding inflation and higher commodity prices, equity markets continued their positive momentum in May, providing positive returns across most major markets.

In the US, the S&P 500 Index gained +0.55%, while the tech-heavy NASDAQ Index fell -1.53%. Equities finished positively across Europe's main indices, led by France's CAC (+2.83%), Germany's DAX (+1.88%) and UK's FTSE (+0.76%).

The US payroll numbers in April disappointed, coming in at 266k against expectation of 1 million. **The unemployment rate unexpectedly ticked up from 6.0% to 6.1%** against expectations of a fall to 5.8%.

The US April core PCE deflator rose to +3.1% from +1.9%, its highest annual rate since 1992 and a little above the 2.9% expected.

President Biden outlined his Budget plan for FY22, proposing US$6 trillion of spending that would significantly boost discretionary spending and sharply raise taxes on corporates and high-income households.

European GDP data confirmed their recession with Q1 GDP at -0.6% q/q. With the vaccination programme back on track in the region and restrictions likely to ease, Q2 is expected to be much better.

The UK economy contracted by -1.5% q/q in Q1, but the monthly track showed a decent pick-in in growth in March, confirming that a strong rebound is underway as lockdown restrictions ease. The Bank of England kept all its policy settings unchanged, including its £875bn government bond buying target.

China's monthly activity data did not provide any support to risk appetite, with retail sales coming in weaker than expected (17.7% y/y vs 25% expected). The unemployment rate fell to 5.1% (the lowest since November 2019), while new home prices were up +0.5% m/m in April.

The RBNZ surprised the market by re-introducing its forecasts for their Official Cash Rate (held steady at 0.25%) into their Monetary Policy statement. **OCR forecasts point to a sequence of hikes from the Q3 of 2022**.

The MSCI World ex-Aus Index rose +1.22% for the month of May:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+0.55%	+10.31%	+38.10%	+15.83%	+14.93%	+12.07%
MSCI World ex-AUS	+1.22%	+9.15%	+38.37%	+12.59%	+12.31%	+8.42%
S&P ASX 200 Accum. Index	+2.34%	+8.48%	+28.23%	+9.95%	+10.11%	+8.82%

Source: S&P, MSCI

Domestic Market

The RBA kept its rates and guidance unchanged at its meeting in May, however it upgraded its baseline forecasts for economic growth and substantially reduced its unemployment forecasts. The RBA has lowered its unemployment rate forecasts to 4.5% by the end of 2022 (previously 5.5%), which is at the bottom end of model-based NAIRU estimates (NAIRU is pegged around 4.5-5.0%).

The RBA indicated it will not extend their 3yr yield target from the April 2024 bond to the November 2024 bond, which could signal their intention to announce a tapered QE3.

The underlying cash deficit for 2020-21 was revised almost $40bn lower to $161bn (7.8% of GDP) from $213.7bn (11%) at the previous budget in October 2020, on the back of the better-than-expected labour market recovery and elevated iron ore price. Deficits are forecast all the way to 2031-32. Gross debt is expected to be $829bn (40.2% of GDP) in 2020-21 before stabilising at around 51% of GDP in the medium term.

In terms of spending, the largest item was the Government's aged care package – at around $17.7bn over the forward estimates. But there were other big spends in the areas of Infrastructure ($15bn) and NDIS ($13.2bn). The Low and Middle-Income tax offset was extended a year ($7.8bn) and the Investment Asset Write Off was also extended.

Headline employment fell -30.6k in April, well below expectations of +20k. The unemployment rate fell by 0.2% to 5.5% from an upwardly revised 5.7%, partially driven by falling participation from 66.3% to 66.0%. Interestingly, youth unemployment fell 1.1% to 10.6%, its lowest since 2009. Underemployment also fell by 0.2% to 7.8%, its lowest level since May 2014.

The Wage Price Index (WPI) rose +0.6% q/q and +1.5% y/y in March, one-tenth higher than the consensus.

The trade surplus fell by $2.0bn to $5.6bn in March, driven mostly by higher imports (+4% m/m or $1.3bn).

Australia has now administered vaccine doses equivalent to 14.9% of the population, while only 2% of the population is now fully vaccinated.

