

Local Government NSW Annual Conference 2016

Sunday 16 – Tuesday 18 October 2016

Main conference venue is WIN Entertainment Centre, Crown and Harbour Streets, Wollongong, 2500

This program is correct at the time of publication; speakers and program details may have changed due to unforeseen circumstances.

DRAFT PROGRAM (as of 18 July 2016)

SUNDAY 16 OCTOBER	
1.00pm – 4.45pm	Bump in sponsors to WIN Entertainment Centre Foyer
1.00pm – 4.00pm	Registration opens in WIN Entertainment Centre Foyer
2.00pm – 4.45pm	Councillor training sessions in Winners Room 1, Winners Room 2, Victory Room <ul style="list-style-type: none"> - Understanding changes to the Local Government Act - Know your planning - Principles of good governance
2.00pm – 4.45pm	LGNSW briefing for General Managers and Interim General Managers in Premiers Room. This briefing will give progress on negotiation for a new 2017 Local Government (State) Award and workplace reform.
3.00pm – 3.30pm	Afternoon Tea meet the sponsors in trade exhibition next to Premiers Room
4.45pm – 5.00pm	Pre-booked local transfer buses from WIN to Lagoon Seafood Restaurant, Stuart Park, George Hanley Drive, North Wollongong
5.00pm – 7.00pm	President's Opening Reception in Lagoon Seafood Restaurant <ul style="list-style-type: none"> - Welcome To Country - Welcome from Cr Gordon Bradbery OAM, Lord Mayor of Wollongong City Council - Opening from Cr Keith Rhoades AFSM, President, LGNSW
7.00pm	Pre-booked local transfer buses will drop off back to WIN Entertainment Centre
MONDAY 17 OCTOBER – Business Session Day 1 Chaired by Cr Keith Rhoades AFSM, WIN Entertainment Centre	
7.00am – 5.00pm	Registration opens in Box Office of foyer WIN Entertainment Centre Distribution of voting materials and electronic handsets
7.30am – 8.45am	NSW Reconciliation Council Breakfast, Winners Room 1 <ul style="list-style-type: none"> - Welcome from the Hon Leslie Williams MP, Minister for Aboriginal Affairs - Address from Mick Gooda, Aboriginal and Torres Strait Islander Social Justice Commissioner - Address from Stan Grant, journalist, author, and Referendum Councillor Supported by NSWALC and sponsored by Aboriginal Affairs NSW
8.15am -9.00am	Trade exhibition opens in WIN Entertainment Centre Foyer
9.00am – 9.30am	Address from The Hon Mike Baird MP , Premier of New South Wales

9.30am – 10.00am	Address from Cr Keith Rhoades AFSM , President, LGNSW
10.00am – 11.00am	Opening of the Federal Conference, chaired by Cr Keith Rhoades AFSM including demonstration of voting units, adoption of standing orders, presentation of the auditor's report, general financial report and operating report to members. Business session and consideration of motions.
	Opening of the State Conference, chaired by Cr Keith Rhoades AFSM including adoption of standing orders, business session and consideration of motions
11.00am - 11.30am	Morning tea in trade exhibition sponsored by LG Super
11.30am – 1.00pm	Consideration of Conference business continued, chaired by the President
1.00pm – 2.00pm	Lunch in trade exhibition sponsored by LG Super General Managers Lunch: StateCover, LG Super, LGP, LGNSW Member Services and councils: Building Mutually Beneficial Partnerships, Winners Room 1 and 2
2.00pm – 3.30pm	Consideration of Conference business continued, chaired by the President
3.30pm – 4.00pm	Afternoon tea in trade exhibition
4.00pm – 5.30pm	Consideration of Conference business continued, chaired by the President Collection of all electronic handsets and voting cards Conference business session closes
5.30pm – 6.30pm	Delegate networking function in trade exhibition
6.30pm	Trade exhibition closes. Free night for delegates

TUESDAY 18 OCTOBER – Business Session Day 2
WIN Entertainment Centre

7.00am – 5.00pm	Registration opens in WIN Entertainment Centre Foyer
7.30am – 8.45am	Australian Local Government Women's Association (ALGWA) Breakfast Winners Room 1: Tracy Howe , Chief Executive Officer, NSW Council of Social Service (NCOSS) Anti-Poverty Week 'Fighting Poverty Together', Room 1
8.00am – 5.30pm	Trade exhibition opens in WIN Entertainment Centre Foyer
9.00am – 9.15am	Introduction by Master of Ceremonies, Tracey Spicer
9.15am – 9.30am	Address from The Hon Paul Toole MP , Minister for Local Government
9.30am – 9.45am	Facilitated questions from the conference to the Minister
9.45am – 10.00am	Launch of NSW Workforce Development Strategy
10.00am – 10.05am	Premier Sponsor Meridian IT Company Update
10.05am – 10.30am	Morning tea in trade exhibition sponsored by EPA
10.30am – 10.45am	Address from The Hon Peter Primrose MLC , Shadow Minister for Local Government
10.45am – 11.00am	Facilitated questions from the conference to the Shadow Minister

11.00am – 11.45am	Keynote: Rethinking the role of Local Government, Peter McKinlay , Executive Director, McKinlay Douglas Ltd.
11.45am – 12.30pm	Tracey Spicer facilitates a Local Government Reform Panel: Challenges and Achievements. Panellists: <ul style="list-style-type: none"> - Jane Mills, Chief Operating Officer, City of Parramatta Council - Luke Johnson, General Manager, Wollondilly Shire Council
12.30pm – 12.45pm	Address on Association business from Cr Keith Rhoades AFSM, President, LGNSW
12.45pm – 1.00pm	Treasurer's Report
1.00pm – 1.45pm	Lunch in the trade exhibition WIN Entertainment Centre sponsored by EPA
1.45pm – 3.00pm	MOVE TO CONCURRENT SESSIONS
1.45pm – 3.00pm	CONCURRENT SESSION 1 - Natural Resources and Environment Stream Facilitated by Barry Buffier , Chair and Chief Executive Officer, NSW Environment Protection Agency
1.45pm – 2.30pm	Working Together to Keep our Environment Clean, with presentations on litter prevention by Steve Beaman , Executive Director Waste and Resource Recovery Developing sound planning decisions, and underground petroleum storage systems presented by Justin Turk , Operations Officer, Hazardous Incidents and Environmental Health
2.30pm – 2.50pm	Crown Lands Review Update, David Clarke , Group Director Governance & Strategy, NSW Department of Primary Industries – Lands
1.45pm – 3.00pm	CONCURRENT SESSION 2 - Infrastructure and Planning
1.45pm – 2.10pm	Fixing Country Roads, Fredric Horst , Principal Manager for Freight Strategy and Investment, Transport NSW
2.10pm – 2.30pm	Engaging councils in the process of allowing access to local roads for heavy vehicles, Sal Petrocchio , Chief Executive Officer, National Heavy Vehicle Regulator
2.30pm – 2.50pm	Councils investment in Human and Cultural Infrastructure /Sporting Facilities, Paul Doorn , Executive Director – Sport Infrastructure, NSW Office of Sport
1.45pm – 3.00pm	CONCURRENT SESSION 3 - Capacity Building and Diversity Facilitated Sarah Artist, Senior Manager, Innovation and Capacity, LGNSW
1.45pm – 2.05pm	Designing a Capability Framework for NSW Local Government – towards an integrated package for job design, recruitment, performance management and capacity building, Jo Grisard , Principal, Grisard Consulting (invited)
2.05pm – 2.30pm	Developing Council's Workforce: Case Studies from Wollongong and Port Stephens Councils presented by David Farmer , General Manager, Wollongong Council and Wayne Wallis , General Manager, Port Stephens Council (invited)
2.30pm – 2.50pm	Change – Fit for Purpose presented by Nigel Ward , Chief Executive Officer and Director, Australian Business Lawyers & Advisors

3.00pm – 3.15pm	RETURN TO PLENARY SESSION AND CLOSE OF CONFERENCE
3.30pm – 4.00pm	Final Keynote: TBC
4.00pm – 4.30pm	Afternoon tea and delegate networking function in trade exhibition
7.30pm – 11.00pm	CONFERENCE DINNER WIN Entertainment Centre (within the conference room)
7.30pm	Doors Open
7.45pm	Delegates seated and entrée served
8.00pm	LGNSW President introduces Elite Sponsor, StateCover Mutual Limited
8.10pm	LGNSW President and Elite Sponsor present the Outstanding Service Awards
8.30pm	LGNSW Chief Executive and Bluett Trustees present A R Bluett Awards
9.00pm	Main Course served
	Entertainment and dancing
11.00pm	Function finishes
CLOSE OF CONFERENCE	



Monthly Report

Shoalhaven City Council

June 2016

Market

We refer to our more detailed *Economic Commentary* for the month.

