Ordinary Meeting

Meeting Date: Tuesday, 29 October, 2019
Location: Council Chambers, City Administrative Building, Bridge Road, Nowra

Attachments (Under Separate Cover)

Index

Monthly Report

Shoalhaven City Council

September 2019

CPG Research & Advisory Pty Ltd

25th Anniversary Year

Market

International Markets

Stocks rose in September, shrugging off a bond crash, distress in bank funding markets, ongoing trade tension and the looming Brexit chaos. S&P 500, NASDAQ and Dow Jones finished +1.87%, +0.54% and +2.05% respectively. MSCI World ex-AUS finished +2.34% in local terms.

US 10-year bond yields finished at 1.68% (+18bp). High yield tightened -11bp.

Impeachment processes commenced in the House, as President Trump retaliates against senior Democrats for the Mueller investigation. Reopening corruption investigations into the 2016 conduct of the Bidens was discussed with Ukraine, and Sec Clinton is back under the spotlight. The People's Republic marks its 70th anniversary without end to HK protests.

A blow-up in the repo market required the Fed to inject cash into the system. The Federal Reserve cut 25bp in September, to 1.75%. President Trump wants greater stimulus. The ECB lowered its rate to -0.50%.

US Q2 GDP was affirmed at the second estimate of +2.0% p.a. US inflation fell to 1.7% in August, *vs* 1.8% previously. US retail ex autos was flat in August, below expectations Consumer sentiment was revised higher in September.

Non-farm payrolls increased by a modest 130k in August. Unemployment was unchanged at 3.7% in August (setting record lows for minorities). Employment rose +0.2% to 60.9% of the population. Youth unemployment rose to 8.6%. Korean industrial production slumped -2.9% YOY, falling -3% in August.

EUR fell below $US1.10 ahead of a scheduled Brexit. A UK Supreme Court ruling in London created further chaos by ruling the suspension of parliament unlawful, and void. Parliament has already legislated against a "no-deal" Brexit. PM Johnson faces resignation calls, and seeks an election, but cannot call one.

Growth leaders India and Indonesia slowed from the 7% range to near 5%.

Domestic

The ASX200 gained +1.84%. 10-year bonds closed +13bp, at 1.01%.

The RBA kept its cash rate at 1% in September but cut 25bp after month end. It is prepared to cut further based on employment and other indicators, abandoning its view of 0.75% as a "lower bound." They admitted 1.4% YOY GDP was "*lower than expected*" note that 2H18 was even worse than 1H19. (That is probably not true domestically - it reflects booming exports.)

While headline unemployment was flat, -15.5k full time saw underemployment increase. An average 378hr worked per quarter was flat YoY, after a long downtrend since 2014. July's trade surplus was $7.27 billion in July (-9%) after June's record. MoM, imports increased 3%, while exports grew 1%.

Q2 saw residential property decline -0.7%, an improvement on -3% and -2.3% in prior quarters. YoY lending is down -9.2% to households, and -7.4% to businesses. Retail sales fell -0.1% in July.

Other Markets

WTI oil closed $54.50/bbl (-1.09%), after spiking on a Yemeni drone attack on Saudi production. Gold slid to $1,469 (-3.65%) while iron rebounded to $92.91 (+9.77%). Base metals were mixed: Tin (+1.71%), Copper (+0.88%) and Zinc (+5.84%) rose, while Aluminium (-0.53%) and Nickel (-1.63%) fell.

The $A was little changed at US67.49c (+0.46%), near cyclical lows.

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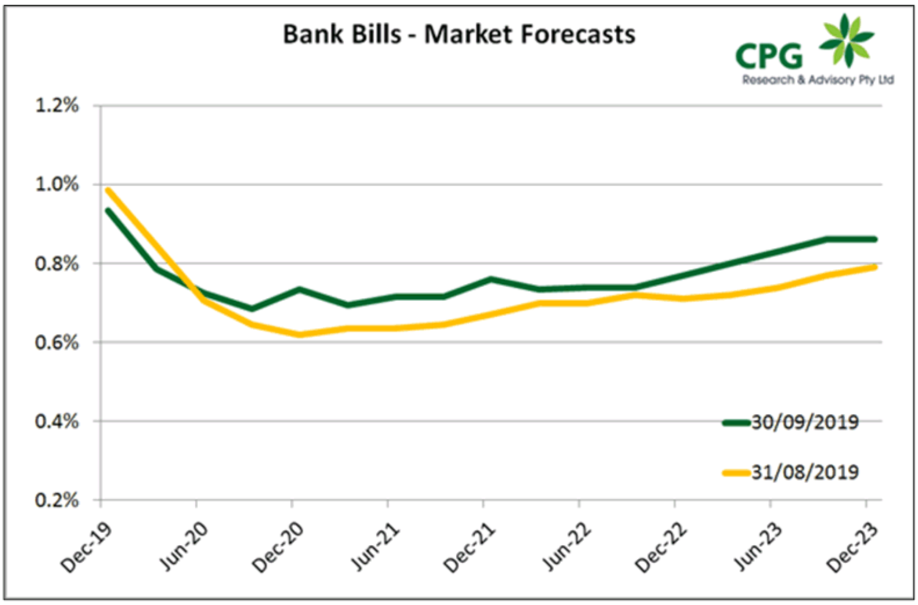
Australian bank bill futures showed slightly less probability of a second cut, looking for rates to reach 0.5% by early 2020 but uncertain beyond that:



