

**GO2 – Investment of Funds as at 30 June 2016**

GO2

**Investment of Funds as at 30 June 2016**

112

1022-3

**EXECUTIVE SUMMARY**

- This report provides details of Council's invested funds as at 30 June 2016.
- It is recommended that the information and certification in relation to the investment of Council funds as at 30 June 2016 be noted.

**REPORT**

At its last meeting, the Reserve Bank left the cash rate at 1.75%. In relation to the domestic market, the Board of the Reserve Bank commented that:

*"In Australia, recent data suggest overall growth is continuing, despite a very large decline in business investment. Other areas of domestic demand, as well as exports, have been expanding at a pace at or above trend. Labour market indicators have been more mixed of late, but are consistent with a modest pace of expansion in employment in the near term.*

*Inflation has been quite low. Given very subdued growth in labour costs and very low cost pressures elsewhere in the world, this is expected to remain the case for some time.*

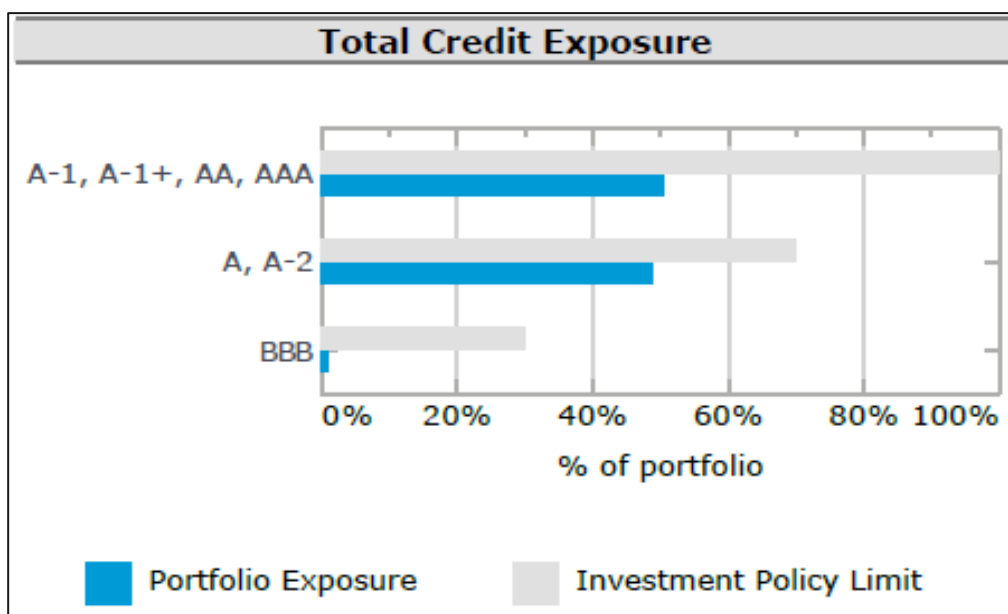
*Low interest rates have been supporting domestic demand and the lower exchange rate since 2013 is helping the traded sector. Financial institutions are in a position to lend and credit growth has been moderate. These factors are all assisting the economy to make the necessary economic adjustments, though an appreciating exchange rate could complicate this.*

*Indications are that the effects of supervisory measures have strengthened lending standards in the housing market. Separately, a number of lenders are also taking a more cautious attitude to lending in certain segments. Dwelling prices have risen again in many parts of the country over recent months. But considerable supply of apartments is scheduled to come on stream over the next couple of years, particularly in the eastern capital cities."*

**GO2 – Investment of Funds as at 30 June 2016**

Since the last RBA meeting, the British “Brexit” referendum has been held, resulting in Britain deciding to leave the European Union. The initial reaction of financial markets to this decision has caused some volatility in the global financial markets and whilst analysts believe that Australia’s domestic banks are well positioned to be able to weather the market volatility, Council will continue to monitor and review its investment portfolio while liaising with our investment advisors, to ensure that returns are maximised and risk exposure is minimised.

As shown in the following chart, the credit rating on Council’s portfolio as at 30 June 2016 is within Council’s investment policy limits.



