10.4. Investment and Loan Borrowings Report as at 30 September 2025

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ATTACHMENTS	1. North Sydney Monthly Report September 2025 [**10.4.1** - 21 pages]
CSP LINK	**Outcome 8 – An effective, accountable and sustainable Council that serves the community** G8. Manage Council's finances through robust long-term planning and ongoing financial management

PURPOSE:

The purpose of this report is to provide details of the performance of Council's investments and loans for the month ending 30 September 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 September, the total investment portfolio (which includes Term Deposits, Floating Rate Notes and Bonds) provided a return of +0.31% (actual), or +3.86% p.a. (annualised), marginally outperforming the AusBond Bank Bill Index return of +0.29% (actual) or +3.62% p.a. (annualised).

- Returns on investments exceeded the September YTD budget by $244,746. This result includes fees paid to Council's investment advisers for the period.

RECOMMENDATION:
1. THAT the report on Investments held at 30 September 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 $157,964,163. 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 table details the reserves held. Council had an unrestricted cash balance of $15,833,081.

Council officers have finalised the financial statements for the year ended 30 June 2025 and updated the reserve balances accordingly.

It should be noted that Council has received approval for an additional $10 million loan from TCorp to fund the North Sydney Pool project, which has not yet been drawn and is therefore not included in the cash balances.

External Restrictions and Internal Allocations	Jun-25	Net Movement	Sep-25
External restrictions			
Developer contributions	$52,366,586	$4,263,258	$56,629,844
Domestic waste management	$15,544,332	$5,369,801	$20,914,133
Stormwater management charges	$83,716	$269,360	$353,076
Unexpended Special Rates	$326,571	$1,222,309	$1,548,880
Specific purpose grants	$3,192,572	$1,950,761	$5,143,333
Other specific purpose contributions	$1,997,762	-$80,048	$1,917,714
Bradfield Park TfNSW Lease Reserve	$650,142	$72,687	$722,829
Cammeray Park TfNSW Lease Reserve	$785,157	$0	$785,157
Olympic Pool Redevelopment	$27,547,162	-$5,474,959	$22,072,203
Total external restrictions	**$102,494,000**	$7,593,169	**$110,087,169**
Internal allocations			

External Restrictions and Internal Allocations	Jun-25	Net Movement	Sep-25
Project carry-forward balances	$1,355,794	-$93,375	$1,262,419
Community Housing - Capital Purchases	$1,010,000	$0	$1,010,000
Community Housing - Major Maintenance	$491,000	$0	$491,000
Deposits, retentions, and bonds	$14,968,812	$1,409,551	$16,378,363
Employees leave entitlement	$7,127,000	$0	$7,127,000
Income Producing Projects	$498,000	$0	$498,000
I.T. hardware and software	$1,103,212	-$31,984	$1,071,228
Plant and vehicle replacement	$2,921,903	$0	$2,921,903
Financial Assistance Grant	$1,284,000	$0	$1,284,000
Total internal allocations	**$30,759,721**	$1,284,192	**$32,043,913**
Total Restrictions and Allocations	**$133,253,721**	$8,877,361	**$142,131,082**
Unrestricted Cash and Investments	$8,188,931	$7,644,150	$15,833,081
Total Cash and Investments	**$141,442,652**	$16,521,511	**$157,964,163**

Investment Portfolio

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

	September 2025	Annualised YTD
Actual Return	0.31%	3.86%
Benchmark	0.29%	3.62%
Variance	+0.02%	+0.24%

Asset Type	Market Value	Portfolio Breakdown
Term Deposits	$133,500,000	84.51%
Cash	$18,464,163	11.69%
Fixed Bonds	$6,000,000	3.80%
	$157,964,163	**100.00%**

Council's average duration of term deposits, which comprised 84.51% of the investment portfolio, is approximately 229 days. The average duration aligns maturities with the expected outflows of the capital works program.

Council is holding higher than usual cash balances in anticipation of the funding requirements associated with the completion of the North Sydney Pool project.

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 September 2025 are $244,746 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
2025/26	$3,912,000	$3,912,000	$978,003	$1,222,749	-	$244,746
Previous Years						
Year	**Original Annual Budget**	**Revised Annual Budget**		**Final Result Interest**	**Final Result FV adjustments**	**Final Budget to Actual Variance**
2024/25	$2,534,059	$5,234,059		$5,518,399	-$1,596	$282,744
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

Floating Rate Notes (FRNs) are required to be revalued each month using the Fair Value (FV) method, which estimates the market value of the investment. There has been no FRN since February 2025, therefore no disclosure is required.

Council will focus on shorter-term term deposits to meet cash flow needs.

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	$114,964,163	100.00%	72.78%
A Category	$38,000,000	60.00%	24.06%
BBB Category	$5,000,000	35.00%	3.17%
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:
- That the capital cost of infrastructure be recognised over the period during which the benefits will be enjoyed.
- That loan funds are a resource to fund the replacement and upgrading of existing infrastructure and fund the creation of new infrastructure.

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 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**
1/07/2025	$3,513,002			
31/07/2025	$3,258,958	$35,596	$254,044	$289,640
31/10/2025	$3,002,340	$33,022	$256,618	$289,640
30/01/2026	$2,742,791	$30,091	$259,549	$289,640
30/04/2026	$2,480,339	$27,188	$262,452	$289,640

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

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. 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**
01/07/2025	$27,836,354			
28/10/2025	$27,269,273	$590,131	$567,082	$1,157,213
28/04/2026	$26,690,169	$578,109	$579,104	$1,157,213

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.

