

ITEM 8 STATEMENT OF INVESTMENT - MARCH 2020

This report provides an overview of Council's investment portfolio performance for the month of March 2020.

Council's average weighted return for March 2020 was -3.45% which was below the benchmark return of 1.14%. This result was primarily due to unprecedented turmoil and volatility of global markets in the wake of COVID-19. Council has recorded negative marked to market valuation on the aggregated floating rates notes and the aggregated NSW TCorp Hourglass facilities.

RECOMMENDATION

Council receive the Statement of Investment for March 2020.

REPORT AUTHORISATIONS

Report of: Brian Jenkins, Chief Financial Officer

Authorised by: Renee Campbell, Director Corporate Services - Connected + Engaged City

ATTACHMENTS

- 1 Statement of Investment - March 2020
- 2 Investment Income Compared to Budget 2019-2020

BACKGROUND

Council is required to invest its surplus funds in accordance with the Ministerial Investment Order and Division of Local Government guidelines. The Order reflects a conservative approach and restricts the investment types available to Council. In compliance with the Order and Division of Local Government guidelines, Council adopted an Investment Policy on 10 December 2018. The Investment Policy provides a framework for the credit quality, institutional diversification and maturity constraints that Council's portfolio can be exposed to. Council's investment portfolio was controlled by Council's Finance Division during the period to ensure compliance with the Investment Policy. Council's Audit, Risk and Improvement Committee's (ARIC) role of overseer provides for the review of Council's Investment Policy and the Management Investment Strategy.

Council's Responsible Accounting Officer is required to sign the complying Statement of Investment contained within the report, certifying that all investments were made in accordance with the Local Government Act 1993 and the Local Government Regulation 2005.

Council's investment holdings as at 27 March 2020 were \$157,519,977 (Statement of Investment attached) [29 March 2019 \$155,872,558].

Council's average weighted return for March 2020 was -3.45% which was below the benchmark return of 1.14%. These results were primarily due to unprecedented turmoil and volatility to global markets in the wake of COVID-19. Council recorded negative marked to market valuation on the aggregated floating rates notes and the aggregated NSW TCorp Hourglass facilities.

At 27 March 2020, year to date interest and investment revenue of \$1,896,064 was recognised compared to the year to date budget of \$2,387,665.

Council's 24 floating rate notes had a net decrease in value of \$412,687 for March 2020. This valuation was predominately a reflection of credit rating downgrade or a negative watch against a broad range of banks and institutions ahead of the anticipated outcomes of the economy over future periods.

Council holds two Mortgaged Backed Securities (MBS) that recorded a net increase in value of \$3,116 for March 2020. The coupon margins on these investments reflect pre Global Financial Crisis (GFC) pricing. For example, the Emerald A is paying 45 basis points over the BBSW where a comparative investment is now paying 100 basis points over the BBSW. This is reflected in the coupon rates on both these investments. While the maturity dates are outside Council's control, the investment advisors had

previously indicated that capital is not at risk at that stage and recommended a hold strategy due to the illiquid nature of the investment.

Council has two investment holdings under the NSW TCorp Hour Glass Facility: the Long-Term Growth Facility and the NSW TCorpIM Cash Fund. The Long-Term Growth recorded a net decrease in value of \$227,945 and the Cash Fund recorded a net decrease in value of \$21,301 in March 2020. The fluctuation in the Long-Term Growth Facility is a reflection of the current share market volatility both domestically and internationally and is diversified across a number of different asset classes that have differing risk and return characteristics. While the more-volatile listed equity asset classes are the largest contributor to the total risk of these funds, the declines in the values of the fund have been significantly less than the losses experienced in the direct equity markets. The TCorp Cash Fund generally provides relatively stable returns with low potential for capital loss while maintaining high levels of liquidity, similar to an at call account. The fund only invests in Australian cash and fixed interests, however with cash rates close to zero, market volatility has led to negative monthly returns for these funds. NSW TCorp is confident the fund can generate positive performances above their benchmarks over the appropriate investment time horizon.