The Australian dollar fell -0.66%, finishing the month at US77.25 cents (from US77.76 cents the previous month).

Credit Market

The main credit indices remained flat over May. The indices now trade back to their levels experienced in late 2020:

Index	May 2021	April 2021
CDX North American 5yr CDS	51bp	50bp
iTraxx Europe 5yr CDS	50bp	50bp
iTraxx Australia 5yr CDS	59bp	61bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	May 2021	April 2021
Bloomberg AusBond Bank Bill Index (0+YR)	+0.00%	+0.00%
Bloomberg AusBond Composite Bond Index (0+YR)	+0.26%	+0.56%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.07%	+0.07%
Bloomberg AusBond Credit Index (0+YR)	+0.22%	+0.54%
Bloomberg AusBond Treasury Index (0+YR)	+0.30%	+0.57%
Bloomberg AusBond Inflation Gov't Index (0+YR)	+0.90%	+1.61%

Source: Bloomberg

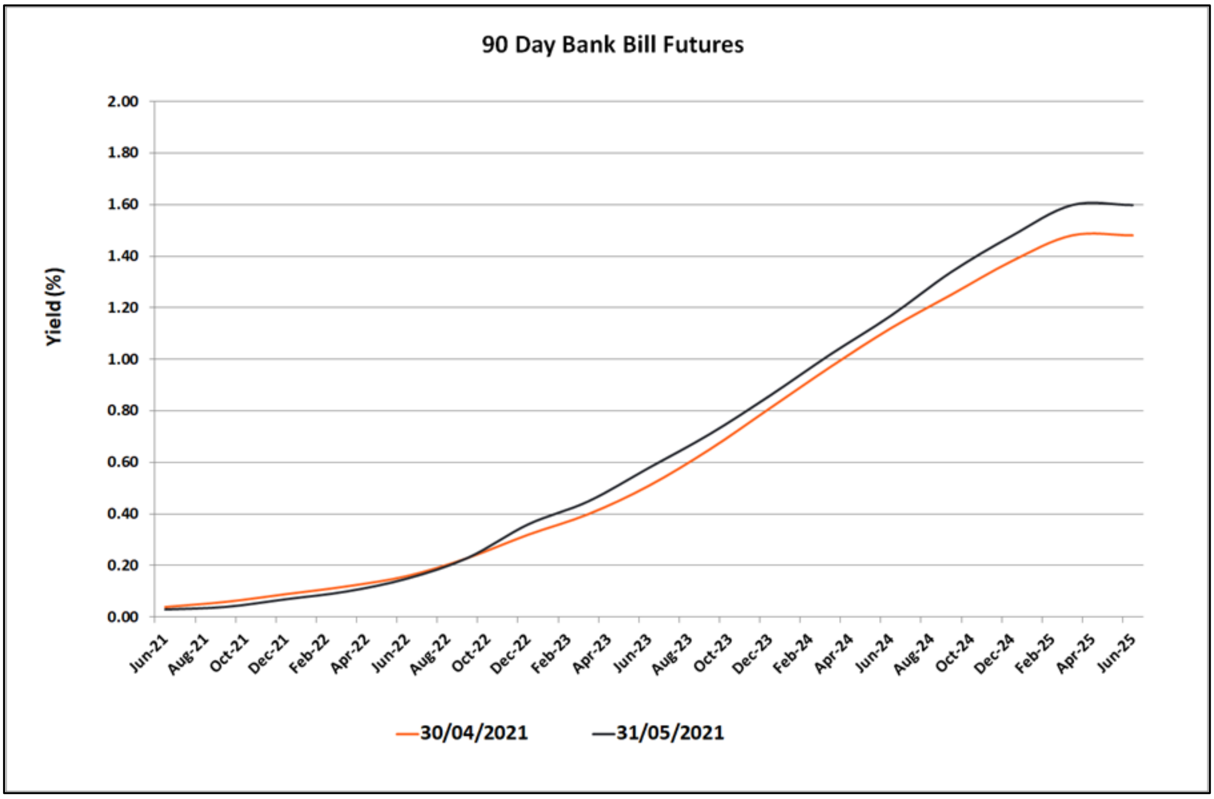
Other Key Rates

Index	May 2021	April 2021
RBA Official Cash Rate	0.10%	0.10%
90 Day (3 month) BBSW Rate	0.04%	0.04%
3yr Australian Government Bonds	0.10%	0.10%
10yr Australian Government Bonds	1.61%	1.65%
US Fed Funds Rate	0.00%-0.25%	0.00%-0.25%
10yr US Treasury Bonds	1.58%	1.65%

