PRUDENTIAL
INVESTMENT SERVICES CORP

Cumberland Council
Economic and Investment Portfolio Commentary
February 2019

Global issues:

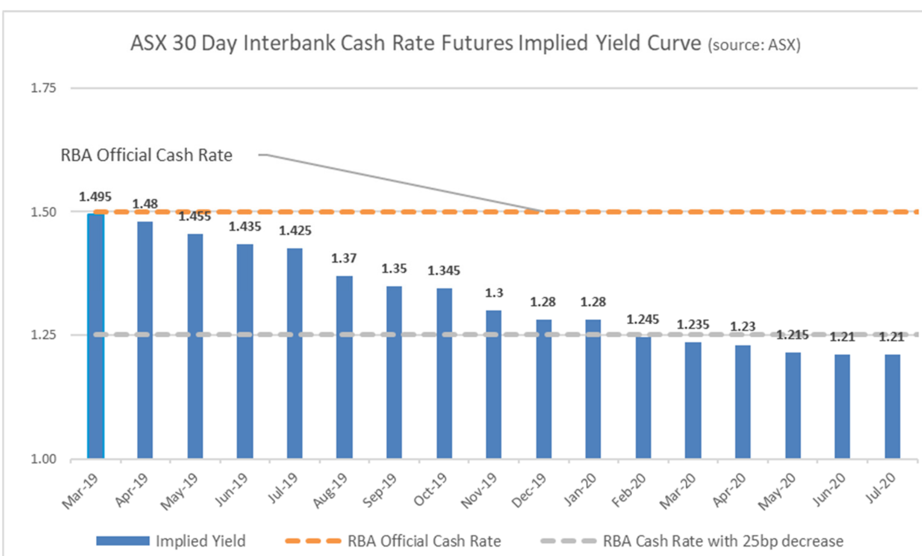
- In the US, behind all the political noise, a decently sound economy continues to reveal itself. The latest GDP release showed higher than expected growth, +2.6%pa, with consumer spending and business investment leading the way.
- Growing optimism of an eventual US/Chinese trade agreement has helped financial markets recover from late-2018 volatility. The March 1st deadline for escalating tariffs on Chinese goods into the US has been postponed as reports from inside the trade talks reveal both sides are motivated for a resolution.

Domestic issues:

- In Australia, the release of the Hayne Royal Commission review of the financial services industry was trumpeted loudly but had relatively isolated impact on industries (i.e. mortgage brokers) and banks (i.e. NAB). With the market expecting harsher measures leading up to the report's release, major bank bond and share prices all improved when the recommendations were revealed.
- At its monthly meeting, the RBA board openly acknowledged their concern for the continuing drop in house prices. Since their peak in Sept 2017, Sydney prices are now down 12% and Melbourne prices are down 8%. Meanwhile, the average Perth home price is at its 2009 level.

Interest rates

- The RBA shifted its interest rate sentiment from a bias for an increase to a neutral stance. The market reacted with further declines in the Cash Rate Futures, which is now pricing in a full 25bp rate cut by February 2020:



- Reflecting the market's sentiment toward future cuts to the cash rate, term deposit rates declined across all maturities. The best indicative 3-month TD from an Australian major at month end was 2.57%, down over 10bps from January. Likewise, the major banks' best 12 month rate was at 2.65%, down from 2.75% the month prior. The best rates among the lower rated banks were in the 2.70% area across 3-12 months range, off 5bps.

Investment Portfolio Commentary

Council's investment portfolio posted a return of 3.93%pa for the month of February versus the bank bill index benchmark return of 2.28%pa. For the financial year to date, the investment portfolio returned 2.84%pa, exceeding the bank bill index benchmark's 2.04%pa by 0.80%pa.

Floating rate notes performed strongly during the month, recovering all of their losses for the financial year, as markets cheered the recommendations made in the Banking Royal Commission Report – recommendations that did not contain any drastic measures that would have impacted the core businesses of banks. In addition, Council's recently purchased fixed rate bonds performed very strongly as market interest rates continued to fall during the month.

During February, Council's investment portfolio had $8m in 9mo, 1yr & 2yr term deposits mature with a weighted average rate of approximately 2.81%pa. A total of $6m was reinvested in 11mo and 2yr term deposits at an average rate of 2.86%pa while Council also purchased a new $2.25m 5 year fixed rate bond from ANZ at a yield of 3.11%pa.

Council has a well-diversified portfolio invested among a range of term deposits and floating rate notes from highly rated Australian ADIs. 79% 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.