Shoalhaven City Council

Meeting Attachments

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Ordinary Meeting

Meeting Date: Monday, 27 March, 2023
Location: Council Chambers, City Administrative Building, Bridge Road, Nowra

Attachments (Under Separate Cover)

Index

Monthly Investment Report

February 2023

IMPERIUM MARKETS
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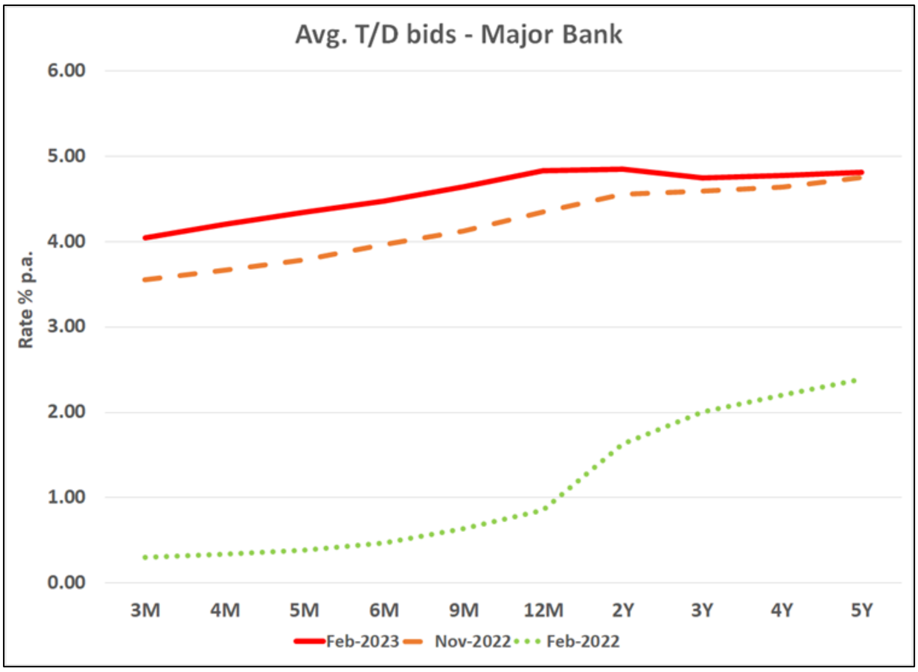
Market Update Summary

Risk markets were generally sold off in February after several stronger-than-expected reports on the US economy (particularly employment) changed the outlook on the peak of the interest rate cycle.

Domestically, the RBA continues to signal that it expects to increase interest rates, with at least two or three more 25bp hikes over the months ahead, likely locking in a March rate hike, and then possibly another in April and/or May. Thereafter, noting the lags in monetary policy, a pause around the end of Q2-Q3 is likely whilst the RBA monitors the economic data. Interestingly, RBA Governor Lowe commented that "*if inflation expectations stay well anchored, the supply-side problems get fixed up, wage growth and wage setting doesn't move up too fast and we can come back on that narrow path. So that is a plausible scenario: that rates rise and then start coming down next year. But a few things are going to have to go right for that to happen. It's possible, but there are other scenarios as well*".

Despite more rate rises on the horizon, given an upward sloping deposit curve, maintaining a slightly longer average duration position on deposits will continue to outperform shorter durations. The deposit market has largely already factored in the current rate hike cycle, reflected by the flattening of the curve over the past few months, particularly at the long end of the curve (+2yrs). Interestingly, some 2-5 year deposit rates continue to be offered slightly below or close to the same level as the 12 month rate from a number of ADIs, as the market factors in the potential for a recession and official rates to subsequently fall in coming years:



Source: Imperium Markets

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'New' investments above 4¾% p.a. is currently available if Council can continue to place the majority of its surplus funds for terms of 12 months to 2 years. *With recessionary fears being priced in coming years, investors may take an 'insurance policy' against future rate cuts by investing across 3-5 year fixed deposits and locking in rates above or close to 5% p.a. (small allocation only).*

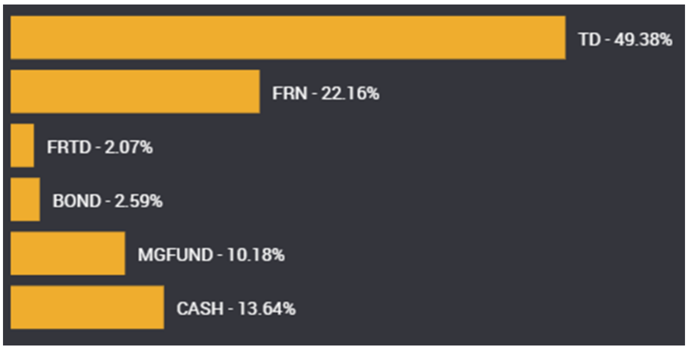
Council's Portfolio & Compliance

Asset Allocation

The majority of the portfolio is directed to fixed and floating rate term deposits, followed by liquid senior FRNs. The remainder of the portfolio is directed to the managed with TCorp, the introduction of fixed bonds with Northern Territory, as well as cash accounts.

Senior FRNs remain relatively attractive as spreads have widened over the past year – new issuances should now be considered again on a case by case scenario. In the interim, fixed deposits for 12 months to 3 years appear quite appealing following the spike in medium-to longer-term yields during the rate hike cycle.

With recessionary fears being priced in coming years, investors can choose to allocate some longer-term surplus funds and undertake an insurance policy against any potential future rate cuts by investing across 3-5 year fixed deposits, locking in and targeting yields close to or above 5% p.a.



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Term to Maturity

All maturity limits (minimum and maximum) comply with the Investment Policy. Short-Medium Term (1-2 years) assets account for around 11% of the total investment portfolio, with capacity of ~$113m remaining.

We recommend surplus funds be allocated to 1-3 year fixed rate term deposits in combination with any attractive new FRNs (3-5 years) as they come to market (refer to respective sections below).

Compliant	Horizon	Invested ($)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available ($)
✓	0 - 90 days	$42,372,531	21.91%	0%	100%	$151,035,334
✓	91 - 365 days	$75,000,000	38.78%	0%	100%	$118,407,866
✓	1 - 2 years	$21,592,151	11.16%	0%	70%	$113,793,355
✓	2 - 5 years	$34,762,838	17.97%	0%	50%	$61,941,095
✓	5 - 10 years	$19,680,345	10.18%	0%	25%	$28,671,621
		$193,407,866	**100.00%**			

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Individual Counterparty Limits

As at the end of February 2023, all counterparty exposures comply within the Policy limits. Capacity limits are also dependent on the movement in the cash balances. Overall, the portfolio is well diversified across the entire credit spectrum, including some exposure to the regional bank (lower rated) ADIs.

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	Bendigo Covered	AAA	$4,014,550	2.08%	100.00%	$189,393,316
✓	ING Covered	AAA	$2,210,412	1.14%	100.00%	$191,197,453
✓	ANZ	AA-	$3,235,038	1.67%	100.00%	$190,172,827
✓	CBA	AA-	$39,804,079	20.58%	100.00%	$153,603,787
✓	NAB	AA-	$46,219,269	23.90%	100.00%	$147,188,597
✓	Northern Terr.	AA-	$5,000,000	2.59%	100.00%	$188,407,866
✓	NSW (SIRA)	AA+	$3,077,000	1.59%	100.00%	$190,330,866
✓	Westpac	AA-	$15,004,873	7.76%	100.00%	$178,402,993
✓	Citibank	A+	$1,000,535	0.52%	100.00%	$192,407,331
✓	Macquarie	A+	$5,962,905	3.08%	100.00%	$187,444,961
✓	Rabobank	A+	$5,984,416	3.09%	100.00%	$187,423,450
✓	Suncorp	A+	$6,751,976	3.49%	100.00%	$186,655,889
✓	Bank of China	A	$2,486,948	1.29%	100.00%	$190,920,918
✓	ING Bank	A	$20,000,000	10.34%	100.00%	$173,407,866
✓	Bendigo	BBB+	$1,652,400	0.85%	10.00%	$17,688,387
✓	AMP Bank	BBB	$4,724,640	2.44%	5.00%	$4,945,753
✓	Auswide Bank	BBB	$1,499,568	0.78%	5.00%	$8,170,825
✓	MyState Bank	BBB	$3,000,000	1.55%	5.00%	$6,670,393
✓	Newcastle PBS	BBB	$2,098,910	1.09%	5.00%	$7,571,483
✓	NSW TCorp LTG	Unrated	$19,680,345	10.18%	100.00%	$173,727,521
			$193,407,866	**100.00%**		

In late June 2022, Standard & Poor's downgraded Suncorp-Metway from AA- to A+ (negative watch). Suncorp recently announced that it is undertaking a strategic review of its banking operations. The downgrade reflects S&P's view that the Suncorp Group's likelihood of support for the bank had "slightly" diminished and that it was no longer a core part of the Group. In July 2022, ANZ (AA-) announced it was putting a bid to buy Suncorp's banking division for ~$3.9bn. Should that takeover be formalised, Suncorp-Metway's (A+) current credit rating is likely to be upgraded to ANZ's (AA-).

We remain supportive of the regional and unrated ADI sector (and have been even throughout the post-GFC period). They continue to remain solid, incorporate strong balance sheets, while exhibiting high levels of capital – typically, much higher compared to the higher rated ADIs. Some unrated ADIs have up to 25-40% more capital than the domestic major banks, and well above the Basel III requirements.

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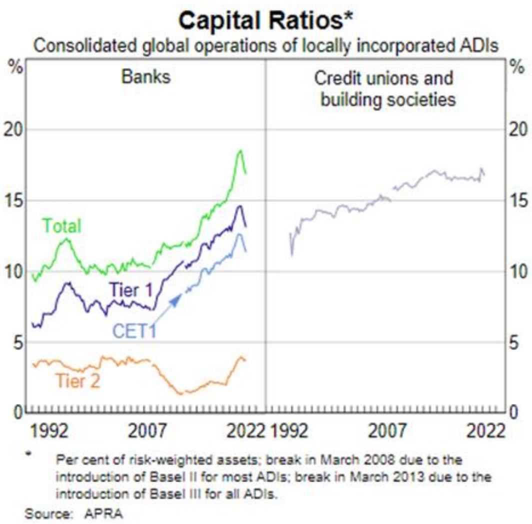
Overall, the lower rated ADIs (BBB and unrated) are generally now in a better financial position then they have been historically (see the Capital Ratio figure below). The financial regulator, APRA has recently noted that the Common Equity Tier 1 capital of Australian banks now exceeds a quarter of a trillion dollars. It has increased by $110 billion, or more than 70%, over the past eight years. Over the same time, banks' assets have grown by 44%. Some of the extra capital is supporting growth in the banking system itself but clearly, there has been a strengthening in overall resilience and leverage in the system is lower.

