## 10.4. Investment and Loan Borrowings Report as at 30 April 2025

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|---|---|
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| **ATTACHMENTS** | 1. Monthly Investment Review - Arlo Advisory [**10.4.1** - 21 pages] |
| **CSP LINK** | 5. Our Civic Leadership<br>5.1 Lead North Sydney's strategic direction |

**PURPOSE:**

The purpose of this report is to provide details of the performance of Council's investments and loans for the month ending 30 April 2025.

**EXECUTIVE SUMMARY:**

- All investments have been made in accordance with the Local Government Act and Regulations and Council's Financial Investments Policy.

- For the month of April, the total investment portfolio (which includes Term Deposits, Floating Rate Notes and Bonds) provided a return of +0.33% (actual), or +4.11% p.a. (annualised), slightly under performing the benchmark AusBond Bank Bill Index return of +0.35% (actual), or +4.38% p.a. (annualised).

- Returns on investments exceed the April YTD budget by $1,131,843. This result includes fees paid to Council's investment adviser which total $13,500 year to date. The annual fee is $18,000.

- An increase of $1.2 million to investment income is proposed is the March quarter budget review.

**RECOMMENDATION:**

**1. THAT** the report on Investments held at 30 April 2025, prepared in accordance with clause 212 of the Local Government (General) Regulation 2021, and the information on Loan Borrowings be received.

## Background

Clause 212 of the Local Government (General) Regulation 2021, states that the Responsible Accounting Officer must provide Council with a monthly report detailing all funds invested under Section 625 of the Local Government Act 1993. This report must include certification that the investments have been made in accordance with the Act and the Regulations made thereunder, also the revised Investment Order issued by the Minister for Local Government and Council's Financial Investment Policy.

It is also prudent to report loan balances and compliance with borrowing orders issued by the Minister for Local Government and Council's Debt Management Policy.

## Total Cash and Investment Balance and Reserves

The total cash and investment balances are $136,555,145 representing a reduction of $5,760,476 from the previous month. Most of this balance is held in reserves to be spent on certain activities and projects. Reserves fall into one of two categories:

- external restrictions (Council is obliged by legislation, or contract, to spend the funds on certain projects and activities); and
- internal allocations (Council has resolved to spend the funds on certain projects and activities).

The following tables detail the reserves held. Council held an unrestricted cash balance of $21.6 million, indicating it has funded all its reserves.

While these funds are marked as unrestricted, they will be utilised in subsequent months to fund Council's activities, including salaries and wages, materials and contracts, repayment of borrowings, and other operational expenses.

As per the last approved budget, internally restricted reserves will be allocated to the North Sydney Olympic Pool project once the initially designated funds for the project are fully utilised.

| **External Restrictions and Internal Allocations** | |
|---|---|
| **External restrictions** | |
| Developer contributions – general | $46,876,571 |
| Domestic waste management | $13,730,667 |
| Unexpended Special Rates | $975,588 |
| Unspent borrowings - North Sydney Olympic Pool redevelopment | $5,209,209 |
| Specific purpose grants | $1,323,277 |
| Other specific purpose contributions | $2,356,062 |
| **Total external restrictions** | **$70,471,374** |
| | |
| **Internal allocations** | |
| Capital Works Reserve | $6,284,692 |
| Community Housing - Capital Purchases | $1,010,101 |

| External Restrictions and Internal Allocations | |
|---|---|
| Community Housing - Major Maintenance | $490,657 |
| Deposits, retentions, and bonds | $14,846,295 |
| Employees leave entitlement | $7,127,000 |
| Income Producing Projects | $547,982 |
| I.T. hardware and software | $1,119,609 |
| Olympic Pool Redevelopment | $9,717,472 |
| Plant and vehicle replacement | $3,347,098 |
| **Total internal allocations** | **$44,490,906** |
| **Total Restrictions and Allocations** | **$114,962,280** |
| Unrestricted Cash and Investments | $21,592,865 |
| **Total Cash and Investments** | **$136,555,145** |

**Investment Portfolio**

The following tables detail the performance of Council's investment portfolio (excluding cash deposits) to the benchmark for the month of April 2025 - and annualised for the year-to-date (including investments that have matured prior to that date).

| | April 2025 | Annualised YTD |
|---|---|---|
| **Actual Return** | 0.33% | 4.11% |
| **Benchmark** | 0.35% | 4.38% |
| **Variance** | -0.02% | -0.27% |

| Asset Type | Market Value | Portfolio Breakdown |
|---|---|---|
| Term Deposits | $108,500,000 | 79.46% |
| Cash | 22,055,145 | 16.15% |
| Fixed Bonds | $6,000,000 | 4.39% |
| Floating Rate Notes (FRNs) | $0 | 0.00% |
| | **$136,555,145** | **100.00%** |

Council's average duration of term deposits, which comprised 79.46% of the investment portfolio, is approximately 102 days. The average duration continues to fall to align maturities with expected outflows on the capital works program.

All funds have been invested in accordance with the Act and the Regulations made thereunder. Council's investment portfolio complies with the revised Investment Order issued by the Minister for Local Government, which places restrictions on the type of investments permitted. All investments accord with Council's Financial Investments Policy.

Council continues to seek independent advice for investments and are actively managing the portfolio to ensure that returns are maximised, considering diversification and risk. A complete analysis of the performance is covered in the Monthly Investment Reports (Attachment 1) prepared by Council's investment advisor, Arlo Advisory. The report contains advice about optimal investment options but also notes that Council's scope to act on that advice is limited by its cash flow requirements. Council has considerable requirements for short term investments and deposits at call to fund its Capital Works budget including the North Sydney Olympic Pool project.

**Summary of Returns from Investments (includes Fair Value adjustments)**

The actual investment returns for the year-to-date 30 April 2025 are $1,131,843 more than the revised year-to-date budget.

| Year | Original Annual Budget | Revised Annual Budget | YTD Budget | YTD Interest | YTD Actual FV adjustment | YTD Budget to Actual Variance |
|---|---|---|---|---|---|---|
| 2024/25 | $2,534,059 | $4,034,059 | $3,333,110 | 4,466,549 | -$1,596 | $1,131,843 |
| **Previous Years** | | | | | | |
| **Year** | **Original Annual Budget** | **Revised Annual Budget** | | **Final Result Interest** | **Final Result FV adjustments** | **Final Budget to Actual Variance** |
| 2023/24 | $2,490,000 | $5,490,000 | | $5,425,310 | $5,334 | -$71,356 |
| 2022/23 | $1,384,350 | $3,340,000 | | $3,697,634 | $4,647 | $350,281 |
| 2021/22 | $1,182,500 | $1,362,500 | | $1,314,826 | $64,865 | $5,191 |

Floating Rate Notes (FRNs) are required to be revalued each month using the Fair Value (FV) method, an estimate of the market value of the investment. The YTD movement of FRNs has seen a decrease of $1,596. Council's remaining FRN matured in February 2025. Cash flow requirements mean that Council will focus on shorter-term term deposits.

**Financial Investment Policy**

All categories are within the Policy limits for credit ratings. The portfolio remains well diversified, with credit quality rated as A, or higher. The maximum holding limit in each rating category and the target credit quality weighting for Council's portfolio are:

| Long Term Rating Range (Standard & Poors) | Invested | Maximum Policy Holding | Distribution |
|---|---|---|---|
| AA Category | $113,555,145 | 100.00% | 83.16% |
| A Category | $23,000,000 | 60.00% | 16.84% |
| BBB Category | $0 | 35.00% | 0.00% |
| Unrated ADIs (NR) | $0 | 10.00% | 0.00% |

**Loan Borrowings**

Council's Loan Borrowing Policy is the framework for Council's borrowing activities. This defines responsibilities and parameters for borrowing and related risk management activities. The Policy's objective is to control Council's exposure to movements in interest rates through the application of fixed, floating, or a combination thereof, to maintain a risk averse strategy.