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**
01/07/2025	$19,228,419			
28/07/2025	$18,436,431	$508,592	$791,989	$1,300,581
27/01/2026	$17,623,494	$487,644	$812,937	$1,300,581

The $10 million loan was approved to meet additional funding requirements for the North Sydney Pool. The loan was approved by TCorp and the agreement was signed by Council on 30 May 2025. The facility will remain available until 30 November 2025.

Consultation Requirements

Community engagement is not required.

Financial/Resource Implications

Based on the year-to-date investment results, Council has exceeded its investment return target, primarily due to higher-than-expected cash balances and interest rates.

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

September 2025

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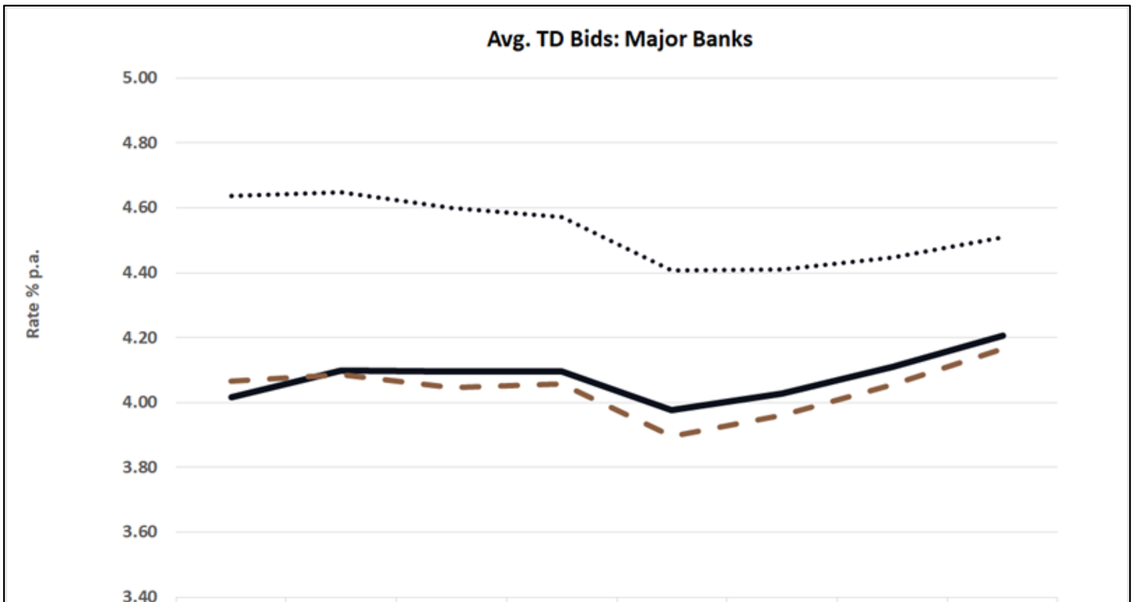
Market Update Summary

Various equity markets including the US main indices (S&P 500, NASDAQ and Dow Jones) reached new record highs during the month, partly led by AI optimism, after Nvidia's major investment in OpenAI (ChatGPT), as well as another US Fed rate cut. The positive sentiment was also brought on by expectations of further rate cuts over the next 12 months (albeit less than previously anticipated).

In the deposit market, over September, at the short-end of the curve (under 12 months), the average deposit rates offered by the domestic major banks were marginally higher compared to where they were the previous month (August), after the market pushed back on the number of future rate cuts (now only one) following the higher than expected monthly inflation figure. At the longer-end of the curve (2-5 years), the average rates were around ~5-8bp higher compared to where they were the previous month.



	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Sep-2025	4.02	4.10	4.10	4.10	3.98	4.03	4.11	4.21
Aug-2025	4.07	4.08	4.05	4.06	3.90	3.96	4.05	4.16
Mar-2025	4.64	4.65	4.60	4.57	4.41	4.41	4.45	4.51

Source: Imperium Markets

North Sydney Council' Portfolio & Compliance

Asset Allocation

As at the end of September 2025, the portfolio was mainly directed to fixed term deposits (~84%). The remaining portfolio is directed to fixed bonds (~4%) and overnight cash accounts (~12%).

Senior FRNs are currently considered 'expensive' on a historical basis but new issuances should continue to be considered on a case by case scenario. In the interim, 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 global central banks remaining on an easing bias and further rate cuts priced in over the next 12 months, investors can choose to allocate a small proportion of medium to longer-term funds and undertake an insurance policy by investing across 1-5 year fixed deposits or fixed bonds, locking in and targeting yields above 4% p.a. Should inflation be within the RBA's target band of 2-3% over the longer-term, returns around 4% p.a. or higher should outperform benchmark.

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 2% of assets is directed to medium-term assets (1-2 years), which has aided 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 $107m 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	$49,464,163	31.31%	10%	100%	$108,500,000
✓	91 - 365 days	$105,500,000	66.79%	20%	100%	$52,464,163
✓	1 - 2 years	$3,000,000	1.90%	0%	70%	$107,574,914
✓	2 - 5 years	$0	0.00%	0%	50%	$78,982,081
✓	5 - 10 years	$0	0.00%	0%	25%	$39,491,041
		$157,964,163	**100.00%**			

Counterparty

As at the end of September, 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).

We welcomed the decision to place a new deposit with Australian Unity (BBB+) recently. New accounts with different ADIs should continue to be considered, especially when it provides diversification and increases the overall returns of the portfolio.

