Item: 09.06

Subject: INVESTMENTS - MARCH 2019

Presented by: Corporate Performance, Rebecca Olsen

Alignment with Delivery Program

1.5.1 Manage Council's financial assets and provide accurate, timely and reliable information.

RECOMMENDATION

That Council note the Investment Report for the month of March 2019.

Executive Summary

- Total funds invested as at 31 March equals $295,751,320.
- Interest for the month of March was $712,724.61.
- The year-to-date investment income of $6,449,183 represents 87% of the total annual investment income budget of $7,385,000.
- Council's total investment portfolio performance for the financial year to date was 0.97% above the benchmark (3.00% against 2.03%). Benchmark being the Bank Bill reference rate as at 31 March 2019 as identified on www.bloombergindices.com.

Discussion

Council has engaged Imperium Markets to provide both an investment management platform and investment advisory service. This decision was based on the need to provide more rigour and transparency around investment choices and to provide a sound framework to support the need for increased financial sustainability into the future.

The attached investment report and portfolio provides detailed information on the performance of council's investment portfolio.

Overview

Councils (including Port Macquarie-Hastings Council) provide a broad range of services and associated infrastructure to their communities. These services include (but are not limited to) the following:

- Water and Sewer services;
- Waste services;
- Port Macquarie Airport;
- Cemeteries;
- Roads and Bridges;
- Various Recreation and Cultural facilities.

The Port Macquarie-Hastings area is a high growth centre of the North Coast region and is expected to accommodate a significant proportion of regional growth over the next two decades. As a consequence of this growth, Council must not only provide services to the existing community and maintain existing assets, but Council must also plan for future maintenance and capital expenditure on the infrastructure that will be needed to support the community, business and visitors to the area into the future.

An independent analysis was conducted on Council's financial reserves. The review found:

- The Port Macquarie-Hastings local government area has experienced an unprecedented level of development activity. Whilst this has increased the level of reserves held through developer contributions, councils experiencing a high level of development activity require relatively high levels of reserves in order to adequately cope with the required levels of infrastructure spending.
- Council's reserve levels to be broadly appropriate and reasonable in light of Council's circumstances. In particular, that Council has successfully maintained a prudent buffer to prepare against potential financial risks associated with the predicted high development activity.

The full report is available on Council's website:

http://www.pmhc.nsw.gov.au/About-Us/What-Council-Does/Corporate-Planning-Reporting-Budgets/Financial-Reports?BestBetMatch=financial%20reserves|cdbad291-68a4-4d81-8aee-b3733958e5ca|bd0cff62-3134-4e81-9f7e-de4e65feb428|en-AU

Current Investments

Council is required to undertake investments in accordance with section 625 of the Local Government Act 1993. This report provides details of Council's investments, and certifies that all funds that Council has invested as at 31 March 2019, comply with this Act.

All investments have been made in accordance with the Act and Regulations, and Council's Investment Policy.

As at 31 March 2019, the investments held by Council totalled $295,751,320 and were attributed to the following funds:

General Fund	123,612,222
Waste Fund	16,671,502
Water Fund	92,939,852
Sewer Fund	61,087,435
Sanctuary Springs Fund	38,448
Broadwater	1,401,861
	295,751,320

Whilst the current level of investments remain high, these largely relate to funds which have legal restrictions (for example water and sewer), or for funds held for specific purposes.

These funds may be spent in the shorter or longer term depending on the required timing of future works. The totals will fluctuate dependent on the status of individual projects.

Non-Compliance with Investment Policy

The updated investment policy included a change to the percentage of the total investment portfolio which is to be permitted to be invested with a single financial institution (counterparty risk). For institutions rated AA, this level was reduced from 40% to 30%. As Council transitioned to the updated investment policy, this led to a minor compliance issue with an amount greater than 30% of the portfolio being held with Westpac as 31 March 2019, (32.71%). Amounts held in Council's cash account with Westpac will be redistributed to other financial institutions during the month of April to bring the balances back in line with the updated investment policy.

Options

This is an information report.

Community Engagement & Internal Consultation

Council uses the services of an independent financial advisor, on an ongoing basis with investments. The investments placed this month were term deposits. At least three quotes were obtained from financial institutions in line with Council's Investment Policy. Council obtains regular updates regarding market activities positions from various institutions.

Planning & Policy Implications

There are no planning and policy implications.

Financial & Economic Implications

Benchmark and budget levels have been met on a year to date basis. On an annual basis, if benchmark levels are not reached, then this may result in budget cuts in other areas to fund the shortfall.

Council's total investment portfolio performance for the financial year to date is 0.97% above the benchmark (3.00% against 2.03%) and year to-date income is 87% of the total annual budget.

It should be noted that investment income is noted as a gross amount. Section 97(5) of the Local Government Act 1993 indicates that any security deposit held with Council must be repaid with interest accrued. These security deposits will only relate to bonds held for security to make good damage done to works.

The overall investment income will be adjusted at financial year end by the total interest refunded on repayment of bonds. As Council constantly receives and refunds bonds, it is difficult to accurately determine the quantum of these refunds.

Certification

I hereby certify that the investments listed within this report were made in accordance with Section 625 of the Local Government Act 1993, clause 212 of the Local Government (General) Regulation 2005 and Council's Investment Policy.

Nicole Spencer
Responsible Accounting Officer

Attachments

1. Port Macquarie-Hastings Council Monthly Report - March 2019
2. Port Macquarie-Hastings Council Portfolio as at 31 March 2019

PORT MACQUARIE-HASTINGS COUNCIL

Monthly Investment Report

March 2019

IMPERIUM MARKETS

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Executive Summary

Compliance

Compliance Measure	Within Policy Limits (Y/N)	Reason if Not Compliant
Term to Maturity	Yes – Compliant	n/a
Counterparty	No – Compliant	Westpac by ~$8m (but $18m held in cash)
Credit Quality	Yes – Compliant	n/a

Performance

As at 31/03/2019	1m (actual)	1m (% p.a.)	FYTD (actual)	FYTD (% p.a.)
AusBond Bank Bill Index	0.17%	1.97%	1.52%	2.03%
Council's Portfolio^	**0.25%**	**3.00%**	**2.25%**	**3.00%**
Outperformance	0.08%	1.03%	0.73%	0.97%

^Total portfolio performance excludes Council's cash account holdings. Overall returns would be lower if cash was included.

