

ITEM 3. INVESTMENTS HELD AS AT 31 OCTOBER 2017

FILE NO: X011299

SUMMARY

This report provides details of Council's investment portfolio and performance to 31 October 2017.

Council's total Investment and Cash position was \$555.4M at the end of October, with investments earning interest of \$1.2M for the month.

The majority of the City's cash and investments portfolio is held as internally restricted (\$301.4M) or externally restricted (\$100.7M) cash reserves, to satisfy the City's legislative responsibilities and to set aside specific funds for Council's funding commitments to the major initiatives within the Sustainable Sydney 2030 Community Strategic Plan.

Key commitments within the City's Long Term Financial Plan include public domain works in the CBD to support the implementation of the CBD and South East light rail project and stormwater, town centre infrastructure and community facilities in the Green Square urban renewal area. The balance of investment funds represent working capital and funding required for the City's operating and capital expenditure commitments.

Council achieved an annualised monthly return of 2.79% for October, significantly above the 30 Day Bank Bill Rate (BBR) of 1.60%, the September AusBond Bank Bill Index (published by Bloomberg) of 1.69% and the enhanced benchmark of 2.05% (BBR + 0.45%) as endorsed in October 2017 as part of the Investment Strategy. At the time of writing, the October AusBond Bank Bill Index has not been released.

Council's annual rolling return of 2.81% also continues to exceed the 12 month average 30 Day BBR of 1.61%, the September AusBond Bank Bill Index of 1.77% and the enhanced benchmark of 2.06% (BBR + 0.45%) as endorsed in the Investment Strategy in October 2017. At the time of writing, the October AusBond Bank Bill Index has not been released.

The structure of Council's investment portfolio continues to reflect the conservative approach outlined in the Investment Policy and Strategy, which remains appropriate for the current global and domestic economic conditions. The policy and strategy also maintains Council's commitment to sustainable investments where returns and risks are equivalent by changing the word 'desirable' to 'preferred' under the environmentally and socially responsible investment criteria.

RECOMMENDATION

It is resolved that the Investment Report as at 31 October 2017 be received and noted.

ATTACHMENTS

Attachment A: Register of Investments and Cash as at 31 October 2017.

Attachment B: Investment Performance as at 31 October 2017.

BACKGROUND

1. In accordance with the principles of financial management, cash that is surplus to Council's immediate requirements is invested within acceptable risk parameters to optimise interest income while ensuring the security of these funds.
2. Surplus cash is only invested in authorised investments that comply with governing legislation and Council's Investment Policy and Strategy.
3. The benchmark performance goal of Council's Investment Policy and Strategy is to surpass the 30 Day Bank Bill Rate (BBR) by 45 basis points while performance also continues to be measured against the Bloomberg AusBond Bank Bill Index.
4. Council's total Investment and Cash position as at 31 October 2017 was \$555.4M, a decrease of \$8.6M from the \$564.0M reported at 30 September 2017 reflecting operating income offset by capital works expenditure and other operational payments. A schedule detailing all of Council's investments as at the end of October is provided at Attachment A.
5. The majority of the City's cash and investments portfolio are held as internally restricted (\$301.4M) or externally restricted (\$100.7M) cash reserves to satisfy the City's legislative responsibilities and to set aside specific funds for Council's funding commitments to the major initiatives within the Sustainable Sydney 2030 Community Strategic Plan.
6. Key commitments within the City's Long Term Financial Plan include public domain works in the CBD to support the implementation of the CBD and South East light rail project and stormwater, town centre infrastructure and community facilities in the Green Square urban renewal area. The balance of investment funds represents working capital and funding required for the City's operating and other capital expenditure commitments.
7. Council achieved an annualised monthly return of 2.79% for October, significantly above the 30 Day Bank Bill Rate (BBR) of 1.60%, the September AusBond Bank Bill Index (published by Bloomberg) of 1.69% and the enhanced benchmark of 2.05% (BBR + 0.45%) as endorsed in October 2017 as part of the Investment Strategy. At the time of writing, the October AusBond Bank Bill Index has not been released.
8. Council's annual rolling return of 2.81% also continues to exceed the 12 month average 30 Day BBR of 1.61%, the September AusBond Bank Bill Index of 1.77% and the enhanced benchmark of 2.06% (BBR + 0.45%) as endorsed in the Investment Strategy in October 2017. At the time of writing, the October AusBond Bank Bill Index has not been released.
9. The RBA last adjusted the official cash rate in August 2016, when it was reduced to 1.50%. The market subsequently responded accordingly, and lower yields on investments have had a sustained adverse impact on Council's portfolio return. This trend is anticipated to continue, though in recent periods some improvement in longer term interest rates has been noted.