Loan borrowings are in line with the following principles:

a) That the capital cost of infrastructure be recognised over the period during which the benefits will be enjoyed.
b) That loan funds are a resource to fund the replacement and upgrading of existing infrastructure and fund the creation of new infrastructure.
c) That loan funds will be limited to:
    - acquisition or enhancement of income producing assets;
    - construction and/or upgrading of buildings; and
    - infrastructure assets that have a life expectancy of greater than 10 years.

Council has three debt facilities:

**Alexander Street Carpark and On-Street Carparking Management System Loan**

This is a fixed loan financing option, fully amortising the drawn down amount of $9,500,000 over 10 years, fixed interest rate, with quarterly repayments of interest and principal. The loan details are:

| | | | | |
|---|---|---|---|---|
| **Loan amount:** | $ 9,500,000.00 | | | |
| **Loan term:** | 10 years | | | |
| **From:** | 31/07/2018 | | | |
| **To:** | 31/07/2028 | | | |
| **Interest rate:** | 4.02%p.a.(fixed) | | | |
| **Repayment:** | Quarterly | | | |
| | | | | |
| **Dates** | **Principal Outstanding** | **Interest** | **Principal** | **Payment** |
| **1/07/2024** | $4,505,143.19 | | | |
| **31/07/2024** | $4,261,152.46 | $45,648.83 | $243,990.71 | $ 289,639.54 |
| **31/10/2024** | $4,014,689.49 | $43,176.57 | $246,462.97 | $ 289,639.54 |
| **31/01/2025** | $3,765,729.20 | $40,679.25 | $248,960.29 | $ 289,639.54 |
| **30/04/2025** | $3,513,002.06 | $36,912.40 | $252,727.14 | $ 289,639.54 |

**Loan Funded Capital Projects:**

**Project 1:** Upgrading the Car Park in Alexander Street, Crows Nest
**$5 million** loan was sourced to fund project.
Current length of Loan as per the Long-Term Financial Plan (LTFP): 10 years to 2028

**Project 2:** Upgrading of On-Street Parking Management System
**$4.5 million** loan was sourced to fund project.
Current length of Loan as per LTFP: 10 years to 2028
Note: This On-Street Parking Management System is now redundant, having been replaced in July 2024.

**Loans for North Sydney Olympic Pool Redevelopment**

In February 2022, Council established a $31 million TCorp loan facility to partially fund the redevelopment of North Sydney Olympic Pool. Drawdown on the facility was processed on 28 April 2022. The funds were restricted and released, as required, to fund project cash outflows. At 31 May 2024, these loan funds had been fully expended.

This loan is a fixed loan financing option, fully amortising the drawn down amount of $31,000,000 over 20 years, fixed interest rate with semi-annual repayments of interest and principal. The loan details are:

| | | | | |
|---|---|---|---|---|
| **Loan amount:** | $31,000,000.00 | | | |
| **Loan term:** | 20 years | | | |
| **From:** | 28/04/2022 | | | |
| **To:** | 28/04/2042 | | | |
| **Interest rate:** | 4.24%p.a.(fixed) | | | |
| **Repayment:** | Semi-Annual | | | |
| **Dates** | **Principal Outstanding** | **Interest** | **Principal** | **Payment** |
| **01/07/2024** | $28,935,444.66 | | | |
| **30/10/2024** | $28,391,663.57 | $613,431.43 | $543,781.09 | $1,157,212.52 |
| **29/04/2025** | $27,836,354.32 | $601,903.27 | $555,309.25 | $1,157,212.52 |

In July 2024, Council established a $20 million TCorp loan facility to fund further budget requirements of the redevelopment of North Sydney Olympic Pool. Drawdown on the facility was processed on 27 July 2024. The funds were invested with a maturity profile to match cash flow requirements of the project. The funds were restricted and are being released, as required, to fund project cash outflows. As at 30 April 2025 $5.2 million remained restricted.

This loan is a fixed loan financing option, fully amortising the drawn down amount of $20,000,000 over 10 years, fixed interest rate with semi-annual repayments of interest and principal. The loan details are:

| | | | | |
|---|---|---|---|---|
| **Loan amount:** | $20,000,000.00 | | | |
| **Loan term:** | 10 years | | | |
| **From:** | 26/07/2024 | | | |
| **To:** | 26/07/2034 | | | |
| **Interest rate:** | 5.29%p.a.(fixed) | | | |
| **Repayment:** | Semi-Annual | | | |
| **Dates** | **Principal Outstanding** | **Interest** | **Principal** | **Payment** |
| **27/07/2024** | $20,000,000.00 | | | |
| **28/01/2025** | $19,228,419.44 | $529,000.00 | $771,580.56 | $1,300,580.56 |

**Consultation Requirements**

Community engagement is not required.

**Financial/Resource Implications**

Returns are higher than budgeted in the month of April due to phasing of the Capital Works program. A further positive adjustment of $1.2 million is recommended in the March Quarter Review.

**Legislation**

Section 625 of the Local Government Act (NSW) allows councils to invest money that is not currently required for any other purpose. It further specifies how councils may invest. It specifies investments must be in accordance with the local government minister's orders. Clause 212 of the Local Government Regulation (NSW) 2021 requires that the Responsible Accounting Officer must make a monthly report to Council, setting out all details of money invested under Section 625 of the Local Government Act.

Sections 621 to 624 of the Local Government Act give councils the ability to borrow money and specify some further regulations on that borrowing. Council's staff consider it prudent to provide monthly reporting of loans.

# Monthly Investment Review

## April 2025

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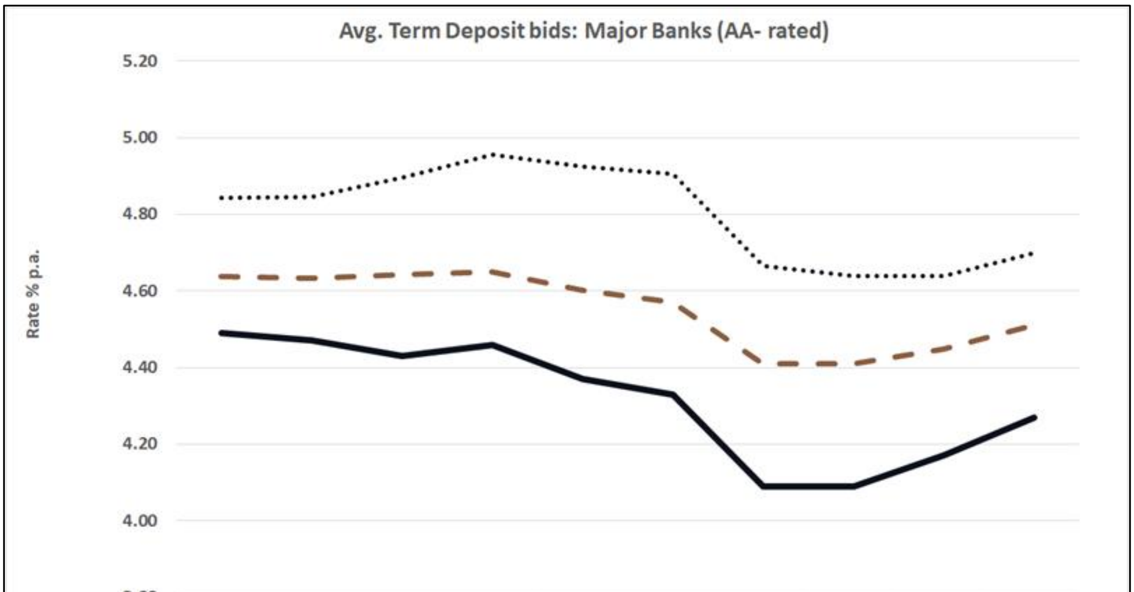
## Market Update Summary

Volatility intensified early in the month after US President Trump's tariff wars wreaked havoc across global financial markets. The losses in equity markets reversed over the second half of the month on hopes that trade deals would be achieved after Trump announced a 90-day moratorium on new tariffs. For now, recession fears have overwhelmed any concerns over a tariff-led spike in inflation.