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	ANZ (Suncorp)	AA-	$9,000,000	5.70%	30.00%	$38,389,249
✓	CBA	AA-	$18,464,163	11.69%	30.00%	$28,925,086
✓	NAB	AA-	$47,000,000	29.75%	30.00%	$389,249
✓	NTTC Treasury	AA-	$6,000,000	3.80%	30.00%	$41,389,249
✓	Westpac	AA-	$34,500,000	21.84%	30.00%	$12,889,249
✓	ICBC Sydney	A	$19,000,000	12.03%	15.00%	$4,694,624
✓	BoQ	A-	$19,000,000	12.03%	15.00%	$4,694,624
✓	Aus. Unity	BBB+	$5,000,000	3.17%	10.00%	$10,796,416
			$157,964,163	**100.00%**		

Credit Quality

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

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AA Category	$114,964,163	72.78%	100%	$43,000,000
✓	A Category	$38,000,000	24.06%	60%	$56,778,498
✓	BBB Category	$5,000,000	3.17%	35%	$50,287,457
✓	Unrated ADIs	$0	0.00%	10%	$15,796,416
		$157,964,163	**100.00%**		

Performance

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

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	0.29%	0.92%	1.89%	0.92%	4.04%	4.19%	3.97%
AusBond Bank Bill Index	0.29%	0.92%	1.94%	0.92%	4.19%	4.30%	4.05%
Council's T/D Portfolio	0.31%	0.96%	1.99%	0.96%	4.13%	3.97%	3.59%
Council's FRN Portfolio	0.00%	0.00%	0.00%	0.00%	1.96%	3.79%	4.07%
Council's Bond Portfolio	0.11%	0.32%	0.64%	0.32%	1.27%	1.22%	1.20%
Council's Portfolio^	**0.31%**	**0.94%**	**1.93%**	**0.94%**	**3.98%**	**3.82%**	**3.46%**
Rel. Performance	**0.02%**	**0.02%**	**-0.02%**	**0.02%**	**-0.20%**	**-0.48%**	**-0.59%**

^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	3.60%	3.68%	3.81%	3.68%	4.04%	4.19%	3.97%
AusBond Bank Bill Index	3.62%	3.69%	3.92%	3.69%	4.19%	4.30%	4.05%
Council's T/D Portfolio	3.89%	3.88%	4.00%	3.88%	4.13%	3.97%	3.59%
Council's FRN Portfolio	0.00%	0.00%	0.00%	0.00%	1.96%	3.79%	4.07%
Council's Bond Portfolio	1.29%	1.29%	1.29%	1.29%	1.27%	1.22%	1.20%
Council's Portfolio^	**3.86%**	**3.78%**	**3.88%**	**3.78%**	**3.98%**	**3.82%**	**3.46%**
Rel. Performance	**0.23%**	**0.09%**	**-0.04%**	**0.09%**	**-0.20%**	**-0.48%**	**-0.59%**

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

For the month of September, the total investment portfolio (excluding cash) provided a solid return of +0.31% (actual) or +3.86% p.a. (annualised), marginally outperforming the AusBond Bank Bill Index return of +0.29% (actual) or +3.62% 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 September 2025, Council's deposit portfolio was yielding **3.93% p.a.** (up 18bp from the previous month), with a weighted average duration of around 229 days (~7½ 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 expensive on a historical basis but remains an option (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 September, we see value in the following:

ADI	LT Credit Rating	Term	Rate % p.a.
ING	A	5 years	4.46%
ANZ	AA-	5 years	4.45%
BoQ	A-	5 years	4.37%
Westpac	AA-	5 years	4.27%
NAB	AA-	4 years	4.32%
ING	A	4 years	4.31%
BOQ	A-	4 years	4.29%
Westpac	AA-	4 years	4.24%
BOQ	A-	3 years	4.21%
ING	A	3 years	4.18%
ANZ	AA-	3 years	4.18%
Hume	BBB+	3 years	4.15%
Aus. Military Bank	BBB+	2 years	4.15%
BankVIC	BBB+	2 years	4.15%
ING	A	2 years	4.10%
BOQ	A-	2 years	4.09%

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.
Bank of Sydney	Unrated	12 months	4.26%
Police CU SA	Unrated	12 months	4.25%
NAB	AA-	12 months	4.23%
ICBC	A	12 months	4.19%
Westpac	AA-	12 months	4.17%
Suncorp	AA-	9 months	4.24%
Bank of Sydney	Unrated	9 months	4.22%
NAB	AA-	9 months	4.20%
Police CU SA	Unrated	9 months	4.20%
Westpac	AA-	9 months	4.16%
Police CU SA	Unrated	6 months	4.40%
Bank of Sydney	Unrated	6 months	4.35%
BankVIC	BBB+	6 months	4.25%
BOQ	A-	6 months	4.24%
Bank of Us	BBB+	6 months	4.23%
Police CU SA	Unrated	3 months	4.30%
Bank of Sydney	Unrated	3 months	4.26%
Warwick CU	Unrated	3 months	4.25%
NAB	AA-	3 months	4.10%
Heritage	BBB+	3 months	4.10%