Source: RBA, AFMA, US Department of Treasury

90 Day Bill Futures

Over May, bill futures marginally rose across the board on anticipation of a tapering in QE programs and rising inflationary expectations. Overall, bill futures continue to depict a low rate environment over the long-run, despite the steeping curve in recent months:



Source: ASX

Fixed Interest Outlook

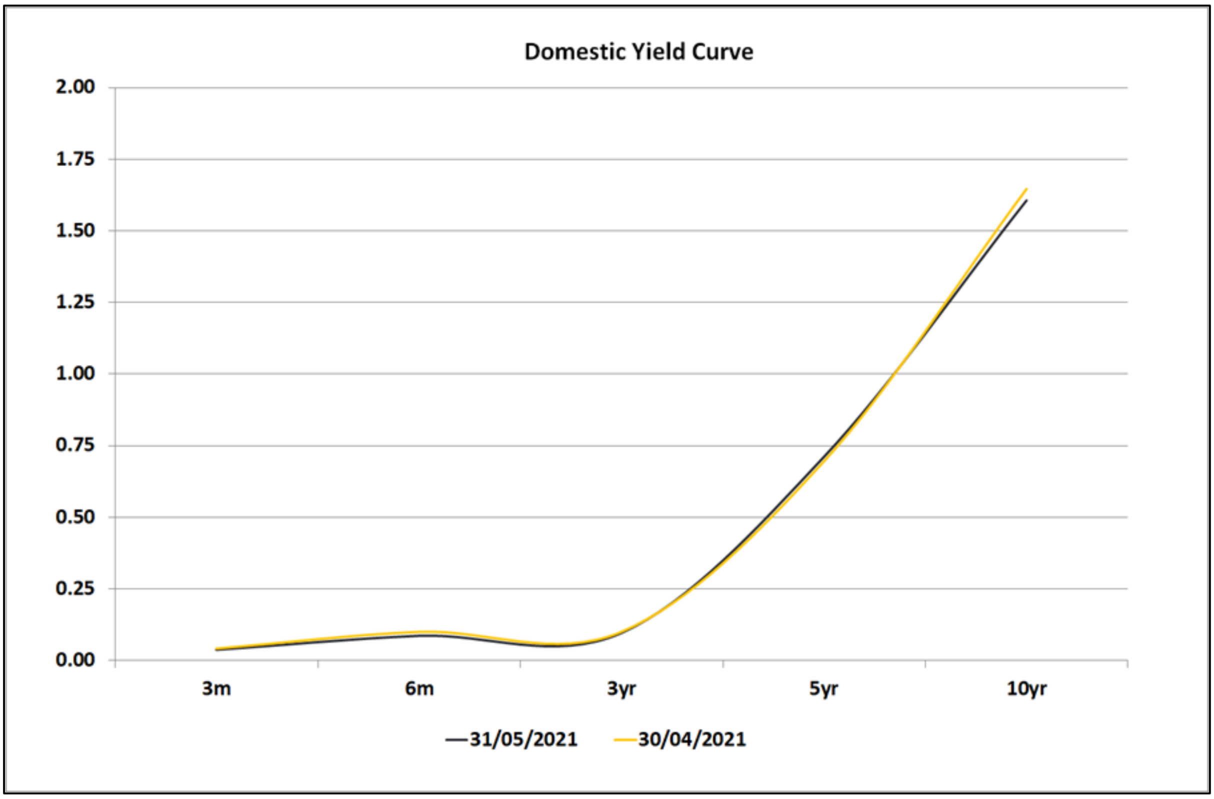
The unprecedented fiscal support for the global economy and the accelerated vaccine rollout in countries such as the US and the UK has aided financial markets. Further significant stimulus packages are also being proposed in the US, with President Biden announcing a $US2.25 trillion infrastructure plan – about half of it for physical infrastructure and the other half for social infrastructure.

