

ITEM 18 STATEMENT OF INVESTMENT - JULY 2019

This report provides an overview of Council's investment portfolio performance for the month of July 2019.

Council's average weighted return for July 2019 was 3.54% which was above the benchmark return of 1.39%. These results were primarily due to the positive marked to market valuation of the aggregated Floating Rates Notes (FRN), and NSW TCorp Hourglass facilities in Council's portfolio. The remainder of Council's portfolio continues to provide a high level of consistency in income and a high degree of credit quality and liquidity.

RECOMMENDATION

Council receive the Statement of Investment for July 2019

REPORT AUTHORISATIONS

Report of: Brian Jenkins, Chief Financial Officer
Authorised by: Todd Hopwood, Manager Governance and Customer Service

ATTACHMENTS

- 1 Statement of Investment - July 2019
- 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 26 July 2019 were \$132,821,559 (Statement of Investment attached) [27 July 2018 \$139,826,027].

Council's average weighted return for July 2019 was 3.54% which was above the benchmark return of 1.39%. These results were primarily due to the positive marked to market valuation of the aggregated Floating Rates Notes (FRN), and NSW TCorp Hourglass facilities in Council's portfolio. The remainder of Council's portfolio continues to provide a high level of consistency in income and a high degree of credit quality and liquidity.

At 26 July 2019, year to date interest and investment revenue of \$412,354 was recognised compared to the year to date budget of \$300,582.

Council's 24 floating rate notes had a net increase in value of \$141,762 for July 2019.

Council holds two Mortgaged Backed Securities (MBS) that recorded a net increase in value of \$4,104 for July 2019. 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 increase in value of \$38,446 and the Cash Fund recorded a net increase in value of \$13,170 in July 2019. The fluctuation in the Long-Term Growth Facility is a reflection of the current share market volatility both domestically and internationally, whereas the Cash Fund 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.

Council holds one ordinary and one preference share in Southern Phone Company Limited. AASB 9: Financial Instruments requires all equity instruments are to be reported at fair value, and replaced AASB 139: Financial Instruments: Recognition and Measurement, which allowed certain unlisted investments to be carried at amortised cost in the absence of a reliable measurement of fair value, thus impacting council's equity holding in Southern Phones.

Ernst & Young have provided a valuation for one ordinary share in the company, and used a capitalisation of earnings approach using a capitalisation multiple, taking into consideration comparable companies and transactions. The value of one ordinary share is \$55,500 as at 30 June 2019. Council's investment advisor Laminar Capital has provided a valuation of the preference share. The share is not transferrable, and does not provide any additional rights to participate in the distribution of company assets in the event of a wind up or sale. The fair value of the one preference share is \$1 as at 30 June 2019, and represents the amount to be received if the share was redeemed.

At the August 2019 RBA meeting, the official cash rate remained unchanged at the record low of 1.00%. The RBA has advised that it would 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.

Council's Investment Policy includes counterparty limits to spread the institutional risk applied at the time of investment. Review of the Members Equity Bank percentages, currently at 13%, has concluded that the percentage at purchase was actually 11% and therefore marginally above Council's Investment Policy limit of 10%. Corrective action on this operational error is in action, with updated process and increased vigilance by staff and advisor to ensure that investment limits are in compliance with Council's Investment Policy. 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 July 2019 have performed favourably compared to the year to date budget and the portfolio recorded an average weighted return above the annualised Bloomberg Bank Bill Index Benchmark.

WOLLONGONG CITY COUNCIL STATEMENT OF INVESTMENT 26 July 2019							
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+	-	5,187,739	ProfFund A/c	26/07/2019	26/07/2019	1.40%
NAB General Fund	A1+	-	1,801,526	General A/c	26/07/2019	26/07/2019	
Bwest	A1+	3,000,000	3,000,000	T/Deposit	28/06/2019	29/07/2019	1.80%
IMB	BBB	3,000,000	3,000,000	T/Deposit	14/03/2019	09/08/2019	2.65%
BOQ	A2	1,000,000	1,000,000	T/Deposit	06/09/2017	06/09/2019	2.80%
BEN	Moodys STP-2	3,000,000	3,000,000	T/Deposit	07/12/2018	06/09/2019	2.75%
IMB	BBB	1,000,000	1,000,000	T/Deposit	04/09/2018	04/10/2019	2.75%
SUN	A1	5,000,000	5,000,000	T/Deposit	14/03/2019	17/10/2019	2.60%
NAB	AA-	1,030,000	1,030,000	T/Deposit	19/06/2018	19/11/2019	2.80%
ME	BBB	2,000,000	2,000,000	T/Deposit	24/08/2018	22/11/2019	2.80%
IMB	BBB	2,000,000	2,000,000	T/Deposit	24/08/2018	25/11/2019	2.80%
WBC	AA-	2,000,000	2,000,000	T/Deposit	01/12/2017	02/12/2019	2.68%
ME	BBB	4,000,000	4,000,000	T/Deposit	07/12/2018	09/12/2019	2.75%
IMB	BBB	3,000,000	3,000,000	T/Deposit	07/12/2018	09/12/2019	2.70%
IMB	BBB	3,000,000	3,000,000	T/Deposit	22/12/2017	20/12/2019	2.65%
WBC	AA-	5,000,000	5,000,000	T/Deposit	22/12/2017	23/12/2019	2.77%
ME	BBB	3,000,000	3,000,000	T/Deposit	04/01/2018	06/01/2020	2.75%
ME	A2	5,000,000	5,000,000	T/Deposit	14/03/2019	14/01/2020	2.65%
BOQ	Moodys STP-2	2,000,000	2,000,000	T/Deposit	24/06/2019	24/01/2020	2.10%
BOQ	Moodys STP-2	2,000,000	2,000,000	T/Deposit	19/02/2018	10/02/2020	2.88%
BOQ	Moodys STP-2	2,000,000	2,000,000	T/Deposit	04/06/2019	05/03/2020	2.15%
WBC	AA-	2,000,000	2,000,000	T/Deposit	06/11/2018	06/03/2020	2.78%
SUN	A1	2,000,000	2,000,000	T/Deposit	28/06/2019	24/03/2020	1.85%
IMB	BBB	2,000,000	2,000,000	T/Deposit	29/03/2018	27/03/2020	2.85%
BOQ	Moodys A3	2,000,000	2,000,000	T/Deposit	14/03/2019	14/05/2020	2.71%
BOQ	Moodys A3	3,000,000	3,000,000	T/Deposit	06/03/2019	03/06/2020	2.70%
BEN	Moodys A3	2,000,000	2,000,000	T/Deposit	14/03/2019	14/07/2020	2.60%
BOQ	Moodys A3	3,000,000	3,000,000	T/Deposit	24/08/2018	24/08/2020	3.00%
ME	BBB	2,000,000	2,000,000	T/Deposit	14/09/2018	14/09/2020	2.82%
BOQ	Moodys A3	3,000,000	3,000,000	T/Deposit	14/03/2019	14/12/2020	2.73%
BOQ	Moodys A3	3,000,000	3,000,000	T/Deposit	21/02/2019	19/02/2021	2.80%
WBC	AA-	2,000,000	2,000,000	T/Deposit	06/03/2019	06/03/2024	2.83%
Total			85,019,266				