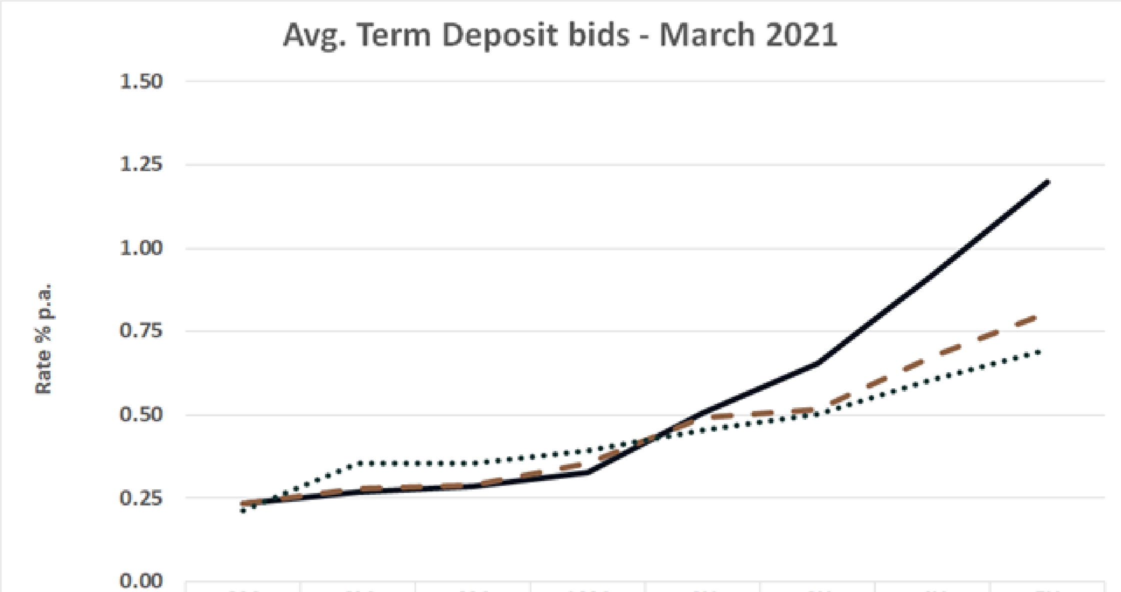
For those investors that do not require high levels of liquidity and can stagger their investments longer term, they will be rewarded over a longer-term cycle if they roll for an average min. term of 12 months, with a spread of investments out to 5 years (this is where we see current value). In a normal 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 at least one more rate cut priced in over the next 6-12 months domestically, 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 4% p.a. This will provide some income protection if the RBA decides to continue cutting rates.

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.

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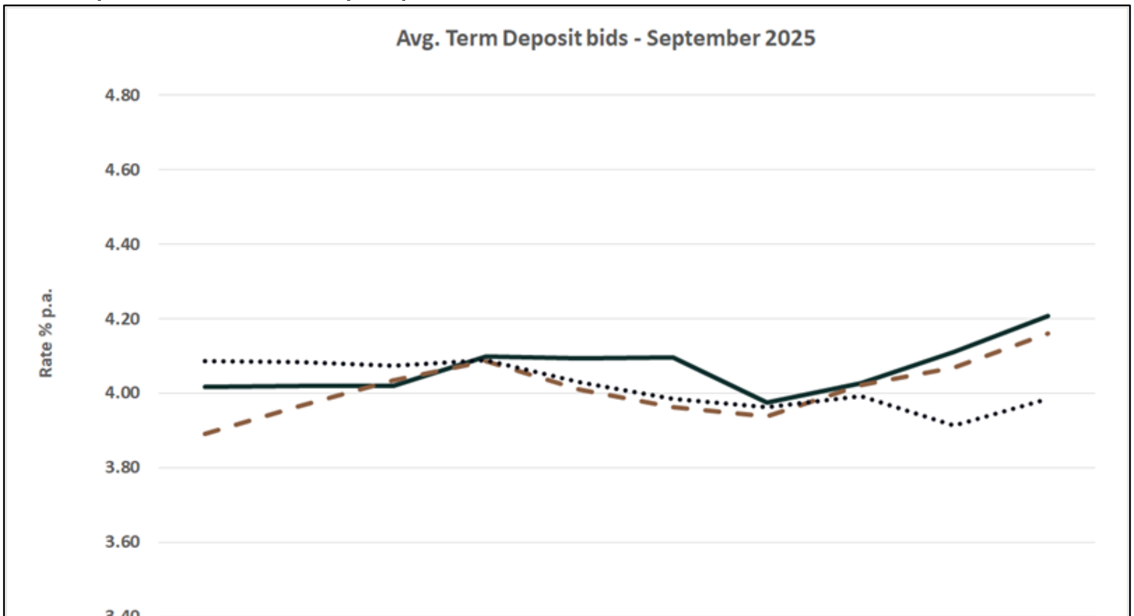
Going forward, investors should have a larger opportunity to invest a higher proportion of its funds with the lower rated institutions (up to Policy limits), from which the majority are not lending to the Fossil Fuel industry or considered 'ethical'. We are slowly seeing this trend emerge, although the major banks always seem to react more quickly than the rest of the market during periods of volatility:

Term Deposit Rates – Currently (September 2025)



	3M	4M	5M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	4.02	4.02	4.02	4.10	4.10	4.10	3.98	4.03	4.11	4.21
A Rated	3.89	3.97	4.03	4.09	4.01	3.96	3.94	4.02	4.07	4.16
BBB Rated	4.09	4.09	4.07	4.09	4.03	3.98	3.96	3.99	3.91	3.99

