Item: 09.12

Subject: INVESTMENTS - APRIL 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 April 2019.

Executive Summary

- Total funds invested as at 30 April equals $289,751,320.
- Interest for the month of April was $692,596.
- The year-to-date investment income of $7,182,680 represents 85% of the total revised annual investment income budget of $8,472,800.
- Council's total investment portfolio performance for the financial year to date was 0.98% above the benchmark (3.01% against 2.03%). Benchmark being the Bank Bill reference rate as at 30 April 2019.

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 30 April 2019, comply with this Act.

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

As at 30 April 2019, the investments held by Council totalled $289,751,320 and were attributed to the following funds:

General Fund	121,104,462
Waste Fund	16,333,282
Water Fund	91,054,352
Sewer Fund	59,848,135
Sanctuary Springs Fund	37,668
Broadwater	1,373,421
	289,751,320

Whilst the current level of investments remains 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.

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 in relation to this report.

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 0.98% above the benchmark (3.01% against 2.03%) and year to-date income is 85% of the total revised 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 - April 2019
2. Port Macquarie-Hastings Council Portfolio as at 30 April 2019

PORT MACQUARIE-HASTINGS COUNCIL

Monthly Investment Report

April 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	Yes – Compliant	n/a
Credit Quality	Yes – Compliant	n/a

Performance

As at 30/04/2019	1m (actual)	1m (% p.a.)	FYTD (actual)	FYTD (% p.a.)
AusBond Bank Bill Index	0.16%	2.01%	1.69%	2.03%
Council's Portfolio^	**0.25%**	**3.09%**	**2.50%**	**3.01%**
Outperformance	0.09%	1.08%	0.81%	0.98%

^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 (96.98%) and the cash account with Westpac (3.02%). With credit securities becoming more attractive relative to deposits, 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 6½% of the total investment portfolio, with capacity of around $97m at month-end.

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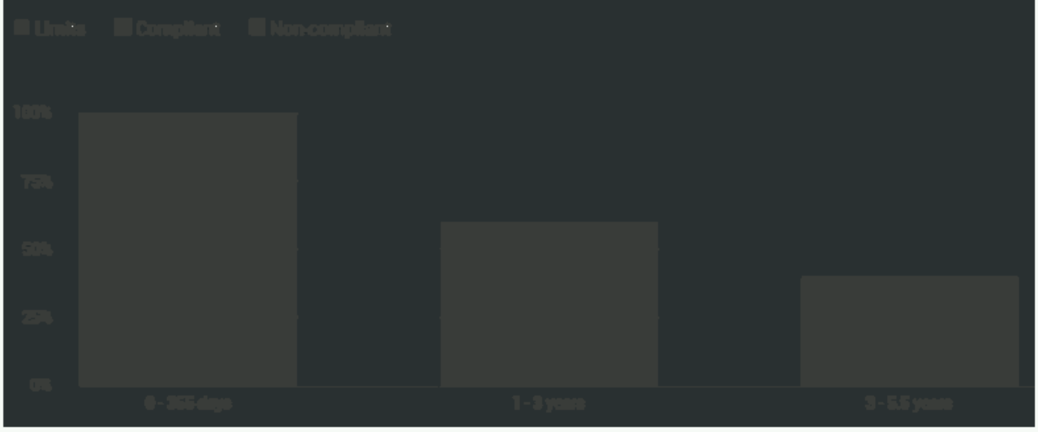
Maturity compliance



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	$118,751,320	40.98%	0%	100%	$171,000,000
✓	1 – 3 years	$152,000,000	52.46%	0%	60%	$21,850,792
✓	3 – 5.5 years	$19,000,000	6.56%	0%	40%	$96,900,528
✓	5.5 – 10 years	$0	0.00%	0%	20%	$57,950,264
		289,751,320	**100.00%**			

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Counterparty

As at the end of April, Council did not have an overweight position to any single 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	1.04%	30.00%	$83,925,396
✓	NAB	AA-	$51,000,000	17.60%	30.00%	$35,925,396
✓	WBC (St George)	AA-	$86,751,320	29.94%	30.00%	$174,076
✓	Rabobank	A+	$19,000,000	6.56%	20.00%	$38,950,264
✓	AMP	A	$5,000,000	1.73%	20.00%	$52,950,264
✓	ICBC Sydney	A	$42,000,000	14.50%	20.00%	$15,950,264
✓	ING Bank	A	$38,000,000	13.11%	20.00%	$19,950,264
✓	BOQ	BBB+	$10,000,000	3.45%	10.00%	$18,975,132
✓	Bendigo	BBB+	$4,000,000	1.38%	10.00%	$24,975,132
✓	Auswide	BBB	$5,000,000	1.73%	10.00%	$23,975,132
✓	ME Bank	BBB	$5,000,000	1.73%	10.00%	$23,975,132
✓	Newcastle PBS	BBB	$21,000,000	7.25%	10.00%	$7,975,132
			$289,751,320	**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.

