10.3. Investment and Loan Borrowings Report as at 30 November 2025 and 31 December 2025

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ATTACHMENTS	1. North Sydney Monthly Report November 2025 [**10.3.1** - 21 pages] 2. North Sydney Monthly Report December 2025 [**10.3.2** - 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 months ending 30 November 2025 and 31 December 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 November, the total investment portfolio (which includes Term Deposits, Floating Rate Notes and Bonds) provided a return of +0.33% (actual), or +4.04% p.a. (annualised), outperforming the AusBond Bank Bill Index return of +0.30% (actual) or +3.66% p.a. (annualised).

- Returns on investments exceeded the November YTD budget by $418,923. This result includes fees paid to Council's investment advisers for the period.

- For the month of December, the total investment portfolio (which includes Term Deposits, Floating Rate Notes and Bonds) provided a return of +0.34% (actual), or +4.11% p.a. (annualised), outperforming the AusBond Bank Bill Index return of +0.31% (actual) or +3.71% p.a. (annualised).

- Returns on investments exceeded the December YTD budget by $395,172. This result includes fees paid to Council's investment advisers for the period.

RECOMMENDATION:
1. THAT the report on investments held at 30 November 2025 and 31 December 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, $167,256,396 at 30 November 2025 and $162,914,378 at 31 December 2025. Most of this balance is held in reserves to be spent on certain activities and projects, in accordance with Council's *Restricted Reserves Policy*.

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 as at 30 November 2025 and 31 December 2025. Council had an unrestricted cash balance of $20,631,977 at 30 November 2025 and $20,730,300 at 31 December 2025. All movements in reserves are in accordance with Council's Restricted Reserve Policy.

The unrestricted cash balance tends to be high in the first half of the financial year due to the timing of rate receipts and the timing of capital works being at the construction stage in the second part of the year.

It should be noted that Council has drawn an additional $10 million loan from TCorp to fund the North Sydney Pool project, which is included in the cash balances.

Council held higher than usual cash balances due to anticipated variations for the North Sydney Olympic Pool project towards the end of the project's completion.

The Elections Reserve and Property Reserve, adopted by Council on 8 December 2025, will be created as reserves commencing from 2026-2027 financial year.

External Restrictions and Internal Allocations	**Nov-25**	**Net Movement**	**Dec-25**
External restrictions			
Developer contributions	$58,744,386	$118,382	$58,862,768
Domestic waste management	$21,204,078	-$1,619,682	$19,584,396

External Restrictions and Internal Allocations	Nov-25	Net Movement	Dec-25
Stormwater management charges	$212,410	-$46,364	$166,046
Unexpended Special Rates	$1,862,563	$98,355	$1,960,918
Specific purpose grants	$5,054,437	-$248,799	$4,805,638
Other specific purpose contributions	$1,177,408	-$32,081	$1,145,327
Bradfield Park TfNSW Lease Reserve	$857,844	$0	$857,844
Cammeray Park TfNSW Lease Reserve	$650,142	$0	$650,142
Olympic Pool Redevelopment	$25,965,222	-$2,596,876	$23,368,346
Total external restrictions	**$115,728,490**	**-$4,327,065**	**$111,401,425**
Internal allocations			
Project carry-forward balances	$602,707	-$105,858	$496,849
Community Housing - Capital Purchases	$1,010,000	$0	$1,010,000
Community Housing - Major Maintenance	$491,000	$0	$491,000
Deposits, retentions, and bonds	$16,364,239	$100,945	$16,465,184
Employees leave entitlement	$7,127,000	$0	$7,127,000
Income Producing Projects	$498,000	$0	$498,000
I.T. hardware and software	$1,029,118	-$6,808	$1,022,310
Plant and vehicle replacement	$2,172,110	-$101,555	$2,070,555
Financial Assistance Grant	$1,284,000	$0	$1,284,000
Kirribilli Neighbourhood Centre Reserve	$77,250	$0	$77,250
Crows Nest Centre Reserve	$240,505	$0	$240,505
Total internal allocations	**$30,895,929**	**-$113,276**	**$30,782,653**
Total Restrictions and Allocations	**$146,624,419**	**-$4,440,341**	**$142,184,078**
Unrestricted Cash and Investments	$20,631,977	$98,323	$20,730,300
Total Cash and Investments	**$167,256,396**	**-$4,342,018**	**$162,914,378**

Investment Portfolio

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

	November 2025	Annualised YTD
Actual Return	0.33%	4.04%
Benchmark	0.30%	3.66%
Variance	+0.03%	+0.38%

	December 2025	Annualised YTD
Actual Return	0.34%	4.11%
Benchmark	0.31%	3.71%
Variance	+0.03%	+0.40%

November 2025		
Asset Type	**Market Value**	**Portfolio Breakdown**
Term Deposits	$133,500,000	79.82%
Cash	$ 27,756,396	16.60%
Fixed Bonds	$6,000,000	3.59%
	$167,256,396	**100.00%**

December 2025		
Asset Type	**Market Value**	**Portfolio Breakdown**
Term Deposits	$126,500,000	77.65%
Cash	$ 33,414,378	20.51%
Fixed Bonds	$3,000,000	1.84%
	$162,914,378	**100.00%**

For November 2025, Council's average duration of term deposits, which comprised 79.82% of the investment portfolio, is approximately 226 days. For December 2025, Council's average duration of term deposits, which comprised 77.65% of the investment portfolio, is approximately 207 days. The average duration aligns maturities with the expected outflows of the capital works program.

Council is holding higher-than-usual cash and deposit-at-call balances at the end of December 2025 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 and 2 to this report) 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 November 2025 are $418,923 more than the revised year-to-date budget, and for the year-to-date 31 December 2025 are $395,172 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
November 2025						
2025/26	$3,912,000	$3,912,000	$1,630,005	$2,048,928	-	$418,923
December 2025						
2025/26	$3,912,000	$3,912,000	$1,956,006	$2,351,178	-	$395,172

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:

November 2025			
Long Term Rating Range (Standard & Poors)	**Invested**	**Maximum Policy Holding**	**Distribution**
AA Category	$129,256,396	100.00%	77.28%
A Category	$24,000,000	60.00%	14.35%
BBB Category	$14,000,000	35.00%	8.37%
Unrated ADIs (NR)	$0	10.00%	0.00%

December 2025			
Long Term Rating Range (Standard & Poors)	**Invested**	**Maximum Policy Holding**	**Distribution**
AA Category	$131,914,378	100.00%	80.97%
A Category	$22,000,000	60.00%	13.50%
BBB Category	$9,000,000	35.00%	5.52%
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			
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			
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

In May 2025, Council established a $10 million TCorp loan facility to fund further budget requirements of the redevelopment of North Sydney Olympic Pool. Drawdown on the facility was processed on 14 November 2025. 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 $10,000,000 over 10 years, fixed interest rate with semi-annual repayments of interest and principal.

The loan details are:

Loan amount:	$10,000,000			
Loan term:	10 years			
From:	14/11/2025			
To:	14/11/2035			
Interest rate:	5.06%p.a.(fixed)			
Repayment:	Semi-Annual			
Dates	**Principal Outstanding**	**Interest**	**Principal**	**Payment**
15/11/2025	$10,000,000			
14/05/2026	$9,607,654	$250,921	$392,346	$643,267

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

November 2025

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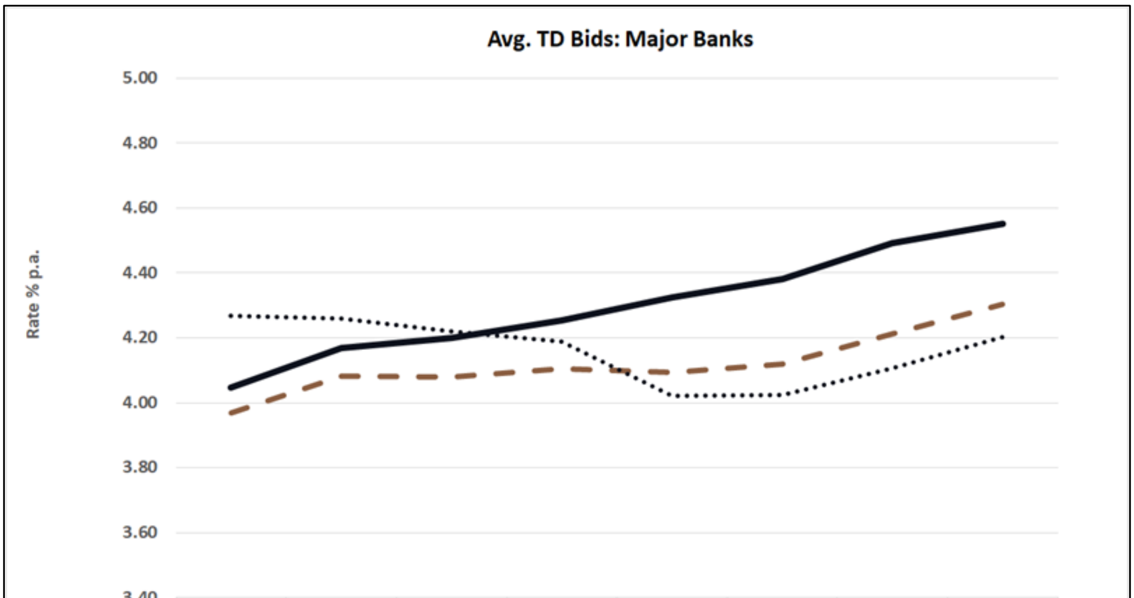
Market Update Summary

Financial markets were sold off this month on the notion that various global central banks (including Australia) have largely withdrawn their mild easing bias, with some now even forecasting the next move in official rates may be up next year should inflation continue to spike. Global equities lost momentum during the month, partly due to rising concerns surrounding AI optimism.

In the deposit market, over November, the average deposit rates offered by the domestic major banks was up to ~15bp higher compared to where they were the previous month (October). The market is not forecasting any more rate cuts this cycle. At the longer-end of the curve (2-5 years), the average rates rose up to ~25bp compared to where they were the previous month.



