Item 14.1

14 REPORT OF THE CHIEF OPERATING OFFICER

14.1 Enterprise Risk Framework - Risk Appetite Statements

CSP Objective:	Outcome 5.3: Council has the right structures, technology, processes and precedures to support delivering for the public.
CSP Strategy:	5.3.1 Council will build organisational capabilities and capacity to deliver excellent customer service.
Delivery Program:	5.3.1.2 To reduce risk and promote, maintain and improve the safety culture within the organisation.

Summary

This report provides information and context around Council's Draft Enterprise Risk Management Framework and seeks approval of Council's position for risk appetite and tolerance. The review and updated documents align to recently introduced Guidelines by NSW Office of Local Government and notably some key requirements effective July 2024.

Financial implication

Nil.

Risk implication

Risk appetite is the amount of risk that an entity is willing to accept or retain to achieve its objectives. Determining and articulating Council's risk appetite provides a consistent reference point to support better decisions by considering risk more effectively in decision making process.

Policy

Enterprise Risk Management Policy

DRAFT Enterprise Risk Management Framework

Guidelines for Risk Management and Internal Audit for Local Government in NSW

Consultation (internal)

Audit, Risk and Improvement Committee

Executive Leadership Team

Attachments

1 DRAFT Risk Appetite and Tolerance Table⇩

Enclosures

Nil

Item 14.1

RECOMMENDATION

That Council approve the Risk Appetite and Tolerance Table.

Background

The *Guidelines for Risk Management and Internal Audit for Local Government in NSW (*the Guidelines*)* are the relevant document which prescribe how councils must implement their risk management framework to ensure consistency with the current Australian Standards for risk management. Key requirements within these guidelines relate to Audit, Risk and Improvement Committees, risk management frameworks and internal audit functions. Risk appetite statements are part of the risk management framework requirements. The requirements are effective from July 2024. Council started its review process at the time prior to Council caretaker period and now needs to progress and complete the framework documents.

Approval requirements

The Guidelines require that the risk management framework is to be approved by Council's Operational Leadership (ELT) however the risk appetite statements, a specific component within the framework must be approved by resolution of Council, in consultation with the Audit, Risk Improvement Committee (ARIC).

ARIC reviewed the draft Risk Management Framework and Risk Appetite statements in their July meeting. The Risk Appetite and Tolerance Table is now presented to Council for approval.

Following approval of the risk appetite statements, the Risk Appetite and Tolerance Table will be included as an attachment to the DRAFT Risk Management Framework and be reviewed by ELT for endorsement in accordance with the Guidelines noted above.

Attachment A

Kiama Municipal Council Risk tolerance and appetite summary

Risk Category	Risk Tolerance: the level of risk Council can practically deal with (the range of what we can do)	Risk appetite: the level of risk Council is willing to take in the pursuit of its goals (the range of what we will do)
Strategic	The operations and expected performance of Council are determined by the Local Government Act and Council's Delivery Program & Operational Plan. Council may experience variations to this plan, based on significant internal or external factors that may impact a significant proportion of the workforce, the functions or services that council must carry out or the financial sustainability of the council. Amendment to the endorsed Community Strategic Plan, Delivery Program or operational Plan objectives may be required, which may have significant impacts on Council's reputation, regulatory compliance and finances. Council must have sufficient infrastructure to take certain risks. This might be in terms of physical assets, space to carry out operations or IT systems. Risk tolerance in this regard is also dependent on financial tolerance and the availability of people and knowledge in relation to particular activities.	Council will aim to meet at least 85% of its Operational Plan Actions on an annual basis. Any variation will be reviewed by the Executive Leadership Team quarterly and appropriate action will be identified. The potential need to extend physical assets, IT systems and/or other infrastructure will only be accepted if within existing, or otherwise approved budgets and in accordance with Council's adopted delivery program. Any medium-high or high residual risk in relation to operational infrastructure that is outside of existing budgets will be considered by the Executive Leadership Team and Council.
Financial	Council has a key focus on financial sustainability and returning to a balanced budget and therefore has little tolerance in terms of financial risk.	Council's appetite for financial risk is conservative.

Risk Category	Risk Tolerance: the level of risk Council can practically deal with (the range of what we can do)	Risk appetite: the level of risk Council is willing to take in the pursuit of its goals (the range of what we will do)
	Tolerance of financial risk includes Council's ability to borrow money, divest assets, increase fess and/or reduce services to cover costs that emerge outside of its adopted budget. Consideration of this factor should apply to the whole risk profile, therefore it is important that it is also clearly communicated across all areas of the organisation, and that all budget managers understand the degree to which they (individually) are permitted to expose the organisation to potential financial loss in the pursuit of emerging challenges or opportunities.	Council will not accept more than 5% budget variation without specific review. Any significant variation will be reviewed by the Executive Leadership Team and appropriate action will be identified. Debt finance and divestment of assets may be considered within councils' financial strategy, however only in very specific circumstances will reducing services be considered. Councils' financial sustainability and cash-flow strategy outlines councils' response to meet the requirements of the Performance Improvement Order, and will be further informed by Service Reviews, Audit Office management letter and other relevant reports. Where specific negative circumstances of financial strain are identified, the matter will be considered by Councils Financial Management Committee and/or ARIC, and at the discretion of the Executive Leadership Team and/or Council. Council's appetite for financial risk in relation to projects will be identified and managed through contingencies in project budgets as well as being clearly articulated in project plans. Identification of grant funding, revenue opportunity or savings is encouraged.

Risk Category	Risk Tolerance: the level of risk Council can practically deal with (the range of what we can do)	Risk appetite: the level of risk Council is willing to take in the pursuit of its goals (the range of what we will do)
Environmental	Tolerance for environmental risk is usually informed and directed by the associated compliance/regulatory, financial or reputation risks.	Council's appetite for environmental risk should always be informed by the relevant adopted sustainability policies, strategies, action plans and frameworks of Council. Council's Community Strategic Plan also recognises Council's priority to protect the natural environment and plan for a sustainable future, and alignment with these goals should also be considered when assessing environmental risks.
Regulatory	Council operates in tight regulatory environments and non-compliance can result in significant financial, reputational, health and safety and/operational damage. As such, Council has low tolerance or compliance/regulatory risk. The exercise of Council's activities under the Local Government, and other relevant Acts may not be greatly impacted by minor instances of wilful misconduct, fraud or corruption by staff, however any level of the above has the potential to generate significant reputational, financial or compliance/regulatory damage and as such Council's tolerance for any wilful misconduct, fraud or corruption of any kind is not tolerated.	Council has a little to no appetite regarding compliance and regulatory risk. Any compliance/regulatory risks with a residual high-risk rating should be escalated through the Executive Leadership Team and reported to the ARIC. Council expects that all its people will behave ethically and adhere to the Code of Conduct and Council's policies and administrative principles, and will ensure that all staff are appropriately trained and informed to minimise this risk as far as reasonably practicable. Council has no appetite for wilful misconduct, fraud or corruption and will actively respond to any incidents that arise.

Risk Category	Risk Tolerance: the level of risk Council can practically deal with (the range of what we can do)	Risk appetite: the level of risk Council is willing to take in the pursuit of its goals (the range of what we will do)
Reputational	Many of Council's activities under the Local Government and other relevant Acts can theoretically be carried out in the absence of a positive reputation. However, Council's ability to perform these activities to a reasonable standard is greatly supported by trust and constructive input from the community. Consideration of this factor includes the reputation of the elected Council body, elected representatives, CEO, employees and the operation of the Council as a whole. Council's tolerance for reputational risk varies greatly in relation to the particular risk being assessed.	Council has a high appetite for reputational risk where it competes with safety, legislative compliance or financial management obligations, which will always be addressed as a priority. While Council accepts that not all actions will be positively received by all of the community, reputational risks will always be addressed as far as feasibly possible. Council aims to provide regular, factual information to our community and to be transparent in our activities unless confidentiality is necessary. Any high residual risk relating to Council's reputation will be considered by the Executive Leadership Team and appropriate action identified.
Safety	Council's tolerance for work health and safety risks to its people is narrowed by the financial, compliance/regulatory and reputational risk of adverse effects from WHS risk events materialising. Council has a target of 'zero harm' to its staff and is responsible for many assets and spaces that are used by members of the public. Council will invest money to ensure the safety of its staff, and the public based on a robust analysis of safety issues and how these can be most effectively addressed.	Council has little to no appetite for WHS risk. Council expects that all WHS risks will be managed to a low residual risk rating. All WHS risks which cannot be managed to this level will be escalated to Executive Leadership Team, reviewed by the Work Health & Safety Committee and appropriate action will be identified.

Risk Category	Risk Tolerance: the level of risk Council can practically deal with (the range of what we can do)	Risk appetite: the level of risk Council is willing to take in the pursuit of its goals (the range of what we will do)
	Council has no appetite for injuring our people.	Council may need to suspend work in acute instances of significant or extreme safety risk.
Service disruption	Generally speaking, Council can tolerate some down-time in most roles and areas, however, the workforce establishment is lean and therefore tolerance for extended absence or vacancy is fairly limited. Council will need to assess whether it has sufficient, appropriately trained and adequately skilled individuals to undertake tasks and to respond to the associated risks. In some cases, Council will require specific knowledge to achieve its outcomes. Council's need for specialist knowledge, and its ability to recruit and retain staff or engage contractors varies greatly in relation to the area of operation and the skill sets required. .	Council will endeavour to balance risk in relation to the need for sufficient, appropriately trained and skilled members of staff with the financial cost and impact of position vacancies on the organisation. Where possible, Council will consider opportunities to train or develop existing staff before looking to recruit or contract externally where the risk of not having sufficient or suitably qualified personnel is concerned. Vacant positions will be reviewed promptly, and the risks associated with ongoing vacancies in established positions will be reviewed by Human Resources and the Executive Leadership Team and appropriate action identified.

14.2 Statement of Investments - November 2024

CSP Objective:	Outcome 5.1: Public funds and assets are managed strategically, transparently and efficiently
CSP Strategy:	5.1.1 Public funds are managed in accordance with Financial Management Standards and the Local Government Act.
Delivery Program:	5.1.1.1 Improved financial reporting and legislative compliance through reporting, scrutiny oversight and processes.

Summary

This report provides an overview of Council's cash and investment portfolio and investment performance as at 30 November 2024 and endorsement of the restricted funds position.

Financial implication

Investments are undertaken based upon the best rate on the day and after consideration of spreading Council's Investment risk across various institutions as per the Investment Policy and section 625 of the Local Government Act 1993. The distinction between restricted and unrestricted funds is a key operational and financial understanding.

Risk implication

The risk related to this information is non-compliance with Council's Investment Policy and Office of Local Government guidelines for appropriate monitoring and reporting of changes and the position of restricted funds.

Policy

Clause 625 of the *Local Government Act 1993*

Clause 212 of the Local Government (General) Regulation 2021

Kiama Municipal Council – Investment Policy

Kiama Municipal Council – Restricted Funds Policy

Consultation (internal)

Chief Executive Officer

Chief Operating Officer

Chief Financial and Technology Officer

Financial Manager

Senior Financial Accountant

Communication/Community engagement

N/A

Attachments

1 Kiama Monthly Report - November 2024⇩

Enclosures
Nil

RECOMMENDATION

That Council:

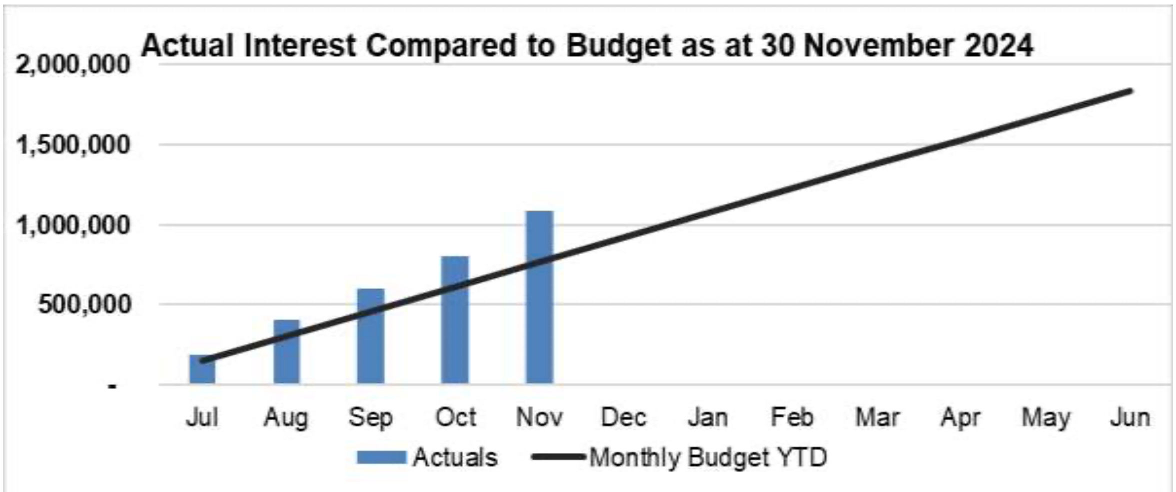
1. Receive the information relating to the Statement of Investments as at 30 November 2024.
2. Approve the transfer of $2,050,000 from the internally restricted Blue Haven ILU Prudential Cover to Unrestricted Funds.

Background

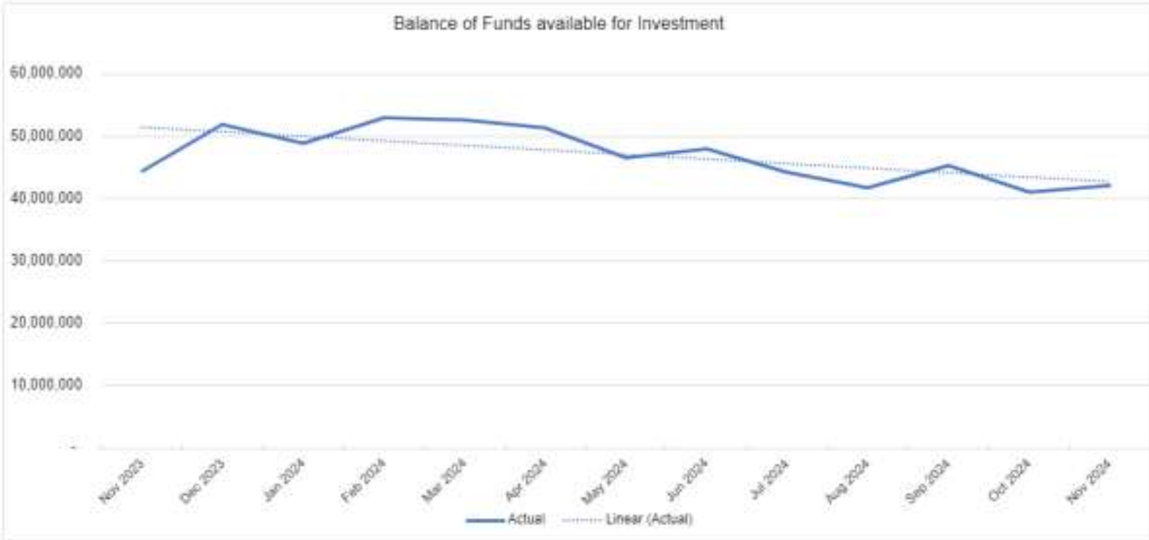
Council is required to invest its surplus funds in accordance with the Ministerial Investment Order and Office of Local Government guidelines. The Order reflects a conservative approach and restricts the investment types available to Council. Council's Investment Policy provides a framework for the credit quality, institutional diversification, and maturity constraints that Council's portfolio can be exposed to. Council's investment portfolio was controlled by Council's Finance Department during the period to ensure compliance with the Investment Policy. External investment advisor advice is also considered at the time.

Return on Investments

For the month of November, excluding cash, the total portfolio provided a return of +0.45% (actual) or +5.60% p.a. (annualised), outperforming the benchmark AusBond Bank Bill Index return of +0.36% (actual) or +4.48% p.a. (annualised).



Movement in Investments



Trades matured in November:

Issuer	Rating	Type	Interest	Purchase	Maturity	Rate %	Value
ING Bank (Australia) Ltd	A	TD	At Maturity	15/11/2023	15/11/2024	5.48	2,000,000
Suncorp Bank	AA-	TD	At Maturity	21/11/2023	21/11/2024	5.40	1,000,000
Suncorp Bank	AA-	TD	At Maturity	28/11/2023	28/11/2024	5.50	2,000,000
Total							**5,000,000**

New trades entered under delegation, during November:

Issuer	Rating	Type	Interest	Purchase	Maturity	Rate %	Value
Australian Unity Bank	BBB+	TD	At Maturity	28/11/2024	27/11/2025	5.11	2,000,000
Total							**2,000,000**

Portfolio compliance

As of the end of November 2024, Council is now fully compliant with all ratings.