Council's Portfolio

Asset Allocation

The entire portfolio is directed to fixed term deposits (93.60%) and the Cash Notice Saver Account with Westpac (6.34%). With credit securities widening and becoming more attractive, we suggest Council consider introducing liquid senior floating rate notes (FRNs) into the portfolio. This will not only offer additional upside with regards to the portfolio's investment returns, but also provide additional liquidity (FRNs are saleable – generally accessible within 2 business days). FRNs are also dominated by the higher rated ADIs which allows Council to maintain a bias towards to the higher rated banks.

Term to Maturity

All maturity limits (minimum and maximum) comply with the Investment Policy. Medium-Term (3-5 years) assets account for around 6% of the total investment portfolio, with capacity of around $72m at month-end.

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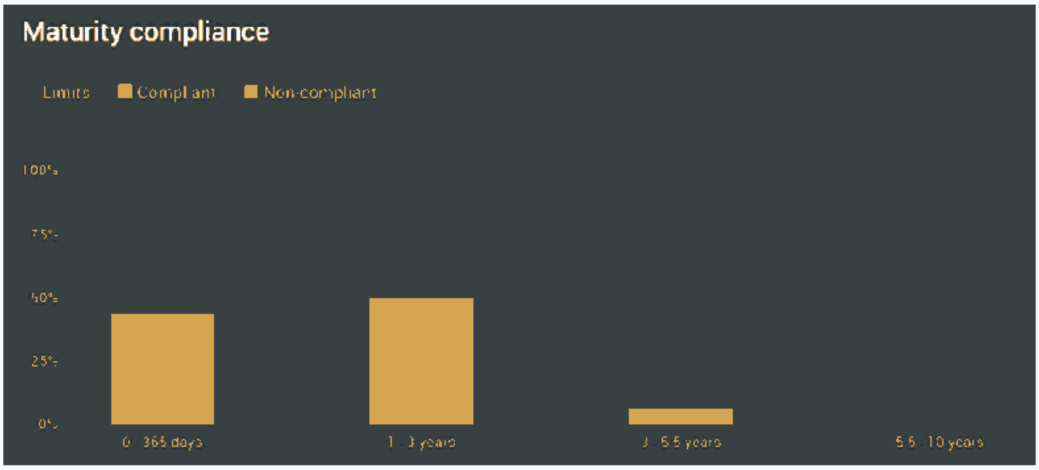

Where there is (counterparty) capacity to invest in attractive 3-5½ year investments, we recommend this be allocated to new senior FRN issues and fixed or floating rate term deposits (refer to respective sections below).

Compliant	Horizon	Invested ($)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available ($)
✓	0 – 365 days	$128,751,320	43.53%	0%	100%	$167,000,000
✓	1 – 3 years	$148,000,000	50.04%	0%	60%	$29,450,792
✓	3 – 5.5 years	$19,000,000	6.42%	0%	40%	$99,300,528
✓	5.5 – 10 years	$0	0.00%	0%	20%	$59,150,264
		295,751,320	**100.00%**			

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Counterparty

As at the end of March, following the adoption of a new policy, Council had a minor overweight position to Westpac (policy limits fell from 40% to 30%). There are no issues with this given around $18m is held in a cash account with Westpac and can easily be redistributed to another ADI. Overall, the portfolio is diversified across the investment grade credit spectrum (rated BBB- or higher), with no exposure to unrated ADIs.

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	CBA	AA-	$3,000,000	1.01%	30.00%	$85,725,396
✓	NAB	AA-	$51,000,000	17.24%	30.00%	$37,725,396
X	WBC (St George)	AA-	$96,751,320	32.71%	30.00%	**-$8,025,924**
✓	Rabobank	A+	$19,000,000	6.42%	20.00%	$40,150,264
✓	AMP	A	$5,000,000	1.69%	20.00%	$54,150,264
✓	ICBC Sydney	A	$42,000,000	14.20%	20.00%	$17,150,264
✓	ING Bank	A	$38,000,000	12.85%	20.00%	$21,150,264
✓	BOQ	BBB+	$10,000,000	3.38%	10.00%	$19,575,132
✓	Bendigo	BBB+	$5,000,000	1.69%	10.00%	$24,575,132
✓	ME Bank	BBB	$9,000,000	3.04%	10.00%	$20,575,132
✓	Newcastle PBS	BBB	$17,000,000	5.75%	10.00%	$12,575,132
			$295,751,320	**100.00%**		

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

APRA's Chairman affirmed that the banks had satisfactorily moved towards an '*unquestionably strong*' capital position and that bank's stress testing contingency plans were now far better positioned that was previously the case years ago. APRA's stress test which hypothetically increased the unemployment rate to 11% (more than double the current rate) and for house prices to fall 35% showed the banks remained above the minimum capital levels. We note that APRA's latest discussion paper also highlighted that the domestic major banks were required to raise more capital while the lower rated ADIs were already deemed to be at a satisfactory level.

Overall, the lower rated ADIs (BBB and unrated) are generally now in a better financial position then they have been historically (see the Capital Ratio figure below). We believe that deposit investments with the lower rated ADIs should be continued going forward, particularly when they offer 'above market' specials. Not only would it diversify the investment portfolio and reduce credit risk, it would also improve the portfolio's overall returns.

In the current environment of high regulation and scrutiny, all domestic ADIs continue to carry high levels of capital, particularly amongst the lower ("BBB") and unrated ADIs. There is minimal (if any) probability of any ADI defaulting on their deposits going forward – this was stress tested during the GFC.

The biggest single risk that depositors face in the current low interest rate environment is not credit risk, but reinvestment risk.

Credit Quality

The portfolio remains lightly diversified from a credit ratings perspective. The portfolio is entirely directed to the investment grade ADIs (BBB- or higher), with zero allocation to unrated ADIs. There is high capacity to invest in the higher rated ADIs (A or higher), particularly after the downgrades of BoQ and Bendigo-Adelaide Bank in May 2017, which now fall back into the "BBB" rated category.

There is also considerable capacity to invest with the "BBB" rated ADIs following the adoption of a new policy.

Given the large number of "BBB" rated ADIs currently in the market (and conversely, the low number of "A" or higher rated ADIs), we suggest Council direct new funds into this sector. We note that it is within this category where the most value is currently experienced. Above market 'specials' are frequently offered in this sector.

