9.2. Investment and Loan Borrowings Report as at 31 March 2026

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ATTACHMENTS	1. North Sydney Monthly Report March 2026 [**9.2.1** - 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 31 March 2026.

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 March, the total investment portfolio (which includes Term Deposits and Bonds) provided a return of +0.36% (actual), or +4.30% p.a. (annualised), outperforming the AusBond Bank Bill Index return of +0.32% (actual) or +3.81% p.a. (annualised).

- Returns on investments exceeded the March YTD budget by $1,604,946. This result includes fees paid to Council's investment advisers for the period.

RECOMMENDATION:

1. THAT the report on investments held at 31 March 2026, 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 *Loan Borrowing Policy*.

Total Cash and Investment Balance and Reserves

The total cash and investment balances are $166,216,598. 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. Council had an unrestricted cash balance of $21,011,478. The unrestricted cash balance remains elevated, primarily due to the timing of capital expenditure, timing differences in processing and payments of the invoices, rate instalment receipts, and stronger-than-anticipated investment returns.

Council is finalising the March 2026 Quarterly Budget Review. Any further adjustments and impacts on cash will be reported in the updated budget.

To enhance returns on investment, Council has increased its allocation to short-term term deposits.

All movements in reserves are in accordance with Council's Restricted Reserve Policy.

Cash and Cash at call balance as of 31 March was $34,216,598. 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.

External Restrictions and Internal Allocations	**Feb-26**	**Net Movement**	**Mar-26**
External restrictions			
Developer contributions	$59,833,122	$1,501,780	$61,334,902
Domestic waste management	$21,171,031	-$1,638,201	$19,532,830

External Restrictions and Internal Allocations	Feb-26	Net Movement	Mar-26
Stormwater management charges	$205,534	-$59,935	$145,599
Unexpended Special Rates	$2,306,624	-$330,373	$1,976,251
Specific purpose grants	$6,308,308	-$2,079,234	$4,229,074
Other specific purpose contributions	$1,921,558	$102,979	$2,024,537
Bradfield Park TfNSW Lease Reserve	$857,844	$0	$857,844
Cammeray Park TfNSW Lease Reserve	$650,142	$410,000	$1,060,142
Victoria Cross TfNSW Reserve	$1,500,000	$0	$1,500,000
Olympic Pool Redevelopment	$21,666,649	-$709,382	$20,957,268
Total external restrictions	**$116,420,812**	**-$2,802,366**	**$113,618,446**
Internal allocations			
Project carry-forward balances	$228,202	-$197,491	$30,711
Community Housing - Capital Purchases	$1,010,000	$0	$1,010,000
Community Housing - Major Maintenance	$491,000	$0	$491,000
Deposits, retentions, and bonds	$16,447,885	$476,492	$16,924,377
Employees leave entitlement	$7,127,000	$0	$7,127,000
Income Producing Projects	$498,000	$0	$498,000
I.T. hardware and software	$1,012,667	-$64,671	$947,996
Plant and vehicle replacement	$4,590,742	-$334,734	$4,256,008
Financial Assistance Grant	$0	$0	$0
Kirribilli Neighbourhood Centre Reserve	$61,077	$0	$61,077
Crows Nest Centre Reserve	$237,619	$2,886	$240,505
Total internal allocations	**$31,704,192**	**-$117,518**	**$31,586,674**
Total Restrictions and Allocations	**$148,125,004**	**-$2,919,884**	**$145,205,120**
Unrestricted Cash and Investments	$17,455,732	$3,555,746	$21,011,478
Total Cash and Investments	**$165,580,736**	**$635,862**	**$166,216,598**

Investment Portfolio

The following tables detail the performance of Council's investment portfolio (excluding cash deposits) to the benchmark for the month of March 2026 - and annualised for the year-to-date (including investments that have matured prior to that date).

	March	Annualised YTD
Actual Return	0.36%	4.30%
Benchmark	0.32%	3.81%
Variance	+0.04%	+0.49%

Asset Type	Market Value	Portfolio Breakdown
Term Deposits	$129,000,000	77.61%
Cash	$34,216,598	20.59%
Fixed Bonds	$3,000,000	1.80%
	$166,216,598	**100.00%**

Council's average duration of term deposits, which comprised 77.61% of the investment portfolio, is approximately 173 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 in anticipation of the funding requirements associated with the completion of the North Sydney Olympic 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 31 March 2026 are $1,604,946 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	$5,007,589	$3,077,804	$4,682,750	$0	$1,604,946
Previous Years						
Year	**Original Annual Budget**	**Revised Annual Budget**		**Final Result Interest**	**Final Result FV adjustment**	**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 & Poor's)	Invested	Maximum Policy Holding	Distribution
AA Category	$132,216,598	100.00%	79.54%
A Category	$18,000,000	60.00%	10.83%
BBB Category	$16,000,000	35.00%	9.63%
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 four 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.