International Markets

The “Brexit” vote on the UK’s membership of the EU prompted initial “risk-off” trading as investors pulled capital away from UK-exposed firms and into bonds and other “defensive” assets.

Despite alarming headlines (before and after the referendum) including “Lehman event,” the stockmarket reaction was modest. The US S&P 500 and Dow Jones both gained marginally (+0.26% and +0.95% respectively). While the NASDAQ was –2.12% lower, London’s FTSE index was +4.72% higher on the month.

Financial stocks grossly underperformed, although as much on concern around pre-existing solvency worries around banks on the Continent as for Brexit itself. Italy announced a EUR40bn capital injection to the banks, only to be blocked by Germany – citing EU regulations that prohibit it.

The MSCI World ex-AUS returned -1.28% while the MSCI Emerging Markets Index finished +1.59% higher (both in local currency). In \$US, the MSCI EM soared +4%.

Bonds disproportionately gained on expectations of coordinated policy easing; US 10-year bond yields plummeted to 1.49%, -35bp in June and trading near record levels.

Domestic

The RBA held rates unchanged at their June meeting, and dropped their easing bias language. July may well see that language reinstated, despite economic data still respectably strong. Unemployment was steady at 5.7%, with job vacancies continuing to grow. The trade deficit eased 20% to -\$1579m. However, capital formation (including dwelling commitments) is declining.

The futures market revised their RBA cash rate forecast towards another possible rate cut as early as August should a low Q2 CPI permit in late July.

A July 2nd election loomed at month end; as with Brexit, pollsters considered the result a foregone conclusion. Instead, a likely hung Parliament with a populist cross-bench may well seek new spending measures in result for supporting a confidence motion.

Australian 10-year bonds set new record lows following the RBA rate cut and then the Brexit vote. They finished 32bp lower at 1.98%, trading below 2% for the first time. The S&P/ASX 200 finished -2.70% lower, due to the heavy Financials and commodity weightings.

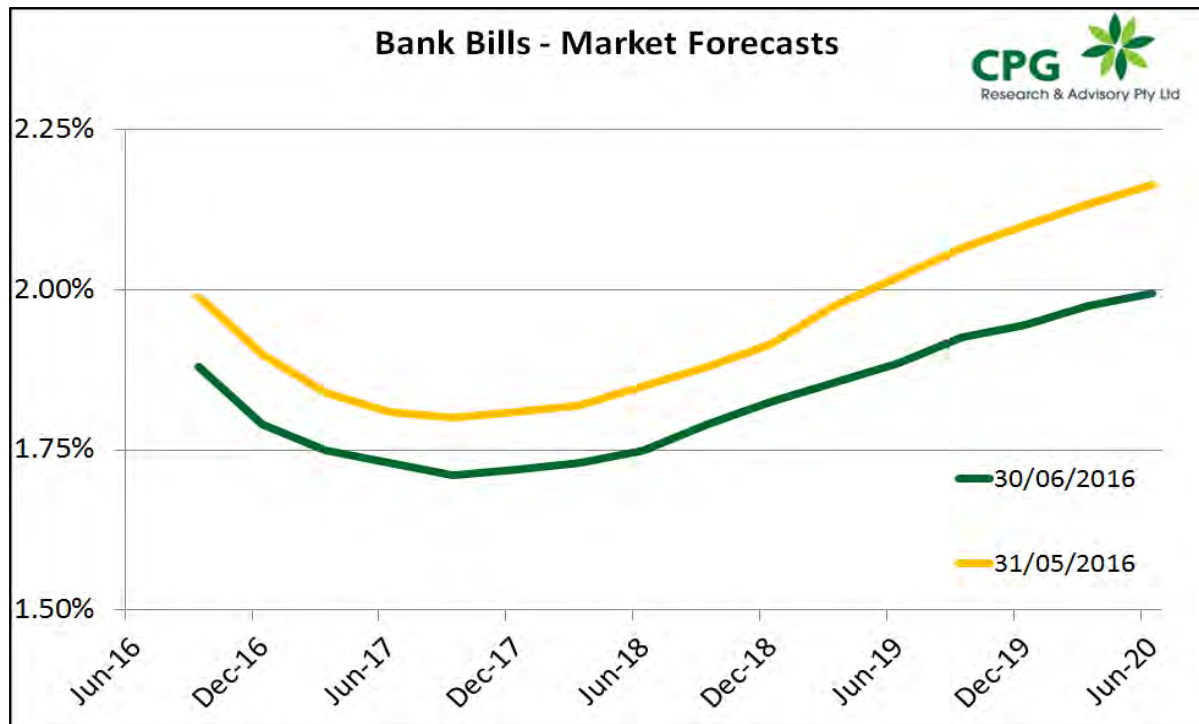
Other Markets

Economically-sensitive commodities held up well in the panic. WTI Crude Oil closed at \$48.33/bbl (-1.57%). China’s stimulus measures provided short-term support, and Base Metals finished higher across the board in June. Copper finished +2.68% higher, Zinc +9.15%, Tin +5.25%, Aluminium +5.56% and nickel +11.16%.

Gold soared as investors sought its protection from uncertainty in the European financial system. It hit its highest level in more than 2 years, closing at US\$1330 (+9.57%).

The \$A finished at US74.26 cents (+2.54% in June), having traded even higher into the Brexit vote and then plunged in sympathy with other cyclical currencies.

Futures markets indicate a significantly lower outlook for rates, with no increase from current rates now indicated for several years:



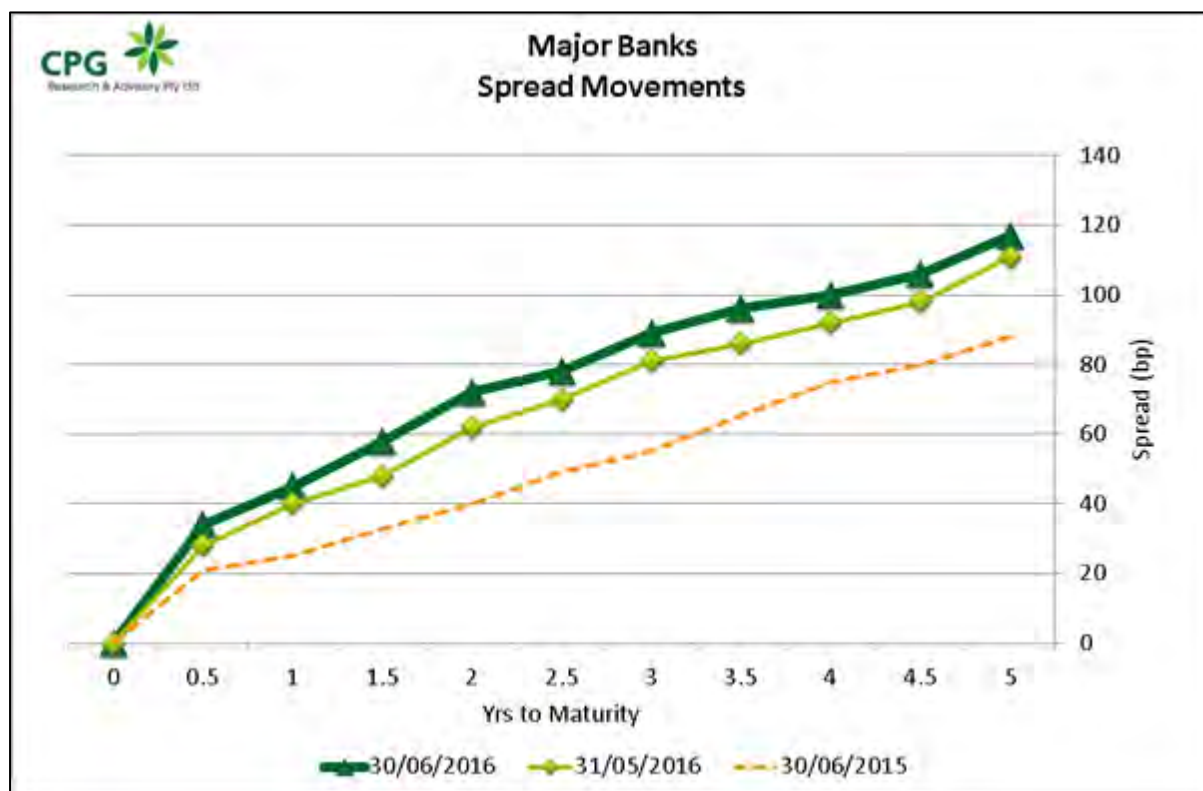
Credit Market

European indices traded wider late in the month, after the UK voted to *Leave* the Eurozone – polling had suggested this was a very low probability outcome, and markets were not well prepared. iTraxx European widened 12bp while iTraxx Australia and CDX North American were little changed, taking the event in their stride.

