

Item 3.

Investments Held as at 30 June 2018

File No: X011299

Summary

This report provides details of the City's investment portfolio and performance to 30 June 2018.

The City's total Investment and Cash position was \$600.4M at the end of June, with investments earning interest of \$1.4M for the month.

The majority of the City's cash and investments portfolio is held as internally restricted (\$307.1M) or externally restricted (\$121.7M) 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.

The City achieved an annualised monthly return of 2.82% for June, significantly above the 30 Day Bank Bill Rate (BBR) of 1.94%, the AusBond Bank Bill Index (published by Bloomberg) of 1.94% and the enhanced benchmark of 2.39% (BBR + 0.45%) as endorsed in October 2017 as part of the Investment Strategy.

The City's annual rolling return of 2.74% also continues to exceed the 12 month average 30 Day BBR of 1.70%, AusBond Bank Bill Index of 1.75% and the enhanced benchmark of 2.15% (BBR + 0.45%) as endorsed in the Investment Strategy in October 2017.

In accordance with Council's Investment Policy ('the Policy'), the quarterly investment reports advise the latest indicative market valuations of all direct securities (being Floating Rate Notes). The book value of the current portfolio decreased by \$412.5K during the June quarter, representing less than 0.2% of the total value of the relevant securities and noting Council's strategy to hold and realise the full value of investments to maturity.

The 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 BBR benchmarks for the past eight years 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. Both the Policy and Strategy state the City's preference for re-investing its surplus funds in line with community environmental expectations as identified in Sustainable Sydney 2030.

Recommendation

It is resolved that the Investment Report as at 30 June 2018 be received and noted.

Attachments

Attachment A. Register of Investments and Cash as at 30 June 2018

Attachment B. Investment Performance as at 30 June 2018

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. The City's total Investment and Cash position as at 30 June 2018 was \$600.4M, a decrease of \$34.1M from the \$634.5M reported at 31 May 2018, reflecting operating income offset by capital works expenditure and other operational payments, and a significant property acquisition. A schedule detailing all of the City's investments as at the end of June is provided at Attachment A.
5. The majority of the City's cash and investments portfolio is held as internally restricted (\$307.1M) or externally restricted (\$121.7M) 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. The City achieved an annualised monthly return of 2.82% for June, significantly above the 30 Day Bank Bill Rate (BBR) of 1.94%, the AusBond Bank Bill Index (published by Bloomberg) of 1.94% and the enhanced benchmark of 2.39% (BBR + 0.45%) as endorsed in October 2017 as part of the Investment Strategy.
8. The City's annual rolling return of 2.74% also continues to exceed the 12 month average 30 Day BBR of 1.70%, AusBond Bank Bill Index of 1.75% and the enhanced benchmark of 2.15% (BBR + 0.45%) as endorsed in the Investment Strategy in October 2017.
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 the City's portfolio return. This trend is anticipated to continue, though in recent periods some improvement in longer term interest rates has been noted.
10. In accordance with Council's Investment Policy ('the Policy'), the quarterly investment reports advise the latest indicative market valuations of all direct securities (being Floating Rate Notes). The book value of the current portfolio decreased by \$412.5K during the June quarter, which represented less than 0.2% of the total value of the relevant securities and less than 0.1% of the total portfolio. Note the City will hold and realise the full value of these investments at maturity.

11. In total, the current portfolio includes a total unrealised gain of \$1.3M, arising from the significant number of investments held by the City that have locked in higher yields, which exceed the earning rates currently offered in the market. The City will only sell and realise this gain in cases where the proceeds from subsequent reinvestment are expected to significantly exceed the future interest earnings that will be generated by holding the current investments to maturity.
12. The 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 investment institutions. Separate charts depicting the City's portfolio returns over and above both the 90 day Bloomberg AusBond and 30 day BBR benchmarks for the past twelve years have also been included to provide further insight into the City's total investment portfolio performance.
13. The City 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 the City'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.
14. 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.
15. As noted in previous investment reports, the downgrade of 23 financial institutions' global ratings by Standard and Poors (S&P) in May 2017 incorporated a downgrade of both Bank of Queensland and Bendigo & Adelaide Bank from an A- to a BBB+ rating. The City's Investment Policy limits the maximum amount that may be invested with sub 'A' rated institutions to \$10M each. In the case of Bendigo & Adelaide Bank, the City continues to hold \$16M of long-term investments, with the earliest maturity date scheduled for a \$6M investment on 14 November 2018. The Investment Policy's "grandfathering" provisions have 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

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

Financial Implication

17. The City's investments earned interest of \$1.4M for the month of June 2018, against budgeted earnings of \$1.1M. Earnings for the full year were \$15.5M exceeding the annual budget of \$13.0M.

Relevant Legislation

18. Council is authorised to invest its surplus cash under Section 625 of the Local Government Act 1993.

19. 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.
20. The Investment Policy and Strategy was revised in October 2017, strengthening 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 expanded the definition of environmentally harmful activities to include specific reference to coal, gas and oil.
21. 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 24 October 2017.

Critical Dates / Time Frames

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

Public Consultation

23. 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.
24. City staff meet regularly with representatives of each of the 'Big 4' banks and NSW Treasury Corporation. At these meetings City staff 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

James Legarse, Financial Accountant