All ratings categories are within the Policy limits:

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AA Category	$150,751,320	50.97%	100%	$145,000,000
✓	A Category	$104,000,000	35.16%	60%	$73,450,792
✓	BBB Category	$41,000,000	13.86%	30%	$47,725,396
✓	Unrated ADIs	$0	0.00%	10%	$29,575,132
		$295,751,320	**100.00%**		

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Performance

Council's performance for the month ending 31 March 2019 is summarised as follows:

Performance	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	0.13%	0.37%	0.75%	1.12%	1.50%
AusBond Bank Bill Index	0.17%	0.52%	1.00%	1.52%	2.02%
Council's Portfolio^	**0.25%**	**0.73%**	**1.48%**	**2.25%**	**3.01%**
Outperformance	**0.09%**	**0.21%**	**0.48%**	**0.73%**	**0.99%**

^Total portfolio performance excludes Council's cash account holdings. Overall returns would be lower if cash was included.

For the month of March, the deposit portfolio provided a solid return of +0.25% (actual), outperforming the benchmark AusBond Bank Bill Index return by +0.09% (actual). The strong performance continues to be driven by the handful of deposits still yielding above 3½% p.a. However, most of these individual deposits have now matured and will be reinvested at lower prevailing rates.

Over the past year, the deposit portfolio returned +3.01% p.a., outperforming bank bills by 0.99% p.a. and more than double the official cash rate of 1½%. This has been relatively strong given deposit rates reached their all-time lows and margins have generally contracted over the past 2½ years.

Investors using the Imperium Markets platform have reduced the invisible costs associated with brokerage, and thereby lift client portfolio returns as investors are able to deal in deposits directly with the ADIs and execute at the best price possible. Council has experienced this over the past 12 months, receiving on average, 2-4bp higher for every deposit dealt on the platform.

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Council's Term Deposit Portfolio & Recommendation

As at the end of March 2019, Council's deposit portfolio was yielding 3.00% p.a. (down 1bp from the previous month), with an average duration of ~1½ years. Where possible, we recommend Council extends or at least maintains this average duration. In the low interest rate environment, the biggest collective risk that the local government sector has faced over the post-GFC era has been the dramatic fall in interest rates - from 7¼% to the current historical low levels of 1½%.

As the past decade has highlighted (post-GFC era), we have seen too many portfolios' roll a high proportion of their deposits between 3-6 months, resulting in their deposits being reinvested at lower prevailing rates. That is, depositors have generally not insured themselves against the low interest rate environment by diversify their funding across various tenors (out to 5 years) but rather placed all their 'eggs in one basket' and kept all their deposits short. **Reinvestment risk has collectively been and continues to be the biggest detriment to depositors' interest income over the post-GFC period**. **Another interest rate cut is factored in over coming months**.

At the time of writing (early April), we see value in:

ADI	LT Credit Rating	Term	T/D Rate
Police CU SA	Unrated	3 years	~2.93% p.a.
Police CU SA	Unrated	2 years	~2.90% p.a.
Auswide Bank	BBB	3 years	~2.75% p.a.
Newcastle Permanent BS	BBB	2 years	~2.70% p.a.
Auswide Bank	BBB	3 years	~2.70% p.a.

For those investors that have capacity issues with the "BBB" and unrated ADI sector, we see value in:

ADI	LT Credit Rating	Term	T/D Rate
AMP	A-	3 years	^2.85% p.a.
AMP	A-	2 years	^2.85% p.a.

^ AMP T/Ds – these are grossed up rates which includes a 0.20% p.a. rebated commission from Imperium Markets. Temporarily lift to around $7m cap (requires approval), applies per individual investor.

The above deposits are suitable for investors looking to provide some income protection and mitigate reinvestment/rollover risk in the low interest rate environment.

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For terms under 12 months, we believe the strongest value is currently being offered by a number of lower and unrated ADIs offering above-market specials (dependent on daily funding requirements):

ADI	LT Credit Rating	Term	T/D Rate
Police Credit Union SA	Unrated ADI	6 months	2.94% p.a.
Police Credit Union SA	Unrated ADI	12 months	2.89% p.a.
Nexus Mutual	Unrated ADI	6-9 months	2.82% p.a.
Nexus Mutual	Unrated ADI	12 months	2.80% p.a.
Australian Military Bank	Unrated ADI	6 months	2.78% p.a.
BoQ	BBB+	12 months	2.65% p.a.
Auswide	BBB	12 months	2.60% p.a.

Excluding AMP (A-), we note the spread between the higher rated ADIs and the lower rated regional and unrated ADIs is becoming wider. Amongst the higher rated ADIs ("A" rated or higher), the following deposits remain attractive for terms under 12 months:

ADI	LT Credit Rating	Term	T/D Rate
AMP	A-	6-7 months	^2.95% p.a.
AMP	A-	8-12 months	^2.90% p.a.
ICBC Sydney Branch	A	12 months	2.60% p.a.
NAB	AA-	4-10 months	2.50% p.a.

^ AMP T/Ds – these are grossed up rates which includes a 0.20% p.a. rebated commission from Imperium Markets. Temporarily lift to around $7m cap (requires approval), applies per individual investor.

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Senior FRNs & Recommendations

Over March, amongst the senior major bank FRNs, physical credit securities were marked significantly tighter across the curve. All four domestic major banks issued benchmark issues earlier in the year – we expect further new primary issuances over coming months.

Despite the rally over the month, we still see good relative value for a new 5 year major bank FRN (at around +92bp), given the slight premium offered in the primary market, and particularly once factoring in the potential capital gains which could be realised from as early as two years after being launched. The **grossed up returns would be around +130bp over a 2 year holding period in a relatively stable credit environment**, over and above where the highest margins are paying compared to the medium to longer-dated deposits.

We continue to see better value in longer tenors (i.e. favour 5 year terms over 3 year terms) amongst the "AA" rated ADIs due to their high liquidity and ability to 'roll down the curve' over a 2-2½ year holding period.