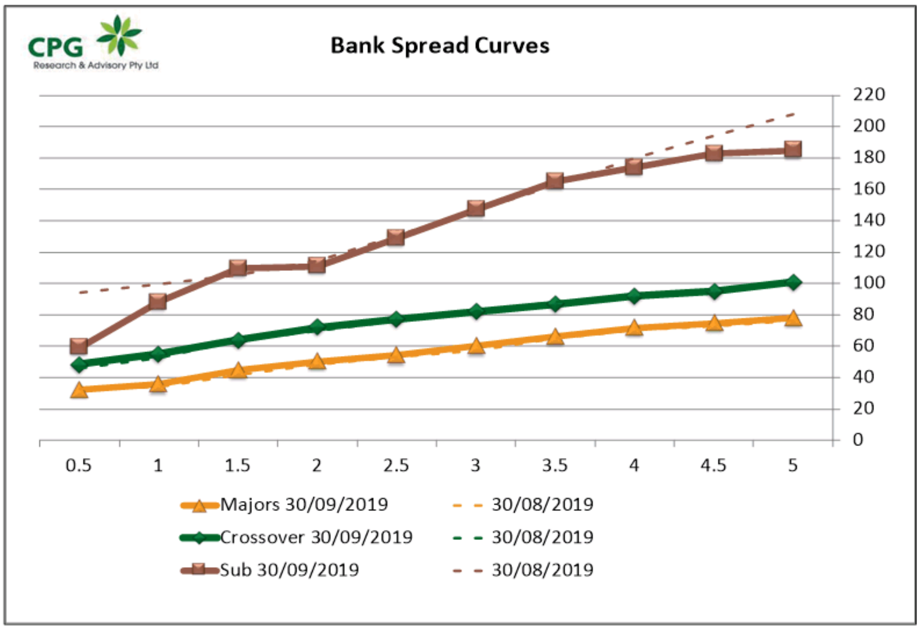
Credit Market

A bond crash, distress in bank funding markets, ongoing trade tension, US impeachment proceedings and the looming Brexit chaos weighed more heavily on credit. Funding stresses emerged in the bank repurchase market (forcing Fed intervention and cash injection).

Credit Indices	**30 Sep 19**	31 Aug 19	30 Sep 18
iTraxx Australia 5 Yr CDS	***67bp***	*64bp*	*75bp*
iTraxx European 5 Yr CDS	**55bp**	49bp	68bp
CDX IG North American 5 Yr CDS	**60bp**	54bp	60bp
CDX HY North American 5 Yr CDS	**350bp**	340bp	332bp

Senior bank FRNs were minimally changed in September.

Sub debt tightened into maturities, with APRA's directives making call and refinance more likely. Recent issues reflected a new-issue premium rather than a new outright level, and have traded well:



Despite stress in US financials, high yield was tighter**, in from +413bp to +402bp** (*BoAMLHY Index, option-adjusted*).

10-year bond yields rose from record lows, closing at 1.01%. *<u>Deposits yields were mixed, generally holding their ground and seeing margins reduce.</u>*

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ESG and Divestment

Council has introduced a "soft divestment" instruction which looks to identify, and preferentially direct investment away from, lenders to fossil fuels. A range of wordings are examined in the current review. The highlighted list is as follows:

Fossil Fuel Counterparties	Exposure $M	FCS	Net	Rating	Policy Limit	Gross	Invested in Fossils
ANZ	$10.50M	$0.00M	$10.50M	AA-	30%	5%	Yes
CBA	$19.75M	$0.25M	$19.50M	AA-	30%	9%	Yes
NAB	$39.80M	$0.25M	$39.55M	AA-	30%	19%	Yes
Westpac**	$18.00M	$0.25M	$17.75M	AA-	30%	9%	Yes
AMP*	$16.49M	$0.25M	$16.24M	BBB+	15%	8%	Yes*
Macquarie Bank	$7.00M	$0.00M	$7.00M	A	15%	3.3%	Yes
ING	$4.00M	$0.25M	$3.75M	Split A	15%	2%	Yes
TCorpIM Cash Fund	$16.51M	$0.00M	$16.51M	AAA	40%	8%	Yes
	$132.05M		$130.80M			62%	
Total	$211.65M		$211.65M				

* Note also AMP Life, AMP Capital have investments in coal and gas companies

**Westpac reflecting net exposure excluding green deposit

As at September 2019, the institutions totalled 62% of Council's investment portfolio (up +1% from last month after netting out Westpac Green deposits, TCorpIM continuing to contribute materially.

Fossil Fuels Exposure Trend	
May 2017	50%
June 2017	48%
July 2017	48%
August 2017	44%
September 2017	43%
October 2017	42%
November 2017	44%
December 2017	43%
January 2018	41%
February 2018	45%
March 2018	59%
April 2018	59%
May 2018	62%
June 2018	61%
July 2018	58%
August 2018	61%
September 2018	57%
October 2018	56%
November 2018	59%
December 2018	56%
January 2019	56%
February 2019	56%
March 2019	57%
April 2019	58%
May 2019	61%
June 2019	62%
July 2019	60%
August 2019	63%
September 2019	62%

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TCorpIM flows reversed what had previously been a significant reduction from 50% to 41%. The allocation to named counterparties has largely tracked the spending of the TCorpIM Cash balance. In fact, **over a third of the exposure is in at-call or Notice accounts**, and could be almost immediately redeemed.

This issued was covered by a recent Council workshop. Councils that have made progress towards "full divestment" have done so through:

- Treating NSW TCorp and TCorpIM as "green" (it is not listed by Market Forces) despite the State being heavily dependent on extraction royalties and the funds being – in our view, this is a fiction.
- Overwhelming purchasing certified green bonds and comparable products on the rare occasions they are available (and they are very rare and completely unable to support the entire Local Government sector).

Westpac have extended the "green bond" certification programme to deposits. The margins have fallen, and are now generally below regular TD margins.

Council invested another $4.0m in a "green bond" certified Westpac 5-year floating rate deposit in September, and a separate adjustment for certified Green bonds and deposits (taking them out of "fossil fuel" investments) is reflected.

Given that certifiable purposes represent a small fraction of bank lending, **there will only be a limited tranche of these deposits available**, although the bank (and possibly other banks) are likely to have recurring offerings.

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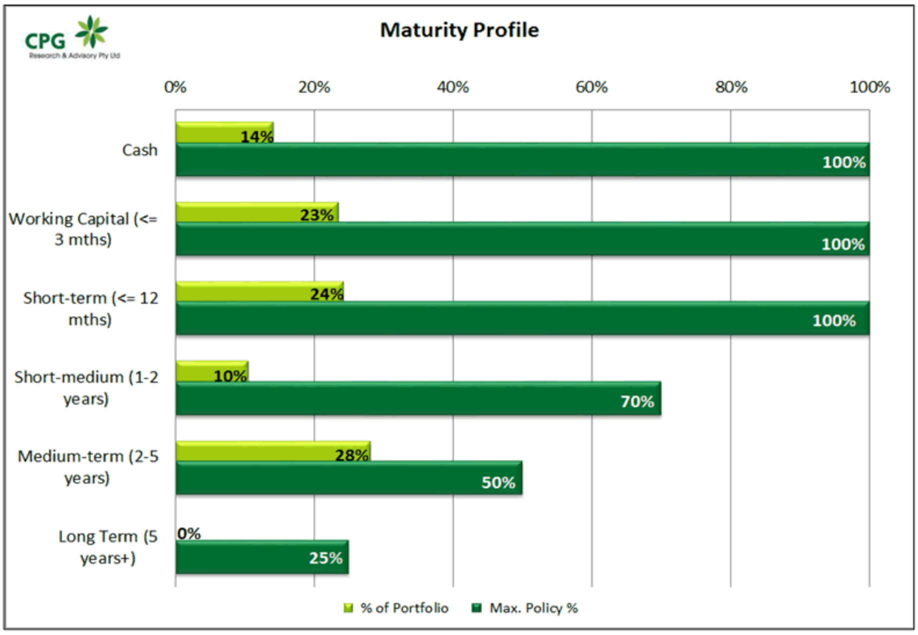
Council's Portfolio

The portfolio has high liquidity, reflecting the TCorpIM cash as well as other short-term deposits. 14% of investments are available at-call and a further 23% of assets mature within 3 months. Another 24% of assets mature within 3-12 months, with relatively little in the short-medium term duration allocation at 10%.

