

GO2 – Investment of Funds as at 30 November 2016 and 31 December 2016

GO2

Investment of Funds as at 30 November 2016 and 31 December 2016

112

TRIM 1022-4

EXECUTIVE SUMMARY

- This report provides details of Council's invested funds as at 30 November 2016 and 31 December 2016.
- It is recommended that the information and certification in relation to the investment of Council funds as at 30 November 2016 and 31 December 2016 be noted.

REPORT

At its December meeting, the Reserve Bank left the cash rate at 1.50%. In relation to the domestic market, the Board of the Reserve Bank commented that:

"Financial markets are functioning effectively. Government bond yields have risen further with the adjustment having been orderly. Funding costs for some borrowers have also risen, but remain low. Globally, monetary policy remains remarkably accommodative.

In Australia, the economy is continuing its transition following the mining investment boom. Some slowing in the year-ended growth rate is likely, before it picks up again. Further increases in exports of resources are expected as completed projects come on line. The outlook for business investment remains subdued, although measures of business sentiment remain above average.

Labour market indicators continue to be somewhat mixed. The unemployment rate has declined this year, although some measures of labour underutilisation are little changed. There continues to be considerable variation in employment outcomes across the country. Part-time employment has been growing strongly, but employment growth overall has slowed. The forward-looking indicators point to continued expansion in employment in the near term.

Inflation remains quite low. The continuing subdued growth in labour costs means that inflation is expected to remain low for some time, before returning to more normal levels.

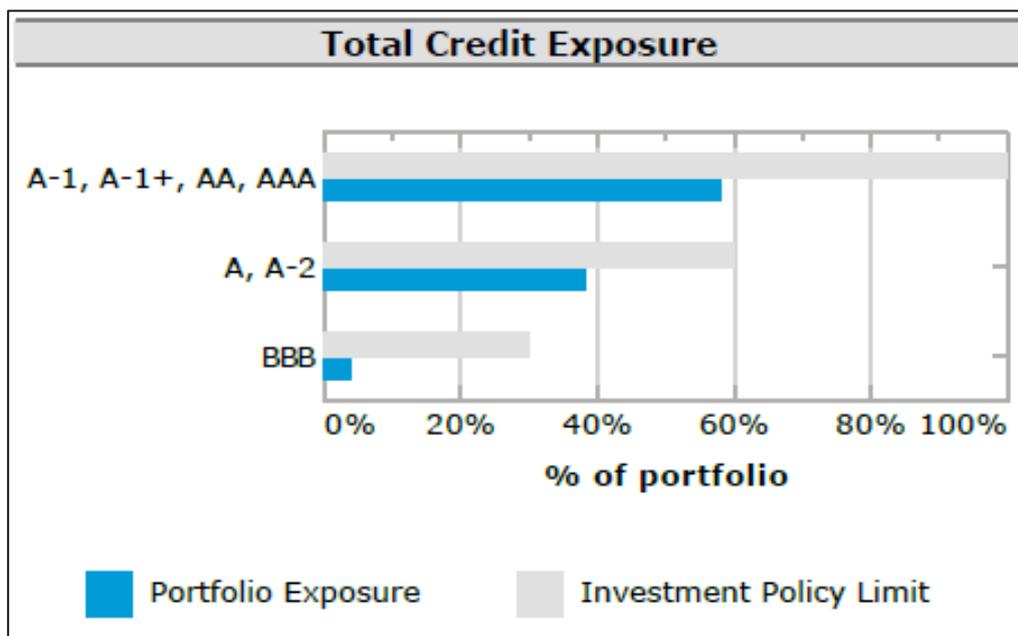
GO2 – Investment of Funds as at 30 November 2016 and 31 December 2016

Low interest rates have been supporting domestic demand and the lower exchange rate since 2013 has been helping the traded sector. Financial institutions are in a position to lend for worthwhile purposes. These factors are assisting the economy to make the necessary adjustments, though an appreciating exchange rate could complicate this."

Council will continue to monitor and review the portfolio while liaising with our investment advisors, to ensure that returns are maximised and risk exposure is minimised.

As shown in the following charts, the credit rating on Council's portfolio as at 30 November 2016 and 31 December 2016 is within Council's investment policy limits.