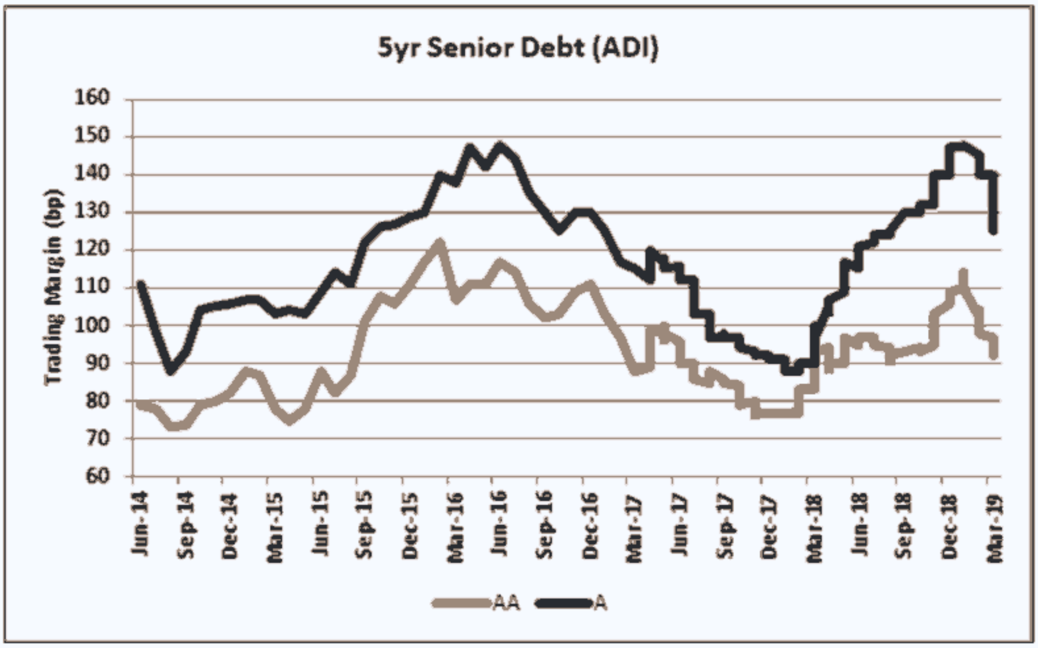
Collectively over the month, the "A" rated cohort tightened around -15bp for both 3 and 5 year terms as AMP (A-) was downgraded by one notch to "A-". During the month, Rabobank (A+) issued a new 3½ year FRN at +79bp which we thought as being relatively tight, particularly for those investors with the ability to 'roll down the curve' and realise capital gains in future years – there continues to be better value in the 5 year part of the curve. We saw better value in ICBC's (A) 3 year senior FRN deal at +100bp, which has since tightened around -5bp in the secondary market.

Meanwhile, the "BBB" rated ADIs tightened -3bp to +120bp over the month, following the broader markets movement. There remains very little turnover (traditionally) in the secondary market amongst the lower regional ADIs.

Overall, credit remains tight on a historical basis but much more attractive after the recent correction experienced in credit markets over December / early January. The relative movement in spreads between medium-longer dated deposits and FRNs has seen the latter become much more attractive over the past few months.

Senior FRNs (ADIs)	31/03/2019	28/02/2019
"AA" rated – 5yrs	+92bp	+98bp
"AA" rated – 3yrs	+66bp	+72bp
"A" rated – 5yrs	+125bp	+140bp
"A" rated – 3yrs	+100bp	+115bp
"BBB" rated – 3yrs	+120bp	+123bp

Source: IBS Capital



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 2022 for the "AA" rated ADIs (domestic major banks)**;
- On or before 2020 for the "A" rated ADIs; and
- Within 12 months for the "BBB" rated ADIs (consider case by case).

Investors holding onto the above senior FRNs ('benchmark' issues only) in their last 1-2 years are now generally holding sub-optimal investments and are not maximising returns by foregoing realised capital gains. In the current low interest rate environment, any boost in overall returns should be locked in when it is advantageous to do so.

We recommend Council starts introducing liquid senior FRNs into the portfolio, potentially starting with the domestic major banks.

Economic Commentary Review

International Market

Global equity markets posted modest gains in March, continuing their momentum from the previous month. In the US, the S&P 500 Index gained +1.79% while the NASDAQ rose +2.61%. Across Europe, the main economies also rallied, led by UK's FTSE (+2.89%) and France's CAC (+2.10%). Meanwhile, Germany's DAX (+0.09%) finished the month off marginally in positive territory.

The US unemployment rate fell to 3.8% in February, back close to the cyclical low of 3.7% during Q4 2018. **US headline CPI rose +0.2% as expected, taking annual CPI down to +1.5% from +1.6%**. Core CPI rose by a softer than expected +0.1% or +2.1% on an annual basis (missing by one tenth).

The US Federal Reserve (Fed) acknowledged that economic growth has slowed and that they will "*will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate*".

The Fed will taper its balance sheet reduction programme from $30bn to $15bn per month from May and end the process completely by September. They revised downwards their GDP and core CPI inflation forecasts for 2019 and 2020, while also anticipating for unemployment to rise over the coming two years.

There was **no resolution to the ongoing commotion surrounding Brexit**, with PM May appealing to her party and offered to resign as Prime Minister so long as the Brexit deal passes.

Euro-area core CPI data came in lower than expected at +1.0% in February, confirming core inflation remains stuck around the figure with no evidence of renewed upward pressures. **Eurozone GDP growth was well below expectations in Q4 at +1.2% y/y**, against +1.9% projected in December.

UK labour market data came in better than expected with a +222k leap in employment driving the unemployment rate down to 3.9%. The Bank of England has not been keen to raise rates due to the "*fog of Brexit*", but any clarity around Brexit is likely to prompt the bank into consider hiking rates.

China announced a 6.0%-6.5% GDP growth target for 2019 (as previously flagged). CPI was targeted at around 3% and a budget deficit of 2.8% of GDP, up from 2.6% in 2018.

The Bank of Canada left its policy rate unchanged and softened its tightening bias. The previous language of seeing the need for rates to rise over time was replaced by a comment that borrowing costs will remain below neutral for now and there is increased uncertainty about the timing of future rate increases.

The **MSCI World ex-AUS gained +1.08%** for the month of March.