Credit Indices	30 Jun 16	31 May 16	30 Jun 15
iTraxx Australia 5 Yr CDS	127bp	127bp	90bp
iTraxx European 5 Yr CDS	84bp	72bp	66bp
CDX North American 5 Yr CDS	78bp	77bp	64bp

Source: MarkIt

AA bank senior FRNs traded relatively calmly – they were slightly wider (around 6-10bp for much of the curve), but without the panic selling of February.

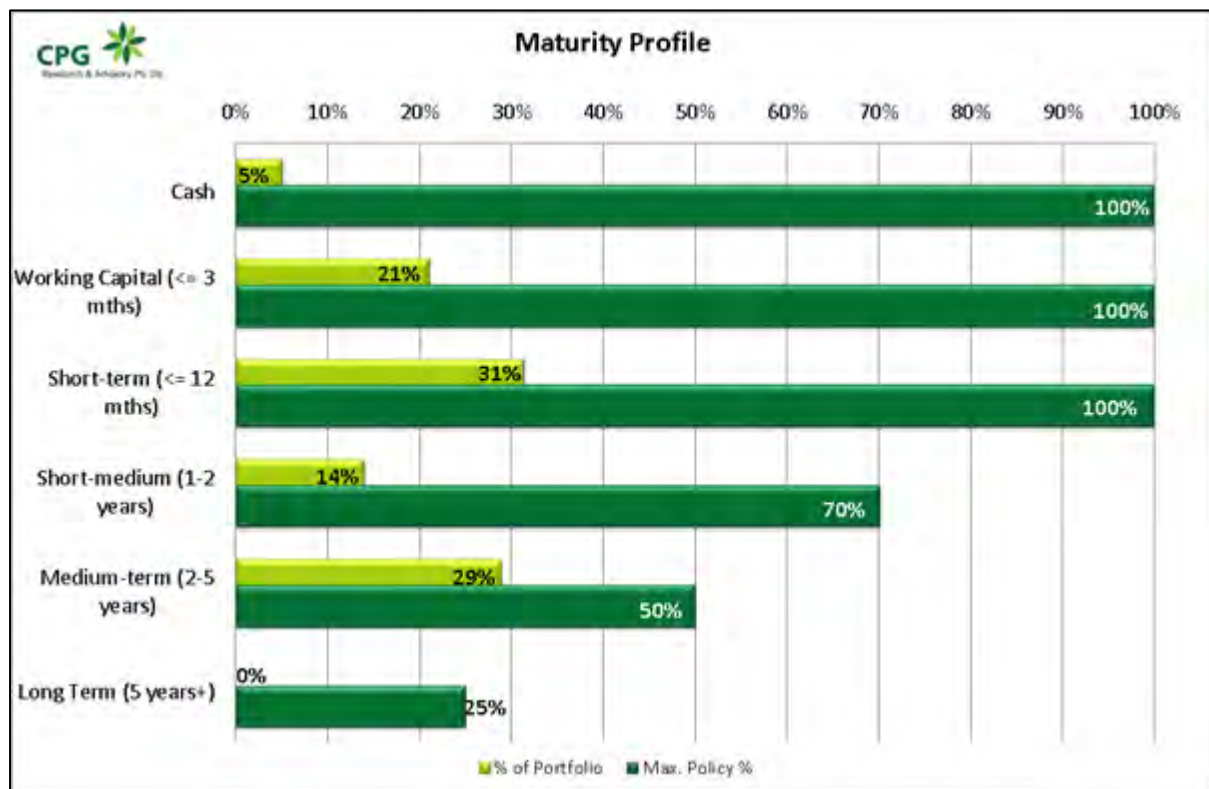


Council's Portfolio

The portfolio has 5% of investments available at-call and a further 21% of assets maturing within 3 months. Additional short-dated funds have been gradually redeployed into a portfolio now well diversified by term – ahead of what has been a considerable decline in deposit rates.

Approximately 29% of the portfolio is now in medium-term assets, with some capacity now freed up after previously being close to the maximum limits.

We currently recommend that this be deployed to a mixture of fixed deposits and new FRN issues as they are launched.



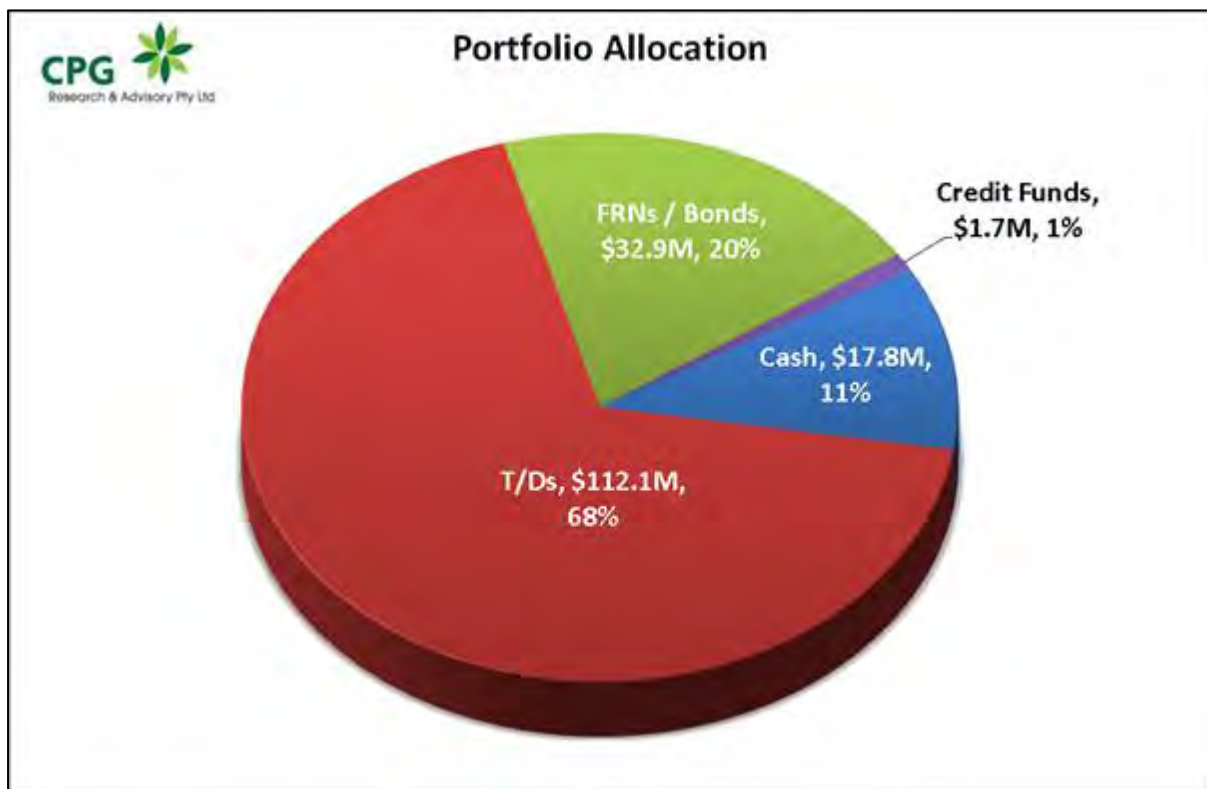
Council's portfolio is dominated by term deposits across a broad range of counterparties; credit assets are around 20% of the portfolio and gradually growing.

Over the past few years, our advice has focused on fixed rate deposits as the core investment theme, supplemented by other fixed rate investments. This was justified by another rate cut in May, down to a record low of 1.75%, followed by the record low bond yields set after the Brexit vote. Council's longer-dated investments invested in 2014 are now well above market returns, from which duration was significantly extended.