10. Council has been able to outperform the industry benchmarks, and our own enhanced benchmarks (Investment Strategy benchmarks are based on returns currently available in the 30-90 day investment market), on both a monthly and annual rolling basis. This performance largely reflects council's prior decisions to lock in a number of investments with fixed rates of 4.5% p.a. and floating rates with fixed margins significantly above the risk free rate. However, as these investments have continued to mature, surplus funds have been reinvested at lower rates, as offered in the market.
11. The structure of Council's investment portfolio continues to reflect the conservative approach outlined in the Investment Policy and Strategy, which remains appropriate for the current global and domestic economic conditions.
12. As noted in recent investment reports, Standard and Poors Global Ratings (S&P) downgraded its long term ratings for 23 Australian financial institutions in May 2017 reflecting their view of the risks associated with the ongoing build-up of private sector debt and housing prices, particularly in Sydney and Melbourne. A number of the financial institutions with which the City invests were affected, however the most significant implications were as a result of both the Bank of Queensland and Bendigo & Adelaide Bank being downgraded from A- to BBB+ rating. The downgrade of these institutions will affect the future placement of funds in order to ensure ongoing compliance with the Policy.
13. The City's Investment Policy includes a tiered risk management structure that limits the exposure of Council's surplus funds to individual financial institutions, which incorporates a consideration of their risk rating within the market. The downgrade to below A rating for these two institutions, reduces the maximum amount that may be invested to \$10M each. The City currently holds \$16M of long-term investments with Bendigo & Adelaide Bank, with the earliest maturity date scheduled for a \$6M investment on 14 November 2018. The Investment Policy's "grandfathering" provisions has been applied, allowing the existing investments to be maintained or divested in accordance with all regular investment considerations, but no further investment will be permissible at this time.

KEY IMPLICATIONS

14. Council's investments accord with all legislative and policy requirements, as detailed below, and continue to achieve returns above minimum benchmark rates.

FINANCIAL IMPLICATIONS

15. Council's investments earned interest of \$1.2M for the month of October 2017, against budgeted earnings of \$1.1M. Investment earnings for the full year are forecast at \$13.0M.

RELEVANT LEGISLATION

16. Council is authorised to invest its surplus cash under Section 625 of the Local Government Act 1993.
17. The Local Government (General) Regulation 2005 (clause 212) requires Council to provide a written monthly report of all monies invested, under Section 625 of the Act.

18. The Investment Policy and Strategy was revised in October 2017, maintaining Council's commitment to sustainable investments where returns and risks are equivalent by changing the word 'desirable' to 'preferred' under the environmentally and socially responsible investment criteria. The revision also maintained the broadening of the definition of environmentally harmful activities to include specific reference to coal, gas and oil.
19. Council's investments accord with the Minister's Investment Order, the Office of Local Government's Investment Policy Guidelines, and the City's own Investment Policy and Strategy as adopted by Council on 16 October 2017.

CRITICAL DATES / TIME FRAMES

20. A monthly investment report must be submitted for Council's information and review within the following month.

PUBLIC CONSULTATION

21. Consultation is regularly undertaken with a number of financial institutions and investment advisers to consider options and ensure that Council continues to maximise its investment return within appropriate risk parameters.
22. Council does meet regularly with representatives of each of the 'Big 4' banks and NSW TCorp. At these meetings Council officers actively advocate for socially responsible investment (SRI) opportunities. To date, feedback from these meeting is that there is a well-known appetite in the market for these products and they are investigating the development of suitable products, however it is difficult to match the level of funds to available SRI opportunities that meets both the credit risk and maturity profile requirements of Councils.