We believe that deposit investments with the lower rated ADIs should be considered going forward, particularly when they offer 'above market' specials. Not only would it diversify the investment portfolio and reduce credit risk, it would also improve the portfolio's overall returns. The lower rated entities are generally deemed to be the more 'ethical' ADIs compared to the higher rated ADIs.

In the current environment of high regulation and scrutiny, all domestic (and international) ADIs continue to carry high levels of capital. There is minimal (if any) probability of any ADI defaulting on their deposits going forward – this was stress tested during the GFC and the pandemic period. **APRA's mandate is to "*protect depositors*" and provide "*financial stability*".**



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Overall Credit Quality Limits

The portfolio is well diversified from a credit ratings perspective. The portfolio is predominately invested amongst the investment grade ADIs (BBB- or higher). The allocation to the Unrated category reflects the investment in the TCorp Long-Term Growth Fund.

All ratings categories are within the Policy limits:

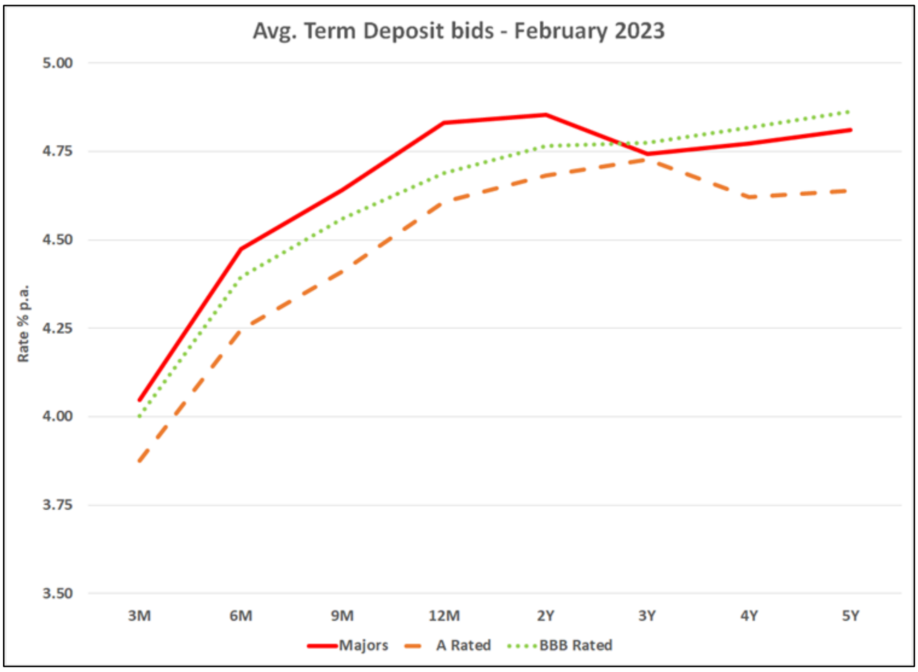
Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AAA Category	$6,224,962	3%	100%	$187,182,903
✓	AA Category	$112,340,260	58%	100%	$81,067,606
✓	A+ to A Category	$42,186,780	22%	100%	$151,221,086
✓	A- Category	$0	0%	40%	$77,363,146
✓	BBB+ to BBB Category	$12,975,518	7%	30%	$45,046,841
✓	BBB- & NR Category	$0	0%	5%	$9,670,393
✓	NSW TCorp LTGF	$19,680,345	10%	100%	$173,727,521
		$193,407,866	**100.00%**		

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) since mid-2020[1], 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 from the likes of Council. 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.

In the interim, the 'abnormal' marketplace still largely exists, with the higher rated banks (majors) often paying a higher rate of return over the lower rated institutions across various parts of the curve on any particular day. Over the next few years, with the RBA now removing these cheap borrowing facilities, this should result in some of the lower rated banks (BBB rated) starting to become more competitive as the market starts to 'normalise'. Council should have a larger opportunity to invest a higher proportion of its surplus funds with the lower rated institutions (up to Policy limits), from which the majority are not lending to the Fossil Fuel industry or considered more 'ethical'.

We are slowly seeing this trend emerge, as has been the case in recent months:

[1] The RBA's Term Funding Facility (TFF) allowed the ADI to borrow as low as 0.10% fixed for 3 years: https://www.rba.gov.au/mkt-operations/term-funding-facility/overview.html



Source: Imperium Markets

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Performance

Council's performance for the month ending February 2023 (excluding cash) is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	0.25%	0.77%	1.42%	1.70%	1.81%
AusBond Bank Bill Index	0.24%	0.76%	1.40%	1.68%	1.76%
T/D Portfolio	0.22%	0.65%	1.07%	1.28%	1.58%
FRT/D Portfolio	0.32%	1.02%	2.05%	2.60%	3.66%
FRN Portfolio	0.33%	1.05%	2.08%	2.84%	4.23%
Bond Portfolio	0.09%	0.27%	0.54%	0.72%	1.08%
Council's Fixed Interest^	**0.25%**	**0.76%**	**1.32%**	**1.68%**	**2.28%**
TCorp LTGF	-0.84%	-0.29%	3.14%	6.39%	-1.13%
TCorp Long-Term Target^^	0.45%	1.45%	2.93%	3.96%	6.00%
Council's Total Portfolio	**0.12%**	**0.67%**	**1.55%**	**2.16%**	**1.77%**
Performance (to Bank Bills)	**-0.12%**	**-0.09%**	**0.14%**	**0.47%**	**0.02%**

^Council's Fixed Interest portfolio returns excludes Council's cash account holdings.
^^TCorp has a target of 3.5% above inflation of ~2.5%. The long-term target is therefore 6% p.a. on an ongoing basis.

Performance (Annualised)	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	3.35%	3.18%	2.89%	2.56%	1.81%
AusBond Bank Bill Index	3.18%	3.11%	2.85%	2.54%	1.76%
T/D Portfolio	2.91%	2.67%	2.17%	1.93%	1.58%
FRT/D Portfolio	4.30%	4.20%	4.17%	3.93%	3.66%
FRN Portfolio	4.39%	4.33%	4.23%	4.30%	4.23%
Bond Portfolio	1.12%	1.09%	1.09%	1.08%	1.08%
Council's Fixed Interest^	**3.31%**	**3.12%**	**2.69%**	**2.53%**	**2.28%**
TCorp LTGF	-10.37%	-1.17%	6.44%	9.76%	-1.13%
TCorp Long-Term Target^^	6.00%	6.00%	6.00%	6.00%	6.00%
Council's Total Portfolio	**1.62%**	**2.73%**	**3.14%**	**3.26%**	**1.77%**
Performance (to Bank Bills)	**-1.56%**	**-0.38%**	**0.30%**	**0.72%**	**0.02%**

^Council's Fixed Interest portfolio returns excludes Council's cash account holdings.
^^TCorp has a target of 3.5% above inflation of ~2.5%. The long-term target is therefore 6% p.a. on an ongoing basis.

For the month of February, the total portfolio (excluding cash) provided a return of +0.12% (actual) or +1.62% p.a. (annualised), underperforming the benchmark AusBond Bank Bill Index return of +0.24% (actual) or +3.18% p.a. (annualised). Over the past year, the portfolio returned a positive return of +1.77% p.a., underperforming bank bills by 0.02% p.a.

The longer-term positive performance continues to be anchored by the handful of deposits that were originally placed for terms greater than 12 months. Going forward, despite additional rate hikes over coming months, Council's interest income can be increased significantly by undertaking a slightly longer duration position (12-24 months), with rates on offer along this part of the curve likely to be offered up to ¼-½% higher than the rate compared to shorter tenors. However, the volatility of the TCorp Long-Term Growth Fund will also greatly impact returns on any month.

The T-CorpIM Growth Fund was the detractor to performance this month, with the Fund returning -0.84% (net actual) as shares (domestic and international) fell. Despite the volatility in the Fund over the past few years, the Growth Fund has performed well over longer-term time periods.

NSW T-CorpIM Growth Fund

The Growth Fund returned -0.84% (actual) for the month of February. The losses this month were attributed to international shares (the MSCI World ex-Australia Index fell -2.42%) and domestic shares (the S&P ASX 200 Accumulation Index fell -2.45%). Also contributing to the losses was the exposure to fixed bonds (AusBond Composite Bond Index fell -1.32%).

Central banks continue to be key players in the outcomes for asset markets and while many are signalling a likely slowing in the size of their rate hikes none are calling their job as complete, that is, further hikes can be expected.

The core macroeconomic outlook for 2023 remains recession, where demand destruction is expected to take over as the key driver as economies transition away from stagflation. The policy environment is restrictive but not in the extreme. Further supply recovery and a downturn in demand will guarantee a lower inflation environment but while markets speculate about a pivot to rate cuts they are ignoring the messaging from central banks that they see persistent inflation as the greater risk (versus growth). This sets the stage for volatility spikes through the months ahead as the gap between policy maker guidance and market expectations is wide.

Overall, we remain cautious on the future performance of the T-Corp Growth Fund given the high volatility associated with a diversified growth fund, which generally allocates a range of 60%-80% in domestic and international shares. Investors are bracing for central banks to raise official rates more aggressively than previously anticipated to combat inflation driven by supply-chain bottlenecks, a global energy crunch and ongoing geopolitical risks.

The Fund should be looked at with a long-term view, with a minimum holding period of +7 years. Given the exposure to the volatile asset of shares, Council should expect to see, on average, a negative month once every 3 months over a long-term holding period.