US Fed Chair Powell appeared to be more optimistic on the outlook, saying "*we feel like we're at a place where the economy's about to start growing much more quickly and job creation coming much more quickly*". Powell remains cautious and has made it clear that it was "*not time yet*" to have a conversation about tapering its US$120bn monthly QE bond buying programme. He emphasised that the US was "*not close to*" the substantial progress toward its employment and price stability goals that has been set as the condition for contemplating its first steps of tapering.

Global central banks (including the RBA) have stressed that they will look through temporary increases in inflation from base effects and supply chain disruptions.

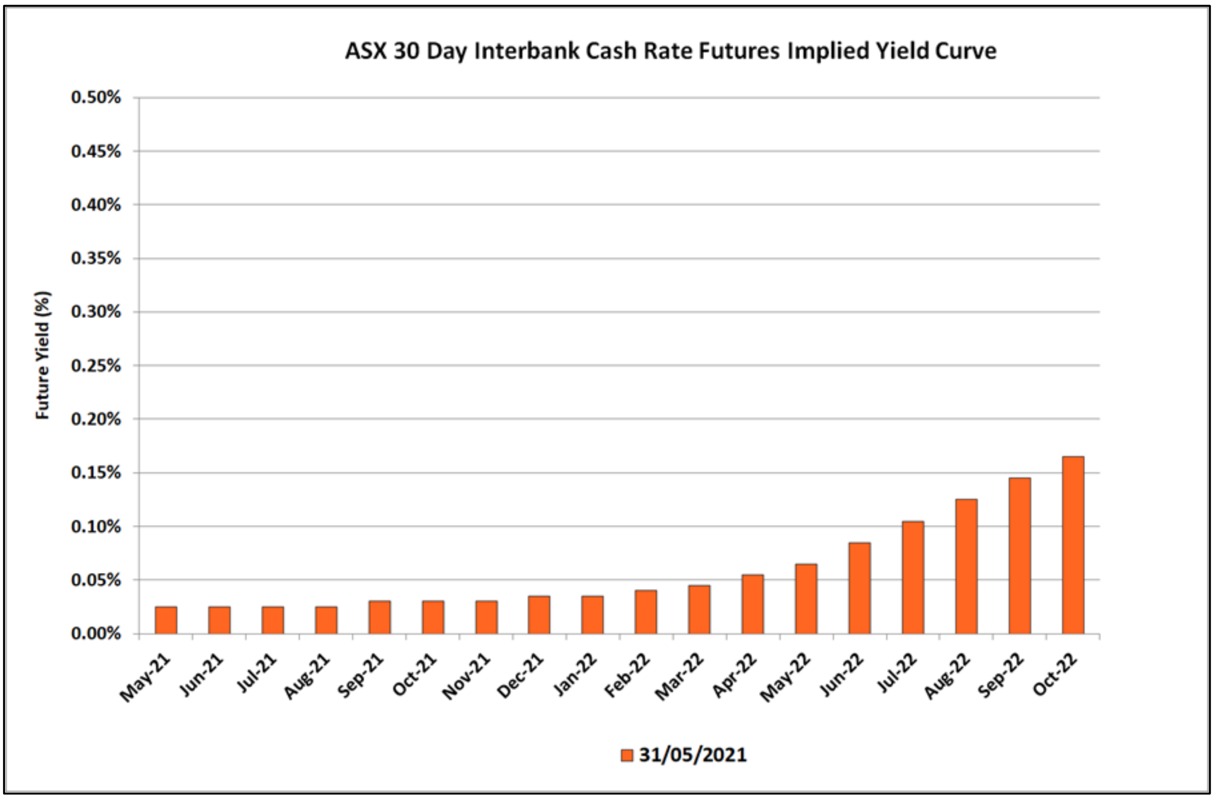
Domestically, the RBA is of the view that "*a materially lower unemployment rate*" (NAIRU of low 4s or even 3s) is needed to generate wages growth in excess of 3%, which is the level the RBA thinks is needed to deliver inflation sustainably within the 2-3% inflation target. The Bank does not see this occurring "***until 2024 at the earliest***", which underpins their rates guidance.