	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Nov-2025	4.05	4.17	4.20	4.25	4.32	4.38	4.49	4.55
Oct-2025	3.97	4.08	4.08	4.10	4.09	4.12	4.21	4.30
May-2025	4.27	4.26	4.22	4.19	4.02	4.02	4.11	4.20

Source: Imperium Markets

North Sydney Council' Portfolio & Compliance

Asset Allocation

As at the end of November 2025, the portfolio was mainly directed to fixed term deposits (~80%). The remaining portfolio is directed to fixed bonds (~4%) and overnight cash accounts (~17%).

Senior FRNs are currently considered 'expensive' on a historical basis but new issuances should continue to be considered on a case by case scenario for diversification purposes. In the interim, staggering a mix of fixed deposits between 12 months to 3 years remains a more optimal strategy to maximise returns over a longer-term cycle.

With global central banks remaining on a mild easing bias, investors can choose to allocate a small proportion of medium to longer-term funds and undertake an insurance policy by investing across 1-3 year fixed assets, locking in and targeting yields above 4½% p.a. Should inflation be within the RBA's target band of 2-3% over the longer-term, returns around 4½% 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 $114m 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	$53,756,396	32.14%	10%	100%	$113,500,000
✓	91 - 365 days	$110,500,000	66.07%	20%	100%	$56,756,396
✓	1 - 2 years	$3,000,000	1.79%	0%	70%	$114,079,478
✓	2 - 5 years	$0	0.00%	0%	50%	$83,628,198
✓	5 - 10 years	$0	0.00%	0%	25%	$41,814,099
		$167,256,396	**100.00%**			

Counterparty

As at the end of November, 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	5.38%	30.00%	$41,176,919
✓	CBA	AA-	$27,756,396	16.60%	30.00%	$22,420,522
✓	NAB	AA-	$40,000,000	23.92%	30.00%	$10,176,919
✓	NTTC Treasury	AA-	$6,000,000	3.59%	30.00%	$44,176,919
✓	Westpac	AA-	$46,500,000	27.80%	30.00%	$3,676,919
✓	ICBC Sydney	A	$15,000,000	8.97%	15.00%	$10,088,459
✓	BoQ	A-	$9,000,000	5.38%	15.00%	$16,088,459
✓	Bank Australia	BBB+	$9,000,000	5.38%	10.00%	$7,725,640
✓	Heritage Bank	BBB+	$5,000,000	2.99%	10.00%	$11,725,640
			$167,256,396	**100.00%**		

In November 2025, Bank Australia's acquisition of Australian Unity Bank was completed. As such, Council's exposure to Australian Unity Bank is now reflected under the parent company being Bank Australia.

Credit Quality

The portfolio remains lightly diversified and is of very high quality. As at the end of November 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	$129,256,396	77.28%	100%	$38,000,000
✓	A Category	$24,000,000	14.35%	60%	$76,353,838
✓	BBB Category	$14,000,000	8.37%	35%	$44,539,739
✓	Unrated ADIs	$0	0.00%	10%	$16,725,640
		$167,256,396	**100.00%**		

Performance

Council's performance for the month ending November 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%	0.89%	1.83%	1.51%	3.91%	4.14%	4.02%
AusBond Bank Bill Index	0.30%	0.89%	1.84%	1.52%	4.04%	4.25%	4.09%
Council's T/D Portfolio	0.34%	0.99%	1.97%	1.64%	4.12%	4.00%	3.69%
Council's FRN Portfolio	0.00%	0.00%	0.00%	0.00%	1.02%	3.34%	3.85%
Council's Bond Portfolio	0.11%	0.32%	0.64%	0.54%	1.29%	1.23%	1.21%
Council's Portfolio^	**0.33%**	**0.97%**	**1.92%**	**1.60%**	**3.99%**	**3.85%**	**3.55%**
Rel. Performance	**0.03%**	**0.08%**	**0.08%**	**0.08%**	**-0.05%**	**-0.40%**	**-0.53%**

^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%	3.60%	3.68%	3.65%	3.91%	4.14%	4.02%
AusBond Bank Bill Index	3.66%	3.61%	3.70%	3.65%	4.04%	4.25%	4.09%
Council's T/D Portfolio	4.16%	4.04%	3.98%	3.97%	4.12%	4.00%	3.69%
Council's FRN Portfolio	0.00%	0.00%	0.00%	0.00%	1.02%	3.34%	3.85%
Council's Bond Portfolio	1.29%	1.29%	1.29%	1.29%	1.29%	1.23%	1.21%
Council's Portfolio^	**4.04%**	**3.94%**	**3.86%**	**3.86%**	**3.99%**	**3.85%**	**3.55%**
Rel. Performance	**0.38%**	**0.33%**	**0.16%**	**0.21%**	**-0.05%**	**-0.40%**	**-0.53%**

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

For the month of November, the total investment portfolio (excluding cash) provided a solid return of +0.33% (actual) or +4.04% p.a. (annualised), outperforming the AusBond Bank Bill Index return of +0.30% (actual) or +3.66% 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 after the RBA cut rates multiple times in 2025.

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 November 2025, Council's deposit portfolio was yielding **4.05% p.a.** (up 7bp from the previous month), with a weighted average duration of around 226 days (~7½ months). We recommend Council slightly increases this weighted average duration, should cash flows allow in future. Although we may be reaching (or potentially already at) the bottom of the rate cut cycle, locking in rates close to or above 4¼-4½% p.a. across 1-3 year tenors may provide some income protection against a relatively flat rate environment over coming years.

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 and secondary) 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 November, we see value in the following:

ADI	LT Credit Rating	Term	Rate % p.a.
ING	A	5 years	4.77%
Westpac	AA-	5 years	4.70%
NAB	AA-	5 years	4.60%
BoQ	A-	5 years	4.59%
ING	A	4 years	4.65%
Westpac	AA-	4 years	4.63%
BoQ	A-	4 years	4.54%
NAB	AA-	4 years	4.50%
Westpac	AA-	3 years	4.55%
ING	A	3 years	4.51%
BoQ	A-	3 years	4.49%
NAB	AA-	3 years	4.40%
Police CU	Unrated	2 years	4.53%
Westpac	AA-	2 years	4.46%
NAB	AA-	2 years	4.45%
ING	A	2 years	4.42%

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.
ICBC Sydney	A	12 months	4.50%
Police CU	Unrated	12 months	4.50%
Westpac	AA-	12 months	4.45%
NAB	AA-	12 months	4.36%
ANZ	AA-	12 months	4.35%
Police CU	Unrated	9 months	4.45%
Westpac	AA-	9 months	4.35%
NAB	AA-	9 months	4.30%
BoQ	A-	9 months	4.29%
Bank of Us	BBB+	9 months	4.28%
Police CU	Unrated	6 months	4.49%
Community First	BBB	6 months	4.36%
BoQ	A-	6 months	4.34%
Suncorp	AA-	6 months	4.33%
Bank of Sydney	Unrated	6 months	4.30%
Police CU	Unrated	3 months	4.24%
CBA	AA-	3 months	4.17%
Bank of Sydney	Unrated	3 months	4.15%
Westpac	AA-	3 months	4.11%
NAB	AA-	3 months	4.10%

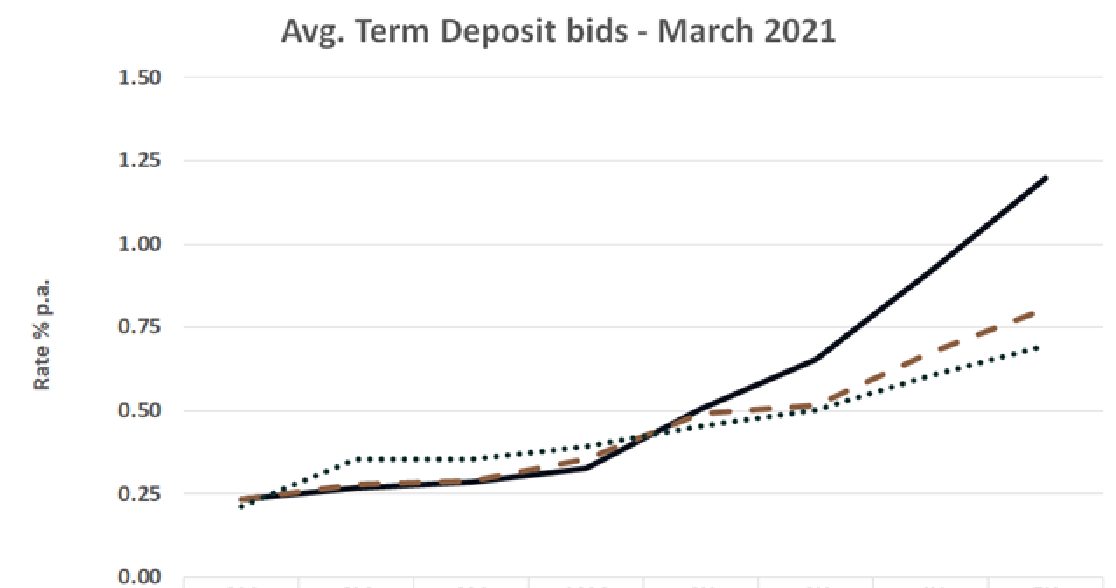
For those investors that do not require high levels of liquidity and can stagger their investments longer term, they will be rewarded over a longer-term cycle if they roll for an average min. term of 12 months, with a spread of investments out to 5 years (this is where we see current value). In a normal 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.

Despite no more rate cuts expected, 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 official rates remain steady around current levels for the foreseeable future.