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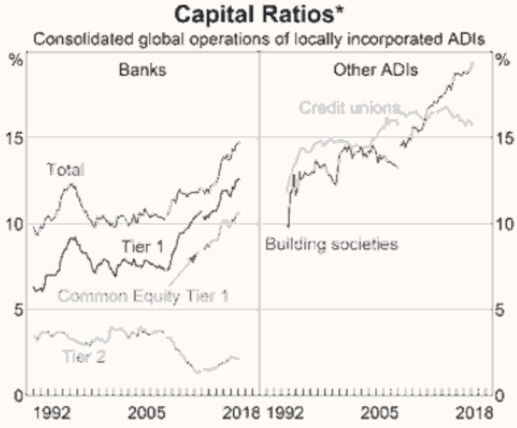
The biggest single risk that depositors face in the current low interest rate environment is not credit risk, but reinvestment risk.



* Per cent of risk-weighted assets; break in March 2008 due to the introduction of Basel II for most ADIs; break in March 2013 due to the introduction of Basel III for all ADIs

Source: APRA

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. The difference in pricing can amount up to 10-20bp on any day.

All ratings categories are within the Policy limits:

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AA Category	$140,751,320	48.58%	100%	$149,000,000
✓	A Category	$104,000,000	35.89%	60%	$69,850,792
✓	BBB Category	$45,000,000	15.53%	30%	$41,925,396
✓	Unrated ADIs	$0	0.00%	10%	$28,975,132
		$289,751,320	**100.00%**		

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Performance

Council's performance for the month ending 30 April 2019 is summarised as follows:

Performance	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	0.12%	0.36%	0.74%	1.25%	1.50%
AusBond Bank Bill Index	0.16%	0.50%	0.99%	1.69%	2.02%
Council's Portfolio^	**0.25%**	**0.73%**	**1.49%**	**2.50%**	**3.01%**
Outperformance	**0.09%**	**0.23%**	**0.50%**	**0.82%**	**0.99%**

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

For the month of April, 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 3 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 12-18 months, receiving on average, 2-4bp higher for every deposit dealt on the platform.

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<u>Council's Term Deposit Portfolio & Recommendation</u>

As at the end of April 2019, Council's deposit portfolio was yielding 2.98% p.a. (down 2bp 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% (potentially lower over coming months).

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. <u>Another interest rate cut is highly anticipated over coming months</u>**.

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

ADI	LT Credit Rating	Term	T/D Rate
Auswide Bank	BBB	5 years	~2.80%-2.85% p.a.
BoQ	BBB+	4 years	~2.70% p.a.
Newcastle Permanent BS	BBB	3 years	~2.60% p.a.
Newcastle Permanent BS	BBB	2 years	~2.50% p.a.
Auswide Bank	BBB	2 years	~2.50% 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-	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
Bank of Sydney	Unrated ADI	6 months	2.65% p.a.
Bank of Sydney	Unrated ADI	7-12 months	2.60% p.a.
Bank of Sydney	Unrated ADI	3 months	2.60% p.a.
Australian Military Bank	Unrated ADI	12 months	2.50% p.a.
Newcastle PBS	BBB	12 months	2.50% p.a.
Australian Military Bank	Unrated ADI	3 months	2.45% p.a.
ME Bank	BBB	3-6 months	2.44% p.a.
Auswide Bank	BBB	12 months	2.40% p.a.
Bendigo-Adelaide	BBB+	4-6 months	2.40% 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-	6-8 months	^2.70% p.a.
AMP	A-	9-11 months	^2.60% p.a.
NAB	AA-	12 months	2.35% p.a.
ICBC Sydney Branch	A	4-10 months	2.32% 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 April, amongst the senior major bank FRNs, physical credit securities were marked significantly tighter across the curve. The 3 and 5 year part of the curve tightened by around -5bp and -6bp respectively. 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 +86bp), 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 +120-125bp 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 -8bp and -5bp respectively for the 3 and 5 year part of the curve. During the month, Bank of China (A) issued at 3½ year senior FRN at +100bp while Suncorp (A+) issued a 3 year benchmark issue at +70bp. We saw much better value in Bank of China's 3 year issue which has since tightened around -5bp in the secondary market.

Meanwhile, the "BBB" rated ADIs tightened -10bp to +110bp over the 3 year part of the curve, 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, although this may change should rate cuts be delivered over coming months.

Senior FRNs (ADIs)	30/04/2019	31/03/2019
"AA" rated – 5yrs	+86bp	+92bp
"AA" rated – 3yrs	+61bp	+66bp
"A" rated – 5yrs	+120bp	+125bp
"A" rated – 3yrs	+92bp	+100bp
"BBB" rated – 3yrs	+110bp	+120bp

