

ITEM 4. INVESTMENTS HELD AS AT 31 MARCH 2009

FILE NO: S034147

SUMMARY

This report provides details of Council's Investment Portfolio as at 31 March 2009.

Council's total Investment and Cash position stands at \$410.9M, with investments earning interest of \$1.4M for the month of March.

Council achieved an annualised monthly return of 3.86% for March, above the 30 Day Bank Bill Rate (BBR) of 2.92% and the UBSA Bank Bill Index of 3.14%. The investment returns and the benchmark indexes continue to decline in line with the significant interest rate cuts since October 2008.

Council's annual rolling return of 6.15% exceeded the 12 month 30 Day BBR of 5.92%, but underperformed the UBSA Bank Bill Index of 6.70% as at March, reflecting the growing proportion of the portfolio that is now invested in lower yielding term deposits.

In accordance with Council's Investment Policy, the March quarterly investment report includes in Schedule A the latest indicative market valuations of all direct securities (including Floating Rate Notes, CDOs and Capital Protected Products). The values are indicative of a hypothetical situation where immediate sales of the investments in non-liquid markets were required. Since the December quarter report, the indicative market value of the total portfolio has increased by \$618,000, comprising increases in the values of FRNs and Capital Protected products of \$1.13M and \$0.73M respectively, offset by decreases in the values of CDOs of \$1.24M.

The report also includes graphs which illustrate that Council's liquidity profile continues to satisfy the requirements of the policy, and charts which identify the distribution of Council's portfolio across credit ratings, investment product types and investment institutions. Separate charts depicting the City's portfolio returns over and above both the 90 day UBSA and 30 Day BBR benchmarks for the past four years have also been included to provide further insight into the City's total investment portfolio performance.

RECOMMENDATION

It is resolved that the Investment Report as at 31 March 2009 be received and noted.

ATTACHMENTS

Attachment A: Register of Investments and Cash as at 31 March 2009.

Attachment B: Investment Performance as at 31 March 2009.

BACKGROUND

1. In accordance with the principles of financial management, cash that is surplus to Council's immediate requirements is invested within acceptable risk parameters to optimise interest income while ensuring the security of these funds.
2. Surplus cash is only invested in authorised investments that comply with governing legislation and Council's Investment Policy and Strategy.
3. Council's total Investment and Cash position as at 31 March 2009 is \$410.9M, a decrease of \$3.5M from the \$414.4M reported at 28 February 2009, reflecting capital works and other operational payments. A schedule detailing all of Council's investments as at the end of March is provided at Attachment A.
4. The benchmark performance goal of Council's Investment Policy and Strategy is to surpass the 30 day Bank Bill Rate (BBR) and, in addition, performance is measured against the UBSA Bank Bill index.
5. Council achieved an annualised monthly return of 3.86% for March, above the 30 Day Bank Bill Rate (BBR) of 2.92% and the UBSA Bank Bill Index of 3.14%. The investment returns and the benchmark indexes continue to decline in line with the significant interest rate cuts since October 2008.
6. Council's annual rolling return for March of 6.15% exceeded the 12 month 30 Day BBR of 5.92%, but underperformed the UBSA Bank Bill Index of 6.70% as at March. This result reflects the increasing proportion of lower yield term deposits in the portfolio, with average lives extending less than 4 months, compared to the higher returns that were received over the entire 12 month period.
7. In accordance with Council's Investment Policy, the March quarterly investment report includes in Schedule A the latest indicative market valuations of all direct securities (including Floating Rate Notes, CDOs and Capital Protected Products). Since the December quarter report, the indicative market value of the total portfolio has increased by \$618,000, comprising increases in the values of FRNs and Capital Protected products of \$1.13M and \$0.73M respectively, offset by decreases in the values of CDOs of \$1.24M. The values are indicative of a hypothetical situation where immediate sales of the investments would be required. These investments were acquired as medium and long-term investments to be held to maturity and net decreases in values remain as "paper" losses. These investments would only be disposed if investment options that were more suitable to the current investment strategy were available in a liquid market.
8. The global financial crisis continues to have an impact on conditions in most major economies, especially the US, Europe and Japan, and has resulted in lower interest rates, contractions in business operations and increases in insolvencies and unemployment. These factors, along with the downgrading of credit ratings of a number of enterprises and the absence of liquid secondary markets, are the main reasons for the declines in the indicative valuations of CDOs.

9. Council's investment portfolio consists of investments with the Big 4 banks and other Australian ADIs amounting to \$323.4M or 78.8% of the portfolio. Of this amount, \$38M is covered by the Government Guarantee. Additionally, \$55.6M or 13.5% is invested with the Local Government Superannuation Fund. CDO investments comprise about 2 per cent of the portfolio, with capital protected investments making up the balance. An analysis of the investment distribution by financial institution is contained in Attachment B.
10. In accordance with Council's Investment Policy, the December quarterly investment report includes graphs which illustrate that Council's liquidity profile continues to satisfy the requirements of the policy and charts that identify the distribution of Council's portfolio across credit ratings and investment product types and investment institutions.
11. Given the current market environment and its impact on the financial value of the City's investments, a separate graph showing the value of each investment type together with associated provisions against write-down and additional charts depicting the City's portfolio returns over and above both the 90 day UBSA and 30 Day BBR benchmarks for the past four years have also been included to provide further insight into the City's total investment portfolio performance.

KEY IMPLICATIONS

12. Council's investments continue to accord with the proposed Minister's Investment Order and the Investment Policy and Strategy adopted by Council on 30 June 2008, including the ability to retain grandfathered investments.

FINANCIAL IMPLICATIONS

13. Council's investments earned interest of \$1.4M for the month of March 2009, and \$21.6M YTD, which represents an additional \$2.8M to the YTD interest income budget.
14. As previously reported, the write-off of the Palladin CDO and provision for the investments with Lehman Bros which are in the process of liquidation, has required recognition of an unbudgeted \$3.2M loss within the 2008/09 accounts. A further unbudgeted \$4.0M provision is likely to be required by 30 June in accordance with accounting standards in order to provide for the decline in the indicative sale values of the CDOs and Capital Protected investments during the 2008/09 financial year.

RELEVANT LEGISLATION

15. Council is authorised to invest its surplus cash under Section 625 of the Local Government Act 1993.
16. The Local Government (General) Regulation 2005 (clause 212) requires Council to provide a written monthly report of all monies invested, under Section 625 of the Act.

17. Council's Investment Policy and Strategy accord with all the requirements of the Ministerial Investment Order. These documents have been reviewed to cater for the implications that arise from the introduction of the Federal Government's deposit and wholesale funding guarantee scheme and are being separately recommended to Council for adoption.

CRITICAL DATES / TIME FRAMES

18. A monthly investment report must be submitted for Council's information and review within the following month.

PUBLIC CONSULTATION

19. Consultation is regularly undertaken with a number of fund managers and investment advisers to consider options and ensure that Council continues to maximise its investment return within appropriate risk parameters.

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