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	ANZ	AA-	$6,000,000	13.65%	40%	$11,582,166
✓	Westpac	AA-	$8,955,416	20.37%	40%	$8,626,751
✓	NAB	AA-	$13,000,000	29.58%	40%	$4,582,166
✓	ING	A	$11,000,000	25.03%	30%	$2,186,625
✓	Australian Unity	BBB+	$2,000,000	4.55%	15%	$4,593,312
✓	Bank of Us	BBB+	$1,000,000	2.28%	15%	$5,593,312
✓	BankVic	BBB+	$2,000,000	4.55%	15%	$4,593,312
			$43,955,416	**100.00%**		

Item 14.2

Portfolio summary:

Issuer	Rating	Type	Interest	Purchase	Maturity	Rate %	Value
Suncorp Bank	AA-	TD	At Maturity	04/12/2023	04/12/2024	5.35	1,000,000.00
Suncorp Bank	AA-	TD	At Maturity	13/12/2023	13/12/2024	5.30	2,000,000.00
ING Bank (Australia) Ltd	A	TD	Annual	21/12/2023	18/12/2024	5.23	2,000,000.00
ING Bank (Australia) Ltd	A	TD	At Maturity	10/01/2024	09/01/2025	5.22	1,000,000.00
NAB	AA-	TD	At Maturity	07/08/2024	12/02/2025	5.10	1,000,000.00
NAB	AA-	TD	At Maturity	26/02/2024	26/02/2025	5.08	2,000,000.00
Suncorp Bank	AA-	TD	At Maturity	06/03/2024	12/03/2025	5.14	1,000,000.00
BankVic	BBB+	TD	At Maturity	25/03/2024	26/03/2025	5.15	2,000,000.00
ING Bank (Australia) Ltd	A	TD	At Maturity	16/04/2024	02/04/2025	5.13	1,000,000.00
NAB	AA-	TD	Annual	18/09/2024	16/04/2025	5.00	1,000,000.00
NAB	AA-	TD	At Maturity	03/07/2024	28/05/2025	5.43	2,000,000.00
NAB	AA-	TD	At Maturity	26/09/2024	11/06/2025	5.01	1,000,000.00
NAB	AA-	TD	At Maturity	03/07/2024	02/07/2025	5.45	2,000,000.00
NAB	AA-	TD	At Maturity	10/07/2024	09/07/2025	5.45	2,000,000.00
Suncorp Bank	AA-	TD	At Maturity	23/10/2024	06/08/2025	5.06	1,000,000.00
ING Bank (Australia) Ltd	A	TD	At Maturity	22/11/2023	23/09/2025	5.35	1,000,000.00
NAB	AA-	TD	At Maturity	16/10/2024	15/10/2025	4.95	2,000,000.00
Suncorp Bank	AA-	TD	At Maturity	21/11/2023	21/11/2025	5.36	1,000,000.00
Australian Unity Bank	BBB+	TD	At Maturity	28/11/2024	27/11/2025	5.11	2,000,000.00
ING Bank (Australia) Ltd	A	TD	At Maturity	04/12/2023	04/12/2025	5.25	1,000,000.00
ING Bank (Australia) Ltd	A	TD	Annual	18/12/2023	18/12/2025	5.20	2,000,000.00
ING Bank (Australia) Ltd	A	TD	Annual	10/01/2024	14/01/2026	4.96	1,000,000.00
Bank of Us	BBB+	TD	At Maturity	06/03/2024	11/03/2026	4.96	1,000,000.00
ING Bank (Australia) Ltd	A	TD	At Maturity	11/04/2024	08/04/2026	4.92	2,000,000.00
Westpac	AA-	CASH	Monthly	30/11/2024	30/11/2024	4.26	8,955,415.61
Total 43,955,415.61							

Restricted Funds Movements

The restricted funds movement for this month and balances are presented in the table below.

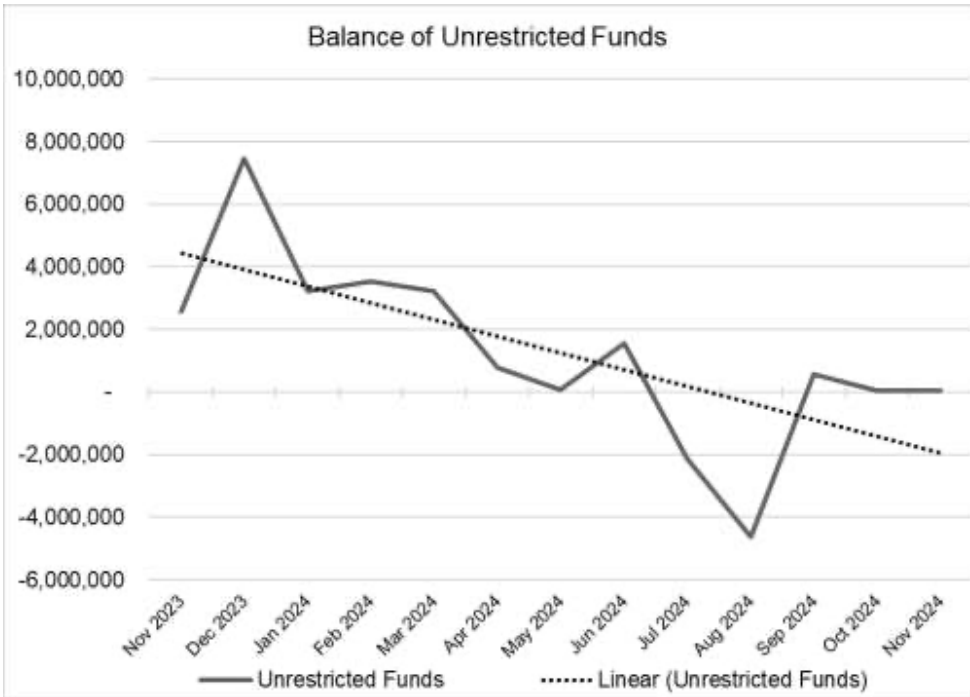
Cash and investments held	31/10/2024	Movement	ExtraOrd Adj	30/11/2024
Cash at Bank - Transactional Account	5,071,102	3,884,313		8,955,416
Other Cash and Investments	38,000,000	(3,000,000)		35,000,000
Total Portfolio Balance (agrees to Arlo Advisory report)	**43,071,102**	**884,313**		**43,955,416**
Cash on Hand	6,000	0		6,000
Bank Reconciliation items**	(1,964,877)	180,795		(1,784,082)
Book Value of Cash and Investments	**41,112,225**	**1,065,109**		**42,177,333**
Unspent Loan Funding	400,000	0		400,000
Unexpended Grants	1,931,720	2,686,384		4,618,104
Developer Contributions (Unexpended)	13,787,550	(149,309)		13,638,241
Stormwater Levy	322,207	(526)		321,681
Security bonds, Deposits & Retentions	2,132,264	(189,039)		1,943,225
Crown Reserve	3,528,675	(14,567)		3,514,108
Blue Haven Home Care Client Credit Balance	119,587	(9,041)		110,546
Domestic Waste Management	8,395,464	202,853		8,598,317
Blue Haven Terralong ILU Maintenance Levy	1,505,070	292,930		1,798,000
Blue Haven Bonaira ILU Maintenance Levy	395,000	0		395,000
Blue Haven Residential Aged Care (RAC) Prudential Liquidity Management	4,900,000	0		4,900,000
External Restrictions	**37,417,537**	**2,819,686**	**0**	**40,237,223**
Employee Leave Liabilities	3,443,958	0		3,443,958
Land Development	718,742	(30,399)		688,343
Temporary Funding of Disaster Recovery Funding Agreement Works	(6,059,773)	759,336		(5,300,437)
Blue Haven ILU Prudential Cover	3,617,000	0	(2,050,000)	1,567,000
Plant Replacement	1,643,984	(844,672)		799,312
Risk Improvement Incentive	56,885	(28,477)		28,408
Waste Business Unit	0	0		0
Terralong ILU Capital Works	237,933	447,504		685,438
Internal Restrictions	**3,658,730**	**303,292**	**(2,050,000)**	**1,912,022**
Unrestricted Cash	**35,958**			**28,088**

** Bank reconciliation items have been manually adjusted to account for genuine transactions such as unpresented cheques.

- Material increase noted in the Unexpended Grants reserve due to the Betterment Funding Grant received.

- Material increase noted in Disaster Recovery Funding reserve due to grant received from Transport NSW.
- Material decrease noted in Plant Replacement reserve due to capital expenditure recognised in reserve.

Unrestricted Funds



Council's overall cash balance increased during November from $41.1M to $42.1M. This $1M increase is a result of business-as-usual operations and:

- Rates instalment due 30 November, Council received $3M during the month
- Positive net movement of $750K in Disaster Recovery Funding for November
- Net Resident outflow of Accommodation Deposits (RAD's) refunded during the month of $1.6M

Council has adopted a deficit budget for the 2024/25 financial year, with an expected reduction in **unrestricted** cash of $7.3 million (excluding proceeds from asset sales and Blue Haven debt repayment) for the year. This equates to $600K per month. As a result, it is anticipated that Council will need to draw from internal reserves either permanently or temporarily, until cash proceeds from planned divestments are realised.

As the sale of Blue Haven Bonaira is expected to be finalised in February 2025, and no ILU refunds for Bonaira are pending before then, it is recommended to release 50% (or $2.05M) of the yearly Blue Haven ILU Prudential Cover internal reserve of $4.1M. This will leave a remaining liquidity reserve balance of $1.6M allocated for the Terralong ILUs. The issue of ongoing ILU reserves will be further reviewed in coming months during budget preparations especially given the recently introduced capital works reserve.

The current adopted Long Term Financial Plan includes releasing a portion of the ILU internal reserve upon the sale of Blue Haven Bonaira (along with the externally restricted aged care reserves). Both these adjustments represent a permanent release of funds.

By releasing these funds, Council can address its unrestricted funds deficit until surplus funds or the proceeds from planned divestments are realised.

The summary of extraordinary transfers from internal reserves in order to replenish unrestricted cash as per previous Council resolutions for 2024/25 financial year is summarised below:

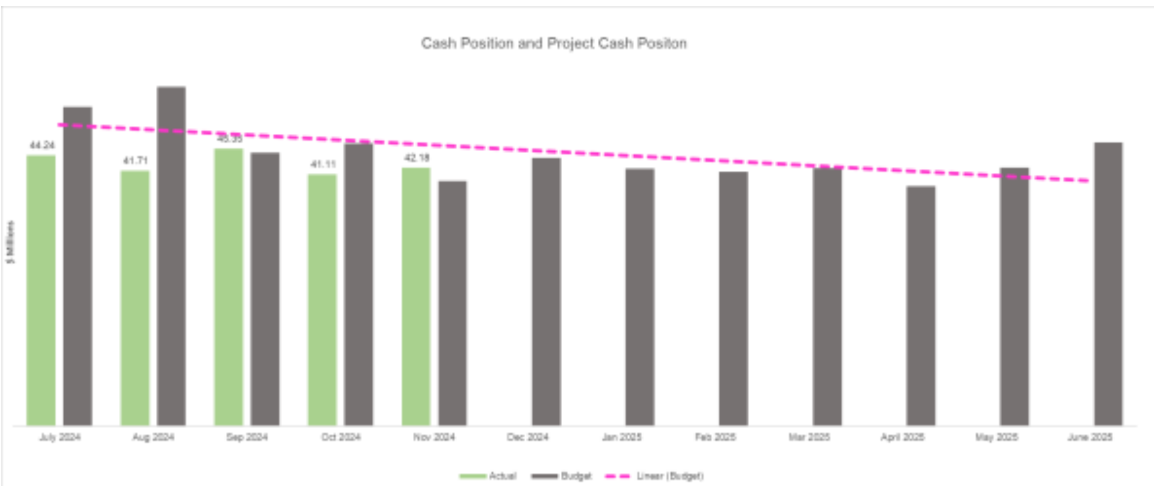
Reference	Date Effective	Reserve	Amount	Reason
24/316OC	30/11/2024	Waste Business Unit Reserve	-1,420,704	Insufficient unrestricted cash balance
	Total:		**-1,420,704**	

A key challenge outside Council's control impacting unrestricted cash, is disaster recovery spend prior to reimbursement from funding bodies, currently this balance is $5.3M which has a material impact on the unrestricted funds balance. Note this 'debtor' position denies any interest earning potential. Some of this is expected in December and January.

Consolidated Cash Position and Cash Flow Forecast

The below graph depicts the revised cash forecast for the 2024-25 financial year, whilst comparing the current cash reserve balance to the predicted cash reserve balance.

November's cash position is higher than the projected cash balance, predominately due to Council receiving $500K more than anticipated for the November rates instalment and an additional $1.3M in grant funding payments.



Certification – Responsible Accounting Officer

I hereby certify that the investments listed in this report have been made in accordance with Section 625 of the *Local Government Act 1993*, clause 212 of the Local Government (General) Regulation 2021 and Council's Investment Policy.

Olena Tulubinska
Chief Financial Officer

18/12/2024

Arlo Advisory

Monthly Investment Review

KIAMA MUNICIPAL COUNCIL
your council, your community

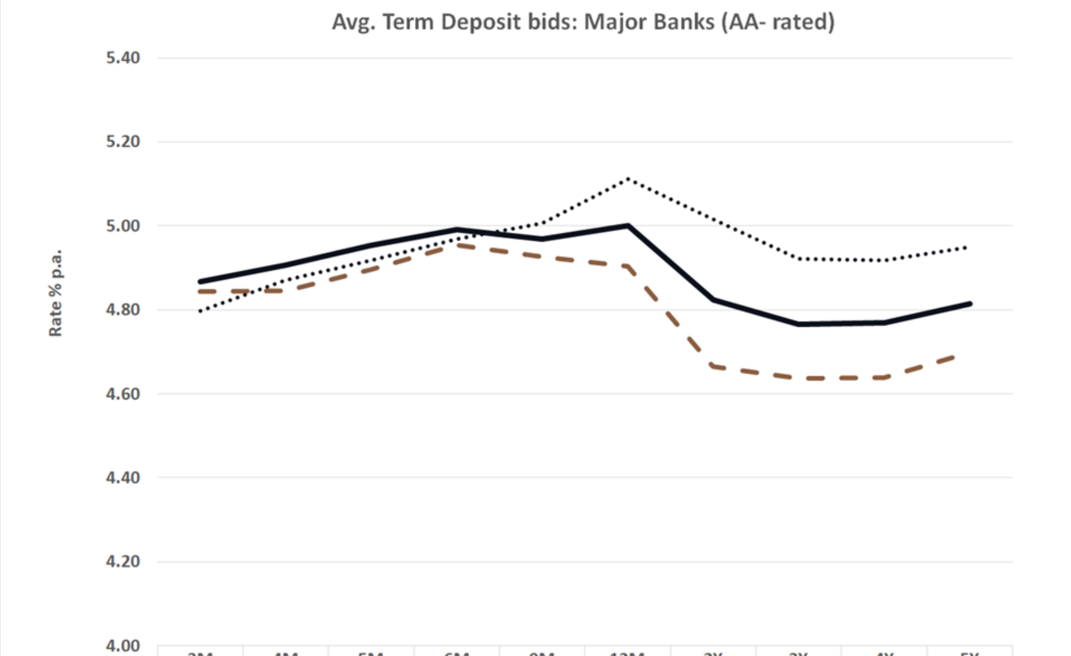
November 2024

Arlo Advisory Pty Ltd
ABN: 55 668 191 795
Authorised Representative of InterPrac Financial Planning Pty Ltd
AFSL 246 638
Phone: +61 2 9053 2987
Email: michael.chandra@arloadvisory.com.au / melissa.villamin@arloadvisory.com.au
Level 3, Suite 304, 80 Elizabeth Street, Sydney NSW 2000

Market Update Summary

In November, risk markets rebounded after Donald Trump won the US Presidential election, promising to deliver bold ideas on tax cuts, tariffs and other programs to strengthen the US economy.

In the deposit market, over November, at the very short-end of the curve, the average deposit rates offered by the major banks rose by 5bp compared to where they were the previous month (October). The biggest moves have been seen at the long-end of the curve. The average rates being offered for 1-5 year terms have risen by around 10-15bp to where they were in October. The market has lowered their expectations, not only with regards to the timing of the first rate cut (now around May-June), but also how many cuts are pencilled over 2025 (down to a maximum of two).



	3M	4M	5M	6M	9M	12M	2Y	3Y	4Y	5Y
Nov-2024	4.87	4.91	4.95	4.99	4.97	5.00	4.82	4.77	4.77	4.81
Oct-2024	4.84	4.85	4.90	4.96	4.93	4.90	4.66	4.64	4.64	4.70
May-2024	4.80	4.87	4.92	4.97	5.01	5.11	5.02	4.92	4.92	4.95

Source: Imperium Markets

With a global economic downturn and multiple interest rate cuts being priced in 2025, investors should consider diversifying and taking an 'insurance policy' against a potentially lower rate environment by investing across 1-5 year fixed deposits, targeting rates above 5% p.a. (small allocation only).

Kiama Municipal Council's Portfolio & Compliance

Asset Allocation

The majority of the portfolio is directed to term deposits (80%), with the remainder in cash (20%).