All investments are now within the current Minister's Order. Direct credit investments have, as we expected, outperformed the pooled credit funds after fees and cash-drag. Switching from the last credit fund to direct assets had the effect of lengthening duration ahead of a strong credit rally.



Investments are diversified across the eligible fixed interest universe and well spread across maturities. Available capacity exists in all terms, with medium term particularly relevant to new issues.

In previous months, we have looked to maximise credit allocations as capacity allows; looking to sell maturing FRNs to take up new FRNs. ***Having downgraded our credit view to Neutral on price gains, we prioritise the wider margins in deposits, with deposit rates in the process of converging.***

Council's portfolio remains well balanced between liquid securities and deposits (still the majority, at 59% of the total assets). Cash is held at a relatively high 18% (including AMP 31-day Notice Account).

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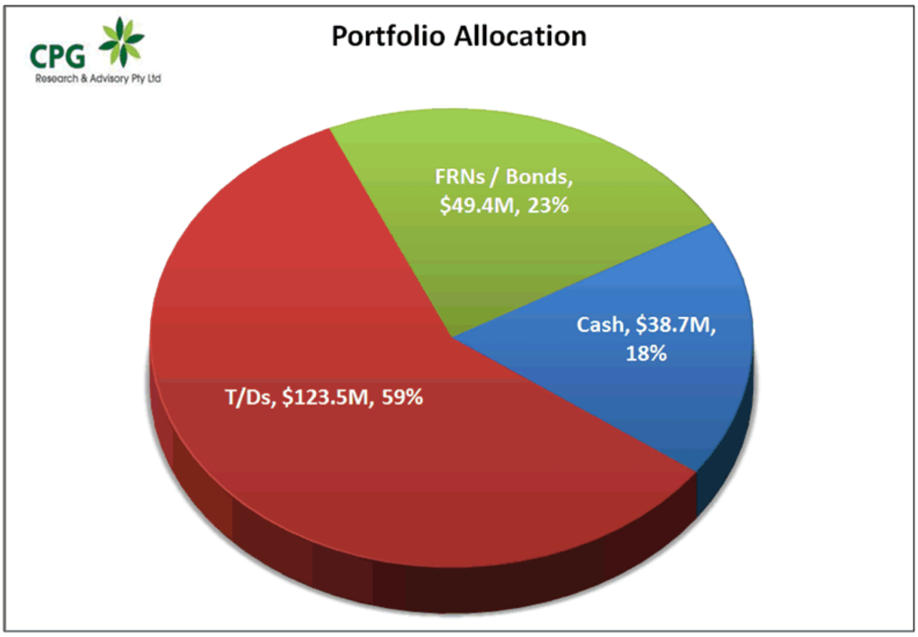
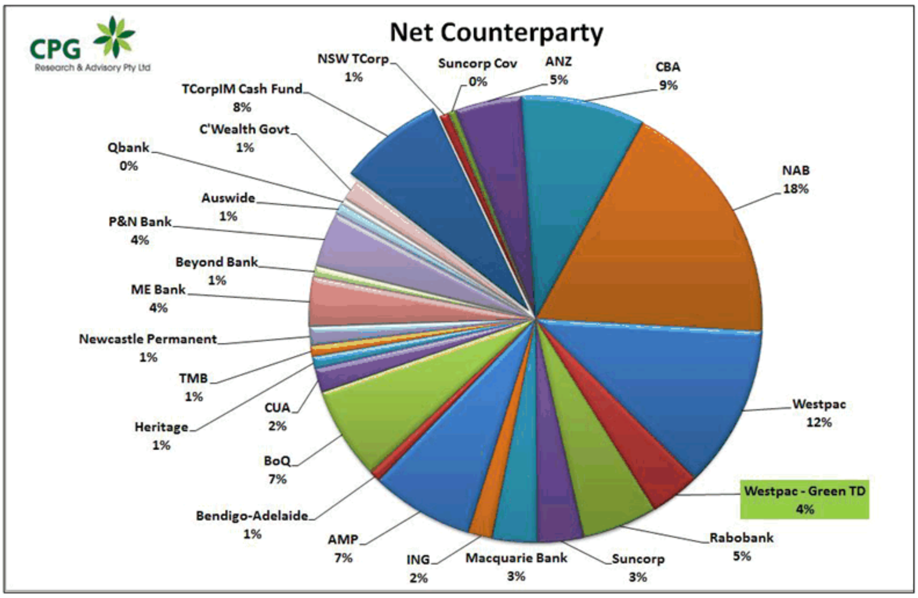


The investment portfolio is well diversified in complying assets across the entire credit spectrum; with NAB dominant, followed by Westpac and NAB.