The domestic bond market continues to suggest a prolonged low period of interest rates. Over the month, yields fell around 4bp at the long-end of the curve:



Source: AFMA, ASX, RBA

<u>RBA Governor Lowe has pushed back on market pricing of rate hikes as early as late 2022. Dr Lowe reiterated his 'best guidance' was that it is "*unlikely to see wages growth consistent with the inflation target before 2024. This is the basis for our assessment that the cash rate is very likely to remain at its current level until at least 2024*":</u>



Source: ASX

Disclaimer

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Imperium Markets charges a flat fee for our investment advice. Any commissions received are rebated to clients in full. If you choose a product provider who uses our market platform, the product provider pays us 1bp p.a. funding fee of the value of the investments transacted.

Approval Date: 23 June 2020

Review Date: May 2021

Responsible Officer: Chief Financial Officer

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History of Policy review

Version	Adoption Date	Minute No	Details of Review
5			Complete review
4	23 June 2020	5/2020/8	Complete review
3	18 April 2018	5/2018/18	Complete review
2	23 May 2017		Complete review
1	24 May 2016		Complete review

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Objective

1.0 To provide a framework for the investing of surplus Council funds at the most favourable rate of interest available, whilst having due consideration of risk and security for investments, ensuring ~~its~~ Council's liquidity requirements are being met.

2.0 Whilst exercising the power to invest, consideration must be given to the preservation of capital, ~~liquidity~~liquidity, and the return on investment.

~~A.~~a) **Preservation of capital is the principal objective of the investment portfolio.** Investments are to be placed in a manner that seeks to ensure security and safeguarding the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.

~~B.~~b) Investments should be allocated to ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring the risk of significant costs due to the unanticipated sale of an investment.

~~C.~~c) Investments are expected to achieve a market average rate of return in line with Council's risk management guidelines.

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Council Policy Reference

AFM – Investment Policy

Statutory Requirements

Local Government Act 1993
Local Government Act 1993 – Investment Order dated 31 July 2008
Local Government Act 1993 – Investment Order dated 12 Jan 2011
Local Government (General) Regulation 2005
Trustee Act 1925 (NSW)
Australian Accounting Standards issued by the Australian Accounting Standards Board.

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Government References

NSW O~~D~~LG Investment Policy Guidelines – May 2010
Local Government Code of Accounting Practice and Financial Reporting
O~~D~~LG Circulars relating to Investments
Related Policy/Procedure

AFM – Financial Management and Control

Investment

1. Authority for Investment

All investments are to be made in accordance with:

- Local Government Act 1993 – Section 625, Section ~~413~~413, and Section 12
- Local Government Act 1993 – Investment Order (of the Minister) dated 12th January 2011.
- Local Government (General) Regulation 2005 – Clause 212
- Australian Accounting Standards issued by the Australian Accounting Standards Board.
- Trustee Act 1925 (NSW) – Section 14

2. Delegation of Authority

The General Manager has the authority to invest surplus funds and may delegate this function to the Chief Financial Officer and/or Management Accountant. All investments must be signed by two (2) signatories. The following officers have the authority to sign investments:

- General Manager
- Chief Financial Officer
- Director ~~Environmental Services~~Environmental Services
- Director ~~Engineering Services~~Engineering Services
- Management Accountant

3. Ministerial Order

The Minister for Local Government issued a revised order pursuant to Section 625 of the Local Government Act 1993. The Minister signed the amended Order on 12 January 2011, and it was gazetted on 11 February 2011. It replaces the order dated 31 July 2008.

4. Prudent person standard

Council investments will be managed with the care, ~~diligence~~diligence, and skill that a prudent person would exercise. As Trustees of public monies, Officers are to manage Council's investment portfolio to safeguard the portfolio in accordance with the spirit of this investment Policy, **and not for speculative purposes.**

5. Ethics and conflicts of interest

Council Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This policy requires Officers to disclose any conflict of interest to the General Manager.

Independent advisors are also required to declare that they have no actual or perceived conflicts of interest.

Investment Guidelines

6. Forms of Investment

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All forms of Investment for the purposes of section 625 (2) of the Local Government Act 1993 are by Order of the Minister notifying forms of investment. A copy of the Investment Order is attached as "Annexure A".