Arlo Advisory

Monthly Investment Review

NORTH SYDNEY COUNCIL
CAMMERAYGAL

March 2026

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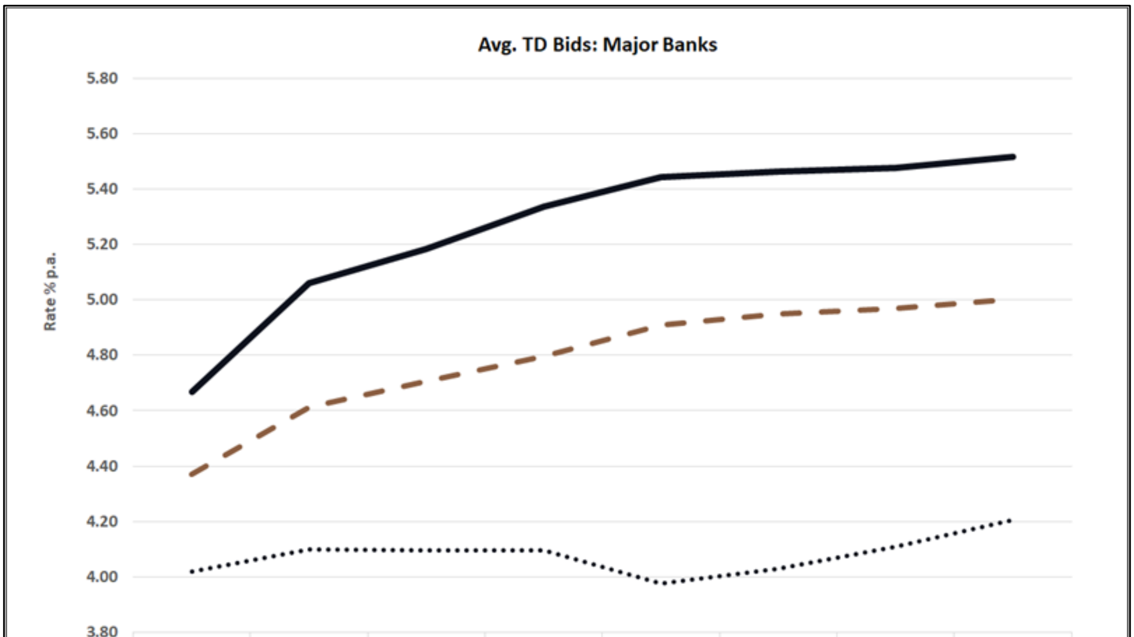
Arlo Advisory

Market Update Summary

Financial markets remain volatile as the Middle East conflict continues to dampen risk sentiment, with the conflict becoming more protracted and strategically broader. The market remains focussed on the inflation consequences of the disruptions, from which central bank expectations have repriced sharply.

In the deposit market, over March, at the short-end of the curve (12 months and less), the average deposit rates offered by the domestic major banks was up to 35bp higher compared to where they were the previous month (February) after the RBA lifted official rates by a further 25bp. At the longer-end of the curve (1-5 years), the average rates were also up to 35bp higher compared to where they were the previous month. Markets are pricing in another two rate hikes for 2026.



	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Mar-2026	4.67	5.06	5.18	5.34	5.44	5.46	5.48	5.52
Feb-2026	4.37	4.61	4.71	4.80	4.91	4.95	4.97	5.00
Sep-2025	4.02	4.10	4.10	4.10	3.98	4.03	4.11	4.21

Source: Imperium Markets

Arlo Advisory

North Sydney Council' Portfolio & Compliance

Asset Allocation

As at the end of March 2026, 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 remain marginally '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 9 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 5¼-5½% p.a. for 1-3 years 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 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 $116m at month-end.

Where liquidity permits (once immediate capital projects are finalised), we recommend new surplus funds be directed to fixed deposits between 9 months to 3 years 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	$48,216,598	29.01%	10%	100%	$118,000,000
✓	91 - 365 days	$118,000,000	70.99%	20%	100%	$48,216,598
✓	1 - 2 years	$0	0.00%	0%	70%	$116,351,619
✓	2 - 5 years	$0	0.00%	0%	50%	$83,108,299
✓	5 - 10 years	$0	0.00%	0%	25%	$41,554,150
		$166,216,598	**100.00%**			

Counterparty

As at the end of March, 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 continue to encourage Council to diversify its investments with other ADIs as this will not only reduce concentration risk, but in all likelihood, this will increase the overall returns of the portfolio.

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit	Available ($)
✓	ANZ (Suncorp)	AA-	$9,000,000	5.41%	30.00%	$40,864,979
✓	CBA	AA-	$34,216,598	20.59%	30.00%	$15,648,381
✓	NAB	AA-	$40,000,000	24.06%	30.00%	$9,864,979
✓	NTTC Treasury	AA-	$3,000,000	1.80%	30.00%	$46,864,979
✓	Westpac	AA-	$46,000,000	27.67%	30.00%	$3,864,979
✓	ICBC Sydney	A	$18,000,000	10.83%	15.00%	$6,932,490
✓	Bank Australia	BBB+	$9,000,000	5.41%	10.00%	$7,621,660
✓	Heritage Bank	BBB+	$7,000,000	4.21%	10.00%	$9,621,660
			$166,216,598	**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 March 2026, all categories were within the Policy limits, with the majority invested in the AA or A rated categories:

Compliant	Credit Rating	Invested ($)	Invested (%)	Max Limit (%)	Available ($)
✓	AA Category	$132,216,598	79.54%	100%	$34,000,000
✓	A Category	$18,000,000	10.83%	60%	$81,729,959
✓	BBB Category	$16,000,000	9.63%	35%	$42,175,809
✓	Unrated ADI Category	$0	0.00%	10%	$16,621,660
		$166,216,598	**100.00%**		