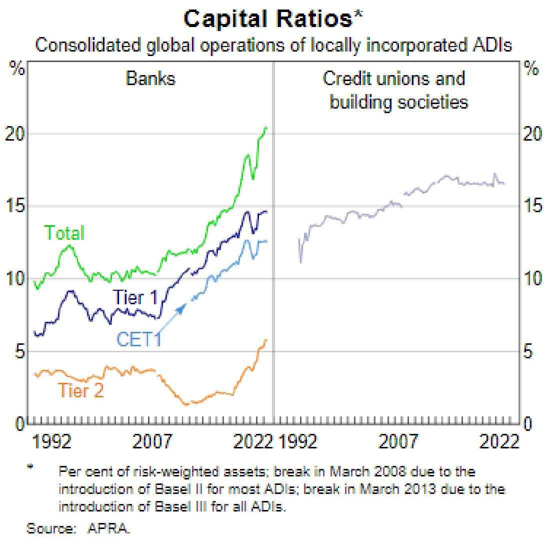
Source: Imperium Markets

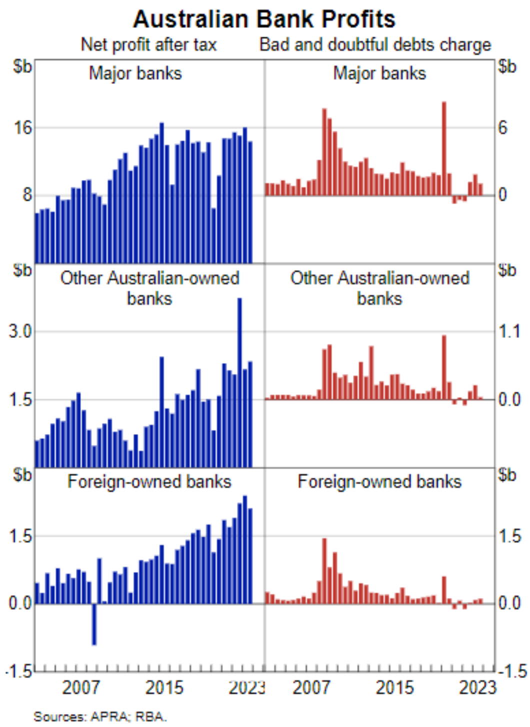
Financial Stability of the Banking (ADI) Sector

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):





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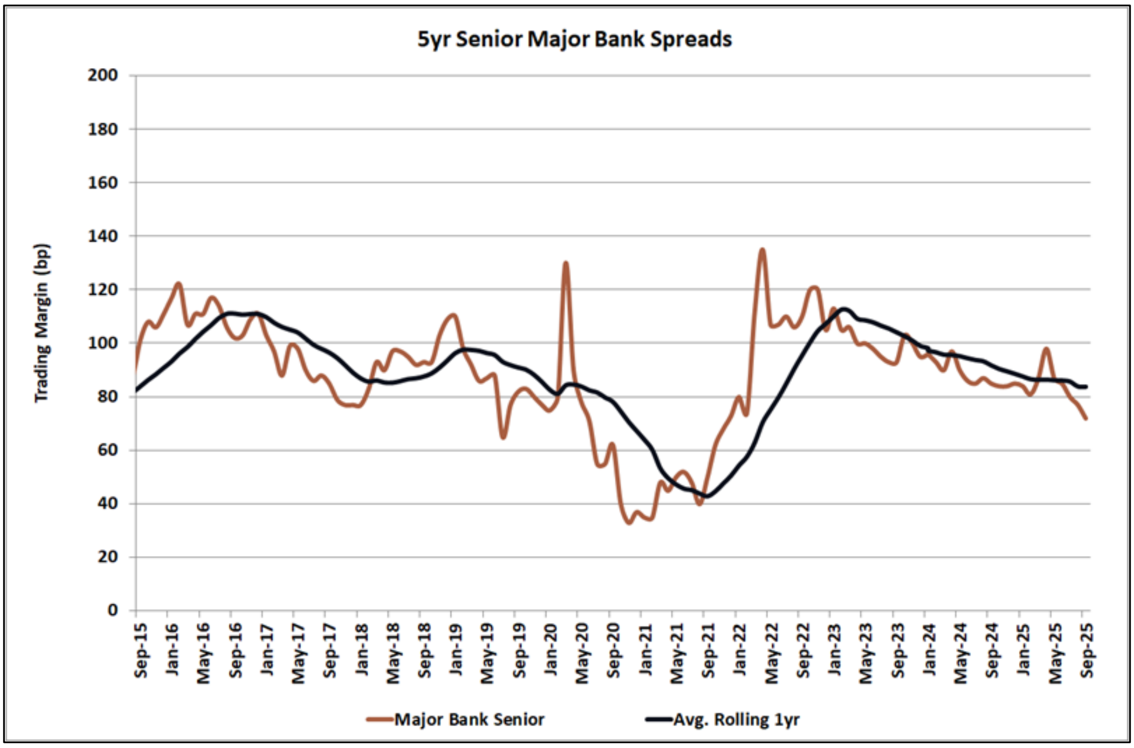
Senior FRNs Market Review

Over September, amongst the senior major bank FRNs, physical credit securities tightened up to 5bp at the long-end of the curve. Long-term major bank senior securities are looking 'expensive' on a historical basis, noting the 5yr margin has averaged around the +90bp level over a cycle (currently around +72bp).