Source: IBS Capital

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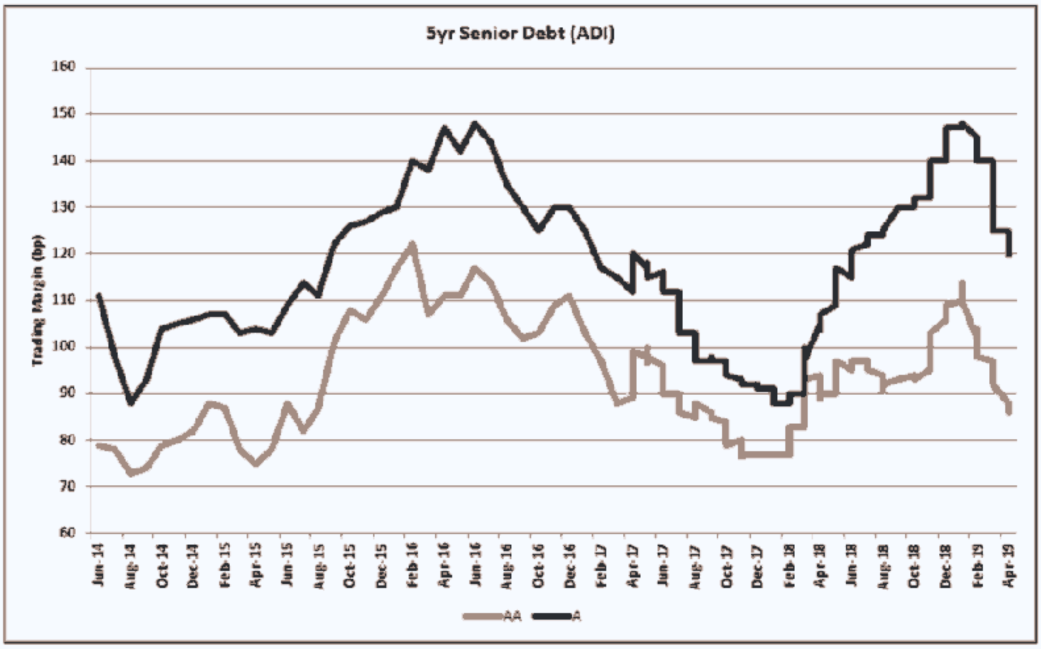

Source: IBS Capital

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.

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Economic Commentary Review

International Market

Global equity markets continued their rally over April in the "risk-on" environment. In the US, **the S&P 500 Index surpassed its all-time highs, gaining +3.93% for the month, while the NASDAQ rose +4.74%**. Across Europe, the main economies surged, led by Germany's DAX (+7.10%), UK's FTSE (+4.86%) and France's CAC (+4.41%).

US Q1 GDP came in at a much better than expected +3.2% headline rate, although 1.7% of the 3.2% rise was accounted for by inventory accumulation and a 1% contribution from net exports.

The US Fed's preferred core PCE deflator (CPI), which strips out volatile food and energy prices, was **flat for the month of March and up +1.6% y/y, the lowest rate in over a year**. The headline number rose +0.2% for a +1.5% increase over the year.

The US unemployment rate was unchanged at 3.8% in March, while the participation rate fell by 0.2% to 63.0% from 63.2%.

US retail sales printed +1.6% in headline terms in March and +1.0% m/m for the so-called 'control group' that feeds directly into the consumption component of GDP.

Eurozone headline inflation was +1.4% y/y against +1.5% expected, and core inflation was +0.8% y/y against +0.9% expected. Meanwhile unemployment data remained stable at around 7.8% in February, though the headline disguises some dispersion in recent trends. Italy's unemployment rate edged higher by two-tenths to 10.7%, while in contrast unemployment is falling in Spain (13.9% from 14.1%) and in Portugal (6.3% from 6.6%).

UK labour market data came in line with expectations, with the unemployment rate printing at 3.9% in February, its lowest rate since 1975, while real wages growth remained strong. If not for the uncertainty of Brexit, the Bank of England would likely be hiking rates.

China's trade data revealed March exports jumped +14.2% y/y against expectations of a +6.5% y/y rise. There was further positive US-China trade news, with US Treasury Secretary Mnuchin indicating that the two countries are making progress, indicating the two sides are edging closer to an accord.

The International Monetary Fund (IMF) downgraded its global growth outlook for the third time in six months, its lowest forecast since the GFC. The IMF cut its forecast for global growth this year to 3.3%, down from 3.5% in January.

The MSCI World ex-AUS gained +3.42% for the month of April.

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+3.93%	+8.94%	+11.25%	+12.57%	+9.35%	+12.94%
MSCI World ex-AUS	+3.42%	+7.50%	+4.57%	+9.41%	+5.49%	+9.47%
S&P ASX 200 Accum. Index	+2.37%	+9.29%	+10.41%	+11.10%	+7.52%	+10.01%

Source: S&P, MSCI

Domestic Market

The RBA left interest rates on hold at 1.50% at its April Board Meeting as widely expected. The significant change in the RBA's commentary was highlighted in their important final paragraph, which stated "*the Board judged that it was appropriate to hold the stance of policy unchanged at this meeting. **The Board will continue to monitor developments and set monetary policy to support sustainable growth in the economy** and achieve the inflation target over time*", which emphasised their move towards an easing bias.

The Bank has been puzzled about the weakness in the GDP data while noting the strength in the labour market, which it continued to describe as strong. **The RBA Minutes subsequently discussed conditions in which the Board would cut interest rates**. They indicated that lower rates would be appropriate in a scenario where "***inflation did not move any higher and unemployment trended up***".