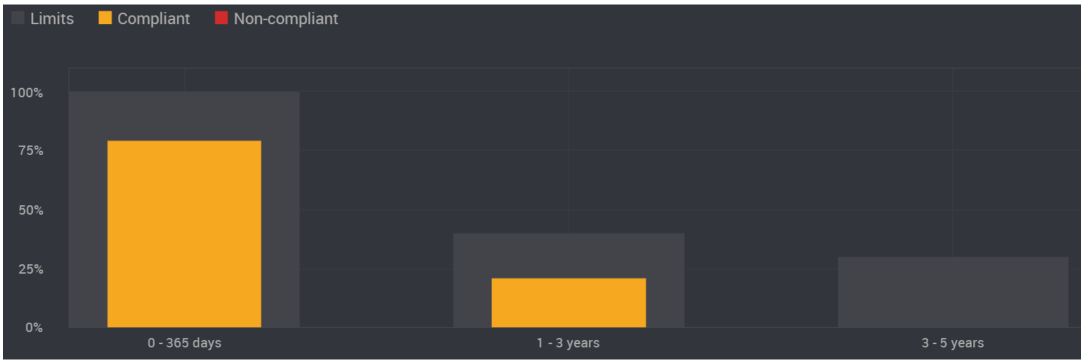
Senior FRNs are starting to become slightly expensive on a historical basis, although new issuances should continue to be considered on a case by case scenario. In the interim, staggering a mix of fixed deposits between 12 months to 3 years remains a more optimal strategy to maximise returns over a longer-term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

With multiple rate cuts and a global economic downturn being priced in coming years, investors can choose to allocate a small proportion of longer-term funds and undertake an insurance policy against any potential future rate cuts by investing across 1-5 year fixed deposits, locking in and targeting yields above 5% p.a. Should inflation be within the RBA's target band of 2-3% over the longer-term, returns around 5% p.a. or higher should outperform benchmark.

Term to Maturity

The portfolio is highly liquid with the majority maturing within 1 year (~84%). We recommend a more diversified maturity profile to optimise the overall returns of the portfolio in the long-run.

All the maturity policy allocations are compliant, with substantial capacity to invest in 1-3 year terms particularly amongst the higher rated ADIs. Where ongoing liquidity requirements permit, we recommend Council to invest a higher proportion in deposits with a minimum term of 9-12 months, with a smaller allocation to 2-3 year deposits.



Compliant	Horizon	Invested ($)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available ($)
✓	0 - 365 days	$36,955,416	84.07%	0%	100%	$5,885,234
✓	1 - 3 years	$7,000,000	15.93%	0%	40%	$8,896,932
✓	3 - 5 years	$0	0.00%	0%	30%	$11,086,625
✓	5 - 10 years	$0	0.00%	0%	30%	$11,086,625
		$43,955,416	**100.00%**			

Counterparty

As at the end of the November, all individual counterparties were within policy limits. We stress that exposures are dependent on capital inflows/outflows which can be volatile and unexpected at times. Breaches are typically temporary and usually rectified within months.

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	ANZ	AA-	$6,000,000	13.65%	40%	$11,582,166
✓	Westpac	AA-	$8,955,416	20.37%	40%	$8,626,751
✓	NAB	AA-	$13,000,000	29.58%	40%	$4,582,166
✓	ING	A	$11,000,000	25.03%	30%	$2,186,625
✓	Australian Unity	BBB+	$2,000,000	4.55%	15%	$4,593,312
✓	Bank of Us	BBB+	$1,000,000	2.28%	15%	$5,593,312
✓	BankVic	BBB+	$2,000,000	4.55%	15%	$4,593,312
			$43,955,416	**100.00%**		

On 31st July 2024, ANZ's takeover of Suncorp Bank was formalised, and ratings agency S&P upgraded Suncorp's long-term credit rating to that of its parent company immediately (now rated AA-). Investor's exposure to Suncorp is now reflected under the parent company being ANZ.

Fossil Fuel Investments

What is Council's current exposure to institutions that fund fossil fuels?

Using the following link http://www.marketforces.org.au/banks/compare, based on the Council's investment portfolio balance as at 30/11/2024 (~$43.96m), we can roughly estimate that ~89% of the institutions invested have some form of exposure. Note this is purely based on the institution/counterparty and not the actual underlying investments themselves.

Council's exposure is summarised as follows:

Counterparty	Rating	Funding Fossil Fuel
ANZ (inc. Suncorp)	AA-	Yes
WBC	AA-	Yes
NAB	AA-	Yes
ING	A	Yes
Aus. Unity	BBB+	No
Bank of Us	BBB+	No
BankVIC	BBB+	No

Source: https://www.marketforces.org.au/info/compare-bank-table/

Summary	Amount	Invested %
Yes	$38,955,416	89%
No	$5,000,000	11%
Total	**$43,955,416**	**100%**

Transition to investments without major exposure to fossil fuels

Council has not made a formal decision to divest from the current portfolio of investments which have exposure to fossil fuels. To do so would have unfavourable implications to the credit quality, rating and interest income forecasts.

However, where possible, and within the ministerial and policy guidelines, Council will continue to favour newly issued fossil fuel free investment products, providing it does not compromise the risk and return profile.

In time, it is Councils intention to move to a more balanced portfolio which has less exposure to fossil fuels, providing it is prudent to do so.

What would be implications on our portfolio credit rating?

By adopting a free fossil fuel policy or an active divestment strategy, this would eliminate the major banks rated "AA-" as well as some other potential "A" rated banks (e.g. Macquarie and ING). Council would be left with a smaller sub-sector of banks to choose to invest with.

What would be risks and implications on Council's portfolio performance?

Some implications include:

- High concentration risk – limiting Council to a selected number of banks;
- Increased credit/counterparty risk;
- May lead to a reduction in performance (e.g. should Council choose to invest in securities, most of the senior FRN issues are with the higher rated ADIs);
- Underperformance compared to other Councils which could result in a significant loss of income generated – could be in excess of hundreds of thousands of dollars per annum.

It may actually be contrary to Council's primary objective to preserve capital as the investment portfolio's risk would increase (all things being equal). Council may not be maximising its returns – this is one of the primary objectives written in the Investment Policy.

Credit Quality

The portfolio is diversified from a credit ratings perspective, with exposure down to the BBB category. All ratings categories are within the Policy limits:

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AAA Category	$0	0.0%	100%	$43,955,416
✓	AA Category	$27,955,416	63.6%	100%	$16,000,000
✓	A Category	$11,000,000	25.0%	70%	$19,768,791
✓	BBB Category	$5,000,000	11.4%	30%	$8,186,625
✓	Unrated Category	$0	0.0%	0%	$0
		$43,955,416	**100.0%**		

Performance

Council's performance (excluding cash holdings) for the month ending November 2024 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	0.35%	1.07%	2.16%	1.80%	4.36%
AusBond Bank Bill Index	0.36%	1.10%	2.22%	1.86%	4.46%
Council's Portfolio^	**0.45%**	**1.31%**	**2.62%**	**1.75%**	**5.23%**
Outperformance	**0.09%**	**0.21%**	**0.40%**	**-0.11%**	**0.77%**

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

Performance (Annualised)	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	4.35%	4.35%	4.35%	4.35%	4.36%
AusBond Bank Bill Index	4.48%	4.48%	4.47%	4.49%	4.46%
Council's Portfolio^	**5.60%**	**5.36%**	**5.29%**	**4.23%**	**5.23%**
Outperformance	**1.12%**	**0.89%**	**0.82%**	**-0.26%**	**0.77%**

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

For the month of November, excluding cash, the total portfolio provided a return of +0.45% (actual) or +5.60% p.a. (annualised), outperforming the benchmark AusBond Bank Bill Index return of +0.36% (actual) or +4.48% p.a. (annualised). All time periods are now comfortably above benchmark returns up to 1 year as the previously held low yielding deposits coming out of the pandemic period (yielding between 0.50%-3.00%) have all matured and been reinvested at higher prevailing rates.

Recommendations for Council

Term Deposits

Going forward, Council may consider altering its longer-term strategy by placing a slightly larger proportion of deposits and stagger investments across 12-24 months terms. Over a cycle and in a normal market environment, this may earn up to ¼-½% p.a. higher compared to purely investing in shorter tenors. There is growing belief that multiple rate cuts and a global economic downturn is imminent and so locking in rates above 5% p.a. across 1-5 year tenors may provide some income protection against a lower rate environment.

As at the end of November 2024, Council's deposit portfolio was yielding around 5.18% p.a. (down 5bp from the previous month), with a weighted average duration of 218 days (~7 months). ***We commend Council for extending its weighted average duration over the past 12 months, reflective of investments in some high yielding term deposits in 1 and 2 year tenors. We continue to recommend Council to increase the portfolio's duration closer to 9 months incrementally over the current financial year (with a view to extending closer to 12 months in the medium-term).***

Please refer to the section below for further details on the Term Deposit market.

Securities

Primary (new) **FRNs** (with maturities between 3-5 years) continue to be appealing (particularly for those investors with portfolios skewed towards fixed assets) and should be considered on a case by case scenario.

Please refer to the section below for further details on the FRN market.

Term Deposit Market Review

Current Term Deposits Rates

As at the end of November, we see value in the following:

ADI	LT Credit Rating	Term	Rate % p.a.
ING Bank	A	5 years	5.02%
BoQ	A-	5 years	5.00%
Westpac	AA-	5 years	4.82%
ING Bank	A	4 years	4.95%
BoQ	A-	4 years	4.95%
Westpac	AA-	4 years	4.78%
ING Bank	A	3 years	4.87%
Westpac	AA-	3 years	4.77%
NAB	AA-	3 years	4.65%
ING Bank	A	2 years	4.88%
Westpac	AA-	2 years	4.80%
NAB	AA-	2 years	4.80%
BoQ	A-	2 years	4.80%

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.
NAB	AA-	12 months	5.11%
MyState	BBB	12 months	5.10%
ICBC	A	12 months	5.09%
Westpac	AA-	12 months	5.07%
Suncorp	AA-	9 months	5.11%
NAB	AA-	9 months	5.10%
Bendigo	A-	9 months	5.04%
ING	A	9 months	5.00%
Suncorp	AA-	6 months	5.15%
BoQ	A-	6 months	5.15%
NAB	AA-	6 months	5.10%
Bendigo	A-	6 months	5.04%
NAB	AA-	3 months	5.00%
ICBC	A	3 months	4.97%
Westpac	AA-	3 months	4.93%

If Council does not require high levels of liquidity and can stagger a proportion of its investments across the longer term horizons (1-5 years), it will be rewarded over a longer-term cycle. Investing a spread of 12 months to 3 year horizons can likely yield up to, on average, an extra ¼-½% p.a. higher compared to those investors that entirely invest in short-dated deposits (under 6-9 months).

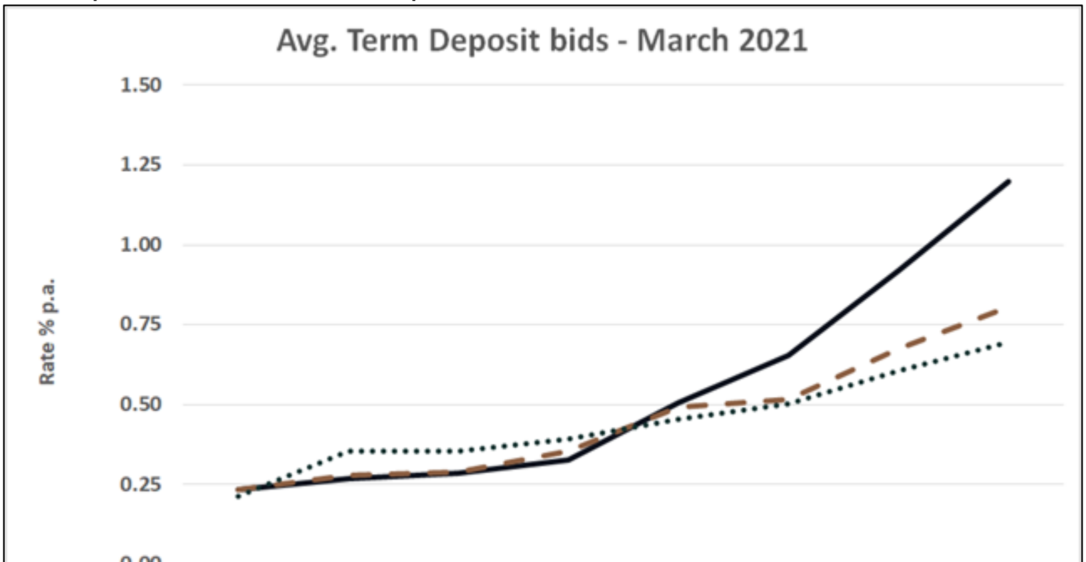
With a global economic slowdown and multiple interest rate cuts being priced over 2025, investors should strongly consider diversifying by allocating some longer term surplus funds and undertake an insurance policy by investing across 1-5 year fixed deposits and locking in rates above 5% p.a. This will provide some income protection with the RBA now potentially looking to cut rates by mid-2025.

Arlo Advisory

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)



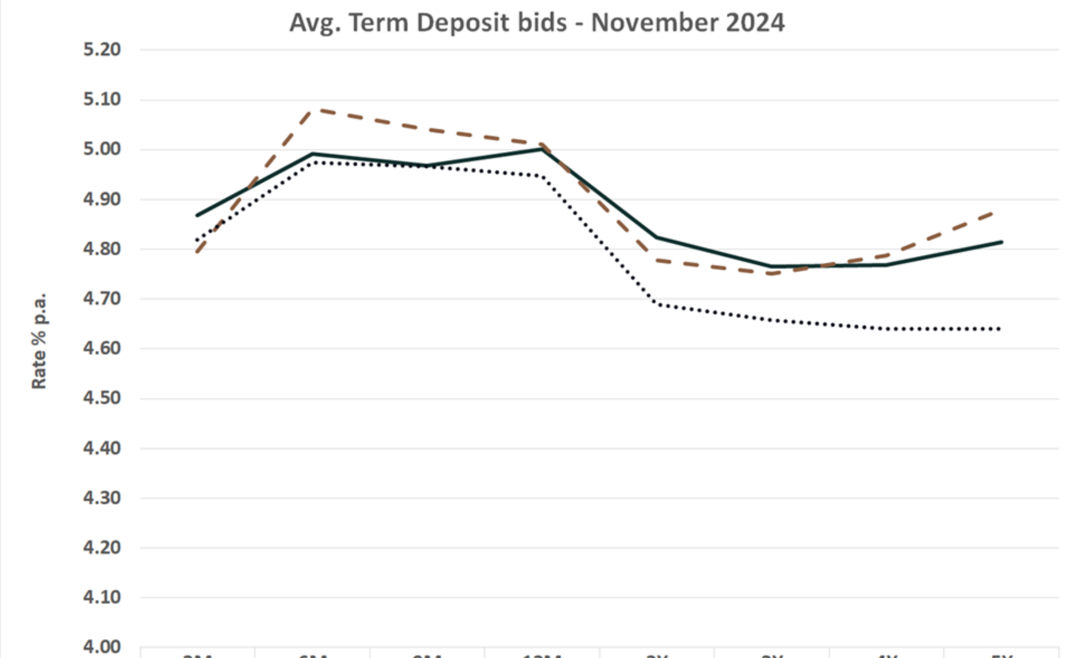
	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	0.23	0.27	0.29	0.33	0.51	0.65	0.92	1.20
A Rated	0.23	0.28	0.29	0.35	0.49	0.52	0.68	0.81
BBB Rated	0.21	0.36	0.35	0.39	0.45	0.50	0.61	0.70

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

Term Deposit Rates – Currently (November 2024)



	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	4.87	4.99	4.97	5.00	4.82	4.77	4.77	4.81
A Rated	4.80	5.08	5.04	5.01	4.78	4.75	4.79	4.88
BBB Rated	4.82	4.97	4.97	4.95	4.69	4.66	4.64	4.64

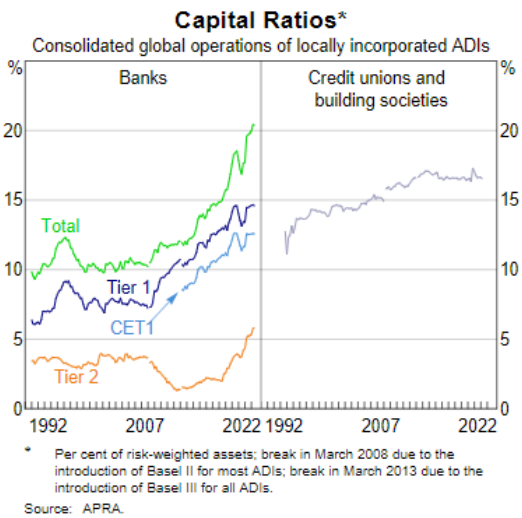
Source: Imperium Markets

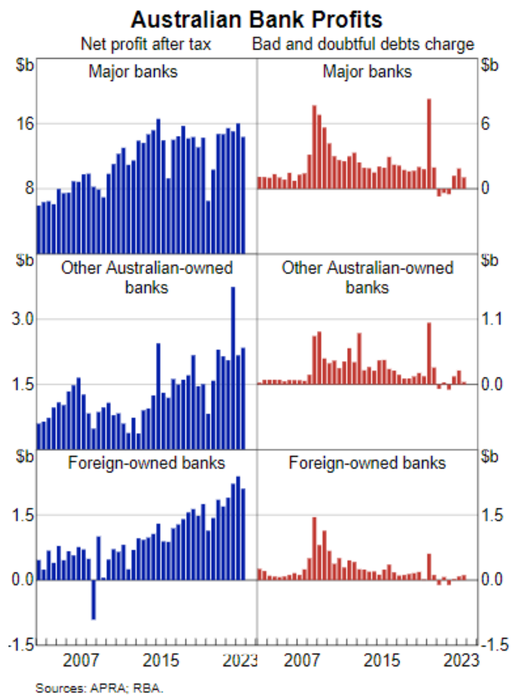
Financial Stability of the Banking (ADI) Sector

The RBA's latest Financial Stability report of 2024 reaffirms the strong balance sheet across the ADI sector. They noted that the risk of widespread financial stress remains limited due to the generally strong financial positions of most (individual) borrowers. Very few mortgage borrowers are in negative equity, limiting the impact on lenders (ADIs) in the event of default and supporting their ability to continue providing credit to the economy. Most businesses that have entered insolvency are small and have little debt, limiting the broader impact on the labour market and thus household incomes, and on the capital position of lenders (ADIs).