Since Inception	T-Corp Long Term Fund
Negative Months	139 (~1 in 3 months)
Positive Months	265
Total Months	404 (33.67 yrs)
Average Monthly Return	+0.64% (actual)
Median Monthly Return	+1.02% (actual)
Lowest 1 year Rolling Return	-21.12% p.a. (Nov 2008)
Highest 1 year Rolling Return	+29.89% p.a. (Jan 1994)

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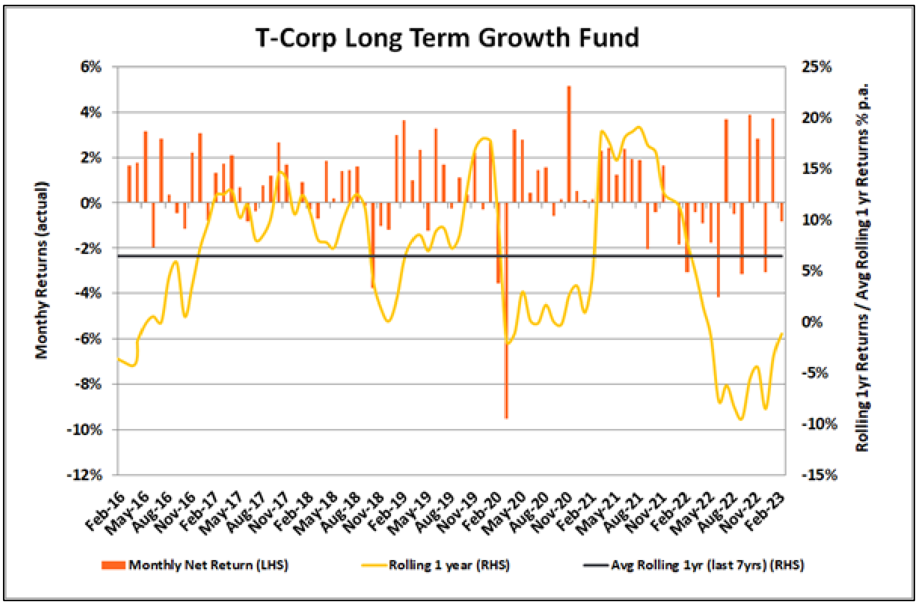

Council's Term Deposit Portfolio & Recommendation

As at the end of February 2023, Council's deposit portfolio was yielding 3.13% p.a. (up 30bp from the previous month), with a weighted average duration of ~223 days (7½ months).

Over a longer-term cycle, investors are rewarded if they can continue to maintain a slightly longer average duration. In a 'normal' marketplace, yields at the long-end are generally offered at a slight premium over shorter tenors.

At the time of writing, we see value in:

	LT Credit Rating	Term	T/D Rate
ING	A	5 years	5.13% p.a.
ING	A	4 years	5.12% p.a.
ING	A	3 years	5.11% p.a.
ING	A	2 years	5.10% p.a.
BoQ	BBB+	2 years	5.00% p.a.
Westpac	AA-	2 years	4.93% p.a.
NAB	AA-	2 years	4.90% p.a.
CBA	AA-	2 years	4.85% p.a.

The above deposits are suitable for investors looking to maintain diversification and lock-in a 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 (dependent on daily funding requirements):

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ADI	LT Credit Rating	Term	T/D Rate
ING	A	12 months	4.98% p.a.
NAB	AA-	12 months	4.95% p.a.
Westpac	AA-	12 months	4.92% p.a.
BoQ	BBB+	12 months	4.90% p.a.
CBA	AA-	12 months	4.88% p.a.
CBA	AA-	6 months	4.70% p.a.
WBC	AA-	6 months	4.65% p.a.
NAB	AA-	6 months	4.60% p.a.
CBA	AA-	3 months	4.31% p.a.

If Council does not require high levels of liquidity and can stagger its investments across the longer term horizons (2-5 years), it will be rewarded over coming years if it can roll for an average min. term of 12 months to 2 years (this is where we current value), yielding, on average, up to ¼-½% p.a. higher compared to those investors that entirely invest in short-dated (under 6 months) deposits.

With recessionary fears being priced in coming years, Council can allocate some longer-term surplus funds and undertake an insurance policy by investing across 3-5 year fixed deposits and locking in rates close to or above 5% p.a. This will provide some income protection if central banks decide to cut rates in future years, assuming inflation gets under control.

AMP Business Saver & Notice Account

We note the AMP Business Saver and AMP 31 Day Notice Account are now sub-optimal investments given the rise in deposit yields in recent months. We recommend switching into short-dated fixed deposits with the major banks yielding a considerably higher rate of return.

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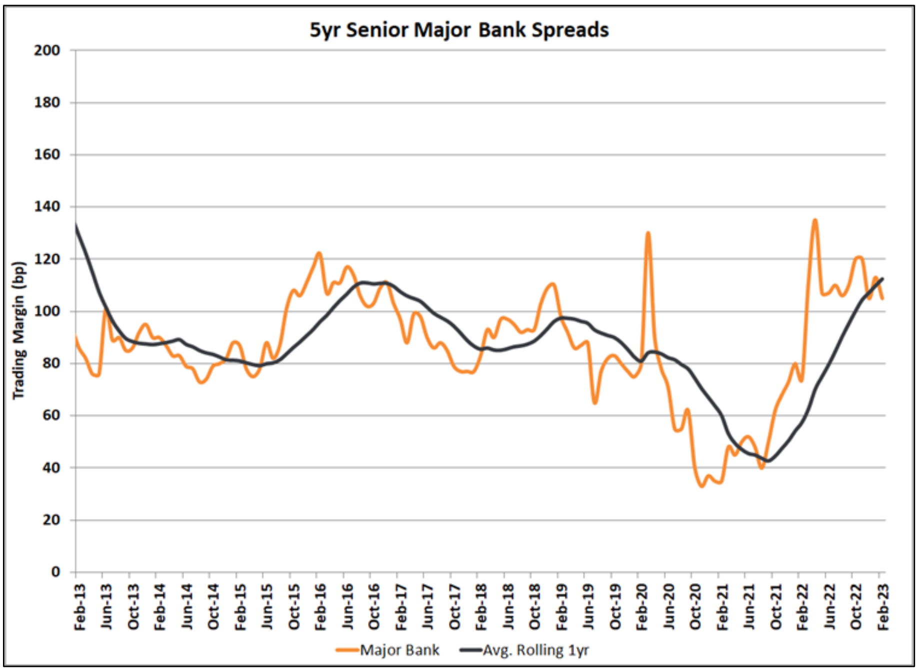
Senior FRNs Review

Over February, amongst the senior major bank FRNs, physical credit securities tightened by up to 10bp at the long-end of the curve. Nevertheless, major bank senior securities remain fairly attractive again in a rising rate environment (5 year margins above the +105bp level):



Source: IBS Capital

During February, there were other noticeable new primary issuance, mainly from the international banks:

- MUFG, Sydney Branch (A) 3 year senior FRN at +87bp
- Sumitomo, Sydney Branch (A+) 3 year senior FRN at +85bp
- RACQ (BBB+) 3 year senior FRN at +150bp
- DBS, Sydney Branch (AA-) 5 year dual senior security at +75bp
- Bank Australia (BBB) 4 year senior 'sustainable' FRN at +155bp
- Mizuho, Sydney Branch (A) 3 year FRN at +86bp
- HSBC, Sydney Branch (A+) 5 year dual senior security at +105bp

Amongst the "A" and "BBB" rated sector, the securities were marked between 5-10bp tighter at the 3-5 year part of the curve, with movements largely dictated by new issuances.

Credit securities are looking much more attractive given the widening of spreads in 2022. FRNs will continue to play a role in investor's portfolios mainly on the basis of their liquidity and the ability to roll down the curve and gross up returns over ensuing years (in a relatively stable credit environment).

Senior FRNs (ADIs)	28/02/2023	31/01/2023
"AA" rated – 5yrs	+105bp	+113bp
"AA" rated – 3yrs	+75bp	+88bp
"A" rated – 5yrs	+125bp	+130bp
"A" rated – 3yrs	+90bp	+103bp
"BBB" rated – 3yrs	+145bp	+150bp

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 2025 for the "AA" rated ADIs (domestic major banks)**;
- On or before early 2024 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.

Primary (new) FRNs are now looking more appealing and should be considered on a case by case scenario.

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Council's FRN Portfolio – Sale/Switch Recommendations

Over the next few months, we recommend Council sells out of the following FRN as it is yielding a low rate to maturity (less than 4% p.a.):

Issuer	Rating	Maturity Date	ISIN	Face Value	Trading Margin	Capital Price ($)	Unrealised Gain ($)
WBC	AA-	16/08/2024	AU3FN0048187	$1,000,000	+50.0bp	$100.487	$4,873

A switch into a newly issued (attractive) FRN is suitable. Alternatively, a switch into a term deposit yielding above 4.90%-5.10% p.a. can be achieved with the major banks (AA-) or ING (A) if replacing for a term between 1-3 years.

We recommend that Council retain all its other FRNs at this stage. We will continue to monitor them individually and will advise when it is appropriate to sell to boost the overall returns of the portfolio.

Council's Senior Fixed Bonds

In September 2020, Council has invested into the following NTTC (AA-) fixed bonds:

Investment Date	Maturity Date	Principal	Rate % p.a.	Interest Paid
15/09/2021	15/12/2024	$3,000,000	1.00%	Annually
15/09/2021	15/12/2025	$2,000,000	1.10%	Annually
	Totals / Wgt. Avg.	**$5,000,000**	**1.04%**	

We believe this was prudent given the low rate environment and particularly after the RBA's easing decision in early November 2020 and forward guidance towards 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.

CL23.89 - Attachment 1

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Senior Fixed Bonds – ADIs (Secondary Market)

As global inflationary pressures remain, this has seen a significant lift in longer-term bond yields (valuations fell) as markets have reacted accordingly.

This has resulted in some opportunities in the secondary market. We currently see value in the following fixed bond lines, with the majority now being marked at a significant discount to par (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
AU3CB0255776	ING	AAA	Covered	07/09/2023	0.53	3.00%	4.46%
AU3CB0258465	Westpac	AA-	Senior	16/11/2023	0.72	3.25%	4.39%
AU3CB0265403	Suncorp	A+	Senior	30/07/2024	1.42	1.85%	4.91%
AU3CB0263275	Westpac	AA-	Senior	16/08/2024	1.47	2.25%	4.69%
AU3CB0265718	ING	AAA	Covered	20/08/2024	1.48	1.45%	4.82%
AU3CB0266179	ANZ	AA-	Senior	29/08/2024	1.50	1.55%	4.68%
AU3CB0266377	Bendigo	BBB+	Senior	06/09/2024	1.53	1.70%	4.90%
AU3CB0268027	BoQ	BBB+	Senior	30/10/2024	1.67	2.00%	5.07%
AU3CB0269710	ANZ	AA-	Senior	16/01/2025	1.89	1.65%	4.66%
AU3CB0269892	NAB	AA-	Senior	21/01/2025	1.90	1.65%	4.68%
AU3CB0270387	Macquarie	A+	Senior	12/02/2025	1.96	1.70%	4.91%
AU3CB0287415	Westpac	AA-	Senior	17/03/2025	2.05	2.70%	4.67%
AU3CB0291508	Westpac	AA-	Senior	11/08/2025	2.45	3.90%	4.72%
AU3CB0291672	CBA	AA-	Senior	18/08/2025	2.47	4.20%	4.67%
AU3CB0280030	BoQ	BBB+	Senior	06/05/2026	3.19	1.40%	5.24%
AU3CB0282358	ING	AAA	Covered	19/08/2026	3.48	1.10%	4.92%
AU3CB0284149	BoQ	BBB+	Senior	27/10/2026	3.67	2.10%	5.23%
AU3CB0286037	Westpac	AA-	Senior	25/01/2027	3.91	2.40%	4.91%

CL23.89 - Attachment 1

IMPERIUM MARKETS

Economic Commentary

International Market

Risk markets were generally sold off in February after several stronger-than-expected reports on the US economy (particularly employment) changed the outlook on the peak of the interest rate cycle.

