

## Investments Held as at 31 October 2023

File No: X020701

### Summary

This report provides details of the City's investment portfolio and performance to 31 October 2023.

The City's total Investment and Cash position was \$786.2M at 31 October 2023, with investments earning interest of \$3.7M for the month.

Annual CPI inflation was 5.4 per cent in the September 2023 quarter, lower than the 6.0 per cent annual rise in the June 2023 quarter. This marks the third consecutive quarter of lower annual inflation and down from the peak of 7.8 per cent in the December 2022 quarter. Inflation remains well in excess of the Reserve Bank of Australia's (RBA) target range of two to three per cent. While global factors explain much of the variation in inflation, domestic factors also play a role. There are widespread upward pressures on prices from strong demand, a continuing tight labour market and capacity constraints in some sectors of the economy.

The current official cash rate is now 4.10 per cent up from the record low 0.10 per cent level in May 2022. At the August and September RBA Board meetings official interest rates were held steady, however, further increases have been foreshadowed to curb inflation.

The City's cash and investments portfolio is substantially restricted in both internal (\$238.5M) and external (\$95.4M) cash reserves, to satisfy the City's legislative responsibilities and to set aside specific funds for major initiatives within the Community Strategic Plan Delivering Sustainable Sydney 2030- 2050 Continuing the Vision.

Key commitments within the City's Long Term Financial Plan include public domain works in the CBD, infrastructure and community facilities in the Green Square urban renewal area and commercial property and open space acquisitions. The balance of investment funds represents working capital and funding required for the City's operating and capital expenditure commitments.

The City achieved an annualized monthly return of 4.94 per cent for October which remains above the 30-Day Bank Bill Rate (BBR) of 4.08 per cent, the latest AusBond Bank Bill Index of 3.96 per cent and the enhanced benchmark of 4.53 per cent (BBR + 0.45 per cent).

Since 2015, the City has utilised an additional strategic benchmark rate to measure its investment performance by exceeding the 30 day benchmark returns, by at least 45 additional basis points (0.45 per cent p.a.). The 45 basis point increase is based on observed historical average increased credit spreads (or margins) over bank bill rates on offer in relation to 30–90 day investments.

The City's annual rolling return of 4.83 per cent continues to exceed the 12 month average 30 Day Bank Bill Rate of 3.63 per cent, the latest AusBond Bank Bill Index of 3.66 per cent and the enhanced benchmark of 4.08 per cent (BBR + 0.45 per cent). The benchmarks were endorsed in the revised Investment Strategy which was approved by Council in October 2023.

It is worth noting that Council's investment opportunities are constrained by a combination of legislation, regulation and any directions and guidelines issued by the Minister for the Office of Local Government. These guidelines were developed, in large part, as a response to the Global Financial Crisis and its impact on the local government sector's investments. They effectively limit the City's investment profile to something similar to a cash managed fund, which generally produce lower returns but provide a high level of security. The City's returns from the investment portfolio remain in line with cash managed funds in the market.

This report includes graphs demonstrating that the City's liquidity profile continues to satisfy the requirements of the Policy, and charts that identify the distribution of the City's portfolio across credit ratings, investment product types and financial institutions. Separate charts depicting the City's cumulative portfolio returns over and above both the 90-day Bloomberg AusBond and 30-day Bank Bill Rate benchmarks have also been included to provide further insight into the City's total investment portfolio performance.

The structure of the City'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 maintain the City's commitment to sustainable investments where returns and risks are equivalent, under the environmentally and socially responsible investment criteria

## **Recommendation**

It is resolved that the Investment Report as at 31 October 2023 be received and noted