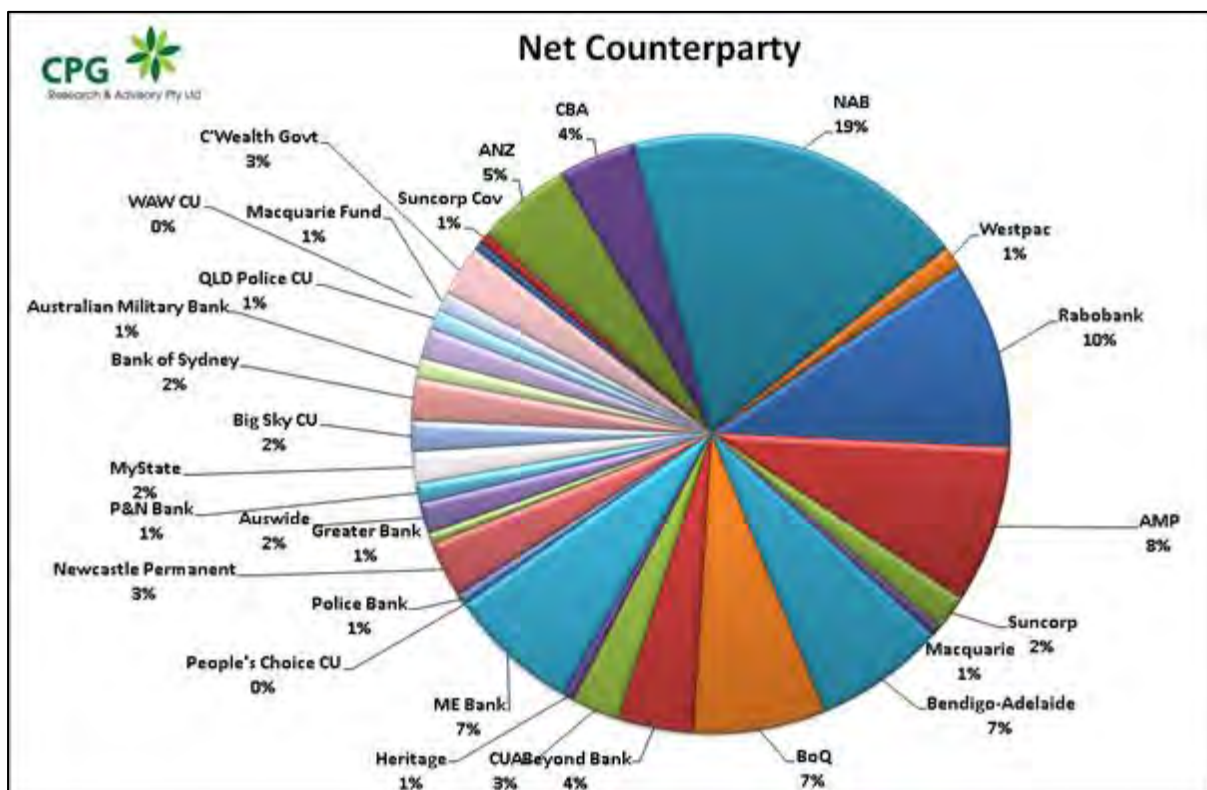
We have discussed a greater role for FRNs for 2016. These opened the year with some price weakness as spreads widened to mid-February; that has since largely reversed although there was some weakness late in the month.

While some issues initially traded at a small discount, others have performed well.

Currently we see value in both long deposits and FRNs. The deposit curve is steeper as banks competed more strongly at the longer end. FRNs also offer excellent initial yields with the prospect of additional gains. We have a positive view on increasing the Medium Term allocation in either major category.



The investment portfolio is well diversified in complying assets across the entire credit spectrum, with the major banks and Rabobank dominant:



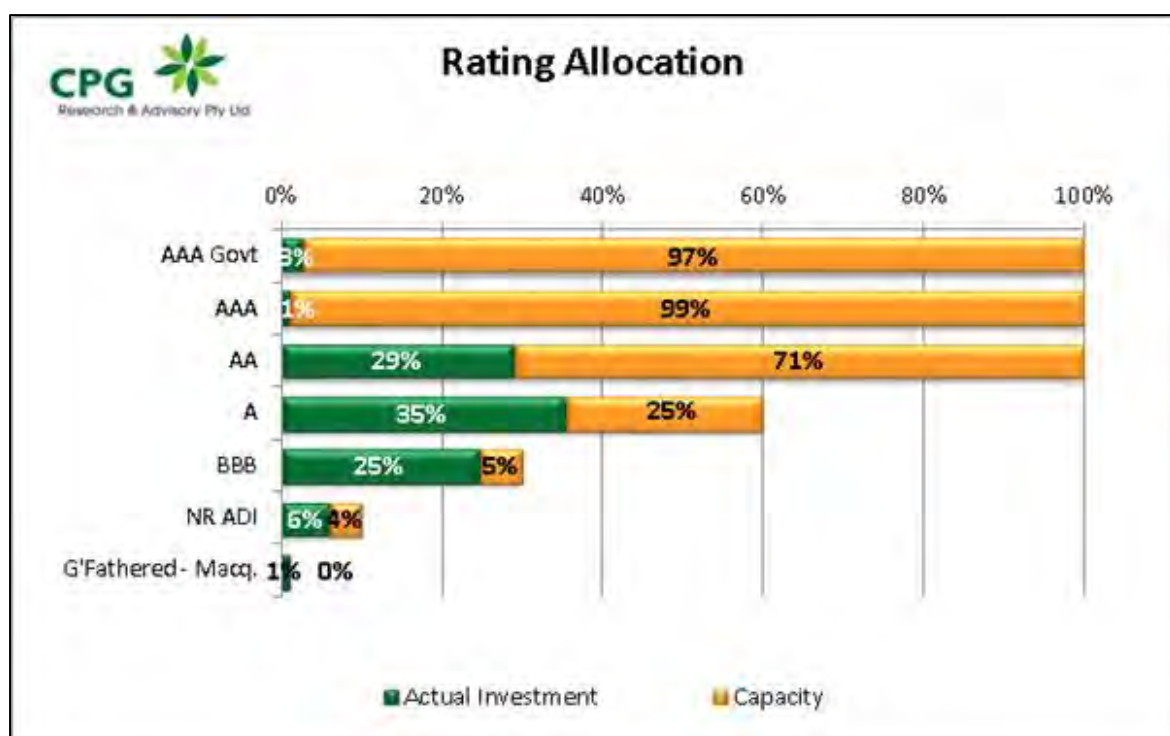
Credit Quality

The **portfolio is diversified from a rating perspective**. Credit quality is diversified and is predominately invested amongst the investment grade ADIs (BBB- or higher), with a smaller allocation to unrated ADIs.

Only the Macquarie credit fund is now classified as a “Grandfathered” legacy asset.

There is still high capacity to invest across the higher rated counterparties (“A” or higher).

Rating Category	Actual	Per C/Party	Aggregate	Rating Category	Actual Investment	Capacity
AAA Govt	3%	100%	100%	AAA Govt	3%	97%
AAA	1%	40%	100%	AAA	1%	99%
AA	29%	30%	100%	AA	29%	71%
A	35%	15%	60%	A	35%	25%
BBB	25%	10%	30%	BBB	25%	5%
NR ADI	6%	5%	10%	NR ADI	6%	4%
G'Fathered - Macq.	1%	1%	1%	G'Fathered - Macq.	1%	0%



All of these are well within Policy limits.

From time to time, broker specials continue to be offered with some BBB rated and unrated Credit Unions paying an additional premium above leading direct rates – **pricing is generally quite favourable, but often for short terms and/or restricted in parcel size**. Smaller institutions are also more inclined to publish “good until filled” orders, rather than publishing a rate for the day. This is covered in the daily emails and our advice at the time of investment.

Compliance

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

Individual counterparty exposures comply with the Policy.

Counterparties	Exposure \$M	FCS	Net	Rating	Policy Limit	Actual	Capacity
NSW T-CORP	\$1.03M	\$0.25M	\$0.78M	AAA	40%	0%	\$65.02M
Suncorp Cov	\$1.00M	\$0.00M	\$1.00M	AAA	40%	1%	\$64.80M
ANZ	\$8.60M	\$0.25M	\$8.35M	AA-	30%	5%	\$41.00M
CBA	\$7.00M	\$0.25M	\$6.75M	AA-	30%	4%	\$42.60M
NAB	\$30.77M	\$0.25M	\$30.52M	AA-	30%	19%	\$18.83M
Westpac	\$2.00M	\$0.00M	\$2.00M	AA-	30%	1%	\$47.35M
Rabobank	\$17.00M	\$0.25M	\$16.75M	A+	15%	10%	\$7.92M
AMP	\$14.23M	\$0.25M	\$13.98M	A+	15%	6%	\$10.70M
Suncorp	\$3.00M	\$0.00M	\$3.00M	A+	15%	2%	\$21.67M
Macquarie	\$1.00M	\$0.00M	\$1.00M	A	15%	1%	\$23.67M
Bendigo-Adelaide	\$12.00M	\$0.25M	\$11.75M	A-	15%	7%	\$12.92M
BoQ	\$12.00M	\$0.25M	\$11.75M	A-	15%	7%	\$12.92M
ING	\$0.00M	\$0.00M	\$0.00M	A-	15%	0%	\$24.67M
Beyond Bank	\$6.30M	\$0.25M	\$6.65M	BBB+	10%	4%	\$9.80M
CUA	\$4.25M	\$0.00M	\$4.25M	BBB+	10%	3%	\$12.20M
Heritage	\$1.00M	\$0.00M	\$1.00M	BBB+	10%	1%	\$15.45M
ME Bank	\$12.00M	\$0.25M	\$11.75M	BBB+	10%	7%	\$4.70M
People's Choice CU	\$0.00M	\$0.00M	\$0.00M	BBB+	10%	0%	\$16.45M
Police Bank	\$1.00M	\$0.00M	\$1.00M	BBB+	5%	1%	\$7.22M
Newcastle Permanent	\$5.00M	\$0.00M	\$5.00M	BBB+	10%	3%	\$11.45M
Greater Bank	\$1.00M	\$0.00M	\$1.00M	BBB+	10%	1%	\$15.45M
Auswide	\$3.00M	\$0.25M	\$2.75M	BBB	10%	2%	\$13.70M
P&N Bank	\$2.00M	\$0.25M	\$1.75M	BBB	10%	1%	\$14.70M
MyState	\$3.00M	\$0.25M	\$2.75M	BBB	10%	2%	\$13.70M
Big Sky CU	\$3.00M	\$0.25M	\$2.75M	BBB	10%	2%	\$13.70M
Bank of Sydney	\$4.00M	\$0.25M	\$3.75M	NR	5%	2%	\$4.47M
Australian Military Bank	\$2.00M	\$0.25M	\$1.75M	NR	5%	1%	\$6.47M
Police CU	\$3.00M	\$0.25M	\$2.75M	NR	5%	2%	\$5.47M
QLD Police CU	\$2.00M	\$0.25M	\$1.75M	NR	5%	1%	\$6.47M
WAW CU	\$0.00M	\$0.00M	\$0.00M	NR	5%	0%	\$8.22M
Macquarie Fund	\$1.73M	\$0.00M	\$1.73M	NR	1%	1%	\$0.00M
C'wealth Govt	\$164.50M	\$4.5M	\$160.00M	AAA	100%	97%	
Total	\$164.50M		\$164.50M			100%	
Check	\$0.00M		\$0.00M				