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Returns - Accrual

Actual

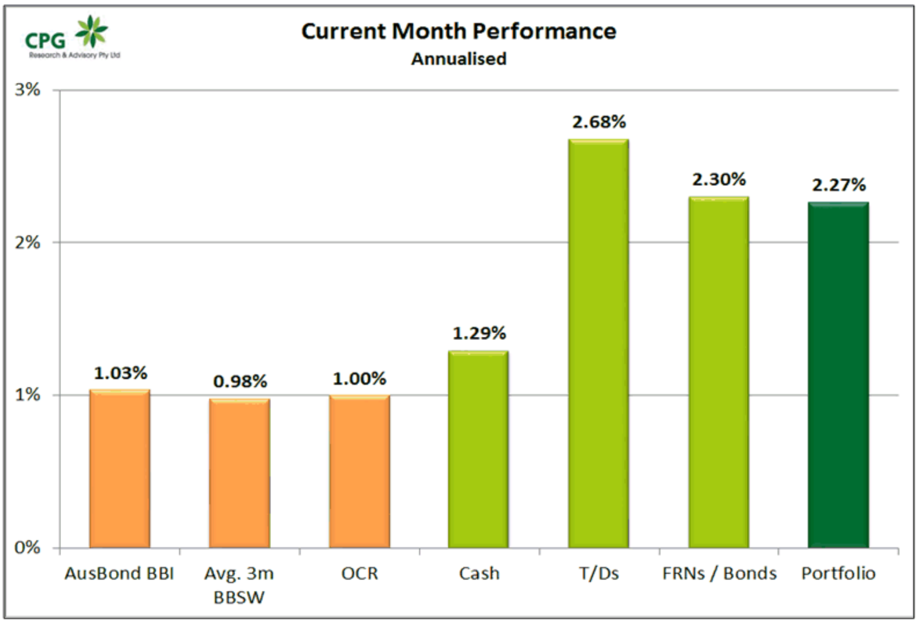
	1 month	3 months	6 months	FYTD	1 year	2 years	3 years	4 years	5 years
Official Cash Rate	0.08%	0.25%	0.60%	0.25%	1.35%	1.43%	1.45%	1.55%	1.69%
Avg. 3m BBSW	0.08%	0.26%	0.63%	0.26%	1.61%	1.75%	1.75%	1.84%	1.95%
AusBond Bank Bill Index	0.08%	0.29%	0.74%	0.29%	1.74%	1.81%	1.79%	1.89%	2.01%
Council Cash	0.11%	0.37%	0.88%	0.37%	1.95%	1.99%	2.05%	2.15%	2.30%
Council T/Ds	0.22%	0.71%	1.49%	0.71%	3.11%	3.16%	3.25%	3.36%	3.48%
Council FRNs / Bonds	0.19%	0.59%	1.30%	0.59%	2.94%	3.09%	3.11%	3.16%	-
Council Total Portfolio	0.18%	0.60%	1.29%	0.60%	2.78%	2.83%	2.89%	3.04%	3.18%

Annualised

	1 month	3 months	6 months	FYTD	1 year	2 years	3 years	4 years	5 years
Official Cash Rate	1.00%	1.00%	1.21%	1.00%	1.35%	1.43%	1.45%	1.55%	1.69%
Avg. 3m BBSW	0.98%	1.02%	1.27%	1.02%	1.61%	1.75%	1.75%	1.84%	1.95%
AusBond Bank Bill Index	1.03%	1.15%	1.48%	1.15%	1.74%	1.81%	1.79%	1.89%	2.01%
Council Cash	1.29%	1.48%	1.77%	1.48%	1.95%	1.99%	2.05%	2.15%	2.30%
Council T/Ds	2.68%	2.84%	3.00%	2.84%	3.11%	3.16%	3.25%	3.36%	3.48%
Council FRNs / Bonds	2.30%	2.36%	2.62%	2.36%	2.94%	3.09%	3.11%	3.16%	-
Council Total Portfolio	2.27%	2.38%	2.59%	2.38%	2.78%	2.83%	2.89%	3.04%	3.18%

The Investment portfolio returned a satisfactory ***2.27%*** *p.a. for the month of September 2019, exceeding the benchmark AusBond Bank Bill Index (1.03% p.a.) by* ***+124bp. This reflects the deposits rolling over at lower rates, FRN quarterly rates reset and the cash drag.*** The benchmark BBI is now reflecting the two RBA rate cuts to July. **Given a very long deposit duration, Council's relative outperformance will tend to be elevated – however, this is largely a function of cash held.** With deposit duration very long, the rate cut after month end will also boost relative performance.

TCorpIM Cash was in line-with its typical spread to benchmark with 0.09% net returns, after resetting to the falling cash rates and also suffering some apparent financials spread widening. It is an extremely dilute exposure to FRNs, and participated in improving credit conditions, and so well below longer-term asset returns. This may fall further to adjust the third rate cut, at the time of writing.



CL19.322 - Attachment 1

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Credit Quality

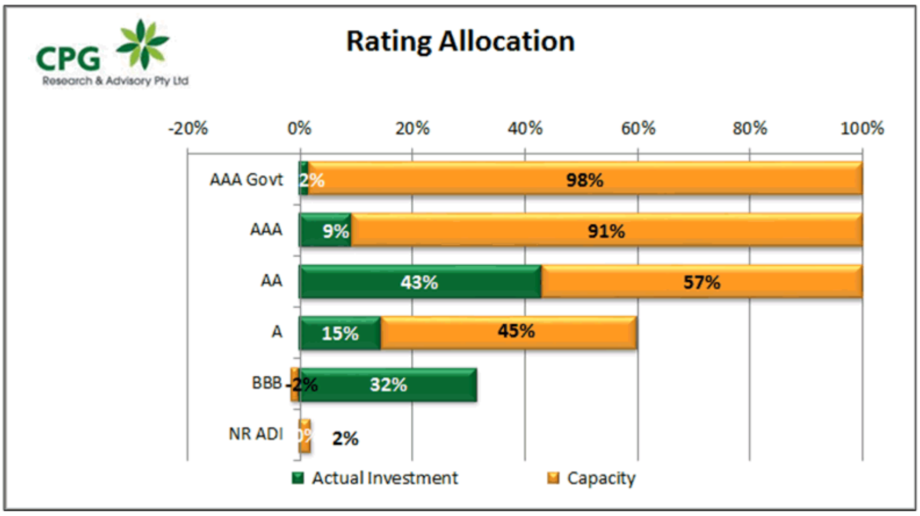
The aggregate limit for BBB is 30% and in NR is now 2% (over-riding single-name limits). Allocations were very conservative in any case.

We have tested the portfolio provided against Council's current Investment Policy and report the following:

> ***Aggregate credit limits (applying only to new investments) are triggered in the BBB range due to the AMP downgrade to BBB+ by S&P. This can be easily adjusted by reducing AMP 31-days' Notice account exposure and maturities but limits any further investments in BBBs:***

Rating Category	Actual	Per C/Party	Aggregate	Rating Category	Actual Investment	Capacity
AAA Govt	2%	100%	100%	AAA Govt	2%	98%
AAA	9%	40%	100%	AAA	9%	91%
AA	43%	30%	100%	AA	43%	57%
A	15%	15%	60%	A	15%	45%
BBB	32%	10%	30%	BBB	*32%*	-2%
NR ADI	0%	5%	2%	NR ADI	0%	2%

Credit quality is mostly directed towards the higher rated ADIs, with capacity levels full in investment grade BBB rated in accordance with Council, temporarily limits future investment opportunities.



AMP was downgraded one notch from A- to BBB+ by S&P in late August. Currently, AMP Bank is "split-rated" as Moody's has an A2 rating (equivalent to single-A).