## **Attachments**

**Attachment A.** Register of Investments and Cash as at 31 October 2023.

**Attachment B.** Investment Performance as at 31 October 2023

## Background

1. In accordance with the principles of sound financial management, cash that is surplus to the City'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 the City's Investment Policy and Strategy.
3. The benchmark performance goal of the City's Investment Policy and Strategy is to surpass the 30 Days Bank Bill Rate (BBR) by 45 basis points while performance also continues to be measured against the Bloomberg AusBond Bank Bill Index.
4. The City's total Investment and Cash position as at 31 October 2023 is \$786.2M, a decrease of \$26.2M from 30 September 2023. The monthly movement reflects capital works expenditure, other operational payments for the period in excess of operating income. A schedule detailing all of the City's investments as at the end of October 2023 is provided at Attachment A.
5. A substantial portion of the City's cash and investments portfolio is held as internally restricted (\$238.5M) or externally restricted (\$94.5M) cash reserves, to satisfy the City's legislative responsibilities and to set aside specific funds for major initiatives within the Community Strategic Plan Delivering Sustainable Sydney 2030-2050 Continuing the Vision.
6. Key commitments within the City's Long Term Financial Plan include public domain works in the CBD, infrastructure and community facilities in the Green Square urban renewal area and the acquisition of commercial property and open space. The balance of investment funds represents working capital and funding required for the City's operating and other capital expenditure commitments.
7. The City achieved an annualized monthly return of 4.94 per cent for October which remains above the 30-Day Bank Bill Rate (BBR) of 4.08 per cent, the latest AusBond Bank Bill Index of 3.96 per cent and the enhanced benchmark of 4.53 per cent (BBR + 0.45 per cent).
8. Since 2015, the City has utilised an additional strategic benchmark rate to measure its investment performance by exceeding the 30 day benchmark returns, by at least 45 additional basis points (0.45 per cent p.a.). The 45 basis point increase is based on observed historical average increased credit spreads (or margins) over bank bill rates on offer in relation to 30 to 90 day investments.
9. The City's annual rolling return of 4.83 per cent continues to exceed the 12 month average 30 Day Bank Bill Rate of 3.63 per cent, the latest AusBond Bank Bill Index of 3.66 per cent and the enhanced benchmark of 4.08 per cent (BBR + 0.45 per cent). The benchmarks were endorsed in the revised Investment Strategy which was approved by Council in October 2023.
10. The City aims to achieve returns equal to or above these benchmark rates for the period. However, this achievement remains secondary to the critical strategies of maintaining a prudent and conservative risk profile and ensuring adequate liquidity for operational purposes.

11. It is worth noting Council's investment opportunities are constrained by a combination of legislation, regulation and any directions and guidelines issued by the Minister or the Office of Local Government. These guidelines were developed, in large part, as a response to the Global Financial Crisis and its impact on the local government sectors investments. They effectively limit the City's investment profile to something similar to a cash managed fund, which produces lower returns but provides a high level of security.
12. The City's returns from the investment portfolio are in line with cash managed funds in the market. The recent increases to official cash rates have seen improvements in rates of return offered by the market, allowing maturing deposits to be re-invested at higher rates. This trend is anticipated to continue as investments placed during the period of suppressed interest rates reach maturity and are re-invested.
13. The Australian economy is experiencing a sustained period of inflation well in excess of the Reserve Bank of Australia's (RBA) target range of two to three per cent. Annual CPI inflation was 5.4 per cent in the September 2023 quarter, lower than the 6.0 per cent annual rise in the June 2023 quarter. Encouragingly, this marks the third consecutive quarter of lower annual inflation and down from the peak of 7.8 per cent in the December 2022 quarter. While global factors explain much of the variation in inflation, domestic factors also play a role. There are widespread upward pressures on prices from strong demand, a continuing tight labour market and capacity constraints in some sectors of the economy.
14. In response to the current period of inflation the RBA has lifted official cash rates a record 13 consecutive times from the record low 0.1 per cent level in May 2022. The current rate is 4.10 per cent. While following their September Board meeting the RBA held interest rates steady, further increases remain a possibility if inflation remains high.
15. Most of the investment portfolio (currently 75.68 per cent) is held in fixed return term deposits. Improved returns are anticipated as these investments mature and are reinvested in products offering higher rates where the funds are not otherwise required for operating purposes. As around 73.12 per cent of the portfolio, including at call account and general fund, is due to mature in the coming year the City will be able to take advantage of improving returns.
16. The report includes graphs depicting that the City's cumulative portfolio returns over and above both the 90-day Bloomberg AusBond, and 30-day Bank Bill Rate benchmarks have also been included to provide further insight into the City's total investment portfolio performance.
17. The structure of the City's investment portfolio continues to reflect the conservative approach outlined in the Investment Policy and Strategy which was last revised and approved by Council in October 2023 remains appropriate for the current global and domestic economic conditions.

## Key Implications

### Strategic Alignment - Sustainable Sydney 2030-2050 Continuing the Vision

18. The City's investments accord with all legislative and policy requirements, as detailed below, and aim to achieve returns above minimum benchmark rates.

**Financial Implications**

19. The City's investments earned interest of \$3.7M for the month of October 2023, which is well above the monthly budgeted earnings of \$1.7M.
20. The interest income budget for the 2023/24 financial year has been set at \$20M. Interest rates offered in the market for the financial year to date have been higher than were anticipated at the time the budget was set, which has favourably impacted investment returns. As noted in the Quarter 1 report to Council, included in the current reporting cycle, interest revenue is forecast to be \$32.5M for 2023/24.