The percentage of Council's investment portfolio invested with each institution as at 30 June 2016 also complies with the limits specified in Council's investment policy, as detailed in the following table.

Governance

**GO2 – Investment of Funds as at 30 June 2016**

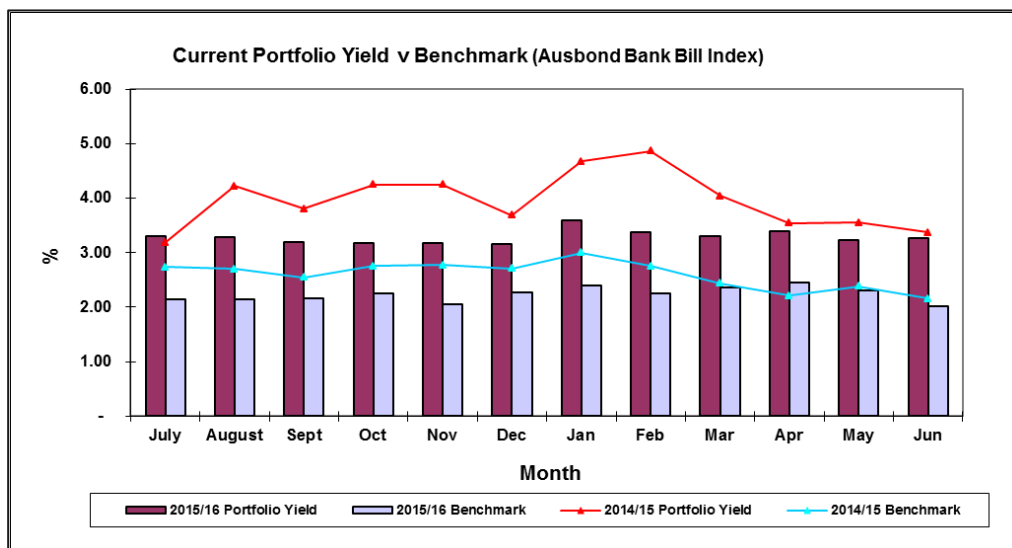
<b>% used vs Investment Policy Limit</b>		
	<b>% used vs Investment Policy Limit</b>	
Bendigo and Adelaide Bank (A-2, A-)	92%	✓
Members Equity Bank (A-2, BBB+)	77%	✓
National Australia Bank (A-1+, AA-)	54%	✓
Bank of Queensland (A-2, A-)	46%	✓
Commonwealth Bank of Australia (A-1+, AA-)	21%	✓
Westpac Group (A-1+, AA-)	16%	✓
Suncorp Bank (A-1, A+)	12%	✓
Macquarie Group (A-1, A)	12%	✓
Credit Union Australia (A-2, BBB+)	10%	✓
AMP Bank (A-1, A+)	8%	✓
Emerald Reverse Mortgage (B Tranche) (AA)	6%	✓
ANZ Group (A-1+, AA-)	6%	✓
Emerald Reverse Mortgage (A Tranche) (AAA)	3%	✓

The vast majority of Council's investment portfolio (96%) is invested in deposits / securities with Australian Authorised Deposit taking Institutions (ADI's). Council has been taking advantage of term deposit "specials" from various institutions without overexposing the portfolio to any one institution.

The marked to market valuations on some of the direct investment products in Council's portfolio remain at less than the face value of the investment. The marked to market value of these investments is expected to be equal to or greater than the face value by the time they reach their maturity date. Early exit from these products would realise losses.

**GO2 – Investment of Funds as at 30 June 2016**

The following chart compares Council's portfolio yield with the benchmark AusBond Bank Bill Index rate in each month for 2014/15 and 2015/16.



As shown in the chart above, Council's portfolio yield has continually exceeded the benchmark AusBond 3 month Bank Bill Index due to the prudent investment of Council's portfolio. For June 2016, Council's portfolio yielded 3.27% and returned 2.49% for the month compared to the benchmark's 2.02% pa return.

The following chart summarises Council's portfolio performance for the 2015/16 financial year.