Across equity markets, the S&P 500 Index fell -2.61%, while the NASDAQ lost -1.11%. Europe's main indices bucked the trend, with gains led by France's CAC (+2.62%), Germany's DAX (+1.57%) and UK's FTSE (+1.35%).

The US FOMC agreed (unanimously among the voters) to lift rates another 25bp to 4.50%-4.75% range, downshifting hikes further from the two 50bp moves and earlier more aggressive 75bp moves.

US headline payrolls came in at +517k vs. +188k expected, and the unemployment rate fell 0.10% to 3.4% (its lowest in 54 years), versus an expected rise to 3.6%. US Fed Chair Powell noted how the strength in the labour market underscores why the Fed thinks it could take time to bring inflation down. Powell then remarked that "*we think we're going to have to do further [rate] increases, and we think we'll have to hold policy at a restrictive level for some time*".

US CPI came in marginally above consensus. The core and headline came in-line with the median forecast at +0.4% m/m and +0.5% m/m, but they slowed less than expected on a year-ended basis. Headline CPI fell to +6.4% from +6.5%, while the core CPI fell to +5.6% y/y from +5.7%.

Canada's employment rose +150k, where consensus was for just +15k and the unemployment rate remained at 5.0%.

UK Q4 GDP was flat, as expected, following Q3's -0.2% q/q decline, with year-ended growth coming in at +0.4%. That sees the economy avoiding a recession for now. The Bank of England (BoE) hiked rates by 50bp, in line with the consensus forecast to 4%.

The RBNZ raised the OCR by 50bp to 4.75% as widely anticipated and there was only a minor tweak to the projected track, with the peak still assumed to be 5.5% but taking slightly longer to get there.

China's inflation data remained low by global standards and did nothing to warn authorities against keeping policy stimulatory. CPI rose to +2.1% y/y from +1.8%, in line with expectations.

The IMF raised its 2023 world GDP growth forecast to +2.9%, up from +2.7% forecast last October, supported by China's reopening. China is now expected to grow by +5.2% in 2023.

The MSCI World ex-Aus Index fell -2.42% for the month of February:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	-2.61%	-2.70%	-9.23%	+10.35%	+7.91%	+10.12%
MSCI World ex-AUS	-2.42%	-0.25%	-8.98%	+8.29%	+5.19%	+7.04%
S&P ASX 200 Accum. Index	-2.45%	+0.30%	+7.16%	+7.93%	+7.90%	+8.10%

Source: S&P, MSCI

Domestic Market

The RBA raised rates by 25bp to 3.35%, the ninth consecutive increase. The Statement was hawkish with the RBA Board expecting "fu*rther increases in interest rates will be needed over the months ahead*". Dr Lowe said "*inflation [was] way too high and it needs to come down*" and that the risks at the moment are "*two sided*" with the "*risk we haven't done enough on interest rates*". He added there was a risk the central bank's most rapid tightening cycle in a generation had not done enough to dampen household spending and tame inflation. "*How far we have to go up – I don't know. It's going to depend upon the inflation data, the resilience of spending, the strength of the global economy and what's happening with growth and wages*".

The unemployment rate unexpectedly jumped to 3.7% in January (from 3.5% in December), with the participation rate decreasing to 66.5% (66.6%).

The wage price index (WPI) rose +0.8% for the December quarter and +3.3% y/y. This was 0.2% below the consensus of +1.0% q/q and +3.5%, which was also what the RBA had pencilled in. As for headline details, private sector wages rose +0.85% q/q and +3.6% y/y, a slower pace than the +1.2% q/q rise in Q3. Public sector wages rose +0.7% q/q and +2.5% y/y.

Retail sales fell a sharp -3.9% m/m in December (consensus -0.2%), following an upwardly revised November to +1.7% m/m (from +1.4%). The key implication is that we may be starting to see the first signs that monetary tightening is starting to weigh on consumption.

The December trade surplus was $12.2bn (consensus $12.5bn) from an upwardly revised November balance of $13.5bn. Exports fell 1.4% (-0.8bn) with key resource export categories all lower.

Private sector credit growth slowed to +0.3% m/m in December from +0.5% in November (consensus +0.5%). The annual rate slowed to +8.3% y/y, the second consecutive month of deceleration from its recent +9.5% peak in October.

Australian dwelling prices fell -1.0% m/m in January, the ninth consecutive month of decline. House prices nationally are now 8.9% below their peak, but remain 14.6% above pre-pandemic levels.

The Australian dollar lost -4.36%, finishing the month at US67.30 cents (from US70.37 cents the previous month).

Credit Market

The global credit indices widened over February in the 'risk-off' environment. They are now back to their levels in early 2022 (prior to the rate hike cycle from most central banks):

Index	February 2023	January 2023
CDX North American 5yr CDS	75bp	72bp
iTraxx Europe 5yr CDS	80bp	79bp
iTraxx Australia 5yr CDS	87bp	82bp

Source: Markit

IMPERIUM MARKETS

Fixed Interest Review

Benchmark Index Returns

Index	February 2023	January 2023
Bloomberg AusBond Bank Bill Index (0+YR)	+0.24%	+0.27%
Bloomberg AusBond Composite Bond Index (0+YR)	-1.32%	+2.76%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.43%	+0.42%
Bloomberg AusBond Credit Index (0+YR)	-0.62%	+2.19%
Bloomberg AusBond Treasury Index (0+YR)	-1.58%	+2.94%
Bloomberg AusBond Inflation Gov't Index (0+YR)	-2.20%	+4.87%

Source: Bloomberg

Other Key Rates

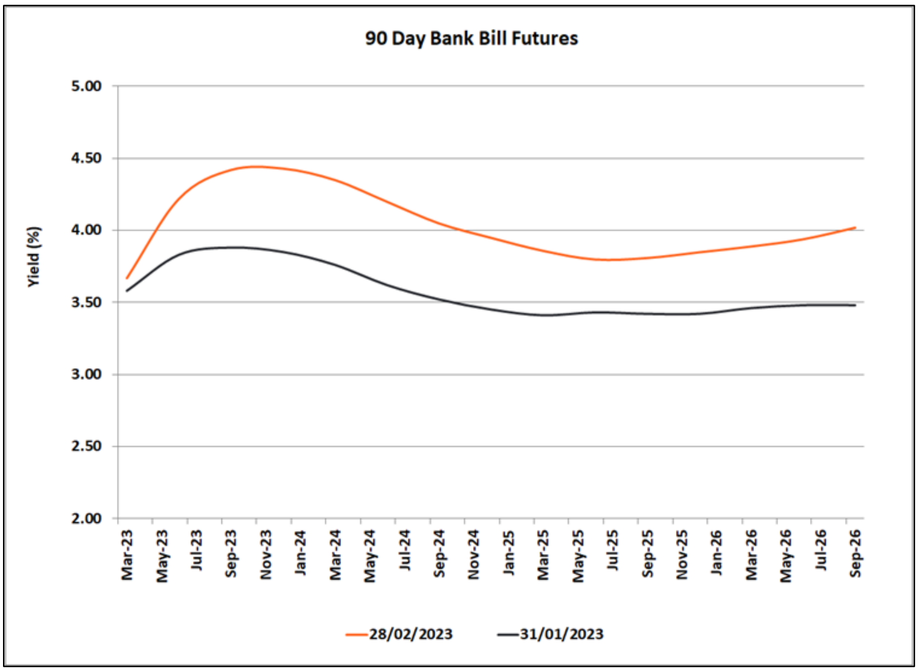
Index	February 2023	January 2023
RBA Official Cash Rate	3.35%	3.10%
90 Day (3 month) BBSW Rate	3.56%	3.37%
3yr Australian Government Bonds	3.60%	3.17%
10yr Australian Government Bonds	3.85%	3.55%
US Fed Funds Rate	4.50%-4.75%	4.25%-4.50%
3yr US Treasury Bonds	3.81%	3.90%
10yr US Treasury Bonds	3.92%	3.52%

Source: RBA, AFMA, US Department of Treasury

CL23.89 - Attachment 1

90 Day Bill Futures

Over February, bill futures rose significantly across the board, with the market reacting to the US Fed Reserve's comments that they are still looking to raise rates over coming months. The markets continue to factor in the possibility of a global recession over the next few years, highlighted by the drop in the futures pricing in early 2024:



Source: ASX

Fixed Interest Outlook

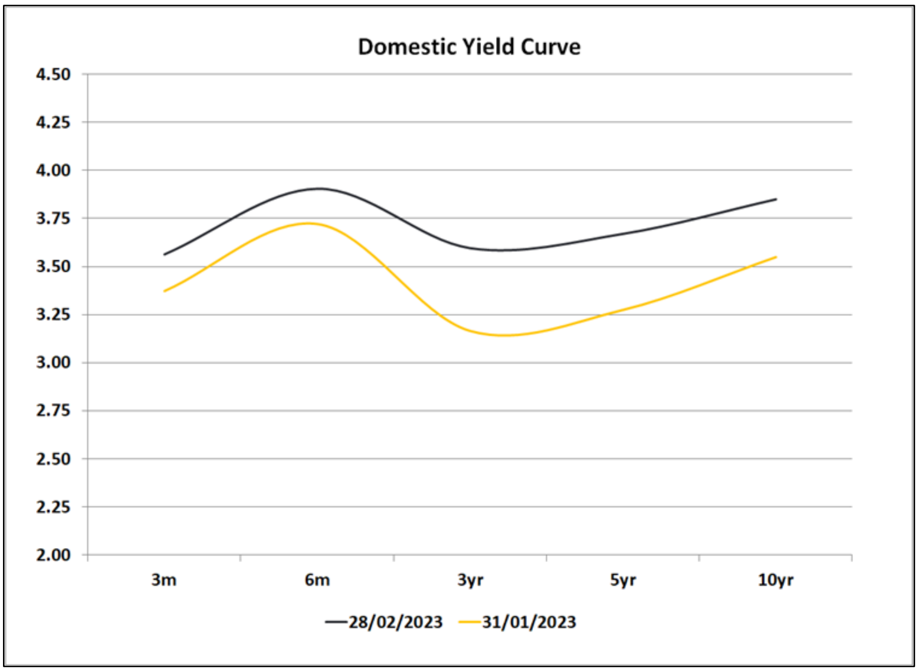
Money markets are now pricing for the US Fed to reach a mid-point of the 5.25%-5.50% target range. Futures markets nevertheless continue to factor in that rates will be coming down within 6 months of the peak being reached. US Fed Chair Powell sounded slightly less hawkish as he noted how the disinflationary process had already begun, however he still suggested that have a long way to go, particularly within the services sector. Powell also noted how the strength in the labour market underscores why the Fed thinks it could take time to bring inflation down to its 2% target.