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+1.79%	+13.07%	+7.33%	+11.23%	+8.65%	+13.51%
MSCI World ex-AUS	+1.08%	+11.94%	+2.04%	+8.67%	+4.94%	+10.24%
S&P ASX 200 Accum. Index	+0.73%	+10.89%	+12.06%	+11.46%	+7.40%	+10.35%

Source: S&P, MSCI

Domestic Market

The RBA left interest rates on hold at 1.50% at its March Board Meeting, as widely expected. The Bank reiterated its central scenario is for growth in the economy to be around 3% this year, despite signs that Q4 2018 growth is likely to be softer than the 2.8% the RBA had forecasted. Their forecast relies on rising business investment, increased spending on infrastructure and increased employment.

Q4 GDP revealed weak growth of +0.2% q/q, a touch below market consensus and 0.4% below the RBA's implied forecast of +0.6% q/q. **Annual growth is now at +2.3%**, at the low end of most estimates of trend.

Retail sales grew just +0.1% in January, below market expectations of a +0.3% rebound, with annual growth slowing slightly to +2.7%. Retail spending is now growing at a trend pace of +0.1% per month, raising the risk that consumer spending is still weak in Q1.

The trade surplus grew to a strong $4.549bn in January, way above market expectations of a $2.75bn surplus. A $1.373bn monthly lift in gold exports accounted for over 70% of the out-sized +5% rise in exports. Imports rose by a solid +3%.

Home loan approvals continue to fall at a relatively rapid rate, down another -4% in January. After a sharp fall in December, the number of owner-occupied home loan approvals declined another -1.2% in January. Building approvals in January rose +2.5% after two big declines approaching 10% per month.

The Council of Financial Regulators (Treasury, RBA, APRA and ASIC) continue to closely monitor the correction in the domestic housing market. They believe that the "*adjustment in housing prices and activity has been orderly and does not raise material financial stability concerns*", although it said that while mortgage arrears remain low, they have reached a post-financial crisis high.

The unemployment rate fell from 5.0% to 4.9% in February (employment up +4.6k), its lowest level since 2009. The participation rate ticked down to 65.6%.

The Australian dollar fell over -0.8% this month, finishing at US70.87 cents (from US71.46 cents the previous month).

Credit Market

The main global credit indices rally ended over March, as all were marked wider between 3-7bp. Credit spreads are now back to where they were in late 2018 and remain very tight on a historical basis:

Index	March 2019	February 2019
CDX North American 5yr CDS	63bp	60bp
iTraxx Europe 5yr CDS	65bp	61bp
iTraxx Australia 5yr CDS	76bp	69bp

Source: Markit

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Fixed Interest Review

Benchmark Index Returns

Index	March 2019	February 2019
Bloomberg AusBond Bank Bill Index (0+YR)	+0.17%	+0.17%
Bloomberg AusBond Composite Bond Index (0+YR)	+1.82%	+0.94%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.40%	+0.43%
Bloomberg AusBond Credit Index (0+YR)	+1.44%	+0.87%
Bloomberg AusBond Treasury Index (0+YR)	+2.15%	+1.03%
Bloomberg AusBond Inflation Gov't Index (0+YR)	+1.75%	+0.50%

Source: Bloomberg

Other Key Rates

Index	March 2019	February 2019
RBA Official Cash Rate	1.50%	1.50%
90 Day (3 month) BBSW Rate	1.77%	1.87%
3yr Australian Government Bonds	1.40%	1.63%
10yr Australian Government Bonds	1.78%	2.10%
US Fed Funds Rate	2.25%-2.50%	2.25%-2.50%
10yr US Treasury Bonds	2.41%	2.73%

Source: RBA, AFMA, US Department of Treasury

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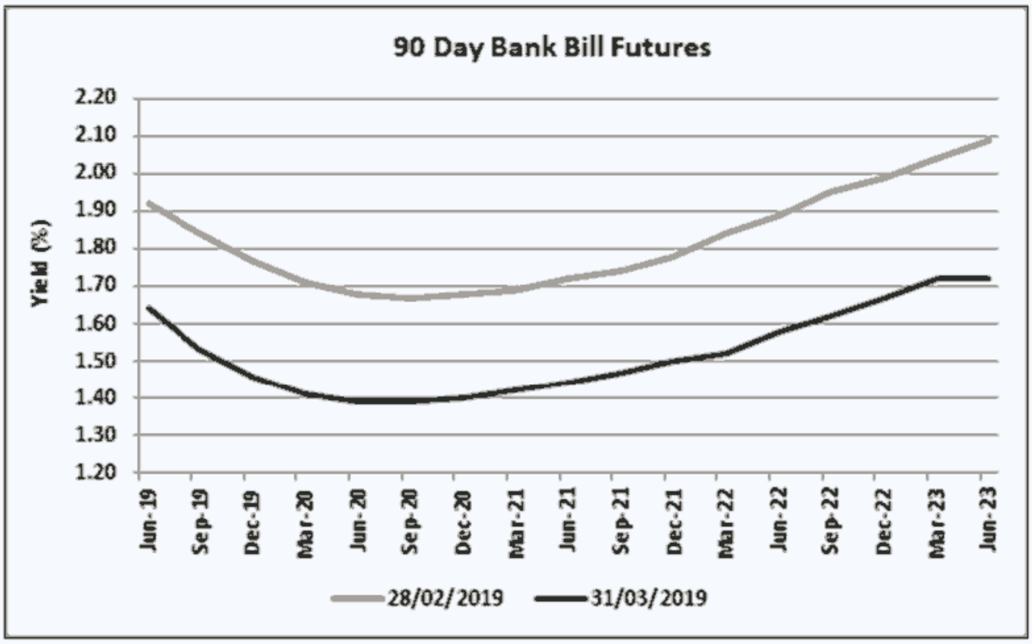
90 Day Bill Futures

Over March, bill futures fell significantly across the board with growing expectations of an immediate interest rate gathered momentum. Domestically, the **futures market is now factoring in around a 50% chance of a rate cut by July 2019 and fully pricing in one rate cut September 2019**. This resulted in the significant reduction in the bill futures curve over the month:



Source: ASX

Fixed Interest Outlook

The US Fed was more dovish over March with the median 'dot plots' indicating no rate rises for 2019 (previously one rate hike). The market forecasts around a 50% chance of a 25bp rate cut from the Fed by year-end.