BILL CARTER
Chief Financial Officer

ATTACHMENT A

**REGISTER OF INVESTMENTS AND CASH
AS AT 31 OCTOBER 2017**

REGISTER OF INVESTMENTS AND CASH AS AT 31 OCTOBER 2017

Institution	Rating	Amount \$	Monthly Net Returns	Monthly Net Return Annualised	Net Returns Rolling 12 Months	Maturity Date	Investment Date	Term (months)
Call Account								
Westpac Bank	AA	27,159,799	0.15%	1.75%	1.77%	1-Nov-17	22-May-12	0
Total		27,159,799	0.15%	1.75%	1.77%			
Term Deposits (TD)								
ME Bank	A	5,000,000	0.23%	2.75%	2.75%	6-Nov-17	7-Feb-17	9
Bankwest	AA	5,000,000	0.18%	2.10%	2.10%	13-Nov-17	13-Oct-17	1
ME Bank	A	5,000,000	0.23%	2.70%	2.70%	17-Nov-17	4-May-17	6
Bankwest	AA	5,000,000	0.18%	2.10%	2.10%	20-Nov-17	17-Oct-17	1
Westpac Banking Corporation (RBA Cash rate + 172 points)	AA	14,000,000	0.27%	3.22%	3.36%	27-Nov-17	26-Nov-12	60
National Aust Bank (Floating Rate Deposit 30 Days BBSW + 101 points)	AA	5,000,000	0.22%	2.61%	2.63%	1-Dec-17	1-Sep-16	15
Credit Union Australia	A	5,000,000	0.23%	2.75%	2.75%	4-Dec-17	5-Jun-17	6
Credit Union Australia	A	5,000,000	0.23%	2.75%	2.75%	5-Dec-17	28-Feb-17	9
Credit Union Australia	A	5,000,000	0.23%	2.70%	2.70%	6-Dec-17	9-Jun-17	6
National Aust Bank	AA	5,000,000	0.20%	2.41%	2.41%	7-Dec-17	9-Aug-17	4
Bank of Queensland	A	5,000,000	0.23%	2.80%	2.80%	8-Dec-17	8-Dec-16	12
ME Bank	A	5,000,000	0.22%	2.65%	2.65%	8-Dec-17	01-Mar-17	9
Bank of Queensland	A	5,000,000	0.23%	2.70%	2.70%	11-Dec-17	30-Mar-17	8
Westpac Banking Corporation (RBA Cash rate + 112 points)	AA	5,000,000	0.22%	2.62%	2.65%	11-Dec-17	31-Aug-16	15
Westpac Banking Corporation (RBA Cash rate + 112 points)	AA	5,000,000	0.22%	2.62%	2.65%	11-Dec-17	1-Sep-16	15
Bendigo & Adelaide Bank	A	5,000,000	0.24%	2.83%	2.83%	12-Dec-17	12-Dec-16	12
ME Bank	A	5,000,000	0.23%	2.70%	2.70%	12-Dec-17	15-Feb-17	10
Bank of Queensland	A	5,000,000	0.22%	2.65%	2.65%	13-Dec-17	3-May-17	7
IMB	A	5,000,000	0.23%	2.70%	2.70%	14-Dec-17	2-Jun-17	6
ME Bank	A	5,000,000	0.23%	2.70%	2.70%	14-Dec-17	17-Feb-17	10