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)



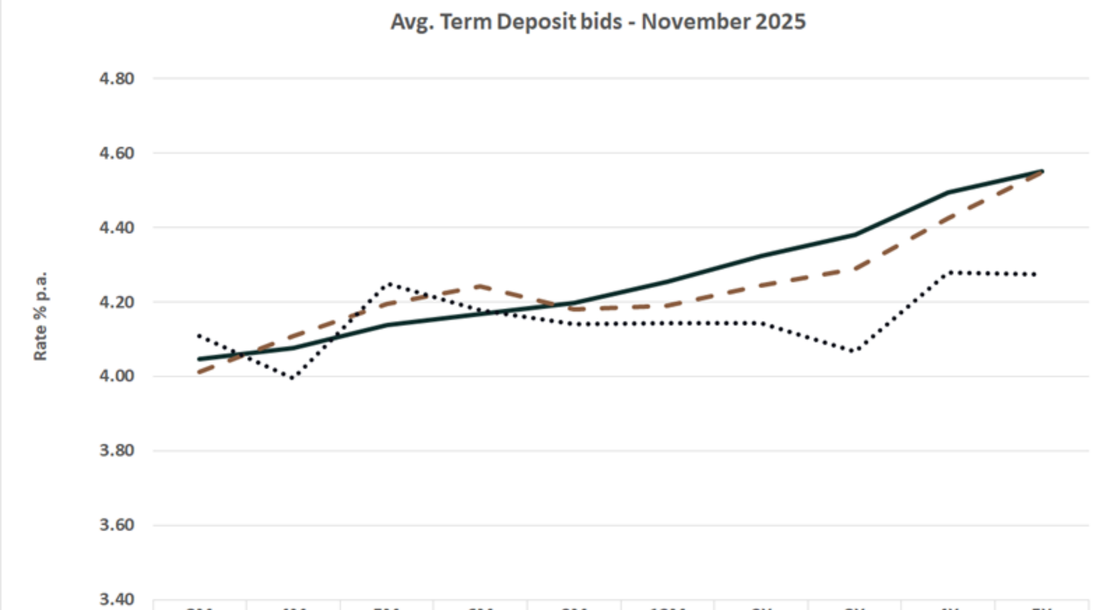
	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	0.23	0.27	0.29	0.33	0.51	0.65	0.92	1.20
A Rated	0.23	0.28	0.29	0.35	0.49	0.52	0.68	0.81
BBB Rated	0.21	0.36	0.35	0.39	0.45	0.50	0.61	0.70

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 (November 2025)



	3M	4M	5M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	4.05	4.08	4.14	4.17	4.20	4.25	4.32	4.38	4.49	4.55
A Rated	4.01	4.11	4.20	4.24	4.18	4.19	4.25	4.29	4.42	4.55
BBB Rated	4.11	4.00	4.25	4.18	4.14	4.14	4.14	4.07	4.28	4.28

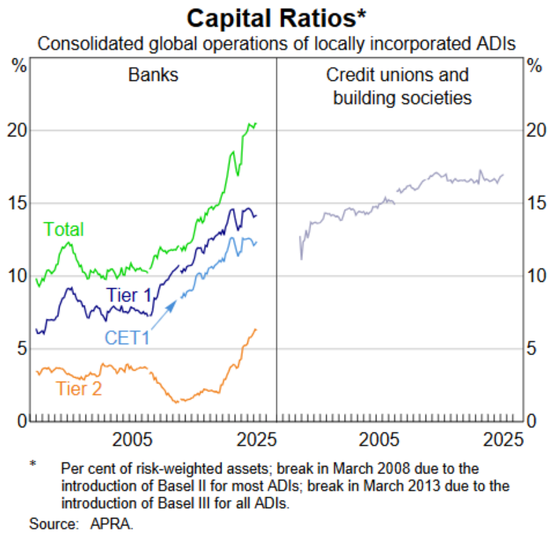
Source: Imperium Markets

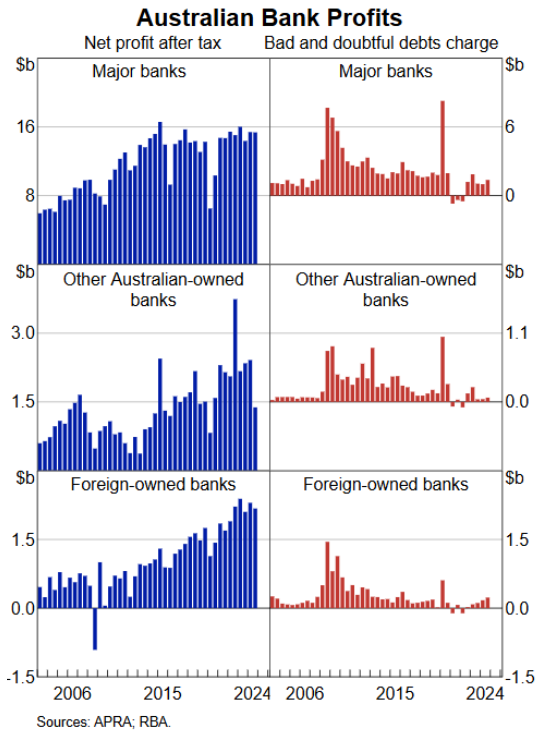
Financial Stability of the Banking (ADI) Sector

The RBA's Financial Stability 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*".

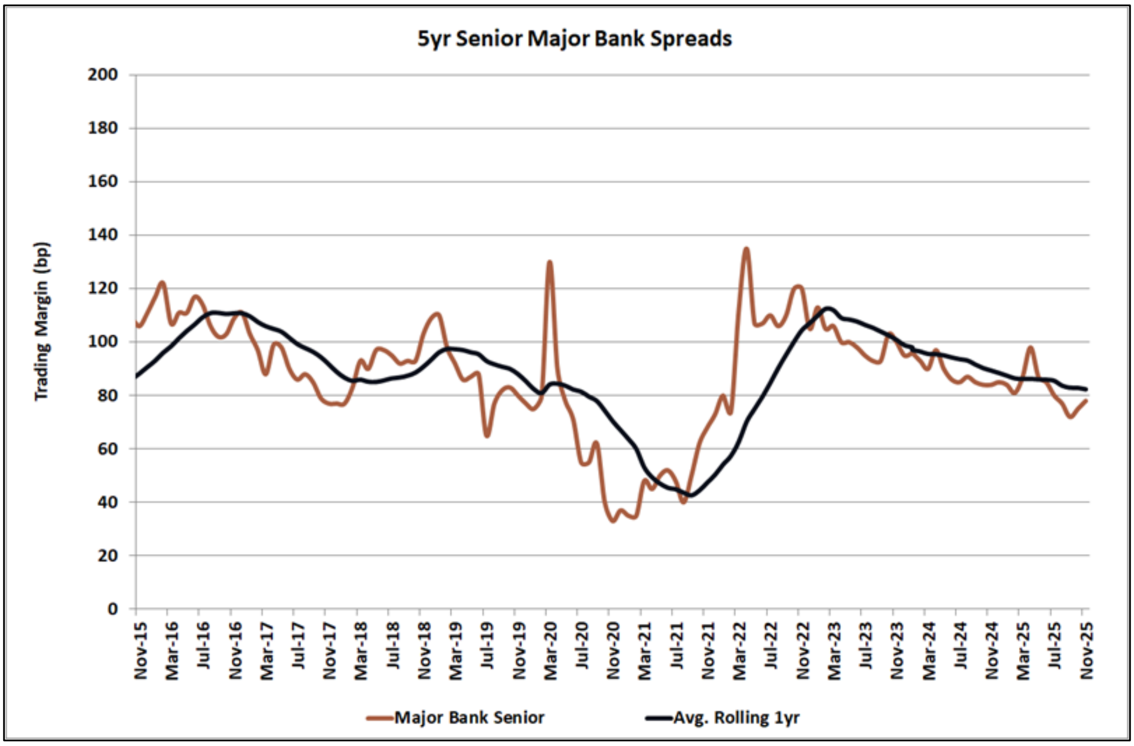
Over the past two decades, both domestic and international banks continue to operate and demonstrate high levels of profitability (*see Australian Bank Profits chart below*), which also covers two stress-test environments being the GFC (September 2008) and the COVID pandemic period (March 2020):





Senior FRNs Market Review

Over November, amongst the senior major bank FRNs, physical credit securities widened up to 3bp at the long-end of the curve. During the month, ANZ (AA-) issued a new short 3 year senior deal at +61bp, whilst Suncorp (AA-) issued a new 5 year senior deal at +80bp. Long-term major bank senior securities are looking 'expensive' on a historical basis, noting the 5yr margin has averaged around the +92bp level over a cycle (currently around +78bp).



Source: IBS Capital

During the month, there was a handful of new issuances:

- Bank of Queensland (A-): 3 year senior FRN at +77bp
- Agricultural Bank of China (A): 5 year senior FRN at +73bp
- Bank Australia (BBB+): 3 year senior FRN at +103bp

Amongst the "A" rated sector, the securities widened up to 5bp at the 3-5 year part of the curve. Within the "BBB" rated sector, margins widened up to 10bp at the 3 year part of the curve, partly driven by the new primary issuances.

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 (and especially if the RBA's easing cycle is over).

Senior FRNs (ADIs)	30/11/2025	31/10/2025
"AA" rated – 5yrs	+78bp	+75bp
"AA" rated – 3yrs	+61bp	+60bp
"A" rated – 5yrs	+85bp	+80bp
"A" rated – 3yrs	+70bp	+67bp
"BBB" rated – 3yrs	+105bp	+93bp

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 central banks remaining on a mild easing bias, 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	2.91	4.79%	4.66%
AU3CB0308955	BoQ	A-	Senior	30/04/2029	3.42	5.30%	4.79%
AU3CB0319879	Nova Sco.	A-	Senior	21/03/2030	4.32	5.23%	5.18%

Economic Commentary

International Market

Financial markets were sold off this month on the notion that various global central banks (including Australia) have largely withdrawn their mild easing bias, with some now even forecasting the next move in official rates may be up next year should inflation continue to spike. Global equities lost momentum during the month, partly due to rising concerns surrounding AI optimism.

Across equity markets, the US S&P 500 Index marginally rose +0.13%, whilst the NASDAQ declined -2.15%. Europe's main indices also lost ground, with falls in Germany's DAX (-0.51%), whilst France's CAC (+0.02%) and UK's FTSE (+0.03%) were flat.

The US announced a 28-point Russia-Ukraine peace plan which US President Trump said he had given Ukraine until 27 November to accept.

The October US FOMC Minutes revealed many Fed officials thought it would likely be appropriate to keep interest rates steady for the remainder of 2025.

US President Donald Trump signed a bill ending the longest government shutdown in US history (43 days).

Canada's annual CPI inflation fell by slightly less than expected from +2.4% to +2.2% in October, while the core measure (average of trim and median) fell slightly more than expected to +2.95%.