Source: IBS Capital

During the month, there was minimal new issuances apart from the following:

- RBC (A): 6 non-call 5 year senior security at +115bp
- Sumitomo (A): 5 year senior FRN at +78bp
- Teachers Mutual (BBB+): 3 year senior FRN at +95bp

Amongst the "A" rated sector, securities tightened between 2-5bp in the 3-5 year part of the curve. Within the "BBB" rated sector, margins tightened up to 20bp at the 3 year part of the curve, lagging behind their higher rated counterparts, and partly driven by Teachers Mutual (BBB+) latest senior deal.

Overall, credit securities are slightly expensive on a historical basis but remain a good option for diversification purposes. 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)	30/09/2025	31/08/2025
"AA" rated – 5yrs	+72bp	+77bp
"AA" rated – 3yrs	+60bp	+62bp
"A" rated – 5yrs	+80bp	+85bp
"A" rated – 3yrs	+70bp	+72bp
"BBB" rated – 3yrs	+100bp	+120bp

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-2028 for the "AA" rated ADIs (domestic major banks);
- On or before 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	3.07	4.79%	4.38%
AU3CB0308955	BoQ	A-	Senior	30/04/2029	3.58	5.30%	4.49%
AU3CB0319879	Nova Sco.	A-	Senior	21/03/2030	4.47	5.23%	4.86%

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Economic Commentary

International Market

Various equity markets including the US main indices (S&P 500, NASDAQ and Dow Jones) reached new record highs during the month, partly led by AI optimism, after Nvidia's major investment in OpenAI (ChatGPT), as well as another US Fed rate cut. The positive sentiment was also brought on by expectations of further rate cuts over the next 12 months (albeit less than previously anticipated).

Across equity markets, the US S&P 500 Index rose +3.53%, whilst the NASDAQ gained +5.61%. Europe's main indices were mixed, with gains in UK's FTSE (+2.38%) and France's CAC (+1.60%), whilst Germany's DAX (-0.77%) gave up some ground.

The US FOMC cut rates by 25bp to 4.00%-4.25%, as widely expected. The post meeting statement said the rate cut was justified "*in light of the shift in the balance of risks*" and no longer described the labour market as "*solid*".

US August core CPI was +0.3% m/m (though within 1bp of rounding to +0.4%) and +3.1% y/y, as expected. The headline read was +2.9% y/y, also as expected. The US unemployment rate ticked up to 4.3% from 4.2% in August.

The Bank of Canada cut rates by 25bp to 2.50%, whilst also citing a shifting balance of risks.

The ECB held rates for a second consecutive meeting. There was little change to inflation projections compared to three months ago, with headline CPI expected to average +1.7% next year and +1.9% in 2027 and core figures of +1.9% and +1.8% respectively.

In the UK, CPI came in line with expectations, doing nothing to shift expectations from the Bank of England's decision to hold rates unchanged. Headline CPI was steady at +3.8% and core fell 0.2% to +3.6%. Services inflation slowed to +4.7%, helped by a fall in volatile airfare prices.

China's August CPI slipped back into negative territory at -0.4% y/y, below expectations, as food price deflation deepened. Core inflation edged up to +0.9%, but this was largely due to temporary factors such as a consumer goods trade-in scheme.

The MSCI World ex-Aus Index rose +3.31% for the month of September:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+3.53%	+7.79%	+16.07%	+23.10%	+14.74%	+13.29%
MSCI World ex-AUS	+3.31%	+7.43%	+18.04%	+24.46%	+15.00%	+13.08%
S&P ASX 200 Accum. Index	-0.78%	+4.71%	+10.56%	+15.17%	+12.98%	+10.11%

Source: S&P, MSCI

Domestic Market

The Monthly CPI Indicator for August rose to +3.0% y/y, above consensus of +2.9% y/y, the highest level since July 2024. The annual trimmed mean fell to +2.6% y/y from +2.7%, but that is due to base effects (particularly travel) and should not be seen as good news. Market Services Inflation came in hot, a sharp shift from the pace of price growth over recent quarter in what tends to be more persistent components.

In a unanimous decision, the RBA's Monetary Policy Board left the cash rate on hold at 3.60% in September, as expected. The key observation was that "*inflation in the September quarter may be higher than expected at the time of the August Statement on Monetary Policy*".

The unemployment rate remained unchanged at 4.2% in August. To two decimal places, it stayed at 4.24% despite the drop in employment due to a fall in the participation rate. Employment fell 5.1k, as a large fall in full time employment (-40.9k) was only partially offset by a rise in part time employment (35.5k).

Q2 GDP surprised higher at +0.6% q/q and +1.8% y/y (consensus +0.5% q/q). Private demand drove growth in the quarter, with household consumption up +0.9% even as private investment contributed little to growth.

Dwelling prices rose +0.7% m/m in August to be +4.1% higher over the year. The reacceleration in growth has been reasonably broad-based. Melbourne has continued to lag other capitals, with +0.3% m/m growth being well behind top performers Brisbane and Perth (+1.2% and +1.1% m/m respectively).

Corporate profits fell -2.4% q/q. Mining industry profits were broadly steady, down -0.5% q/q, while declines across the non-mining economy were reasonably broad-based and generally unwinding gains in Q1.

The Australian dollar gained around +0.98%, finishing the month at US66.02 cents (from US65.38 cents the previous month).