Employment rose strongly in March, up +25.7k, as the **unemployment rate ticked up from an eight year low of 4.9% to 5.0%**, driven by the rising participation rate from 65.6% to 65.7%. The underemployment rate also ticked up from a five year low of 8.1% to 8.2%.

Q1 headline CPI inflation was weaker than expected, printing +0.0% q/q, or an annual rate of +1.3%. The trimmed mean CPI recorded +0.3% q/q, softening from the +0.5% in Q4 2018, dragging annual core inflation to +1.6% for the year.

The budget is forecast to be in surplus in 2019-20 to the tune of $7.1b (0.4% of GDP), after a small deficit this year of $4.2b (slightly larger than forecast at Dec 18). This would mark the first surplus since the economy entered the global financial crisis in 2007-08.

Retail sales lifted +0.8% in the month, after a weak print of +0.1% m/m in January. The trade surplus unexpectedly improved in February, increasing from $4.4b in January to $4.8b.

February building approvals lifted a significant +19.1% in the month, with a massive 64.6% rise in apartment approvals. The sharp rise in the month was led by Victoria and NSW, which rose 37% and 25% respectively – all due to apartment approvals.

The Australian dollar fell another -0.7% this month, finishing at US70.39 cents (from US70.87 cents the previous month).

Credit Market

The main global credit indices narrowed significantly over April, tightening around 10% across the board. Credit spreads are now back to where they were in mid-2018 and remain very tight on a historical basis:

Index	April 2019	March 2019
CDX North American 5yr CDS	58bp	63bp
iTraxx Europe 5yr CDS	58bp	65bp
iTraxx Australia 5yr CDS	66bp	76bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	April 2019	March 2019
Bloomberg AusBond Bank Bill Index (0+YR)	+0.16%	+0.17%
Bloomberg AusBond Composite Bond Index (0+YR)	+0.28%	+1.82%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.35%	+0.40%
Bloomberg AusBond Credit Index (0+YR)	+0.57%	+1.44%
Bloomberg AusBond Treasury Index (0+YR)	+0.19%	+2.15%
Bloomberg AusBond Inflation Gov't Index (0+YR)	+0.82%	+1.75%

Source: Bloomberg

Other Key Rates

Index	April 2019	March 2019
RBA Official Cash Rate	1.50%	1.50%
90 Day (3 month) BBSW Rate	1.56%	1.77%
3yr Australian Government Bonds	1.28%	1.40%
10yr Australian Government Bonds	1.79%	1.78%
US Fed Funds Rate	2.25%-2.50%	2.25%-2.50%
10yr US Treasury Bonds	2.51%	2.41%

Source: RBA, AFMA, US Department of Treasury

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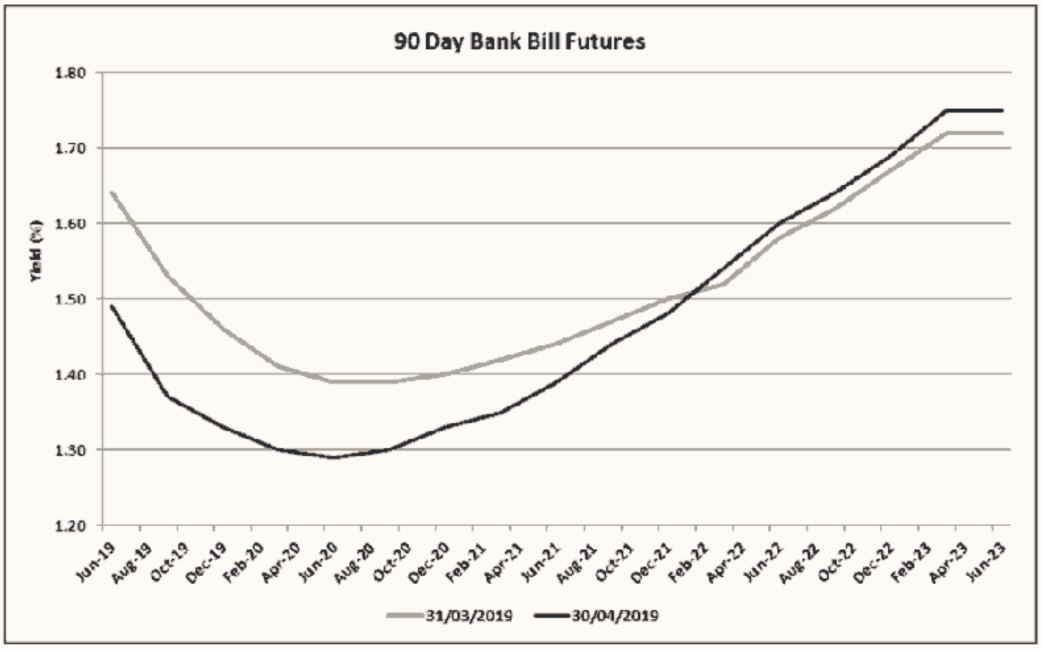
90 Day Bill Futures