Domestically, RBA Governor Lowe recently commented "*I don't think we're at the peak yet but how far they need to go, we're still unsure*". He sees monetary policy as restrictive and indicated the RBA Board is still "*trying to navigate a narrow path here*" and "*want to get inflation down*", "*but also preserve the gains*" seen in the labour market. However, that narrow path is highly uncertain with Dr Lowe noting that he doesn't "*know the answer*" to how far unemployment will need to rise.

The latest RBA Minutes revealed they considered moves for both 25bp or 50bp in February. The main arguments for moving by 25bp are that policy has already "*been adjusted substantially*" with considerable "*uncertainty around the outlook*", that there are substantial lags in policy and that "*monthly meetings provided the Board with frequent opportunities to assess how' uncertainties were being resolved*". For the RBA to step back to 50bp hikes, it is likely that the RBA would need to be convinced that wage and inflation expectations had shifted substantially.

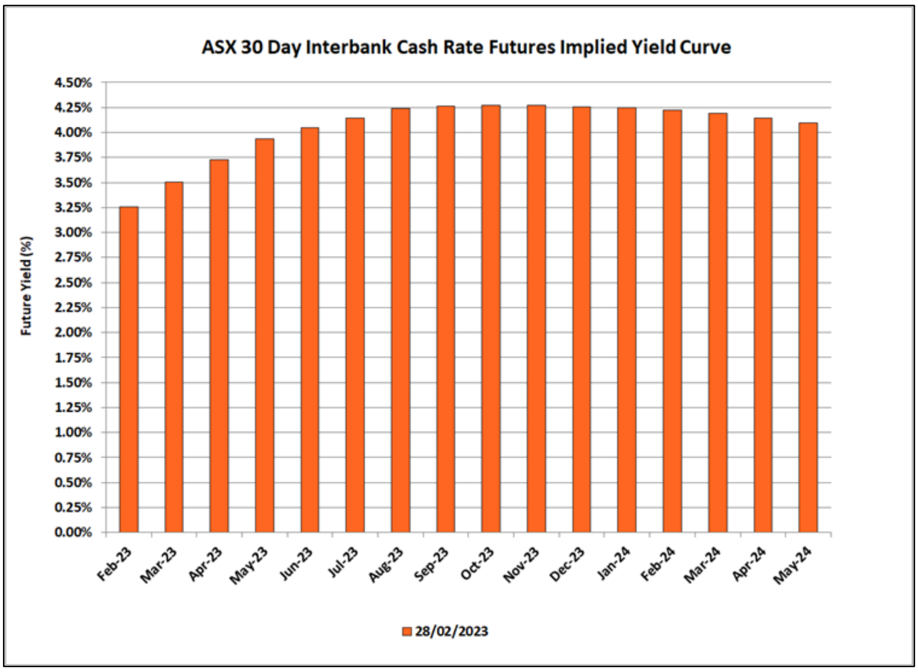
For now, the RBA continues to signal that it expects to increase interest rates, with at least two or three more 25bp hikes over the months ahead, likely locking in a March rate hike, and then possibly another in April and/or May. Thereafter, noting the lags in monetary policy, a pause around the end of Q2-Q3 is likely whilst the RBA monitors the economic data. Markets are currently pricing in up to 4 additional rate rises into mid-2023 (up to 4.25%). Fears of a looming global recession have actually seen rate cuts start to be priced in towards the start of 2024, although this seems unlikely for now.

Over the month, yields rose up to 40bp at the long-end of the curve:



Source: AFMA, ASX, RBA

RBA Governor Lowe commented that "*if inflation expectations stay well anchored, the supply-side problems get fixed up, wage growth and wage setting doesn't move up too fast and we can come back on that narrow path. So that is a plausible scenario: that rates rise and then start coming down next year. But a few things are going to have to go right for that to happen. It's possible, but there are other scenarios as well*".



Source: ASX

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APPENDIX A

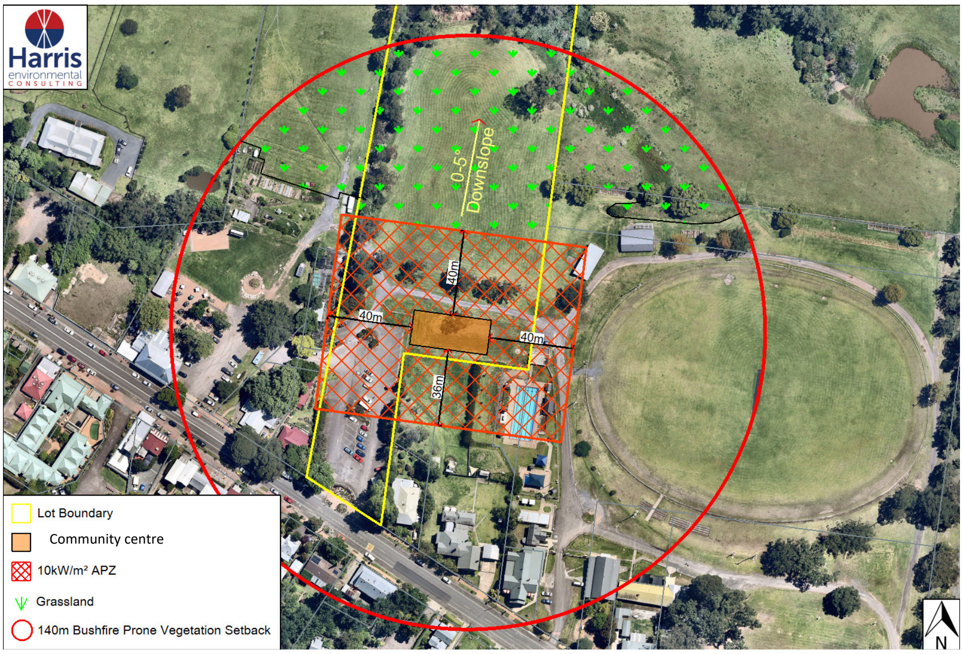

Figure 1. Site Layout

Appendix B: Minutes of meeting

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South Coast

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wes@localarchitect.com.au
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9th March 2021

Agenda

Proposed Kangaroo Valley Fire refuge and community center

Tuesday, 9 March 2021 at 10:30 am – 11:30 am.

1.0 Attending

Susan Edwards <Susan.Edwards@shoalhaven.nsw.gov.au>;
Joshua Hanns <Joshua.Hanns@shoalhaven.nsw.gov.au>;
Ryan Schulter <Ryan.Schulter@shoalhaven.nsw.gov.au>;
Steve Mckinnon -RFS rep- steve.mckinnon@rfs.nsw.gov.au;
Greg Mumm - KV community rep [redacted]
Sally Latham – KV community rep [redacted]
Kate Harris – Consultant kate@harrisenvironmental.com.au
Wesley Hindmarch Architect wes@localarhitect.com.au

Apologies

Sara Castillo - [redacted] Secretary Kangaroo Valley Pony Club

2.0 Agenda

1. Introductions - Susan Edwards
Community members attending discussion
2. Steve McKinnon – introduction RFS Safer places framework

3.0 Kate Harris fire Consultant discussion

4.0 Wesley Hindmarch Presentation

3.0 Minutes _9th March 2021

1. Steven McKinnon introduce the Neighborhood Safer Places RFS policy in context of the KV show ground.   The principle issue of concern was the provision for animals and if KV village was overrun. It was agreed that the oval would have provided immediate shelter in a fire event but would have been traumatic for those taking shelter if a fire overrun through the village had occurred. The questions was also raised about the role a fire shelter may play in the scenario after the fire event as a meeting place and information hub.
Steven did note that if the community supported the objectives of the fire refuge it would be seen as a beneficial asset supporting the KV NSP. The RFS would provide in principle support.

2. Kate Harris and Wesley Hindmarch presented research on suitable council sites that meet a 10 KWH APZ, suitable for a fire refugee.
A site is located adjacent to the KV swimming pool refer to sketch below was found suitable to meet the RFS fire refuge requirements while also providing access to a large water source and carparking areas.

3. Wesley Hindmarch provided architectural concept and application of the RFS refugee requirements. A building area of 700m2 was suggested at an approximate budget of 2.8 – 3.0 mil.

4. Susan Edwards notes that if council are to support the fire refuge broader community support including development of users/ stakeholders group would be needed.

Disclaimer
All information has been researched in good faith but does not guarantee a successful planning outcome.

CL23.97 - Attachment 1

arts in the valley

Kangaroo Valley Arts Festival Inc. • ABN: 87 713 974 511
PO Box 6114, Kangaroo Valley, NSW 2577 • Telephone: 0467 209 819
Email: info@artsinthevalley.net.au • Web: artsinthevalley.net.au

Patron: Mr Peter Thompson

22nd March 2021

Wesley Hindmarch
Local Architect
[redacted]
Kangaroo Valley
NSW 2577

Dear Wesley,

Thank you for sharing with me your high-level presentation on a potential fire refuge in the Osborne Park showgrounds in Kangaroo Valley. Last year showed us that a fire refuge was no mere theoretical need for this community. I believe the community would be well served by a refuge of this type, built to the appropriate standard, which could act as a focal point of shelter during the emergency, and as a base for the longer duration community and wildlife support operations that are needed for months after such an event.