Credit Market

The global credit indices remained relatively flat this month. They remain near the levels seen in early-mid 2022 (prior to the rate hike cycle from most central banks):

Index	September 2025	August 2025
CDX North American 5yr CDS	52bp	50bp
iTraxx Europe 5yr CDS	56bp	54bp
iTraxx Australia 5yr CDS	66bp	67bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	September 2025	August 2025
Bloomberg AusBond Bank Bill Index (0+YR)	+0.29%	+0.32%
Bloomberg AusBond Composite Bond Index (0+YR)	+0.15%	+0.28%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.43%	+0.46%
Bloomberg AusBond Credit Index (0+YR)	+0.06%	+0.60%
Bloomberg AusBond Treasury Index (0+YR)	+0.09%	+0.24%
Bloomberg AusBond Inflation Gov't Index (0+YR)	+0.91%	+0.83%

Source: Bloomberg

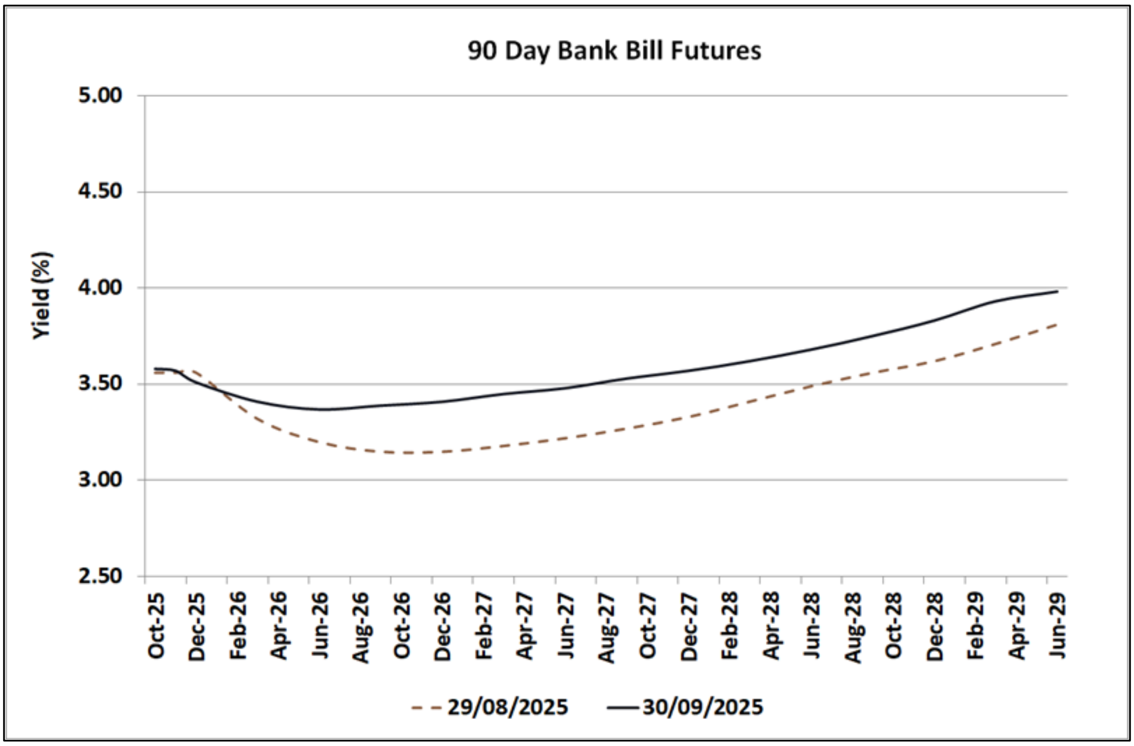
Other Key Rates

Index	September 2025	August 2025
RBA Official Cash Rate	3.60%	3.60%
90 Day (3 month) BBSW Rate	3.58%	3.57%
3yr Australian Government Bonds	3.53%	3.37%
10yr Australian Government Bonds	4.31%	4.26%
US Fed Funds Rate	4.00%-4.25%	4.25%-4.50%
2yr US Treasury Bonds	3.60%	3.59%
10yr US Treasury Bonds	4.16%	4.23%

Source: RBA, ASX, US Department of Treasury

90 Day Bill Futures

Bill futures rose across the board this month, as the market pushed back expectations not only on the timing of the next RBA rate cut, but also the number of rate cuts (down to one):