**Relevant Legislation**

21. Council is authorised to invest its surplus cash under section 625 of the Local Government Act 1993.
22. The Local Government (General) Regulation 2021 (section 212) requires the City to provide a written monthly report of all monies invested, under section 625 of the Act.
23. The Investment Policy and Strategy was last revised in October 2023, maintaining Council's commitment to give preference to sustainable investments where returns and risks are equivalent to other investments.
24. The City'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 23 October 2023.

**Critical Dates / Time Frames**

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

**Public Consultation**

26. Consultation is regularly undertaken with a number of financial institutions and investment advisers to consider options and ensure the City continues to maximise its investment return within appropriate legislative and risk parameters.
27. City staff meet regularly with representatives of each of the 'Big 4' banks and NSW TCorp. At these meetings City staff actively advocate for Socially Responsible Investment (SRI) opportunities.

28. The banks acknowledge the appetite in the market for these products and they continue to investigate the development of suitable products, however it has been challenging to match the level of funds to available Socially Responsible Investment opportunities that meet the credit risk and maturity profile requirements of the City.
29. As noted in previous Investment Reports, Westpac were able to bring a Green Tailored Deposit product to market, which delivers a comparable return while achieving the City's preferred outcomes. The City currently holds \$40.0M in six tranches with this Green Tailored deposit.
30. The City currently holds \$5.0M in a sustainability bond/FRN with Bank Australia due to mature on 24 November 2025 and the City also invested an additional \$4.5M in February 2023 due to mature on 22 February 2027. This is based on an investment framework that is in line with the 2021 versions of the ICMA Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG). This Socially Responsible investment opportunity meets both the credit risk and maturity profile requirement of the City.