Subsidiaries such as Rural Bank are grouped in the exposures of the parent (Bendigo-Adelaide Bank, rated A-).

From May 2015, new Rabobank Australia deposits are not guaranteed by the global group, but existing deposits have their guarantee grandfathered. They are generally not accepting new investments or rollovers from institutional investors.

Returns - Accrual

Actual	1 month	3 months	6 months	FYTD	1 year	2 years	3 years	4 years
Official Cash Rate	0.14%	0.45%	0.95%	1.96%	1.96%	2.16%	2.28%	2.49%
Avg. 3m BBSW	0.16%	0.52%	1.09%	2.20%	2.20%	2.35%	2.45%	2.63%
AusBond Bank Bill Index	0.16%	0.56%	1.14%	2.24%	2.24%	2.42%	2.51%	2.70%
Council Cash	0.20%	0.60%	1.25%	2.56%	2.56%	2.82%	2.82%	2.96%
Council T/DS	0.29%	0.90%	1.84%	3.75%	3.75%	3.87%	3.87%	4.05%
Council FRNs / Bonds	0.27%	0.83%	1.69%	3.39%	3.39%	3.78%	-	-
Council Credit Funds	-0.13%	1.37%	1.12%	0.95%	0.95%	1.76%	2.95%	4.12%
Council Total Portfolio	0.27%	0.86%	1.73%	3.51%	3.51%	3.67%	3.73%	3.95%
Annualised	1 month	3 months	6 months	FYTD	1 year	2 years	3 years	4 years
Official Cash Rate	1.75%	1.83%	1.92%	1.96%	1.96%	2.16%	2.28%	2.49%
Avg. 3m BBSW	1.99%	2.09%	2.19%	2.20%	2.20%	2.35%	2.45%	2.63%
AusBond Bank Bill Index	2.02%	2.26%	2.30%	2.24%	2.24%	2.42%	2.51%	2.70%
Council Cash	2.41%	2.45%	2.53%	2.56%	2.56%	2.82%	2.82%	2.96%
Council T/DS	3.54%	3.67%	3.72%	3.75%	3.75%	3.87%	3.87%	4.05%
Council FRNs / Bonds	3.28%	3.37%	3.41%	3.39%	3.39%	3.78%	-	-
Council Credit Funds	-1.52%	5.62%	2.25%	0.95%	0.95%	1.76%	2.95%	4.12%
Council Total Portfolio	3.36%	3.48%	3.50%	3.51%	3.51%	3.67%	3.73%	3.95%

The investment portfolio had another solid month, **returning +3.36% p.a. annualised**, outperforming the AusBond Bank Bill Index¹ which returned +2.02% p.a. The Macquarie Fund had a small drawdown late in the month, and has experienced a tough financial year. Despite the underperformance over FY16, it is still a strongly performing asset over the longer-term.

Council's total return of 3.51% p.a. for FY16 is very strong considering the difficult environment which saw further contraction in deposit margins amongst the higher rated ADIs, as well as record low interest rates (and bond yields).

Council's returns, while lower in absolute terms than historically the case, remains very strong compared to short deposits rolling in the high 2%'s. The highest 5-year deposit is now under 3½% following the drop in bond yields to record lows.

The portfolio's performance continues to be anchored by the longer-dated deposits invested above 4%. FRNs, purchased at attractive margins, have also contributed positively to overall performance.

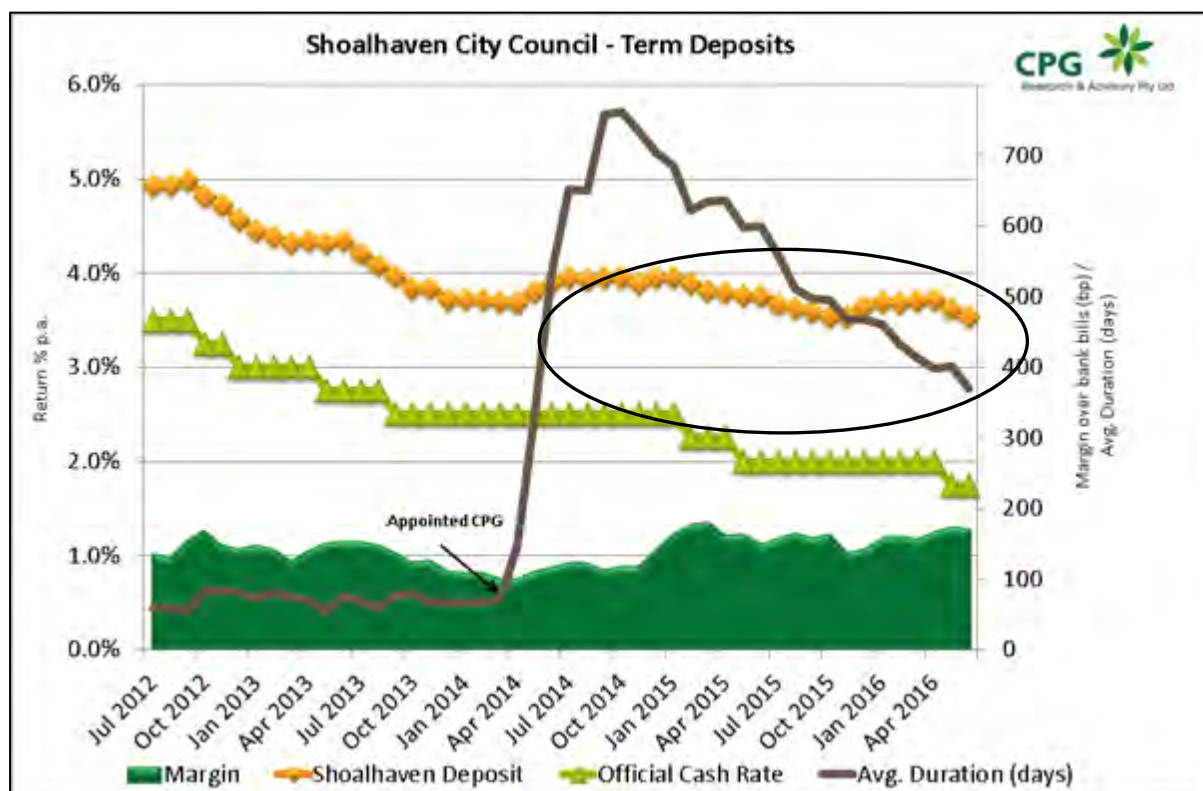
Cash drag has been partially mitigated through the switch into higher yielding accounts (requiring notice in return for the additional yield – they are not a substitute for at-call money).

¹ Previously UBS Bank Bill Index.

Term Deposits

At month-end, deposits accounted for approximately 68% of the total investment portfolio. The weighted average duration of the deposit portfolio stood at approximately **1.0 year** - having been significantly lengthened since the appointment of CPG as its investment advisor and now paying strong rewards.

At the point of fastest falls in the interest rate outlook, Council's deposits had been lengthened to around 2 years.



This has produced a measurable uplift in yield (circled) at a time when deposit rates have plunged, and cushioned the RBA's rate cutting cycle.