Fed Chair Powell said *"we're trying to think of ways of making that inflation 2% target highly credible, so that inflation averages around 2%, rather than only averaging 2% in good times and then averaging way less than that in bad times."*

The ECB expects "*rates to remain at their present level at least through the end of 2019*", citing headwinds ranging from colder weather in 2018, trade wars, as well as Brexit.

Domestically, the RBA shifted its view and signalled the next movement in interest rates is now finely balanced. For now, they remain on a neutral bias. Housing concerns are being monitored as house prices in the main capital cities continue to trend downwards, while the level of household debt remains high. The banks have also carried their 'out of cycle' rate hikes, which in turn has assisted in the downturn in the domestic property market.

Governor Lowe indicated that the adjustment in the housing market was not expected to derail the economy, arguing that income growth mattered more for consumer spending than the wealth effect from house prices.

The key risks for the RBA stem from the impact of international trade wars and a slowdown in the Chinese economy, US inflation and a broader slowdown in the global economy. Domestically, they are focused on employment, wage growth, housing and consumption. As a result of these uncertainties, the Bank continues to be cautious and remain neutral, but ready to adjust interest rates should any downside risks materialise.

The futures market is now clearly focused on a rate cut **with the prospect of a 25bp cut by July 2019 seen as a 50% scenario, while fully factoring in one cut by September 2019**. Some economists are predicting the RBA will be forced to cut multiple times this year on expectations of a slowdown in the domestic and global economy, household finances impacting consumer confidence and a further downturn in residential property.

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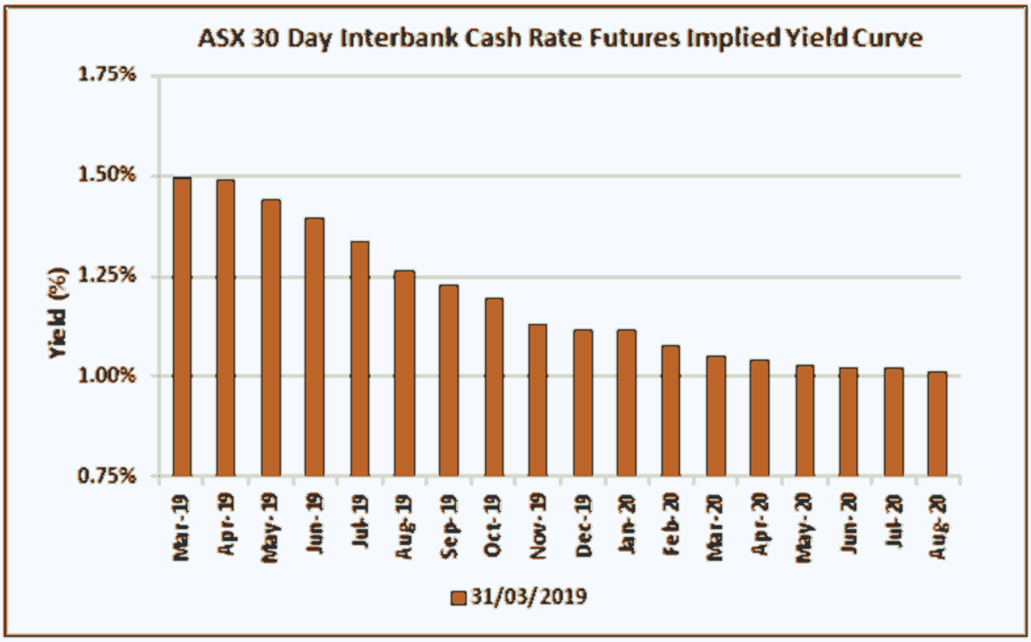
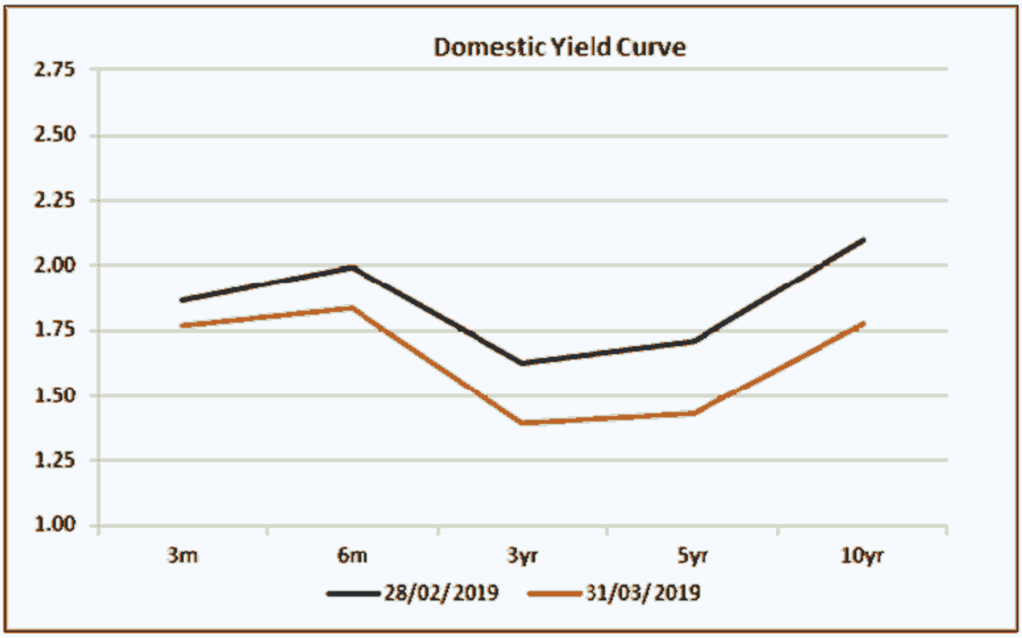


Source: ASX

Longer-term, the bond market continues to suggest a 'lower-for-longer' period of interest rates. The domestic yield curve fell across the board during March, with yields falling as much as -32bp, on the back of the market factoring in a potential interest rate cut over coming months.



