

ITEM 25 STATEMENTS OF INVESTMENTS - OCTOBER 2017

This report provides an overview of Council's investment portfolio performance for the month of October 2017.

Council's average weighted return for October 2017 was 4.19% which was above the benchmark return of 1.66%. The result was primarily due to the positive marked to market valuation of the CBA Zero Coupon Bond, the NSW TCorp Hour Glass facilities and the aggregated Floating Rate Notes in Council's portfolio. The remainder of Council's portfolio continues to provide a high level of consistency in income and a high degree credit quality and liquidity.

RECOMMENDATION

Council receive the Statements of Investments for October 2017.

REPORT AUTHORISATIONS

Report of: Brian Jenkins, Manager Finance

Authorised by: Kylee Cowgill, Director Corporate Services - Connected and Engaged City (Acting)

ATTACHMENTS

- 1 Statements of Investments - October 2017
- 2 Investment Income Compared to Budget 2017-2018

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 19 October 2015. 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 Governance Committee's role of overseer provides for the review of the Council's Investment Policy and Management Investment Strategy.

Council's Responsible Accounting Officer is required to sign the complying Statements of Investments 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 October 2017 were \$155,608,158 (Statement of Investments attached) [28 October 2016 \$158,622,955].

Council's average weighted return for October 2017 was 4.19% which was above the benchmark return of 1.66%. The result was primarily due to the positive marked to market valuation of the CBA Zero Coupon Bond, the NSW TCorp Hour Glass facilities and the aggregated Floating Rate Notes in Council's portfolio. The remainder of Council's portfolio continues to provide a high level of consistency in income and a high degree credit quality and liquidity.

At 27 October 2017, year to date interest and investment revenue of \$1,658,292 was recognised compared to the year to date budget of \$1,528,490.

Council's CBA Zero Coupon Bond experienced an increase in valuation for October 2017 of \$11,600. The valuation methodology used by Laminar (Council's investment consultants) discounts the bond using a margin for a straight four year CBA obligation but also considers the illiquidity premium, this being a restructured deal and there being limited bids on the security. As this bond gradually nears maturity, movements in interest rates and liquidity will have less of an impact on the securities valuation. While there will be short term fluctuations along the way, the investments valuation will gradually

increase to its \$4M maturity value. Council's 18 floating rate notes had a net increase in value of \$39,225 for October 2017.

Council holds two Mortgaged Backed Securities (MBS) that recorded a net increase in value of \$4,773 for October 2017. These investments continue to pay higher than normal variable rates. 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 investments holdings under the NSW TCorp Hour Glass Facility: the Long-Term Growth Facility and the NSW TCorpIM Cash Fund. The Long-Term Growth recorded an increase in value of \$51,941, and the Cash Fund recorded an increase in value of \$25,699 in October. 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 11am, at call account. The fund only invests in Australian cash and fixed interests.

At the November 2017 RBA meeting, the official cash rate remained unchanged at 1.50%. 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.

This report complies with Council's Investment Policy which was endorsed by Council on 19 October 2015. Council's Responsible Accounting Officer has signed the complying Statements of Investments 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 2012-17	Annual Plan 2017-18
Strategy	5 Year Action	Annual Deliverables
4.4.5 Finances are managed effectively to ensure long term financial sustainability	4.4.5.1 Effective and transparent financial management systems are in place	Provide accurate and timely financial reports monthly, quarterly and via the annual financial statement.
		Continuous Budget Management is in place, controlled and reported.
		Manage and further develop compliance program.
		Monitor and review achievement of Financial Strategy.

CONCLUSION

The investments for October 2017 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.