7. Legislative Obligations

All investments are to be made exercising the care, diligence, and skill that a prudent person of business would exercise in managing the affairs of another person. ***Investments that are high risk, speculative or hazardous in nature are to be avoided.***

8. Legislative Requirements

All investments are to be made in accordance with the provisions of the Local Government Act 1993, with particular regard to the following:

- The purpose of the investment;
- The desirability of diversifying council investments;
- The nature of and risk associated with council investments;
- The desirability of maintaining the real value of the capital and income of the investment;
- The risk of capital or income loss or depreciation;
- The potential for capital appreciation;
- The likely income return and the timing of income return;
- The length of the term of the proposed investment;
- The period for which the investment is likely to be required ;
- The probable duration of the investment;
- The liquidity and marketability of a proposed investment during, and on the determination of, the term of the investment;
- The aggregate value of the assets of the council;
- The effect of the proposed investment in relation to any tax liability;
- The likelihood of inflation affecting the value of the proposed investment;
- The costs (including commission, fees and charges) of making a proposed investment;
- The results of any review of existing council investments;
- Other matters as appropriate.

9. Prohibited investments

In accordance with the Ministerial Investment Order, this investment policy prohibits but is not limited to any investment carried out for speculative purposes including:

a) Derivative based instruments;
b) Principal only investments or securities that provide potentially NIL or negative cash flow; and
c) Standalone securities issued that have underlying, options, forward contracts and swaps of any kind

10. Operational Requirements

a. The working account balance of Council is to be kept at a level no greater than is required to meet Council's immediate working operational requirements except where the rate of return is comparable to the rate of return of other investments.

b. A delegated Finance Officer will notify the Management Accountant that excess funds exist in the working account or that an existing investment is due for maturity and funds are not required to meet Council's immediate working operational requirements.

c. The Management Accountant will authorise the Finance Officer to investigate investment options.

11. Quotations

a. Three (3) quotations will be obtained from authorised institutions before making an investment.

b. The Code of Accounting Practice and Financial Reporting require that Council maintains a separate record of these quotations.

c. All quotes are to be attached to the investment authorisation to be signed by the authorised signatories and filed in the Financial Investment Voucher Folder.

10 Risk Management Guidelines

Investments are to comply with the following criteria:

Preservation of capital – the requirement for preventing losses in an investment portfolio's total value (considering the time value of money);

(a) *Credit Quality Limits*

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The portfolio credit guidelines to be adopted will reference the Standard & Poor's (S&P) ratings system criteria and format - however, references in the previous Minister's Orders also recognised Moody's and Fitch Ratings and any of the three ratings may be used where available.

~~However~~While the ratings system criteria are used as a reference, the primary control of credit quality is the prudential supervision and government support and explicit guarantees of the Authorised Deposit-Taking Institution~~Approved Deposit Institution~~ (ADI) sector, not ratings.

The maximum holding limit in each rating category for Council's portfolio shall be:

Long Term Rating Range (or Moody's equivalent)	Maximum Holding
AAA Category	100%
AA+ to AA- Category or Major Bank*	100%
A+ to A- Category	80%
BBB+ Category	70%
BBB and BBB- Category	70%
Unrated ADIs	10%

*For the purposes of this Policy, "Major Banks" are currently defined as:

The ADI deposits or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups:

- *Australia and New Zealand Banking Group Limited*
- *Commonwealth Bank of Australia*
- *National Australia Bank Limited*
- *Westpac Banking Corporation*

including ADI subsidiaries whether or not explicitly guaranteed, and brands (such as St George).

Council may ratify an alternative definition from time to time.

Standard & Poor's ratings attributed to each individual institution will be used to determine maximum holdings.

In the event of disagreement between agencies as to the rating band ("split ratings") Council shall use the higher in assessing compliance with portfolio Policy limits, but for conservatism shall apply the lower in assessing new purchases.

(b) Institutional Diversification –

1. Not less than three (3) quotations shall be obtained from authorised institutions when an investment is made.

2. Individual investments shall not exceed $2,000,000.

(b) Counterparty Limits

Exposure to individual counterparties/financial institutions will be restricted by their rating so that single entity exposure is limited, as detailed in the table below.