At the March 2020 Reserve Bank of Australia (RBA) meeting, the official cash rate was cut by 25 basis points from 0.75% down to a record low of 0.50%. In an emergency response to the coronavirus pandemic, the RBA cut the cash rate for the second time during the month, lowering it by another 25 basis points to a new record low of 0.25%. The RBA has advised that it will continue to assess the outlook and adjust policy as needed to foster sustainable growth in demand and inflation outcomes consistent with the inflation target over time. The current inflation rate is quite low and below target. In response to the coronavirus pandemic, Council will not be making any new investments and is having all investment maturities returned to the at call accounts. This is to facilitate cash flow requirements of the organisation.

In early April, Fitch Ratings downgraded Australia’s four largest banking groups from AA- to A+. As Council currently relies on the ratings from S&P and Moody’s to assess the investment portfolio this has no impact. However, it should be noted that if the ratings from these two institutions are also downgraded, it would be difficult to operate in compliance with the existing Investment Policy and a review would need to take place from a credit risk perspective.

This report complies with Council’s Investment Policy which was endorsed by Council on 10 December 2018. Council’s Responsible Accounting Officer has signed the Statement of Investment contained within the report, certifying that all investments were made in accordance with the Local Government Act 1993 and the Local Government Regulation 2005.

PLANNING AND POLICY IMPACT

This report contributes to the delivery of Wollongong 2022 goal ‘*We are a connected and engaged community*’. It specifically delivers on the following:

Community Strategic Plan	Delivery Program 2018-2021	Operational Plan 2019-20
Strategy	3 Year Action	Operational Plan Actions
4.3.2 Resources (finance, technology, assets and people) are effectively managed to ensure long term financial sustainability	4.3.2.1 Effective and transparent financial management systems are in place	Monitor and review achievement of Financial Strategy
		Continuous budget management is in place, controlled and reported
		Provide accurate and timely financial reports monthly, quarterly and via the annual statement
		Manage and further develop a compliance program to promote awareness and compliance with Council’s procurement policies and procedures and other related policies

CONCLUSION

The investments for March 2020 have performed unfavourably compared to the year to date budget and the portfolio recorded an average weighted return below the annualised Bloomberg Bank Bill Index Benchmark primarily due to unprecedented turmoil and volatility to global markets in the wake of COVID-19.