National Aust Bank	AA	5,000,000	0.20%	2.45%	2.45%	14-Dec-17	16-Aug-17	4
Bank of Queensland	A	5,000,000	0.22%	2.65%	2.65%	15-Dec-17	19-Apr-17	8
Commonwealth Bank	AA	5,000,000	0.23%	2.70%	2.70%	15-Dec-17	15-Dec-16	12
National Aust Bank	AA	5,000,000	0.23%	2.75%	2.75%	19-Dec-17	19-Dec-16	12
Bank of Queensland	A	5,000,000	0.22%	2.65%	2.65%	5-Jan-18	3-Jul-17	6
ME Bank	A	5,000,000	0.22%	2.65%	2.65%	8-Jan-18	10-Jul-17	6
Commonwealth Bank	AA	5,000,000	0.23%	2.72%	2.72%	12-Jan-18	3-Apr-17	9
Credit Union Australia	A	5,000,000	0.23%	2.75%	2.75%	19-Jan-18	24-Feb-17	11
Bankwest	AA	5,000,000	0.21%	2.50%	2.50%	23-Jan-18	25-Sep-17	4
Bankwest	AA	5,000,000	0.21%	2.52%	2.52%	25-Jan-18	18-Sep-17	4
Bank of Queensland	A	5,000,000	0.22%	2.65%	2.65%	2-Feb-18	5-Jul-17	7
National Aust Bank	AA	5,000,000	0.21%	2.56%	2.56%	23-Feb-18	28-Aug-17	6
Commonwealth Bank (interest paid semi-annual)	AA	5,000,000	0.23%	2.71%	2.71%	19-Mar-18	17-Mar-17	12
Commonwealth Bank	AA	5,000,000	0.21%	2.49%	2.49%	29-Mar-18	30-Aug-17	7
Suncorp Bank	A	5,000,000	0.21%	2.55%	2.55%	13-Apr-18	16-Oct-17	6
Bank of Queensland	A	5,000,000	0.22%	2.60%	2.60%	20-Apr-18	10-Oct-17	6
Bank of Queensland	A	5,000,000	0.22%	2.65%	2.65%	27-Apr-18	1-Aug-17	9
ME Bank	A	5,000,000	0.22%	2.60%	2.60%	30-Apr-18	8-Aug-17	9
Credit Union Australia	A	5,000,000	0.23%	2.75%	2.75%	3-May-18	7-Jun-17	11
Credit Union Australia	A	5,000,000	0.23%	2.75%	2.75%	4-May-18	8-Jun-17	11
Credit Union Australia	A	5,000,000	0.23%	2.75%	2.75%	8-May-18	9-Jun-17	11
AMP Bank	A	5,000,000	0.22%	2.60%	2.60%	22-Jun-18	29-Aug-17	10
Bendigo & Adelaide Bank	A	5,000,000	0.22%	2.65%	2.65%	5-Jul-18	9-Aug-17	11
Bank of Queensland	A	5,000,000	0.23%	2.70%	2.70%	10-Jul-18	10-Jul-17	12
Commonwealth Bank	AA	5,000,000	0.21%	2.55%	2.55%	13-Jul-18	16-Aug-17	11
IMB	A	5,000,000	0.22%	2.60%	2.60%	27-Jul-18	15-Aug-17	11
Bankwest	AA	5,000,000	0.22%	2.60%	2.60%	23-Aug-18	27-Sep-17	11
Westpac Banking Corporation	AA	5,000,000	0.22%	2.62%	2.62%	31-Aug-18	1-Sep-17	12