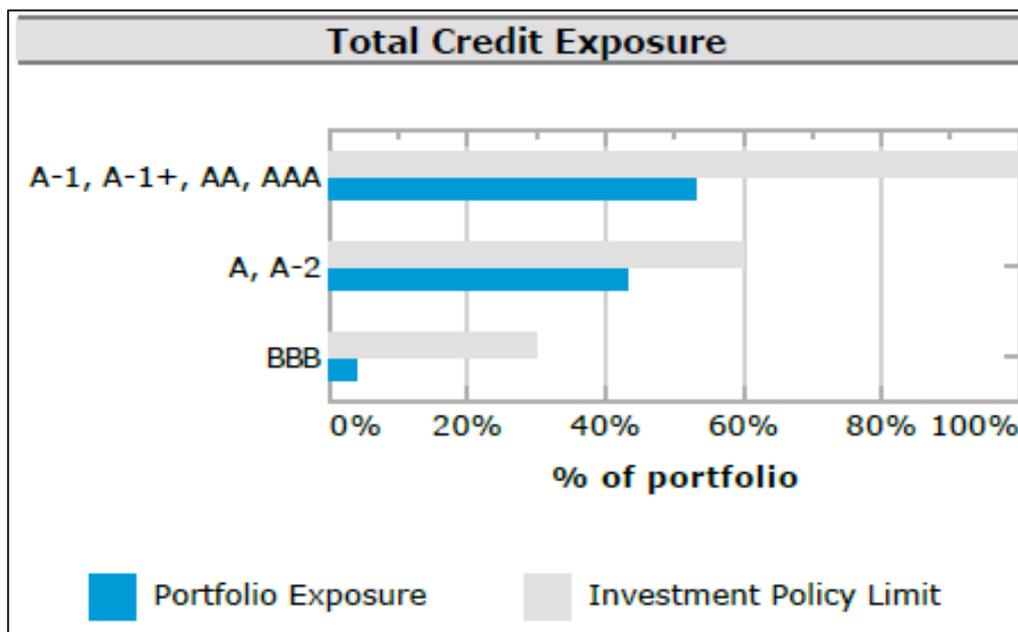
NOVEMBER 2016



Governance

GO2 – Investment of Funds as at 30 November 2016 and 31 December 2016

DECEMBER 2016



The percentage of Council's investment portfolio invested with each institution as at 30 November 2016 and 31 December 2016 also complies with the limits specified in Council's investment policy, as detailed in the following tables.

Governance

GO2 – Investment of Funds as at 30 November 2016 and 31 December 2016

NOVEMBER 2016

| % used vs Investment Policy Limit | | |
|--|--|---|
| | % used vs Investment Policy Limit | |
| Bendigo and Adelaide Bank (A-2, A-) | 80% | ✓ |
| Members Equity Bank (A-2, BBB+) | 56% | ✓ |
| National Australia Bank (A-1+, AA-) | 53% | ✓ |
| Westpac Group (A-1+, AA-) | 42% | ✓ |
| Bank of Queensland (A-2, A-) | 38% | ✓ |
| Commonwealth Bank of Australia (A-1+, AA-) | 19% | ✓ |
| Suncorp Bank (A-1, A+) | 11% | ✓ |
| Macquarie Group (A-1, A) | 11% | ✓ |
| Greater Building Society (A-2, BBB+) | 9% | ✓ |
| Credit Union Australia (A-2, BBB+) | 9% | ✓ |
| AMP Bank (A-1, A+) | 7% | ✓ |
| Emerald Reverse Mortgage (B Tranche) (AA) | 5% | ✓ |
| ANZ Group (A-1+, AA-) | 5% | ✓ |
| Emerald Reverse Mortgage (A Tranche) (AAA) | 3% | ✓ |

Governance

GO2 – Investment of Funds as at 30 November 2016 and 31 December 2016

DECEMBER 2016

| | % used vs Investment Policy Limit | |
|--|--|---|
| Bendigo and Adelaide Bank (A-2, A-) | 79% | ✓ |
| Members Equity Bank (A-2, BBB+) | 65% | ✓ |
| Bank of Queensland (A-2, A-) | 56% | ✓ |
| Westpac Group (A-1+, AA-) | 41% | ✓ |
| National Australia Bank (A-1+, AA-) | 39% | ✓ |
| Commonwealth Bank of Australia (A-1+, AA-) | 19% | ✓ |
| Suncorp Bank (A-1, A+) | 16% | ✓ |
| Macquarie Group (A-1, A) | 11% | ✓ |
| Greater Building Society (A-2, BBB+) | 9% | ✓ |
| Credit Union Australia (A-2, BBB+) | 9% | ✓ |
| AMP Bank (A-1, A+) | 7% | ✓ |
| Emerald Reverse Mortgage (B Tranche) (AA) | 5% | ✓ |
| ANZ Group (A-1+, AA-) | 5% | ✓ |
| Emerald Reverse Mortgage (A Tranche) (AAA) | 3% | ✓ |

