

ITEM 17 STATEMENT OF INVESTMENT - MAY 2022

This report provides an overview of Council's investment portfolio performance for the month of May 2022.

Council had an average weighted return for May 2022 of 0.00% which was below the benchmark return of 0.03%. This result was primarily due to negative valuations of the consolidated Floating Rate Notes and the NSW TCorp Growth funds reflecting the continuing volatility in the market. These valuations have impacted unfavourably on the phased investment income to budget between the months of January and May. However, both growth funds are expected to achieve their long term return objectives over time. The remainder of Council's portfolio continues to provide a high degree of credit quality and liquidity, but historically low interest returns.

RECOMMENDATION

Council receive the Statement of Investment for May 2022.

REPORT AUTHORISATIONS

Report of: Brian Jenkins, Chief Financial Officer

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

ATTACHMENTS

- 1 Statement of Investment - May 2022
- 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 27 May 2022 were \$177,109,365 (Statement of Investment attached) [28 May 2021 \$157,800,059]. These figures include Council's interest in CivicRisk Mutual Ltd recognised at fair value as at 30 June 2021.

Council had an average weighted return for May 2022 of 0.00% which was below the benchmark return of 0.03%. This result was primarily due to negative valuations of the consolidated Floating Rate Notes and the NSW TCorp Growth funds reflecting the continuing volatility in the market. The remainder of Council's portfolio continues to provide a high degree of credit quality and liquidity, but historically low interest returns. 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 27 May 2022, year to date interest and investment revenue of -\$141,269 was recognised compared to the year to date budget of \$627,832. There remains a high level of volatility and valuations are expected to move up and down during the year, and the budgeted returns from investments have been adjusted at the March Quarterly Review.

Council's 17 floating rate notes had a net decrease in value of \$78,285 for May 2022.

Council holds two Mortgaged Backed Securities (MBS) that recorded a net decrease in value of \$7,505 for May 2022. 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 three investment holdings under the NSW TCorp Hour Glass Facility: the Long-Term Growth Fund; the Medium-Term Growth Fund and the Cash Fund. The Long-Term Growth recorded a net decrease in value of \$35,256; the Medium-Term Growth Fund recorded a net decrease in value of \$21,033 and the Cash Fund recorded a net increase in value of \$525 in May 2022. The fluctuations in both the Long-Term Growth and Medium-Term Growth Funds are 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.

Negative valuations between the months of January and May have impacted unfavourably on Council's phased investment income to budget. However, both growth funds are expected to achieve their long-term return objectives over time. The Medium-Term Fund has returned -2.67% over the past 12 months and the Long-Term Fund -1.59%. The 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. On 17 May 2022 NSW TCorp issued a notification to all investors of the upcoming closure of the TCorp Cash Fund. As part of TCorp's product review, it was noted that client demand for the Cash Fund had been in decline for some time and based on this trend there was insufficient demand to keep the fund open, and concluded that it was in the best interests of all investors to close the Cash Fund. Council has been advised that the fund will continue to operate, and accepting applications up to 30 June 2022, however all investors will have until 31 October 2022 to redeem their units in the Cash Fund. At the time of this report, council has completed a full unit redemption effective 1 June 2022.

At their June 2022 meeting, the Reserve Bank of Australia (RBA) decided to increase the cash rate target by 50 basis points from 0.35% to 0.85%. The increase in interest rates is a further step in the withdrawal of the extraordinary monetary support that was put in place to help the Australian economy during the pandemic. The resilience of the economy and the higher inflation means that extraordinary support is no longer needed. The RBA will continue to assess the outlook and adjust policy as needed to ensure inflation returns to target over time and continue to monitor information and evolving balance of risks and determine the timing and extent of future interest rate increases.

The current Investment Policy sets a 40% maximum exposure limit to individual institutions within the AAA category. This limit is currently considered to include funds held within the NAB (Council's banker) savings account that is used daily to hold cash. Through the banking services contract with the NAB, that includes a fixed margin over the current cash rate, this account is providing a better return than alternate short to medium term investments available to Council. At the end of May 2022, the exposure to NAB was 29.11%, which was above the 25% target set in the Investment Strategy but within Investment Policy requirements. The NAB savings account is currently providing a better return than the TCorp Cash Fund and is currently the best option available for surplus cash, however this will be continually monitored to ensure best value.