Historical Performance Summary			
	Portfolio	AusBond BB Index	Outperformance
Jun 2016	2.49%	2.02%	0.47%
Last 3 Months	3.40%	2.26%	1.13%
Last 6 Months	3.17%	2.30%	0.87%
Financial Year to Date	2.70%	2.24%	0.46%
Last 12 months	2.70%	2.24%	0.46%

Under Reg 212 of the Local Government (General) Regulation 2005, Council's Responsible Accounting Officer must provide Council each month with a written report setting out details of all money that Council has invested under section 625 of the Act.

Details of Council's investment portfolio as at 30 June 2016 are provided in attachment 1.

**GO2 – Investment of Funds as at 30 June 2016**

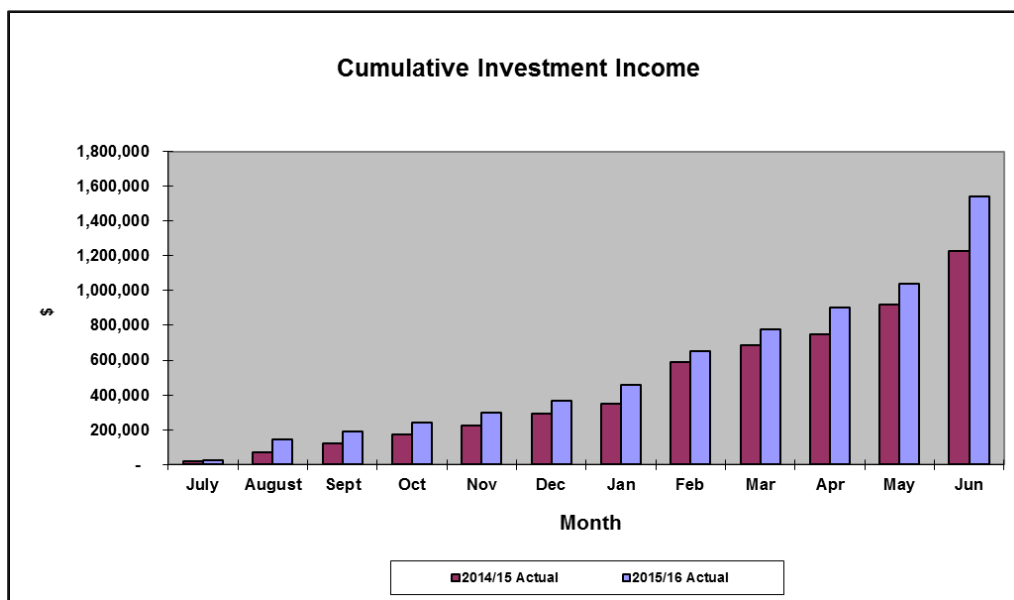
**CONSULTATION**

Independent advice regarding the investment of Council funds was provided by Prudential Investment Services Corp.

**FINANCIAL IMPLICATIONS**

Interest earned is allocated to restricted cash and income in accordance with Council’s adopted budget, policy and legislative requirements.

The following chart compares the actual interest for 2015/16 with the prior year’s interest income.



Governance

Council’s investment income for 2015/16 is higher than the income received for 2014/15. While interest rates on investments remained low Council’s current portfolio base was higher than expected as some major projects originally proposed for 2015/16 were deferred until 2016/17.

The prudent investment of funds is necessary to ensure Council’s long term financial sustainability.

**CERTIFICATION**

I hereby certify that Council’s investments have been made in accordance with Sec 625 of the Local Government Act 1993, clause 212 of the Local Government (General Regulations) 2005 and Council’s Investment Policy.

Ashley Christie  
 Manager Financial Services  
 WOLLONDILLY SHIRE COUNCIL

Report of Governance to the Ordinary Meeting of Council held on Monday 15 August 2016

---

**GO2 – Investment of Funds as at 30 June 2016**

**ATTACHMENTS:**

1. Investments as at 30 June 2016 including reconciliation of invested funds.

**RECOMMENDATION**

That the information and certification in relation to the investment of Council funds as at 30 June 2016 be noted.