WOLLONGONG CITY COUNCIL STATEMENT OF INVESTMENT 27 March 2020							
On Call & Term Deposits							
DIRECT INVESTMENTS							
Investment Body	Rating	Purchase Price \$	Fair Value of Holding \$	Security	Purchase Date	Maturity Date	Interest / Coupon Rate
NAB Professional Maximiser	A1+	-	14,969,399	ProfFund A/c	27/03/2020	27/03/2020	0.65%
NAB General Fund	A1+	-	516,811	General A/c	27/03/2020	27/03/2020	
Bendigo & Adelaide Bank Ltd	Moodys STP-2	3,000,000.00	3,000,000	T/Deposit	6/09/2019	3/04/2020	1.62%
IMB Ltd	S&P ST A2	3,000,000.00	3,000,000	T/Deposit	9/12/2019	9/04/2020	1.55%
Commonwealth Bank of Australia Ltd	S&P ST A1+	5,000,000.00	5,000,000	T/Deposit	6/03/2020	5/05/2020	1.12%
Bank of Queensland Ltd	Moodys A3	2,000,000.00	2,000,000	T/Deposit	14/03/2019	14/05/2020	2.71%
Suncorp Bank	S&P ST A1	2,000,000.00	2,000,000	T/Deposit	28/11/2019	28/05/2020	1.56%
Bank of Queensland Ltd	Moodys A3	3,000,000.00	3,000,000	T/Deposit	6/03/2019	3/06/2020	2.70%
Suncorp Bank	S&P ST A1	3,000,000.00	3,000,000	T/Deposit	10/02/2020	12/06/2020	1.50%
Bank of Queensland Ltd	Moodys STP-2	1,000,000.00	1,000,000	T/Deposit	6/09/2019	6/07/2020	1.65%
IMB Ltd	Moodys STP-2	1,000,000.00	1,000,000	T/Deposit	6/03/2020	6/07/2020	1.20%
Bendigo & Adelaide Bank Ltd	Moodys A3	2,000,000.00	2,000,000	T/Deposit	14/03/2019	14/07/2020	2.60%
Bank of Queensland Ltd	Moodys A3	3,000,000.00	3,000,000	T/Deposit	24/08/2018	24/08/2020	3.00%
Bank of Queensland Ltd	Moodys STP-2	2,000,000.00	2,000,000	T/Deposit	28/02/2020	28/08/2020	1.60%
Members Equity Bank Ltd	S&P ST A2	4,000,000.00	4,000,000	T/Deposit	28/02/2020	28/08/2020	1.60%
Commonwealth Bank of Australia Ltd	S&P ST A1+	5,000,000.00	5,000,000	T/Deposit	13/09/2019	7/09/2020	1.63%
Members Equity Bank Ltd	S&P BBB	2,000,000.00	2,000,000	T/Deposit	14/09/2018	14/09/2020	2.82%
IMB Ltd	S&P ST A2	2,000,000.00	2,000,000	T/Deposit	25/11/2019	23/10/2020	1.50%
IMB Ltd	S&P ST A2	1,000,000.00	1,000,000	T/Deposit	28/11/2019	29/10/2020	1.50%
National Australia Bank Ltd	S&P ST A1+	1,030,000.00	1,030,000	T/Deposit	19/11/2019	18/11/2020	1.46%
IMB Ltd	S&P ST A2	2,000,000.00	2,000,000	T/Deposit	28/11/2019	26/11/2020	1.50%
Bank of Queensland Ltd	Moodys A3	3,000,000.00	3,000,000	T/Deposit	14/03/2019	14/12/2020	2.73%
IMB Ltd	S&P ST A2	3,000,000.00	3,000,000	T/Deposit	20/12/2019	18/12/2020	1.50%
Westpac Banking Corporation Ltd	S&P AA-	5,000,000.00	5,000,000	T/Deposit	23/12/2019	23/12/2020	1.48%
Members Equity Bank Ltd	S&P ST A2	3,000,000.00	3,000,000	T/Deposit	6/03/2020	31/12/2020	1.25%
Bank of Queensland Ltd	Moodys A3	3,000,000.00	3,000,000	T/Deposit	21/02/2019	19/02/2021	2.80%
Bendigo & Adelaide Bank Ltd	Moodys A3	2,000,000.00	2,000,000	T/Deposit	28/11/2019	24/02/2021	1.55%
Bank of Queensland Ltd	Moodys STP-2	2,000,000.00	2,000,000	T/Deposit	6/03/2020	1/03/2021	1.40%
Westpac Banking Corporation Ltd	S&P AA-	2,000,000.00	2,000,000	T/Deposit	6/03/2020	8/03/2021	1.40%
Bendigo & Adelaide Bank Ltd	Moodys A3	2,000,000.00	2,000,000	T/Deposit	28/11/2019	25/06/2021	1.55%
Westpac Banking Corporation Ltd	S&P AA-	2,000,000.00	2,000,000	T/Deposit	2/12/2019	2/12/2021	1.38%
Westpac Banking Corporation Ltd	S&P AA-	2,000,000.00	2,000,000	T/Deposit	6/03/2019	6/03/2024	2.83%
Total			91,516,210				