To take advantage of the returns that can be achieved through the NAB savings account, it is expected that Council will operate above the targeted institutional exposure described in the current Investment Strategy for NAB while the Cash holdings exceed the targeted 15%. Transitioning from higher cash to longer term investments will take time based on appropriate opportunities in the market.

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	Delivery Program 2018-2022	Operational Plan 2021-2022
Strategy	4 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

CONCLUSION

The investments for May 2022 recorded an average weighted return below the annualised Bloomberg Bank Bill Index Benchmark and performed unfavourably when compared to the year-to-date budget.

WOLLONGONG CITY COUNCIL STATEMENT OF INVESTMENT 27 May 2022								
DIRECT INVESTMENTS								
Investment Body	Rating	Purchase Price \$	Fair Value of Holding \$	Security	Purchase Date	Maturity Date	Interest / Coupon Rate	
NAB General Fund	A1+	-	2,915,658	General A/c	27/05/2022	27/05/2022		
NAB Professional Maximiser	A1+	-	44,805,970	Prof Fund A/c	27/05/2022	27/05/2022	0.50%	
Arab Bank Australia Ltd	Unrated ST UR	250,000	250,000	T/Deposit	16/09/2021	16/06/2022	0.65%	
Members Equity Bank Ltd	Moody's ST P-2	4,000,000	4,000,000	T/Deposit	2/12/2021	30/06/2022	0.50%	
Bank of Queensland Ltd	Moody's ST P-2	2,000,000	2,000,000	T/Deposit	16/05/2022	16/08/2022	1.25%	
Illawarra Credit Union Ltd	Unrated ST UR	250,000	250,000	T/Deposit	25/05/2022	23/08/2022	1.65%	
Coastline Credit Union Ltd	Unrated ST UR	250,000	250,000	T/Deposit	8/03/2022	5/09/2022	0.90%	
BNK Banking Corporation Ltd t/as Goldfields Money	Unrated ST UR	250,000	250,000	T/Deposit	16/03/2022	14/09/2022	0.80%	
Westpac Banking Corporation Ltd	S&P ST A1+	2,000,000	2,000,000	T/Deposit	16/05/2022	16/09/2022	1.66%	
Westpac Banking Corporation Ltd	S&P ST A1+	2,000,000	2,000,000	T/Deposit	16/05/2022	16/11/2022	2.14%	
Westpac Banking Corporation Ltd	S&P AA-	3,000,000	3,000,000	T/Deposit	26/11/2020	25/11/2022	0.56%	
Members Equity Bank Ltd	Moody's ST P-2	4,000,000	4,000,000	T/Deposit	2/12/2021	2/12/2022	0.70%	
Members Equity Bank Ltd	Moody's ST P-2	2,000,000	2,000,000	T/Deposit	16/05/2022	12/12/2022	2.35%	
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 ST A1+	2,000,000	2,000,000	T/Deposit	25/02/2022	25/01/2023	0.82%	
Commonwealth Bank of Australia Ltd	S&P ST A1+	5,000,000	5,000,000	T/Deposit	18/02/2022	13/02/2023	0.80%	
Westpac Banking Corporation Ltd	S&P ST A1+	2,000,000	2,000,000	T/Deposit	16/05/2022	13/04/2023	2.65%	
Bank of Queensland Ltd	Moody's ST P-2	2,000,000	2,000,000	T/Deposit	16/05/2022	16/05/2023	3.00%	
Judo Bank	S&P BBB-	2,000,000	2,000,000	T/Deposit	17/09/2021	18/09/2023	0.95%	
Westpac Banking Corporation Ltd	S&P AA-	5,000,000	5,000,000	T/Deposit	20/10/2021	20/10/2023	0.87%	
Commonwealth Bank of Australia Ltd	S&P AA-	5,000,000	5,000,000	T/Deposit	20/10/2021	20/10/2023	0.84%	
Bank of Queensland Ltd	Moody's A3	2,000,000	2,000,000	T/Deposit	25/11/2021	27/11/2023	1.15%	