Over April, bill futures fell significantly at the short-end of the curve on impending expectations of an RBA rate cut. **The futures market was factoring around a 50% chance of a rate cut in the May meeting while fully pricing in one rate cut by July 2019.**



Source: ASX

Fixed Interest Outlook

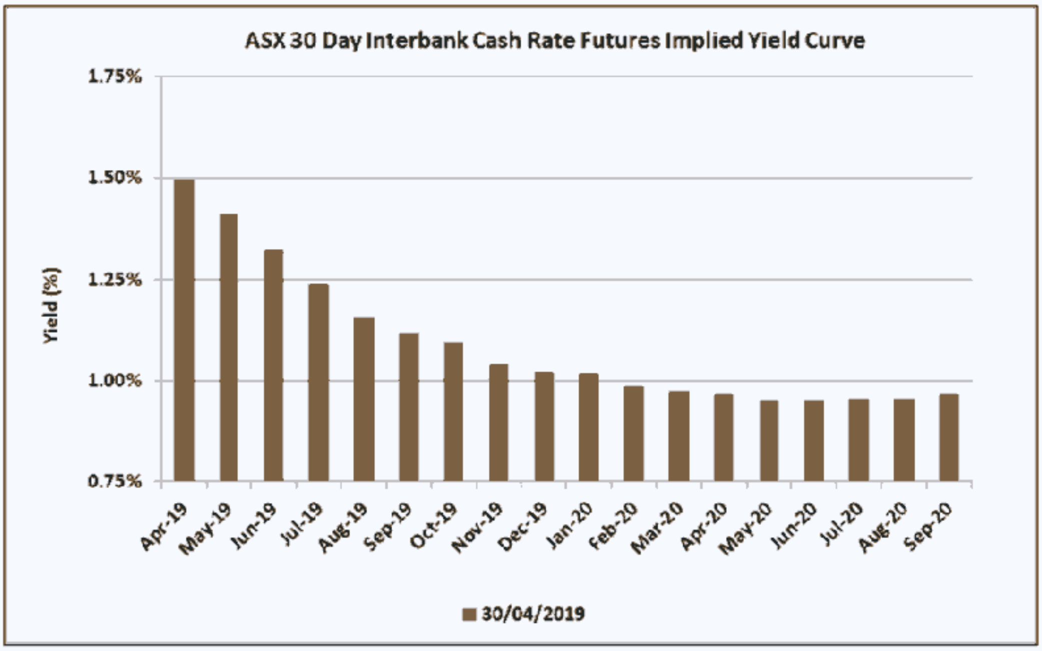
With inflation softening in the US, this could see the Fed cutting interest rates before the end of 2019. The market is currently factoring in around a 60% chance that the Fed will cut rates by December.

ECB President Draghi reiterated the more downbeat assessment of the Eurozone economy, with the forward guidance on rates on hold "*at least through the end of 2019*".

Domestically, the RBA shifted its view and has become openly more dovish, signalling the scenario in which it will cut interest rates (rising unemployment, low inflation, below trend growth). For now, they are endeavouring to remain on a neutral bias while employment continues to show strength. Housing concerns are closely being monitored with the fall in house prices (mainly in Sydney and Melbourne) finally being acknowledged as having an impact on the 'wealth effect' towards consumers.

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, inflation, wage growth, housing and consumption. As a result of these uncertainties, the Bank continues to be cautious and is now seemingly ready to adjust interest rates should any downside risks materialise.

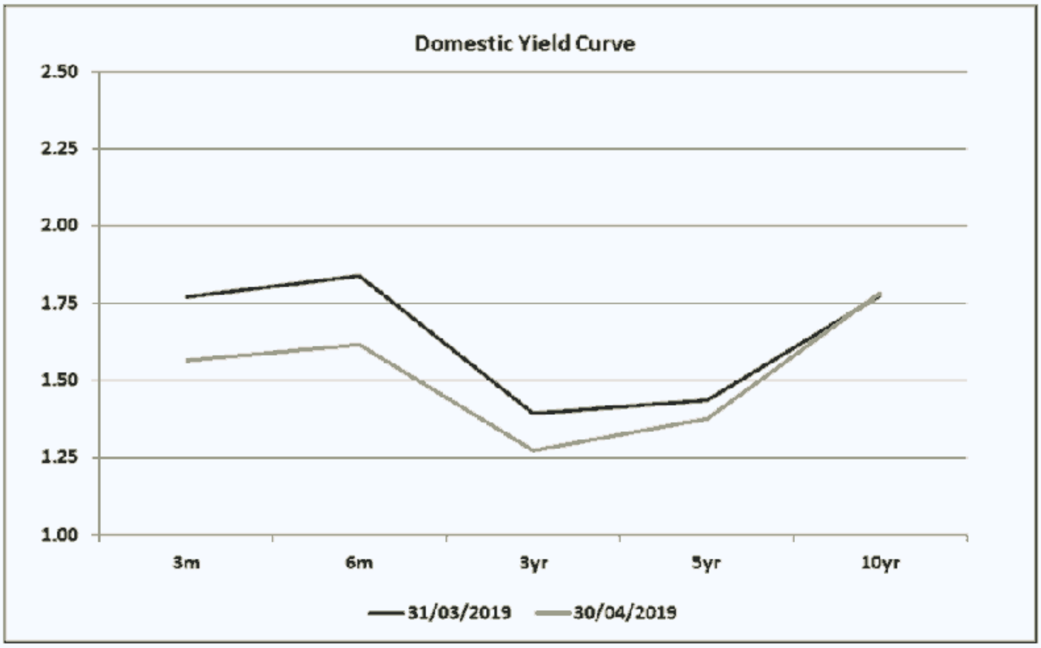
The futures market is now clearly focused on a rate cut **with the prospect of a 25bp cut by July 2019 seen as a 100% scenario**. Some economists are predicting the RBA will be forced to cut multiple times this year on expectations of a slowdown in the domestic and global economy, household finances impacting consumer confidence and a further downturn in residential property.