**BILL CARTER**

Chief Financial Officer

# **Attachment A**

**Register of Investments and Cash  
as at 31 October 2023**





**Register of Investments and Cash for October 2023 period**

Institution	Rating	Face Value \$	Amortised Value \$	Monthly Net Returns	Monthly Net Return Annualised	Net Returns Rolling 12 Months	Maturity Date	Investment Date	Term (months)
<b>Term Deposits (TD) 'Green Tailored Deposits'</b>									
Westpac Banking Corporation - Green Tailored Deposit (3 Months BBSW + 93 points)	AA-	10,000,000.00	10,000,000.00	0.42%	5.07%	4.69%	27-Nov-23	26-Nov-18	60
Westpac Banking Corporation - Green Tailored Deposit (2.97% Fixed 2 years & 3 months BBSW + 93 points 3 years)	AA-	5,000,000.00	5,000,000.00	0.42%	5.07%	4.63%	29-Nov-23	30-Nov-18	60
Westpac Banking Corporation - Green Tailored Deposit (3.00% Fixed 1 years & 3 months BBSW + 105 points 4 years)	AA-	10,000,000.00	10,000,000.00	0.45%	5.38%	4.76%	25-Jan-24	25-Jan-19	60
Westpac Banking Corporation - Green Tailored Deposit (2.85% Fixed 1 years & 3 months BBSW + 100 points 4 years)	AA-	5,000,000.00	5,000,000.00	0.43%	5.13%	4.64%	28-Feb-24	1-Mar-19	60
Westpac Banking Corporation - Green Tailored Deposit (2.75% Fixed 1 year & 3 months BBSW + 100 points 4 years)	AA-	5,000,000.00	5,000,000.00	0.43%	5.11%	4.74%	11-Mar-24	13-Mar-19	60
Westpac Banking Corporation - Green Tailored Deposit (2.65% Fixed 1 year & 3 months BBSW + 100 points 4 years)	AA-	5,000,000.00	5,000,000.00	0.43%	5.14%	4.78%	22-Mar-24	25-Mar-19	60
<b>Total</b>		<b>595,000,000</b>	<b>595,000,000</b>	<b>0.41%</b>	<b>4.95%</b>	<b>4.90%</b>			
<b>Floating Rate Notes (FRN)</b>									
ANZ Bank (90 days BBSW + 103 points)	AA-	5,000,000.00	5,000,000.00	0.43%	5.14%	4.75%	6-Dec-23	6-Dec-18	60
National Australia Bank (90 days BBSW + 104 points)	AA-	4,000,000.00	4,000,000.00	0.43%	5.18%	4.74%	26-Feb-24	26-Feb-19	60
National Australia Bank (90 days BBSW + 92 points)	AA-	3,200,000.00	3,200,000.00	0.42%	5.05%	4.64%	19-Jun-24	20-Jun-19	60
Westpac Banking Corporation (90 days BBSW + 88 points)	AA-	4,000,000.00	4,000,000.00	0.42%	5.02%	4.61%	16-Aug-24	16-May-19	63
ANZ Bank (90 days BBSW + 77 points)	AA-	4,000,000.00	4,000,000.00	0.41%	4.91%	4.48%	29-Aug-24	29-Aug-19	60
National Australia Bank (90 days BBSW + 77 points)	AA-	5,000,000.00	5,000,000.00	0.43%	5.13%	4.48%	21-Jan-25	21-Jan-20	60
Macquarie Bank (3 months BBSW + 84 points)	A+	5,000,000.00	5,000,000.00	0.42%	5.02%	4.58%	12-Feb-25	12-Feb-20	60
Suncorp Bank (90 days BBSW + 112 points)	A+	1,500,000.00	1,500,000.00	0.46%	5.47%	4.80%	24-Apr-25	27-Apr-20	60
Suncorp Bank (90 days BBSW + 83 points) - Covered Bond	A+	2,200,000.00	2,200,000.00	0.43%	5.12%	4.49%	17-Oct-25	17-Oct-22	36
Great Southern Bank (3 months BBSW + 158 points)	BBB	4,000,000.00	4,000,000.00	0.48%	5.71%	5.32%	1-Dec-25	1-Dec-22	36
Macquarie Bank (3 months BBSW + 48 points)	A+	5,000,000.00	5,000,000.00	0.38%	4.61%	4.19%	9-Dec-25	9-Dec-20	60
Suncorp Bank (90 days BBSW + 45 points)	A+	2,100,000.00	2,100,000.00	0.38%	4.59%	4.20%	24-Feb-26	24-Feb-21	60
Newcastle Permanent Building Society (90 days BBSW + 63 points)	BBB	5,000,000.00	5,000,000.00	0.40%	4.78%	4.30%	4-Mar-26	4-Mar-21	60
Bendigo & Adelaide Bank (90 days BBSW + 125 points)	BBB+	4,500,000.00	4,500,000.00	0.45%	5.40%	5.28%	15-May-26	15-May-23	36
Suncorp Bank (90 days BBSW + 105 points)	A+	4,000,000.00	4,000,000.00	0.43%	5.19%	5.07%	18-May-26	18-May-23	36
Bendigo & Adelaide Bank (90 days BBSW + 65 points)	BBB+	5,000,000.00	5,000,000.00	0.40%	4.79%	4.38%	18-Jun-26	18-Jun-21	60
Macquarie Bank (3 months BBSW + 85 points)	A+	4,000,000.00	4,000,000.00	0.41%	4.97%	4.97%	14-Sep-26	14-Sep-22	36
Suncorp Bank (90 days BBSW + 48 points)	A+	3,750,000.00	3,750,000.00	0.38%	4.61%	4.25%	15-Sep-26	15-Sep-21	60
Bank of Queensland (90 days BBSW + 80 points)	BBB+	3,000,000.00	3,000,000.00	0.42%	5.07%	4.50%	27-Oct-26	27-Oct-21	60
Commonwealth Bank (3 month BBSW + 70 points)	AA-	3,250,000.00	3,250,000.00	0.42%	5.00%	4.37%	14-Jan-27	14-Jan-22	60
Westpac Banking Corporation (90 days BBSW + 70 points)	AA-	3,900,000.00	3,900,000.00	0.42%	5.06%	4.43%	25-Jan-27	18-Jan-22	60
Suncorp Bank (90 days BBSW + 78 points)	A+	4,500,000.00	4,500,000.00	0.43%	5.14%	4.51%	25-Jan-27	17-Jan-22	60
Newcastle Permanent Building Society (90 days BBSW + 100 points)	BBB	2,250,000.00	2,250,000.00	0.43%	5.16%	4.73%	10-Feb-27	3-Feb-22	60
National Australia Bank (90 days BBSW + 72 points)	AA-	4,000,000.00	4,000,000.00	0.40%	4.86%	4.49%	25-Feb-27	25-Feb-22	60
ANZ Bank (90 day BBSW + 97 points)	AA-	4,000,000.00	4,000,000.00	0.43%	5.15%	4.72%	12-May-27	12-May-22	60
Westpac Banking Corporation (90 days BBSW + 105 points)	AA-	4,000,000.00	4,000,000.00	0.43%	5.17%	4.79%	20-May-27	20-May-22	60
ANZ Bank (90 days BBSW + 120 points)	AA-	4,000,000.00	4,000,000.00	0.45%	5.40%	4.88%	4-Nov-27	4-Nov-22	60
Westpac Banking Corporation (90 days BBSW + 123 points)	AA-	5,000,000.00	5,000,000.00	0.45%	5.42%	4.97%	11-Nov-27	11-Nov-22	60
National Australia Bank (90 days BBSW + 120 points)	AA-	4,200,000.00	4,200,000.00	0.44%	5.34%	4.91%	25-Nov-27	25-Nov-22	60
Suncorp Bank (3 months BBSW + 125 points)	A+	2,700,000.00	2,700,000.00	0.45%	5.37%	5.05%	14-Dec-27	14-Dec-22	60
Great Southern Bank (3 months BBSW + 165 points)	BBB	2,500,000.00	2,500,000.00	0.49%	5.83%	5.61%	9-Feb-27	9-Feb-23	48
ANZ Bank (90 days BBSW + 106 points)	AA-	4,000,000.00	4,000,000.00	0.45%	5.42%	5.20%	31-Mar-28	31-Mar-23	60
Suncorp Bank (3 months BBSW + 105 points)	A+	3,000,000.00	3,000,000.00	0.44%	5.33%	5.33%	12-Jul-28	12-Jul-23	60
Commonwealth Bank (3 month BBSW + 95 points)	AA-	3,000,000.00	3,000,000.00	0.43%	5.10%	5.10%	17-Aug-28	17-Aug-23	60
ANZ Bank (90 days BBSW + 93 points)	AA-	3,500,000.00	3,500,000.00	0.42%	5.06%	5.06%	11-Sep-28	11-Sep-23	60
<b>Floating Rate Notes (FRN) 'Green/Climate Bonds/Sustainability Bond'</b>									
Bank Australia - Sustainability Bond (3 months BBSW + 160 points)	BBB	5,000,000.00	5,000,000.00	0.48%	5.74%	5.35%	24-Nov-25	24-Nov-22	36
Bank Australia - Sustainability Bond (3 months BBSW + 155 points)	BBB	4,500,000.00	4,500,000.00	0.47%	5.68%	5.41%	22-Feb-27	22-Feb-23	48
<b>Total</b>		<b>141,550,000</b>	<b>141,550,000</b>	<b>0.43%</b>	<b>5.16%</b>	<b>4.78%</b>			
<b>Total Investments</b>		<b>786,192,805</b>	<b>786,192,805</b>	<b>0.41%</b>	<b>4.94%</b>	<b>4.83%</b>			
<b>Benchmark: 30 Day Bank Bill Index</b>				<b>0.34%</b>	<b>4.08%</b>	<b>3.63%</b>			
<b>Benchmark: Bloomberg AusBond Bank Bill Index</b>				<b>0.33%</b>	<b>3.96%</b>	<b>3.66%</b>			
<b>TOTAL INVESTMENTS &amp; CASH</b>		<b>786,192,805</b>	<b>786,192,805</b>						