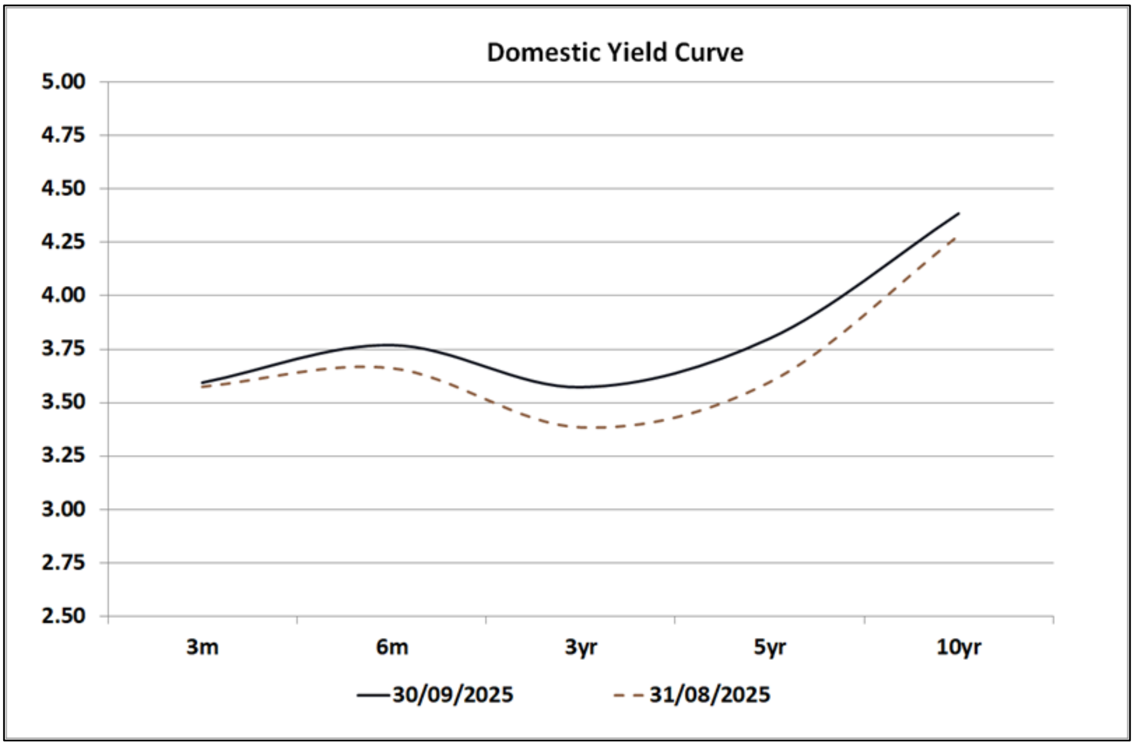
Source: ASX

Fixed Interest Outlook

US Federal Reserve Chair Jerome Powell remains balanced, reiterating the Fed's dual mandate and the "*challenging situation*" posed by upside inflation risks and downside employment risks. He described policy as "*modestly restrictive*" and stressed the need to balance both sides of the mandate. The latest dot plots (both the median and distribution), has broadly shifted down 25bp relative to June. The 2025 median was at 3.625% (at least one more rate cut), whilst the median dot in 2026 showing 3.375%, implying a further 75bp of cumulative easing from current levels.

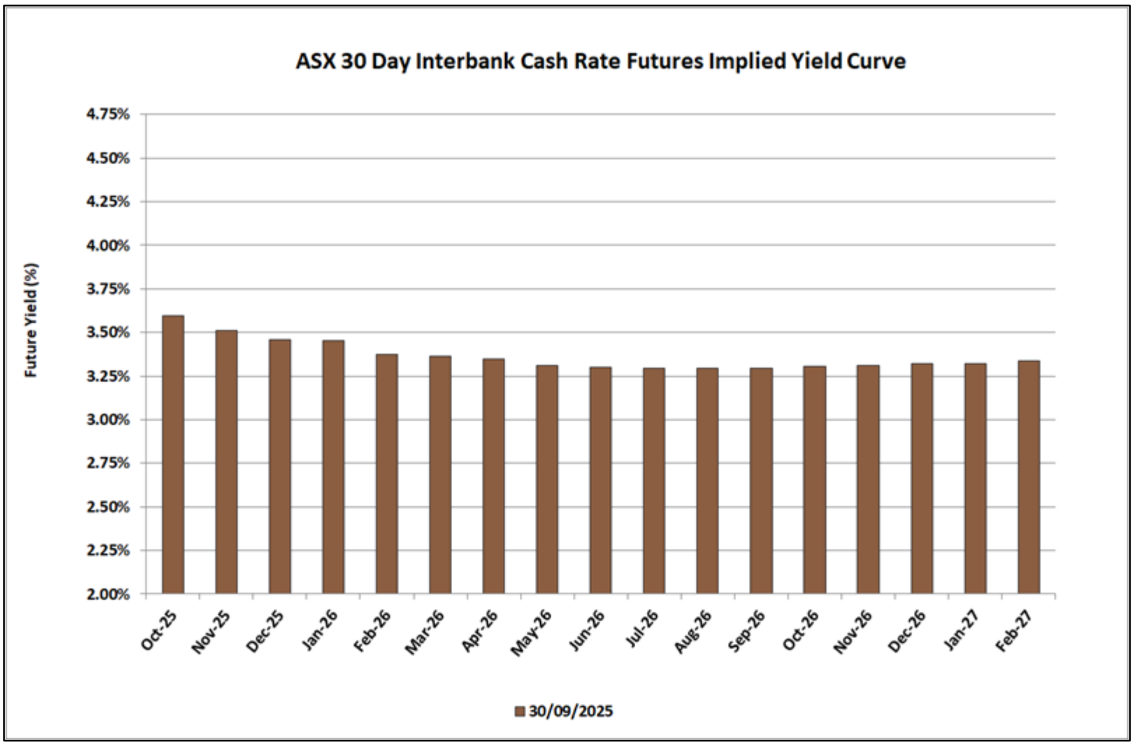
Domestically, after keeping rates unchanged in September, the RBA's accompanying statement denoted that "*the decline in underlying inflation has slowed*", after previously suggesting that "*inflation has continued to moderate*". This is a strong message that the RBA's narrative around core inflation has shifted in response to the signal in the latest monthly inflation indicator (August), which came in higher than expected. If inflation remains slightly elevated and higher than the previously forecasted, the RBA may well be on hold heading into 2026.

Yields rose by up to 15bp at the longer-end of the curve this month:



Source: ASX, RBA

Financial markets are now only factoring one additional rate cut by early-mid 2026, potentially taking the official cash rate down to 3.35%, pushing back on two additional rate cuts after the latest monthly inflation reading came up higher than anticipated:



Source: ASX