In the deposit market, over April, at the very short-end of the curve (less than 6 months), the average deposit rates offered by the domestic major banks fell by around 15-20bp compared to where they were the previous month (March), with the market all but factoring in another rate cut in coming months. At the longer-end of the curve (1-5 years), the average rates have fell by another 25-30bp compared to where they were in March.




| | 3M | 4M | 5M | 6M | 9M | 12M | 2Y | 3Y | 4Y | 5Y |
|---|---|---|---|---|---|---|---|---|---|---|
| Apr-2025 | 4.49 | 4.47 | 4.43 | 4.46 | 4.37 | 4.33 | 4.09 | 4.09 | 4.17 | 4.27 |
| Mar-2025 | 4.64 | 4.63 | 4.64 | 4.65 | 4.60 | 4.57 | 4.41 | 4.41 | 4.45 | 4.51 |
| Oct-2024 | 4.84 | 4.85 | 4.90 | 4.96 | 4.93 | 4.90 | 4.66 | 4.64 | 4.64 | 4.70 |

*Source: Imperium Markets*

With additional rate cuts and a global economic downturn priced in over 2025, investors should consider diversifying and taking an 'insurance policy' against a potentially lower rate environment by investing across 1-5 year fixed deposits and locking in rates above 4¼-4½% p.a. (small allocation only).

# North Sydney Council' Portfolio & Compliance

## Asset Allocation

As at the end of April 2025, the portfolio was mainly directed to fixed term deposits (~79%). The remaining portfolio is directed to fixed bonds (~4%) and overnight cash accounts (16%).

Senior FRNs are now trading at a 'fair value' on a historical basis, and new issuances should be considered on a case by case scenario. For fixed interest investments, staggering a mix of fixed deposits between 12 months to 5 years remains a more optimal strategy to maximise returns over a longer-term cycle.

With additional interest rate cuts and a global economic downturn being priced in 2025, investors can choose to allocate a small proportion of longer-term funds and undertake an insurance policy against additional rate cuts by investing across 1-5 year fixed deposits, locking in and targeting yields above 4¼% p.a.

**However, noting the significant capital outflows expected in the near term, Council is currently largely restricted to investing into very short-term investments (under 6-12 months). This is suitable to invest in short-dated fixed term deposits or high yielding cash accounts**.

## Term to Maturity

Overall, the portfolio remains lightly diversified from a maturity perspective. Around 6% of assets is directed to medium-term assets (1-2 years), which has resulted in solid performance during the challenging economic environment over longer-term time periods. There is still high capacity to invest in the short-medium term horizon (1-2 years), with approximately $87m at month-end.

Where liquidity permits (once immediate capital projects are finalised), we recommend new surplus funds be directed to 1-3 year horizon given this will help optimise returns over the long-run. We suggest this be allocated to any remaining attractive fixed term deposits.

**In the interim, given the large ongoing capital expenditure flagged in the short-term, Council is likely to invest across shorter-tenors to match the capital program's cash flow requirements**.

| Compliant | Horizon | Invested ($) | Invested (%) | Min. Limit (%) | Max. Limit (%) | Available ($) |
|---|---|---|---|---|---|---|
| ✓ | 0 - 90 days | $93,055,145 | 68.14% | 10% | 100% | $43,500,000 |
| ✓ | 91 - 365 days | $35,500,000 | 26.00% | 20% | 100% | $101,055,145 |
| ✓ | 1 - 2 years | $8,000,000 | 5.86% | 0% | 70% | $87,588,601 |
| ✓ | 2 - 5 years | $0 | 0.00% | 0% | 50% | $68,277,572 |
| ✓ | 5 - 10 years | $0 | 0.00% | 0% | 25% | $34,138,786 |
| | | **$136,555,145** | **100.00%** | | | |

## Counterparty

As at the end of April, all individual limits comply with the Policy. We remind Council exposures to individual ADIs are driven by the portfolio's movements throughout any month. Overall, the portfolio is lightly diversified across the investment grade spectrum, with no exposure to the unrated ADIs (high credit quality).

| Compliant | Issuer | Rating | Invested ($) | Invested (%) | Max. Limit (%) | Available ($) |
|---|---|---|---|---|---|---|
| ✓ | ANZ (Suncorp) | AA- | $5,000,000 | 3.66% | 30.00% | $35,966,543 |
| ✓ | CBA | AA- | $30,055,145 | 22.01% | 30.00% | $10,911,399 |
| ✓ | NAB | AA- | $37,000,000 | 27.10% | 30.00% | $3,966,543 |
| ✓ | NTTC Treasury | AA- | $6,000,000 | 4.39% | 30.00% | $34,966,543 |
| ✓ | Westpac | AA- | $35,500,000 | 26.00% | 30.00% | $5,466,543 |
| ✓ | ICBC Sydney | A | $13,000,000 | 9.52% | 15.00% | $7,483,272 |
| ✓ | Bendigo | A- | $10,000,000 | 7.32% | 15.00% | $10,483,272 |
| | | | **$136,555,145** | **100.00%** | | |

On 31st July 2024, ANZ's takeover of Suncorp Bank was formalised, and ratings agency S&P upgraded Suncorp's long-term credit rating to that of its parent company immediately (now rated AA-). Any future investments with Suncorp will now be reflected under the parent company being ANZ.

## Credit Quality

The portfolio remains lightly diversified and is of very high quality. As at the end of April 2025, all categories were within the Policy limits, with all now in the AA or A rated categories:

| Compliant | Credit Rating | Invested ($) | Invested (%) | Max. Limit (%) | Available ($) |
|---|---|---|---|---|---|
| ✓ | AA Category | $113,555,145 | 83.16% | 100% | $23,000,000 |
| ✓ | A Category | $23,000,000 | 16.84% | 60% | $58,933,087 |
| ✓ | BBB Category | $0 | 0.00% | 35% | $47,794,301 |
| ✓ | Unrated ADIs | $0 | 0.00% | 10% | $13,655,514 |
| | | **$136,555,145** | **100.00%** | | |