Australian banks (collectively the APRA regulated ADIs) have maintained prudent lending standards and are well positioned to continue supplying credit to the economy. A deterioration in economic conditions or temporary disruption to funding markets is unlikely to halt lending activity. Banks have anticipated an increase in loan arrears and have capital and liquidity buffers well above regulatory requirements (*see Capita Ratios chart below*). APRA's mandate is to "*protect depositors*" and provide "*financial stability*".

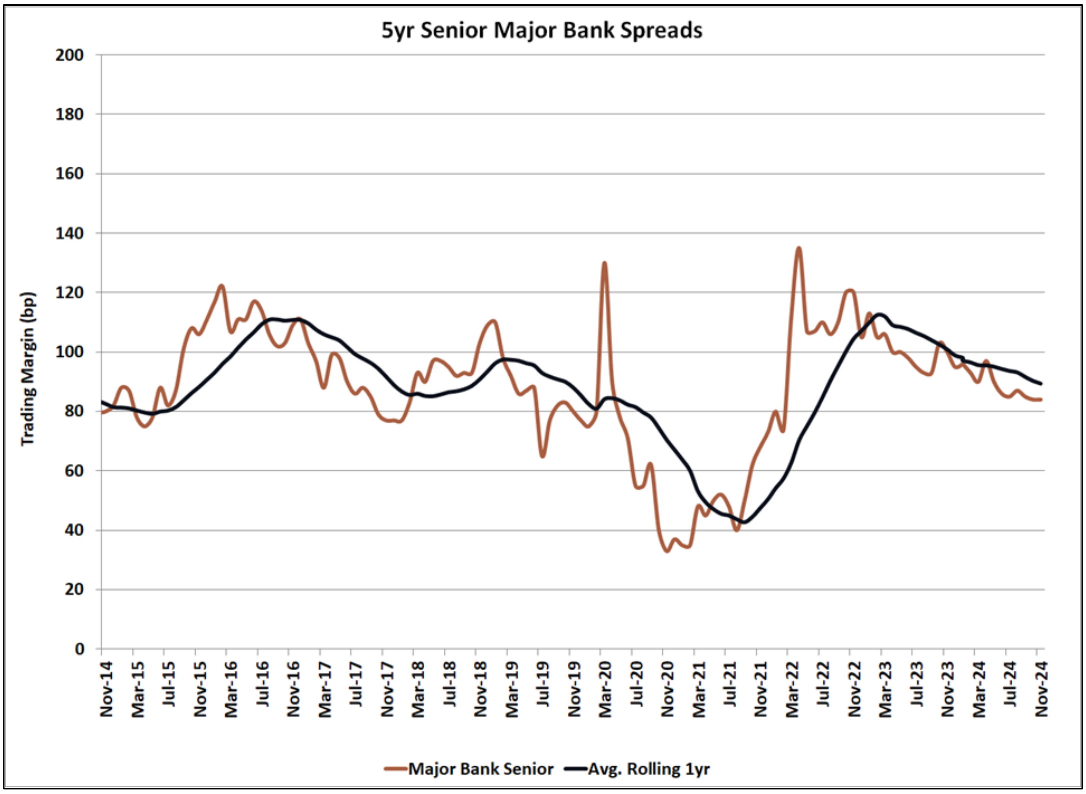
Over the past two decades, both domestic and international banks continue to operate and demonstrate high levels of profitability (*see Australian Bank Profits chart below*), which also includes two stress-test environments being the GFC (September 2008) and the COVID pandemic (March 2020):





Senior FRNs Market Review

Over November, amongst the senior major bank FRNs, physical credit securities remained relatively flat at the long-end of the curve. During the month, NAB (AA-) issued a 5 year senior deal at +82b, whilst ANZ (AA-) issued a new 3 year senior deal at +67bp, as well as an ~18 month senior FRN at +48bp. Long-term major bank senior securities are approaching the 'expensive' territory as the 5yr margin tightens towards +80bp.



Source: IBS Capital

Outside of NAB (AA-) and ANZ (AA-), there were quite a few new (primary) issuances during the month:

- Police Bank (BBB+) 3 year senior FRN at +115bp
- AMP Bank (BBB+) 1 year senior FRN at +75bp
- ING Bank Australia (AAA) 5 year covered security at +80bp
- Bank of China, Sydney Branch (A) 3 year senior FRN at +80bp
- SMBC, Sydney Branch (A) 3 year senior FRN at +85bp
- Rabobank, Australia Branch (A+) 3½ year senior security at +75bp
- Bendigo & Adelaide (AAA) 5 year covered security at +83bp

Amongst the "A" rated sector, the securities tightened up to 5bp at the longer-end of the curve, whilst the "BBB" rated remained relatively flat.

Overall, credit securities are looking more attractive given the widening of spreads over the past 3 years. FRNs will continue to play a role in investors' 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), whilst also providing some diversification to those investors skewed towards fixed assets.

Senior FRNs (ADIs)	29/11/2024	31/10/2024
"AA" rated – 5yrs	+84bp	+84bp
"AA" rated – 3yrs	+68bp	+65bp
"A" rated – 5yrs	+95bp	+100bp
"A" rated – 3yrs	+80bp	+80bp
"BBB" rated – 3yrs	+110bp	+110bp

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 2027 for the "AA" rated ADIs (domestic major banks);
- On or before early 2026 for the "A" rated ADIs; and
- Within 6-9 months for the "BBB" rated ADIs (consider case by case).

Investors holding onto the above senior FRNs ('benchmark' issues only) in their last few years are now generally holding sub optimal investments and are not maximising returns by foregoing realised capital gains. In the current challenging economic environment, any boost in overall returns should be locked in when it is advantageous to do so, particularly as switch opportunities become available.

Senior Fixed Bonds – ADIs (Secondary Market)

With global inflation still high by historical standards, this has seen a significant lift in longer-term bond yields over the past 3 years (valuations have fallen) as markets have reacted sharply.

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
AU3CB0278174	UBS	A+	Senior	26/02/2026	1.25	1.1000%	4.76%
AU3CB0280030	BoQ	A-	Senior	06/05/2026	1.44	1.4000%	4.96%
AU3CB0299337	Bendigo	A-	Senior	15/05/2026	1.46	4.7000%	4.81%
AU3CB0296168	BoQ	A-	Senior	27/01/2027	2.27	4.7000%	4.95%
AU3CB0308955	BoQ	A-	Senior	30/04/2029	4.43	5.3580%	5.07%

Economic Commentary

International Market

In November, risk markets rebounded after Donald Trump won the US Presidential election, promising to deliver bold ideas on tax cuts, tariffs and other programs to strengthen the US economy. Trump said he will impose additional 10% tariffs on goods from China and 25% tariffs on all products from Mexico and Canada.

Across equity markets, the S&P 500 Index gained +5.73%, whilst the NASDAQ surged +6.21%. Europe's main indices also provided solid returns, led by Germany's DAX (+2.88%) and UK's FTSE (+2.18%). France's CAC went against global trends, dropping -1.57%.

The US Fed's decision to cut by 25bp to 4.50%-4.75% was unanimous. Changes in the statement were modest, with the most notable being a removal of the comment from September that the committee had "*gained greater confidence*" in inflation moving toward target.

There were other central banks that made key decisions, including a 25bp cut from the Bank of England (BoE), a 50bp from Sweden's Riksbank and no change from Norway's Norges Bank.

US core CPI rose +0.28% in October (versus expectations at +0.30%). On an annual basis, core CPI rose +3.3%, matching expectations. The US unemployment rate held steady at 4.1%, albeit thanks in part to a 0.1% fall in the participation rate, and still sitting well below the Fed's September projections for Q4 2024 of 4.4%.

UK CPI printed above expectations on both headline (+2.3% y/y vs. +2.2% consensus) and core (+3.3% y/y vs. +3.1% consensus), while services inflation remained high (at +5.0% y/y).

Canada's jobs growth was slightly weaker than expected, but the unemployment rate was steady at 6.5%, 0.1% lower than expected. October CPI showed the headline rate rose +0.4% to +2.0% annually (0.1% more than expected).

China's stimulus announcement disappointed, being mostly focused on local government debt swaps ($10 trillion Yuan, or $1.4 trillion USD), rather than providing direct stimulus to businesses or consumers. Inflation data continued to show notable PPI deflation (+2.9% y/y) and CPI inflation of just +0.3% y/y, consistent with the weak domestic demand backdrop.

The MSCI World ex-Aus Index rose +4.50% for the month of November:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+5.73%	+6.80%	+32.06%	+9.72%	+13.94%	+11.30%
MSCI World ex-AUS	+4.50%	+4.15%	+26.19%	+7.17%	+10.85%	+8.31%
S&P ASX 200 Accum. Index	+3.79%	+5.47%	+23.42%	+9.55%	+8.28%	+9.08%

Source: S&P, MSCI

Domestic Market

The RBA kept rates on hold as universally expected. Consistent with their earlier messaging, the level of the cash rate was assessed to be restrictive, but "*less than in peer economies, despite many having lowered their policy rates*" while some indicators of financial conditions have eased a little since August. Forecasts for trimmed mean inflation and unemployment also little changed.

The RBA sees an economy running above capacity and a policy setting that is restrictive but has been and remains less restrictive than many of their advanced economy peers. They are not yet comfortable inflation is sustainably tracking back to target and are concerned about upside risks should gradual labour market cooling stall and capacity growth remain sluggish.

Monthly CPI indicator remained at +2.1% y/y in October (consensus +2.3% y/y). The exclusion-based core measure that strips out fruit, vegetable, fuel and holiday travel slowed to +2.4% from +2.7% (excluding electricity, it was steady at +3.5%)

The unemployment rate held steady in October at 4.1% (consensus also 4.1%), partially driven by a slight fall in the participation rate to 67.1% (from 67.2%). Even though the headline rate was widely expected, it does challenge the RBA's forecast track of the unemployment rate increasing to 4.3% in Q4 2024. Given the labour market is stronger than expected and the RBA's concerns about upside risks to inflation, it is unlikely the RBA will be confident enough to cut rates in the first half of 2025.

The wage price index (WPI) rose +0.8% q/q and +3.5% y/y in Q3. That was 0.1% below consensus and RBA forecasts for +0.9% q/q. Wages growth is past its peak, reflecting the substantial rebalancing in the labour market over the past couple of years, but the RBA is still awaiting further evidence that will continue and will translate through into cooler inflation pressures.

Australia's trade surplus has been broadly stable around $5bn a month since March, after earlier correcting lower on a pullback from elevated prices for especially energy commodities.

The Australian dollar fell -0.79%, finishing the month at US65.17 cents (from US65.69 cents the previous month).

Credit Market

The global credit indices marginally contracted in November and is looking very tight on a historical basis. They remain at their levels in early 2022 (prior to the rate hike cycle from most central banks):

Index	November 2024	October 2024
CDX North American 5yr CDS	48bp	54bp
iTraxx Europe 5yr CDS	57bp	59bp
iTraxx Australia 5yr CDS	66bp	66bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	November 2024	October 2024
Bloomberg AusBond Bank Bill Index (0+YR)	+0.36%	+0.37%
Bloomberg AusBond Composite Bond Index (0+YR)	+1.14%	-1.88%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.37%	+0.50%
Bloomberg AusBond Credit Index (0+YR)	+0.86%	-0.88%
Bloomberg AusBond Treasury Index (0+YR)	+1.17%	-2.06%
Bloomberg AusBond Inflation Gov't Index (0+YR)	+1.34%	-2.57%

Source: Bloomberg

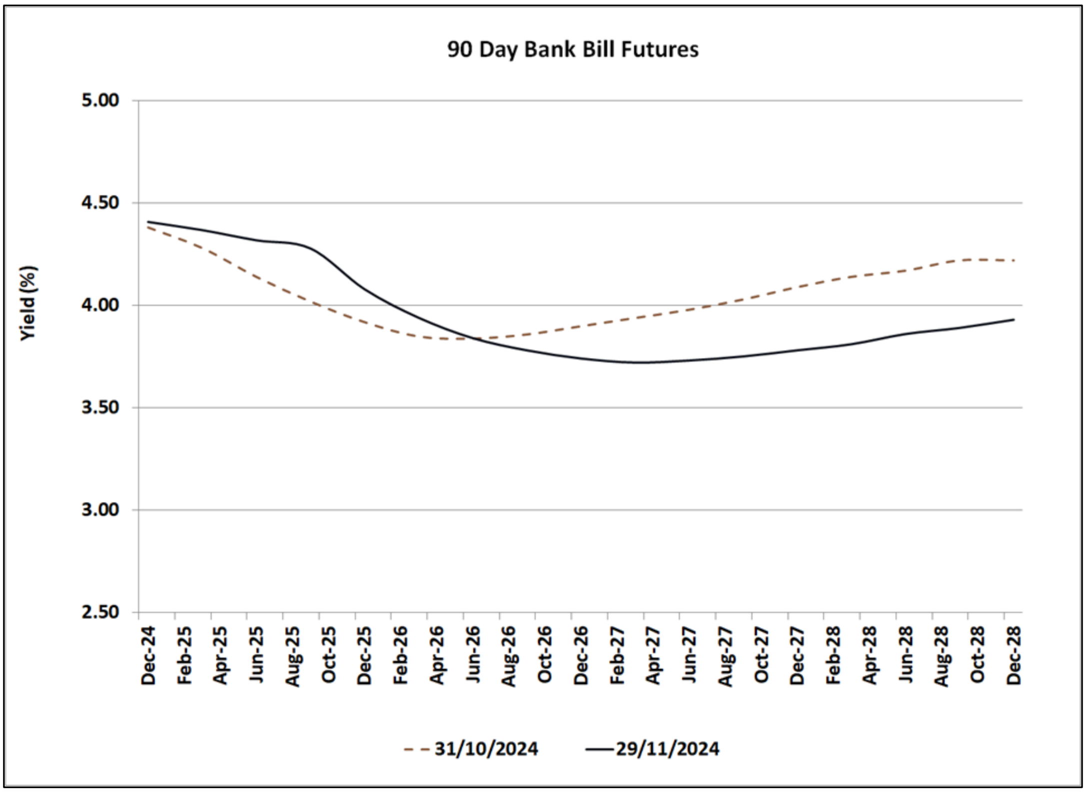
Other Key Rates

Index	November 2024	October 2024
RBA Official Cash Rate	4.35%	4.35%
90 Day (3 month) BBSW Rate	4.43%	4.42%
3yr Australian Government Bonds	3.90%	4.02%
10yr Australian Government Bonds	4.34%	4.50%
US Fed Funds Rate	4.50%-4.75%	4.75%-5.00%
2yr US Treasury Bonds	4.13%	4.16%
10yr US Treasury Bonds	4.18%	4.28%

Source: RBA, ASX, US Department of Treasury

90 Day Bill Futures

Bill futures rose at the very short-end this month in response to tempered expectations on the timing and number of rate cuts expected in coming years.