Source: ASX

IMPERIUM MARKETS

Longer-term, the bond market continues to suggest a 'lower-for-longer' period of interest rates. Domestic yields fell significantly at the short-end of the curve during April, falling as much as -22bp at the 6 month part of the curve, on the back of the market factoring in an interest rate cut over coming months.



Source: AFMA, RBA

Disclaimer

PORT MACQUARIE-HASTINGS COUNCIL

Monthly Investment Report

01/04/2019 to 30/04/2019

IMPERIUM MARKETS

PORT MACQUARIE-HASTINGS COUNCIL

Portfolio valuation

As at 30/04/2019

Issuer	Rating	Type	Alloc	Interest	Purchase	Maturity	Rate	Value	Accrued	AccrMTD	Ref
AMP Bank	A-	TD	GENERAL	Maturity	17/05/2018	07/05/2019	2.7500	5,000,000.00	131,472.60	11,301.37	TD364564047-47889
Members Equity Bank	BBB	TD	GENERAL	Annual	19/05/2017	20/05/2019	2.8700	3,000,000.00	81,382.19	7,076.71	24821
Rabobank Australia	A+	TD	GENERAL	Annual	23/05/2016	23/05/2019	3.1500	6,000,000.00	177,608.22	15,534.25	18843
Westpac	AA-	TD	GENERAL	Qtly	29/05/2018	11/06/2019	2.7100	3,000,000.00	13,809.86	6,682.19	6775257
Bendigo and Adelaide	BBB+	TD	GENERAL	Annual	07/07/2016	08/07/2019	3.1500	2,000,000.00	51,090.41	5,178.08	1986640
NAB	AA-	TD	GENERAL	Maturity	17/07/2018	16/07/2019	2.7800	2,000,000.00	43,870.68	4,569.86	GMI-DEAL-10549241
Westpac	AA-	TD	GENERAL	Annual	24/07/2017	24/07/2019	2.9400	4,000,000.00	90,535.89	9,665.75	032-697 114230
Westpac	AA-	TD	GENERAL	Annual	15/08/2016	15/08/2019	3.1000	3,000,000.00	65,991.78	7,643.84	032-586 511-284
Newcastle Permanent	BBB	TD	GENERAL	Annual	15/08/2016	15/08/2019	3.0000	2,000,000.00	42,575.34	4,931.51	31125
Westpac	AA-	TD	GENERAL	Annual	22/08/2017	22/08/2019	2.9000	3,000,000.00	60,065.75	7,150.68	032-697 115436
ING Direct	A	TD	GENERAL	Annual	22/08/2017	22/08/2019	2.7500	5,000,000.00	94,931.51	11,301.37	26932
Commonwealth Bank	AA-	TD	GENERAL	Annual	04/09/2017	29/08/2019	2.7300	3,000,000.00	53,627.67	6,731.51	B37942904.6
Westpac	AA-	TD	GENERAL	Annual	04/09/2017	04/09/2019	2.9600	3,000,000.00	58,145.75	7,298.63	032-697 115 794
St George Bank	AA-	TD	GENERAL	Annual	08/09/2016	08/09/2019	3.2000	5,000,000.00	102,136.99	13,150.68	355290684
St George Bank	AA-	TD	GENERAL	Annual	27/09/2016	27/09/2019	3.2000	4,000,000.00	75,747.95	10,520.55	355333138
NAB	AA-	TD	GENERAL	Annual	11/07/2018	15/10/2019	2.8500	3,000,000.00	68,868.49	7,027.40	GMI-DEAL-10547992
ICBC Sydney Branch	A	TD	GENERAL	Annual	31/10/2018	29/10/2019	2.8300	4,000,000.00	56,444.93	9,304.11	00001
ICBC Sydney Branch	A	TD	GENERAL	Maturity	20/11/2018	12/11/2019	2.8600	5,000,000.00	63,468.49	11,753.42	01250011000001867
ICBC Sydney Branch	A	TD	GENERAL	Annual	13/11/2018	19/11/2019	2.8600	4,000,000.00	52,968.77	9,402.74	00003
ICBC Sydney Branch	A	TD	GENERAL	Annual	28/11/2018	26/11/2019	2.8200	5,000,000.00	59,490.41	11,589.04	00006
Westpac	AA-	TD	GENERAL	Qtly	14/12/2018	10/12/2019	2.7300	3,000,000.00	10,770.41	6,731.51	7389786
Westpac	AA-	TD	GENERAL	Qtly	14/12/2018	17/12/2019	2.7300	4,000,000.00	14,360.55	8,975.34	7389774
Westpac	AA-	TD	GENERAL	Qtly	14/01/2019	14/01/2020	2.7200	5,000,000.00	5,961.64	5,961.64	7448784
Members Equity Bank	BBB	TD	GENERAL	Annual	24/01/2017	24/01/2020	3.2600	2,000,000.00	17,327.12	5,358.90	22835
ICBC Sydney Branch	A	TD	GENERAL	Maturity	20/02/2019	04/02/2020	2.7200	1,000,000.00	5,216.44	2,235.62	00010
ING Direct	A	TD	GENERAL	Annual	15/02/2018	17/02/2020	2.8700	4,000,000.00	23,589.04	9,435.62	30810
ING Direct	A	TD	GENERAL	Annual	28/02/2018	03/03/2020	2.8900	4,000,000.00	19,636.16	9,501.37	378133
Newcastle Permanent	BBB	TD	GENERAL	Annual	10/03/2016	10/03/2020	3.7000	2,000,000.00	10,339.73	6,082.19	29843
ING Direct	A	TD	GENERAL	Annual	02/03/2018	17/03/2020	2.8800	4,000,000.00	18,305.75	9,468.49	378677