## Performance

Council's performance for the month ending April 2025 is summarised as follows:

| Performance (Actual) | 1 month | 3 months | 6 months | FYTD | 1 year | 2 years | 3 years |
|---|---|---|---|---|---|---|---|
| Official Cash Rate | 0.33% | 0.98% | 2.07% | 3.55% | 4.29% | 4.25% | 3.63% |
| AusBond Bank Bill Index | 0.35% | 1.04% | 2.18% | 3.70% | 4.46% | 4.35% | 3.68% |
| Council's T/D Portfolio | 0.34% | 1.03% | 2.11% | 3.40% | 4.03% | 3.81% | 3.26% |
| Council's FRN Portfolio | 0.00% | 0.07% | 1.49% | 3.39% | 4.36% | 4.89% | 4.43% |
| Council's Bond Portfolio | 0.11% | 0.31% | 0.62% | 1.02% | 1.21% | 1.19% | 1.18% |
| **Council's Portfolio^** | **0.33%** | **0.99%** | **2.02%** | **3.26%** | **3.85%** | **3.66%** | **3.15%** |
| **Rel. Performance** | **-0.02%** | **-0.05%** | **-0.15%** | **-0.45%** | **-0.60%** | **-0.69%** | **-0.54%** |

*^Total portfolio performance excludes Council's cash account holdings.*

| Performance (% p.a.) | 1 month | 3 months | 6 months | FYTD | 1 year | 2 years | 3 years |
|---|---|---|---|---|---|---|---|
| Official Cash Rate | 4.10% | 4.10% | 4.23% | 4.28% | 4.29% | 4.25% | 3.63% |
| AusBond Bank Bill Index | 4.38% | 4.34% | 4.44% | 4.46% | 4.46% | 4.35% | 3.68% |
| Council's T/D Portfolio | 4.27% | 4.29% | 4.29% | 4.10% | 4.03% | 3.81% | 3.26% |
| Council's FRN Portfolio | 0.00% | 0.30% | 3.02% | 4.09% | 4.36% | 4.89% | 4.43% |
| Council's Bond Portfolio | 1.29% | 1.29% | 1.26% | 1.22% | 1.21% | 1.19% | 1.18% |
| **Council's Portfolio^** | **4.11%** | **4.14%** | **4.12%** | **3.92%** | **3.85%** | **3.66%** | **3.15%** |
| **Rel. Performance** | **-0.26%** | **-0.21%** | **-0.32%** | **-0.54%** | **-0.60%** | **-0.69%** | **-0.54%** |

*^Total portfolio performance excludes Council's cash account holdings.*

For the month of April, the total investment portfolio (excluding cash) provided a solid return of +0.33% (actual) or +4.11% p.a. (annualised), slightly underperforming the AusBond Bank Bill Index return of +0.35% (actual) or +4.38% p.a. (annualised). The relative 'underperformance' over the past few years was due to the unexpected aggressive rate hikes undertaken by the RBA following the aftermath of the pandemic and Russia's invasion of Ukraine, which resulted in spike in global inflation. Whilst this 'underperformance' may continue in the short-term, we do anticipate this to be fairly temporary given the RBA has now commenced its easing cycle.

Note the period of underperformance is also highly dependent on reinvesting maturing funds at prevailing market rates *beyond 6 month tenors*. With large capital outflows, maturing funds are largely being spent or kept in low yielding short-dated assets. Council should also remind itself it has consistently 'outperformed' over longer-term time periods (last +10yrs).

## Recommendations for Council

### Term Deposits

As at the end of April 2025, Council's deposit portfolio was yielding **4.07% p.a.** (down 8bp from the previous month), with a weighted average duration of around 102 days (~3½ months). We recommend Council slightly increases this weighted average duration, should cash flows allow in future.

In the immediate future, given the significant outflows anticipated from capital projects, short-dated term deposits are suitable for North Sydney Council's purposes.

Please refer to the section below for further details on the Term Deposit market.

### Securities

Primary (new) **FRNs** (with maturities between 3-5 years) are now 'fair value' again and remain appealing (particularly for those investors with portfolios skewed towards fixed assets) and should be considered on a case by case scenario. **Fixed Bonds** may also provide attractive opportunities from new (primary) issuances.

Please refer to the section below for further details on the FRN market.

## Council's Senior Bonds

During October 2020, Council placed $3m in the Northern Territory Treasury Corporation (NTTC), locking in a yield of 1.00% p.a. for a 5 year term. In August 2021, it placed another $3m parcel with NTTC (AA-), locking in a yield of 1.50% p.a. for a 5 year term.

Council received the full rebated commission of 0.25% on the total face value of investments (i.e. $6m x 0.25% = $15,000) as it was introduced by Imperium Markets (sister company of Arlo Advisory). We believe these investments were prudent at the time of investment especially after the rate cut delivered in early November 2020 to 0.10% and the RBA's 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.

# Term Deposit Market Review

## Current Term Deposits Rates

As at the end of April, we see value in the following:

| ADI | LT Credit Rating | Term | Rate % p.a. |
|---|---|---|---|
| ING Bank | A | 5 years | 4.45% |
| BoQ | A- | 5 years | 4.30% |
| Hume Bank | BBB+ | 5 years | 4.20% |
| Westpac | AA- | 5 years | 4.15% |
| ING Bank | A | 4 years | 4.30% |
| BoQ | A- | 4 years | 4.15% |
| Westpac | AA- | 4 years | 4.05% |
| Hume Bank | BBB+ | 4 years | 4.00% |
| ING Bank | A | 3 years | 4.15% |
| BoQ | A- | 3 years | 4.05% |
| BankVIC | BBB+ | 3 years | 4.00% |
| State Bank of India | BBB- | 3 years | 4.00% |
| State Bank of India | BBB- | 2 years | 4.35% |
| BankVIC | BBB+ | 2 years | 4.10% |
| ING Bank | A | 2 years | 4.08% |
| Suncorp | AA- | 2 years | 3.97% |

The above deposits are suitable for investors looking to maintain diversification and lock-in a slight premium compared to purely investing short-term.

For terms under 12 months, we believe the strongest value is currently being offered by the following ADIs (*we stress that rates are indicative, dependent on daily funding requirements and different for industry segments*):

| ADI | LT Credit Rating | Term | Rate % p.a. |
|---|---|---|---|
| State Bank of India | BBB- | 12 months | 4.70% |
| BankVIC | BBB+ | 12 months | 4.40% |
| Bank of Sydney | Unrated | 12 months | 4.40% |
| Australian Unity | BBB+ | 12 months | 4.35% |
| Suncorp | AA- | 12 months | 4.31% |
| State Bank of India | BBB- | 9 months | 4.70% |
| Bank of Sydney | Unrated | 9 months | 4.50% |
| Suncorp | AA- | 9 months | 4.45% |
| BankVIC | BBB+ | 9 months | 4.30% |
| Bank of Sydney | Unrated | 6 months | 4.75% |
| State Bank of India | BBB- | 6 months | 4.70% |
| BankVIC | BBB+ | 6 months | 4.55% |
| Suncorp | AA- | 6 months | 4.43% |
| Bank of Sydney | Unrated | 3 months | 4.75% |
| State Bank of India | BBB- | 3 months | 4.70% |
| NAB | AA- | 3 months | 4.50% |