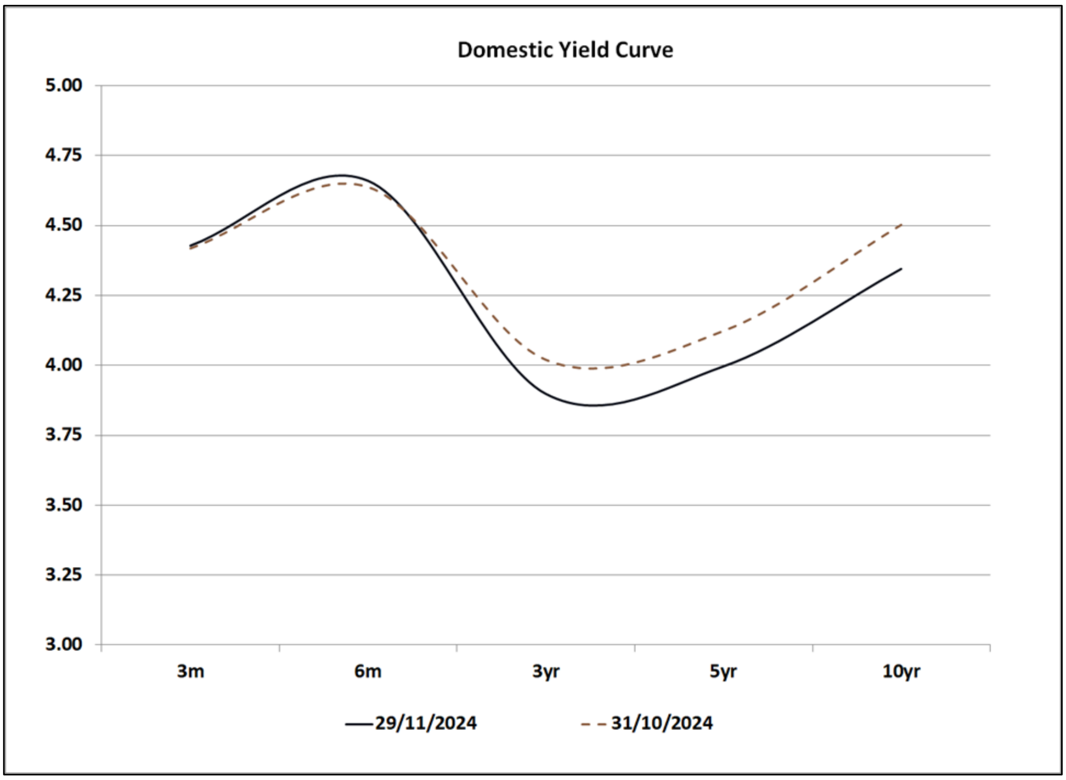
Source: ASX

Arlo Advisory

Fixed Interest Outlook

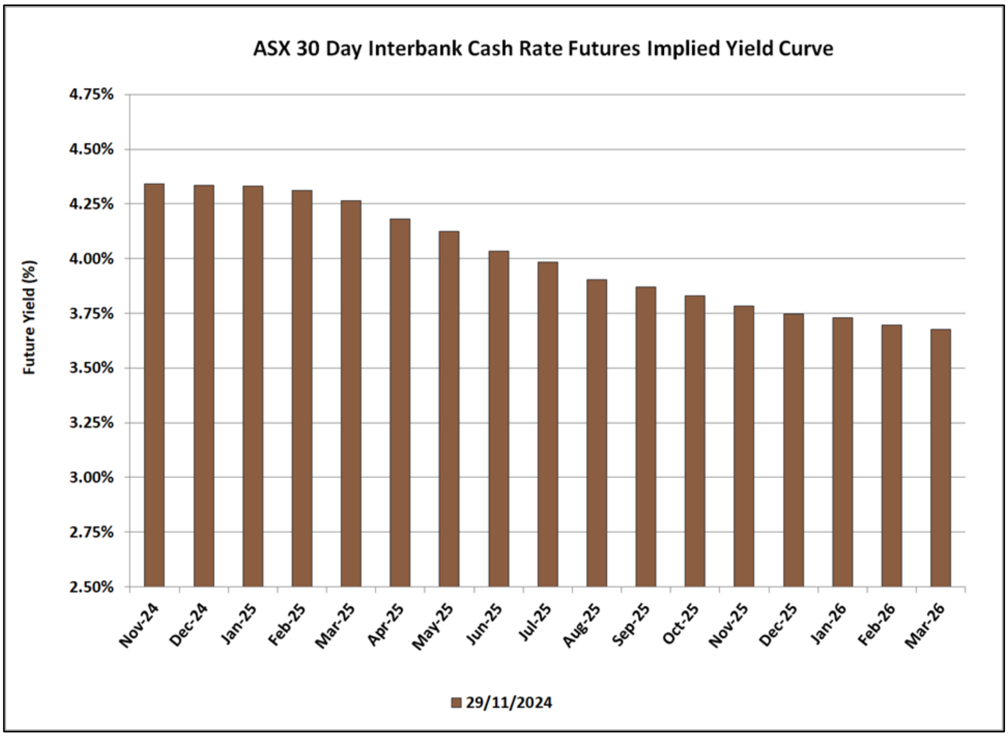
The market continues to price in the possibility of another 25bp rate cut by the US Fed in December. Longer-term, Fed Funds pricing has shifted materially to a higher terminal rate above 3.70% by mid-2026, from 3.35% a few months ago. US Fed Chair Powell said that "*the economy is not sending any signals that we need to be in a hurry to lower rates*" and that "*the strength we are currently seeing in the economy gives us the ability to approach our decisions carefully*". The latest Fed minutes showed some officials may elect to pause rate cuts and hold borrowing costs at a restrictive level if inflation remains elevated.

The RBA continues to push back on any immediate talks of rate cuts. The RBA's policy stance is only modestly restrictive and there is little urgency to adjust policy settings while both inflation and the unemployment rate are evolving gradually. The RBA remains "*vigilant to upside risks to inflation and the Board is not ruling anything in or out. Policy will need to be sufficiently restrictive until the Board is confident that inflation is moving sustainably towards the target range*". On neutral rates, RBA Deputy Governor Hauser said the RBA models show this to be between 3% and 4%.



Source: ASX, RBA

Financial markets have pushed back their expectations of rate cuts, with the first cut fully priced in by May-June, and now only a maximum of two cuts priced by the end of 2025. Governor Bullock did not disagree with this forecast, commenting the market implied cash rate path is "*as good as any*":



Source: ASX

14.3 Statement of Investments - December 2024

CSP Objective:	Outcome 5.1: Public funds and assets are managed strategically, transparently and efficiently
CSP Strategy:	5.1.1 Public funds are managed in accordance with Financial Management Standards and the Local Government Act.
Delivery Program:	5.1.1.1 Improved financial reporting and legislative compliance through reporting, scrutiny oversight and processes.

Summary

This report provides an overview of Council's cash and investment portfolio and investment performance as at 31 December 2024 and endorsement of the restricted funds position.

Financial implication

Investments are undertaken based upon the best rate on the day and after consideration of spreading Council's Investment risk across various institutions as per the Investment Policy and section 625 of the Local Government Act 1993. The distinction between restricted and unrestricted funds is a key operational and financial understanding.

Risk implication

The risk related to this information is non-compliance with Council's Investment Policy and Office of Local Government guidelines for appropriate monitoring and reporting of changes and the position of restricted funds.

Policy

Clause 625 of the *Local Government Act 1993*

Clause 212 of the Local Government (General) Regulation 2021

Kiama Municipal Council – Investment Policy

Kiama Municipal Council – Restricted Funds Policy

Consultation (internal)

Chief Executive Officer

Chief Operating Officer

Chief Financial and Technology Officer

Financial Manager

Senior Financial Accountant

Communication/Community engagement

N/A

Attachments

1 Kiama Monthly Report - December 2024⇩

Enclosures
Nil

RECOMMENDATION

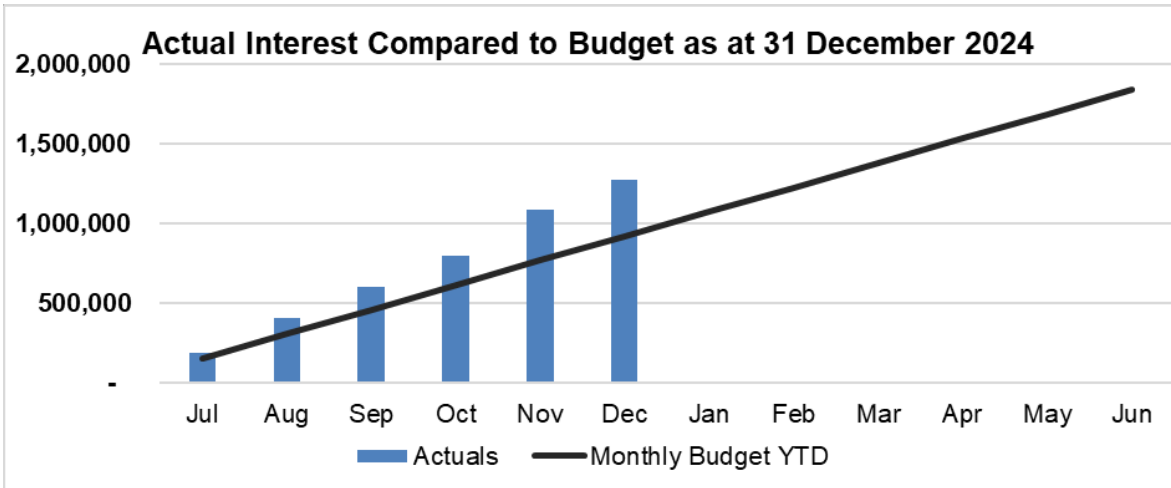
That Council receive the information relating to the Statement of Investments as at 31 December 2024.

Background

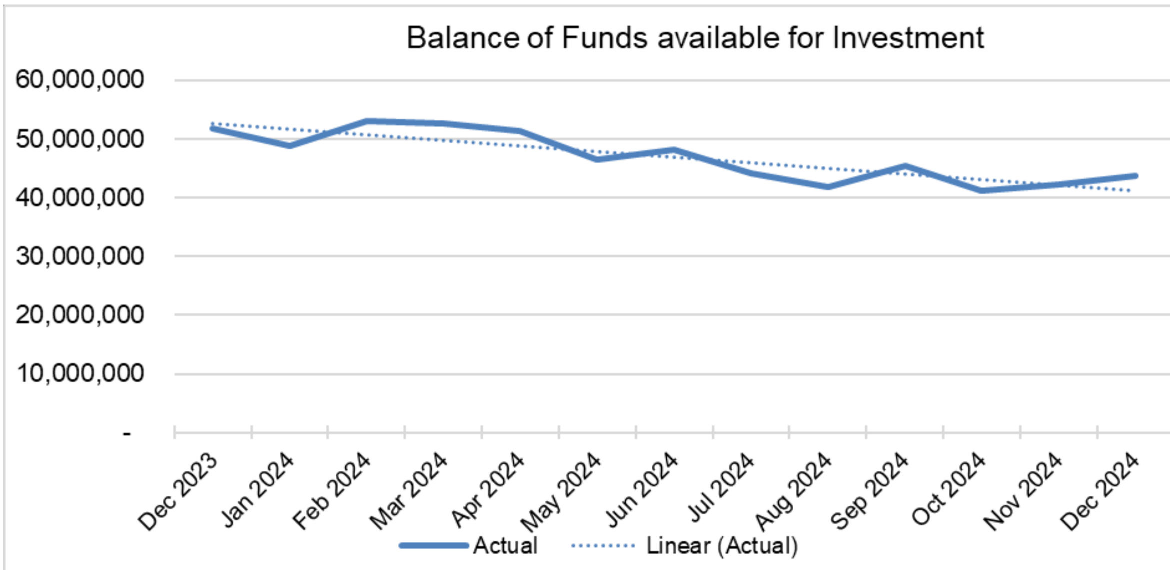
Council is required to invest its surplus funds in accordance with the Ministerial Investment Order and Office of Local Government guidelines. The Order reflects a conservative approach and restricts the investment types available to Council. Council's Investment Policy provides a framework for the credit quality, institutional diversification, and maturity constraints that Council's portfolio can be exposed to. Council's investment portfolio was controlled by Council's Finance Department during the period to ensure compliance with the Investment Policy. External investment advisor advice is also considered at the time.

Return on Investments

For the month of December, excluding cash, the total portfolio provided a return of +0.44% (actual) or +5.34% p.a. (annualised), outperforming the benchmark AusBond Bank Bill Index return of +0.38% (actual) or +4.53% p.a. (annualised).



Movement in Investments



Trades matured in December:

Issuer	Rating	Type	Interest	Purchase	Maturity	Rate %	Value
ING Bank (Australia) Ltd	A	TD	Annual	21/12/2023	18/12/2024	5.23	2,000,000
Suncorp Bank	AA-	TD	At Maturity	04/12/2023	04/12/2024	5.35	1,000,000
Suncorp Bank	AA-	TD	At Maturity	13/12/2023	13/12/2024	5.30	2,000,000
Total							**5,000,000**

New trades entered under delegation, during December:

Issuer	Rating	Type	Interest	Purchase	Maturity	Rate %	Value
Suncorp Bank	AA-	TD	At Maturity	04/12/2024	04/09/2025	5.15	1,000,000
P&N Bank	BBB+	TD	At Maturity	13/12/2024	07/01/2026	5.02	1,000,000
NAB	AA-	TD	At Maturity	18/12/2024	04/02/2026	4.95	1,000,000
Total							**3,000,000**

Portfolio summary:

Issuer	Rating	Type	Interest	Purchase	Maturity	Rate %	Value
ING Bank (Australia) Ltd	A	TD	At Maturity	10/01/2024	09/01/2025	5.22	1,000,000.00
NAB	AA-	TD	At Maturity	07/08/2024	12/02/2025	5.10	1,000,000.00
NAB	AA-	TD	At Maturity	26/02/2024	26/02/2025	5.08	2,000,000.00
Suncorp Bank	AA-	TD	At Maturity	06/03/2024	12/03/2025	5.14	1,000,000.00
BankVic	BBB+	TD	At Maturity	25/03/2024	26/03/2025	5.15	2,000,000.00
ING Bank (Australia) Ltd	A	TD	At Maturity	16/04/2024	02/04/2025	5.13	1,000,000.00
NAB	AA-	TD	Annual	18/09/2024	16/04/2025	5.00	1,000,000.00
NAB	AA-	TD	At Maturity	03/07/2024	28/05/2025	5.43	2,000,000.00
NAB	AA-	TD	At Maturity	26/09/2024	11/06/2025	5.01	1,000,000.00
NAB	AA-	TD	At Maturity	03/07/2024	02/07/2025	5.45	2,000,000.00
NAB	AA-	TD	At Maturity	10/07/2024	09/07/2025	5.45	2,000,000.00
Suncorp Bank	AA-	TD	At Maturity	23/10/2024	06/08/2025	5.06	1,000,000.00
Suncorp Bank	AA-	TD	At Maturity	04/12/2024	04/09/2025	5.15	1,000,000.00
ING Bank (Australia) Ltd	A	TD	At Maturity	22/11/2023	23/09/2025	5.35	1,000,000.00
NAB	AA-	TD	At Maturity	16/10/2024	15/10/2025	4.95	2,000,000.00
Suncorp Bank	AA-	TD	At Maturity	21/11/2023	21/11/2025	5.36	1,000,000.00
Australian Unity Bank	BBB+	TD	At Maturity	28/11/2024	27/11/2025	5.11	2,000,000.00
ING Bank (Australia) Ltd	A	TD	Annual	04/12/2023	04/12/2025	5.25	1,000,000.00
ING Bank (Australia) Ltd	A	TD	Annual	18/12/2023	18/12/2025	5.20	2,000,000.00
P&N Bank	BBB+	TD	At Maturity	13/12/2024	07/01/2026	5.02	1,000,000.00
ING Bank (Australia) Ltd	A	TD	Annual	10/01/2024	14/01/2026	4.96	1,000,000.00
NAB	AA-	TD	At Maturity	18/12/2024	04/02/2026	4.95	1,000,000.00
Bank of Us	BBB+	TD	At Maturity	06/03/2024	11/03/2026	4.96	1,000,000.00
ING Bank (Australia) Ltd	A	TD	At Maturity	11/04/2024	08/04/2026	4.92	2,000,000.00
Westpac	AA-	CASH	Monthly	31/12/2024	31/12/2024	4.26	12,249,845.47
Total 45,249,845.47							

Restricted Funds Movements

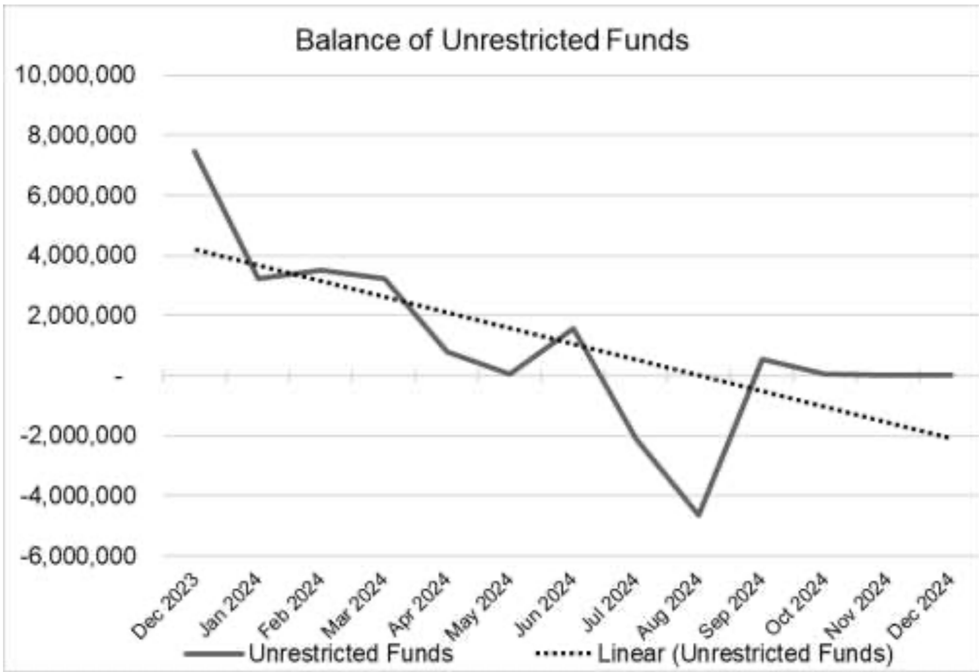
The restricted funds movement for this month and balances are presented in the table below.

