

**Item 2.****Investments Held as at 29 February 2020****File No:** X020701**Summary**

This report provides details of the City's investment portfolio and performance, as projected to 29 February 2020.

The City's total Investment and Cash position was \$706.9M at the end of February, with investments earning interest of \$0.9M for the month.

The majority of the City's cash and investments portfolio is held as internally restricted (\$311.4M) or externally restricted (\$108.7M) 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 1.77 per cent for February, above the 30 Day Bank Bill Rate (BBR) of 0.81 per cent, the latest AusBond Bank Bill Index (published by Bloomberg) of 0.96 per cent and the enhanced benchmark of 1.26 per cent (BBR + 0.45 per cent) as endorsed in October 2019 as part of the Investment Strategy.

The City's annual rolling return of 1.91 per cent also continues to exceed the 12 month average 30 Day Bank Bill Rate of 1.15 per cent, the latest AusBond Bank Bill Index of 1.30 per cent and the enhanced benchmark of 1.60 per cent (BBR + 0.45 per cent) as endorsed in the Investment Strategy in October 2019.

The Reserve Bank of Australia (RBA) adjusted the official cash rate in October 2019, when it was reduced to 0.75 per cent. That rate was further reduced on 3 March 2020 to 0.50 per cent. The market is responding by reducing the rates on offer, and the resultant lower investment yields will have a sustained adverse impact on the City's portfolio return.

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 29 February 2020 be received and noted.

**Attachments**

**Attachment A.** Register of Investments and Cash as at 29 February 2020

**Attachment B.** Investment Performance as at 29 February 2020

## Background

1. In accordance with the principles of 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 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 29 February is \$706.9M, an increase of \$32.1M from the \$674.8M reported as at 31 January 2020 reflecting operating income offset by capital works expenditure and other operational payments. A schedule detailing all of the City's investments as at the end of February is provided at Attachment A.
5. The majority of the City's cash and investments portfolio is held as internally restricted (\$311.4M) or externally restricted (\$108.7M) 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 1.77 per cent for February, above the 30 Day Bank Bill Rate (BBR) of 0.81 per cent, the latest AusBond Bank Bill Index (published by Bloomberg) of 0.96 per cent and the enhanced benchmark of 1.26 per cent (BBR + 0.45 per cent) as endorsed in October 2019 as part of the Investment Strategy.
8. The City's annual rolling return of 1.91 per cent also continues to exceed the 12 month average 30 Day Bank Bill Rate of 1.15 per cent, the latest AusBond Bank Bill Index of 1.30 per cent and the enhanced benchmark of 1.60 per cent (BBR + 0.45 per cent) as endorsed in the Investment Strategy in October 2019.
9. The Reserve Bank of Australia (RBA) adjusted the official cash rate on 1 October 2019, when it was reduced to 0.75 per cent. The cash rate was further reduced to 0.50 per cent on 3 March 2020. The market has responded accordingly by reducing the rates on offer, and the resultant lower investment yields will continue to have a sustained adverse impact on the City's portfolio return. The low interest rates are anticipated to continue for the foreseeable future given the current challenging conditions.
10. 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.

## Key Implications

### Strategic Alignment - Sustainable Sydney 2030 Vision

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

### Financial Implications

12. The City's investments earned interest of \$0.9M for the month of February 2020 against budgeted earnings of \$1.1M, noting we still achieved and exceeded the enhanced benchmark, and investment earnings for the full year remain forecast to be on budget at \$13.8M.

### Relevant Legislation

13. Council is authorised to invest its surplus cash under Section 625 of the Local Government Act 1993.
14. The Local Government (General) Regulation 2005 (Clause 212) requires the City to provide a written monthly report of all monies invested, under Section 625 of the Act.
15. The Investment Policy and Strategy was revised in October 2019, maintaining Council's commitment to give preference to sustainable investments where returns and risks are equivalent to other investments. The revision also maintained the broadened definition of environmentally harmful activities which includes specific reference to coal, gas and oil.
16. 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 28 October 2019.

### Critical Dates / Time Frames

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

### Public Consultation

18. 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 risk parameters.
19. 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.
20. To date, feedback from these meetings has been that there is a well-known appetite in the market for these products and they are investigating the development of suitable products, however it has been challenging to match the level of funds to available Socially Responsible Investment opportunities that meet both the credit risk and maturity profile requirements of Council.

21. As noted in previous Investment Reports, Westpac has been able to bring a Green Tailored Deposit product to market, which delivers a comparable return while achieving the City's preferred outcomes. Since November 2018, the City has invested \$95M in fifteen tranches with this Green Tailored deposit.
22. In January 2020, the City invested \$5M in a Floating Rate Note (FRN) / Sustainability Bond issued by Bank Australia, based on an investment framework that meets the main guidelines for issuance of Green, Social and Sustainability Bonds in the global capital markets. This Socially Responsible investment opportunity met both the credit risk and maturity profile requirement of the Council.
23. In February 2020, the City invested a further \$5M in a Climate Bond certified Green Term Deposit with the Commonwealth Bank of Australia (CBA), which also meets the City's risk / return profile. This is the current maximum investor threshold set by CBA for this Green Deposit product. It is evident from these recent opportunities that the market is endeavouring to respond to demand and meet investors need to satisfy both their financial risk / return requirements, while at the same time promoting their preferred investment profile outcomes.

**BILL CARTER**

Chief Financial Officer