The opportunity may exist to make use of the site in other ways which would add to the resources available to the community for creative and recreational activities. If that were possible this would serve both the artistic/recreational inclinations of the community as well as having a positive economic impact. Artistic activities in the village draw people to the area to stay, and have a longer term positive impact on the village's reputation and brand.

The Kangaroo Valley Arts Festival (KVAF, but generally known by its trading name Arts in the Valley), of which I am the current President, has been in existence since 2006. It has held biennial Festivals, concerts, art and sculpture exhibitions which have been of a very high standard. These have drawn musical performers from across the country. Likewise, artists and sculptors from most states in Australia enter our prizes and exhibitions, and the standards aimed at are also high. In the last 6 months we have held a very successful *Visual Arts in the Valley* show spread over 5 locations and attracting around 1,500 visitors; we have also held two much admired concerts in the Hall, both sold out at the Covid-limited capacity. We are about to announce a further Concert Weekend in early May with two concerts in the Hall, and in September/October this year *Sculpture in the Valley* will be held at a new venue in Bellawongarah over two weekends, with some classical music concerts put on at the same time.

To maintain our standards, we have made investments in infrastructure to allow us to put on events in a professional way. For example, we have developed lighting which can be hung in the KV Hall to provide a professional gallery standard of lighting for art works. Similarly, we have had constructed screens for display of art works, again of a high standard. The Berry Men's Shed was instrumental in constructing for us a series of wooden plinths on which indoor sculptures can be displayed. At a more mundane level we have made use of stage risers to elevate our music performers when they use the floor of the Hall space itself for their performance, and we have a stock of wine glasses with which to provide interval drinks. I mention these pieces of equipment because we have made a point of making them available to other organisations. The KV Show, Shoalhaven Art Society, Friends of the Brush Tailed Rock Wallaby and others in Kangaroo Valley and Berry have made use of this equipment. It would be of great assistance to us if these items could be stored at a central location. It would also make them that much more accessible to other users.

Apart from our Hausmusik concerts which are held in private homes around the valley, all of our events tend to revolve around the KV Hall. As we put together our program of music and exhibitions we are constrained

arts in the valley

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by the lack of existing venues and arts spaces in the village. At times in the past we have attempted to use the Valley churches, but churches tend to be busy at weekends when we would want to use them. We have also been keen to have an outdoor venue, which would allow us to offer concerts from which we could display one of Kangaroo Valley's most appealing features, its landscape with views of the escarpment. An additional venue in the village in which we could hold exhibitions or concerts would allow us to increase our offering and hold both a concert and an exhibition at the same time, which is more or less impossible with only a single venue.

In summary *Arts in the Valley* would highly value the ability to use an additional artistic space for exhibition and performance at Osborne Park, particularly if the acoustic qualities of the space were suitable. We would be particularly keen to make use of any outdoor performance space. The Four Winds Soundshell at Bermagui comes to mind as a reference point, and has had a notable impact on the town. The availability of a fallback indoor space as a fallback would enable more confident planning of outdoor events.

We would also have a keen interest in availability of storage space on the site. The material we want to store would be better available for use by other community organisations in a central location.

I look forward to hearing how your proposals develop.

[redacted]

Nick Minogue
President
Arts in the Valley

[redacted]
Kangaroo Valley NSW 2577
5 May 2021

Mr Wesley Hindmarch
[redacted]
Kangaroo Valley NSW 2577

On 10 March 2021 you briefed the Kangaroo Valley Community Bushfire Committee on the concept of having a bushfire refuge constructed behind the swimming pool in the Osborne Park complex.

Given the present lack of a suitably approved structure as a place of last resort, and the paucity of roads in and out of the Valley *(all of which could become impassable in a bushfire emergency*) the Committee supports the construction of such a building.

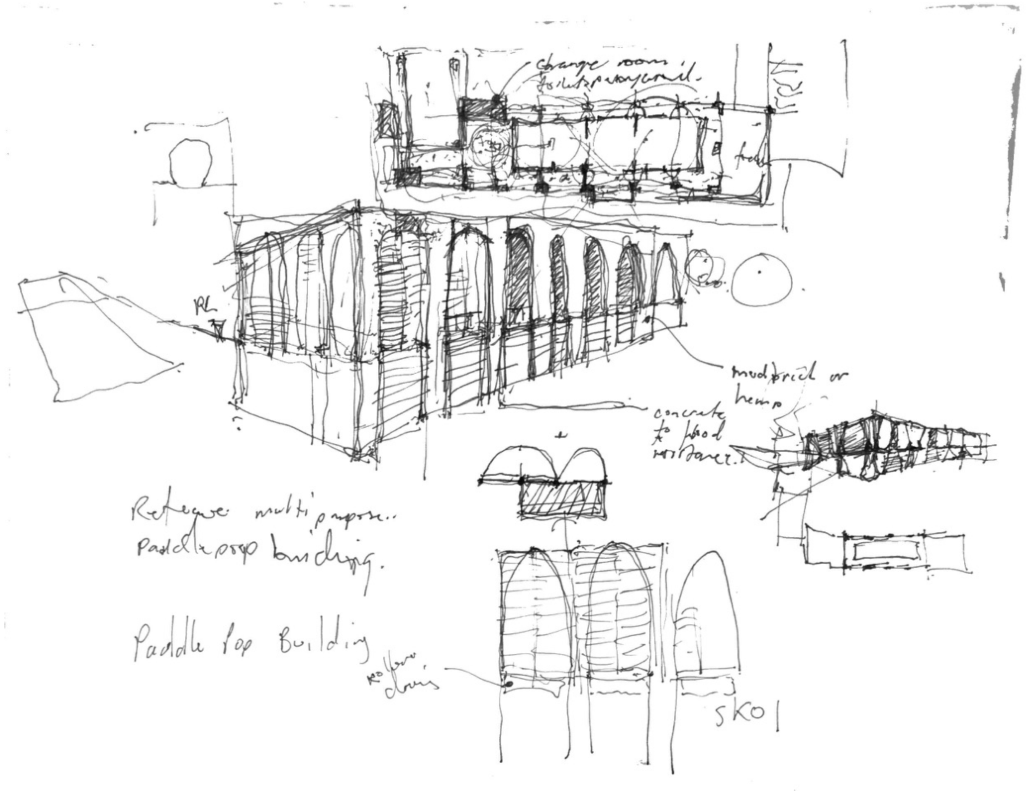
Significant planning and collaboration around access to the refuge, most notably during fire emergencies, would need to be undertaken to ensure that such a refuge provides suitable protection and does not create any unforeseen risks.

The Kangaroo Valley Community Bushfire Committee therefore supports this proposal in principle.

[redacted]

Simon Harrington
Chair, KVCBC

Proposing a multipurpose community centre for Kangaroo Valley



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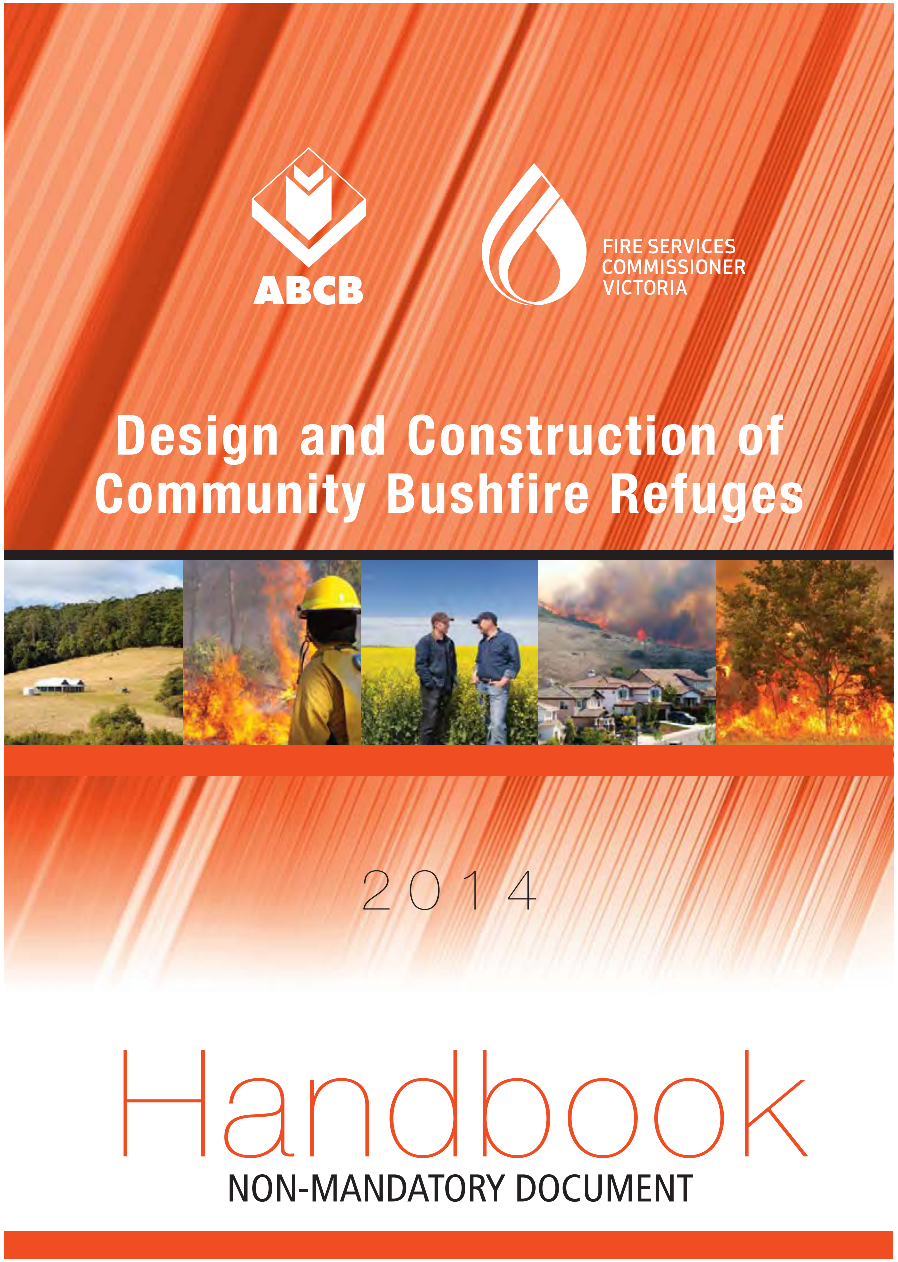
HAZCHEM



NSW RURAL FIRE SERVICE

NSW GOVERNMENT

NEIGHBOURHOOD SAFER PLACES

GUIDELINES FOR THE IDENTIFICATION AND INSPECTION OF NEIGHBOURHOOD SAFER PLACES IN NSW

APRIL 2017

CL23.97 - Attachment 1

0. SITE PLAN 1:500

1 EXISTING CARPARK CAN BE UTILISED TO SATISFY ADDITIONAL CAR-PARKING REQUIREMENTS FOR THE COMMUNITY

2 POTENTIAL BUILDING ASSET PROTECTION ZONE (APZ). THIS AREA OFFERS NO SIGNIFICANT
VEGETATION OF ADJACENT BUILDINGS AND IS WITHIN COUNCIL OWNED LAND.