Cash and Investments Held	30/11/2024	Movement	31/12/2024
Cash at Bank - Transactional Account	8,955,416	3,294,864	12,250,280
Other Cash and Investments	35,000,000	(2,000,000)	33,000,000
Total Portfolio Balance (agrees to Arlo Advisory report)	**43,955,416**	**1,294,864**	**45,250,280**
Cash on Hand	6,000	0	6,000
Bank Reconciliation items**	(1,784,082)	273,445	(1,510,637)
Book Value of Cash and Investments	**42,177,333**	**1,568,310**	**43,745,643**
Unspent Loan Funding	400,000	0	400,000
Unexpended Grants	4,618,104	(257,771)	4,360,333
Developer Contributions (Unexpended)	13,638,241	417,413	14,055,654
Stormwater Levy	321,681	39,700	361,381
Security bonds, Deposits & Retentions	1,943,225	(9,620)	1,933,605
Crown Reserve	3,514,108	(40,878)	3,473,230
Blue Haven Home Care Client Credit Balance	110,546	(6,434)	104,112
Domestic Waste Management	8,598,317	(491,744)	8,106,573
Blue Haven Terralong ILU Maintenance Levy	1,798,000	0	1,798,000
Blue Haven Bonaira ILU Maintenance Levy	395,000	0	395,000
Blue Haven Residential Aged Care (RAC) Prudential Liquidity Management	4,900,000	0	4,900,000
External Restrictions	**40,237,223**	**(349,334)**	**39,887,889**
Employee Leave Liabilities	3,443,958	0	3,443,958
Land Development	688,343	(24,755)	663,588
Temporary Funding of Disaster Recovery Funding Agreement Works	(5,300,437)	1,561,663	(3,738,774)
Blue Haven ILU Prudential Cover	1,567,000	0	1,567,000
Plant Replacement	799,312	(31,349)	767,963
Risk Improvement Incentive	28,408	119,561	147,970
Waste Business Unit	0	0	0
Terralong ILU Capital Works	685,438	319,666	1,005,104
Internal Restrictions	**1,912,022**	**1,944,786**	**3,856,808**
Unrestricted Cash	**28,088**		**947**

- Increase noted in the Temporary Funding of Disaster Recovery Funding Reserve due to receiving funds from Transport NSW.
- Increase noted in Developer contributions to recognise interest and revenue.

** Bank Reconciliation items have been manually adjusted to account for genuine transactions such as unpresented cheques.

Unrestricted Funds



Council's overall cash balance increased during December from $42.1M to $43.7M. This $1.6M increase is a result of business as usual operations and:

- Due to a net movement of $1.8M across Independent Living Unit and Resident Accommodation Deposits (RAD's) at Blue Haven. Note this shows the cash flow variability from month to month.
- Disaster recovery funding of $1.5M
- Offset by additional payroll in December due to holiday period ($450K) and transfer of community transport funds of $315K held on behalf and as part of the Transport for NSW contract guidelines.

The summary of extraordinary transfers from internal reserves in order to replenish unrestricted cash as per previous Council resolutions is summarised below:

Reference	Date Effective	Reserve	Amount	Reason
24/316OC	30/11/2024	Waste Business Unit Reserve	-1,420,704	Insufficient unrestricted cash balance – to be repaid when funds available
TBC	TBC	Blue Haven Prudential Cover	-2,050,000	Permanent transfer in line with adopted LTFP
	Total:		**-3,470,704**	

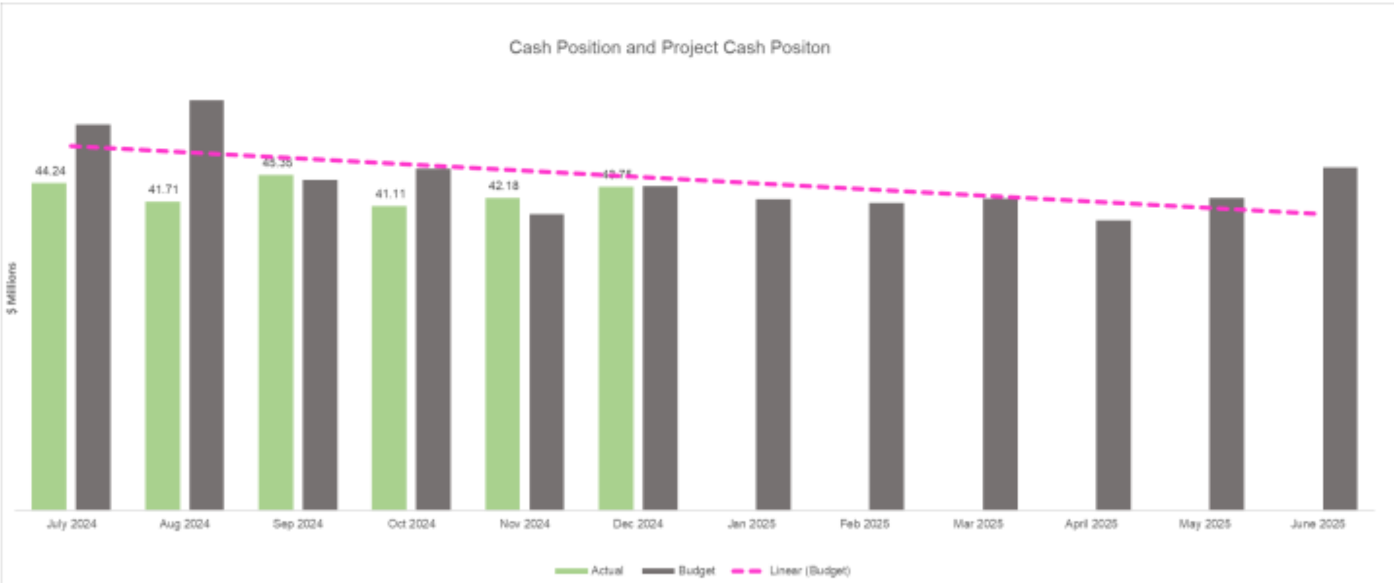
Council has adopted a deficit budget for the 2024/25 financial year, with an expected reduction in unrestricted cash of $7.3 million (excluding proceeds from asset sales and Blue Haven debt repayment). This equates to $600K per month. As a result, it is anticipated that Council will need to draw from internal reserves temporarily, until cash proceeds from operating surplus or planned divestments are realised.

A key challenge outside Council’s control impacting unrestricted cash, is disaster recovery spend prior to reimbursement from funding bodies, currently this balance is $3.7M which has a material impact on the unrestricted funds balance. Note this ‘debtor’ position denies any interest earning potential. Some further funds are expected in January.

Consolidated Cash Position and Cash Flow Forecast

The below graph depicts the revised cash forecast for the 2024-25 financial year, whilst comparing the current cash reserve balance to the predicted cash reserve balance.

December’s cash position is in line with the projected cash balance.



Certification – Responsible Accounting Officer

I hereby certify that the investments listed in this report have been made in accordance with Section 625 of the *Local Government Act 1993*, clause 212 of the Local Government (General) Regulation 2021 and Council’s Investment Policy.

Olena Tulubinska
Chief Financial Officer

14/01/2025

Arlo Advisory

Monthly Investment Review

KIAMA MUNICIPAL COUNCIL
your council, your community

December 2024

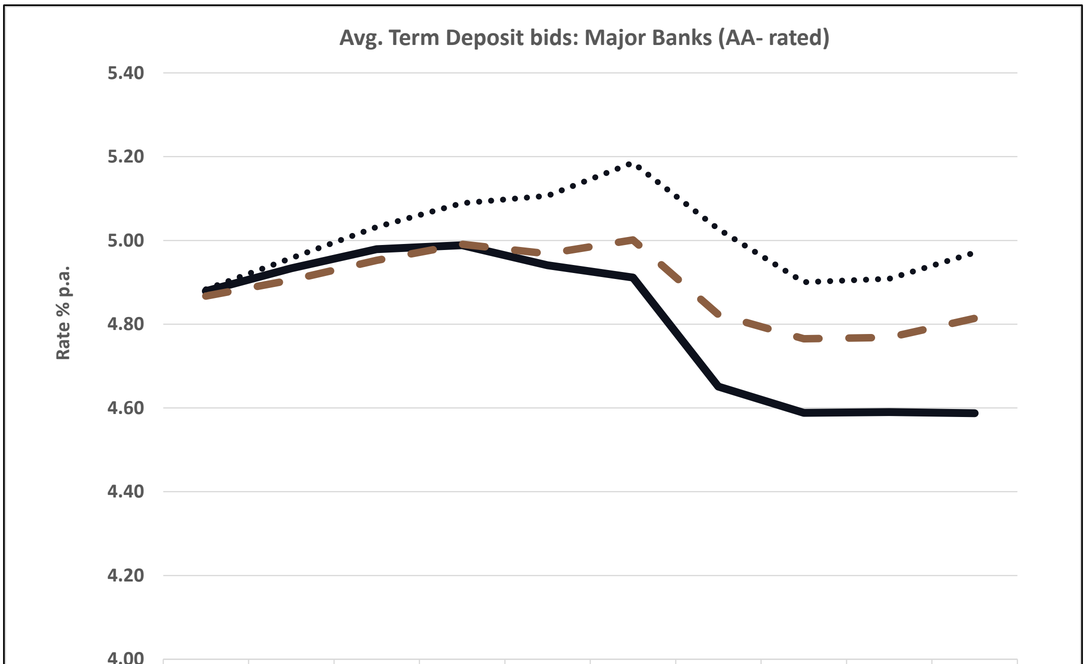
Arlo Advisory Pty Ltd
ABN: 55 668 191 795
Authorised Representative of InterPrac Financial Planning Pty Ltd
AFSL 246 638
Phone: +61 2 9053 2987
Email: michael.chandra@arloadvisory.com.au / melissa.villamin@arloadvisory.com.au
Level 3, Suite 304, 80 Elizabeth Street, Sydney NSW 2000

Arlo Advisory

Market Update Summary

Risk markets were largely negative in December as financial markets assessed high valuations, uncertainties surrounding tax and tariff policies from the administration of US President-elect Trump, and prospects of global central banks becoming more cautious in 2025 due to sticky inflation.

In the deposit market, over December, at the very short-end of the curve (less than 6 months), the average deposit rates offered by the major banks were relatively unchanged compared to where they were the previous month (November). The biggest moves have been seen at the long-end of the curve. The average rates being offered for 1-5 year terms dropped another 10-23bp compared to where they were in November. The market had reacted after the RBA somewhat pivoted and removed their slight tightening bias in their latest Board meeting in early December.



	3M	4M	5M	6M	9M	12M	2Y	3Y	4Y	5Y
Dec-2024	4.88	4.93	4.98	4.99	4.94	4.91	4.65	4.59	4.59	4.59
Nov-2024	4.87	4.91	4.95	4.99	4.97	5.00	4.82	4.77	4.77	4.81
Jun-2024	4.88	4.96	5.03	5.09	5.11	5.19	5.03	4.90	4.91	4.97

Source: Imperium Markets

With rate cuts and a global economic downturn priced in over the next few years, investors should consider diversifying and taking an 'insurance policy' against a potentially lower rate environment by investing across 1-5 year fixed deposits and locking in rates above 4¾% p.a. (small allocation only).

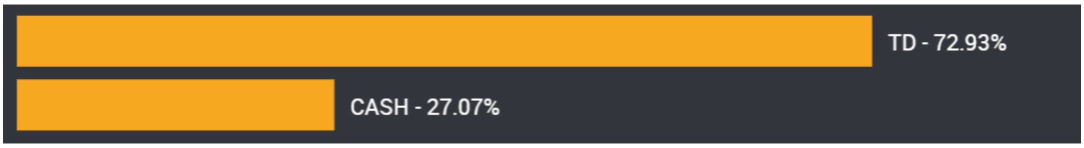
Kiama Municipal Council's Portfolio & Compliance

Asset Allocation

The majority of the portfolio is directed to term deposits (73%), with the remainder in cash (27%).

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

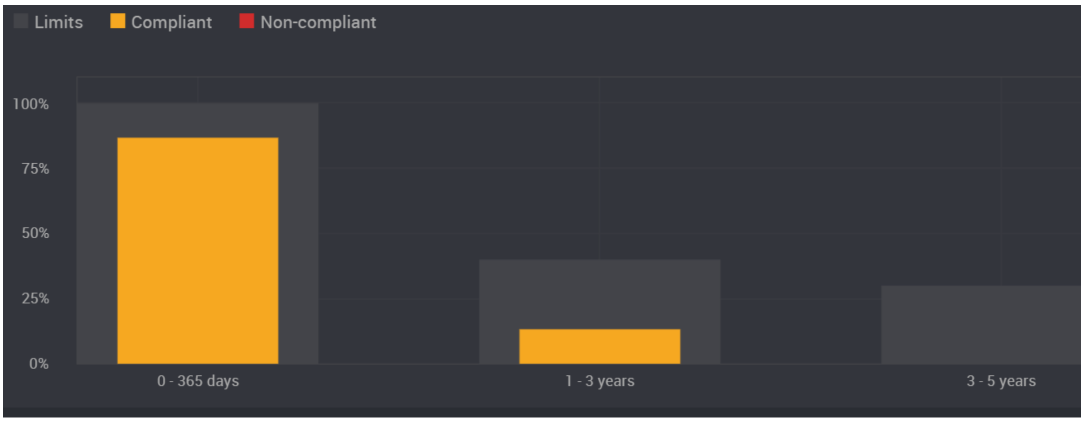
With multiple rate cuts and a global economic downturn being priced in coming years, investors can choose to allocate a small proportion of longer-term funds and undertake an insurance policy against any potential future rate cuts by investing across 1-5 year fixed deposits, locking in and targeting yields above 4¾% p.a. Should inflation be within the RBA's target band of 2-3% over the longer-term, returns around 4¾% p.a. or higher should outperform benchmark.



Term to Maturity

The portfolio is highly liquid with the majority maturing within 1 year (~87%). We recommend a more diversified maturity profile to optimise the overall returns of the portfolio in the long-run.

All the maturity policy allocations are compliant, with substantial capacity to invest in 1-3 year terms particularly amongst the higher rated ADIs. Where ongoing liquidity requirements permit, we recommend Council to invest a higher proportion in deposits with a minimum term of 9-12 months, with a smaller allocation to 2-3 year deposits.



Item 14.3

Attachment 1

Compliant	Horizon	Invested ($)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available ($)
✓	0 - 365 days	$39,249,845	86.74%	0%	100%	$5,204,417
✓	1 - 3 years	$6,000,000	13.26%	0%	40%	$10,495,521
✓	3 - 5 years	$0	0.00%	0%	30%	$11,774,954
✓	5 - 10 years	$0	0.00%	0%	30%	$11,774,954
		$45,249,845	**100.00%**			

Counterparty

As at the end of the December, all individual counterparties were within policy limits. We stress that exposures are dependent on capital inflows/outflows which can be volatile and unexpected at times. Breaches are typically temporary and usually rectified within months.

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	ANZ	AA-	$4,000,000	8.84%	40%	$14,099,938
✓	Westpac	AA-	$12,249,845	27.07%	40%	$5,850,093
✓	NAB	AA-	$14,000,000	30.94%	40%	$4,099,938
✓	ING	A	$9,000,000	19.89%	30%	$4,574,954
✓	Australian Unity	BBB+	$2,000,000	4.42%	15%	$4,787,477
✓	Bank of Us	BBB+	$1,000,000	2.21%	15%	$5,787,477
✓	BankVic	BBB+	$2,000,000	4.42%	15%	$4,787,477
✓	P&N Bank	BBB+	$1,000,000	2.21%	15%	$5,787,477
			$45,249,845	**100.00%**		

On 31st July 2024, ANZ's takeover of Suncorp Bank was formalised, and ratings agency S&P upgraded Suncorp's long-term credit rating to that of its parent company immediately (now rated AA-). Investor's exposure to Suncorp is now reflected under the parent company being ANZ.

Fossil Fuel Investments

What is Council's current exposure to institutions that fund fossil fuels?

Using the following link http://www.marketforces.org.au/banks/compare, based on the Council's investment portfolio balance as at 31/12/2024 (~$45.3m), we can roughly estimate that ~87% of the institutions invested have some form of exposure. Note this is purely based on the institution/counterparty and not the actual underlying investments themselves.

Council's exposure is summarised as follows:

Counterparty	Rating	Funding Fossil Fuel
ANZ (inc. Suncorp)	AA-	Yes
WBC	AA-	Yes
NAB	AA-	Yes
ING	A	Yes
Aus. Unity	BBB+	No
Bank of Us	BBB+	No
BankVIC	BBB+	No
P&N Bank	BBB+	No

Source: https://www.marketforces.org.au/info/compare-bank-table/

Summary	Amount	Invested %
Yes	$39,249,845	87%
No	$6,000,000	13%
Total	**$45,249,845**	**100%**

Transition to investments without major exposure to fossil fuels

Council has not made a formal decision to divest from the current portfolio of investments which have exposure to fossil fuels. To do so would have unfavourable implications to the credit quality, rating and interest income forecasts.

However, where possible, and within the ministerial and policy guidelines, Council will continue to favour newly issued fossil fuel free investment products, providing it does not compromise the risk and return profile.

In time, it is Councils intention to move to a more balanced portfolio which has less exposure to fossil fuels, providing it is prudent to do so.

What would be implications on our portfolio credit rating?

By adopting a free fossil fuel policy or an active divestment strategy, this would eliminate the major banks rated "AA-" as well as some other potential "A" rated banks (e.g. Macquarie and ING). Council would be left with a smaller sub-sector of banks to choose to invest with.

What would be risks and implications on Council's portfolio performance?

Some implications include:

- High concentration risk – limiting Council to a selected number of banks;
- Increased credit/counterparty risk;
- May lead to a reduction in performance (e.g. should Council choose to invest in securities, most of the senior FRN issues are with the higher rated ADIs);
- Underperformance compared to other Councils which could result in a significant loss of income generated – could be in excess of hundreds of thousands of dollars per annum.