WOLLONGONG CITY COUNCIL
STATEMENT OF INVESTMENT
27 March 2020 continued

Bond and Floating Rate Note Securities

DIRECT INVESTMENTS

Investment Body	Rating	Purchase Price \$	Fair Value of Holding \$	Security	Purchase Date	Maturity Date	Interest / Coupon Rate
Members Equity Bank Ltd	S&P BBB	2,000,000	2,010,220	FRN	6/04/2017	6/04/2020	2.16%
National Australia Bank Ltd	S&P AA-	3,000,000	3,004,470	FRN	24/06/2015	3/06/2020	1.39%
Bendigo & Adelaide Bank Ltd	Fitch A-	2,000,000	2,008,000	FRN	18/08/2015	18/08/2020	2.00%
Suncorp Bank	S&P PA+	1,500,000	1,511,040	FRN	20/10/2015	20/10/2020	2.10%
National Australia Bank Ltd	S&P AA-	1,000,000	1,005,250	FRN	5/11/2015	5/11/2020	1.97%
Newcastle Permanent Building Society Ltd	S&P BBB	500,000	501,780	FRN	26/02/2019	26/02/2021	1.95%
Suncorp Bank	S&P PA+	2,000,000	2,021,180	FRN	12/04/2016	12/04/2021	2.28%
AMP Bank Ltd	S&P BBB+	2,000,000	2,004,620	FRN	24/05/2016	24/05/2021	2.22%
Westpac Banking Corporation Ltd	S&P AA-	3,000,000	3,019,200	FRN	3/06/2016	3/06/2021	1.76%
ANZ Banking Group Ltd	S&P AA-	2,000,000	2,014,520	FRN	16/08/2016	16/08/2021	2.04%
Credit Union Australia Ltd	S&P BBB	1,200,000	1,205,160	FRN	6/09/2018	6/09/2021	1.80%
AMP Bank Ltd	S&P BBB+	1,500,000	1,494,675	FRN	10/09/2018	10/09/2021	1.65%
Westpac Banking Corporation Ltd	S&P AA-	1,500,000	1,502,145	FRN	16/11/2018	25/10/2021	1.61%
Credit Union Australia Ltd	Moodys Baa1	1,000,000	1,002,470	FRN	4/03/2019	4/03/2022	1.78%
AMP Bank Ltd	S&P BBB+	3,000,000	2,978,490	FRN	30/03/2017	30/03/2022	1.97%
Suncorp Bank	S&P PA+	1,500,000	1,501,905	FRN	30/08/2017	16/08/2022	1.88%
Bendigo & Adelaide Bank Ltd	Fitch A-	3,000,000	2,981,670	FRN	12/12/2019	12/09/2022	1.42%
Bank Australia Limited	S&P BBB	4,000,000	3,970,440	FRN	2/12/2019	2/12/2022	1.47%
ANZ Banking Group Ltd	S&P AA-	1,000,000	998,910	FRN	9/05/2018	9/05/2023	1.81%
National Australia Bank Ltd	S&P AA-	3,000,000	2,984,940	FRN	26/09/2018	26/09/2023	1.38%
Westpac Banking Corporation Ltd	S&P AA-	1,500,000	1,496,040	FRN	16/11/2018	16/11/2023	1.86%
ANZ Banking Group Ltd	S&P AA-	2,000,000	1,997,280	FRN	6/12/2018	6/12/2023	1.58%
National Australia Bank Ltd	S&P AA-	2,000,000	1,982,960	FRN	19/06/2019	19/06/2024	1.57%
Macquarie Bank	Moodys A2	2,000,000	1,949,920	FRN	12/02/2020	12/02/2025	1.76%
Emerald Reverse Mortgage Trust	S&P AAA	1,000,000	410,632	M/Bac	17/07/2006	21/08/2051	1.35%
Emerald Reverse Mortgage Trust	Fitch AA	2,000,000	1,233,180	M/Bac	17/07/2006	21/08/2056	1.65%
Total			48,791,097				

Managed Funds

MANAGED FUNDS

Investment Body	Rating	Purchase Price \$	Fair Value of Holding \$	Purchase Date	Monthly Return (Actual)	FYTD (Actual)
Tcorp IM Cash Fund Facility	N/A	15,048,123	15,048,123	28/06/2019	-0.13%	0.69%
Tcorp Long Term Growth Facility Trust	N/A	1,773,197	2,164,546	13/06/2007	-9.53%	-6.04%
Total			17,212,669			

TOTAL INVESTMENTS \$ 157,519,977

* The maturity date provided is the weighted-average life of the security. This is the average amount of time that will elapse from the date of security's issuance until each dollar is repaid based on an actuarial assessment. Assessments are carried out on a regular basis which can potentially extend the life of the investment. Current assessments anticipate an extension of life of the investment.

This is to certify that all of the above investments have been placed in accordance with the Act, the regulations and Council's Investment Policies.

Brian Jenkins
RESPONSIBLE ACCOUNTING OFFICER