Japan's GDP contracted by -0.4% q/q in Q3, albeit a smaller contraction than the -0.6% expected by the consensus.

The Bank of England held rates in a tight 5-4 decision. The statement repeated the line that rates are on a "*gradual downward path*" but removed the word "*careful*". UK CPI inflation fell to +3.6% in October, in line with BoE forecasts, with energy prices the main drag. Services inflation eased to +4.5%, below expectations, while food inflation ticked up.

New Zealand's unemployment rate ticked up to 5.3%, its highest rate in nearly nine years. The RBNZ cut rates by 25bp to 2.25% as expected, but signals their easing cycle is now likely complete.

The MSCI World ex-Aus Index rose +0.37% for the month of November:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+0.13%	+6.02%	+13.54%	+18.85%	+13.59%	+12.65%
MSCI World ex-AUS	+0.37%	+5.85%	+17.76%	+19.88%	+13.53%	+12.53%
S&P ASX 200 Accum. Index	-2.66%	-3.05%	+5.47%	+9.71%	+9.87%	+9.46%

Source: S&P, MSCI

Domestic Market

In a unanimous decision, the RBA Monetary Policy Board left the cash rate unchanged at 3.60% as expected. The RBA has not hit the panic button on inflation just yet, noting that *"…some of the increase in underlying inflation in the September quarter was due to temporary factors"*. The RBA's inflation outlook was revised higher, now seen above the 2-3% target range until mid-2026 before falling to 2.6% by end 2027.

The November minutes are broadly in line with recent RBA communication. The RBA remains "*cautious and data dependent*". It does not expect the September quarter pace of inflation to persist, but noted the outcome across a number of persistent components "*that there could be a little more underlying inflationary pressure*" with "*slightly more capacity pressure in the economy than previously assessed*"

The unemployment rate fell to 4.3% in October from 4.5% in September, below expectations of a drop to 4.4%. the number of unemployed people fell by 17,000 over October, while the number of employed people rose by 42,000. The participation rate remained steady at 67.0% in October.

Elevated and broad-based inflation pressures evident in Q3 were largely sustained in October. Headline CPI came in at +3.8% y/y in October whilst the trimmed mean printed at +3.3% y/y (from +3.2% y/y in September).

Q3 wage price index (WPI) came in on the softer side of +0.8% q/q and +3.4% y/y, which is in line with the RBA's November SoMP forecast. Private sector wage growth slowed to +0.7% q/q and +3.2% y/y, while public sector growth continued to grow a little more strongly at +0.9% q/q and +3.8% y/y. In annual terms, wage growth is now 0.54% below its peak in Q3 2023.

The Australian dollar fell around -0.27%, finishing the month at US65.33 cents (from US65.51 cents the previous month).

Credit Market

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

Index	November 2025	October 2025
CDX North American 5yr CDS	52bp	52bp
iTraxx Europe 5yr CDS	54bp	54bp
iTraxx Australia 5yr CDS	69bp	66bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	November 2025	October 2025
Bloomberg AusBond Bank Bill Index (0+YR)	+0.30%	+0.30%
Bloomberg AusBond Composite Bond Index (0+YR)	-0.88%	+0.36%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.34%	+0.33%
Bloomberg AusBond Credit Index (0+YR)	-0.49%	+0.27%
Bloomberg AusBond Treasury Index (0+YR)	-0.93%	+0.34%
Bloomberg AusBond Inflation Gov't Index (0+YR)	-0.76%	+0.44%

Source: Bloomberg

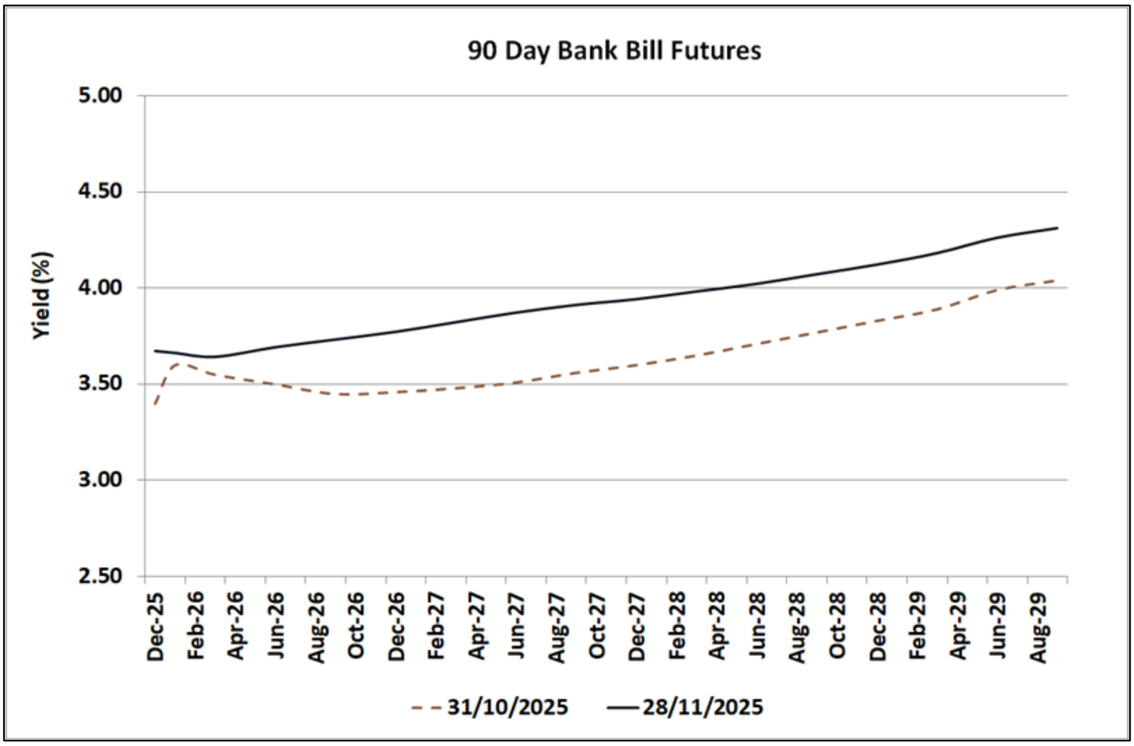
Other Key Rates

Index	November 2025	October 2025
RBA Official Cash Rate	3.60%	3.60%
90 Day (3 month) BBSW Rate	3.66%	3.64%
3yr Australian Government Bonds	3.87%	3.60%
10yr Australian Government Bonds	4.52%	4.29%
US Fed Funds Rate	3.75%-4.00%	3.75%-4.00%
2yr US Treasury Bonds	3.47%	3.60%
10yr US Treasury Bonds	4.02%	4.11%

Source: RBA, ASX, US Department of Treasury

90 Day Bill Futures

Bill futures rose across the board this month following the ongoing spike in inflation (latest monthly reading came in higher than expected). The market has all but quashed any chances of another rate cut in 2026, with some now forecasting the chance of a rate hike should inflation remain elevated:



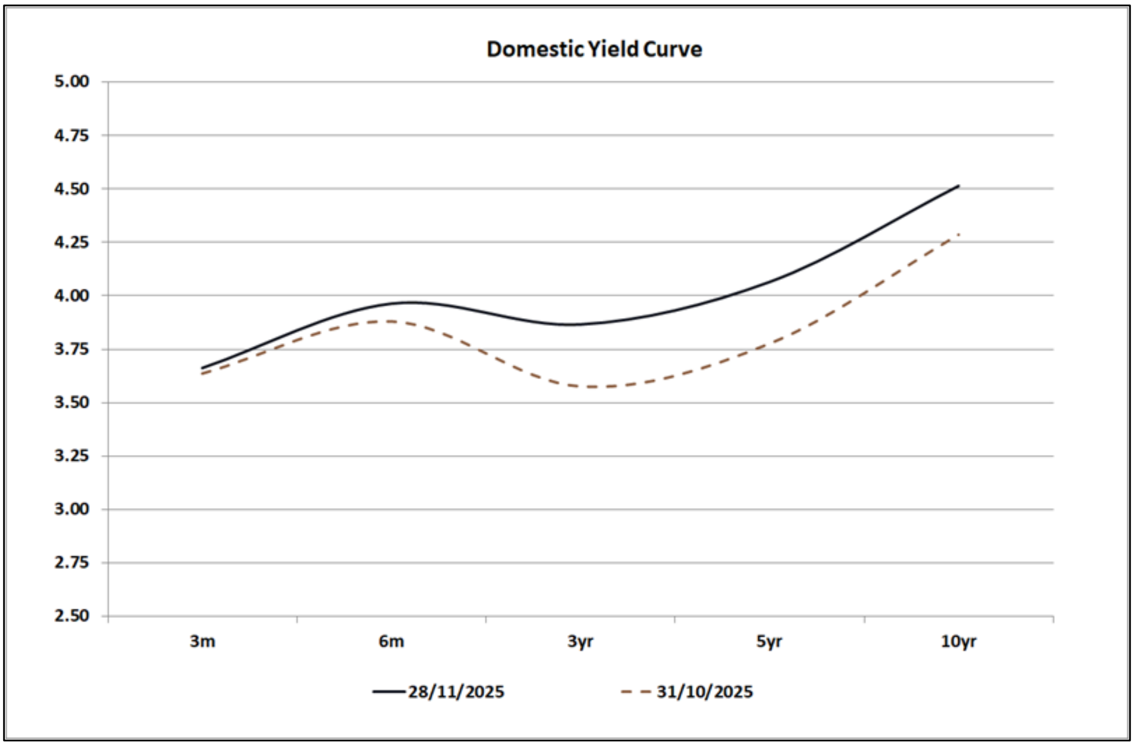
Source: ASX

Fixed Interest Outlook

US Federal Reserve Chair Jerome Powell said that a rate cut in December is "*far from*" a foregone conclusion and that there were some strongly differing views amongst the members. Powell said he believes that the ex-tariff inflation is close to the Fed's 2% target, commenting that they are seeing a continual "*very gradual*" cooling in the labour market. The clear inference is that labour market deterioration is at a somewhat faster pace that has been observed recently, and it will be a key indicator of how monetary policy evolves from here. Pricing for the December 10 meeting predicts around an 80% chance of a 25bp cut.