WOLLONDILLY SHIRE COUNCIL

Report of Governance to the Ordinary Meeting of Council held on Monday 15 August 2016

**GO2 – Investment of Funds as at 30 June 2016**

**ATTACHMENT 1 – 1022-3 – 15 AUGUST 2016**

INVESTMENTS AS AT 30 JUNE 2016							
Reporting Period:		1-Jun-16	to	30-Jun-16			
Investment Institution	Rating	Face Value 30-Jun-16	Current Value 30-Jun-16	Percentage Holding	Interest		
					%p.a.	Received / Accrued	Maturity
<b>CASH INVESTMENTS</b>							
<b>National Australia Bank</b>							
<i>General Account Balance (for information only. Not included in Total Cash Plus Investments)</i>							
<b>11AM At call</b>	A-1+	2,095,000	2,095,000	4.31%	2.05	7,006	At Call
<b>Term Deposits</b>							
Bank of Queensland (Matured)	A-2					0	01-Jun-16
National Australia Bank (Matured)	A-1+					1,132	15-Jun-16
National Australia Bank (Matured)	A-1+					1,256	22-Jun-16
Bank of Queensland	A-2	1,000,000	1,029,000	2.12%	2.90	2,384	04-Jul-16
National Australia Bank	A-1+	1,000,000	1,029,130	2.12%	2.97	2,441	06-Jul-16
Bendigo & Adelaide Bank	A-2	1,000,000	1,027,888	2.11%	2.90	2,384	13-Jul-16
ME Bank	A-2	1,000,000	1,017,831	2.09%	3.07	2,523	27-Jul-16
Bank of Queensland	A-2	1,000,000	1,022,753	2.10%	2.75	2,260	03-Aug-16
National Australia Bank	A-1+	1,000,000	1,012,247	2.08%	3.00	2,466	03-Aug-16
ME Bank	A-2	1,000,000	1,017,411	2.09%	3.10	2,548	10-Aug-16
Bank of Queensland	A-2	500,000	505,393	1.04%	3.10	1,274	25-Aug-16
Bank of Queensland	A-2	1,000,000	1,010,362	2.08%	3.10	2,548	01-Sep-16
National Australia Bank	A-1+	1,000,000	1,022,488	2.10%	2.85	2,342	14-Sep-16
National Australia Bank	A-1+	1,000,000	1,014,205	2.08%	3.05	2,507	12-Oct-16
Commonwealth Bank of Australia	A-1+	1,000,000	1,017,981	2.09%	2.93	2,408	19-Oct-16
Bank of Queensland	A-1+	1,000,000	1,012,451	2.08%	3.05	2,477	02-Nov-16
Bendigo & Adelaide Bank	A-2	500,000	509,097	1.05%	2.85	1,171	09-Nov-16
National Australia Bank	A-1+	1,000,000	1,014,803	2.09%	3.07	2,523	07-Dec-16
National Australia Bank	A-1+	1,000,000	1,006,666	2.07%	3.08	2,532	14-Dec-16
National Australia Bank	A-1+	1,000,000	1,009,673	2.08%	3.07	2,523	10-Jan-17
Suncorp Bank	A-1	1,000,000	1,001,337	2.06%	3.05	1,337	18-Jan-17
National Australia Bank	A-1+	1,000,000	1,005,521	2.07%	3.10	2,548	25-Jan-17
ME Bank	A-2	2,000,000	2,024,901	4.16%	3.05	5,014	01-Feb-17
ME Bank	A-2	1,000,000	1,011,381	2.08%	3.10	2,548	16-Feb-17
ME Bank	A-2	1,000,000	1,010,514	2.08%	3.12	2,564	28-Feb-17
ME Bank	A-2	1,000,000	1,010,428	2.08%	3.12	2,564	01-Mar-17
National Australia Bank	A-1+	750,000	750,536	1.54%	2.90	536	19-Apr-17
Bendigo & Adelaide Bank	A-2	2,000,000	2,007,112	4.13%	3.12	4,849	17-May-17
Bendigo & Adelaide Bank	A-2	1,000,000	1,002,425	2.06%	2.95	2,425	31-May-17