Westpac Banking Corporation (Fixed Rate , interest paid quarterly)	AA	5,000,000	0.22%	2.61%	2.61%	1-Sep-18	28-Aug-17	12
Commonwealth Bank	AA	5,000,000	0.22%	2.60%	2.60%	4-Sep-18	4-Sep-17	12
Commonwealth Bank	AA	5,000,000	0.22%	2.61%	2.61%	14-Sep-18	12-Sep-17	12
Westpac Banking Corporation (Fixed Rate , interest paid quarterly)	AA	5,000,000	0.22%	2.61%	2.61%	17-Sep-18	25-Aug-17	13
Westpac Banking Corporation	AA	5,000,000	0.22%	2.65%	2.65%	21-Sep-18	21-Sep-17	12
ANZ Bank (90 days BBSW + 98 points) quarterly reset and payment of coupon	AA	10,000,000	0.22%	2.69%	2.72%	28-Aug-20	28-Aug-15	60
ANZ Bank (90 days BBSW + 95 points) quarterly reset and payment of coupon	AA	10,000,000	0.22%	2.66%	2.70%	31-Aug-20	1-Sep-15	60
Westpac Banking Corporation (90 days BBSW + 90 points)	AA	5,000,000	0.24%	2.90%	2.90%	11-Oct-21	12-Oct-17	48
Westpac Banking Corporation (3% Fixed 2 years & 3 months BBSW + 133 points 3 years)	AA	5,000,000	0.25%	3.00%	3.00%	15-Dec-21	15-Dec-16	60
Westpac Banking Corporation (3% Fixed 2 years & RBA cash rate + 126 points 3years)	AA	5,000,000	0.25%	3.00%	3.00%	31-Aug-22	31-Aug-17	60
Total		309,000,000	0.22%	2.67%	2.68%			
Floating Rate Notes (FRN)								
Bank of China-Sydney Branch (90 days BBSW + 125 points)	A	5,000,000	0.25%	2.94%	2.99%	9-Apr-18	9-Apr-15	36
ME Bank (90 days BBSW + 130 points)	BBB	2,000,000	0.25%	3.00%	3.04%	17-Apr-18	17-Apr-14	48
Royal Bank of Canada (90 days BBSW + 72 points)	A	4,500,000	0.20%	2.41%	2.46%	7-Aug-18	7-Aug-15	36
Commonwealth Bank (90 days BBSW + 78 points)	AA	5,000,000	0.21%	2.48%	2.52%	19-Oct-18	19-Oct-15	36
Commonwealth Bank (Fixed rate @ 4.50% semi annual)	AA	2,000,000	0.38%	4.50%	4.50%	31-Oct-18	26-Mar-14	55
Commonwealth Bank (Fixed rate @ 4.50% semi annual)	AA	7,000,000	0.38%	4.50%	4.50%	31-Oct-18	23-Sep-14	49
Commonwealth Bank (Fixed rate @ 4.50% semi annual)	AA	10,000,000	0.38%	4.50%	4.50%	31-Oct-18	7-Nov-13	60
Bendigo & Adelaide Bank (90days BBSW + 127 points)	A	6,000,000	0.25%	2.96%	3.01%	14-Nov-18	14-Nov-13	60