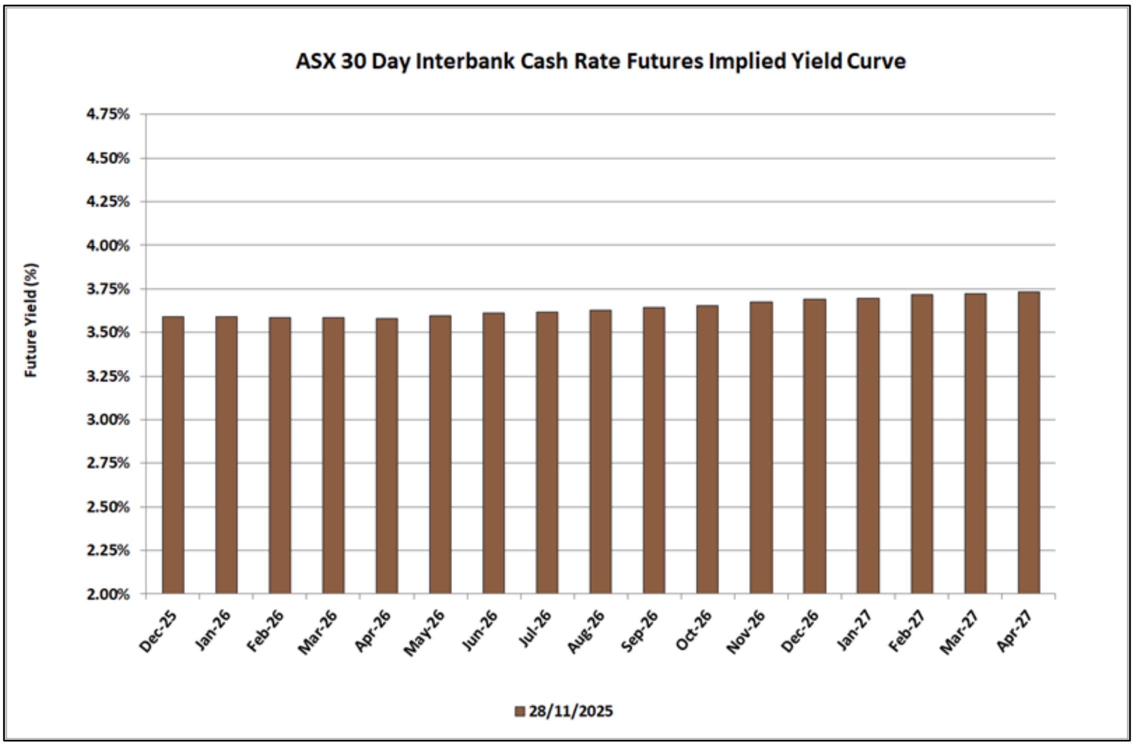
Domestically, the RBA's latest Minutes stated that "*members judged that financial conditions were still slightly restrictive but that it was also possible this was no longer the case*". The RBA sees core inflation sitting above 3% through to mid-2026, before returning to 2.6% by mid-2027. The return to 2.6% core inflation has been pushed out by 18 months relative to the August Statement of Monetary Policy. These forecasts are likely to change following the higher than expected quarterly and monthly inflation prints.

Yields rose up to 29bp at the longer-end of the curve this month:



Source: ASX, RBA

Financial markets are now calling this the bottom of the RBA's easing cycle after recent inflation prints have proven to be higher than previously anticipated. In fact, markets are now factoring the small possibility that the next move may potentially be a hike in mid-late 2026:



Source: ASX

DISCLAIMER

Monthly Investment Review

December 2025

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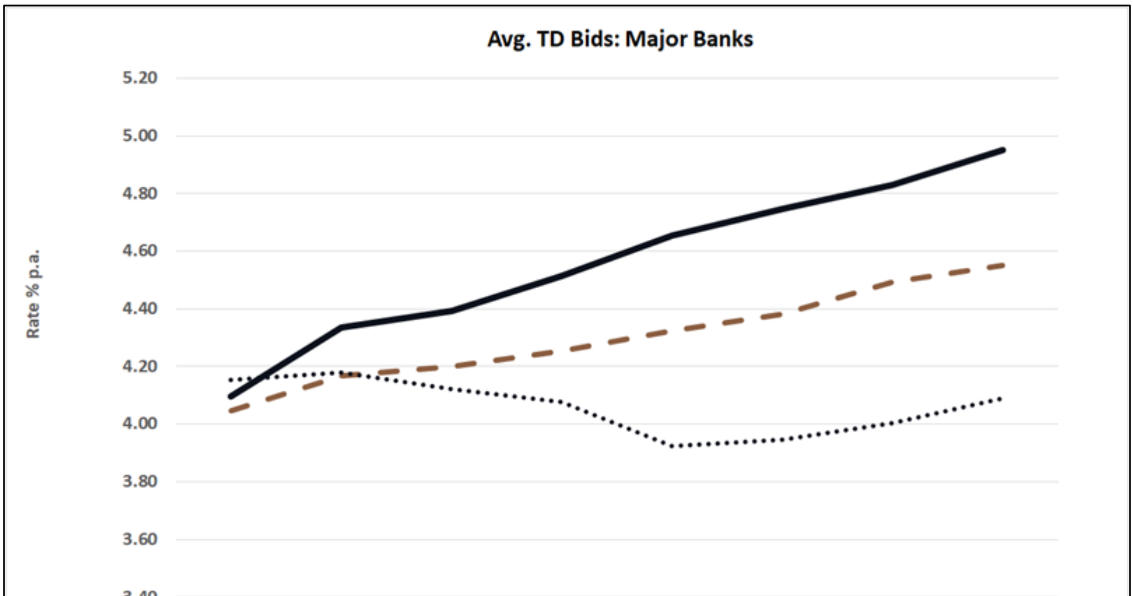
Market Update Summary

Risk markets were mixed in December after the US Fed delivered another rate cut and signalled they could potentially continue on their easing into 2026. In contrast, other global central banks (including Australia) appear to be on a mild tightening bias, with some now forecasting the next move in official rates may be up next year should inflation remain elevated. Global bonds were sold off, with yields largely rising over the month.

In the deposit market, over December, the average deposit rates offered by the domestic major banks was up to ~15bp higher compared to where they were the previous month (November). At the longer-end of the curve (1-5 years), the average deposit rates were around 25-40bp higher compared to where they were the previous month, with the market expecting official rates to be slightly higher in coming years. The market is now factoring up to two rate hikes in 2026 should inflation remain elevated or spike further.



	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Dec-2025	4.10	4.33	4.39	4.51	4.65	4.75	4.83	4.95
Nov-2025	4.05	4.17	4.20	4.25	4.32	4.38	4.49	4.55
Jun-2025	4.15	4.18	4.12	4.08	3.92	3.95	4.00	4.09

Source: Imperium Markets

North Sydney Council' Portfolio & Compliance

Asset Allocation

As at the end of December 2025, the portfolio was mainly directed to fixed term deposits (~78%). The remaining portfolio is directed to fixed bonds (~2%) and overnight cash accounts (~20%).

Senior FRNs are currently considered 'expensive' on a historical basis but new issuances should continue to be considered on a case by case scenario for diversification purposes (duration and asset type). In the interim, staggering a mix of fixed deposits between 12 months to 3 years remains a more optimal strategy for the 'core' assets to maximise returns over a longer-term cycle, which can be supplemented by investing a small proportion of surplus funds in senior FRNs.

Should inflation be within the RBA's target band of 2-3% over the longer-term, fixed assets yielding above 4½% p.a. for 1-3 years or higher should outperform benchmark and remains acceptable.

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 highly liquid from a maturity perspective. The whole portfolio is directed to short-term assets (less than 12 months), there is still high capacity to invest in the short-medium term horizon (1-2 years), with approximately $114m 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	$51,914,378	31.87%	10%	100%	$111,000,000
✓	91 - 365 days	$111,000,000	68.13%	20%	100%	$51,914,378
✓	1 - 2 years	$0	0.00%	0%	70%	$114,040,064
✓	2 - 5 years	$0	0.00%	0%	50%	$81,457,189
✓	5 - 10 years	$0	0.00%	0%	25%	$40,728,594
		$162,914,378	**100.00%**			

Counterparty

As at the end of December, 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	5.52%	30.00%	$39,874,313
✓	CBA	AA-	$33,414,378	20.51%	30.00%	$15,459,936
✓	NAB	AA-	$40,000,000	24.55%	30.00%	$8,874,313
✓	NTTC Treasury	AA-	$3,000,000	1.84%	30.00%	$45,874,313
✓	Westpac	AA-	$46,500,000	28.54%	30.00%	$2,374,313
✓	ICBC Sydney	A	$13,000,000	7.98%	15.00%	$11,437,157
✓	BOQ	A-	$9,000,000	5.52%	15.00%	$15,437,157
✓	Bank Australia	BBB+	$9,000,000	5.52%	10.00%	$7,291,438
			$162,914,378	**100.00%**		

In December 2025, Bank Australia's acquisition of Australian Unity Bank was completed. As such, Council's exposure to Australian Unity Bank is now reflected under the parent company being Bank Australia.

