

ITEM 18 STATEMENT OF INVESTMENT - JUNE 2021

This report provides an overview of Council's investment portfolio performance for the month of June 2021.

Council's average weighted return for June 2021 was 0.08% which was above the benchmark return of 0.00%. This result was primarily due to the higher fixed interest rates on term deposits purchased prior to the COVID-19 impact on the financial market and the positive marked to market valuation of the NSW TCorp Hourglass facilities. 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 June 2021.

REPORT AUTHORISATIONS

Report of: Brian Jenkins, Chief Financial Officer

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

ATTACHMENTS

- 1 Statement of Investment - June 2021
- 2 Investment Income Compared to Budget 2021-2022

BACKGROUND

Council is required to invest its surplus funds in accordance with the Ministerial Investment Order and Office of Local Government guidelines. The Order reflects a conservative approach and restricts the investment types available to Council. In compliance with the Order and Office 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 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 30 June 2021 were \$170,236,877 (Statement of Investment attached) [30 June 2020 \$157,277,615]. The investment holdings at 30 June 2021 have been updated to include Council's interest in CivicRisk Mutual Ltd.

From 1 July 2020, the CivicRisk entities previously recognised as joint ventures were legally combined into CivicRisk Mutual Ltd, a company limited by guarantee. Through this process the three joint ventures novated their assets, liabilities and member surpluses into the new entity. This transition required Council to recognise the new entity as a financial asset through the profit and loss at fair value. The entity was recognised as a Joint Venture valued at \$3.5M on 30 June 2020. On 1 July 2020, the asset was transferred to Financial Assets at the fair value of Council's interest in the new entity. This value was calculated on a present value basis to be \$2.8M causing a movement of \$0.8M as a non-cash transaction through interest and investment revenue in the profit and loss. The valuation of Council's interest in the CivicRisk entity as at 30 June 2021 has not yet been received.

Council's average weighted return for June 2021 was 0.08% (excluding the fair value movement in CivicRisk) which was above the benchmark return of 0.00%. This result was primarily due to the higher fixed interest rates on term deposits purchased prior to the COVID-19 impact on the financial market and the positive marked to market valuation of the NSW TCorp Hourglass facilities. 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. The global markets are still experiencing unprecedented turmoil and volatility in the wake of COVID-19 and may still provide uncertainty for the foreseeable future.

At 30 June 2021, year to date interest and investment revenue of \$1,099,900 was recognised compared to the year to date budget of \$1,860,932. This result includes the fair value adjustment on the transition of CivicRisk Mutual to a passive interest financial asset.

Council’s 20 floating rate notes had a net decrease in value of \$36,810 for June 2021.

Council holds two Mortgaged Backed Securities (MBS) that recorded a net increase in value of \$2,066 for June 2021. 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 investments. While the maturity dates are outside Council’s control, the investment advisors had previously indicated 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 \$60,291 and the Cash Fund recorded a net increase in value of \$1,309 in June 2021. 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. The TCorp Cash Fund generally provides relatively stable returns over extended time periods with low potential for capital loss while maintaining high levels of liquidity, similar to an at call account, and only invests in Australian cash and fixed interests. The current environment of historically low interest rates and credit spreads mean the future returns for the funds will, as a result, be lower.

At their July 2021 meeting, the Reserve Bank of Australia (RBA) maintained the official cash rate at the record low of 0.10%. The RBA 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 investment portfolio 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 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 Strategy | Delivery Program 2018-2022 4 Year Action | Operational Plan 2021-2022 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 |

CONCLUSION

The investments for June 2021 recorded an average weighted return above the annualised Bloomberg Bank Bill Index Benchmark however were under when compared to the year to date budget, due to the movement of \$0.8M as a non-cash transaction through profit and loss for the CivicRisk Mutual Ltd revaluation done on 1 July 2020.