**Summary of Net Investment Movements - October 2023**

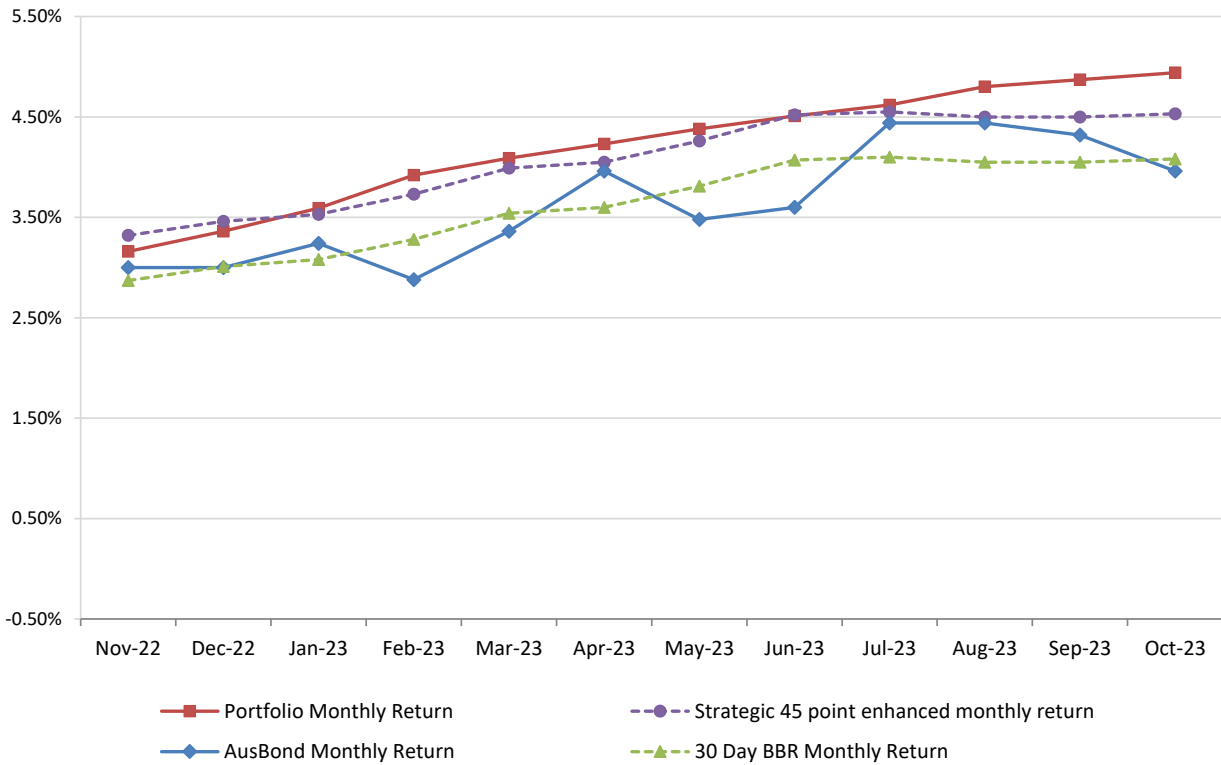
Financial Institution	Fund Rating	Net Investment/(Reduction) Amount \$	Commentary
<b><u>General Fund</u></b>			
Westpac Banking Corporation	AA-	47,000,000	Funds moved from CBA Call account to Westpac General Fund account as better credit interest margin is now provided with Westpac.
Westpac Banking Corporation	AA-	(1,200,000)	Funds utilised from general fund for operational purposes.
<b><u>Call Account</u></b>			
Commonwealth Bank	AA-	(47,000,000)	Funds moved from CBA Call account to Westpac General Fund account as better credit interest margin is now provided with Westpac.
<b><u>Term Deposits (TDs)</u></b>			
Bank of Queensland	BBB+	5,000,000	Redeemed matured investments and additional income placed in higher yielding term deposits.
Commonwealth Bank	AA-	(5,000,000)	Redeemed matured investments and additional income placed in higher yielding investments., or utilised for operational purposes.
National Australia Bank	AA-	(5,000,000)	
Westpac Banking Corporation	AA-	(20,000,000)	