Westpac Banking Corporation Ltd	S&P AA-	5,000,000	5,000,000	T/Deposit	2/12/2021	4/12/2023	1.21%	
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	1.14%	
Judo Bank	S&P BBB-	2,000,000	2,000,000	T/Deposit	17/09/2021	17/09/2024	1.20%	
Westpac Banking Corporation Ltd	S&P AA-	2,000,000	2,000,000	T/Deposit	2/12/2021	2/12/2024	1.63%	
Judo Bank	S&P BBB-	2,200,000	2,200,000	T/Deposit	7/03/2022	11/03/2025	2.30%	
Westpac Banking Corporation Ltd	S&P AA-	5,000,000	5,000,000	T/Deposit	7/03/2022	13/03/2025	2.03%	
Total			117,921,628					
WOLLONGONG CITY COUNCIL STATEMENT OF INVESTMENT 27 May 2022 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	
Suncorp Bank	Fitch A+	1,500,000	1,502,670	FRN	30/08/2017	16/08/2022	1.97%	
Bendigo & Adelaide Bank Ltd	Moody's A3	3,000,000	3,009,660	FRN	12/12/2019	12/09/2022	1.00%	
Bank Australia Limited	S&P BBB	4,000,000	4,018,760	FRN	2/12/2019	2/12/2022	0.98%	
ANZ Banking Group Ltd	S&P AA-	1,000,000	1,004,490	FRN	9/05/2018	9/05/2023	1.84%	
National Australia Bank Ltd	S&P AA-	3,000,000	3,018,990	FRN	26/09/2018	26/09/2023	1.14%	
Westpac Banking Corporation Ltd	S&P AA-	1,500,000	1,508,385	FRN	16/11/2018	16/11/2023	1.95%	
ANZ Banking Group Ltd	S&P AA-	2,000,000	2,017,220	FRN	6/12/2018	6/12/2023	1.16%	
National Australia Bank Ltd	S&P AA-	2,000,000	2,012,020	FRN	19/06/2019	19/06/2024	1.10%	
Macquarie Bank	Moody's A2	2,000,000	1,997,420	FRN	12/02/2020	12/02/2025	1.82%	
Bendigo & Adelaide Bank Ltd	Moody's A3	1,700,000	1,667,003	FRN	2/12/2020	2/12/2025	0.60%	
Macquarie Bank	Moody's A2	6,500,000	6,382,805	FRN	11/03/2022	9/12/2025	0.63%	
Suncorp Bank	Fitch A+	2,100,000	2,056,509	FRN	24/02/2021	24/02/2026	1.52%	
Newcastle Permanent Building Society Ltd	S&P BBB	5,000,000	4,895,800	FRN	4/03/2021	4/03/2026	0.75%	
Teachers Mutual Bank Ltd	Moody's Baa1	1,100,000	1,068,496	FRN	16/06/2021	16/06/2026	0.83%	
Suncorp Bank	Fitch A+	3,750,000	3,669,150	FRN	15/09/2021	15/09/2026	0.63%	
Suncorp Bank	Fitch A+	1,500,000	1,473,330	FRN	11/03/2022	25/01/2027	1.31%	
ANZ Banking Group Ltd	Moody's Aa3	3,500,000	3,493,490	FRN	12/05/2022	12/05/2027	1.95%	
Emerald Reverse Mortgage Trust	S&P A	475,141	380,189	MBS	17/07/2006	21/08/2051	1.50%	
Emerald Reverse Mortgage Trust	S&P A	2,000,000	1,300,400	MBS	17/07/2006	21/08/2056	1.80%	
Total			46,476,787					
Managed Funds & Other								
MANAGED FUNDS								
Investment Body	Rating	Purchase Price \$	Fair Value of Holding \$	Purchase Date	Monthly	FYTD (Actual)		
TcorpIM Cash Fund Facility	N/A		1,195,866	28/06/2019	0.04%	-0.08%		
Tcorp Long Term Growth Facility Fund	N/A		3,564,655	13/06/2007	-0.97%	-3.83%		
Tcorp Medium Term Growth Facility Fund	N/A		4,751,429	14/06/2007	-0.84%	-5.36%		
Total			9,511,950					
Membership Interest in Investment Body			Fair Value of Holding \$					
CivicRisk Mutual Limited	N/A		3,199,000					
TOTAL INVESTMENTS			\$ 177,109,365					
<p>* 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.</p> <p>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.</p> <p>Brian Jenkins RESPONSIBLE ACCOUNTING OFFICER</p>								