Item 25 - Attachment 1 - Statements of Investments - October 2017

WOLLONGONG CITY COUNCIL STATEMENT OF INVESTMENTS 27 October 2017							
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	A-1+	-	1,855,655	11am	27/10/2017	27/10/2017	1.90%
NAB General Fund	A-1+	-	934,980	General A/c	27/10/2017	27/10/2017	
SUN	A1	2,000,000	2,000,000	T/Deposit	29/09/2016	30/10/2017	2.65%
IMB	A2	3,000,000	3,000,000	T/Deposit	30/09/2016	30/10/2017	2.50%
BOQ	A2	2,000,000	2,000,000	T/Deposit	10/03/2017	10/11/2017	2.65%
SUN	A+	2,000,000	2,000,000	T/Deposit	24/05/2016	24/11/2017	2.85%
CBA	AA-	2,000,000	2,000,000	T/Deposit	27/05/2016	27/11/2017	2.71%
IMB	A2	2,000,000	2,000,000	T/Deposit	31/05/2017	01/12/2017	2.65%
CBA	A1+	1,000,000	1,000,000	T/Deposit	10/03/2017	05/12/2017	2.68%
Bwest	A1+	5,000,000	5,000,000	T/Deposit	06/10/2017	05/12/2017	2.35%
BOQ	A2	2,000,000	2,000,000	T/Deposit	29/09/2016	28/12/2017	2.60%
ME	A2	3,000,000	3,000,000	T/Deposit	06/09/2017	04/01/2018	2.48%
BEN	A2	3,000,000	3,000,000	T/Deposit	08/12/2016	08/01/2018	2.70%
ME	A2	1,500,000	1,500,000	T/Deposit	08/12/2016	08/01/2018	2.70%
CBA	A1+	2,000,000	2,000,000	T/Deposit	10/03/2017	05/02/2018	2.72%
Bwest	A1+	3,000,000	3,000,000	T/Deposit	06/09/2017	05/02/2018	2.45%
BOQ	A2	2,000,000	2,000,000	T/Deposit	22/06/2017	19/02/2018	2.65%
SUN	A1	2,000,000	2,000,000	T/Deposit	06/10/2017	05/03/2018	2.50%
IMB	A2	3,000,000	3,000,000	T/Deposit	08/12/2016	08/03/2018	2.63%
ME	A2	1,000,000	1,000,000	T/Deposit	14/09/2016	14/03/2018	2.65%
STG	A1+	1,000,000	1,000,000	T/Deposit	16/02/2017	16/03/2018	2.62%
NAB	A1+	1,500,000	1,500,000	T/Deposit	28/02/2017	28/03/2018	2.63%
IMB	A2	2,000,000	2,000,000	T/Deposit	28/02/2017	29/03/2018	2.61%
CBA	A1+	2,000,000	2,000,000	T/Deposit	10/03/2017	10/04/2018	2.74%
IMB	A2	3,000,000	3,000,000	T/Deposit	22/06/2017	20/04/2018	2.60%
NAB	A1+	2,000,000	2,000,000	T/Deposit	18/11/2016	18/05/2018	2.85%
BOQ	A2	3,000,000	3,000,000	T/Deposit	23/02/2017	23/05/2018	2.80%
CBA	A1+	3,000,000	3,000,000	T/Deposit	06/09/2017	18/06/2018	2.56%
NAB	A1+	1,030,000	1,030,000	T/Deposit	19/12/2016	19/06/2018	2.79%
WBC	AA-	2,000,000	2,000,000	T/Deposit	26/06/2017	26/06/2018	2.52%
BEN	A2	5,000,000	5,000,000	T/Deposit	22/06/2017	23/07/2018	2.75%
BOQ	A2	2,000,000	2,000,000	T/Deposit	09/09/2016	10/09/2018	2.65%
IMB	BBB	2,000,000	2,000,000	T/Deposit	12/09/2016	12/09/2018	2.60%
ME	A2	2,000,000	2,000,000	T/Deposit	14/09/2016	14/09/2018	2.65%
BEN	A2	2,000,000	2,000,000	T/Deposit	29/09/2016	28/09/2018	2.90%
ME	A2	3,000,000	3,000,000	T/Deposit	16/10/2017	16/10/2018	2.62%
WBC	A1+	2,000,000	2,000,000	T/Deposit	06/09/2017	06/11/2018	2.60%
WBC	A1+	3,000,000	3,000,000	T/Deposit	23/02/2017	23/11/2018	2.80%
BOQ	A2	1,500,000	1,500,000	T/Deposit	08/12/2016	07/12/2018	2.95%
SUN	A1+	3,000,000	3,000,000	T/Deposit	08/12/2016	07/12/2018	2.76%
WBC	A1+	2,000,000	2,000,000	T/Deposit	06/09/2017	07/01/2019	2.62%
WBC	A1+	3,000,000	3,000,000	T/Deposit	31/01/2017	31/01/2019	2.90%
WBC	A1+	2,000,000	2,000,000	T/Deposit	06/09/2017	06/03/2019	2.64%
BEN	A2	1,000,000	1,000,000	T/Deposit	13/03/2017	13/03/2019	2.90%
BOQ	Fitch A-	1,000,000	1,000,000	T/Deposit	06/09/2017	06/09/2019	2.80%
Total			99,320,636				