Performance

Council's performance for the month ending March 2026 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	0.34%	0.94%	1.84%	2.77%	3.77%	4.04%	4.08%
AusBond Bank Bill Index	0.32%	0.91%	1.82%	2.75%	3.80%	4.13%	4.15%
Council's T/D Portfolio	0.36%	1.04%	2.08%	3.06%	4.11%	4.05%	3.87%
Council's FRN Portfolio	0.00%	0.00%	0.00%	0.00%	0.00%	2.42%	3.36%
Council's Bond Portfolio	0.13%	0.38%	0.72%	1.04%	1.37%	1.29%	1.25%
Council's Total Portfolio^	**0.36%**	**1.02%**	**2.03%**	**2.99%**	**4.00%**	**3.91%**	**3.74%**
Performance (relative to Bank Bills)	**0.04%**	**0.12%**	**0.21%**	**0.24%**	**0.20%**	**-0.22%**	**-0.41%**

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

Performance (Annualised)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	4.10%	3.85%	3.72%	3.71%	3.77%	4.04%	4.08%
AusBond Bank Bill Index	3.81%	3.73%	3.68%	3.69%	3.80%	4.13%	4.15%
Council TDs	4.37%	4.28%	4.21%	4.10%	4.11%	4.05%	3.87%
Council FRNs	0.00%	0.00%	0.00%	0.00%	0.00%	2.42%	3.36%
Council's Bond Portfolio	1.55%	1.55%	1.44%	1.39%	1.37%	1.29%	1.25%
Council's Total Portfolio^	**4.30%**	**4.21%**	**4.12%**	**4.00%**	**4.00%**	**3.91%**	**3.74%**
Performance (relative to Bank Bills)	**0.50%**	**0.48%**	**0.44%**	**0.32%**	**0.20%**	**-0.22%**	**-0.41%**

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

For the month of March, the total investment portfolio (excluding cash) provided a solid return of +0.36% (actual) or +4.30% p.a. (annualised), outperforming the AusBond Bank Bill Index return of +0.32% (actual) or +3.81% 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.

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 March 2026, Council's **deposit** portfolio was yielding 4.23% p.a. (up 2bp from the previous month), with a weighted average duration of around 173 days (~6 months). We recommend Council slightly increases this weighted average duration, should cash flows allow in future. Despite the possibility of additional rate hikes in 2026, locking in rates above 5¼-5½% p.a. across 1-3 year tenors should still outperform benchmark in the long-run, on assumption that the RBA can get inflation back 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 March, we see value in the following:

ADI	LT Credit Rating	Term	Rate % p.a.
ING	A	5 years	5.60%
Westpac	AA-	5 years	5.60%
NAB	AA-	5 years	5.45%
BoQ	A-	5 years	5.39%
ING	A	4 years	5.55%
Westpac	AA-	4 years	5.55%
NAB	AA-	4 years	5.45%
BoQ	A-	4 years	5.34%
Westpac	AA-	3 years	5.55%
ING	A	3 years	5.50%
NAB	AA-	3 years	5.45%
BankVic	BBB+	3 years	5.40%
Westpac	AA-	2 years	5.50%
ING	A	2 years	5.50%
BankVic	BBB+	2 years	5.50%
Bendigo-Adelaide	A-	2 years	5.44%

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.
BankVic	BBB+	12 months	5.55%
Regional Aus. Bank	BBB+	12 months	5.50%
Bank of Sydney	Unrated	12 months	5.50%
ING	A	12 months	5.46%
Police & Nurses	BBB+	12 months	5.45%
Bank of Sydney	Unrated	9 months	5.40%
NAB	AA-	9 months	5.39%
Bendigo-Adelaide	A-	9 months	5.39%
Regional Australia	BBB+	9 months	5.35%
Heritage and P.C.	BBB+	9 months	5.35%
BankVic	BBB+	6 months	5.40%
Bank of Sydney	Unrated	6 months	5.40%
Bank Australia	BBB+	6 months	5.35%
NAB	AA-	6 months	5.34%
Bendigo-Adelaide	A-	6 months	5.34%
Heritage and P.C.	BBB+	3 months	5.00%
NAB	AA-	3 months	4.96%
Bank of Sydney	Unrated	3 months	4.95%
Westpac	AA-	3 months	4.82%