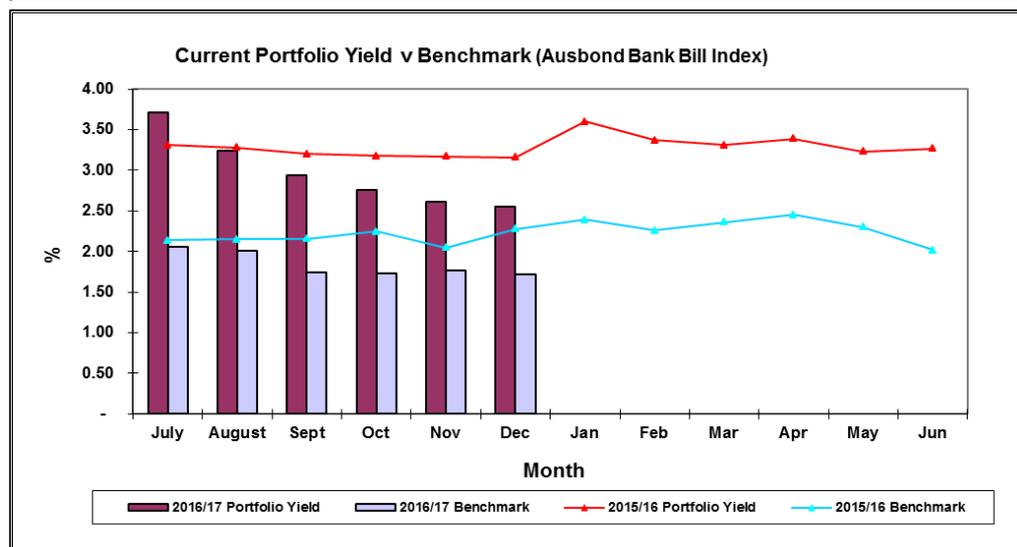
The majority of Council's investment portfolio (96%) is invested in deposits / securities with Australian Authorised Deposit taking Institutions (ADI's). Council has been taking advantage of term deposit 'specials' from various institutions without overexposing the portfolio to any one institution.

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.

Governance

GO2 – Investment of Funds as at 30 November 2016 and 31 December 2016

The following chart compares Council’s portfolio yield with the benchmark AusBond Bank Bill Index rate in each month for 2015/16 and 2016/17.



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 November 2016, Council’s portfolio yielded 3.07% and returned 2.61% for the month, compared to the benchmark’s 1.77% pa return. For December 2016, Council’s portfolio yielded 3.09% and returned 2.55% compared to the benchmark’s 1.72% pa return.

The following Chart summarises Council's portfolio performance for the previous 12 months.

| Historical Performance Summary | | | |
|--------------------------------|-----------|------------------|----------------|
| | Portfolio | AusBond BB Index | Outperformance |
| Dec 2016 | 2.55% | 1.72% | 0.83% |
| Last 3 Months | 2.64% | 1.74% | 0.90% |
| Last 6 Months | 2.91% | 1.84% | 1.07% |
| Financial Year to Date | 2.91% | 1.84% | 1.07% |
| Last 12 months | 3.04% | 2.07% | 0.97% |

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.

GO2 – Investment of Funds as at 30 November 2016 and 31 December 2016

Details of Council’s investment portfolio as at 30 November 2016 and 31 December 2016 are provided in attachment 1.

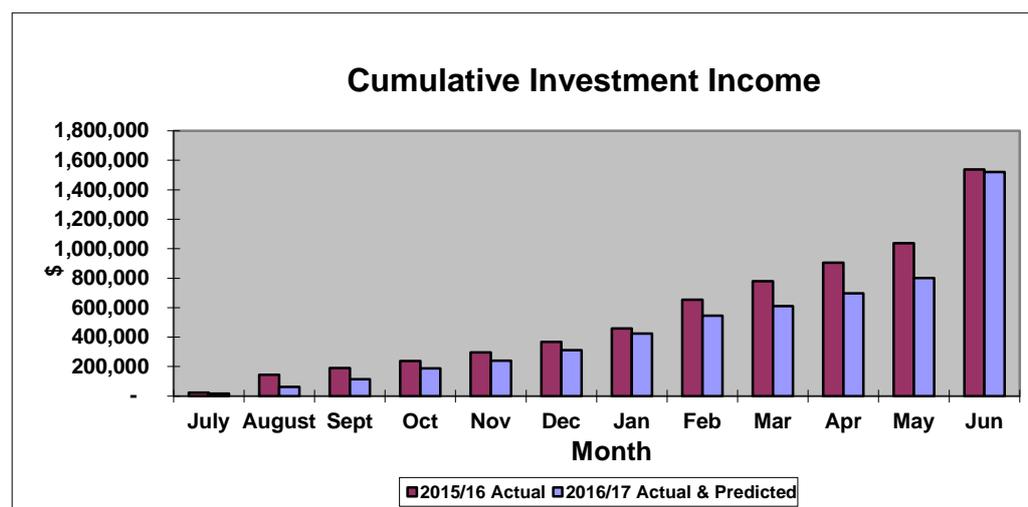
CONSULTATION

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 and predicted interest for 2016/17 with the prior year’s interest income.



Council’s investment income for 2016/17 is expected to be similar to the investment income received for 2015/16. However, while interest rates remain low, the expected investment income will be reviewed and revised as more information becomes available.

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

Governance

GO2 – Investment of Funds as at 30 November 2016 and 31 December 2016

ATTACHMENTS INCLUDED IN A SEPARATE BOOKLET

1. Investments as at 30 November 2016 including summary of investment holdings by investment type.
2. Investments as at 31 December 2016 including summary of investment holdings by investment type.

RECOMMENDATION

1. That the information and certification in relation to the investment of Council funds as at 30 November 2016 be noted.
2. That the information and certification in relation to the investment of Council funds as at 31 December 2016 be noted.