WOLLONGONG CITY COUNCIL
STATEMENT OF INVESTMENTS
27 October 2017 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
Commonwealth Bank Australia zero coupon bond with a \$4M face value	AA-	2,000,000	3,966,800	BOND	21/01/2008	22/01/2018	
CBA	AA-	1,000,000	1,006,000	FRN	19/10/2015	19/10/2018	2.34%
CUA	BBB	3,000,000	3,026,400	FRN	01/04/2016	01/04/2019	3.30%
Westpac	AA-	3,000,000	3,047,250	FRN	11/03/2016	10/05/2019	2.69%
Greater Bank Ltd	BBB	2,000,000	2,027,280	FRN	07/06/2016	07/06/2019	3.34%
Bendigo Bank	Fitch A-	1,000,000	1,006,610	FRN	16/09/2015	17/09/2019	2.65%
Bendigo Bank	Fitch A-	2,000,000	2,022,440	FRN	21/11/2016	21/02/2020	2.79%
CUA	BBB	2,000,000	2,010,840	FRN	20/03/2017	20/03/2020	3.01%
ME Bank	BBB	2,000,000	2,005,320	FRN	06/04/2017	06/04/2020	2.94%
NAB	AA-	3,000,000	3,033,240	FRN	24/06/2015	03/06/2020	2.54%
Bendigo Bank	Fitch A-	2,000,000	2,023,760	FRN	18/08/2015	18/08/2020	2.79%
SUN Corp	A+	1,500,000	1,525,365	FRN	20/10/2015	20/10/2020	2.95%
NAB	AA-	1,000,000	1,020,600	FRN	05/11/2015	05/11/2020	2.77%
SUN	A+	2,000,000	2,043,980	FRN	12/04/2016	12/04/2021	3.08%
AMP	A	2,000,000	2,049,440	FRN	24/05/2016	24/05/2021	3.07%
Westpac	AA-	3,000,000	3,065,190	FRN	03/06/2016	03/06/2021	2.90%
ANZ	AA-	2,000,000	2,043,500	FRN	16/08/2016	16/08/2021	2.82%
AMP	A	3,000,000	3,029,940	FRN	30/03/2017	30/03/2022	2.76%
SUN	A+	1,501,530	1,501,530	FRN	30/08/2017	16/08/2022	2.66%
EMERALD A Mortgage Backed Security *	AAA	629,895	462,299	M/Bac	17/07/2006	21/08/2022	2.14%
EMERALD B Mortgage Backed Security *	Fitch AA	2,000,000	1,238,960	M/Bac	17/07/2006	21/08/2056	2.44%
Total			43,156,744				

Managed Funds & Other

MANAGED FUNDS							
Investment Body	Rating	Purchase Price \$	Fair Value of Holding \$	Purchase Date	Monthly Return (Actual)	Annualised % p.a.	FYTD (Actual)
TcorpIM Cash Fund Facility	N/A	11,124,210	11,119,389	1/06/2017	2.35%	30.63%	9.10%
Tcorp Long Term Growth Facility Trust	N/A	1,630,253	2,011,387	13/06/2007	2.65%	34.55%	13.00%
Total			13,130,776				

Investment Body	Face Value	Security
Southern Phone Company	N/A	2 shares

TOTAL INVESTMENTS \$ **155,608,158**

* 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