The current allocation reported **constrains new BBB investment**, but is not a compliance breach as AMP Bank is still split-A.

CL19.322 - Attachment 1

For a split-rated entity, the Policy states:

> *Where there is not a consensus, Council shall use the higher rating in assessing compliance with portfolio policy limits, but for conservatism shall apply the lower in assessing new purchases.*

There was plenty of A rated capacity. The BBB sector is now fully invested.

From May 31st, the merger of the two ADIs mean that Rural Bank and Bendigo & Adelaide Bank will be a single counterparty, with a single level of government insurance. This is immaterial to the current portfolio.

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Other Compliance

We have tested the portfolio provided against Council's current investment policy and report the following:

All counterparties comply.

Counterparties	Exposure $M	FCS	Net	Rating	Policy Limit	Actual	Capacity
TCorpIM Cash Fund	$16.51M	$0.00M	$16.51M	AAA	40%	8%	$68.15M
NSW TCorp	$1.50M	$0.00M	$1.50M	AAA	40%	1%	$83.16M
Suncorp Cov	$1.00M	$0.00M	$1.00M	AAA	37%	0%	$76.41M
ANZ	$10.50M	$0.00M	$10.50M	AA-	30%	5%	$53.00M
CBA	$19.75M	$0.25M	$19.50M	AA-	30%	9%	$44.00M
NAB	$39.80M	$0.25M	$39.55M	AA-	30%	19%	$23.95M
Westpac	$26.00M	$0.25M	$25.75M	AA-	30%	12%	$45.75M
Westpac - Green TD	-$8.00M	$0.00M	-$8.00M	AA-	30%	-4%	
Rabobank	$12.00M	$0.25M	$11.75M	A	15%	6%	$20.00M
Suncorp	$7.50M	$0.25M	$7.25M	A+	15%	3%	$24.50M
Macquarie Bank	$7.00M	$0.00M	$7.00M	A	15%	3%	$24.75M
ING	$4.00M	$0.25M	$3.75M	A	15%	2%	$28.00M
AMP	$16.49M	$0.25M	$16.24M	BBB+	10%	8%	$4.93M
Bendigo-Adelaide	$2.00M	$0.25M	$1.75M	BBB+	10%	1%	$19.42M
BoQ	$15.00M	$0.25M	$14.75M	BBB+	10%	7%	$6.42M
CUA	$3.85M	$0.00M	$3.85M	BBB	10%	2%	$17.32M
Heritage	$1.95M	$0.00M	$1.95M	BBB+	10%	1%	$19.22M
TMB	$1.70M	$0.00M	$1.70M	BBB	10%	1%	$19.47M
Newcastle Permanent	$3.00M	$0.00M	$3.00M	BBB	10%	1%	$18.17M
ME Bank	$8.10M	$0.25M	$7.85M	BBB	10%	4%	$13.32M
Beyond Bank	$2.00M	$0.25M	$1.75M	BBB	10%	1%	$19.42M
P&N Bank	$9.00M	$0.25M	$8.75M	BBB	10%	4%	$12.42M
Auswide	$2.00M	$0.25M	$1.75M	BBB-	10%	1%	$19.42M
Qbank	$1.00M	$0.00M	$1.00M	BBB-	10%	0%	$20.17M
Macquarie Fund	$0.00M	$0.00M	$0.00M	NR	0%	0%	$0.00M
	$211.65M		$208.40M			98%	
C'Wealth Govt		$3.3M	$3.25M	AAA	100%	2%	
Total	$211.65M		$211.65M			100%	

Spending the working capital in TCorpIM would tend to increase exposures proportionately by around 25%. This has resulted in conservative allocations through FY18 and FY19, but is now unlikely to materially impact any compliance data.

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We have also tested Council's current investment exposure against the lower rated counterparties' net assets as Council's Policy prescribes maximum concentration. We report the following:

Only P&N Bank is larger than the net assets % threshold for individual counterparty, and will be run down over time.

Counterparties	Exposure $M	Rating	Max port %	Actual	Net Assets $M	Max allowed % of net assets	Net Exposure	
AMP	$16.49M	BBB+	10%	8%	$6,791	2%	0.243%	1.76%
Bendigo-Adelaide	$2.00M	BBB+	10%	1%	$5,632	2%	0.036%	1.96%
BoQ	$15.00M	BBB+	10%	7%	$3,885	2%	0.386%	1.61%
CUA	$3.85M	BBB	10%	2%	$1,037	2%	0.371%	1.63%
Heritage	$1.95M	BBB+	10%	1%	$487	2%	0.400%	1.60%
TMB	$1.70M	BBB	10%	1%	$493	2%	0.345%	1.66%
Newcastle Permanent	$3.00M	BBB	10%	1%	$925	2%	0.324%	1.68%
ME Bank	$8.10M	BBB	10%	4%	$1,485	2%	0.545%	1.45%
P&N Bank	$9.00M	BBB	10%	4%	$291	2%	3.097%	-1.10%
Qbank	$1.00M	BBB-	10%	0%	$78	2%	1.278%	0.72%
Beyond Bank	$2.00M	BBB	10%	1%	$487	2%	0.411%	1.59%
Auswide	$2.00M	BBB-	10%	1%	$237	2%	0.845%	1.16%

We note that these are before application of the government insurance scheme (FCS).

P&N Bank's investments are longer dated.

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25th Anniversary Year

Term Deposits

At month-end, deposits accounted for approximately 59% of the total investment portfolio. The weighted average duration of the deposit portfolio is approximately **1.15 years, down 30 days from last month. It is significantly longer than the peer group average**. This places Council in an excellent position through FY20.

Maintaining a longer duration has produced a measurable uplift in yield at a time when deposit rates have plunged. The current average yield of **2.58%** ***is far above any deposit of all terms following the fall in rates to record lows,*** at around +178bp over benchmark. This is a very satisfactory level, given the current interest rate environment, with everything below 2% at any term at time of writing.

Newly established e-bank Judo is an outlier, as would be expected for an unproven model. It is very well capitalised at launch.

***Investors continue to be rewarded for lengthening to 1-2 years; less so at longer durations.* Deposit rates are likely to fall even further in the near future, although with bond yields backing up margins are now more normal again.**

The RBA reduced rates further by -25bp to a record low of 0.75% at their October board meeting, after month end. This will inevitably cause a further hit to income from reinvestments. Council purchased longer dated assets ahead of the recent round of rate cuts.

Long rates set new record lows, breaking through 2%. 1-year is still standout relative value but rates have been falling in September against rising bond yields. We are again close to fair value.