Limits do not apply to Federal or NSW-guaranteed investments, which are uncapped. It should be noted that the NSW government does not guarantee the capital value or unit price of the TCorpIM Funds.

Individual Institution or Counterparty Limits	
Long Term Rating Range (or Moody's equivalent)	**Limit**
AAA Category[1]	50%
AA+ to AA- Category or Major Bank*[2]	50%
A+ to A- Category	40%
BBB+ to BBB Category	30~~25~~%
BBB- Category	25%
Unrated Category	5%

~~3.~~a) All term deposit investments are to be made with Authorised Deposit-Taking Institutions~~authorised deposit taking institutions~~ covered under the Australian Government Guarantee;

b) ~~(c)~~ Maturity Risk – The investment portfolio shall be invested within the following maturity constraints.

OVERALL PORTFOLIO MATURITY		
Portfolio % < 3 months	Minimum 10%	Maximum 100%
Portfolio % 3-12 months	Minimum 10%	Maximum 100%
Portfolio % > 1 year, < 2 years	Minimum 0%	Maximum 70%
Portfolio % > 2 years, < 5 years	Minimum 0%	Maximum 50%
Portfolio % > 5 -10 years	Minimum 0%	Maximum 25%

[1] AAA Category includes *TCorpIM Cash Fund*, which typically maintains a credit score consistent with a AAA[f] rating.

[2] AA Category also includes *TCorpIM Strategic Income Fund*, which typically maintains a credit score consistent with a AA[f] rating.

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c) ~~(d)~~ Market/Credit Risk – consideration shall be given to the risk that the fair value or the future cash flows of an investment will fluctuate due to changes in market prices, or the risk of failure to repay principal or pay interest of an investment.

d) ~~(e)~~ Liquidity Risk –

1. ~~1.~~ Investment maturity shall correspond with cash flow requirements.
2. ~~2.~~ Access to a minimum $1,000,000 or 5% of the investment portfolio is available within seven (7) days.

12. Investments Register

The Code of Accounting Practice requires Council to maintain a separate record of money it has invested under section 625 (2) of the Local Government Act 1993. The record must specify:

a) date the investment is made;
b) the amount of money invested;
c) particulars of the security or form the money is invested;
d) name of the institution;
e) due date and term of the investment;
f) if available, the rate of interest to be paid;
g) the amount of money that the council has earned, in respect to the money invested;
h) investment number consisting of three digits/financial year (e.g. 123/09);
i) When being rolled over, the investment being closed should refer to the new investment number. When the new investment is being made the investment number of the closed investment should be recorded.

An Investment Register is held by Council both in hard copy and electronically. The Investment Register held in hard copy contains all information as above and any documentation relating to the investment and is maintained by a delegated Finance Officer. An electronic copy of all investment information is to be filed in ~~TRIM~~Council's Electronic Document Management System (EDMS also known as Trim) in Financial Management – Investments.

13. Financial Investment Voucher Folder

- The *Financial Investment Voucher Folder* is maintained and updated by a delegated Finance Officer with all correspondence both inward and outward relating to the investment.
- ~~Each investment will be allocated a section labelled with the investment number.~~
- ~~The section within the folder will contain all correspondence, confirmation of the term deposit/investment, coupon payment advices, etc.~~
- All correspondence must be filed in TRIM in Financial Management – Investments.

14. Maturity

Once an investment has matured the following may occur:

a) Rollover the investment – if it is determined that the investment will be rolled over (taking into account Part 7 of this procedure), then the investment will be rolled over and issued with a new investment number. The interest paid and the new investment number will be recorded in the investment register under the number of the investment being rolled over. The new investment number will refer to the previous investment number.

b) ~~R~~Redeem the investment – Interest paid, principle repaid will be recorded in the investments register.

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~~16.~~15. Reports on Council Investments

The Responsible Accounting Officer (RAO) must provide Council with a written report detailing all money that Council has invested. The report must be made up to the last day of the month immediately preceding the meeting. This information must be presented in accordance with section 625 (2) of the Local Government Act 1993 and must be presented at each monthly ordinary meeting under the provisions of Clause 212 of the Local Government (General) Regulation 2005. This report *must include a certificate as to whether or not the investment has been made in accordance with the Act, the regulations and Council's investment policy*.