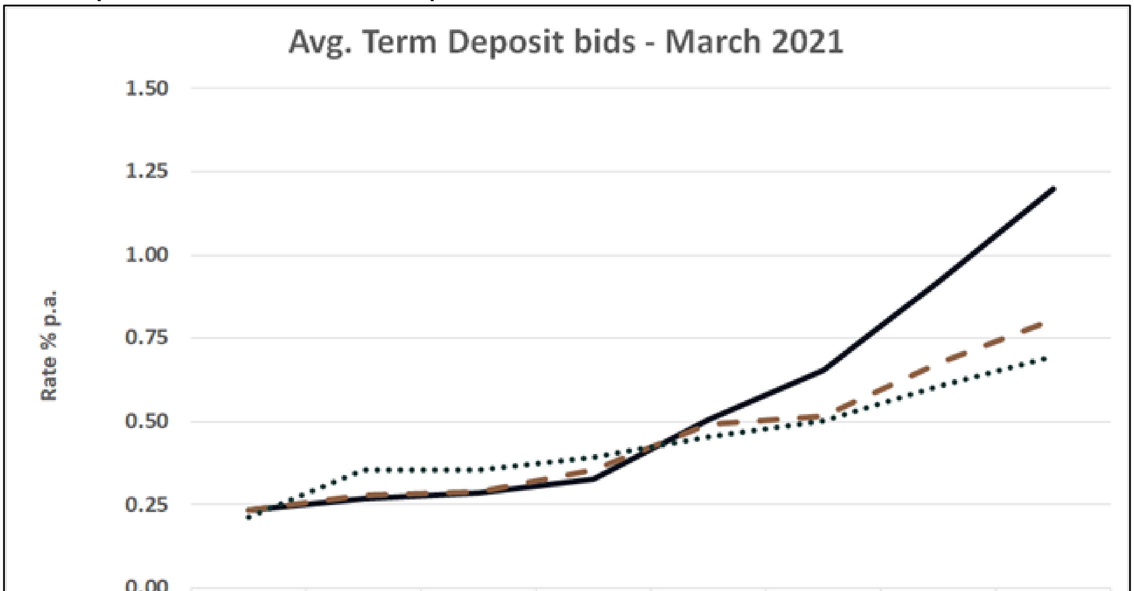
For those investors that do not require high levels of liquidity and can stagger their investments longer term, they will be rewarded over a longer-term cycle if they roll for an average min. term of 12 months, with a spread of investments out to 5 years (this is where we see current value). In a normal market environment (upward sloping yield curve), investors could earn over a cycle, on average, up to ¼-½% p.a. higher compared to those investors that entirely invest in short-dated deposits.

With additional rate cuts and a global economic downturn priced in over 2025, investors should consider allocating some longer-term surplus funds and undertake an insurance policy by investing across 1-5 year fixed deposits and locking in rates above 4¼-4½% p.a. This will provide some income protection if the RBA decides to continue cutting rates over 2025 and into 2026.

## Term Deposits Analysis

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

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



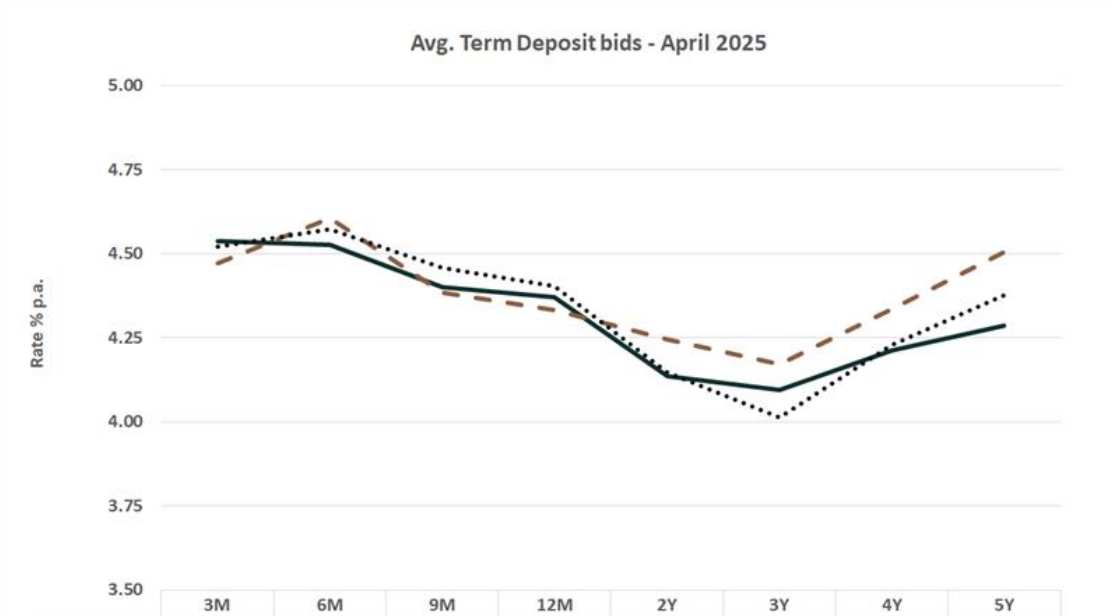

| | 3M | 6M | 9M | 12M | 2Y | 3Y | 4Y | 5Y |
|---|---|---|---|---|---|---|---|---|
| Majors | 0.23 | 0.27 | 0.29 | 0.33 | 0.51 | 0.65 | 0.92 | 1.20 |
| A Rated | 0.23 | 0.28 | 0.29 | 0.35 | 0.49 | 0.52 | 0.68 | 0.81 |
| BBB Rated | 0.21 | 0.36 | 0.35 | 0.39 | 0.45 | 0.50 | 0.61 | 0.70 |

*Source: Imperium Markets*

The abnormal marketplace experienced during the pandemic is starting to reverse as the competition for deposits slowly increases, partially driven by the RBA's term funding facility coming to an end. In recent months, we have started to periodically see some of the lower rated ADIs ("A" and "BBB" rated) offering slightly higher rates compared to the domestic major banks ("AA" rated) on different parts of the curve (i.e. pre-pandemic environment). Some of this has been attributed to lags in adjusting their deposit rates as some banks (mainly the lower rated ADIs) simply set their rates for the week.

Going forward, investors 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 or considered 'ethical'. We are slowly seeing this trend emerge, although the major banks always seem to react more quickly than the rest of the market during periods of volatility:

**Term Deposit Rates – Currently (April 2025)**




| | 3M | 6M | 9M | 12M | 2Y | 3Y | 4Y | 5Y |
|---|---|---|---|---|---|---|---|---|
| Majors | 4.54 | 4.53 | 4.40 | 4.37 | 4.14 | 4.10 | 4.21 | 4.29 |
| A Rated | 4.47 | 4.61 | 4.38 | 4.33 | 4.25 | 4.17 | 4.34 | 4.51 |
| BBB Rated | 4.52 | 4.57 | 4.46 | 4.40 | 4.15 | 4.01 | 4.23 | 4.38 |