We note (typically short-dated) broker specials for deposits around short-term investment requirements are advised in the TD daily rate sheet regularly.

Council invested additional $4.0m in Macquarie Bank's broker special TD @ 1.80% for 6 months. Relevant portfolio data follows:

Term Deposit Statistics

Percentage of total portfolio	58%
Weighted Average Yield	2.58%
Weighted Average Duration	1.1 yrs

Credit Quality of Deposits

AAA^	1%
AA	47%
A	21%
BBB	31%
Unrated ADI	0%
Total	**100%**

^ *Calculation excludes the Financial Claims Scheme (FCS)*

We refer to the detailed analysis in our September ***Fixed Interest Analytics***.

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25th Anniversary Year

Credit: FRNs & Fixed Bonds

Senior bank FRNs were minimally changed in September, after August's modest widening. Major banks are now consistently issuing near the +80 area, having found little investor interest during the price spike into the +60bp area.

Domestic risk assets had already been recovering from Q4 through the year, aided by the election being out of the way. **Certainty on the regulatory environment has allowed investors to confidently price in far stronger major banks, with 8% capital going to 11% over 4 years.**

US 10-year bond yields finished at 1.68% (+18bp), despite another Fed rate cut – bonds sold off heavily into the Fed meeting, before partially recovering late in the month. Australia 10-year bonds closed +13bp, at 1.01% on the weaker global yield, again ignoring relatively weak domestic data.

Additional Tier 2 and possible lack of "bail-in senior" **prompted S&P to remove the Negative Outlook and affirm major bank ratings to AA- Stable**. ***We expect Fitch to follow***.

Tier 3 has been used elsewhere, and may comply with the Minister's Order. APRA's directives for capital concentrate on Tier 2, despite industry fears that the required volume may be impossible for the market to support.

If Australia is alone in escalating Tier 2 ratios, the market may cope. If other regulators follow, that would be more difficult and probably require the creation of a Tier 3 (non-preferred senior) class.

We refer to the detailed analysis in our September ***Fixed Interest Analytics***.

At the start of CY19, we considered AA rated FRNs the best fit for Council's current circumstances. ***Near-term, the combination of very tight credit and wide deposit margins make deposits the more compelling strategic priority – this is now reaching the end of its superior relative value, as margins contract and deposits converge towards RBA interest rates***.

We believe FRNs have recovered to fully priced levels, and would rate them *Neutral* in a normal market. ***We expect primarily switches in 2019. In the near term, deposit margins remain wider – more so at the 1-year point***. It is likely given the pace of deposit normalisation in the month that we will return to a balanced view by year end.

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TCorpIM Funds

TCorpIM Cash returned +0.09% in September, +1bp above the AusBond Bank Bill Index of +0.08%, falling significantly after its recovery from a difficult 2018 for all credit strategies. This should be the turning point, with the Cash Fund likely to return much lower returns in FY20 due to much lower floating rates.

Council's investment balance in TCorpIM was reduced by ~-$10m in September at ~7.80% of the portfolio. It is no longer competitive with Notice Accounts. It accounts for a large % of total assets albeit reduced in September – this **is solely utilised for the purpose of planned expenditures**.

<u>We note that future returns will likely be far below those reported in 1H19.</u>

TCorpIM Cash is a diluted exposure to bank FRNs, with the majority in State paper.

Sentiment was somewhat poorer in physical credit markets. The euphoria in August for bank investments waned as banks were unable to issue in volume anywhere near the marked levels.

BBSW was 0.98% at month end, with the running yield close to 1% for the fund. This is no longer competitive against products such as Notice Accounts, and dilutes the portfolio as a whole. We note that BBSW is falling rapidly with the expectation of rate cuts – as such, this impacts expected returns for both the fund and the benchmark.

The intention is run the Short-Term Income Fund (formerly Strategic Cash) somewhat closer to a fully-invested credit fund than to the "halfway" strategy averaging +40bp previously. The change of name is part of this rebranding away from cash, to be a rolling FRN strategy. There are also signs that the Cash strategy is seeking additional returns in bank credit, but running yields remain very low. There is little evidence that they would approach the performance of an undiluted FRN strategy.

The TCorpIM fund works only as a substitute for daily liquidity – it does not have any merit as a strategic allocation.

Short term, even bank bills have a non-zero duration. This has resulted in returns spiking when rates move lower.

TCorpIM Cash also includes some bank FRNs. These experienced dramatic spread compression and hence capital gains.

In both cases, the super-normal returns are reflected in lower returns the following months.

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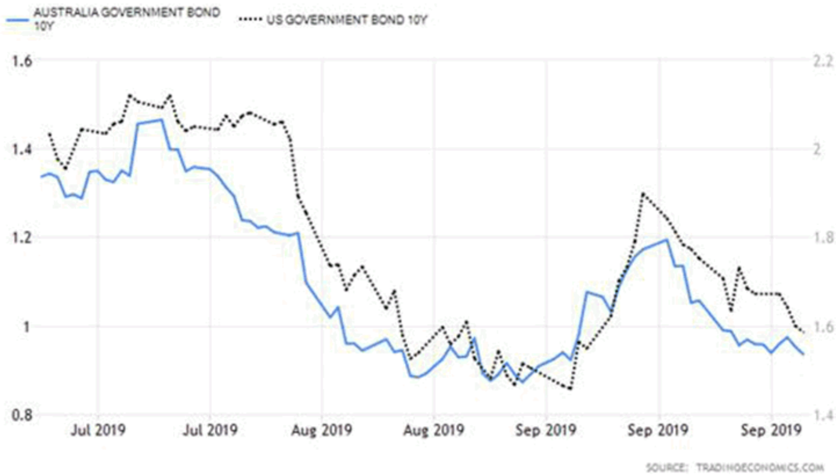
Fixed Interest Outlook

The Reserve Bank paused in September, but cut the Official cash rate to 0.75% after month end at the October meeting. They remain on easing bias, at what used to be considered the "lower bound" at 0.75%. The RBA once felt that below 0.75%, financials could not pass on further cuts as zero-interest at-call accounts are too great a share of total funding.

They have previously discussed other unconventional monetary measures that would kick in if further stimulus was required. **These include measures modelled on the US Fed's quantitative easing**, particularly long-bond purchase programmes intended to further drive down borrowing costs. However, it would be doing so at a time when the government is no longer a net borrower – **quite different to when central banks in the US and Japan had been monetising deficits**.

US bonds weakened +18bp to 1.7%, selling off heavily intra-month:



Australian yields were +13bp higher.