IMPERIUM MARKETS

Issuer	Rating	Type	Alloc	Interest	Purchase	Maturity	Rate	Value	Accrued	AccrMTD	Ref
Rural Bank	BBB+	TD	GENERAL	Maturity	18/04/2019	14/04/2020	2.5500	2,000,000.00	1,816.44	1,816.44	2952006
Auswide Bank	BBB	TD	GENERAL	Maturity	30/04/2019	29/04/2020	2.4500	5,000,000.00	335.62	335.62	
BOQ	BBB+	TD	GENERAL	Annual	19/05/2017	19/05/2020	3.0000	3,000,000.00	85,068.49	7,397.26	453470
ING Direct	A	TD	GENERAL	Annual	22/05/2018	26/05/2020	2.9400	4,000,000.00	110,833.97	9,665.75	403498
ING Direct	A	TD	GENERAL	Annual	29/05/2018	09/06/2020	2.8800	3,000,000.00	79,772.05	7,101.37	6775257
Westpac	AA-	TD	GENERAL	Qtly	06/06/2018	16/06/2020	2.9100	5,000,000.00	22,323.29	11,958.90	6795148
NAB	AA-	TD	GENERAL	Annual	03/07/2018	07/07/2020	2.9000	5,000,000.00	119,972.60	11,917.81	10545823
NAB	AA-	TD	GENERAL	Annual	11/07/2018	14/07/2020	2.9200	3,000,000.00	70,560.00	7,200.00	GMI-DEAL-10547993
ING Direct	A	TD	GENERAL	Annual	21/08/2018	25/08/2020	2.8500	4,000,000.00	79,019.18	9,369.86	424329
ING Direct	A	TD	GENERAL	Annual	13/09/2018	08/09/2020	2.8700	4,000,000.00	72,339.73	9,435.62	429068
Westpac	AA-	TD	GENERAL	Annual	13/09/2017	14/09/2020	3.1700	3,000,000.00	59,926.03	7,816.44	032-697 116017
ING Direct	A	TD	GENERAL	Annual	13/09/2018	22/09/2020	2.8700	4,000,000.00	72,339.73	9,435.62	429067
NAB	AA-	TD	GENERAL	Annual	17/10/2018	13/10/2020	2.7800	4,000,000.00	59,712.88	9,139.73	GMI-DEAL-10573417
ICBC Sydney Branch	A	TD	GENERAL	Annual	31/10/2018	27/10/2020	2.9300	6,000,000.00	87,659.18	14,449.32	00002
ICBC Sydney Branch	A	TD	GENERAL	Annual	13/11/2018	10/11/2020	2.9300	5,000,000.00	67,831.51	12,041.10	00004
ICBC Sydney Branch	A	TD	GENERAL	Annual	05/12/2018	08/12/2020	2.8600	2,000,000.00	23,036.71	4,701.37	01250011000001867
ICBC Sydney Branch	A	TD	GENERAL	Annual	14/12/2018	15/12/2020	2.8900	6,000,000.00	65,559.45	14,252.05	00009
BOQ	BBB+	TD	GENERAL	Annual	24/01/2017	25/01/2021	3.6500	2,000,000.00	19,400.00	6,000.00	438425
Westpac	AA-	TD	GENERAL	Annual	21/02/2017	22/02/2021	3.3900	2,000,000.00	12,816.99	5,572.60	032-586 519825
BOQ	BBB+	TD	GENERAL	Annual	10/03/2016	10/03/2021	3.8000	3,000,000.00	15,928.77	9,369.86	391843
ING Direct	A	TD	GENERAL	Annual	20/02/2019	16/03/2021	2.8200	2,000,000.00	10,816.44	4,635.62	475707
Westpac	AA-	TD	GENERAL	Qtly	22/03/2018	23/03/2021	3.0200	4,000,000.00	13,238.36	9,928.77	6791206
Westpac	AA-	TD	GENERAL	Qtly	22/05/2018	25/05/2021	3.1000	4,000,000.00	23,101.37	10,191.78	6927394
Rabobank Australia	A+	TD	GENERAL	Annual	08/06/2017	07/06/2021	3.0200	5,000,000.00	135,279.45	12,410.96	25359
Westpac	AA-	TD	GENERAL	Qtly	06/06/2018	15/06/2021	3.1000	3,000,000.00	14,268.49	7,643.84	6795153
NAB	AA-	TD	GENERAL	Annual	03/07/2018	22/06/2021	3.0000	4,000,000.00	99,287.67	9,863.01	10545826
NAB	AA-	TD	GENERAL	Annual	03/07/2018	06/07/2021	3.0000	3,000,000.00	74,465.75	7,397.26	083-375 99-999-9947
Westpac	AA-	TD	GENERAL	Qtly	17/07/2018	13/07/2021	3.0400	5,000,000.00	5,830.14	5,830.14	7052868
NAB	AA-	TD	GENERAL	Annual	26/07/2018	20/07/2021	3.0400	4,000,000.00	92,949.04	9,994.52	GMI-DEAL-10552065
NAB	AA-	TD	GENERAL	Annual	02/08/2018	03/08/2021	3.0700	5,000,000.00	114,389.04	12,616.44	GMI-DEAL-10554251
Westpac	AA-	TD	GENERAL	Qtly	13/09/2018	14/09/2021	2.8800	5,000,000.00	19,331.51	11,835.62	7180013
NAB	AA-	TD	GENERAL	Annual	27/09/2018	28/09/2021	3.0500	5,000,000.00	90,246.58	12,534.25	GMI-DEAL-10568550
Westpac	AA-	TD	GENERAL	Qtly	13/09/2018	12/10/2021	2.8900	5,000,000.00	19,398.63	11,876.71	7179943
ICBC Sydney Branch	A	TD	GENERAL	Annual	05/12/2018	07/12/2021	3.0100	4,000,000.00	48,489.86	9,895.89	01250011000001867

