PRUDENTIAL
INVESTMENT SERVICES CORP

Cumberland Council
Economic and Investment Portfolio Commentary
December 2018

Global issues:

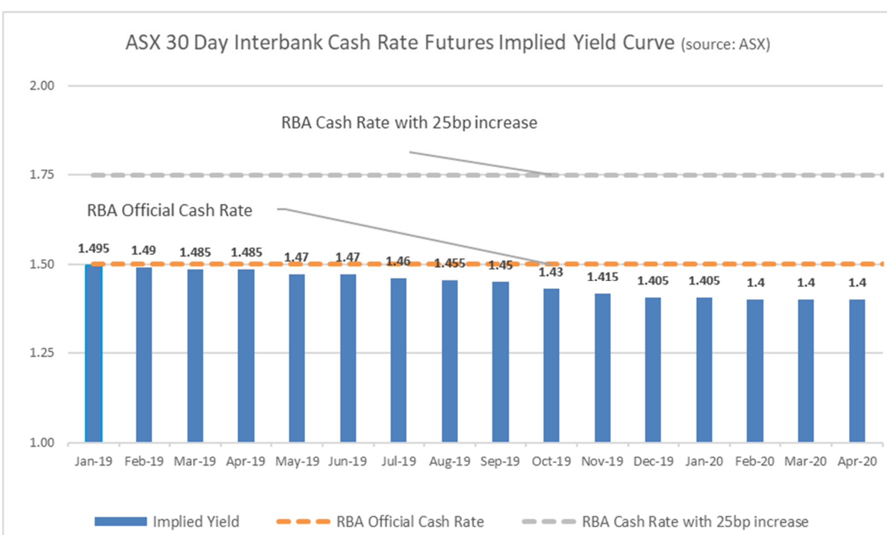
- Global share indices, particularly those in the US, were the focus of the financial markets as 2018 came to a close. Concerns of a protracted US government shutdown, ongoing trade rhetoric between US/China and signs of a slowdown in global growth all contributed to the negative sentiment at the end of the year.
- Economists are pointing out that with US corporates still performing well and consumer spending robust, the main threat to the US's ability to help push global growth higher will be political miscalculations and policy missteps.
- In Europe, steps are being made by member countries to agree on a common budget which will provide investor confidence in the EU. Meanwhile, the UK's efforts to withdrawal from the European bloc with an agreement in place remains stalled despite the March 31st deadline fast approaching.

Domestic issues:

- In Australia, GDP data showed the economy grew at its weakest pace in over two years last quarter dropping the year over year growth to 2.8%, down from a revised 3.1% in the June quarter, and well off the projected 3.3% growth rate.
- The surprisingly poor GDP result, driven by a slowdown in consumer spending, has fuelled expectations that the RBA will sharply lower its forecast of a 3.5% growth rate for 2018/19.

Interest rates

- The cash futures market has turned its back on the long held expectations of a rate hike by early 2020. Pricing is beginning to signal the next move to be a rate cut:



- Off the back of the GDP result, more economists are beginning to forecast the RBA's next move on rates will be a further cut rather than a hike. Consequently, term deposit rates were mostly lower by the end of December. The best indicative 3-month TD from an Australian major at month end was 2.65% down by 5bps from November. The same major's best 12 month rate was at 2.75%, down 3bps over the month, while the other majors were in the 2.60-2.69% range. Meanwhile, the best rates among the lower rated banks were in the 2.60%-2.80% range across 3-12 months, 5bps wider each side versus November.

Investment Portfolio Commentary

Council's investment portfolio posted a return of 2.53%pa for the month of January versus the bank bill index benchmark return of 1.81%pa. For the financial year to date, the investment portfolio returned 2.68%pa, exceeding the bank bill index benchmark's 1.98%pa by 0.70%pa.

Without marked-to-market influences, Council's investment portfolio yielded 2.73%pa for the month. This is based on the actual interest rates being received on existing investments and excludes the underlying changes to the market value of the securities/deposits.

During December, Council's investment portfolio had $11m in term deposits mature with a weighted average rate of approximately 2.63%pa. Meanwhile, $12m was invested across 3-12 month periods at an average rate of 2.78%.

Council has a well-diversified portfolio invested among a range of term deposits and floating rate notes from highly rated Australian ADIs. 81% of the portfolio is spread among the top three credit rating categories (A long term/A2 short term and higher) and NSW T-Corp cash managed funds. It is expected that Council can continue to achieve above benchmark returns with prudent investment selection for its short and long term holdings.