WOLLONGONG CITY COUNCIL
STATEMENT OF INVESTMENT

26 July 2019 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
Bendigo Bank	Fitch A-	1,000,000	1,003,570	FRN	16/09/2015	17/09/2019	2.23%
Bendigo Bank	Fitch A-	2,000,000	2,018,180	FRN	21/11/2016	21/02/2020	2.66%
CUA	BBB	2,000,000	2,017,460	FRN	20/03/2017	20/03/2020	2.54%
ME Bank	BBB	2,000,000	2,011,080	FRN	06/04/2017	06/04/2020	2.38%
NAB	AA-	3,000,000	3,025,530	FRN	24/06/2015	03/06/2020	2.20%
Bendigo Bank	Fitch A-	2,000,000	2,024,120	FRN	18/08/2015	18/08/2020	2.65%
SUN Corp	A+	1,500,000	1,516,095	FRN	20/10/2015	20/10/2020	2.36%
NAB	AA-	1,000,000	1,016,270	FRN	05/11/2015	05/11/2020	2.63%
Newcastle Permanent Building Society	BBB	500,000	504,430	FRN	26/02/2019	26/02/2021	2.53%
SUN	A+	2,000,000	2,032,820	FRN	12/04/2016	12/04/2021	2.51%
AMP	A-	2,000,000	2,019,300	FRN	24/05/2016	24/05/2021	2.79%
Westpac	AA-	3,000,000	3,057,420	FRN	03/06/2016	03/06/2021	2.57%
ANZ	AA-	2,000,000	2,042,220	FRN	16/08/2016	16/08/2021	2.76%
CUA	BBB	1,200,000	1,216,212	FRN	06/09/2018	06/09/2021	2.63%
AMP	A-	1,500,000	1,503,570	FRN	10/09/2018	10/09/2021	2.45%
Westpac	AA-	1,500,000	1,511,400	FRN	16/11/2018	25/10/2021	1.78%
CUA	Moody's Baa1	1,000,000	1,013,530	FRN	04/03/2019	04/03/2022	2.62%
AMP	A-	3,000,000	2,988,150	FRN	30/03/2017	30/03/2022	2.25%
SUN	A+	1,500,000	1,523,730	FRN	30/08/2017	16/08/2022	2.60%
EMERALD A Mortgage Backed Security *	AAA	575,894	428,252	M/Bac	17/07/2006	21/08/2022	2.01%
ANZ	AA-	1,000,000	1,018,540	FRN	09/05/2018	09/05/2023	2.55%
NAB	AA-	3,000,000	3,049,410	FRN	26/09/2018	26/09/2023	2.11%
Westpac	AA-	1,500,000	1,531,695	FRN	16/11/2018	16/11/2023	2.58%
ANZ	AA-	2,000,000	2,045,200	FRN	06/12/2018	06/12/2023	2.41%
NAB	AA-	2,000,000	2,034,180	FRN	12/06/2019	19/06/2024	2.18%
EMERALD B Mortgage Backed Security *	Fitch AA	2,000,000	1,238,340	M/Bac	17/07/2006	21/08/2056	2.31%
Total			45,390,704				

Managed Funds & Other

MANAGED FUNDS						
Investment Body	Rating	Purchase Price \$	Fair Value of Holding \$	Purchase Date	Monthly Return (Actual)	FYTD (Actual)
TcorpIM Cash Fund Facility	N/A	10,000,000	14,462	28/06/2019	0.18%	0.18%
Tcorp Long Term Growth Facility Trust	N/A	1,773,197	2,342,126	13/06/2007	1.67%	1.67%
Total			2,356,588			

Investment Body	Purchase Price \$	Face Value	Purchase Date	Security
Southern Phone Company- Ordinary share	1	55,000	22/10/2002	unlisted shares
Southern Phone Company- Preference share	1	1	22/10/2002	unlisted shares
Total		55,001		

TOTAL INVESTMENTS \$ 132,821,559

* 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

Investment Income Compared to Budget 2019-2020