REGISTER OF INVESTMENTS AND CASH AS AT 31 OCTOBER 2017

Institution	Rating	Amount \$	Monthly Net Returns	Monthly Net Return Annualised	Net Returns Rolling 12 Months	Maturity Date	Investment Date	Term (months)
National Australia Bank (90 days BBSW + 98 points)	AA	5,000,000	0.22%	2.69%	2.73%	25-Feb-19	25-Feb-16	36
Westpac Banking Corporation (Fixed 4.50% semi annual)	AA	5,000,000	0.38%	4.50%	4.50%	25-Feb-19	26-Mar-14	59
Newcastle Permanent Building Society (90 days BBSW + 160 points)	BBB	4,500,000	0.28%	3.32%	3.36%	22-Mar-19	22-Mar-16	36
Credit Union Australia (90 days BBSW + 160 points)	A	5,000,000	0.28%	3.30%	3.36%	1-Apr-19	1-Apr-16	36
Westpac Bank (90 days BBSW + 100 points)	A	5,000,000	0.22%	2.69%	2.74%	10-May-19	11-Mar-16	38
Commonwealth Bank (90 days BBSW + 98 points)	AA	5,000,000	0.22%	2.68%	2.73%	18-Jul-19	18-Apr-16	39
ME Bank (90 days BBSW + 145 points)	BBB	5,000,000	0.26%	3.15%	3.20%	18-Jul-19	18-Jul-16	36
Westpac Banking Corporation (90 days BBSW + 90 points)	AA	10,000,000	0.22%	2.60%	2.64%	22-Jan-20	22-Jan-15	60
Royal Bank of Canada (90 days BBSW + 95 points)	A	5,000,000	0.22%	2.64%	2.69%	10-Feb-20	10-Feb-15	60
Bank of Queensland (90 days BBSW + 105 points)	BBB	5,000,000	0.23%	2.74%	2.79%	12-Feb-20	12-Feb-15	60
Greater Bank (90 days BBSW + 145 points)	A	5,000,000	0.26%	3.17%	3.19%	24-Feb-20	24-Feb-17	36
Newcastle Permanent Building Society (90 days BBSW + 135 points)	BBB	5,000,000	0.25%	3.04%	3.10%	7-Apr-20	7-Apr-15	60
Newcastle Permanent Building Society (90 days BBSW + 135 points)	BBB	7,500,000	0.25%	3.04%	3.10%	7-Apr-20	18-Jul-16	45
National Australia Bank (90 days BBSW + 80 points)	AA	5,000,000	0.21%	2.54%	2.56%	3-Jun-20	3-Jun-15	60
Commonwealth Bank (90 days BBSW + 90 points)	AA	10,000,000	0.22%	2.60%	2.65%	17-Jul-20	17-Jul-15	60
Westpac Banking Corporation (90 days BBSW + 90 points)	AA	5,000,000	0.22%	2.60%	2.64%	28-Jul-20	28-Jul-15	60
Bendigo & Adelaide Bank (90 days BBSW + 110 points)	A	5,000,000	0.23%	2.80%	2.84%	18-Aug-20	18-Aug-15	60
AMP Bank (90 days BBSW + 75 points)	A	5,000,000	0.20%	2.45%	2.45%	6-Oct-20	6-Oct-17	36
Suncorp Bank (90 days BBSW + 125 points)	A	5,000,000	0.25%	2.95%	2.99%	20-Oct-20	20-Oct-15	60
Westpac Banking Corporation (90 days BBSW + 108 points)	AA	15,000,000	0.23%	2.78%	2.82%	28-Oct-20	28-Oct-15	60
National Australia Bank (90 days BBSW + 108 points)	AA	10,000,000	0.23%	2.77%	2.82%	5-Nov-20	5-Nov-15	60
Commonwealth Bank (90 days BBSW + 115 points)	AA	5,000,000	0.24%	2.85%	2.90%	18-Jan-21	20-Jan-16	60
ANZ Bank (90 days BBSW + 118 points)	AA	5,000,000	0.24%	2.87%	2.93%	7-Apr-21	7-Apr-16	60
Suncorp Bank (90 days BBSW + 138 points)	A	5,000,000	0.26%	3.09%	3.13%	12-Apr-21	12-Apr-16	60
Bendigo & Adelaide Bank (90 days BBSW + 146 points)	A	5,000,000	0.26%	3.16%	3.20%	20-Apr-21	20-Apr-16	60
Commonwealth Bank (90 days BBSW + 85 points)	AA	4,600,000	0.21%	2.56%	2.60%	17-Nov-21	17-Nov-16	60
Suncorp Bank (90 days BBSW + 97 points)	A	2,500,000	0.22%	2.68%	2.68%	16-Aug-22	16-Aug-17	60
Floating Rate Notes (FRN) 'Green/Climate Bonds'								
ANZ Bank Green Bond (Fixed rate @ 3.25% semi annual)	AA	5,000,000	0.27%	3.25%	3.25%	3-Jun-20	3-Jun-15	60
Commonwealth Bank Climate Bond (90 days BBSW + 92 points)	AA	5,000,000	0.22%	2.63%	2.66%	31-Mar-22	31-Mar-17	60
Total		210,600,000	0.26%	3.09%	3.12%			
Total Investments		546,759,799	0.23%	2.79%	2.81%			
Benchmark: 30 Day Bank Bill Index			0.13%	1.60%	1.61%			
Benchmark: Bloomberg AusBond Bank Bill Index			0.14%	1.69%	1.77%			
City of Sydney's bank balance as at 31-Oct-17		8,633,572						
TOTAL INVESTMENTS & CASH		555,393,371						