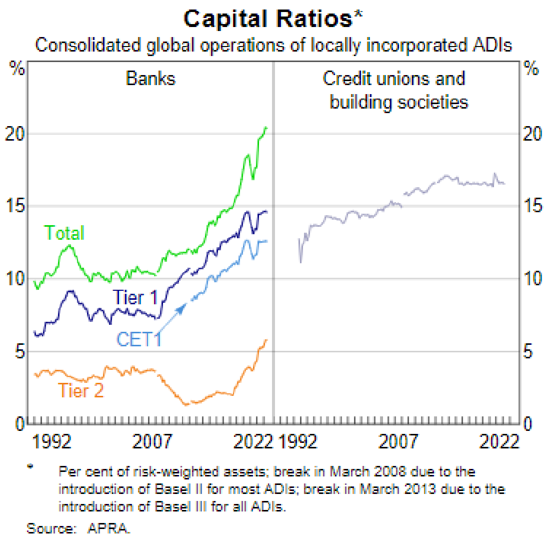
*Source: Imperium Markets*

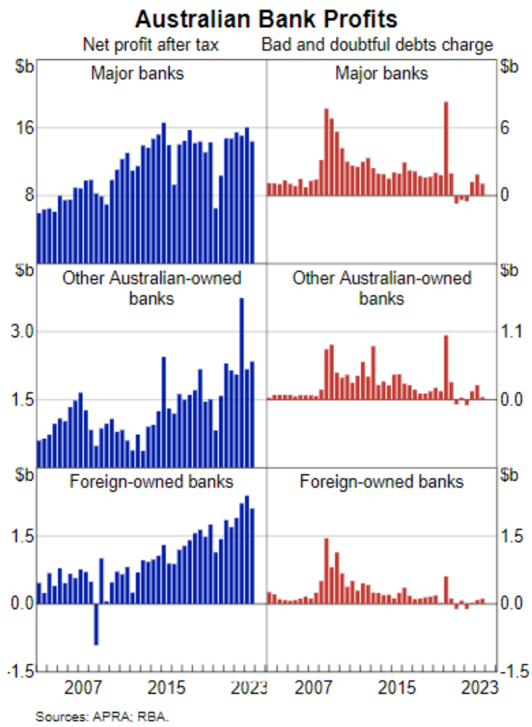
## Financial Stability of the Banking (ADI) Sector

The RBA's latest Financial Stability report of 2024 reaffirms the strong balance sheet across the ADI sector. They noted that the risk of widespread financial stress remains limited due to the generally strong financial positions of most (individual) borrowers. Very few mortgage borrowers are in negative equity, limiting the impact on lenders (ADIs) in the event of default and supporting their ability to continue providing credit to the economy. Most businesses that have entered insolvency are small and have little debt, limiting the broader impact on the labour market and thus household incomes, and on the capital position of lenders (ADIs).

Australian banks (collectively the APRA regulated ADIs) have maintained prudent lending standards and are well positioned to continue supplying credit to the economy. A deterioration in economic conditions or temporary disruption to funding markets is unlikely to halt lending activity. Banks have anticipated an increase in loan arrears and have capital and liquidity buffers well above regulatory requirements (*see Capita Ratios chart below*). APRA's mandate is to "*protect depositors*" and provide "*financial stability*".

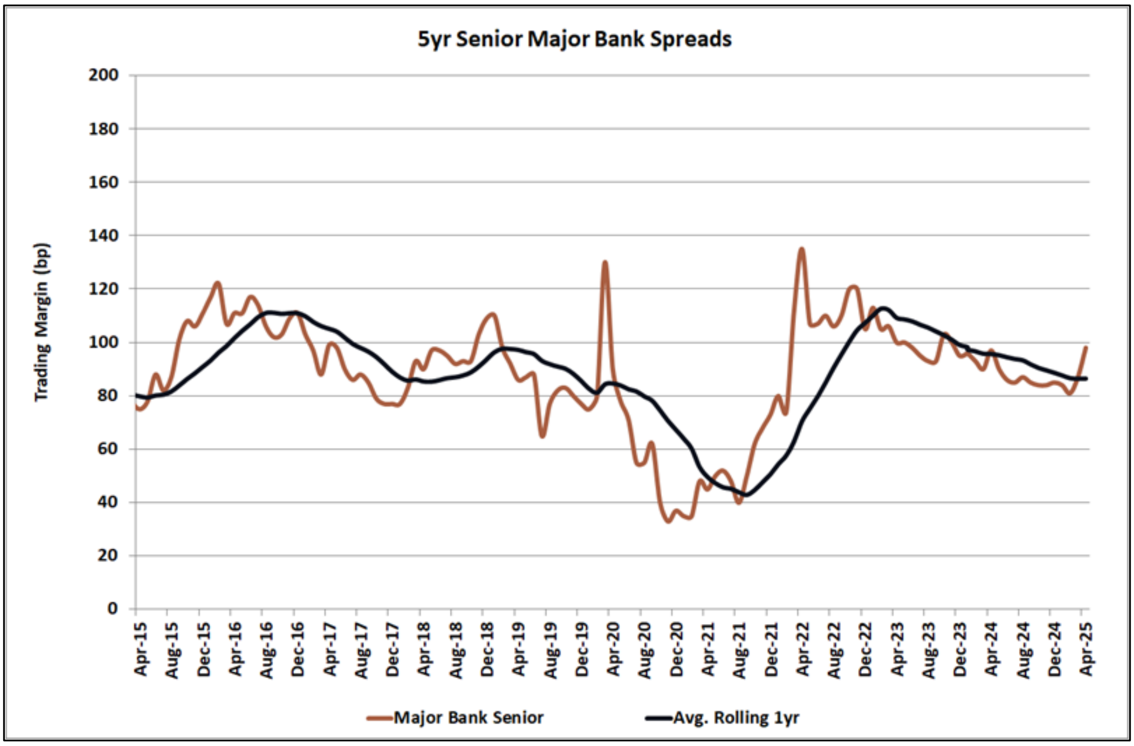
Over the past two decades, both domestic and international banks continue to operate and demonstrate high levels of profitability (*see Australian Bank Profits chart below*), which also includes two stress-test environments being the GFC (September 2008) and the COVID pandemic (March 2020):



## Senior FRNs Market Review

Over April, amongst the senior major bank FRNs, physical credit securities widened between 7-11bp at the long-end of the curve. Spreads widened aggressively at the beginning of the month, reacting to Trump's tariff policies, before stabilising after announcing the 90-day moratorium. Long-term major bank senior securities are now looking fair value again as the 5yr margin approaches the +100bp level.




*Source: IBS Capital*

There was a lack of new issuances amongst the ADIs during the month, sitting on the sidelines in a volatile month for risk markets. Amongst the "A" and "BBB" rated sectors, the securities widened up to 15bp at the longer-end of the curve.

Overall, credit securities remain fair value on a historical basis. FRNs will continue to play a role in investors' portfolios mainly based on their liquidity and the ability to roll down the curve and gross up returns over ensuing years (in a relatively stable credit environment), whilst also providing some diversification to those investors skewed towards fixed assets.

| Senior FRNs (ADIs) | 30/04/2025 | 31/03/2025 |
|---|---|---|
| “AA” rated – 5yrs | +98bp | +87bp |
| “AA” rated – 3yrs | +77bp | +70bp |
| “A” rated – 5yrs | +110bp | +95bp |
| “A” rated – 3yrs | +88bp | +74bp |
| “BBB” rated – 3yrs | +130bp | +118bp |

*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-2027 for the “AA” rated ADIs (domestic major banks);
- On or before mid-2026 for the “A” rated ADIs; and
- Within 6-9 months for the “BBB” rated ADIs (consider case by case).

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

## Senior Fixed Bonds – ADIs (Secondary Market)

With global inflation softening and official interest rates starting to drop progressively, investors may look at some opportunities in the secondary market. We currently see value in the following fixed bond lines (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 |
|---|---|---|---|---|---|---|---|
| AU3CB0314763 | Bendigo | A- | Senior | 24/10/2028 | 3.49 | 4.79% | 4.41% |
| AU3CB0308955 | BoQ | A- | Senior | 30/04/2029 | 4.01 | 5.30% | 4.54% |
| AU3CB0319879 | Nova Sco. | A- | Senior | 21/03/2030 | 4.90 | 5.23% | 4.94% |

# Economic Commentary

## International Market

Volatility intensified early in the month after US President Trump's tariff wars wreaked havoc across global financial markets. The losses in equity markets reversed over the second half of the month on hopes that trade deals would be achieved after Trump announced a 90-day moratorium on new tariffs. For now, recession fears have overwhelmed any concerns over a tariff-led spike in inflation.