It may actually be contrary to Council's primary objective to preserve capital as the investment portfolio's risk would increase (all things being equal). Council may not be maximising its returns – this is one of the primary objectives written in the Investment Policy.

Credit Quality

The portfolio is diversified from a credit ratings perspective, with exposure down to the BBB category. All ratings categories are within the Policy limits:

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AAA Category	$0	0.0%	100%	$45,249,845
✓	AA Category	$30,249,845	66.9%	100%	$15,000,000
✓	A Category	$9,000,000	19.9%	70%	$22,674,892
✓	BBB Category	$6,000,000	13.3%	30%	$7,574,954
✓	Unrated Category	$0	0.0%	0%	$0
		$45,249,845	**100.0%**		

Performance

Council's performance (excluding cash holdings) for the month ending December 2024 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	0.36%	1.08%	2.17%	2.17%	4.36%
AusBond Bank Bill Index	0.38%	1.12%	2.24%	2.24%	4.47%
Council's Portfolio^	**0.44%**	**1.30%**	**2.62%**	**2.62%**	**5.24%**
Outperformance	**0.07%**	**0.19%**	**0.37%**	**0.37%**	**0.77%**

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

Performance (Annualised)	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	4.35%	4.35%	4.35%	4.35%	4.36%
AusBond Bank Bill Index	4.53%	4.50%	4.50%	4.50%	4.47%
Council's Portfolio^	**5.34%**	**5.26%**	**5.26%**	**5.26%**	**5.24%**
Outperformance	**0.81%**	**0.76%**	**0.76%**	**0.76%**	**0.77%**

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

For the month of December, excluding cash, the total portfolio provided a return of +0.44% (actual) or +5.34% p.a. (annualised), outperforming the benchmark AusBond Bank Bill Index return of +0.38% (actual) or +4.53% p.a. (annualised). All time periods are now comfortably above benchmark returns up to 1 year as the previously held low yielding deposits coming out of the pandemic period (yielding between 0.50%-3.00%) have all matured and been reinvested at higher prevailing rates.

Recommendations for Council

Term Deposits

Going forward, Council may consider altering its longer-term strategy by placing a slightly larger proportion of deposits and stagger investments across 12-24 months terms. Over a cycle and in a normal market environment, this may earn up to ¼-½% p.a. higher compared to purely investing in shorter tenors. There is growing belief that multiple rate cuts and a global economic downturn is imminent and so locking in rates above 4¾% p.a. across 1-5 year tenors may provide some income protection against a lower rate environment.

As at the end of December 2024, Council's deposit portfolio was yielding around 5.16% p.a. (down 2bp from the previous month), with a weighted average duration of 232 days (~7½ months). ***We commend Council for extending its weighted average duration over the past 12 months, reflective of investments in some high yielding term deposits in 1 and 2 year tenors. We continue to recommend Council to increase the portfolio's duration closer to 9 months incrementally over the current financial year (with a view to extending closer to 12 months in the medium-term).***

Please refer to the section below for further details on the Term Deposit market.

Securities

Primary (new) **FRNs** (with maturities between 3-5 years) continue to be appealing (particularly for those investors with portfolios skewed towards fixed assets) and should be considered on a case by case scenario.

Please refer to the section below for further details on the FRN market.

Term Deposit Market Review

Current Term Deposits Rates

As at the end of December, we see value in the following:

ADI	LT Credit Rating	Term	Rate % p.a.
ING Bank	A	5 years	4.92%
BoQ	A-	5 years	4.85%
Westpac	AA-	5 years	4.68%
ING Bank	A	4 years	4.84%
BoQ	A-	4 years	4.80%
Westpac	AA-	4 years	4.64%
ING Bank	A	3 years	4.79%
Suncorp	AA-	3 years	4.69%
Westpac	AA-	3 years	4.59%
ING Bank	A	2 years	4.80%
Suncorp	AA-	2 years	4.72%
BoQ	A-	2 years	4.60%
Westpac	AA-	2 years	4.59%
NAB	AA-	2 years	4.55%

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.
AMP	BBB+	12 months	4.95%
ING	A	12 months	4.93%
NAB	AA-	12 months	4.90%
ICBC Sydney	A	12 months	4.86%
Suncorp	AA-	12 months	4.90%
Westpac	AA-	12 months	4.68%
BankVIC	BBB+	9 months	5.11%
BoQ	A-	9 months	5.05%
AMP	BBB+	9 months	5.00%
NAB	AA-	9 months	4.95%
Suncorp	AA-	9 months	4.90%
BoQ	A-	6 months	5.20%
Bendigo-Adelaide	A-	6 months	5.05%
NAB	AA-	6 months	4.95%
Suncorp	AA-	6 months	4.92%
NAB	AA-	3 months	5.00%
Westpac	AA-	3 months	4.92%

For those investors that do not require high levels of liquidity and can stagger their investments longer term, they will be rewarded over a longer-term cycle if they roll for an average min. term of 12 months, with a spread of investments out to 5 years (this is where we see current value). In a normal market environment (upward sloping yield curve), investors could earn over a cycle, on average, up to ¼-½% p.a. higher compared to those investors that entirely invest in short-dated deposits.

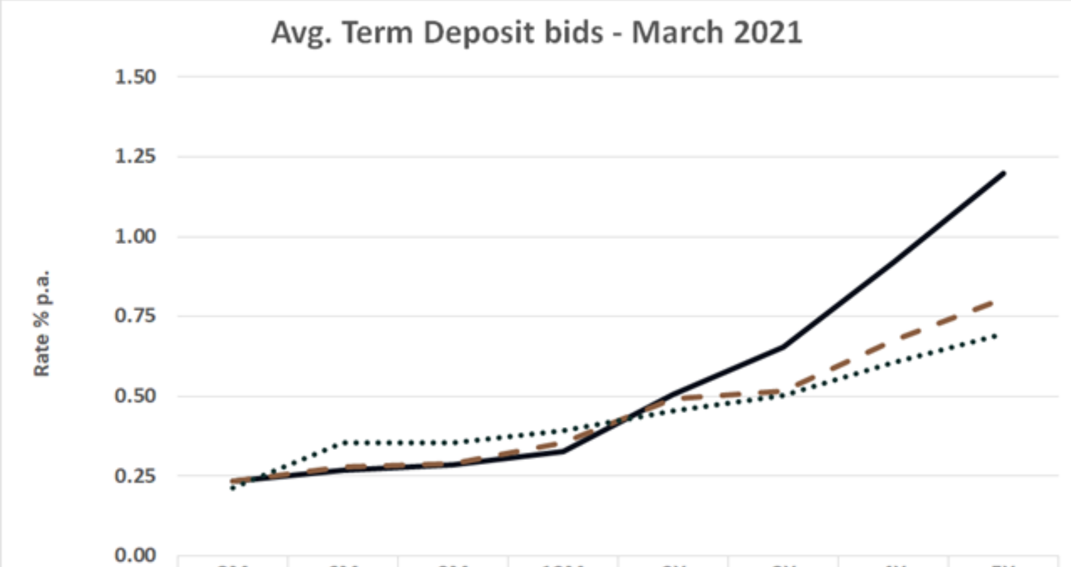
With rate cuts and a global economic downturn priced in over the next few years, investors should consider allocating some longer-term surplus funds and undertake an insurance policy by investing across 1-5 year fixed deposits and locking in rates above 4¾% p.a. This will provide some income protection if the RBA decides to start cutting rates over the second half of 2025.

Arlo Advisory

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

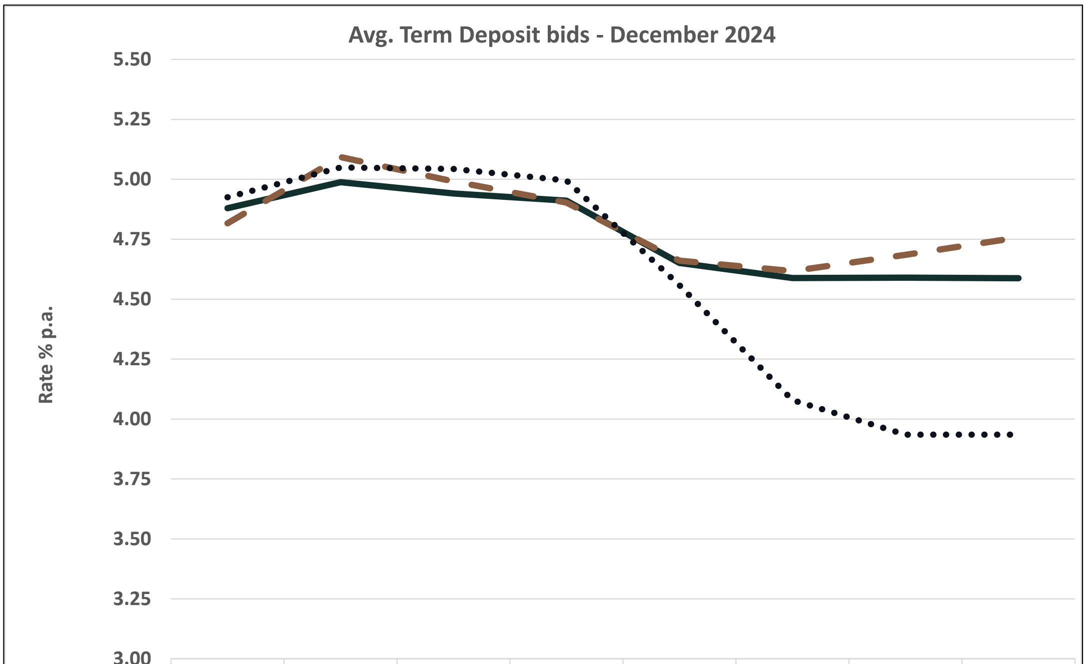
Source: Imperium Markets

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.

Arlo Advisory

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

Term Deposit Rates – Currently (December 2024)



	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	4.88	4.99	4.94	4.91	4.65	4.59	4.59	4.59
A Rated	4.82	5.09	4.99	4.90	4.66	4.62	4.69	4.76
BBB Rated	4.93	5.05	5.04	5.00	4.56	4.08	3.94	3.94

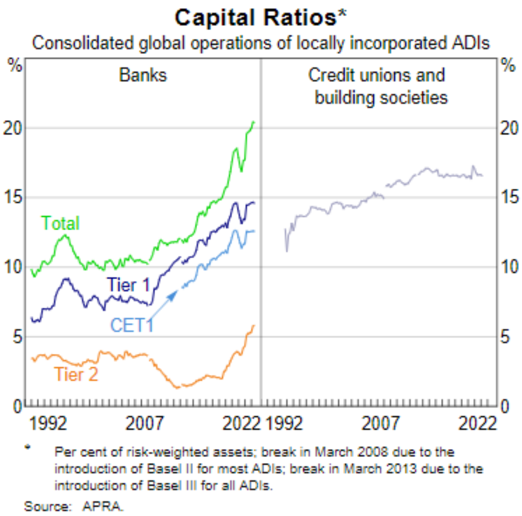
Source: Imperium Markets

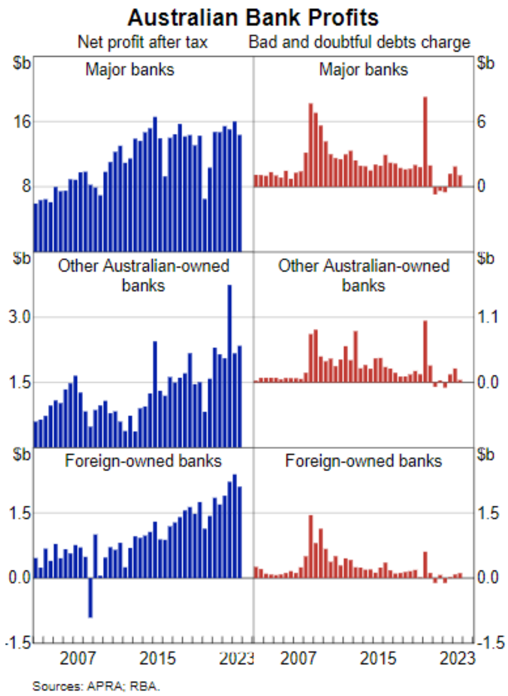
Financial Stability of the Banking (ADI) Sector

The RBA's latest Financial Stability report of 2024 reaffirms the strong balance sheet across the ADI sector. They noted that the risk of widespread financial stress remains limited due to the generally strong financial positions of most (individual) borrowers. Very few mortgage borrowers are in negative equity, limiting the impact on lenders (ADIs) in the event of default and supporting their ability to continue providing credit to the economy. Most businesses that have entered insolvency are small and have little debt, limiting the broader impact on the labour market and thus household incomes, and on the capital position of lenders (ADIs).

Australian banks (collectively the APRA regulated ADIs) have maintained prudent lending standards and are well positioned to continue supplying credit to the economy. A deterioration in economic conditions or temporary disruption to funding markets is unlikely to halt lending activity. Banks have anticipated an increase in loan arrears and have capital and liquidity buffers well above regulatory requirements (*see Capita Ratios chart below*). APRA's mandate is to "*protect depositors*" and provide "*financial stability*".

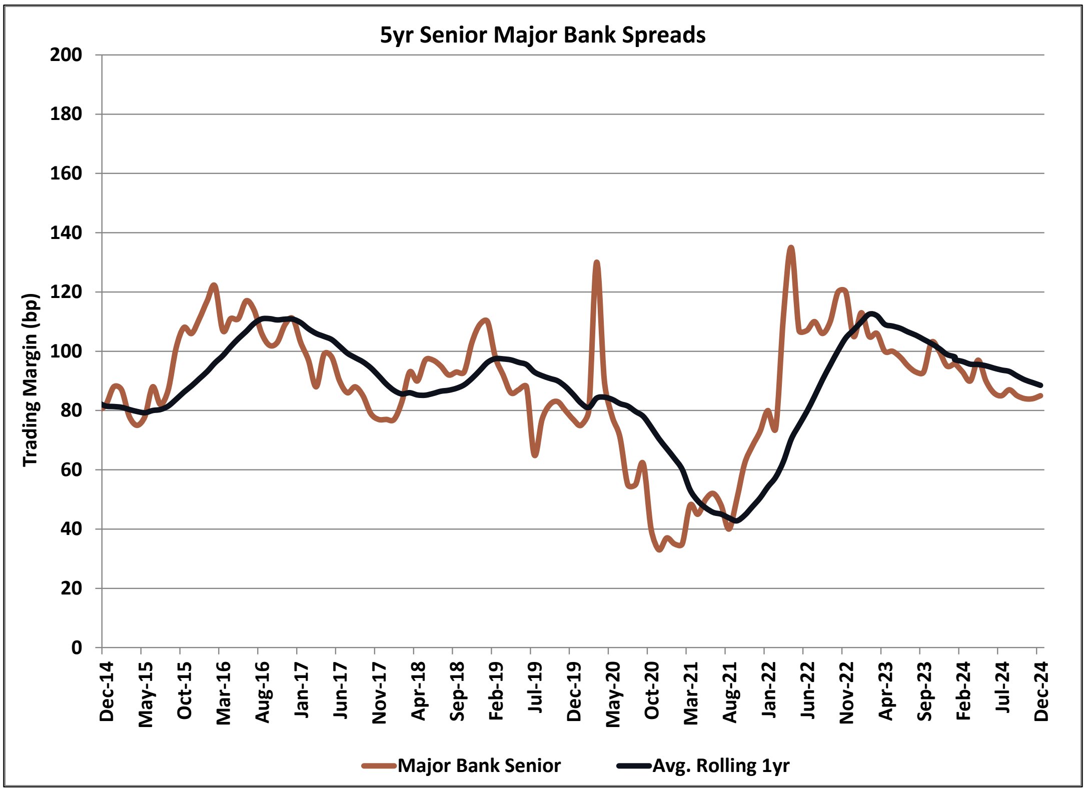
Over the past two decades, both domestic and international banks continue to operate and demonstrate high levels of profitability (*see Australian Bank Profits chart below*), which also includes two stress-test environments being the GFC (September 2008) and the COVID pandemic (March 2020):





Senior FRNs Market Review

Over December, amongst the senior major bank FRNs, physical credit securities slightly widened at the long-end of the curve. Long-term major bank senior securities are approaching the 'expensive' territory especially if the 5yr margin tightens towards +80bp. During the month, Westpac (AA-) issued a 1 year senior deal at +40bp.



Source: IBS Capital

During December, there was a lack of new issuances from the ADIs heading into the holiday period, with only the following notable issuance:

- Bank of Queensland (A-) 1 year senior FRN at +65bp

Amongst the "A" rated sector, the securities widened by around 5bp at the longer-end of the curve, whilst the "BBB" was wider by around 8bp and is marked at a relatively attractive level. Overall, credit securities remain fair value on a historical basis without being overly exciting. FRNs will continue to play a role in investors' portfolios mainly based on their liquidity and the ability to roll down the curve and gross up returns over ensuing years (in a relatively stable credit environment), whilst also providing some diversification to those investors skewed towards fixed assets.