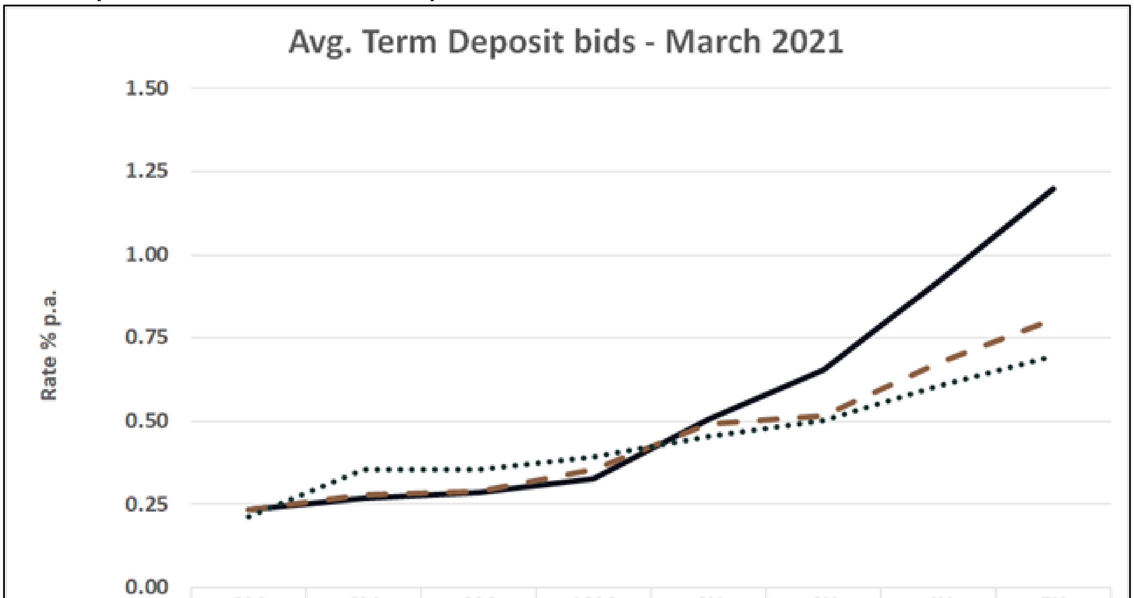
For those investors that do not require high levels of liquidity and can stagger their investments longer term, they will be rewarded over a longer-term cycle if they roll for an average min. term of 12 months, with a spread of investments out to 5 years (this is where we see current value). In a normal 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 the possibility of additional rate hikes in 2026, investors should consider allocating some longer-term surplus funds for diversification purposes by investing across 1-5 year fixed deposits and locking in rates above 5¼-5½% p.a. Should inflation get under control (be within the RBA's 2-3% target band), yields above these levels should still outperform benchmark.

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)



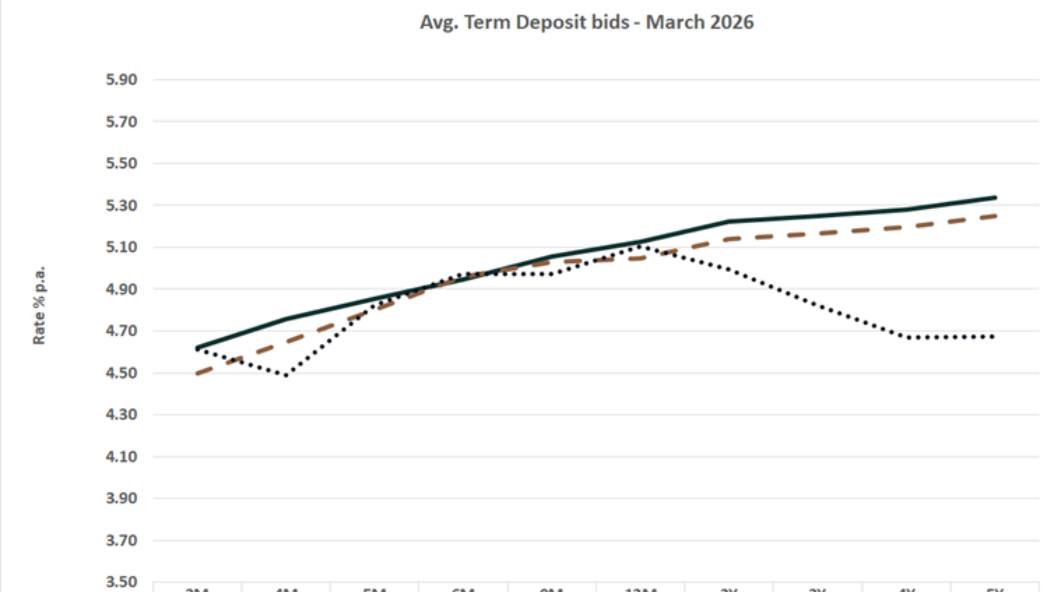
	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	0.23	0.27	0.29	0.33	0.51	0.65	0.92	1.20
A Rated	0.23	0.28	0.29	0.35	0.49	0.52	0.68	0.81
BBB Rated	0.21	0.36	0.35	0.39	0.45	0.50	0.61	0.70

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 (March 2026)



	3M	4M	5M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	4.62	4.76	4.85	4.95	5.06	5.12	5.22	5.25	5.28	5.34
A Rated	4.50	4.65	4.80	4.96	5.03	5.05	5.14	5.17	5.20	5.25
BBB Rated	4.61	4.49	4.83	4.97	4.97	5.11	5.00	4.82	4.67	4.67