# **Attachment B**

**Investment Performance  
as at 31 October 2023**

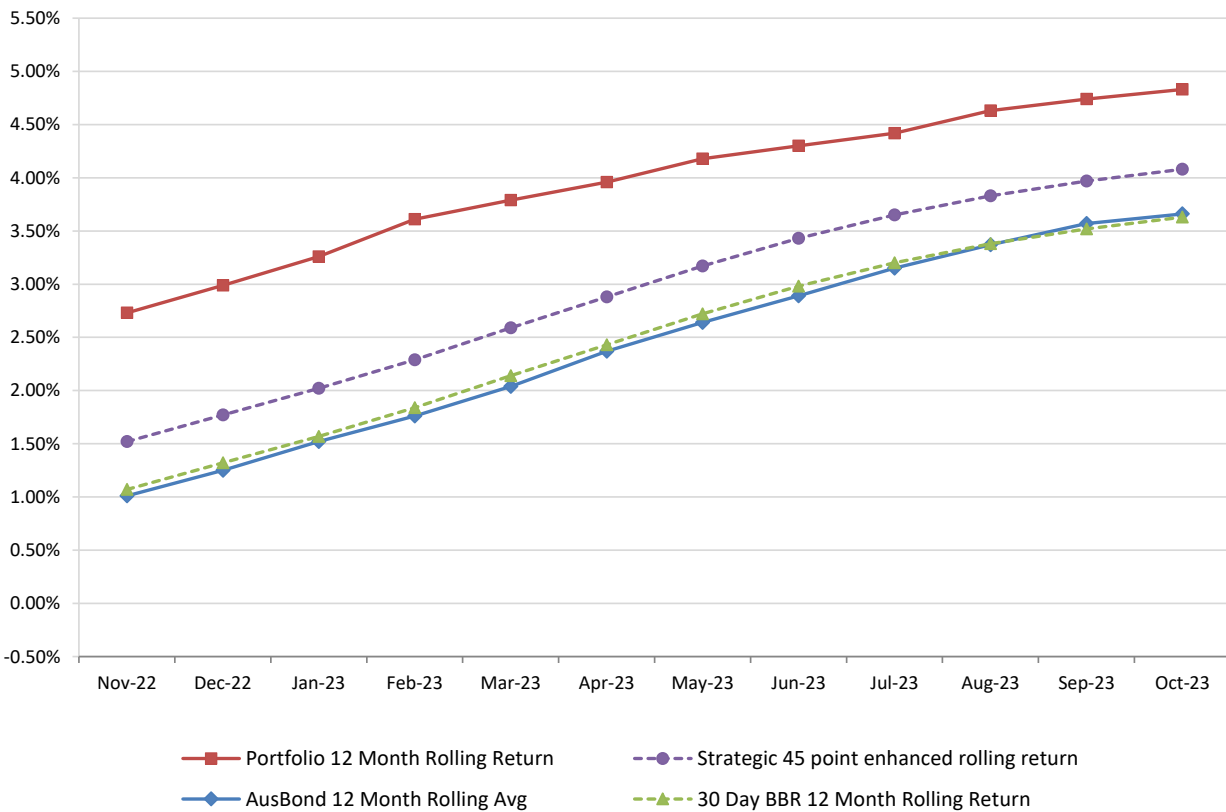
### Monthly Results

Actual Portfolio vs Strategic Enhanced Benchmark vs AusBond Benchmark vs 30 Day BBR Benchmark  
October 2023