3 NEW FACILITIES AND STORAGE AREAS BE PROVIDED ON THE GROUND FLOOR FOR THE KV PONY CLUB. CURRENTLY THIS LAND IS LEASED FROM COUNCIL BY THE PONY CLUB.

4 NEW RAISED TERRACE

5 EXISTING KV POOL BE UPGRADED AND NEW CHANGE ROOM TOILETS AND FACILITIES BE POTENTIALLY INCORPORATED INTO THE NEW BUILDING

6 CONNECTING THE EXISTING PUB AND VILLAGE MARKET TO NEW ACCESSIBLE TOILET AND COMMUNITY FACILITIES

7 MAKING USE OF AN UNDER UTILISED AREA OF OSBOURNE PARK PRIMARILY BECAUSE ITS WITHIN A FLOOR PRONE AREA.
ALSO LACK OF SIGNIFICANT VEGETATION AND SUITABLE SETBACKS TO NEIGHBOURING BUILDINGS.

REV	DATE	APPROVED BY	REVISION NOTES

local
PO BOX 98
BERRY, NSW

PH: (03) 80911599
info@localarchitect.com.au

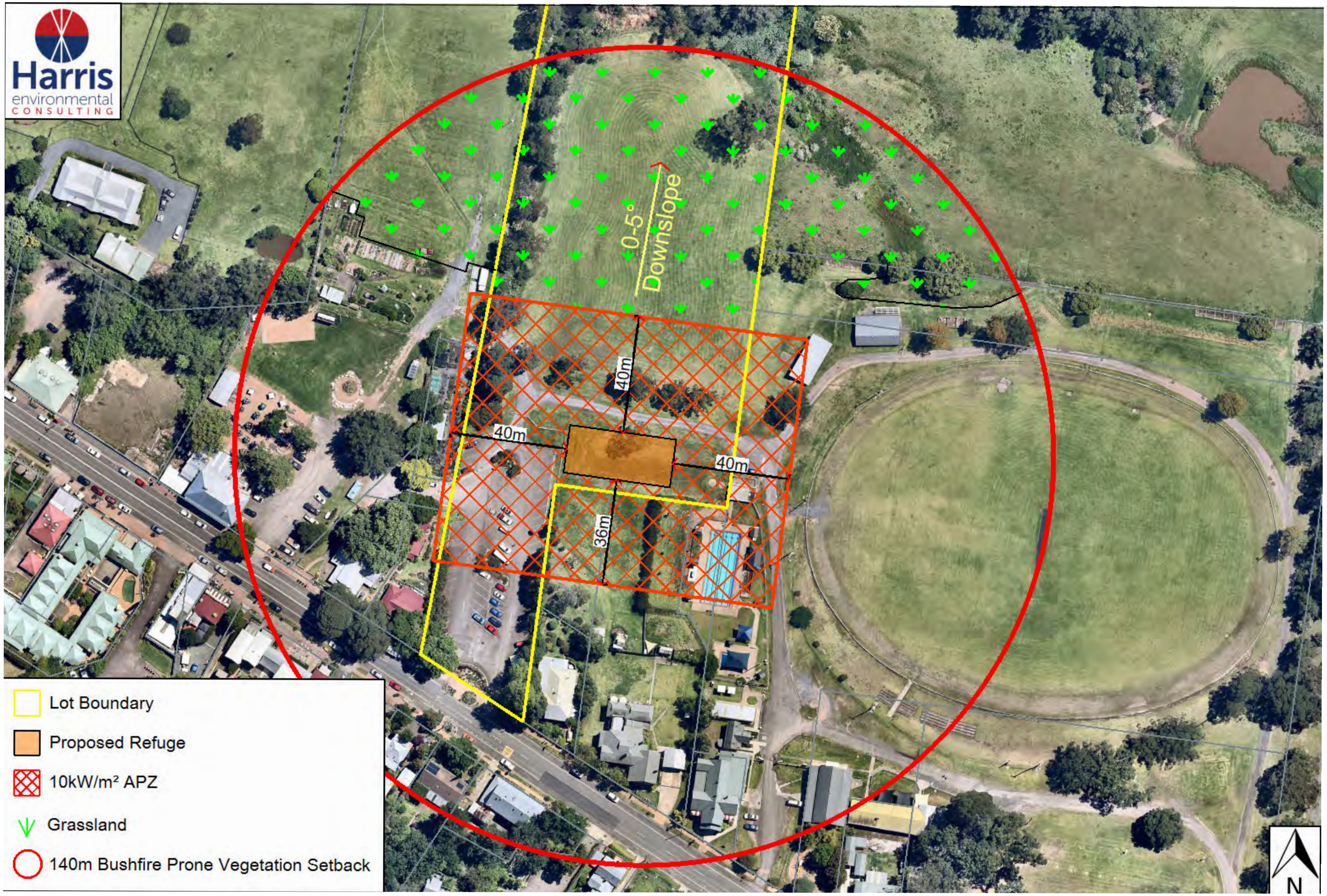
PROJECT
KV Community centre

Project Street Address
Suburb State Postcode
Country

TITLE
Site Plans
SITE PLAN

PROJECT NO: 00000
DRAWN:
CHECKED
SCALE 1:500@ A3

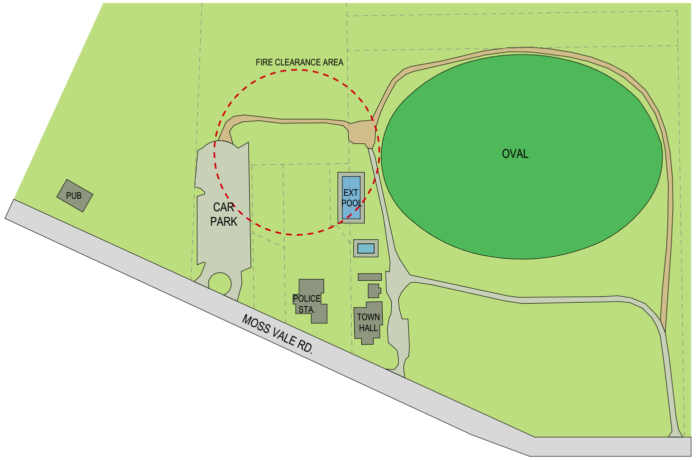
DRAWING NO REV


Harris
environmental
CONSULTING
0-5°
Downslope
40m
40m
40m
36m
Lot Boundary
Proposed Refuge
10kW/m² APZ
Grassland
140m Bushfire Prone Vegetation Setback
N

NOTES

DO NOT SCALE OFF DRAWINGS

EXISTING BUILDINGS & AMENITIES



10KM FIRE CLEARANCE AREA

REV	DATE	APPROVED BY	REVISION NOTES

local architect
PO BOX 98
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info@localarchitect.com.au

PROJECT
KV Community centre

Project Street Address
Suburb State Postcode
Country

TITLE
CONCEPT
CONCEPT 01

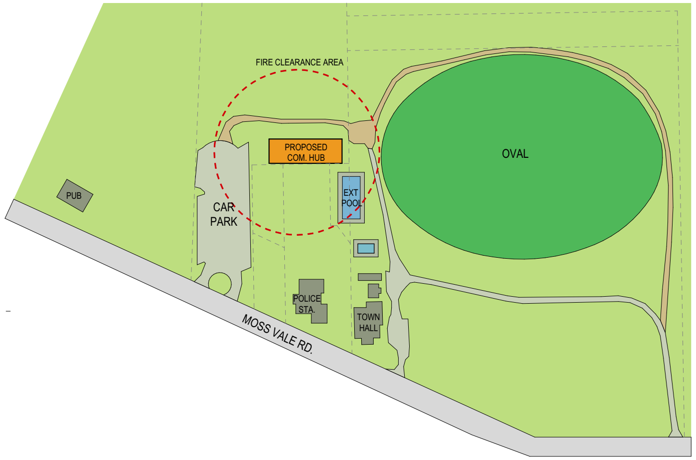
PROJECT NO: 00000
DRAWN:
CHECKED:
SCALE: 1:1333.33@ A3