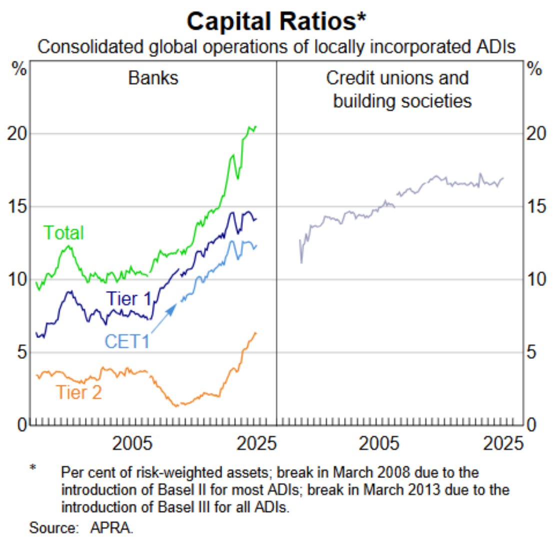
Source: Imperium Markets

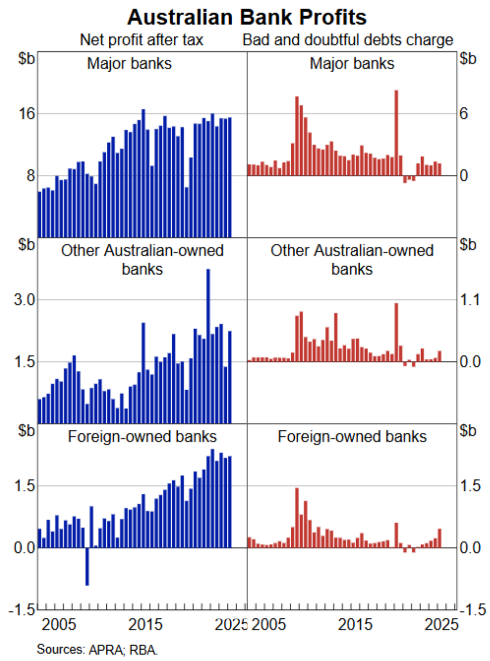
Financial Stability of the Banking (ADI) Sector

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):





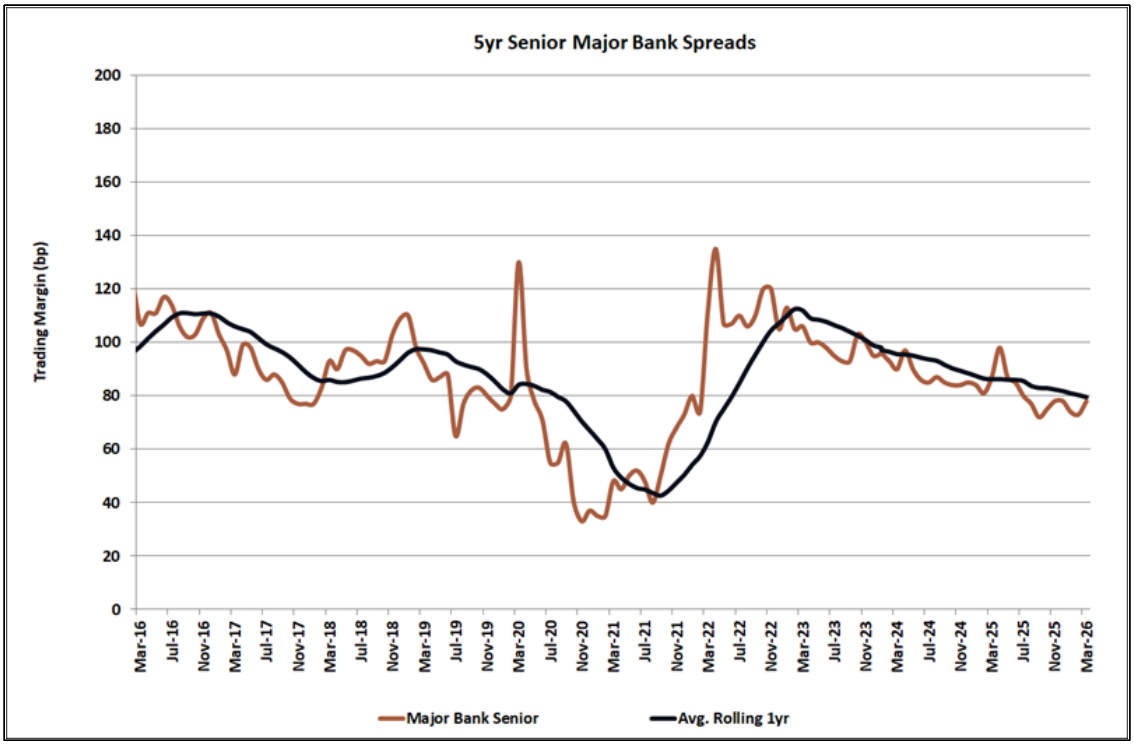
The Council of Financial Regulators (CFR) - being the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC), the Australian Treasury and the Reserve Bank of Australia (RBA), have the ultimate aim of promoting the stability of the financial system, 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 March, amongst the senior major bank FRNs, physical credit securities widened up to 5bp at the long-end of the curve. Long-term major bank senior securities remain 'expensive' on a historical basis, noting the 5yr margin has averaged around the +92bp level over a cycle (currently around +80bp).



Source: IBS Capital

During the month, there was little issuances as issuers were reluctant to tap into the primary markets given the selloff in risk markets. QBank (BBB) issued a 3 year senior private placement FRN at +140bp, whilst MyState (BBB) issued a 3 year senior FRN at +115bp, printing $250m.

Amongst the "A" and "BBB" rated sector, the securities widened up to 20bp at the 3-5 year part of the curve. Overall, credit securities are marginally 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 with the RBA on a tightening bias).