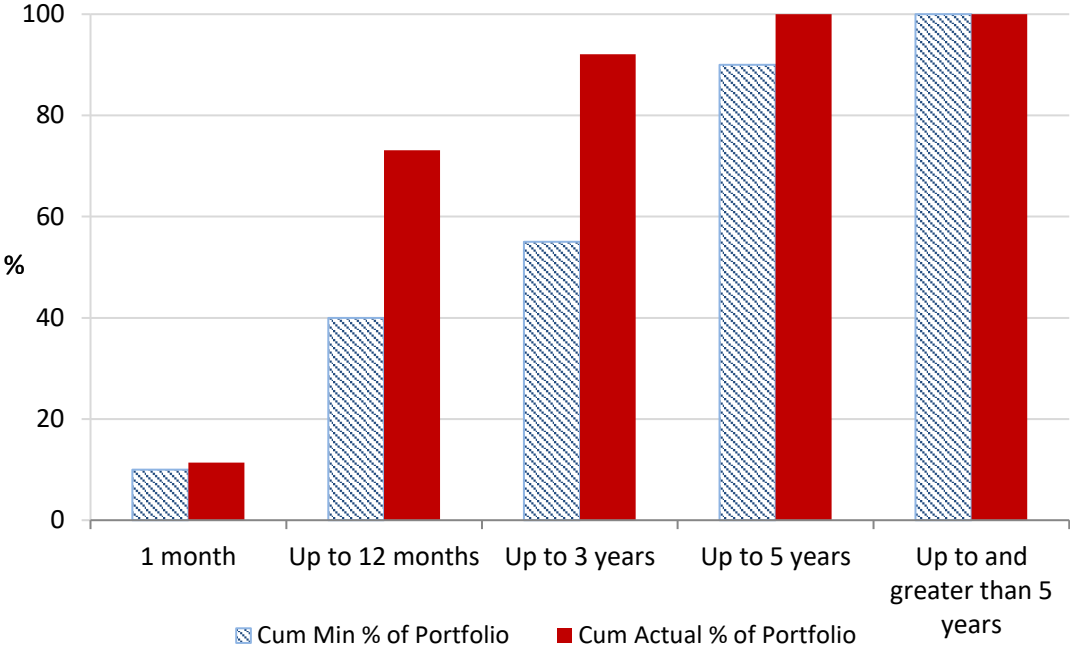


### 12 Month Rolling Averages

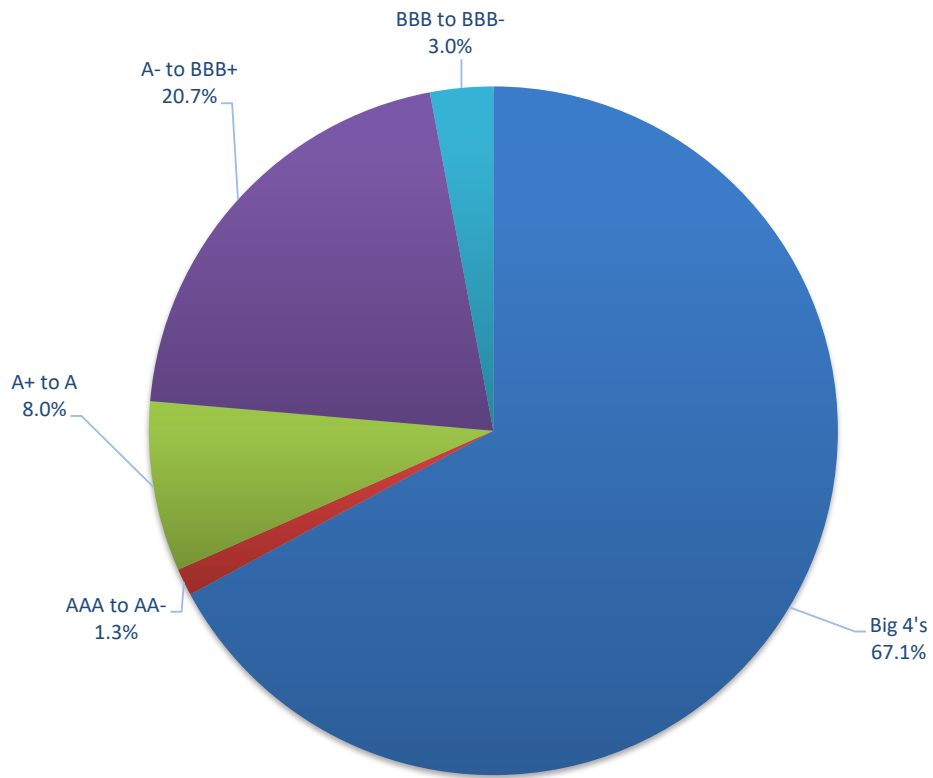
Actual Portfolio vs Strategic Enhanced Benchmark vs AusBond Benchmark vs 30 Day BBR Benchmark