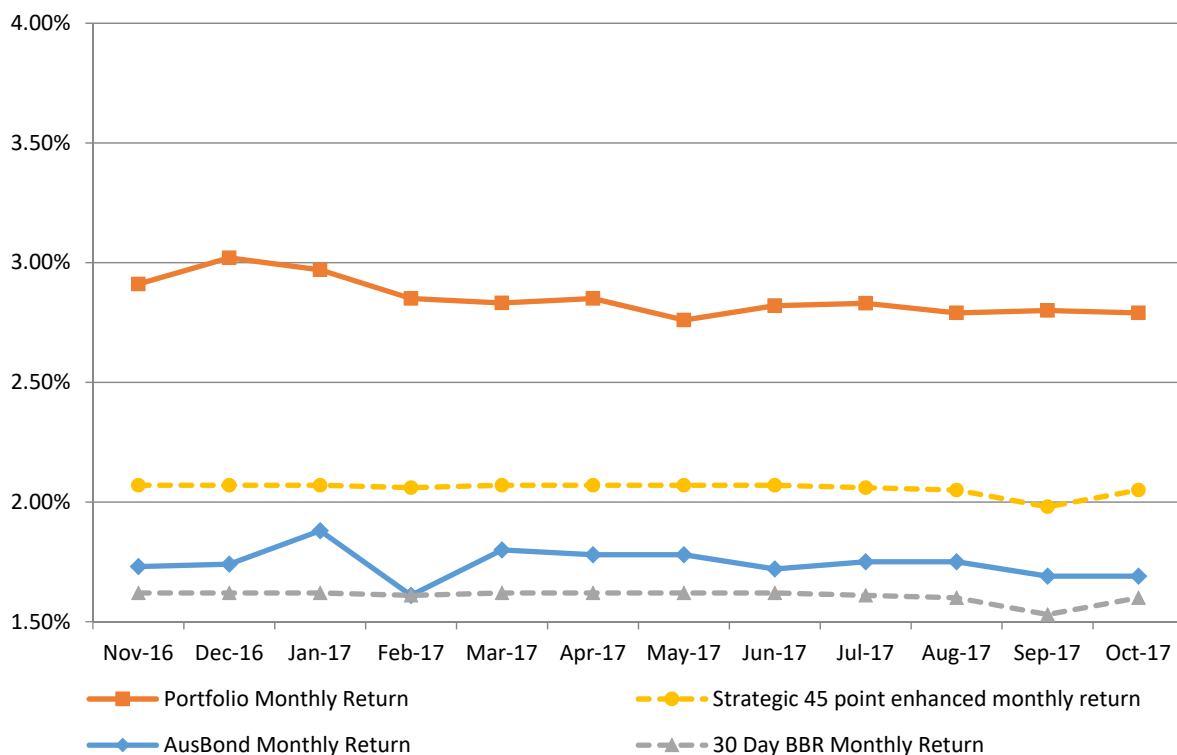
Summary of Net Investment Movements - October 2017			
Financial Institution	Fund Rating	Invest/(Recall) Amount \$	Commentary
<u>Call Accounts</u> Westpac Banking Corporation	AA	(8,000,000)	Utilised funds for Council's operational and capital expenditures.
<u>Term Deposits (TDs)</u> Bank of Queensland	A/BBB	5,000,000	Utilised matured investments to invest in higher yield term deposits.
Suncorp Bank	A	5,000,000	
Westpac Banking Corporation	AA	5,000,000	
National Australia Bank	AA	(25,000,000)	Redemption of matured investments proportionately used to invest in higher yield investments and fund the Council's operational and capital expenditures.
<u>Floating Rate Note (FRN)</u> AMP Bank	A	5,000,000	Utilised matured term deposit placed in floating rate note.

ATTACHMENT B

**INVESTMENT PERFORMANCE
AS AT 31 OCTOBER 2017**

Monthly Results

Actual Portfolio vs Strategic Enhanced Benchmark vs AusBond Benchmark vs 30 Day BBR Benchmark
October 2017



12 Month Rolling Averages

Actual Portfolio vs Strategic Enhanced Benchmark vs AusBond Benchmark vs 30 Day BBR Benchmark
October 2017