IMPERIUM MARKETS

Issuer	Rating	Type	Alloc	Interest	Purchase	Maturity	Rate	Value	Accrued	AccrMTD	Ref
Newcastle Permanent	BBB	TD	GENERAL	Qtly	07/02/2019	08/02/2022	3.0500	4,000,000.00	27,742.47	10,027.40	1381/37459
NAB	AA-	TD	GENERAL	Annual	21/02/2017	21/02/2022	3.4600	5,000,000.00	32,704.11	14,219.18	10420935
Westpac	AA-	TD	GENERAL	Annual	21/02/2017	21/02/2022	3.6100	2,000,000.00	13,648.77	5,934.25	23294
BOQ	BBB+	TD	GENERAL	Annual	15/03/2017	15/03/2022	3.8000	2,000,000.00	9,786.30	6,246.58	445483
Newcastle Permanent	BBB	TD	GENERAL	Qtly	12/03/2019	22/03/2022	2.9000	4,000,000.00	15,890.41	9,534.25	1684
Newcastle Permanent	BBB	TD	GENERAL	Annual	27/03/2019	29/03/2022	2.8000	5,000,000.00	13,424.66	11,506.85	
Newcastle Permanent	BBB	TD	GENERAL	Qtly	18/04/2019	19/04/2022	2.7000	4,000,000.00	3,846.58	3,846.58	1978
Rabobank Australia	A+	TD	GENERAL	Annual	08/06/2017	07/06/2022	3.2200	5,000,000.00	144,238.36	13,232.88	25360
NAB	AA-	TD	GENERAL	Annual	02/08/2018	02/08/2022	3.2200	4,000,000.00	95,982.47	10,586.30	GMI-DEAL-10554252
NAB	AA-	TD	GENERAL	Annual	16/08/2018	16/08/2022	3.0500	4,000,000.00	86,235.62	10,027.40	GMI-DEAL-10557367
Westpac	AA-	TD	GENERAL	Annual	13/09/2017	13/09/2022	3.4100	3,000,000.00	64,463.01	8,408.22	032-697 116 009
Rabobank Australia	A+	TD	GENERAL	Annual	13/09/2017	13/09/2022	3.3800	3,000,000.00	63,895.89	8,334.25	27388
Westpac	AA-	CASH	GENERAL	Month	31/05/2017	31/12/2150	2.2000	8,751,320.10	15,824.30	15,824.30	WESTPAC COMMERCIAL BANK DAY NOTICE SAVER ACCOUNT
TOTALS								$289,751,320.10	$4,044,768.41	$674,924.30	