Senior FRNs (ADIs)	31/03/2026	27/02/2026
“AA” rated – 5yrs	+80bp	+73bp
“AA” rated – 3yrs	+63bp	+58bp
“A” rated – 5yrs	+88bp	+80bp
“A” rated – 3yrs	+70bp	+63bp
“BBB” rated – 3yrs	+115bp	+95bp

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 early-2029 for the “AA” rated ADIs (domestic major banks);
- On or before mid-2027 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)

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	2.57	4.79%	5.46%
AU3CB0308955	BoQ	A-	Senior	30/04/2029	3.09	5.30%	5.55%
AU3CB0319879	Nova Sco.	A-	Senior	21/03/2030	3.98	5.23%	5.81%
AU3CB0331056	ING Bank	A	Senior	13/02/2031	4.88	5.21%	5.52%
AU3CB0326890	CBA	AA-	Senior	09/10/2035	9.53	5.18%	5.86%

Economic Commentary

International Market

Financial markets remain volatile as the Middle East conflict continues to dampen risk sentiment, with the conflict becoming more protracted and strategically broader. The market remains focussed on the inflation consequences of the disruptions, from which central bank expectations have repriced sharply.

Across equity markets, the US indices were sold off with the S&P 500 Index falling -5.09%, whilst the tech heavy NASDAQ suffered a loss of -4.75%. Europe's main indices also plunged, with falls across Germany's DAX (-10.30%), France's CAC (-8.90%) and UK's FTSE (-6.73%).

The US Federal Reserve and Bank of Canada held rates steady as expected, both indicating in different ways they are prepared to "*look through*" initial energy price rises. The Swiss National Bank also kept official rates unchanged, at 0.0%.

US February CPI rose +0.3% m/m, with core CPI up +0.2%, both in line with consensus, confirming inflation remains too firm for the FOMC to pivot toward labour-market support for now. The US unemployment rate rose by 0.1% to 4.4% in February. US retail sales for January, while not disappointing, were at best uninspiring. The headline print, at -0.2%, was down a little less than expected.

Canada's February labour report was unequivocally weak, the unemployment rate up 0.2% to 6.7% (flat on a trend basis since late 2024), with employment falling -84k m/m. Canada's annual inflation rate eased to a nine-month low in February with headline at +1.8% (from +2.3%) and core at +2.0%.

UK January GDP was flat against the +0.2% consensus, which UK economic observers note leaves the level of GDP flat from seven months ago. UK headline inflation was in line at +3.0%, but core and services inflation were both 0.1% higher than expected. The Bank of England, in announcing a unanimous (9-0) decision to keep rates at 3.75%, said that all members "*stand ready to act*" to contain inflation.

Norway's Norges Bank held policy unchanged, but its guidance pivoted from expected easing to expected tightening. An earlier plan of three rate cuts by the end of 2028 has been replaced by guidance that an increase "*at one of the forthcoming monetary policy meetings*" will likely be necessary.

The MSCI World ex-Aus Index fell -6.25% for the month of March:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	-5.09%	-4.63%	+16.33%	+16.69%	+10.44%	+12.23%
MSCI World ex-AUS	-6.25%	-3.58%	+19.35%	+17.43%	+10.85%	+12.45%
S&P ASX 200 Accum. Index	-7.15%	-1.61%	+11.67%	+9.54%	+8.63%	+9.44%

Source: S&P, MSCI

Domestic Market

In a close decision based on timing and not the direction (5 votes to 4), the RBA Monetary Policy Board decided to lift the official cash rate by 25bp to 4.10% in March. The main driver of the decision was a judgement that there is a material risk that inflation remains above target for even longer than previously anticipated.

The unemployment rate rose to 4.3% in February (4.1% consensus), despite strong employment growth, up +49k. The rise in unemployment came alongside a 0.2% rise in participation to 66.9%, back to where it was in October last year.

Q4 GDP rose +0.8% q/q and +2.6% y/y, slightly below market expectations.

Dwelling prices across the combined capitals have risen +9.6% over the past year. In February, prices rose +0.6% m/m, driven by the mid-size capitals with Sydney and Melbourne seeing flat outcomes. On a 3-month annualised basis, dwelling prices are rising around +30% in Perth and about +20% in Brisbane and Adelaide, while Sydney (-0.3%) and Melbourne (-1.8%) are now recording declines.

Household spending rose by +0.3% m/m in January to be +4.6% higher over the year, but remains below the recent trend.

The Australian dollar fell around -3.94%, finishing the month at US68.45 cents (from US71.26 cents the previous month).