DRAWING NO REV

CL23.97 - Attachment 1

NOTES

DO NOT SCALE OFF DRAWINGS



PROPOSED COMMUNITY HUB LOCATION

CONNECTION TO EXISTING BUILDING & AMENITIES

REV	DATE	APPROVED BY	REVISION NOTES

PO BOX 98
BERRY NSW

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info@localarchitect.com.au

PROJECT
KV Community centre

Project Street Address
Suburb State Postcode
Country

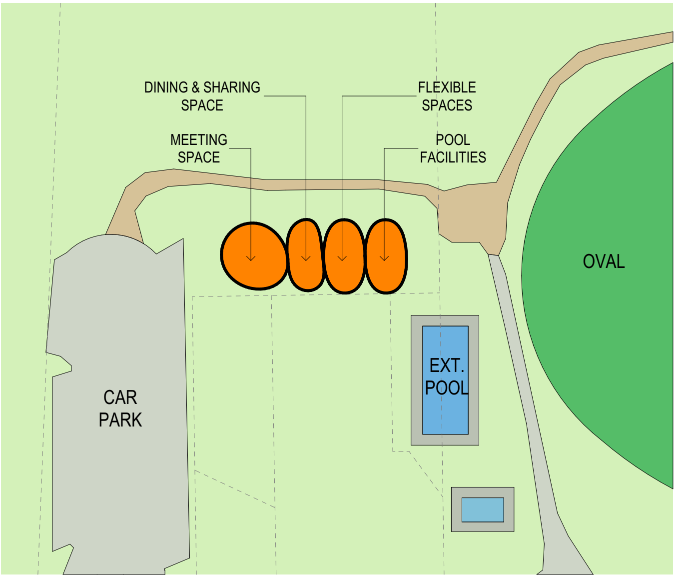
TITLE
CONCEPT
CONCEPT 02

PROJECT NO: 00000
DRAWN:
CHECKED:
SCALE: 1:1333.33@ A3

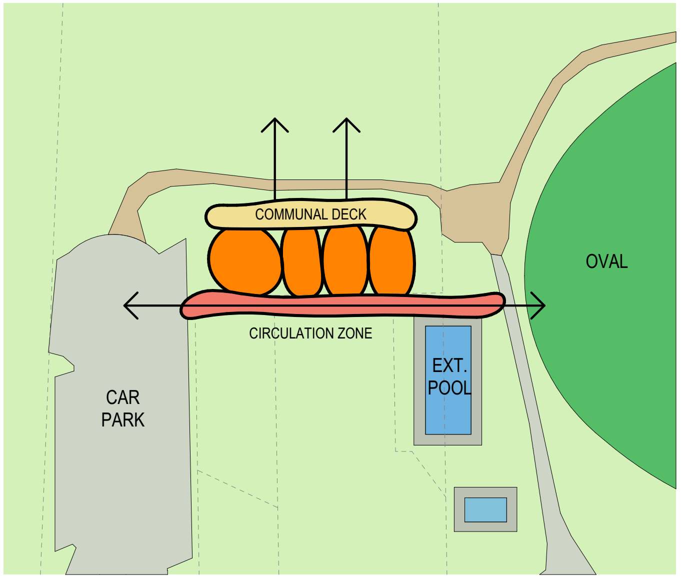
DRAWING NO
REV

NOTES

DO NOT SCALE OFF DRAWINGS



SPACE ORGANISATION



ACCESS & CIRCULATION

REV	DATE	APPROVED BY	REVISION NOTES

PO BOX 98
BERRY NSW

PH: (03) 80911599
info@localarchitect.com.au

PROJECT
KV Community centre

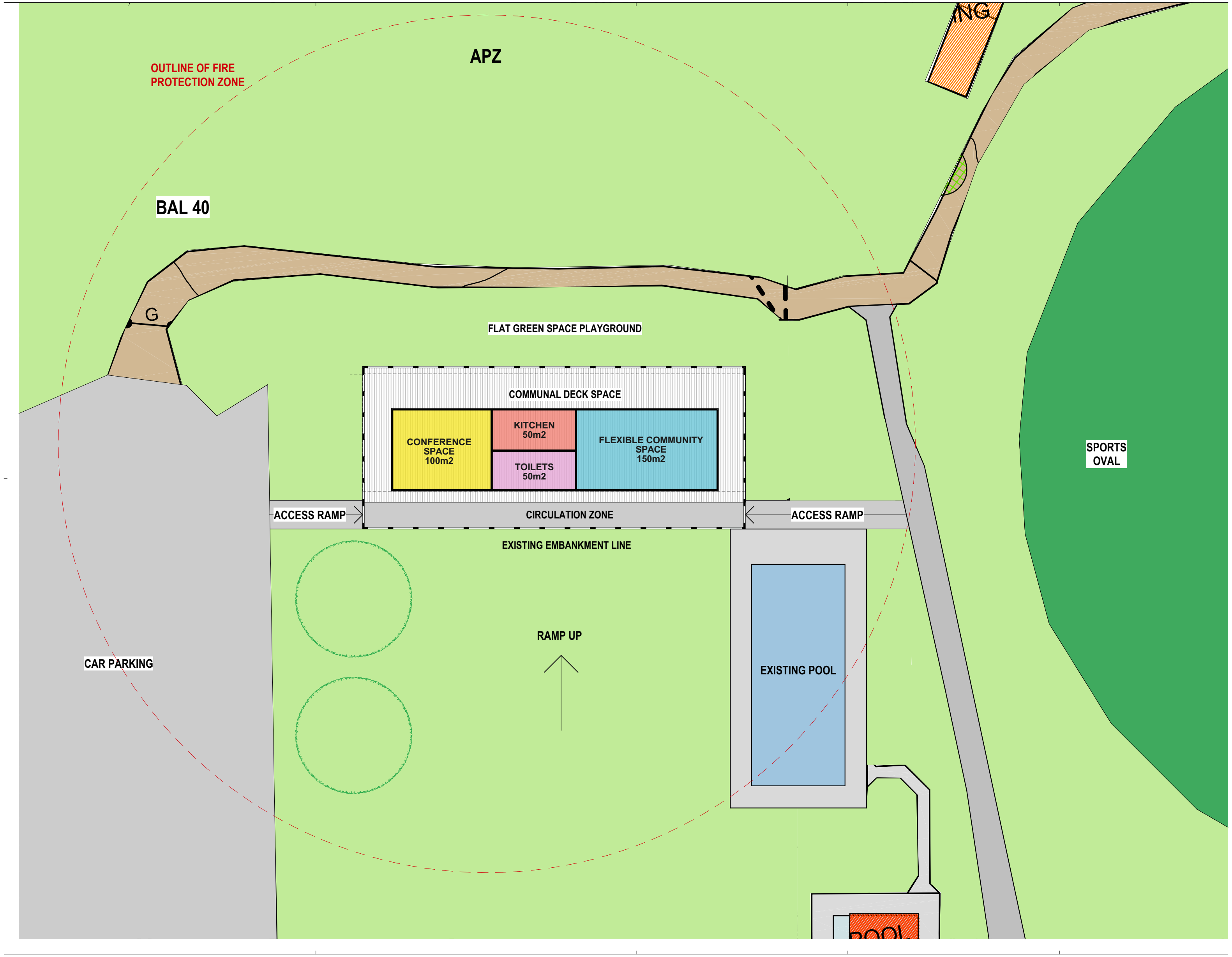
Project Street Address
Suburb State Postcode
Country

TITLE
CONCEPT
CONCEPT 03

PROJECT NO: 00000
DRAWN:
CHECKED:
SCALE: 1:666.67@ A3

DRAWING NO REV

CL23.97 - Attachment 1



NOTES

DO NOT SCALE OFF DRAWINGS

REV	DATE	APPROVED BY	REVISION NOTES

PO BOX 98
BERRY NSW

PH: (03) 80911599
info@localarchitect.com.au

PROJECT
KV Community centre

Projec Street Address
Suburb State Postcode
Country

TITLE
CONCEPT
CONCEPT 05

PROJECT NO: 00000
DRAWN:
CHECKED:
SCALE 1:200@ A3

DRAWING NO REV

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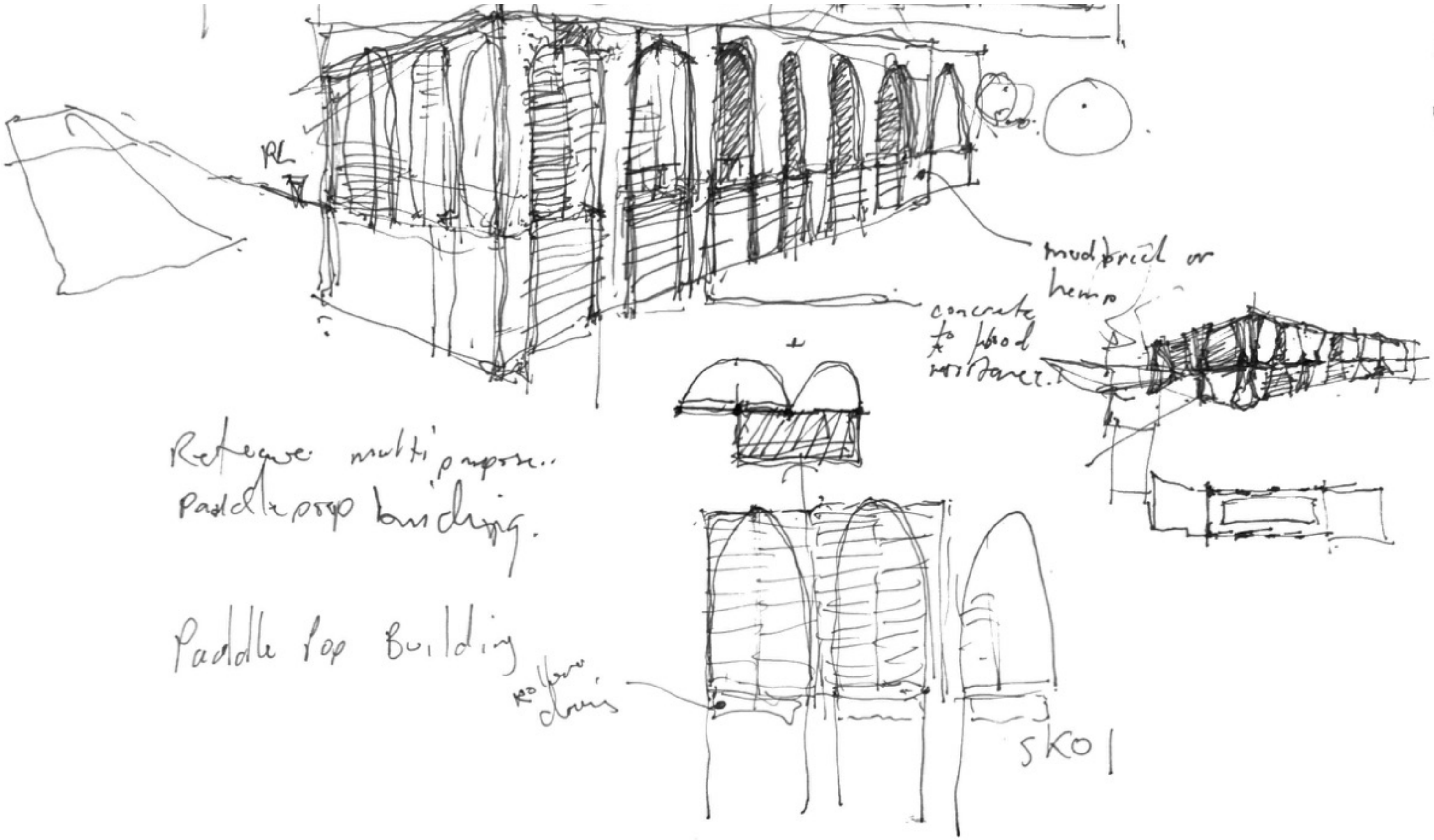

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