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~~17.~~16. Independent Investment Advisors

- Any investment advisor or investment dealer acting on behalf of Council must be licensed with the Australian Securities and Investment Commission.
- These third parties are expected to exercise the care, diligence, and skill that a prudent person would exercise in managing the affairs of another person.
- This procedure is to be presented to all third parties to ensure that they are delivering appropriately and complying with Council's requirements, including the Ministerial Investment Order.
- The RAO should obtain written confirmation from independent financial advisors that they do not have any actual or potential conflicts of interest in relation to the investments they are recommending or reviewing including that they are not receiving any commissions or other benefits in relation to the investments they are recommending or reviewing.
- Product manufacturers / distributors should be excluded from being appointed investment advisors to Council.

~~18.~~17. Withdrawal of Investments

- In the event that a credit rating of a security, company or body issuing the security falls below the minimum requirement, as set out in the Minister's Order, Council must make all the necessary arrangements to withdraw the deposit as soon as practicable.
- In the case of existing securities (as tabled Part 4) excluded by the recently revised Investment Order, they are to be grandfathered. These investments become ultra vires under the new Investment Order and can continue to be held to maturity, redeemed or sold. Before disposing of these investments Council will seek independent financial advice by an independent investment advisor or dealer licensed by the Australian Securities and Investment Commission (ASIC)(www.asic.gov.au).

~~19.~~18. Annual Review

Investment performance will be reviewed monthly and the outcomes will be reported to Council. The investment policy and procedures will be reviewed annually, or immediately following the release of any OLG Guidelines or Circulars aimed at assisting Councils in Developing investment Policy or Procedures. .

LOCAL GOVERNMENT ACT 1993 – INVESTMENT ORDER

(Relating to investments by councils)

I, the Hon. Paul Lynch MP, Minister for Local Government, in pursuance of section 625(2) of the *Local Government Act, 1993* and with the approval of the Treasurer, do, by this my Order, notify for the purposes of section 625 of that Act that a council or county council may only invest money (on the basis that all investments must be denominated in Australian Dollars) in the following forms of investment:

(a) any public funds or securities issued by or guaranteed by, the Commonwealth, any State of the Commonwealth or a Territory;

(b) any debentures or securities issued by a council (within the meaning of the *Local Government Act* 1993 (NSW));

(c) mortgage of land in any State or Territory of the Commonwealth (restricted to first mortgages over land with a Loan to Value ratio of no greater than 60%);

(d) interest bearing deposits with, or any debentures or bonds issued by, an authorised deposit-taking institution (as defined in the *Banking Act* 1959 (Cwth)), but excluding subordinated debt obligations;

(e) any bill of exchange which has a maturity date of not more than 200 days; and if purchased for value confers on the holder in due course a right of recourse against a bank which has been designated as an authorised deposit-taking institution by the Australian Prudential Regulation Authority;

(f) a deposit with the Local Government Financial Services Pty Ltd

(g) a deposit with the New South Wales Treasury Corporation or investments in an Hour-Glass investment facility of the New South Wales Treasury Corporation.

All investment instruments (excluding short term discount instruments) referred to above include both principal and investment income.

Transitional Arrangements

(i) Subject to paragraph (ii) nothing in this Order affects any investment made before the date of this Order which was made in compliance with the previous Ministerial Order dated 15 July 2005, and such investments are taken to be in compliance with this Order.

(ii) Paragraph (i) only applies to those investments made before the date of this Order and does not apply to any restructuring or switching of investments or any re-investment of proceeds received on disposal or maturity of such investments, which for the avoidance of doubt must comply with this Order.

Dated this 31st day of July 2008 **Hon PAUL LYNCH MP**
Minister for Local Government

"Appendix B" – Investment Register

Investment Number	Date Invested	Amount $	Lodged With	Rate % per annum	Term	Due Date	Interest $
Details							

Investment Number	Date Invested	Amount $	Lodged With	Rate % per annum	Term	Due Date	Interest $
Details							

Investment Number	Date Invested	Amount $	Lodged With	Rate % per annum	Term	Due Date	Interest $
Details							

Investment Number	Date Invested	Amount $	Lodged With	Rate % per annum	Term	Due Date	Interest $
Details							