Bendigo & Adelaide Bank	A-2	1,000,000	1,024,570	2.11%	2.95	2,425	29-Aug-17
Bendigo & Adelaide Bank	A-2	1,000,000	1,025,904	2.11%	3.05	2,507	27-Aug-18
<b>TOTAL CASH PLUS INVESTMENTS</b>		<b>30,845,000</b>	<b>31,249,008</b>	<b>64.24%</b>		<b>78,021</b>	
Investment Institution	Rating	Face Value 30-Jun-16	Current Value 30-Jun-16	Percentage Holding	Interest		
					%p.a.	Received / Accrued	Maturity
<b>INVESTMENT SECURITIES</b>							
<b>Corporate Bond</b>							
National Australia Bank	AA-	1,000,000	1,045,182	2.15%	6.00	4,945	15-Feb-17
<b>Zero Coupon Bond</b>							
Commonwealth Bank of Australia	AA-	2,000,000	1,924,520	3.96%	7.17		22-Jan-18
<b>Floating Rate Notes</b>							
Members Equity Bank Pty Ltd	BBB+	500,000	502,378	1.03%	3.24	1,329	28-Nov-16
Westpac Banking Corporation	AA-	500,000	506,151	1.04%	3.64	1,494	20-Feb-17
Macquarie Bank	A	1,000,000	1,003,088	2.06%	4.92	4,113	09-Mar-17
CUA Snr FRN	BBB+	500,000	505,217	1.04%	3.88	1,595	01-Apr-19
Westpac Banking Corporation	AA-	1,000,000	1,004,307	2.06%	3.00	2,462	10-May-19
AMP Snr FRN	A+	750,000	749,725	1.54%	3.12	2,007	11-Jun-19
Bendigo Bank Senior FRN	A-	1,000,000	990,282	2.04%	2.93	2,547	17-Sep-19
ANZ Snr FRN	AA-	1,000,000	1,000,873	2.06%	2.87	2,355	11-Nov-19
Westpac Banking Corporation	AA-	1,000,000	1,003,213	2.06%	3.17	2,607	22-Jan-20
Macquarie Bank	A	1,000,000	996,574	2.05%	3.10	2,561	03-Mar-20
CBA Snr FRN	AA-	1,000,000	1,002,417	2.06%	3.19	2,622	17-Jul-20
Bendigo Bank Senior FRN	A-	1,000,000	994,549	2.04%	3.09	2,542	18-Aug-20
Suncorp Senior FRN	A+	1,000,000	1,007,633	2.07%	3.53	2,897	20-Oct-20
CBA Snr FRN	AA-	500,000	504,602	1.04%	3.44	1,414	18-Jan-21
Bendigo Bank Senior FRN	A-	500,000	503,754	1.04%	3.74	1,535	20-Apr-21
Westpac Banking Corporation	AA-	1,000,000	1,002,488	2.06%	3.17	2,428	03-Jun-21
<b>Mortgage Backed Securities</b>							
Emerald Reverse Mortgage Series 2007-1 Class B	AA	1,000,000	605,495	1.24%	2.83	2,322	21-Jul-27
Emerald Reverse Mortgage Series 2006-1 Class A	AAA	683,599	541,829	1.11%	2.45	1,374	22-Aug-22
<b>TOTAL CASH &amp; INVESTMENT SECURITIES</b>		<b>17,933,599</b>	<b>17,394,280</b>	<b>35.76%</b>	<b>3.27</b>	<b>45,148</b>	

Governance

**GO2 – Investment of Funds as at 30 June 2016**

**ATTACHMENT 1 – 1022-3 – 15 AUGUST 2016**

**Summary of Investment Holdings by Investment Type as at 30 June 2016**

	Face Value (\$)	Current Value (\$)	Current Yield (%)
Bonds	3,000,000.00	2,969,702.42	6.78
Cash	2,095,000.00	2,095,000.00	1.80
Floating Rate Note	13,250,000.00	13,277,252.63	3.34
Mortgage Backed Security	1,683,599.36	1,147,324.58	2.67
Term Deposit	28,750,000.00	29,154,008.48	3.01
	<b>48,778,599.36</b>	<b>48,643,288.11</b>	<b>3.27</b>