Source: AFMA, RBA

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Portfolio as at : 31/03/2019

Type	Rating	Issuer	Allocation	Frequency	Principal	Purchase	Maturity	Rate	Accrued	Accr MTD	Reference
TD	BBB+	Bendigo and Adelaide	GENERAL	Annual	3,000,000	11/04/2017	11/04/2019	3.0000	87,534.25	7,643.84	2240503
TD	BBB	Members Equity Bank	GENERAL	Annual	4,000,000	27/04/2017	27/04/2019	2.9300	108,851.51	9,953.97	24460
TD	A-	AMP Bank	GENERAL	Maturity	5,000,000	17/05/2018	07/05/2019	2.7500	120,171.23	11,678.08	TD364564047-478891
TD	BBB	Members Equity Bank	GENERAL	Annual	3,000,000	19/05/2017	20/05/2019	2.8700	74,305.48	7,312.60	24821
TD	A+	Rabobank Australia Branch	GENERAL	Annual	6,000,000	23/05/2016	23/05/2019	3.1500	162,073.97	16,052.05	18843
TD	AA-	Westpac	GENERAL	Quarterly	3,000,000	29/05/2018	11/06/2019	2.7100	7,127.67	6,904.93	6775257
TD	BBB+	Bendigo and Adelaide	GENERAL	Annual	2,000,000	07/07/2016	08/07/2019	3.1500	45,912.33	5,350.68	1986640
TD	AA-	NAB	GENERAL	Maturity	2,000,000	17/07/2018	16/07/2019	2.7800	39,300.82	4,722.19	GMI-DEAL-10549241
TD	AA-	Westpac	GENERAL	Annual	4,000,000	24/07/2017	24/07/2019	2.9400	80,870.14	9,987.95	032-697 114230
TD	AA-	Westpac	GENERAL	Annual	3,000,000	15/08/2016	15/08/2019	3.1000	58,347.95	7,898.63	032-586 511-284
TD	BBB	Newcastle Permanent	GENERAL	Annual	2,000,000	15/08/2016	15/08/2019	3.0000	37,643.84	5,095.89	31125
TD	A	ING Direct	GENERAL	Annual	5,000,000	22/08/2017	22/08/2019	2.7500	83,630.14	11,678.08	26932
TD	AA-	Westpac	GENERAL	Annual	3,000,000	22/08/2017	22/08/2019	2.9000	52,915.07	7,389.04	032-697 115436
TD	AA-	Commonwealth Bank	GENERAL	Annual	3,000,000	04/09/2017	29/08/2019	2.7300	46,896.16	6,955.89	B37942904.6
TD	AA-	Westpac	GENERAL	Annual	3,000,000	04/09/2017	04/09/2019	2.9600	50,847.12	7,541.92	032-697 115 794
TD	AA-	St George Bank	GENERAL	Annual	5,000,000	08/09/2016	08/09/2019	3.2000	88,986.30	13,589.04	355290684
TD	AA-	St George Bank	GENERAL	Annual	4,000,000	27/09/2016	27/09/2019	3.2000	65,227.40	10,871.23	355333138
TD	AA-	NAB	GENERAL	Annual	3,000,000	11/07/2018	15/10/2019	2.8500	61,841.10	7,261.64	GMI-DEAL-10547992
TD	A	ICBC Sydney Branch	GENERAL	Annual	4,000,000	31/10/2018	29/10/2019	2.8300	47,140.82	9,614.25	00001
TD	A	ICBC Sydney Branch	GENERAL	Maturity	5,000,000	20/11/2018	12/11/2019	2.8600	51,715.07	12,145.21	0125001100000186702
TD	A	ICBC Sydney Branch	GENERAL	Annual	4,000,000	13/11/2018	19/11/2019	2.8600	43,566.03	9,716.16	00003
TD	A	ICBC Sydney Branch	GENERAL	Annual	5,000,000	28/11/2018	26/11/2019	2.8200	47,901.37	11,975.34	00006
TD	AA-	Westpac	GENERAL	Quarterly	3,000,000	14/12/2018	10/12/2019	2.7300	4,038.90	4,038.90	7389786
TD	AA-	Westpac	GENERAL	Quarterly	4,000,000	14/12/2018	17/12/2019	2.7300	5,385.21	5,385.21	7389774
TD	AA-	Westpac	GENERAL	Quarterly	5,000,000	14/01/2019	14/01/2020	2.7200	28,690.41	11,550.68	7448784
TD	BBB	Members Equity Bank	GENERAL	Annual	2,000,000	24/01/2017	24/01/2020	3.2600	11,968.22	5,537.53	22835
TD	A	ICBC Sydney Branch	GENERAL	Maturity	1,000,000	20/02/2019	04/02/2020	2.7200	2,980.82	2,310.14	00010
TD	A	ING Direct	GENERAL	Annual	4,000,000	15/02/2018	17/02/2020	2.8700	14,153.42	9,750.14	30810
TD	A	ING Direct	GENERAL	Annual	4,000,000	28/02/2018	03/03/2020	2.8900	10,134.79	9,818.08	378133
TD	BBB	Newcastle Permanent	GENERAL	Annual	2,000,000	10/03/2016	10/03/2020	3.7000	4,257.53	4,257.53	29843
TD	A	ING Direct	GENERAL	Annual	4,000,000	02/03/2018	17/03/2020	2.8800	8,837.26	8,837.26	378677
TD	BBB+	BOQ	GENERAL	Annual	3,000,000	19/05/2017	19/05/2020	3.0000	77,671.23	7,643.84	453470
TD	A	ING Direct	GENERAL	Annual	4,000,000	22/05/2018	26/05/2020	2.9400	101,168.22	9,987.95	403498