Credit Market

The global credit indices widened significantly during the month as risk assets were sold off. Overall, credit assets remain resilient despite the escalating geopolitical tensions, with spreads still below longer-term historical averages:

Index	March 2026	February 2026
CDX North American 5yr CDS	67bp	54bp
iTraxx Europe 5yr CDS	73bp	54bp
iTraxx Australia 5yr CDS	92bp	67bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	March 2026	February 2026
Bloomberg AusBond Bank Bill Index (0+YR)	+0.32%	+0.28%
Bloomberg AusBond Composite Bond Index (0+YR)	-1.42%	+0.88%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.25%	+0.32%
Bloomberg AusBond Credit Index (0+YR)	-1.15%	+0.64%
Bloomberg AusBond Treasury Index (0+YR)	-1.36%	+0.98%
Bloomberg AusBond Inflation Gov't Index (0+YR)	-0.89%	+1.08%

Source: Bloomberg

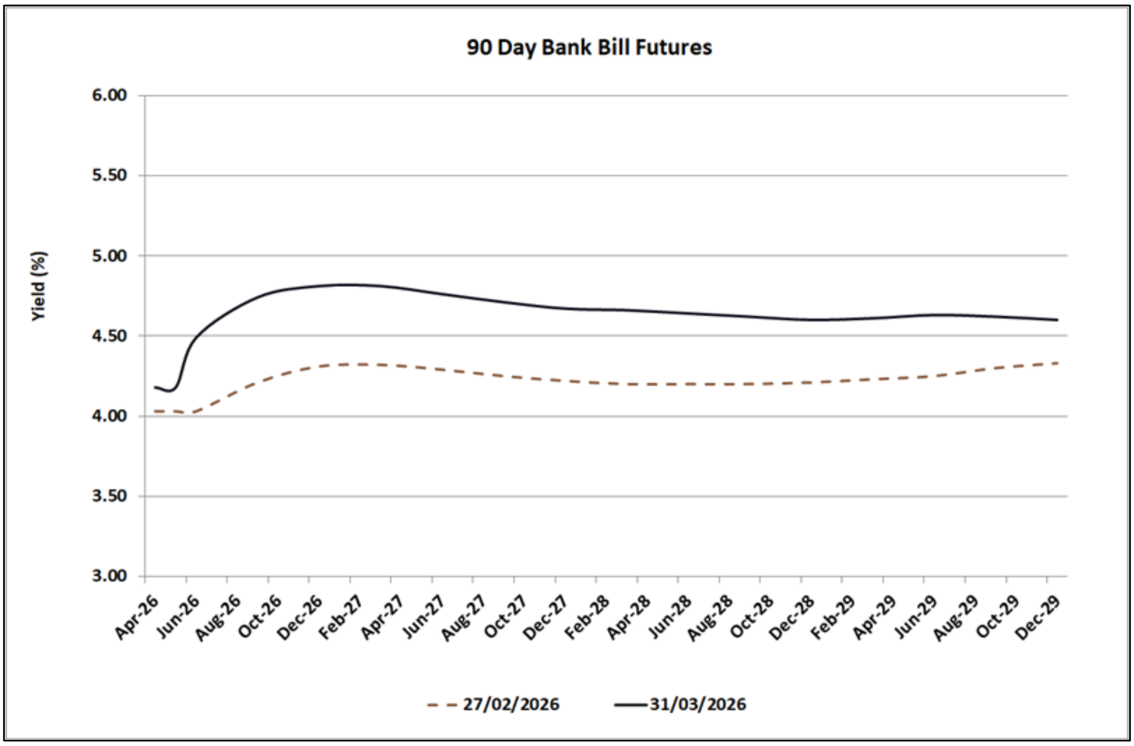
Other Key Rates

Index	March 2026	February 2026
RBA Official Cash Rate	4.10%	3.85%
90 Day (3 month) BBSW Rate	4.32%	3.99%
3yr Australian Government Bonds	4.66%	4.21%
10yr Australian Government Bonds	4.97%	4.64%
US Fed Funds Rate	3.50%-3.75%	3.50%-3.75%
2yr US Treasury Bonds	3.79%	3.38%
10yr US Treasury Bonds	4.30%	3.97%

Source: RBA, ASX, US Department of Treasury

90 Day Bill Futures

Bill futures rose significantly during the month. Markets have reacted quickly after the RBA lifted rates in consecutive meetings, whilst also signalling further rate rises may need to be delivered to temper rising inflation expectations.