| WOLLONGONG CITY COUNCIL STATEMENT OF INVESTMENT 30 June 2021 | | | | | | | |
|--|----------------|-------------------|--------------------------|---------------|---------------|---------------|------------------------|
| DIRECT INVESTMENTS | | | | | | | |
| Investment Body | Rating | Purchase Price \$ | Fair Value of Holding \$ | Security | Purchase Date | Maturity Date | Interest / Coupon Rate |
| NAB General Fund | A1+ | - | 662,302 | General A/c | 30/06/2021 | 30/06/2021 | |
| NAB Professional Maximiser | A1+ | - | 33,309,056 | Prof Fund A/c | 30/06/2021 | 30/06/2021 | 0.50% |
| Commonwealth Bank of Australia Ltd | S&P ST A1+ | 4,000,000 | 4,000,000 | T/Deposit | 25/09/2020 | 22/07/2021 | 0.66% |
| Bank of Queensland Ltd | Moody's ST P-2 | 2,000,000 | 2,000,000 | T/Deposit | 26/11/2020 | 30/07/2021 | 0.55% |
| Bank of Queensland Ltd | Moody's ST P-2 | 3,000,000 | 3,000,000 | T/Deposit | 14/12/2020 | 16/08/2021 | 0.55% |
| Members Equity Bank Ltd | S&P ST A2 | 5,000,000 | 5,000,000 | T/Deposit | 25/03/2021 | 21/09/2021 | 0.45% |
| Members Equity Bank Ltd | S&P ST A2 | 3,000,000 | 3,000,000 | T/Deposit | 23/12/2020 | 19/10/2021 | 0.50% |
| Bank of Queensland Ltd | Moody's A3 | 2,000,000 | 2,000,000 | T/Deposit | 25/09/2020 | 25/11/2021 | 0.80% |
| Commonwealth Bank of Australia Ltd | S&P ST A1+ | 4,000,000 | 4,000,000 | T/Deposit | 26/11/2020 | 26/11/2021 | 0.54% |
| Westpac Banking Corporation Ltd | S&P AA- | 2,000,000 | 2,000,000 | T/Deposit | 2/12/2019 | 2/12/2021 | 0.91% |
| Bank of Queensland Ltd | Moody's ST P-2 | 5,000,000 | 5,000,000 | T/Deposit | 25/03/2021 | 20/12/2021 | 0.40% |
| Members Equity Bank Ltd | S&P ST A2 | 3,000,000 | 3,000,000 | T/Deposit | 31/12/2020 | 31/12/2021 | 0.50% |
| Bank of Queensland Ltd | Moody's A3 | 2,000,000 | 2,000,000 | T/Deposit | 25/09/2020 | 25/01/2022 | 0.80% |
| Commonwealth Bank of Australia Ltd | S&P AA- | 4,000,000 | 4,000,000 | T/Deposit | 26/11/2020 | 25/01/2022 | 0.55% |
| Commonwealth Bank of Australia Ltd | S&P ST A1+ | 5,000,000 | 5,000,000 | T/Deposit | 25/03/2021 | 18/02/2022 | 0.40% |
| Commonwealth Bank of Australia Ltd | S&P ST A1+ | 2,000,000 | 2,000,000 | T/Deposit | 28/05/2021 | 22/02/2022 | 0.36% |
| Commonwealth Bank of Australia Ltd | S&P AA- | 2,000,000 | 2,000,000 | T/Deposit | 23/12/2020 | 22/04/2022 | 0.50% |
| IMB Ltd | Moody's ST P-2 | 2,000,000 | 2,000,000 | T/Deposit | 28/04/2021 | 28/04/2022 | 0.35% |
| Commonwealth Bank of Australia Ltd | S&P ST A1+ | 3,000,000 | 3,000,000 | T/Deposit | 28/05/2021 | 27/05/2022 | 0.39% |
| Westpac Banking Corporation Ltd | S&P AA- | 3,000,000 | 3,000,000 | T/Deposit | 26/11/2020 | 25/11/2022 | 0.56% |
| Commonwealth Bank of Australia Ltd | S&P AA- | 2,000,000 | 2,000,000 | T/Deposit | 23/12/2020 | 23/12/2022 | 0.52% |
| Westpac Banking Corporation Ltd | S&P AA- | 5,000,000 | 5,000,000 | T/Deposit | 23/12/2020 | 22/12/2023 | 0.60% |
| Westpac Banking Corporation Ltd | S&P AA- | 2,000,000 | 2,000,000 | T/Deposit | 6/03/2019 | 6/03/2024 | 1.02% |
| Total | | | 98,971,358 | | | | |