It will provide strong protection to Council's budgeted income as FY17 commences, which we will be looking to support over the next 12 months. An average yield of **3.53% p.a.** (down 8bp from the previous month) **remains above the highest deposit of any term available today.** In fact, returns today remain close to when CPG was appointed – despite two rate cuts in 2015, followed by another one in May 2016. There is also the potential of another cut over coming months.

It is inevitable that absolute returns will again ease from here, and this will accelerate as the banks adjust their pricing. Money markets continue to factor in another rate cut as early as August, with the potential for another one in 2017.

Most deposits that matured during the month were reinvested for short terms (between 6-12 months).

Relevant portfolio data follows:

Term Deposit Statistics

Percentage of total portfolio	68%
Weighted Average Yield	3.53%
Weighted Average Duration	1.0 years

Credit Quality of Deposits

AAA^	1%
AA	30%
A	31%
BBB	28%
Unrated ADI	10%
Total	100%

^ Calculation excludes the Financial Claims Scheme (FCS)

Across the longer-end of the curve, deposit margins remain relatively attractive due to lower bond yields and a number of “BBB” rated entities continuing to offer above market longer-term rates.

At the time of writing, **P&N Bank (BBB) was offering fixed term deposits at around +140-145bp over bank bills for 4-5 year terms through a broker intermediary.** Community Alliance Credit Union (unrated ADI) was offering 3.15% p.a. for a 1 year deposit through a broker intermediary at the time of writing.

Given the highly attractive rates on offer and further downside risks to interest rates following the UK’s decision to leave the EU, we are recommending these deposits.

The shape of the deposit curve is quite rational, but we consider the level quite elevated. Investors are now well rewarded for illiquidity, with the longer durations factoring in significantly more upside risk than we build into cash rate scenarios. We have a “Buy” rating again on long T/Ds at these levels, after a period of a “Neutral” view. The relative opportunity is being driven by a combination of lower bond yields and more difficult conditions for banks attempting to finance themselves in wholesale debt markets.

If these fall below 3%, we would again expect to see further migration into a more balanced and liquid portfolio - with FRNs offering excellent returns on a 2-year horizon.

Market conditions are generally now much more favourable to FRN investments than at any time since 2012 – perhaps, since the immediate post-GFC period. This represents a significant reversal of what had been a long-standing theme for Councils dating back to as early as 2010.

Shorter-terms remain under pressure, although some have also widened above +100bp as some ADI’s pricing lagged behind the fall in swap rates (e.g. AMP).

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

Fixed Bonds & FRNs

For the month of June, the **wholesale senior bank FRNs widened between 5-8bp across the medium-longer end following the Brexit vote**. Given the multi-year wides on credit securities, we believe newly issued bank FRNs are likely to be one of the highest yielding (and complying) source of returns going forward.

2018 FRNs are now generally saleable at the higher credit qualities; lower rated institutions tend to see spreads converge only as they shorten very close to maturity – we flag the final year as the likely exit point for those. Still, switching may well be recommended opportunistically at longer terms.

Apart from providing diversification and additional liquidity in a portfolio, this strategy has been highly lucrative - more so than (even unrated) ADI deposits over the past few years at times of most favourable pricing.

Primary issues continue to be favoured over secondary market offers in the wholesale market. As an example, ANZ (+118bp) and Credit Suisse (+195bp) both priced new 5-year issues substantially wider than the existing curve. In May, NAB and Westpac (+117bp) were the most recent 5-year issues being offered more than +5bp above secondary market equivalents. Following the events of Brexit, we expect new major bank issues to be priced around the +120-125bp level.

For new issues, the regional ADIs (rated A or BBB) naturally offer a higher spread compared to the major banks due to their lower credit rating. Our FRN analytics suggest that the respective curves are relatively fair, with higher spread but greater difficulty extracting capital gains from regional bank FRNs. However, again the new issue discount provides additional value to investors.

ME Bank (BBB+) was also anticipated to issue a new 3-year FRN at around +140bp in late June but has looked to delay due to the surprising Brexit decision – we will inform clients once officially launched.

This highlights that FRNs, across the various credit spectrum, remain ahead of deposit margins even without factoring in gains at exit - and that investors are being rewarded for supporting the primary issuance market.

Private placement FRNs or secondary market ‘taps’ can sometimes be offered, usually at a premium yield to the wholesale secondary market although we note they are generally less liquid due to their smaller issue sizes and daily turnover. The most recent example was Greater Bank’s (BBB+) 3 year private placement issue in early June at +160bp.

We also look to buy Heritage retail bond (“HBSHB”) yield around 4% p.a. (~210bp over swap)

We recommend that Council retain its FRN portfolio at this stage, and add to it in combination with longer deposits.

Other Credit

The Macquarie Global Income Opportunities Fund returned -0.13% (net actual) in June, underperforming the AusBond Bank Bill Index return of +0.16%.

The underlying valuations of the Fund's holdings of domestic and offshore credit fell during June, as physical assets were marked wider.

Despite a difficult environment for credit over the past year, it has performed well over the longer-term, as evidenced by its 4 year return of +4.12% p.a.

The Fund continues to hold a diverse range of securities across the global credit market. The manager has maintained modest credit hedges, seeking to minimise the effect of volatility on the Fund. Any spread contraction going forward allows credit and asset-backed holdings to enjoy significant capital gains. These have reduced returns but also significantly reduced risk.

Macquarie performed strongly over the longer-term and the manager feels they are well positioned going forward. We regard Macquarie's credit team as having strong research capabilities and a proven defensive style outperforming peers in down markets. At times, the fund has sacrificed some upside to protect against extreme events.

Given the solid running yield of the Fund at 3.87% p.a., and the additional liquidity it provides, we recommend Council retain this Fund. (Its performance relative to index and to peers is covered in our monthly *Performance Survey*).

While we cannot categorically state that the cycle has ended, there is a much more favourable tone in credit and equity markets since mid-February, and despite further volatility in late June credit markets were more resilient against European newsflow than had been predicted.

Fixed Interest Market Background

UK's surprise referendum result saw 10-year bond yields down as much as 20bp around the world. Central banks moved to easing biases - ready to deal with the fallout they largely created. The ongoing monetary stimulus from global central banks strongly indicates a "bubble" in bonds as they set new record lows.

Ratings agency Standard & Poor's stripped Britain of its last remaining top-notch credit rating, **slashing it by two notches** and warned more downgrades could follow. Fitch and Moody's stripped Britain of their AAA ratings long before the referendum campaign began but they too have warned of further cuts to their long-term ratings.

Bank of England (BoE) Governor Mark Carney said the central bank would probably need to pump more stimulus into Britain's economy over the summer after the shock of the Brexit decision. There are expectations for the BoE to cut interest rates in July or August from an already record low of

0.5% - unchanged since 2009 – in conjunction with increasing its current £375 billion bond buying plan.

S&P also indicated a potential downgrade for Australia over coming years, and as a result placed the major banks on Negative Outlook.

We recommend policies reflect the potential for the major banks to be downgraded to A+.

China's reaction to Brexit has been largely unflustered with the country's equity markets relatively unscathed and the Premier, Li Keqiang, seeking to strike a reassuring tone despite another likely drag on global economic growth.

However, policymakers may have to overcome another stress test - how to manage the yuan with all major currencies, except the US dollar and the yen, continuing to plunge.