Across equity markets, the US S&P 500 Index fell -0.76%, whilst the NASDAQ gained +0.85%. Europe's main indices were mixed, with losses in France's CAC (-2.53%) and UK's FTSE (-1.02%). Germany's DAX gained +1.50% for the month.

US CPI came in softer than expected in March. Headline inflation fell -0.1% m/m, its first monthly decline in close to five years, pulling the annual rate down to +2.4%. More significant was the core reading which came in a full 0.2% below consensus at +0.1%.

Canadian CPI was much weaker than expected with the annual rate falling to +2.3% from +2.6% (consensus +2.7% y/y). The Bank of Canada held the policy rate at 2.75% as expected.

The UK unemployment rate was steady at 4.4% and slightly weaker than expected. In contrast, wage inflation data remained strong, with annual increases running just under 6%. UK CPI inflation data came in on the softer side of expectations, with the headline inflation measure falling to +2.6% y/y compared to expectations of +2.7% y/y.

Eurozone inflation came in line with expectations at +2.2% y/y. The core measure slowed to +2.4% from +2.6%, while services inflation cooled to +3.4%. The ECB cut its Deposit Rate by 25bp for a sixth consecutive meeting, bringing it to 2.25% and they removed the restrictive label from its policy statement.

China's GDP for Q1 came in at +5.4% y/y (better than expected) and industrial production and retail sales accelerated in March to +7.7% y/y and +5.9% y/y respectively.

In the first decision under new interim governor Christian Hawkesby, the Reserve Bank of New Zealand (RBNZ) cut its official cash rate by 25bp to 3.50%, as widely expected.

The IMF cut its 2025 global growth forecast to +2.8% from +3.3%, and the US to +1.8% from +2.7% (with a 40% chance of a US recession).

The MSCI World ex-Aus Index rose +0.64% for the month of April:

| Index | 1m | 3m | 1yr | 3yr | 5yr | 10yr |
|---|---|---|---|---|---|---|
| S&P 500 Index | -0.76% | -7.81% | +10.59% | +10.46% | +13.84% | +10.32% |
| MSCI World ex-AUS | +0.64% | -4.76% | +10.71% | +9.55% | +12.32% | +7.62% |
| S&P ASX 200 Accum. Index | +3.62% | -3.69% | +9.79% | +7.18% | +12.14% | +7.72% |

*Source: S&P, MSCI*

## Domestic Market

The RBA kept rates on hold as widely expected. The post-Meeting Statement and the Governor's press conference played a relatively straight bat in terms of not giving any indication of a live meeting in May. While the Board "*did not explicitly discuss a rate cut*", the Governor noted "*it did talk a little bit about downside risks and including the global downside risks*".

The Consumer Price Index (CPI) rose +0.9% in the March 2025 quarter and +2.4% annually. The trimmed mean annual inflation rose +0.7%, coming in at +2.9% in the March quarter, down from +3.3% in the December quarter - the lowest annual trimmed mean inflation rate since the December 2021 quarter.

Retail sales came in a modest +0.2% m/m in February after a +0.3% gain in January. The rise was led by food retailing (+0.6% m/m).

Dwelling prices for March rose +0.4% m/m, sustaining the +0.3% rise in February after having fallen by small increments over the prior few months.

Consumer confidence for April fell -6.0% m/m on the Westpac-MI measure following the previous month's +4% rise. The survey period spanned 31 March to 4 April and so captured some of the reaction to the Trump Administration's tariff announcement on 2 April and subsequent market sell-off.

The Australian dollar rose around +2.17%, finishing the month at US64.16 cents (from US62.80 cents the previous month).

## Credit Market

The global credit indices widened in the risk-off environment. They are now back to levels last seen in early 2023:

| Index | April 2025 | March 2025 |
|---|---|---|
| CDX North American 5yr CDS | 67bp | 61bp |
| iTraxx Europe 5yr CDS | 68bp | 64bp |
| iTraxx Australia 5yr CDS | 92bp | 88bp |

*Source: Markit*

# Fixed Interest Review

## Benchmark Index Returns

| Index | April 2025 | March 2025 |
|---|---|---|
| Bloomberg AusBond Bank Bill Index (0+YR) | +0.35% | +0.35% |
| Bloomberg AusBond Composite Bond Index (0+YR) | +1.70% | +0.17% |
| Bloomberg AusBond Credit FRN Index (0+YR) | +0.22% | +0.32% |
| Bloomberg AusBond Credit Index (0+YR) | +1.09% | +0.28% |
| Bloomberg AusBond Treasury Index (0+YR) | +1.82% | +0.12% |
| Bloomberg AusBond Inflation Gov’t Index (0+YR) | +1.22% | -0.90% |

*Source: Bloomberg*

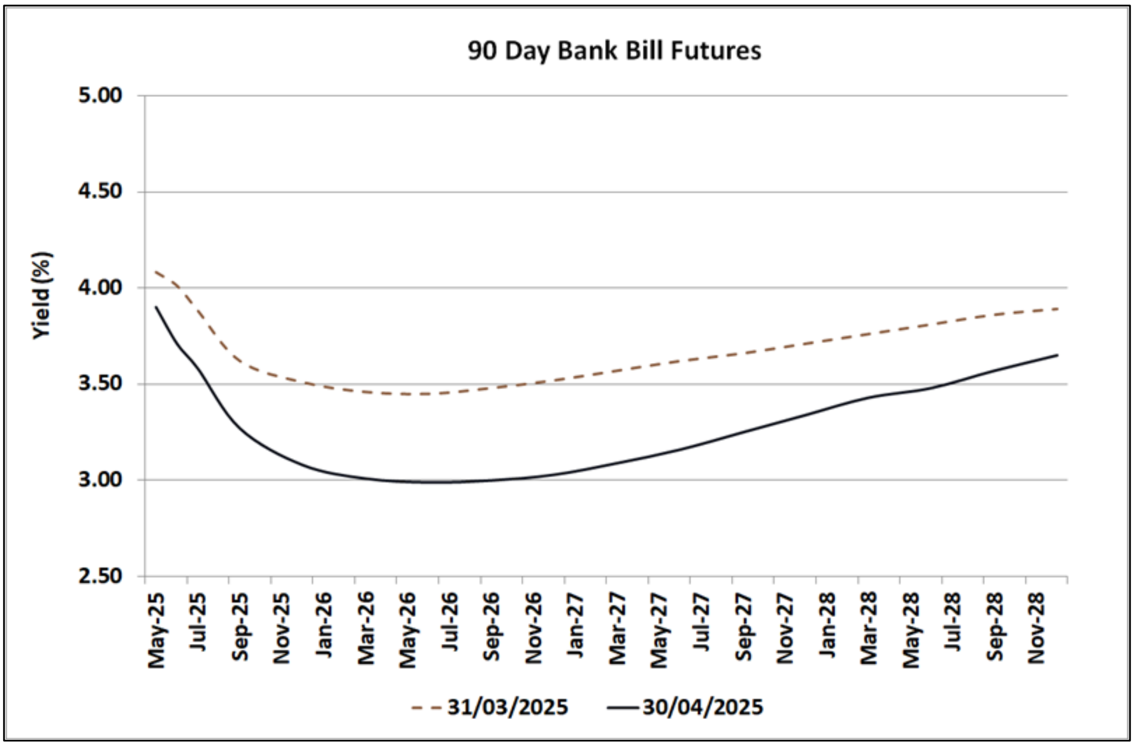
## Other Key Rates

| Index | April 2025 | March 2025 |
|---|---|---|
| RBA Official Cash Rate | 4.10% | 4.10% |
| 90 Day (3 month) BBSW Rate | 3.87% | 4.13% |
| 3yr Australian Government Bonds | 3.30% | 3.69% |
| 10yr Australian Government Bonds | 4.14% | 4.40% |
| US Fed Funds Rate | 4.25%-4.50% | 4.25%-4.50% |
| 2yr US Treasury Bonds | 3.60% | 3.89% |
| 10yr US Treasury Bonds | 4.17% | 4.23% |