Credit Quality

The portfolio remains lightly diversified and is of very high quality. As at the end of December 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	$131,914,378	80.97%	100%	$31,000,000
✓	A Category	$22,000,000	13.50%	60%	$75,748,627
✓	BBB Category	$9,000,000	5.52%	35%	$48,020,032
✓	Unrated ADI Category	$0	0.00%	10%	$16,291,438
		$162,914,378	**100.00%**		

Performance

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

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	0.30%	0.90%	1.82%	1.82%	3.85%	4.10%	4.03%
AusBond Bank Bill Index	0.31%	0.90%	1.83%	1.83%	3.97%	4.22%	4.11%
Council's T/D Portfolio	0.35%	1.03%	2.00%	2.00%	4.11%	4.01%	3.74%
Council's FRN Portfolio	0.00%	0.00%	0.00%	0.00%	1.02%	3.34%	3.85%
Council's Bond Portfolio	0.12%	0.33%	0.66%	0.66%	1.30%	1.24%	1.22%
Council's Total Portfolio^	**0.34%**	**1.00%**	**1.95%**	**1.95%**	**3.99%**	**3.86%**	**3.60%**
Rel. Performance	**0.03%**	**0.10%**	**0.12%**	**0.12%**	**0.02%**	**-0.36%**	**-0.51%**

^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%	3.60%	3.64%	3.64%	3.85%	4.10%	4.03%
AusBond Bank Bill Index	3.71%	3.64%	3.66%	3.66%	3.97%	4.22%	4.11%
Council TDs	4.21%	4.14%	4.01%	4.01%	4.11%	4.01%	3.74%
Council FRNs	0.00%	0.00%	0.00%	0.00%	1.02%	3.34%	3.85%
Council's Bond Portfolio	1.42%	1.33%	1.31%	1.31%	1.30%	1.24%	1.22%
Council Total Portfolio^	**4.11%**	**4.03%**	**3.90%**	**3.90%**	**3.99%**	**3.86%**	**3.60%**
Rel. Performance	**0.41%**	**0.39%**	**0.24%**	**0.24%**	**0.02%**	**-0.36%**	**-0.51%**

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

For the month of December, the total investment portfolio (excluding cash) provided a solid return of +0.34% (actual) or +4.11% p.a. (annualised), outperforming the AusBond Bank Bill Index return of +0.31% (actual) or +3.71% 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 after the RBA cut rates multiple times in 2025.

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 December 2025, Council's **deposit** portfolio was yielding 4.10% p.a. (up 5bp from the previous month), with a weighted average duration of around 207 days (~7 months). We recommend Council slightly increases this weighted average duration, should cash flows allow in future. Despite reaching the bottom of the rate cut cycle, locking in rates close to or above 4½% p.a. across 1-3 year tenors should still outperform benchmark in the long-run, on assumption that the RBA can contain inflation within their 2-3% target band.

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 and secondary) 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. Currently, Council has $3m in NTTC bond maturing in December 2026.

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 December 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 December, we see value in the following:

ADI	LT Credit Rating	Term	Rate % p.a.
ING	A	5 years	5.04%
Westpac	AA-	5 years	4.85%
NAB	AA-	5 years	4.80%
BoQ	A-	5 years	4.74%
ING	A	4 years	4.93%
Westpac	AA-	4 years	4.82%
CBA	AA-	4 years	4.80%
NAB	AA-	4 years	4.75%
ING	A	3 years	4.81%
Westpac	AA-	3 years	4.75%
CBA	AA-	3 years	4.75%
NAB	AA-	3 years	4.73%
ING	A	2 years	4.72%
Westpac	AA-	2 years	4.68%
CBA	AA-	2 years	4.66%
NAB	AA-	2 years	4.65%

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.
Suncorp	AA-	12 months	4.62%
ING	A	12 months	4.58%
Westpac	A	12 months	4.56%
CBA	AA-	12 months	4.53%
NAB	AA-	12 months	4.50%
Westpac	A	9 months	4.53%
CBA	AA-	9 months	4.45%
ING	A	9 months	4.42%
NAB	AA-	9 months	4.40%
BoQ	A-	9 months	4.40%
Suncorp	AA-	6 months	4.54%
Westpac	A	6 months	4.43%
BoQ	A-	6 months	4.40%
CBA	AA-	6 months	4.35%
NAB	AA-	6 months	4.30%
CBA	AA-	3 months	4.20%
Westpac	AA-	3 months	4.20%
Hume Bank	BBB+	3 months	4.20%
Suncorp	AA-	3 months	4.17%
NAB	AA-	3 months	4.10%

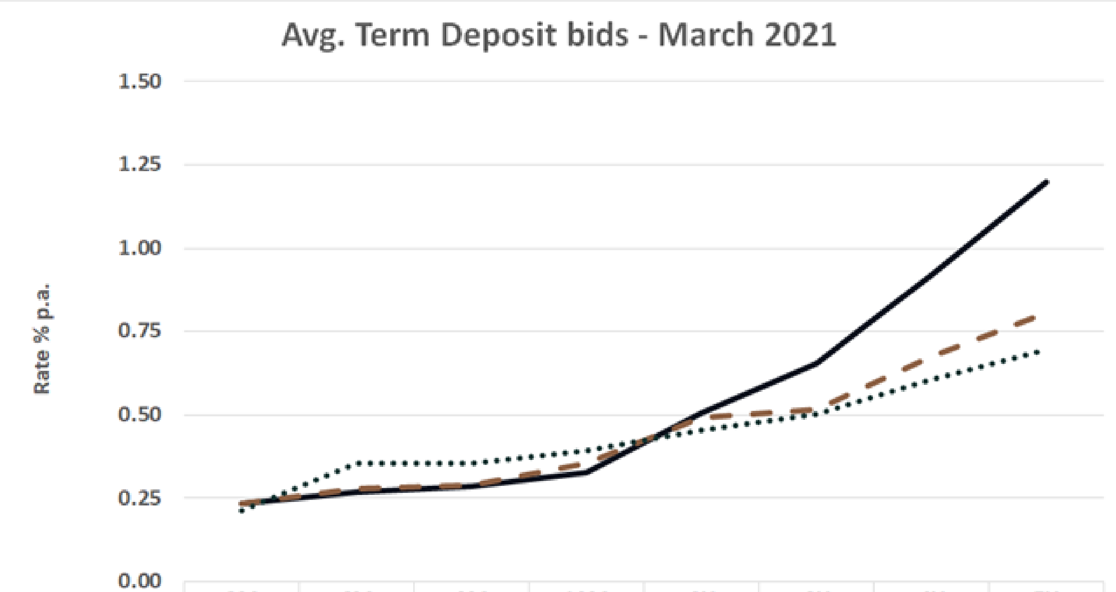
For those investors that do not require high levels of liquidity and can stagger their investments longer term, they will be rewarded over a longer-term cycle if they roll for an average min. term of 12 months, with a spread of investments out to 5 years (this is where we see current value). In a normal 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.

Investors should continue to consider allocating some longer-term surplus funds across 1-5 year fixed deposits and locking in rates above 4¼-4½% p.a. This will provide some income protection if official rates remain steady around current levels for the foreseeable future.

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)



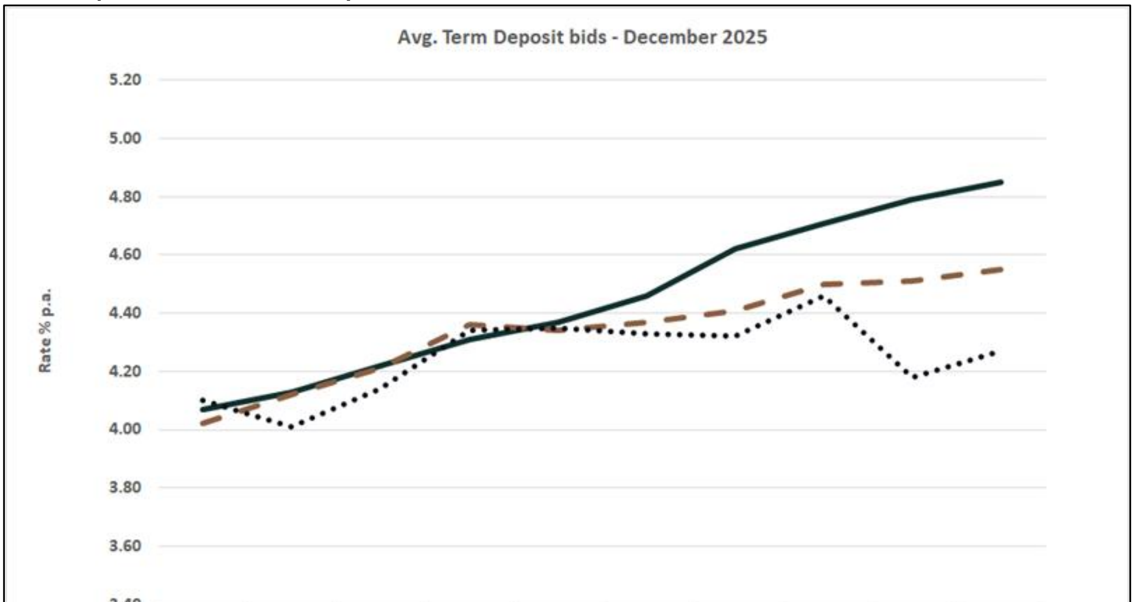
	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	0.23	0.27	0.29	0.33	0.51	0.65	0.92	1.20
A Rated	0.23	0.28	0.29	0.35	0.49	0.52	0.68	0.81
BBB Rated	0.21	0.36	0.35	0.39	0.45	0.50	0.61	0.70

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 (December 2025)



	3M	4M	5M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	4.07	4.13	4.22	4.31	4.37	4.46	4.62	4.71	4.79	4.85
A Rated	4.02	4.12	4.21	4.36	4.34	4.37	4.41	4.50	4.51	4.55
BBB Rated	4.10	4.01	4.14	4.34	4.35	4.33	4.32	4.46	4.18	4.27

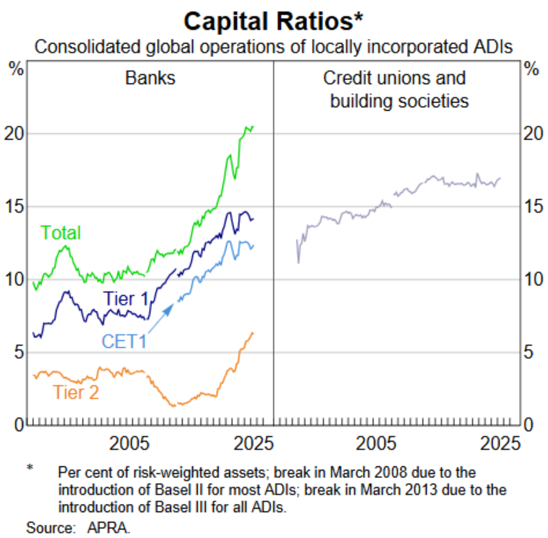
Source: Imperium Markets

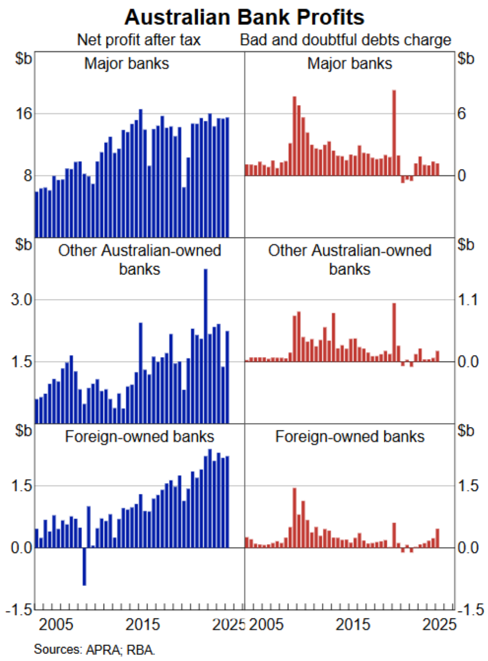
Financial Stability of the Banking (ADI) Sector