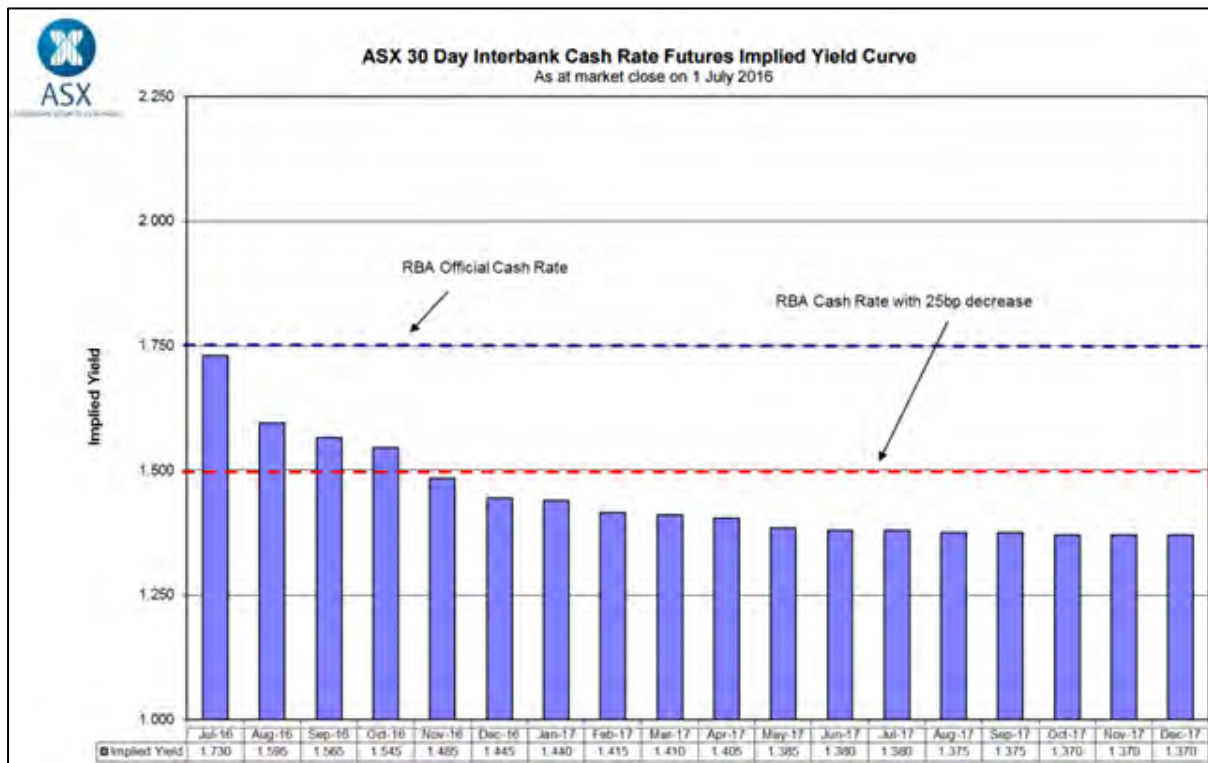
Bank analysts played down the chances of Brexit having a significant impact on our domestic major banks despite their reliance of funding through wholesale debt markets (likely to be impacted by downgrade to A range), which provides about a third of the major bank's funding. The majors continue to recapitalise their books by raising about \$77 billion up to the end of May, compared with \$43 billion during the same period last year.

S&P had previously indicated that the banks' Standalone Credit Profiles could be increased a notch if they raised additional equity capital – this could offset the impact of a sovereign downgrade, and leave the banks at AA-.

New homes sales fell 4.4% in May, following a drop of 4.7% in April. Detached house sales slipped 6.7%, but multi-unit sales jumped 4.7% in the month. NSW and Queensland posted the sharpest monthly fall in detached house sales, dropping 11.5% and 11% respectively. A softening property market will provide more ammunition for the RBA to cut again if need be.

The RBA cut rates in May on the back of the Q1's negative CPI and to target a rising \$A. **After the shock Brexit vote, the easing bias removed from its June statement may be reinstated.** With a troubled Federal parliament in prospect, business and consumer sentiment will likely receive an additional hit and warrant an easier policy outlook.

Money market continue to fully price in a rate cut by November, although the RBA may move as early as the August meeting if a low Q2 CPI in late July permits. There is also some possibility of another cut in 2017:



Source: SFE / ASX

Portfolio Listing

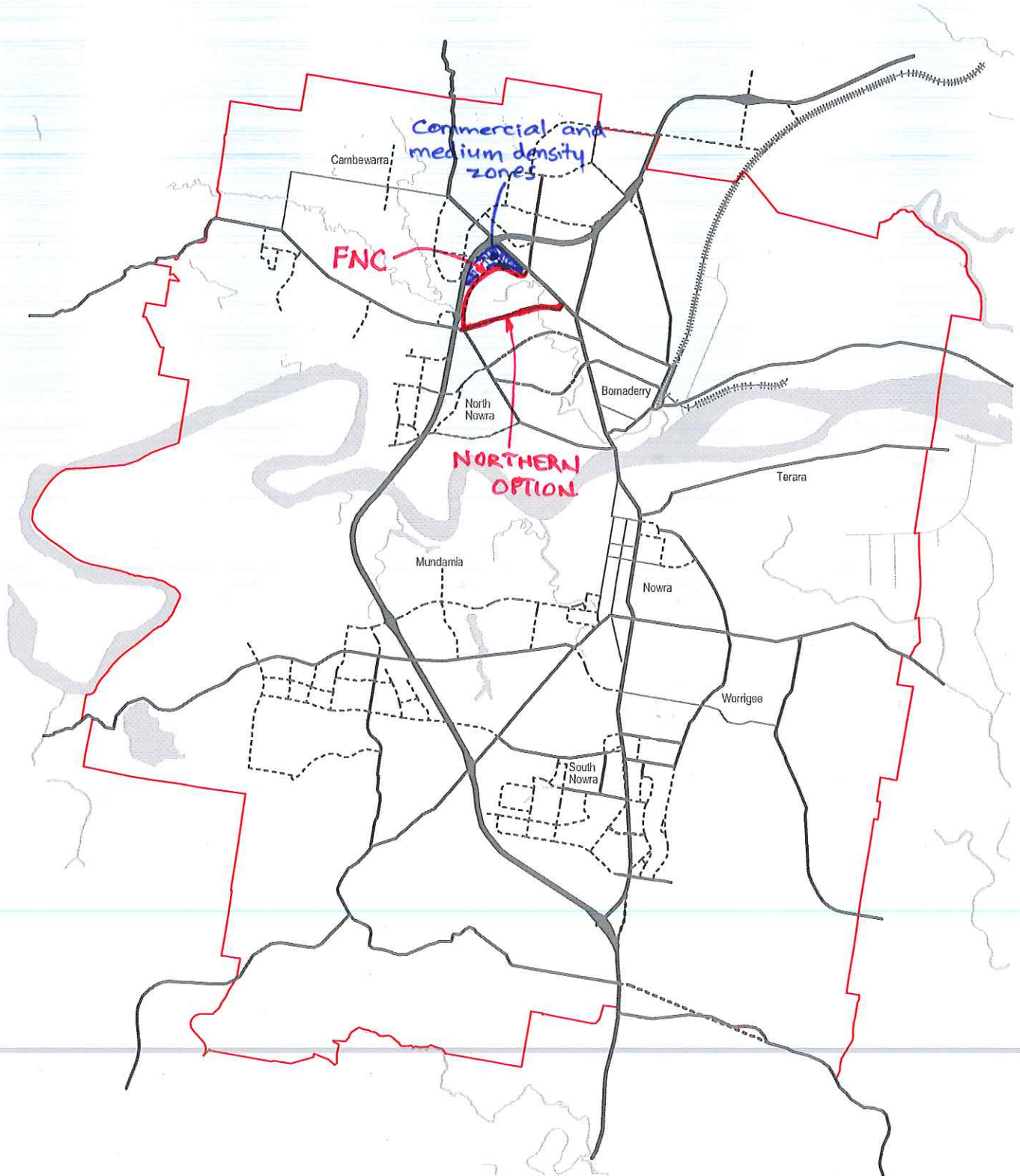
Shoalhaven City Council as at 30/06/2016							
Authorised Deposit-Taking Institution (ADI)	ST Rating	Security Type	Principal/ Current MF Value	Term	Interest Rate	Maturity Date	
ANZ	A1+	FRN	\$1,600,000.00	1827	3.11%	17-Apr-20	
ANZ	A1+	FRN	\$2,000,000.00	1826	2.84%	11-Nov-19	
Bank of Qld	A2	FRN	\$1,000,000.00	1826	3.46%	18-May-21	
Bank of Qld	A2	FRN	\$1,000,000.00	1826	3.11%	6-Nov-19	
Bendigo Bank	A2	FRN	\$1,000,000.00	1827	3.09%	18-Aug-20	
Bendigo Bank	A2	FRN	\$1,000,000.00	1826	2.93%	17-Sep-19	
Commonwealth Bank Australia	A1+	FRN	\$1,000,000.00	1827	3.13%	17-Jul-20	
Credit Union Australia	A2	FRN	\$2,000,000.00	1187	3.20%	22-Dec-17	
Credit Union Australia	A2	FRN	\$2,250,000.00	1096	3.30%	20-Mar-17	
Greater Bank Limited	A2	FRN	\$1,000,000.00	1095	3.60%	7-Jun-19	
Heritage Bank	A3	FRN	\$1,000,000.00	1096	3.14%	7-May-18	
Macquarie Bank	A1	FRN	\$1,000,000.00	1096	3.32%	26-Oct-18	
Members Equity Bank	A2	FRN	\$1,000,000.00	1461	3.59%	17-Apr-18	
National Australia Bank	A1+	FRN	\$1,000,000.00	1096	2.96%	25-Feb-19	
National Australia Bank	A1+	FRN	\$2,000,000.00	1827	2.80%	3-Jun-20	
National Australia Bank	A1+	FRN	\$1,000,000.00	1826	3.16%	12-May-21	
Newcastle Permanent Building Society	A2	FRN	\$2,000,000.00	1827	3.62%	7-Apr-20	
Newcastle Permanent Building Society	A2	FRN	\$1,000,000.00	1095	3.60%	22-Mar-19	
Polize Bank	NR	FRN	\$1,000,000.00	1096	3.10%	21-Aug-17	
Rabobank	A1+	FRN	\$2,000,000.00	1826	3.49%	4-Mar-21	
Suncorp Metway Ltd Bank	A1	FRN	\$1,000,000.00	1826	2.98%	22-Jun-21	
Suncorp Metway Ltd Bank	A1	FRN	\$1,000,000.00	1826	2.93%	20-Aug-19	
Suncorp Metway Ltd Bank	A1	FRN	\$2,000,000.00	1827	3.53%	20-Oct-20	
Westpac Bank	A1+	FRN	\$1,000,000.00	1155	3.00%	16-May-19	
Westpac Bank	A1+	FRN	\$1,000,000.00	1827	3.05%	28-Jul-20	
National Australia Bank	A1+	TD	\$75,000.00	366	3.01%	23-Dec-16	
National Australia Bank	A1+	TD	\$100,408.07	365	2.94%	30-Jun-17	
ANZ	A1+	TD	\$1,000,000.00	1099	4.01%	3-Jul-17	
ANZ	A1+	TD	\$4,000,000.00	1462	4.15%	27-Jun-18	
Australian Military Bank	NR	TD	\$2,000,000.00	209	3.10%	25-Jan-17	
Auswide Bank	A2	TD	\$1,000,000.00	1096	3.15%	8-Apr-18	
Auswide Bank	A2	TD	\$2,000,000.00	190	3.01%	14-Dec-16	
Bank of Qld	A2	TD	\$2,000,000.00	176	3.10%	24-Aug-16	
Bank of Qld	A2	TD	\$3,000,000.00	188	3.00%	23-Nov-16	
Bank of Qld	A2	TD	\$2,000,000.00	1462	4.10%	3-Sep-18	
Bank of Qld	A2	TD	\$1,000,000.00	1096	4.20%	9-May-17	
Bank of Qld	A2	TD	\$2,000,000.00	1827	4.79%	1-May-19	
Bank of Sydney	NR	TD	\$2,000,000.00	90	3.10%	27-Jul-16	
Bank of Sydney	NR	TD	\$1,000,000.00	111	3.09%	14-Sep-16	
Bank of Sydney	NR	TD	\$1,000,000.00	281	3.15%	28-Sep-16	
Bendigo Bank	A2	TD	\$1,000,000.00	1097	4.05%	5-Jun-17	
Bendigo Bank	A2	TD	\$2,000,000.00	1099	4.15%	17-May-17	
Bendigo Bank (Nowra)	A2	TD	\$4,000,000.00	526	3.05%	22-Dec-16	
Bendigo Bank (Nowra)	A2	TD	\$3,000,000.00	442	3.05%	29-Sep-16	
Beyond Bank Australia	A2	TD	\$2,000,000.00	184	3.00%	1-Dec-16	
Beyond Bank Australia	A2	TD	\$2,000,000.00	176	3.15%	26-Oct-16	
Beyond Bank Australia	A2	TD	\$2,000,000.00	194	3.01%	23-Nov-16	
Beyond Bank Australia	A2	TD	\$900,000.00	731	3.45%	8-Mar-17	
Big Sky Building Society	NR	TD	\$1,000,000.00	184	3.04%	1-Dec-16	
Big Sky Building Society	NR	TD	\$2,000,000.00	733	3.30%	7-Mar-17	
Commonwealth Bank Australia	A1+	TD	\$1,000,000.00	1097	4.05%	17-Jul-17	
Commonwealth Bank Australia	A1+	TD	\$500,000.00	1106	4.05%	6-Jul-17	
Commonwealth Bank Australia	A1+	TD	\$1,000,000.00	1097	4.05%	10-Jul-17	
Commonwealth Bank Australia	A1+	TD	\$1,000,000.00	1104	4.05%	17-Jul-17	
Commonwealth Bank Australia	A1+	TD	\$1,000,000.00	1104	4.05%	24-Jul-17	
Commonwealth Bank Australia	A1+	TD	\$500,000.00	1105	4.05%	5-Jul-17	
Commonwealth Bank Australia	A1+	TD	\$500,000.00	1099	4.05%	29-Jun-17	
Commonwealth Bank Australia	A1+	TD	\$500,000.00	1097	4.05%	27-Jun-17	
Members Equity Bank	A2	TD	\$2,000,000.00	1827	4.66%	29-May-19	
Members Equity Bank	A2	TD	\$2,000,000.00	1099	4.00%	27-Jul-17	
Members Equity Bank	A2	TD	\$2,000,000.00	91	2.97%	10-Aug-16	
Members Equity Bank	A2	TD	\$2,000,000.00	105	2.95%	28-Sep-16	
Members Equity Bank	A2	TD	\$1,000,000.00	1096	4.25%	9-May-17	
Members Equity Bank	A2	TD	\$2,000,000.00	119	2.95%	12-Oct-16	
My State Financial	A2	TD	\$3,000,000.00	189	3.00%	21-Dec-16	