WOLLONGONG CITY COUNCIL
STATEMENT OF INVESTMENT
30 June 2021 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 |
| ANZ Banking Group Ltd | S&P AA- | 2,000,000 | 2,005,700 | FRN | 16/08/2016 | 16/08/2021 | 1.17% |
| Credit Union Australia Ltd | S&P BBB | 1,200,000 | 1,203,432 | FRN | 6/09/2018 | 6/09/2021 | 1.27% |
| AMP Bank Ltd | S&P BBB | 1,500,000 | 1,501,920 | FRN | 10/09/2018 | 10/09/2021 | 1.10% |
| Westpac Banking Corporation Ltd | S&P AA- | 1,500,000 | 1,505,415 | FRN | 16/11/2018 | 25/10/2021 | 0.77% |
| Credit Union Australia Ltd | Moody's Baa1 | 1,000,000 | 1,008,380 | FRN | 4/03/2019 | 4/03/2022 | 1.26% |
| AMP Bank Ltd | S&P BBB | 3,000,000 | 3,001,560 | FRN | 30/03/2017 | 30/03/2022 | 1.08% |
| Suncorp Bank | S&P A+ | 1,500,000 | 1,516,245 | FRN | 30/08/2017 | 16/08/2022 | 1.01% |
| Bendigo & Adelaide Bank Ltd | Moody's A3 | 3,000,000 | 3,024,540 | FRN | 12/12/2019 | 12/09/2022 | 0.87% |
| Bank Australia Limited | S&P BBB | 4,000,000 | 4,025,640 | FRN | 2/12/2019 | 2/12/2022 | 0.93% |
| ANZ Banking Group Ltd | S&P AA- | 1,000,000 | 1,015,430 | FRN | 9/05/2018 | 9/05/2023 | 0.94% |
| National Australia Bank Ltd | S&P AA- | 3,000,000 | 3,051,060 | FRN | 26/09/2018 | 26/09/2023 | 0.96% |
| Westpac Banking Corporation Ltd | S&P AA- | 1,500,000 | 1,529,130 | FRN | 16/11/2018 | 16/11/2023 | 0.99% |
| ANZ Banking Group Ltd | S&P AA- | 2,000,000 | 2,042,500 | FRN | 6/12/2018 | 6/12/2023 | 1.06% |
| National Australia Bank Ltd | S&P AA- | 2,000,000 | 2,041,100 | FRN | 19/06/2019 | 19/06/2024 | 0.95% |
| Macquarie Bank | Moody's A2 | 2,000,000 | 2,027,240 | FRN | 12/02/2020 | 12/02/2025 | 0.88% |
| Bendigo & Adelaide Bank Ltd | Moody's A3 | 1,700,000 | 1,698,572 | FRN | 2/12/2020 | 2/12/2025 | 0.55% |
| Macquarie Bank | S&P A+ | 5,000,000 | 4,990,700 | FRN | 9/12/2020 | 9/12/2025 | 0.50% |
| Suncorp Bank | S&P A+ | 2,100,000 | 2,102,079 | FRN | 24/02/2021 | 24/02/2026 | 0.49% |
| Newcastle Permanent Building Society Ltd | S&P BBB | 5,000,000 | 5,006,950 | FRN | 4/03/2021 | 4/03/2026 | 0.66% |
| Teachers Mutual Bank Ltd | Moody's Baa1 | 1,100,000 | 1,100,286 | FRN | 16/06/2021 | 16/06/2026 | 0.70% |
| Emerald Reverse Mortgage Trust | Fitch AAA | 516,521 | 414,002 | MBS | 17/07/2006 | 21/08/2051 | 1.39% |
| Emerald Reverse Mortgage Trust | S&P A | 2,000,000 | 1,301,720 | MBS | 17/07/2006 | 21/08/2056 | 0.79% |
| Total | | | 47,113,601 | | | | |