Source: ASX

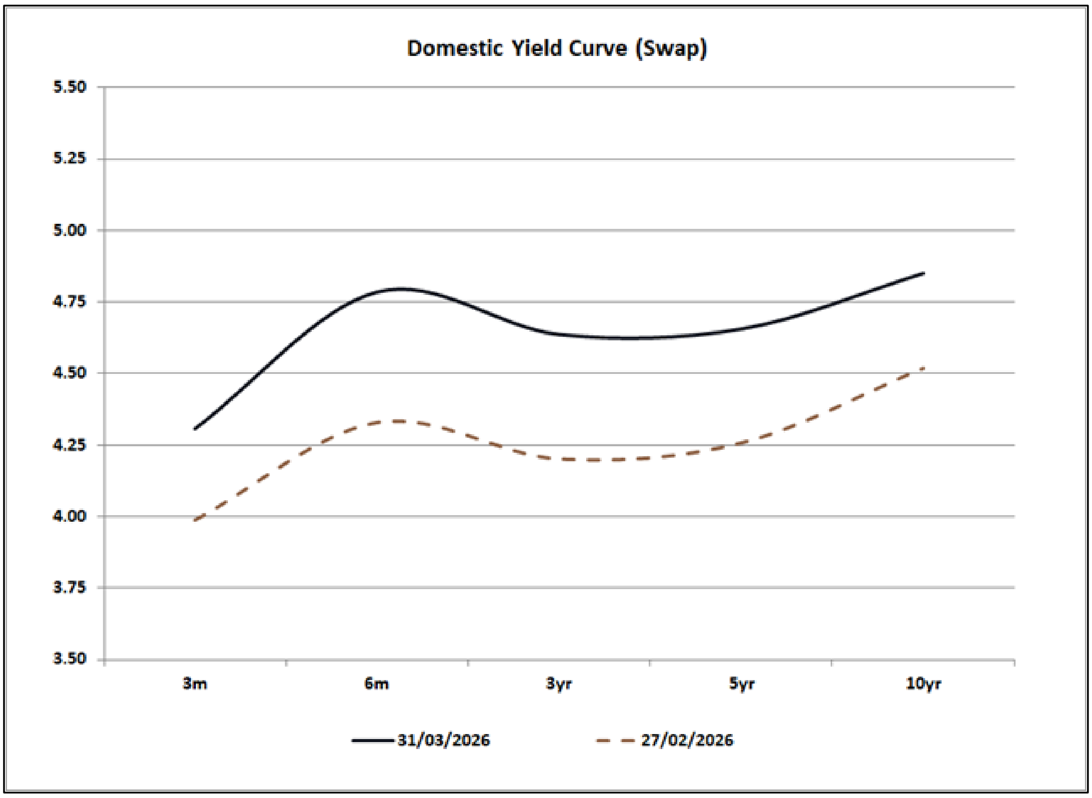
Fixed Interest Outlook

Markets finally flipped from pricing meaningful rate cuts in the US over the next year, to a much flatter and potential rate increase for 2026, as inflation expectations have recalibrated significantly. At month-end, President Trump had told aides he was willing to end the US military campaign against Iran even if the Strait of Hormuz remains largely closed.

Domestically, after lifting rates in February and March, the RBA remains "*attentive to the data and the evolving assessment of the outlook and risks to guide its decisions*". Every meeting is considered "*live*" , with the RBA commenting that "*members agreed that further tightening in monetary policy would likely be required*". Members noted higher oil prices had further increased inflation risk and downside risks to the labour market had abated over prior months.

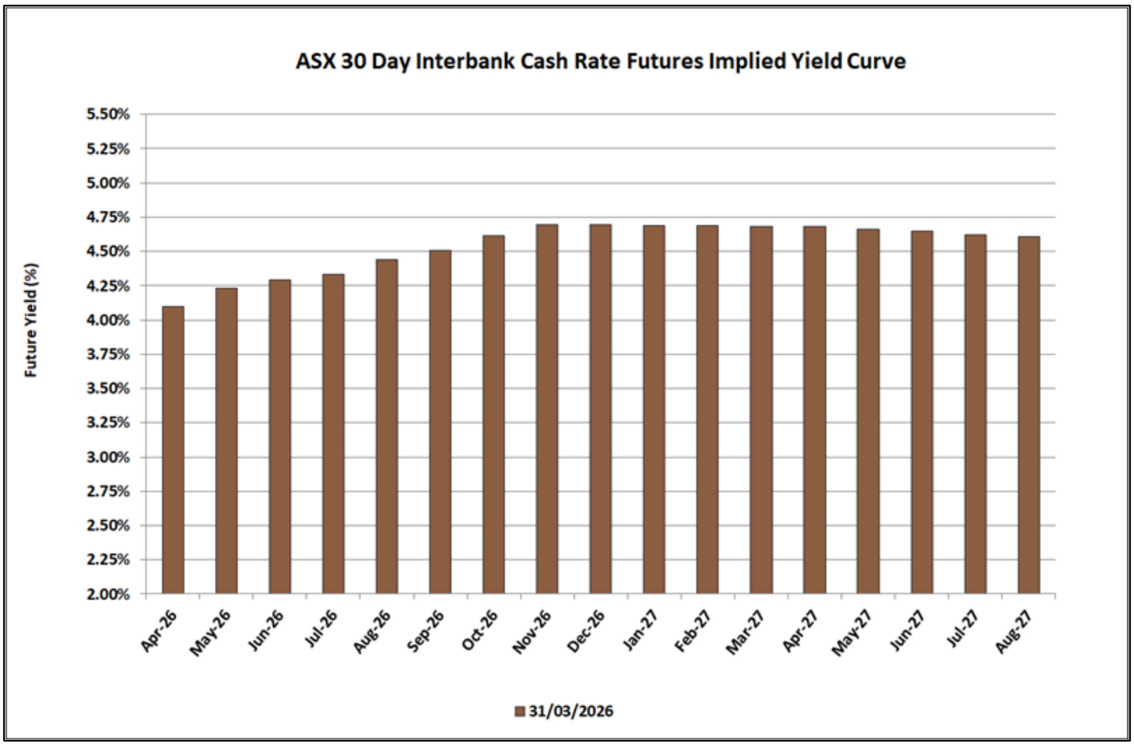
On the path forward, uncertainty about the breadth and duration of the conflict in the Middle East meant "*it was not possible to predict the future path for the cash rate target with any confidence*" and that a longer conflict could have a material bearing on both inflation and economic activity.

Yields rose up to 45bp at the longer-end of the curve this month:



Source: ASX, RBA

Financial markets are currently fully pricing in two more rate hikes in 2026 (by August and October). There is also the potential for a further rate hike if inflation continues to spike or remain elevated:



Source: ASX

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