Shoalhaven City Council as at 30/06/2016							
Authorised Deposit-Taking Institution (ADI)	ST Rating	Security Type	Principal/ Current MF Value	Term	Interest Rate	Maturity Date	
National Australia Bank	A1+	TD	\$2,000,000.00	1822	4.11%	29-Aug-19	
National Australia Bank	A1+	TD	\$1,000,000.00	1097	4.05%	5-Jun-17	
National Australia Bank	A1+	TD	\$3,000,000.00	93	3.08%	13-Jul-16	
National Australia Bank	A1+	TD	\$2,000,000.00	180	3.00%	12-Dec-16	
National Australia Bank	A1+	TD	\$1,000,000.00	169	2.99%	23-Nov-16	
National Australia Bank	A1+	TD	\$2,000,000.00	133	2.99%	10-Nov-16	
National Australia Bank	A1+	TD	\$2,000,000.00	195	3.02%	11-Jan-17	
National Australia Bank	A1+	TD	\$2,000,000.00	189	3.00%	21-Dec-16	
National Australia Bank	A1+	TD	\$1,000,000.00	119	3.10%	10-Aug-16	
National Australia Bank	A1+	TD	\$3,000,000.00	107	3.00%	24-Aug-16	
National Australia Bank	A1+	TD	\$4,000,000.00	154	3.04%	27-Jul-16	
Newcastle Permanent Building Society	A2	TD	\$2,000,000.00	1091	3.20%	22-May-19	
NSW Treasury Corp	A1+	TD	\$1,026,000.00	182	3.07%	3-Oct-16	
Police and Nurses Bank	A2	TD	\$2,000,000.00	1096	4.00%	18-Sep-17	
Police Credit Union Ltd (SA)	NR	TD	\$2,000,000.00	1827	4.75%	30-May-19	
Police Credit Union Ltd (SA)	NR	TD	\$1,000,000.00	1098	4.25%	22-May-17	
Qld Police Credit Union	NR	TD	\$1,000,000.00	729	4.00%	21-Jul-16	
Qld Police Credit Union	NR	TD	\$1,000,000.00	1095	4.10%	17-Aug-17	
Rabobank	A1+	TD	\$2,000,000.00	1826	4.10%	2-Sep-19	
Rabobank	A1+	TD	\$2,000,000.00	1100	4.00%	30-Jun-17	
Rabobank	A1+	TD	\$2,000,000.00	1461	4.10%	21-Aug-18	
Rabobank	A1+	TD	\$2,000,000.00	1462	3.30%	2-Sep-19	
Rabobank	A1+	TD	\$2,000,000.00	1826	4.52%	19-Jun-19	
Rabobank	A1+	TD	\$1,000,000.00	1096	4.05%	22-May-17	
Rabobank	A1+	TD	\$2,000,000.00	1097	4.00%	26-Jun-17	
Rabobank	A1+	TD	\$2,000,000.00	1463	4.35%	6-Jun-19	
			\$144,951,408.07				
Grandfathered	ST Rating	Security Type	Current Valuation			Maturity Date	
Macquarie Global Income Opportunities	NR	MF	\$1,728,297.40			T+3	
			\$1,728,297.40				
Product	ST Rating	Security Type	Current Valuation			Maturity Date	
AMP At Call	A1	Cash	\$4,744,669.65			At-Call	
AMP Notice Account	A1	Cash	\$9,485,648.38			31 Days	
NAB Transaction Account	A1+	Cash	\$3,590,671.49			At-Call	
			\$17,818,989.52				
Total Investment Portfolio			\$164,490,694.99				

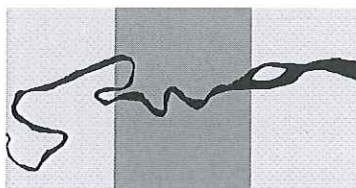
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Proposed Road Network



Nowra Bomaderry Structure Plan

Legend

- Structure Plan Boundary
- Future Western Bypass
- Main Roads
- Local Road Network
- North Nowra Link Road Options



October 2008