Senior FRNs (ADIs)	31/12/2024	29/11/2024
"AA" rated – 5yrs	+85bp	+84bp
"AA" rated – 3yrs	+70bp	+68bp
"A" rated – 5yrs	+100bp	+95bp
"A" rated – 3yrs	+83bp	+80bp
"BBB" rated – 3yrs	+118bp	+110bp

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 2027 for the "AA" rated ADIs (domestic major banks);
- On or before early 2026 for the "A" rated ADIs; and
- Within 6-9 months for the "BBB" rated ADIs (consider case by case).

Investors holding onto the above senior FRNs ('benchmark' issues only) in their last few years are now generally holding sub optimal investments and are not maximising returns by foregoing realised capital gains. In the current challenging economic environment, any boost in overall returns should be locked in when it is advantageous to do so, particularly as switch opportunities become available.

Senior Fixed Bonds – ADIs (Secondary Market)

With global inflation still high by historical standards, this has seen a significant lift in longer-term bond yields over the past 3 years (valuations have fallen) as markets have reacted sharply.

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
AU3CB0278174	UBS	A+	Senior	26/02/2026	1.16	1.1000%	4.60%
AU3CB0280030	BoQ	A-	Senior	06/05/2026	1.35	1.4000%	4.80%
AU3CB0299337	Bendigo	A-	Senior	15/05/2026	1.37	4.7000%	4.77%
AU3CB0296168	BoQ	A-	Senior	27/01/2027	2.08	4.7000%	4.85%

Economic Commentary

International Market

Risk markets were largely negative in December as financial markets assessed high valuations, uncertainties surrounding tax and tariff policies from the administration of US President-elect Trump, and prospects of global central banks becoming more cautious in 2025 due to sticky inflation.

Across equity markets, the S&P 500 Index fell -2.50%, whilst the NASDAQ added +0.48%. Europe's main indices were mixed, with gains for both France's CAC (+2.01%) and Germany's DAX (+1.44%), while dropping for UK's FTSE (-1.38%).

As widely expected, the US Federal Reserve cut interest rates by 25bps to a range of 4.25%-4.50%. This marks a total of 100bp in cumulative rate cuts since September 2023. However, the Fed is now signalling a more gradual pace of reductions going forward, with a total of 50bp of cuts expected in 2025 (compared to the 100bp projected in September).

There were other central banks that made key decisions, including a 25bp cut from both the European Central Bank and Sweden's Riksbank, and a 50bp cut from Bank of Canada; while there was no change from both the Bank of England and Bank of Japan.

Europe's core CPI was +2.7% y/y vs. +2.8% expected, and headline CPI was +2.3% y/y vs. +2.3% expected.

The November US CPI rose by +0.3% m/m, matching the consensus. The core reading also increased by +0.3%, in line with expectations. This was the fourth consecutive month the core CPI printed with a +0.3% handle, implying a y/y running rate of +3.6%.

The US economy expanded at an annualised rate of +3.1% in Q4 2004, up from the previous estimate of +2.8%. Consumer spending increased by +3.7% during the quarter (the fastest pace since early 2023) driven by +5.6% surge in goods consumption and +2.8% rise in services spending.

The US unemployment rate ticked higher to 4.2% in November (the median forecast was 4.1%), with payrolls rising +227k, in line with consensus for 220k.

Canada's employment growth was a solid +50k, but it was a 0.3% rise in the unemployment rate to 6.8%.

The MSCI World ex-Aus Index fell -2.59% for the month of December:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	-2.50%	+2.07%	+23.31%	+7.26%	+12.73%	+11.07%
MSCI World ex-AUS	-2.59%	-0.18%	+17.41%	+4.80%	+9.64%	+8.21%
S&P ASX 200 Accum. Index	-3.15%	-0.80%	+11.44%	+7.41%	+8.06%	+8.51%

Source: S&P, MSCI

Domestic Market

The RBA kept rates on hold in its final meeting for 2024. However, of more importance is the growing confidence that the RBA has in its November inflation track ("*Board is gaining some confidence*"). They removed the prior hawkish language that "*policy will need to be sufficiently restrictive*".

Australia's GDP rose by +0.3% q/q (+0.8% y/y) in Q3, weaker than consensus (+0.5%) and the RBA at +0.5% q/q. Overall, growth remains very soft in annual terms and is still around its weakest (ex. COVID) since the early 1990s. Public sector spending remains an important support, with private sector growth flat.

Unemployment in November surprised sharply, falling 0.2% to 3.9% from 4.1% (consensus 4.2%). The unemployment rate is now back to its equal lowest since March 2024. Underemployment (those employed but wanting and able to work more hours) fell a 0.1% to 6.1%, its equal lowest since April 2023.

Retail Sales for October were better than expected at +0.6% m/m vs. +0.4% consensus.

Australian consumer sentiment fell by -2% m/m in December, reflecting renewed pessimism surrounding the economic outlook. The sub-indices for "economic outlook (next 12 months)" and "economic outlook (next 5 years)" declined -9.6% and -7.9%, respectively (with both metrics retracing half of their gains from the past two months).

Dwelling prices in November rose +0.1% m/m nationally and are up +5.5% y/y according to CoreLogic. Dwelling price growth remains strong in Brisbane (+0.6% m/m), Adelaide (+0.8% m/m) and Perth (+1.1% m/m). Growth has slowed in Sydney with a small negative being seen in October and again in November (-0.2% m/m). Affordability remains challenged in Sydney.

The goods trade surplus beat expectations at $5.95bn vs. $4.5bn consensus.

The Australian dollar fell around -5.05%, finishing the month at US61.88 cents (from US65.17 cents the previous month).

Credit Market

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

Index	December 2024	November 2024
CDX North American 5yr CDS	49bp	48bp
iTraxx Europe 5yr CDS	57bp	57bp
iTraxx Australia 5yr CDS	67bp	66bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	December 2024	November 2024
Bloomberg AusBond Bank Bill Index (0+YR)	+0.38%	+0.36%
Bloomberg AusBond Composite Bond Index (0+YR)	+0.51%	+1.14%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.43%	+0.37%
Bloomberg AusBond Credit Index (0+YR)	+0.71%	+0.86%
Bloomberg AusBond Treasury Index (0+YR)	+0.37%	+1.17%
Bloomberg AusBond Inflation Gov't Index (0+YR)	-0.26%	+1.34%

Source: Bloomberg

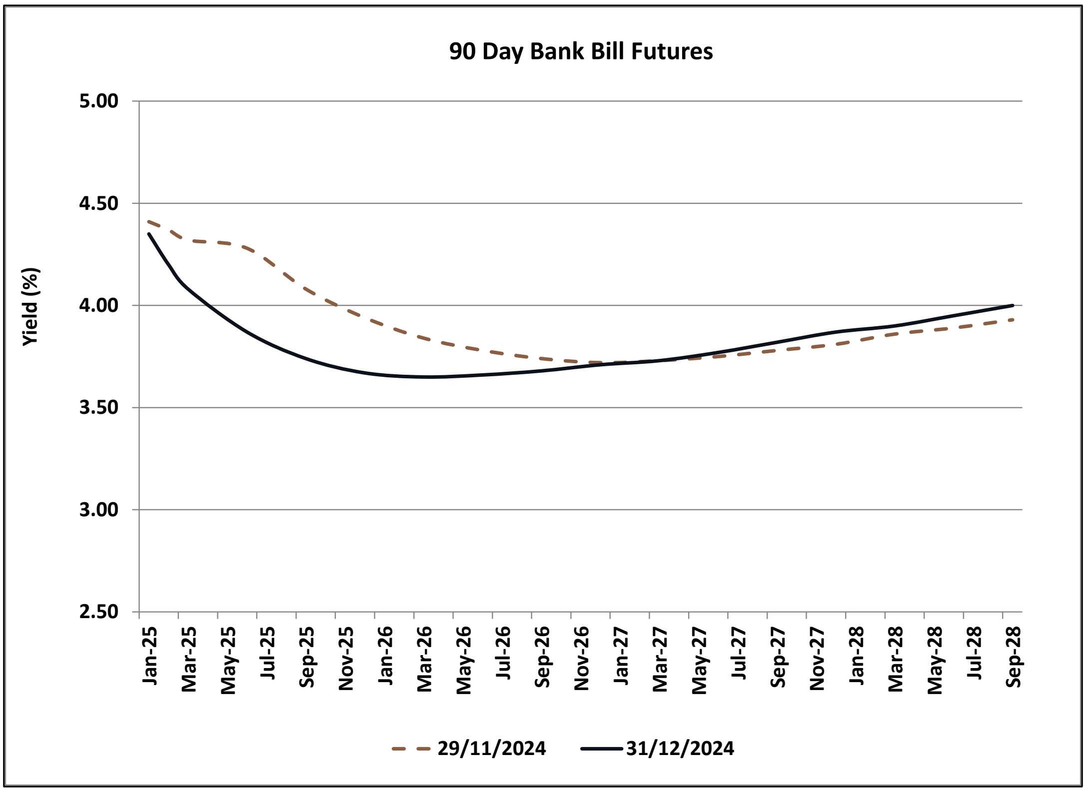
Other Key Rates

Index	December 2024	November 2024
RBA Official Cash Rate	4.35%	4.35%
90 Day (3 month) BBSW Rate	4.42%	4.43%
3yr Australian Government Bonds	3.82%	3.91%
10yr Australian Government Bonds	4.38%	4.34%
US Fed Funds Rate	4.25%-4.50%	4.50%-4.75%
2yr US Treasury Bonds	4.25%	4.13%
10yr US Treasury Bonds	4.58%	4.18%

Source: RBA, ASX, US Department of Treasury

90 Day Bill Futures

Bill futures fell at the short-end of the curve this month, following the movement in the global bond market. The focus from the market remains on when rate cuts will be delivered in 2025:



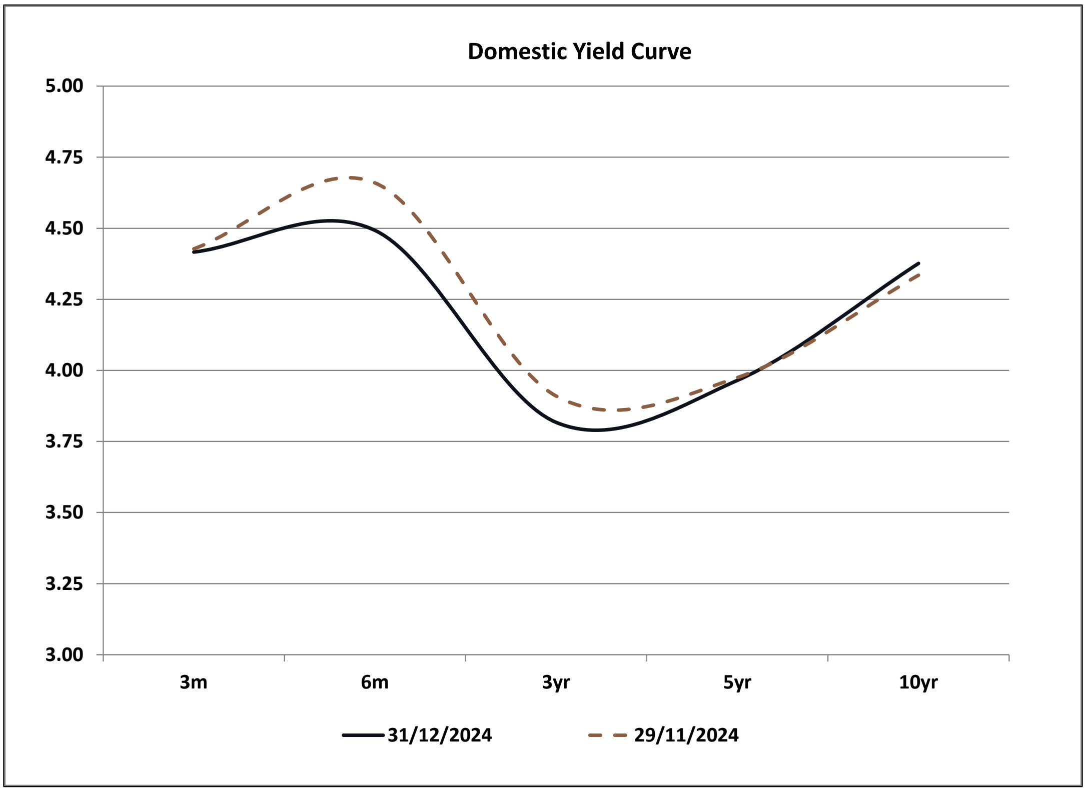
Source: ASX

Arlo Advisory

Fixed Interest Outlook

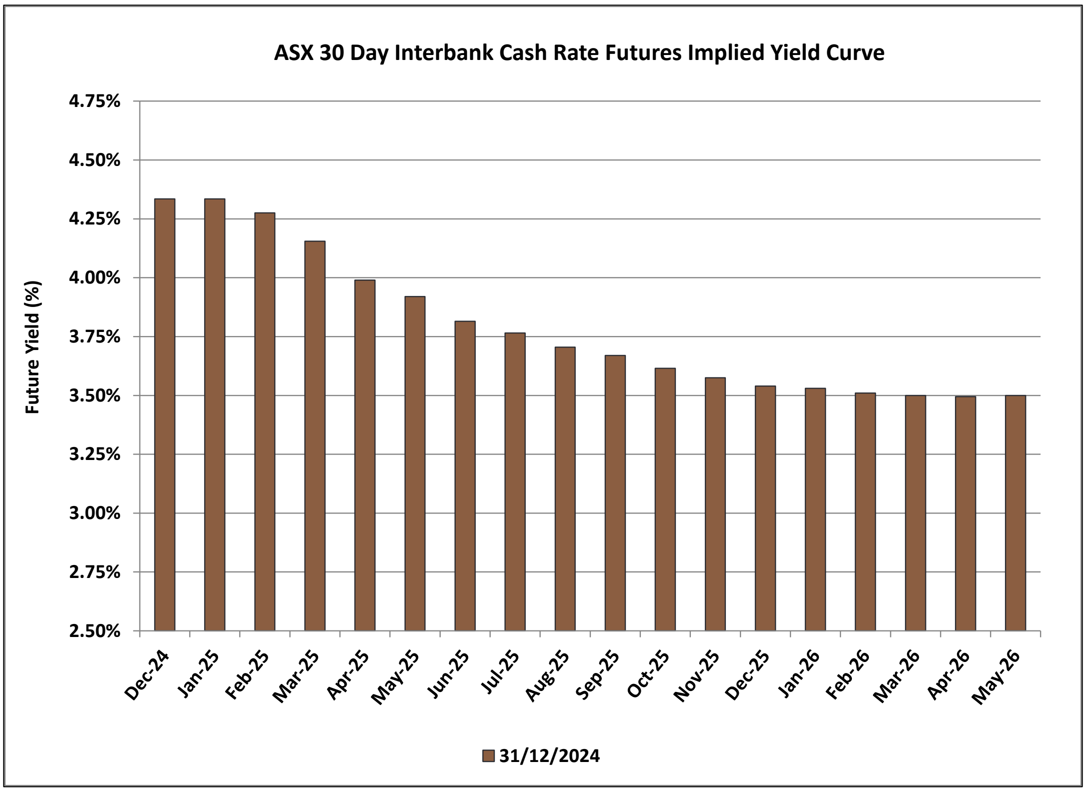
In delivering the US central bank's 25bp rate cut during its December meeting, the Fed also signalled it probably would only lower twice more in 2025 (down from the four projected in September), according to the "dot plot" matrix of individual FOMC members' future rate expectations. Fed Chair Powell's press conference also confirmed the Fed is going to be much more cautious in 2025, reflective of sticky inflation combined with President-elect Trump's proposed economic policies (which is expected to exacerbate price pressures).

In the RBA Board's December statement, the RBA removed their hawkish stance and commented "*recent data on inflation and economic conditions are still consistent with these forecasts, and the Board is gaining some confidence that inflation is moving sustainably towards target*". Growing confidence in the inflation forecast is important as it lessens the probability of the RBA needing to hold rates for even longer, or the tail risk of them having to hike rates further. Therefore, there is little urgency to adjust policy settings while both inflation and the unemployment rate are evolving gradually. The next quarterly CPI data will be published in late January.



Source: ASX, RBA

Financial markets are currently expecting the first RBA rate cut by March-April, with up to three rate cuts priced in by the end of 2025:



Source: ASX

DISCLAIMER

This document has been prepared by Arlo Advisory Pty Ltd ("Arlo"), ABN 55 668 191 795, an authorised representative of InterPrac Financial Planning Pty Ltd (ABN 14 076 093 680) AFS Licence No. 246638. Arlo provides fixed income investment advisory services to wholesale investors only. The information in this document is intended solely for your use. This document may not otherwise be reproduced and must not be distributed or transmitted to any other person or used in any way without the express approval of Arlo.

General Advice Warning

The information contained in this document is general in nature and does not take into account your individual investment objectives and adopted policy mandate. Arlo monitors the fixed income market and recommends the best rates currently available to the investors. You are responsible for deciding whether our recommendations are appropriate for your particular investment needs, objectives and financial situation and for implementing your decisions.

Accuracy & Reliability of Information

Arlo sources and uses information provided by third parties from time to time, including from Imperium Markets Pty Ltd ABN 87 616 579 527, a sister company of Arlo. Although every effort has been made to verify the accuracy of the information contained in this document, Arlo, its officers, employees and agents disclaim all liability (except for any liability which by law cannot be excluded), for any error, inaccuracy in, or omission from the information contained in this document or any loss or damage suffered by any person directly or indirectly through relying on this information.