*Source: RBA, ASX, US Department of Treasury*

## 90 Day Bill Futures

Bill futures fell at the very short-end of the curve, with markets all but factoring another 25bp rate cut by June 2025:




*Source: ASX*

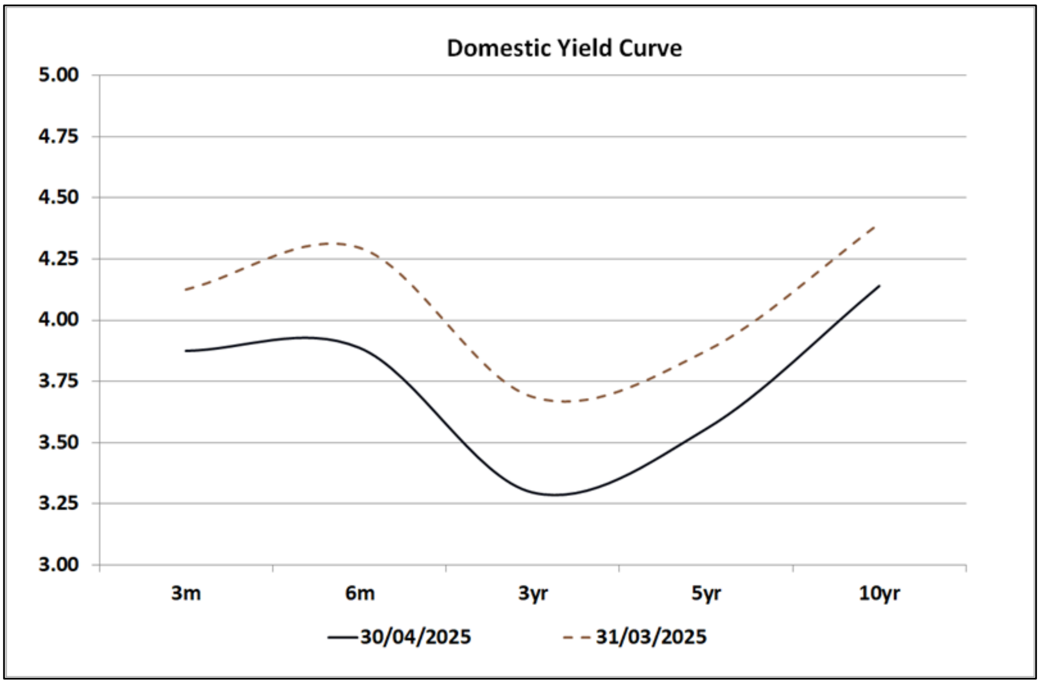
## Fixed Interest Outlook

Trump's abrupt tariff policies continue to cause volatility across financial markets and will place significant pressure on global growth. For now, recession fears have overwhelmed any concerns over a tariff led jump in inflation, with the market now factoring at least 3 cuts by the US Fed for the remainder of 2025.

Domestically, geopolitical uncertainties are starting to be discussed more extensively by the RBA Board and certainly is one large potential downside risk for the outlook. The negative directional impact on global activity is clear. Less clear though is how it could impact on global inflation ("*inflation, however, could move in either direction*") and the follow-on impact for Australia given the potential for trade flows to re-direct.

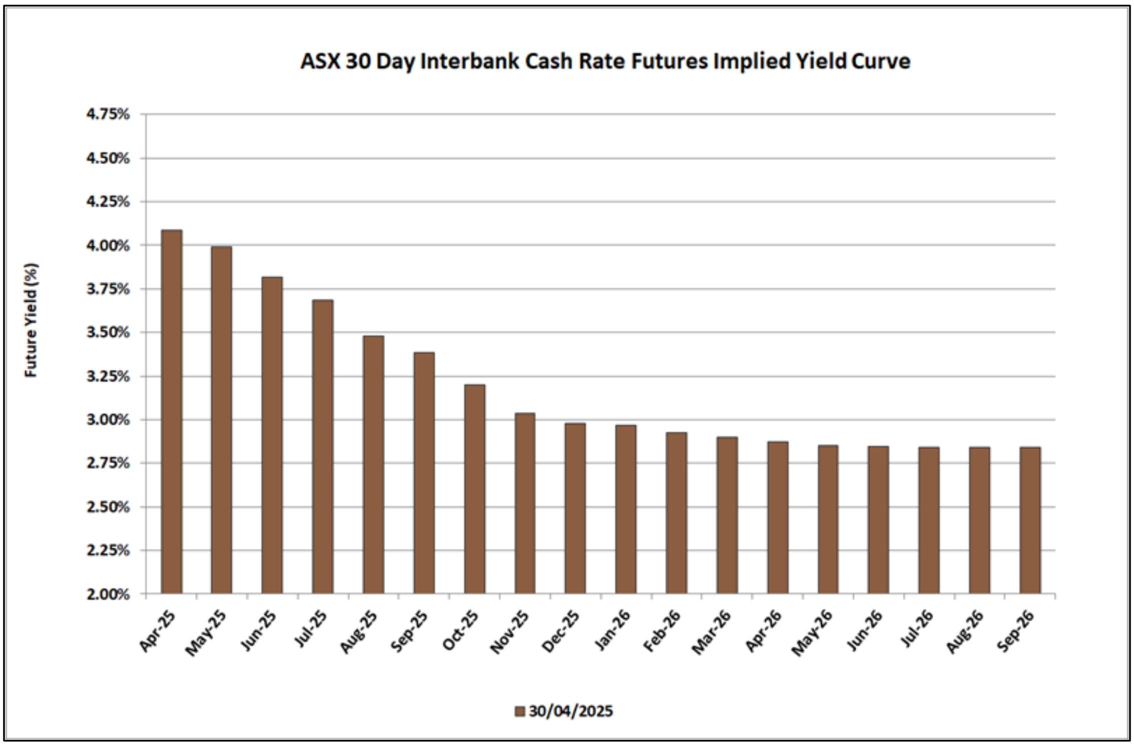
The overall direct impacts of US tariffs on Australia will be small (estimated to be less than 0.1% of GDP), but the indirect impacts could be more significant and are highly uncertain. The effects will depend on impacts to trading partners and whether stimulus can offset headwinds. The most likely pass-through from this will be lower commodity prices, reduced business investment, and a potential hit to consumer confidence. However, on the positive side, export re-direction could see more goods deflation, giving the RBA more room to ease rates.

Yields fell up to 40bp at the long-end of the curve:




*Source: ASX, RBA*

Financial markets are now pricing up to five (5) additional rate cuts by early-mid 2026, despite Governor Bullock's jawboning against such expectations. The next rate cut is fully priced in by June:




*Source: ASX*

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