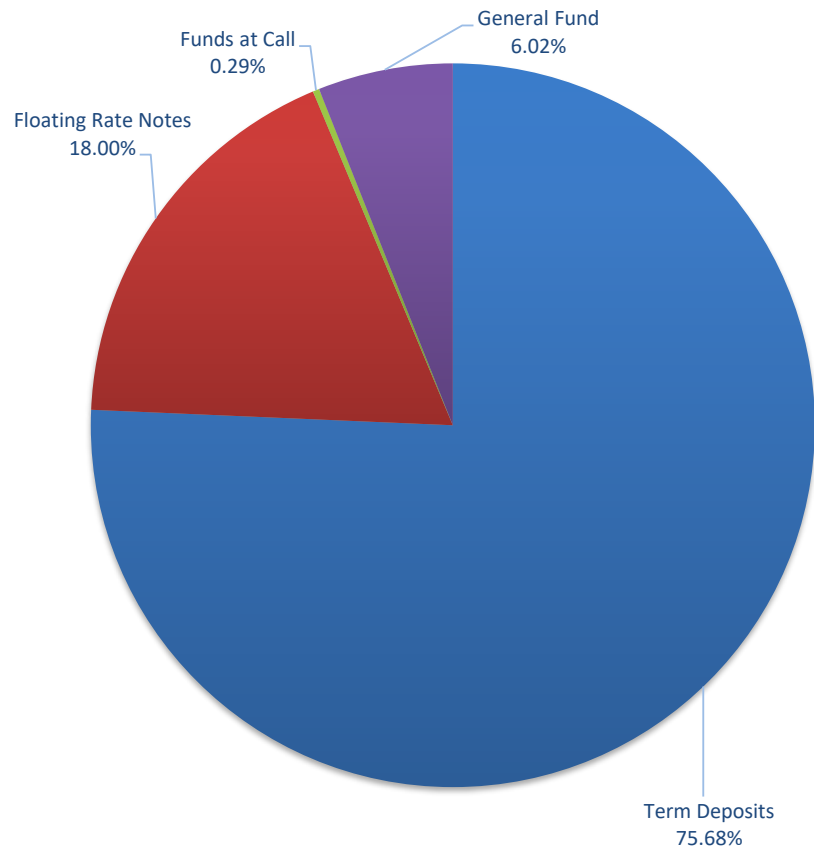
**Portfolio Liquidity - Minimum Allocations as at 31 October 2023**



### Risk Profile as at 31 October 2023



### Risk Profile as at 31 October 2023



**INVESTMENT AND CASH DISTRIBUTION BY FINANCIAL INSTITUTION**  
as at 31 October 2023

Institution Category	Financial Institution	Amount \$M	Financial Inst. %	Institution Cat. %
Australian Big 4 Bank (and related institutions)	ANZ Bank	24.5	3.1	
	Commonwealth Bank	198.5	25.2	
	National Australia Bank	75.4	9.6	
	Westpac Banking Corporation	229.3	29.2	
<b>Big 4 Total</b>		<b>527.7</b>		<b>67.1</b>
Other Australian ADIs and Australian subsidiaries of foreign institutions	Bank Australia Limited	9.5	1.2	
	Bank of Queensland	23.0	2.9	
	Bendigo & Adelaide Bank	69.5	8.8	
	Great Southern Bank (formerly C	6.5	0.8	
	ING Bank	70.0	8.9	
	Suncorp Bank	48.8	6.2	
	Macquarie Bank Ltd	14.0	1.8	
	Northern Territory Treasury Corp	10.0	1.3	
Newcastle Permanent Building S	7.3	0.9		
<b>Other ADI Total</b>		<b>258.5</b>		<b>32.9</b>
<b>Grand Total</b>		<b>786.2</b>	<b>100.0</b>	<b>100.0</b>