The RBA's Financial Stability 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 covers two stress-test environments being the GFC (September 2008) and the COVID pandemic period (March 2020):





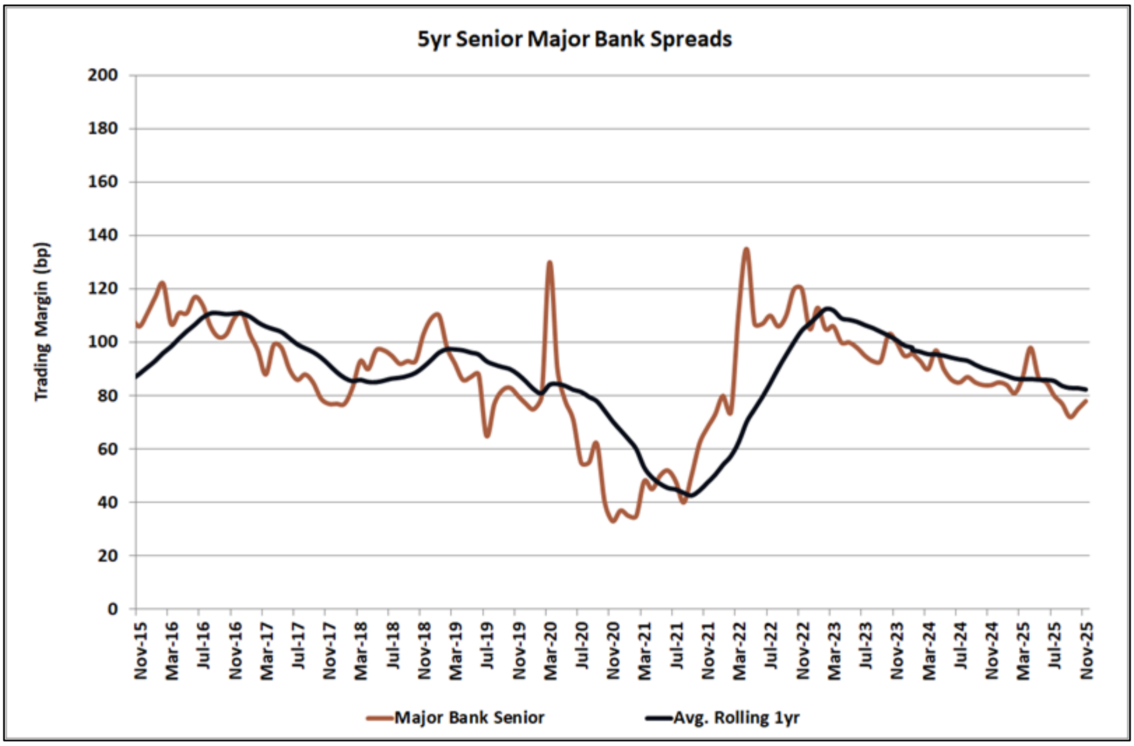
The Council of Financial Regulators (CFR) - being the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC), the Australian Treasury and the Reserve Bank of Australia (RBA), have the ultimate aim of promoting the stability of the financial system, whilst supporting effective and efficient regulation. In their latest quarterly review, the CFR agreed on the following priorities heading into 2026:

- Improving preparedness for geopolitical risks;
- Operational vulnerabilities, including cyber, third parties and AI;
- Amplification of systemic liquidity risk: further strengthening CFR and industry readiness to respond to systemic liquidity stress events; and
- High household leverage: continuing to closely monitor household leverage and bank lending standards.

The Council noted that in each of these priority areas, CFR agencies are taking forward a number of initiatives to strengthen the resilience of the financial system.

Senior FRNs Market Review

Over December, amongst the senior major bank FRNs, physical credit securities remained relatively flat at the long-end of the curve. During the month, WBC (AA-) issued a new short 1 year senior deal at +36bp,. Long-term major bank senior securities are looking 'expensive' on a historical basis, noting the 5yr margin has averaged around the +92bp level over a cycle (currently around +78bp).



Source: IBS Capital

During the month, there were minimal new issuances apart from QBank's (BBB) 2 year private placement senior FRN at +110bp. Amongst the "A" and "BBB" rated sector, the securities also remained flat at the 3-5 year part of the curve.

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 (and especially if the RBA's easing cycle is over).

Senior FRNs (ADIs)	31/12/2025	30/11/2025
"AA" rated – 5yrs	+78bp	+78bp
"AA" rated – 3yrs	+61bp	+61bp
"A" rated – 5yrs	+85bp	+85bp
"A" rated – 3yrs	+70bp	+70bp
"BBB" rated – 3yrs	+100bp	+105bp

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 central banks remaining on a mild easing bias, 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	2.82	4.79%	4.86%
AU3CB0308955	BoQ	A-	Senior	30/04/2029	3.33	5.30%	4.99%
AU3CB0319879	Nova Sco.	A-	Senior	21/03/2030	4.22	5.23%	5.34%

Economic Commentary

International Market

Risk markets were mixed in December after the US Fed delivered another rate cut and signalled they could potentially continue on their easing into 2026. In contrast, other global central banks (including Australia) appear to be on a mild tightening bias, with some now forecasting the next move in official rates may be up next year should inflation remain elevated. Global bonds were sold off, with yields largely rising over the month.

Across equity markets, the US S&P 500 Index marginally fell -0.05%, whilst the NASDAQ declined -2.15%. Europe's main indices provide positive returns, with gain in Germany's DAX (+2.74%), UK's FTSE (+2.17%) and France's CAC (+0.33%).

The US FOMC cut by 25bp as expected to 3.50%-3.75%, and the 2026 median dot continues to show one more cut by the end of next year, less than market pricing.

The US core PCE deflator increased by +0.2% in September, in line with forecasts, bringing the annual rate down to +2.8%. The US unemployment rate rose to 4.6% in November, a four-year high. Wage growth slowed to just +0.1% m/m and +3.5% y/y.

The Bank of Canada (BoC) kept rates on hold as widely expected. Governor Macklem noted resilience evident in the latest data but said it "*hasn't fundamentally changed our view*". Employment came in strong in November, with 53,600 positions added, pushing the unemployment rate down to 6.5%, its lowest since July 2024.

UK CPI which came in weaker than expected, with the annual headline and core measures both falling to +3.2% y/y from +3.6% and +3.4% respectively and services inflation falling to +4.4% from +4.5%.

China inflation data was near expectations. CPI jumped higher to +0.7% from +0.2% on the back of food prices going from -2.9% y/y to +0.2%. Trade data showed exports rebounded to +5.9% y/y (+4% expected) and imports disappointed at +1.9% y/y (+3.0% expected).

The OECD's global growth forecasts were little changed, seeing global GDP growth of +3.2% this year, and +2.9% next year.

The MSCI World ex-Aus Index rose +0.80% for the month of December:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	-0.05%	+2.35%	+16.39%	+21.26%	+12.75%	+12.85%
MSCI World ex-AUS	+0.80%	+3.27%	+21.71%	+21.95%	+12.77%	+12.83%
S&P ASX 200 Accum. Index	+1.30%	+3.65%	+10.32%	+11.39%	+9.89%	+9.31%

Source: S&P, MSCI

Domestic Market

In a unanimous decision, the RBA's Monetary Policy Board left the cash rate on hold at 3.60% in December. The Statement retains the view that there remains uncertainty about the stance of monetary policy, and as always, about the outlook for economic activity and inflation too.

The unemployment rate was steady at 4.30% (4.32% unrounded) in November. That was despite some softer signs elsewhere in the report. Employment fell 21k, and the underemployment rate jumped.

Q3 GDP came in softer than expected at +0.4% q/q, versus +0.7% expected (+2.1% on an annual basis).

Dwelling prices rose by +1.0% m/m in November to be +7.5% higher over the year. Melbourne and Sydney both lagged the rest of the country, growing at +0.3% and +0.5% m/m respectively. Total dwelling approvals partially retraced the strong September result. The fall was driven by a -13.1% m/m decline in attached dwellings.

Goods trade surplus for October rose $0.7bn to $4.4bn. Exports rose +3.4% m/m, up by $1.5bn. Imports rose +2% m/m, up by $0.8bn.

The Government's Mid-Year Economic & Fiscal Outlook (MYEFO) forecasts a deficit of $36.8bn in 2025-26, a $5.4bn improvement from the March budget.

The Australian dollar rose around +2.45%, finishing the month at US66.93 cents (from US65.33 cents the previous month).

