Amicus

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S&P Case Update

To be clear, to benefit from this development, investors do not need to sign up with SPB

During October, Squire Patton Boggs (SPB) lawyers had a legal victory to have a "tort of deceit" case heard against S&P in the broader dispute that is scheduled for trial in March 2018. S&P is appealing the decision. However, this decision is significant because it increases the chances of both a settlement and a more favourable settlement for investors prior to March 2018 and is therefore is a very positive development for all investors who have not yet received compensation from S&P over S&P's ratings of CDO's.

To be clear, to benefit from this development investors do not need to sign up with SPB. There are two parallel actions currently in progress, one run by SPB and the other by Johnson Winter and Slattery (JWS) lawyers. Both are open actions so any investor who held the S&P rated CDO's in dispute, suffered losses and has not previously settled with S&P are automatically included in both actions.

We strongly advise any investor who has: i) suffered losses on any S&P rated CDO, ii) has not already received compensation, iii) is not already part of the JWS of SPB groups to contact Amicus

However, as part of an earlier mediation to attempt to settle the dispute (which failed), investors needed to either opt out of the mediation, or join either the JWS or SPB groups. This was necessary so investors were not "counted twice" in any settlement and also if they did not want to settle they could remain free to pursue their own legal actions.

We strongly advise any investor who has: i) suffered losses on any S&P rated CDO, ii) has not already received compensation, iii) is not already part of the JWS or SPB groups to contact Amicus in preparation to be included in what we see as a likely settlement before March 2018.

RBA Leaves Cash Rate Unchanged

The RBA elected to keep the cash rate unchanged at 1.5% for the 15th consecutive month during its meeting on Melbourne Cup Day. This decision was widely expected and the RBA governor Philip Lowe refrained from making any significant changes to the post-meeting statement from the previous month's decision to hold rates. Dr Lowe stated "The Bank's central forecast remains for inflation to pick up gradually as the economy strengthens."

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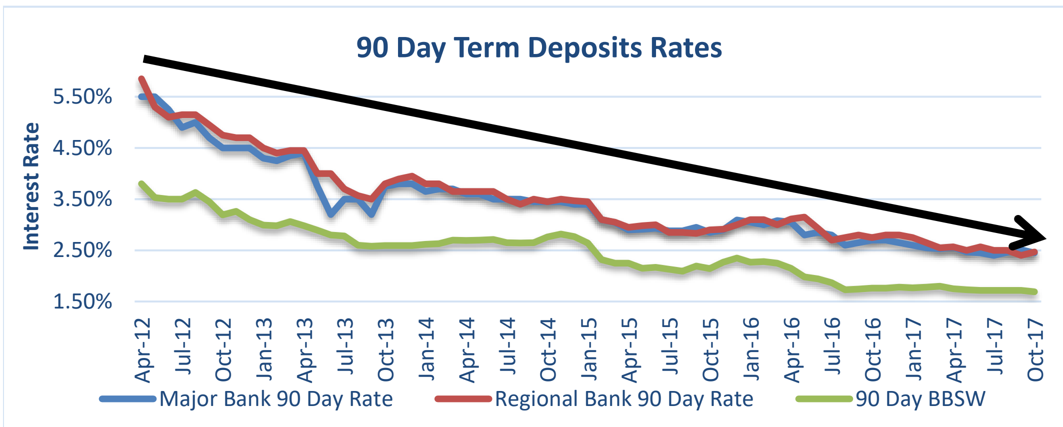
However it would appear as if any pressures to increase inflation are now being pushed further back so it is looking more likely the cash rate will be unchanged for at least the next six months and possibly longer.

Term Deposit vs FRN Margins

Whilst the 3 month BBSW rate has not changed significantly for the last reduction in the cash rate in August 2016, credit margins have continued to contract

With cash rates likely to be unchanged in the near term, maximising portfolio returns becomes a matter of investing wisely when credit spreads are at their most attractive on a risk reward basis. In our monthly reports to Clients, we provide our general investment recommendations and provide specific recommendations via verbal discussions.

The graph below shows the most competitive 90 day term deposit rates for both major and non-major banks. The graph shows a slow grind towards lower term deposit rates, with both reductions in the underlying BBSW rate over time and also credit margins. Whilst the 3 month BBSW rate has not changed significantly from the last reduction in the cash rate in August 2016, credit margins have continued to contract causing the recent falls in TD margins and rates.



Amicus view is that historically FRN margins have been much wider than TD margins and this is most likely to be the case going forward

Amicus view is that historically FRN margins have been much wider than TD margins and this is most likely to be the case going forward as the fundamental pressures on the banks have moved from altering their funding base more towards domestic retail funding (via TD's) as opposed to offshore wholesale funding (via FRN's and Bonds). The current pressures are on liquidity and security of longer term funding to match their longer term liabilities (favouring FRN's over wholesale term deposits). While much preparation has been done by the 15 largest Australian ADI's (to which Basel III legislation applies) for mandatory compliance with the Net Stable Funding Ratio (NSFR) which begins in January 2018, pressure will be ongoing and this is a permanent change to the regulatory environment.

This will likely see Term Deposit margins continue to contract relative to FRN margins. However the margins have oscillated and buying FRN's on a tactical basis when margins are high relative to TD's and vice versa has been a very profitable strategy for clients following Amicus' monthly recommendations.

As part of our service to clients, Amicus assesses new issue FRN's on a case by case basis

As part of our service to clients, Amicus assesses new FRN issues on a case by case basis and provide investment recommendations to clients based on the merits of the investment. Please feel free to contact us regarding our retained investment advisory service.

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Who is Amicus?

Amicus is an investment advisory firm, licensed by ASIC to provided financial services to wholesale investors only (Australian Financial Services License No. 384126). We deliver impartial research, advice, valuations, reporting and other services to wholesale clients. We also provide assistance with the formulation of individual client investment policies and strategies, funding requirements, debt advisory assistance with transactions and help with mixed financial and legal issues.

We are 100% independent and not aligned to, nor owned by, any product provider or external organisation.

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