Type	Rating	Issuer	Allocation	Frequency	Principal	Purchase	Maturity	Rate	Accrued	Accr MTD	Reference
TD	A	ING Direct	GENERAL	Annual	3,000,000	29/05/2018	09/06/2020	2.8800	72,670.68	7,338.08	6775257
TD	AA-	Westpac	GENERAL	Quarterly	5,000,000	06/06/2018	16/06/2020	2.9100	10,364.38	10,364.38	6795148
TD	AA-	NAB	GENERAL	Annual	5,000,000	03/07/2018	07/07/2020	2.9000	108,054.79	12,315.07	10545823
TD	AA-	NAB	GENERAL	Annual	3,000,000	11/07/2018	14/07/2020	2.9200	63,360.00	7,440.00	GMI-DEAL-10547993
TD	A	ING Direct	GENERAL	Annual	4,000,000	21/08/2018	25/08/2020	2.8500	69,649.32	9,682.19	424329
TD	A	ING Direct	GENERAL	Annual	4,000,000	13/09/2018	08/09/2020	2.8700	62,904.11	9,750.14	429068
TD	AA-	Westpac	GENERAL	Annual	3,000,000	13/09/2017	14/09/2020	3.1700	52,109.59	8,076.99	032-697 116017
TD	A	ING Direct	GENERAL	Annual	4,000,000	13/09/2018	22/09/2020	2.8700	62,904.11	9,750.14	429067
TD	AA-	NAB	GENERAL	Annual	4,000,000	17/10/2018	13/10/2020	2.7800	50,573.15	9,444.38	GMI-DEAL-10573417
TD	A	ICBC Sydney Branch	GENERAL	Annual	6,000,000	31/10/2018	27/10/2020	2.9300	73,209.86	14,930.96	00002
TD	A	ICBC Sydney Branch	GENERAL	Annual	5,000,000	13/11/2018	10/11/2020	2.9300	55,790.41	12,442.47	00004
TD	A	ICBC Sydney Branch	GENERAL	Annual	2,000,000	05/12/2018	08/12/2020	2.8600	18,335.34	4,858.08	0125001100000186702
TD	A	ICBC Sydney Branch	GENERAL	Annual	6,000,000	14/12/2018	15/12/2020	2.8900	51,307.40	14,727.12	00009
TD	BBB+	BOQ	GENERAL	Annual	2,000,000	24/01/2017	25/01/2021	3.6500	13,400.00	6,200.00	438425
TD	AA-	Westpac	GENERAL	Annual	2,000,000	21/02/2017	22/02/2021	3.3900	7,244.38	5,758.36	032-586 519825
TD	BBB+	BOQ	GENERAL	Annual	3,000,000	10/03/2016	10/03/2021	3.8000	6,558.90	6,558.90	391843
TD	A	ING Direct	GENERAL	Annual	2,000,000	20/02/2019	16/03/2021	2.8200	6,180.82	4,790.14	475707
TD	AA-	Westpac	GENERAL	Quarterly	4,000,000	22/03/2018	23/03/2021	3.0200	3,309.59	3,309.59	6791206
TD	AA-	Westpac	GENERAL	Quarterly	4,000,000	22/05/2018	25/05/2021	3.1000	12,909.59	10,531.51	6927394
TD	A+	Rabobank Australia Branch	GENERAL	Annual	5,000,000	08/06/2017	07/06/2021	3.0200	122,868.49	12,824.66	25359
TD	AA-	Westpac	GENERAL	Quarterly	3,000,000	06/06/2018	15/06/2021	3.1000	6,624.66	6,624.66	6795153
TD	AA-	NAB	GENERAL	Annual	4,000,000	03/07/2018	22/06/2021	3.0000	89,424.66	10,191.78	10545826
TD	AA-	NAB	GENERAL	Annual	3,000,000	03/07/2018	06/07/2021	3.0000	67,068.49	7,643.84	083-375 99-999-9947
TD	AA-	Westpac	GENERAL	Quarterly	5,000,000	17/07/2018	13/07/2021	3.0400	30,816.44	12,909.59	7052868
TD	AA-	NAB	GENERAL	Annual	4,000,000	26/07/2018	20/07/2021	3.0400	82,954.52	10,327.67	GMI-DEAL-10552065
TD	AA-	NAB	GENERAL	Annual	5,000,000	02/08/2018	03/08/2021	3.0700	101,772.60	13,036.99	GMI-DEAL-10554251
TD	AA-	Westpac	GENERAL	Quarterly	5,000,000	13/09/2018	14/09/2021	2.8800	7,495.89	7,495.89	7180013
TD	AA-	NAB	GENERAL	Annual	5,000,000	27/09/2018	28/09/2021	3.0500	77,712.33	12,952.05	GMI-DEAL-10568550
TD	AA-	Westpac	GENERAL	Quarterly	5,000,000	13/09/2018	12/10/2021	2.8900	7,521.92	7,521.92	7179943
TD	A	ICBC Sydney Branch	GENERAL	Annual	4,000,000	05/12/2018	07/12/2021	3.0100	38,593.97	10,225.75	0125001100000186702
TD	BBB	Newcastle Permanent	GENERAL	Quarterly	4,000,000	07/02/2019	08/02/2022	3.0500	17,715.07	10,361.64	1381/37459
TD	AA-	Westpac	GENERAL	Annual	2,000,000	21/02/2017	21/02/2022	3.6100	7,714.52	6,132.05	23294
TD	AA-	NAB	GENERAL	Annual	5,000,000	21/02/2017	21/02/2022	3.4600	18,484.93	14,693.15	10420935
TD	BBB+	BOQ	GENERAL	Annual	2,000,000	15/03/2017	15/03/2022	3.8000	3,539.73	3,539.73	445483
TD	BBB	Newcastle Permanent	GENERAL	Quarterly	4,000,000	12/03/2019	22/03/2022	2.9000	6,356.16	6,356.16	1684

Type	Rating	Issuer	Allocation	Frequency	Principal	Purchase	Maturity	Rate	Accrued	Accr MTD	Reference
TD	BBB	Newcastle Permanent	GENERAL	Annual	5,000,000	27/03/2019	29/03/2022	2.8000	1,917.81	1,917.81	
TD	A+	Rabobank Australia Branch	GENERAL	Annual	5,000,000	08/06/2017	07/06/2022	3.2200	131,005.48	13,673.97	25360
TD	AA-	NAB	GENERAL	Annual	4,000,000	02/08/2018	02/08/2022	3.2200	85,396.16	10,939.18	GMI-DEAL-10554252
TD	AA-	NAB	GENERAL	Annual	4,000,000	16/08/2018	16/08/2022	3.0500	76,208.22	10,361.64	GMI-DEAL-10557367
TD	A+	Rabobank Australia Branch	GENERAL	Annual	3,000,000	13/09/2017	13/09/2022	3.3800	55,561.64	8,612.05	27388
TD	AA-	Westpac	GENERAL	Annual	3,000,000	13/09/2017	13/09/2022	3.4100	56,054.79	8,688.49	032-697 116 009
CASH	AA-	Westpac	GENERAL	Monthly	18,751,320.1	31/05/2017	01/04/2019	2.2000	35,036.71	35,036.71	WESTPAC COMMERCIAL BANK 31 DAY NOTICE SAVER ACCOUNT
TOTALS					$295,751,320.1				$3,626,866.93	$690,791.75	