Managed Funds & Other

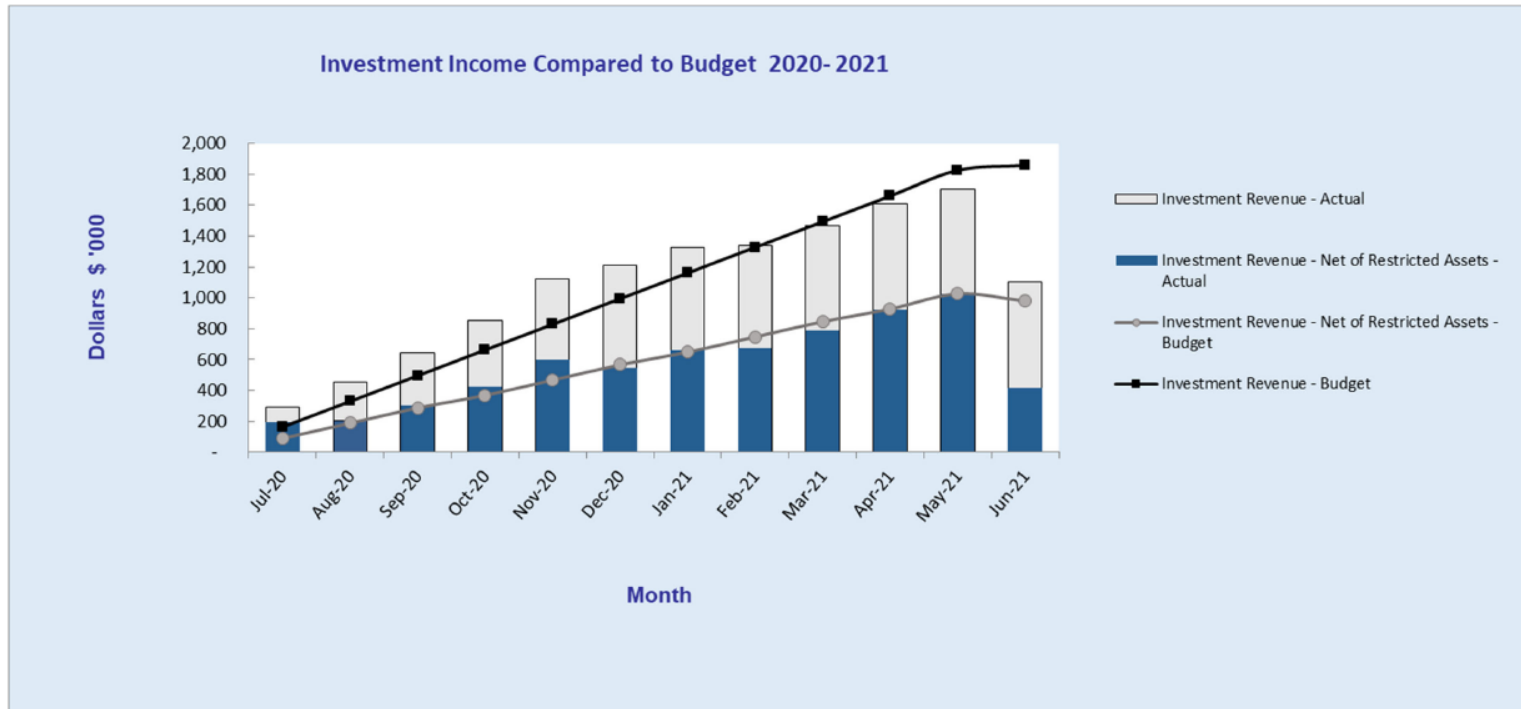
| MANAGED FUNDS | | | | | | |
|---------------------------------------|--------|-------------------|--------------------------|---------------|---------|---------------|
| Investment Body | Rating | Purchase Price \$ | Fair Value of Holding \$ | Purchase Date | Monthly | FYTD (Actual) |
| TcorpM Cash Fund Facility | N/A | 18,208,041 | 18,208,041 | 28/06/2019 | 0.01% | 0.32% |
| Tcorp Long Term Growth Facility Trust | N/A | 1,773,197 | 3,220,877 | 13/06/2007 | 2.35% | 18.03% |
| Total | | | 21,428,918 | | | |

| Membership interest in Investment Body | Fair Value of Holding \$ |
|--|--------------------------|
| CivicRisk Mutual Limited | 2,723,000 |
| TOTAL INVESTMENTS | \$ 170,236,877 |

* 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



** The recognition of CivicRisk has impacted the result for June 2021*