The Fed cut another -25bp in September, to 1.75% - currently guiding that there will be no further cuts**. The market factors in a much lower path for US rates, and for Australian.** Poor manufacturing data suggests that the Fed will face further pressure to ease – and that is certainly the view of the Trump Administration, who again linked the poor data to Fed overtightening.

A day before the Fed meeting, money market rates spiked from 1.7% to hit 10% - a GFC-like level of funding distress. The Fed calmed markets with the injection of $75bn cash into the system and cut rates, but ripples continue.

Is it a coincidence that this happened just as the bond crash was at its worst? Due to regulatory rules, banks and insurers are forced buyers of bonds, at any price – even at negative yields. The European prudentially regulated institutions are funding the government debt – and paying for the privilege. (Under the old 30/20 rule, superannuation funds were also forced bond investors…)

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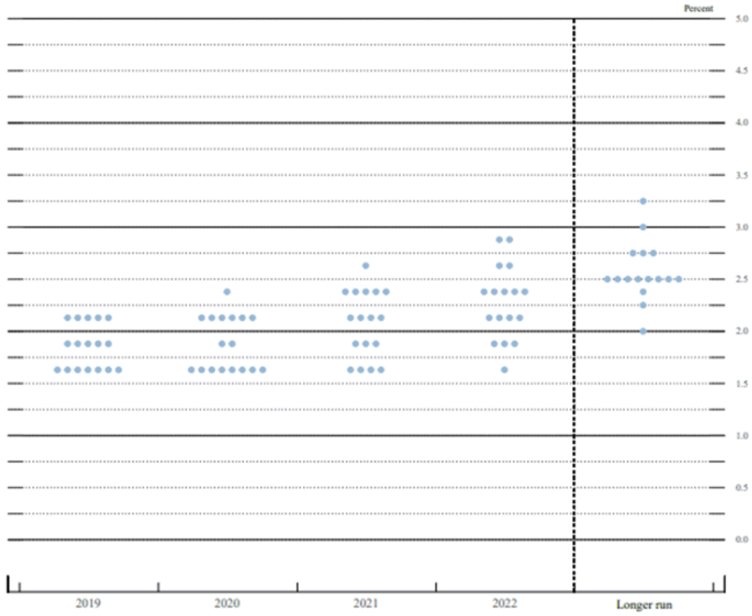
When yields back up heavily, asset values move alarmingly. However, banks and insurers must all be well in the money on their purchases, even at mid-September levels.

The Fed's current "dot plot" suggests relative **consensus within the Fed**, with few extreme outliers and no change from June's estimate of 2.5% as the long-term average:



Meanwhile, high yield tightened against the trend of weaker investment-grade credit, in from +413bp to +402bp.

<u>A month with lots of bad news, but while the safer end of the market (bank repos) traded like it's September 2008 rather than 2019, high yield and sub debt tightened!</u>

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Portfolio Listing

Shoalhaven City Council as at 30/09/2019						
Authorised Deposit-Taking Institution (ADI)	ST Rating	Security Type	Principal/ Current MF Value	Term	Interest Rate	Maturity Date
Macquarie Bank	A-1	TD	$4,000,000.00	127	1.80%	7-Jan-20
National Australia Bank	A-1+	TD	$2,000,000.00	192	1.75%	20-Mar-20
Suncorp Metway Ltd Bank	A-1	TD	$3,000,000.00	152	1.65%	3-Feb-20
Westpac Bank	A-1+	TD	$4,000,000.00	365	1.73%	3-Sep-20
State Insurance Regulatory Authority	A-1+	TD	$1,501,000.00	365	2.50%	4-Oct-19
National Australia Bank	A-1+	TD	$2,000,000.00	406	2.75%	23-Oct-19
Westpac Bank	A-1+	TD	$3,000,000.00	414	2.70%	23-Oct-19
Rabobank	A-1	TD	$2,000,000.00	180	2.50%	29-Oct-19
Members Equity Bank	A-2	TD	$2,000,000.00	269	2.70%	25-Nov-19
Suncorp Metway Ltd Bank	A-1	TD	$2,000,000.00	271	2.60%	25-Nov-19
AMP Bank	A-2	TD	$1,000,000.00	180	2.65%	26-Nov-19
Bendigo Bank	A-2	TD	$2,000,000.00	198	2.40%	27-Nov-19
National Australia Bank	A-1+	TD	$4,000,000.00	162	2.07%	27-Nov-19
Macquarie Bank	A-1	TD	$3,000,000.00	90	1.80%	28-Nov-19
Beyond Bank Australia	A-2	TD	$2,000,000.00	182	2.40%	2-Dec-19
Commonwealth Bank Australia	A-1+	TD	$25,000.00	183	2.06%	4-Dec-19
Bank of Qld	A-2	TD	$2,000,000.00	231	2.35%	18-Dec-19
Members Equity Bank	A-2	TD	$2,000,000.00	204	2.28%	18-Dec-19
National Australia Bank	A-1+	TD	$2,000,000.00	294	2.62%	18-Dec-19
National Australia Bank	A-1+	TD	$3,000,000.00	292	2.63%	18-Dec-19
National Australia Bank	A-1+	TD	$2,000,000.00	282	2.58%	18-Dec-19
National Australia Bank	A-1+	TD	$2,000,000.00	254	2.50%	18-Dec-19
National Australia Bank	A-1+	TD	$2,000,000.00	211	2.32%	18-Dec-19
Auswide Bank	A-2	TD	$2,000,000.00	224	2.23%	29-Jan-20
National Australia Bank	A-1+	TD	$3,000,000.00	154	1.67%	29-Jan-20
National Australia Bank	A-1+	TD	$2,000,000.00	212	2.01%	29-Jan-20
National Australia Bank	A-1+	TD	$2,000,000.00	204	1.97%	29-Jan-20
ING Bank (Australia) Ltd	A-1	TD	$2,000,000.00	728	2.87%	12-Feb-20
National Australia Bank	A-1+	TD	$4,000,000.00	184	1.70%	21-Feb-20
ING Bank (Australia) Ltd	A-1	TD	$2,000,000.00	728	2.85%	26-Feb-20
National Australia Bank	A-1+	TD	$3,000,000.00	201	1.80%	26-Feb-20
Westpac Bank	A-1+	TD	$2,000,000.00	734	2.86%	9-Jun-20
Commonwealth Bank Australia	A-1+	TD	$2,000,000.00	1094	2.77%	11-Jun-20
AMP Bank	A-2	TD	$5,000,000.00	366	2.45%	24-Jul-20
Bank of Qld	A-2	TD	$2,000,000.00	751	2.90%	23-Sep-20
Police and Nurses Bank	A-2	TD	$2,000,000.00	1459	3.50%	18-Dec-20
Rabobank	A-1	TD	$2,000,000.00	1464	3.00%	16-Jun-21
Bank of Qld	A-2	TD	$2,000,000.00	1821	3.85%	15-Dec-21
Bank of Qld	A-2	TD	$5,000,000.00	1827	3.80%	21-Feb-22
Police and Nurses Bank	A-2	TD	$5,000,000.00	1825	3.74%	22-Feb-22
Westpac Bank	A-1+	TD	$6,000,000.00	1826	3.00%	2-Mar-22
Bank of Qld	A-2	TD	$2,000,000.00	1826	3.80%	22-Mar-22
Westpac Bank	A-1+	TD	$2,000,000.00	1826	2.83%	24-Aug-22
Westpac Bank	A-1+	TD	$2,000,000.00	1826	3.00%	24-Aug-22
Rabobank	A-1	TD	$2,000,000.00	1826	3.39%	13-Sep-22
Police and Nurses Bank	A-2	TD	$2,000,000.00	1836	3.51%	28-Sep-22
Rabobank	A-1	TD	$2,000,000.00	1828	3.40%	23-Aug-23
Rabobank	A-1	TD	$2,000,000.00	1826	3.13%	21-Feb-24
Westpac Bank	A-1+	TD	$4,000,000.00	1827	2.21%	19-Jun-24
Total Term Deposits			**$123,526,000.00**			