Credit Market

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

Index	December 2025	November 2025
CDX North American 5yr CDS	56bp	52bp
iTraxx Europe 5yr CDS	51bp	54bp
iTraxx Australia 5yr CDS	63bp	69bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	December 2025	November 2025
Bloomberg AusBond Bank Bill Index (0+YR)	+0.13%	+0.30%
Bloomberg AusBond Composite Bond Index (0+YR)	-0.63%	-0.88%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.37%	+0.34%
Bloomberg AusBond Credit Index (0+YR)	-0.25%	-0.49%
Bloomberg AusBond Treasury Index (0+YR)	-0.76%	-0.93%
Bloomberg AusBond Inflation Gov't Index (0+YR)	-1.38%	-0.76%

Source: Bloomberg

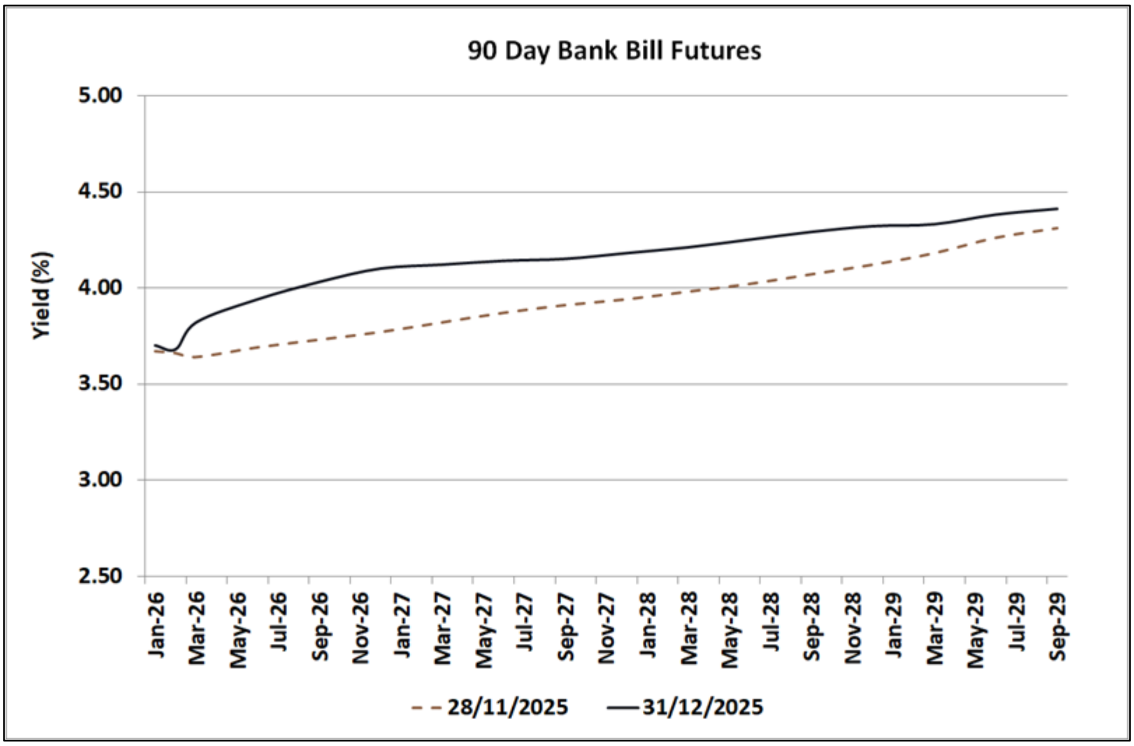
Other Key Rates

Index	December 2025	November 2025
RBA Official Cash Rate	3.60%	3.60%
90 Day (3 month) BBSW Rate	3.74%	3.66%
3yr Australian Government Bonds	4.14%	3.87%
10yr Australian Government Bonds	4.75%	4.51%
US Fed Funds Rate	3.50%-3.75%	3.75%-4.00%
2yr US Treasury Bonds	3.47%	3.47%
10yr US Treasury Bonds	4.18%	4.02%

Source: RBA, ASX, US Department of Treasury

90 Day Bill Futures

Bill futures rose across the board this month as the RBA moved towards a mild tightening bias. The market is now factoring up to two rate cuts in 2026, with one fully priced in by the middle of the year:



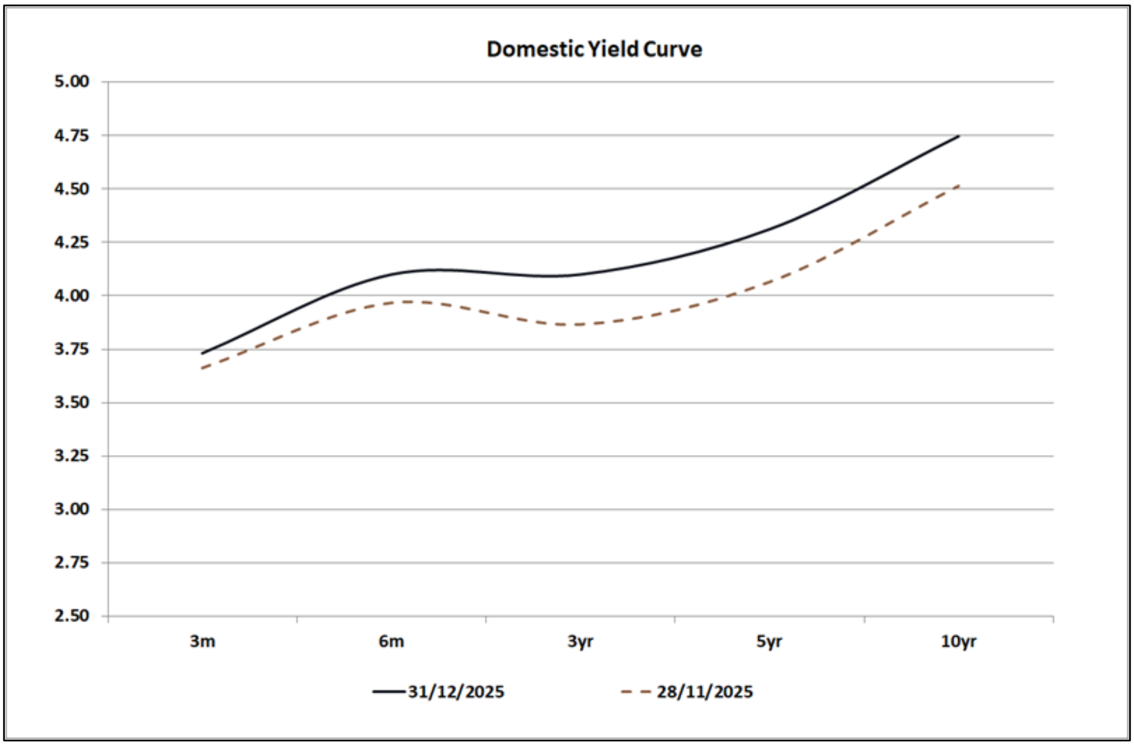
Source: ASX

Fixed Interest Outlook

After cutting rates in December, the US FOMC participant projections reinforce the disagreement within the committee. Three participants anticipated rates should be at 3.75%-4.00% and two thought they would end 2028 at that level. The bulk of the committee sees rates ending next year at 3.00%-3.25% and 3.50%-3.75%. The median dot for 2027 and 2028 remained at 3.00%-3.25%. US Fed Chair Powell said he does not think a hike is anyone's base case next move. He said "*what you see is some people feel we should stop here and that we're at the right place and just wait. Some feel we should cut once or more this year and next.... it is either holding here or cutting a little or cutting more than a little".*

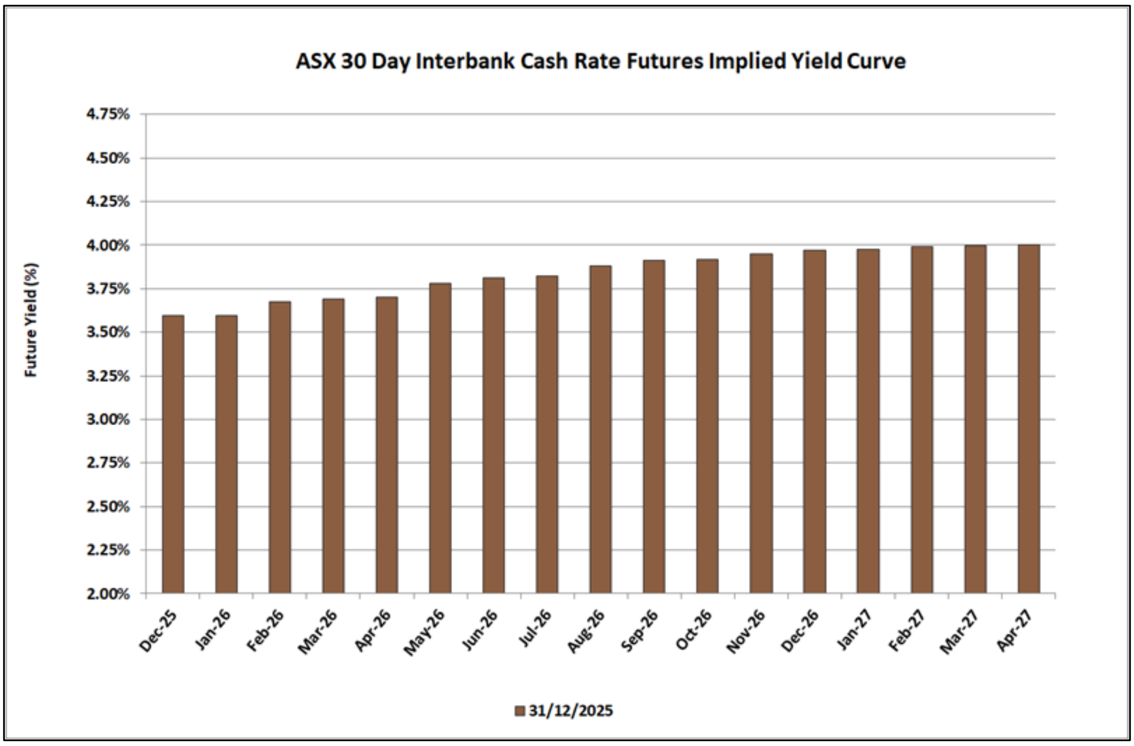
Domestically, the RBA Monetary Policy Board delivered a short Statement after its meeting in December, reflecting a shift in the distribution of risks to both inflation and growth. This represents a further step in a hawkish direction and sets the RBA up to deliver a February rate hike should there be more evidence of a growth pick up and, or evidence that inflationary pressures are persisting. They are evidently now on a tightening bias.

Yields rose up to 23bp at the longer-end of the curve this month:



Source: ASX, RBA

Financial markets are now pricing up to two rate hikes by the end of 2026, with February a 'live' meeting:



Source: ASX

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