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25th Anniversary Year

Authorised Deposit-Taking Institution (ADI)	ST Rating	Security Type	Principal/ Current MF Value	Term	Interest Rate	Maturity Date
Teachers Mutual Bank Limited	A-2	FRN	$1,000,000.00	1095	2.43%	28-Oct-19
Credit Union Australia	A-2	FRN	$2,250,000.00	1096	2.50%	20-Mar-20
Members Equity Bank	A-2	FRN	$1,000,000.00	1096	2.38%	6-Apr-20
Newcastle Permanent Building Society	A-2	FRN	$2,000,000.00	1827	2.48%	7-Apr-20
Newcastle Permanent Building Society	A-2	FRN	$500,000.00	1064	2.48%	7-Apr-20
Heritage Bank	A-2	FRN	$1,250,000.00	1096	2.29%	4-May-20
Suncorp Metway Ltd Bank	A-1	FRN	$2,000,000.00	1827	2.36%	20-Oct-20
Bank of Qld	A-2	FRN	$1,000,000.00	1461	2.21%	26-Oct-20
Members Equity Bank	A-2	FRN	$1,500,000.00	1096	2.22%	9-Nov-20
Qbank	A-2	FRN	$1,000,000.00	1096	2.88%	6-Dec-20
Newcastle Permanent Building Society	A-2	FRN	$500,000.00	731	2.06%	26-Feb-21
Rabobank	A-1	FRN	$2,000,000.00	1826	2.89%	4-Mar-21
Heritage Bank	A-2	FRN	$700,000.00	1096	2.43%	29-Mar-21
Members Equity Bank	A-2	FRN	$1,600,000.00	1095	2.39%	16-Apr-21
National Australia Bank	A-1+	FRN	$1,000,000.00	1826	2.14%	12-May-21
Bank of Qld	A-2	FRN	$1,000,000.00	1826	2.45%	18-May-21
Suncorp Metway Ltd Bank	A-1	FRN	$1,000,000.00	1826	2.29%	22-Jun-21
Teachers Mutual Bank Limited	A-2	FRN	$700,000.00	1,096	2.55%	2-Jul-21
Commonwealth Bank Australia	A-1+	FRN	$1,000,000.00	1826	2.34%	12-Jul-21
ANZ	A-1+	FRN	$1,000,000.00	1826	2.10%	16-Aug-21
Credit Union Australia	A-2	FRN	$600,000.00	1096	2.63%	6-Sep-21
AMP Bank	A-2	FRN	$1,500,000.00	1096	2.45%	10-Sep-21
Credit Union Australia	A-2	FRN	$1,000,000.00	1096	2.62%	4-Mar-22
ANZ	A-1+	FRN	$1,000,000.00	1826	2.37%	7-Mar-22
Suncorp Metway Ltd Bank	A-1	FRN	$500,000.00	1826	1.94%	16-Aug-22
Westpac Bank	A-1+	FRN	$2,000,000.00	1826	2.21%	6-Mar-23
Commonwealth Bank Australia	A-1+	FRN	$1,000,000.00	1916	1.85%	25-Apr-23
ANZ	A-1+	FRN	$1,000,000.00	1826	1.87%	9-May-23
Commonwealth Bank Australia	A-1+	FRN	$500,000.00	1826	1.90%	16-Aug-23
National Australia Bank	A-1+	FRN	$1,500,000.00	1826	2.11%	26-Sep-23
ANZ	A-1+	FRN	$4,000,000.00	1826	2.41%	16-Dec-23
Commonwealth Bank Australia	A-1+	FRN	$2,000,000.00	1826	2.26%	11-Jan-24
National Australia Bank	A-1+	FRN	$2,300,000.00	1826	2.00%	26-Feb-24
National Australia Bank	A-1+	FRN	$2,000,000.00	1827	2.18%	19-Jun-24
Westpac Bank	A-1+	FRN	$1,000,000.00	1919	1.87%	16-Aug-24
ANZ	A-1+	FRN	$3,500,000.00	1827	1.74%	29-Aug-24
Total Senior Securities			**$49,400,000.00**			
			$172,926,000.00			
Shoalhaven City Council as at 30/09/2019						
Grandfathered	**STRating**	**SecurityType**	**Current Valuation**			**Maturity Date**
Macquarie Global Income Opportunities	NR	MF	$0.00			T+3
TCorpIM Cash Fund	AAAm	MF	$16,514,542.58			T+0
			$16,514,542.58			
Product	**STRating**	**SecurityType**	**Current Valuation**			**Maturity Date**
AMP At Call	A-2	Cash	$726.00		1.65%	At-Call
AMP Notice Account	A-2	Cash	$8,987,462.23		1.90%	31 Days
NAB Transaction Account	A-1+	Cash	$0.00		1.25%	At-Call
CBA Operating Account	A-1+	Cash	$6,126,315.65		1.00%	At-Call
CBA Business Online Saver	A-1+	Cash	$7,096,998.96		1.35%	At-Call
			$22,211,502.84			
Total Investment Portfolio			**$211,652,045.42**			

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