



March

Investment  
Strategy

2021

# Investment Strategy

## Purpose

The annual Investment Strategy sets out Council's investment goals and targets for the coming year. The aim of the strategy is to guide the management of Council's investment portfolio over the short to medium term to:

- achieve a balanced and diversified portfolio, in terms of allowable investment products, credit ratings and maturation terms that will outperform the benchmark indices; and
- ensure liquidity when required for Council's operational and capital expenditure needs.

This strategy has been prepared in consultation with Council's investment advisor, Laminar Capital Pty Ltd.

## Scope

The *Investment Strategy* applies to all managers and employees who actively manage investments or have responsibility for employees who actively manage investments.

This strategy should be read in conjunction with Council's *Investment Policy*.

## Effective Date

This document replaces any previous Strategy document approved by Council.

The effective date of this Strategy is 22 March 2021 and will be reviewed in March each year or when a change in either regulation or market conditions necessitates a review.

## Context

Council's investment strategy is determined after taking into consideration a review of the following issues:

- global and domestic economic investment environments;
- investment policy and legislative constraints;
- current composition of Council's investment portfolio;
- long, medium and short term financial plans.

## Global and domestic investment environments

Globally, COVID 19 has resulted in a significant economic fall in 2020. As the global pandemic is forecast to reduce in 2021 because of more effective containment through restrictions and vaccinations, the power of fiscal stimulus combined with accommodating monetary

conditions will be reinforced. Based on this forecast global economic growth, including Australian economic growth should accelerate in 2021 especially in the second half.

Australia stands out by international comparison both in economic performance and in containing COVID-19. The RBA stated position is that Australian economic recovery is occurring stronger and faster than earlier expected. The RBA has indicated that it intends to leave low official interest rates in place for at least three years to assist in sustainable economic recovery.

Australia's Quarter 4 Gross Domestic Product (GDP) report, when released in March, will be among the strongest in the world and will ensure that the fall in 2020 GDP is among the smallest, internationally.

### **Legislative environment**

Council's investment opportunities are constrained by a combination of legislation, regulation and any directions and guidelines issued by the Minister or the Office of Local Government.

There has been no change to the investment legislative environment for a number of years and the most recent Ministerial Investment Order released in January 2011 continues to limit Council's investment options to:

- term and at-call deposits with Approved Deposit-taking Institutions (ADIs);
- other ADI senior ranked securities;
- investments with NSW Treasury Corporation including their investment management division (TCorp and TCorpIM);
- funds or securities issued or guaranteed by the Commonwealth or any State or Territory.

The current investment limit parameters were aligned to Tcorp's investment guidelines which are very restrictive and therefore reduce the opportunity to maximise investment returns for Council. Tcorp have strict investment guidelines for any NSW local council that has, or is intending to, borrow funds from Tcorp. Council does not currently have any Tcorp borrowing and does not intend on borrowing funds from Tcorp in the short term. Therefore it is proposed that Council replace the Tcorp restricted limits with APRA's standard being Standard and Poor's (or equivalent Moodys or Fitch). These recommended investment limits will align Council with majority of NSW councils and councils Australia wide (besides those councils that have borrowed funds from Tcorp). These new limits will ensure Council maximises investment returns whilst ensuring that the risk approach remains prudent and within the NSW local government investment guidelines.

### **Composition of Council's investment portfolio**

The conservative nature of Council's Investment Strategy is clearly reflected in the structure of the portfolio, where 100% of the portfolio is invested with Australian Prudential Regulation Authority (APRA) - regulated ADIs.

Council's current portfolio is as follows (as at the end of December 2020):

<b>Investment</b>	<b>Split</b>
Big Four banks	54.4%
Australian mid-tier banks	38.4%
Foreign controlled Australian based ADIs	5.7%
Unrated – Local ADI	1.5%
<b>Total APRA-regulated ADIs</b>	<b>100%</b>

## **Investment strategy**

Council's investment portfolio will continue to be prudently managed in accordance with:

- Council's *Investment Policy* and related legislative and regulatory requirements;
- documented risk management procedures to preserve capital; and
- Council's operational and capital funding requirements.

## **Objectives**

Council's investment strategy for the period is to maintain the highly secure profile of the portfolio, provide liquidity and deliver competitive investment returns commensurate with the portfolio structure.

## **Risk profile**

The risk profile for Council's investment portfolio is based on the principles of being prudent, conservative and risk averse. This is achieved by managing the diversity and creditworthiness of investments in accordance with the *Investment Policy* and other relevant requirements.

All current investments are with APRA regulated financial institutions so that credit risk remains minimal.

The maturity profile of the investments is adequately spread to ensure that liquidity and maturity risks are also kept to a minimum.

Securities are highly liquid and Council makes full use of this rather than holding at-call money. Council has historically held Floating Rate Notices (FRNs) to maturity, but is increasingly seeking to optimise the entry and exit points for these types of investments.

## **Liquidity / Maturity**

The majority of Council's cash and investments portfolio is held as restricted reserves to satisfy legislative responsibilities and funding commitments contained within the *Dubbo 2040 Community Strategic Plan*.

To ensure Council has available funds to meet these short-term commitments, the following liquidity targets are set in accordance with the *Investment Policy*.

Investment Horizon Description	Investment Horizon - Maturity Date	Minimum Allocation	Maximum Allocation
Working capital funds	0-3 months	10%	100%
Short term funds	3-12 months	20%	100%
Short-Medium term funds	1-2 years	0%	70%
Medium term funds	2-5 years	0%	50%
Long term funds	5-10 years	0%	25%

Council's capital funding requirements will continue to increase over the next few years, Council anticipate the following major capital expenditures in 2021:

- Stormwater \$1m
- Water Augmentation \$20m
- Sewage Augmentation \$12m
- Road Network \$25m
- Sport and Recreation works \$1m

These projects are being funded from either grants or restricted assets and impact the overall cash available for investment. The maturity profile of the investment portfolio has become more concentrated in the short and medium term rather than the longer term.

Council's liquidity will be monitored on an ongoing basis to ensure cash requirements are met and that liquidity parameters remain within allowable limits set out in the *Investment Policy*.

### The Strategy

Investments are to be placed with the advantageous rate to Council and within the limits as set in the tables included in the *Investment Policy* and the Investment Strategy as listed below;

- Investment Policy - Performance Benchmark Table
- Investment Policy - Credit Rating Structure and Tenor Limits
- Investment Strategy – Investment Horizon Description

To maximise performance, the intention is to pursue the following actions during this strategy period;

- Reduce current cash holdings due to static cash rate forecast for the next 3 years.
- Increase fixed term deposits past 12 months.
- Take advantage of longer tenor specials available up to a maximum of 3 to 4 years unless an advantageous rate is available.
- Place longer term investments of 3 to 4 years in either floating rate deposits or FRNs unless term deposit opportunity arises.
- Identify opportunity in Regional and Offshore names in both Senior Unsecured and Covered Bonds.

- Purchase secondary market FRNs where investment can be optimised.
- Implement exposure to the unrated ADI category to a maximum of 5%.
- Maintain a well-structured portfolio with a mix of maturities laddered across tenors.
- Laminar Capital Pty Ltd are currently reviewing the appropriateness of the T-Corp managed funds. Subject to T-Corp's performance of these funds, Council may consider Laminar Capital Pty Ltd's recommendation to invest in T-Corp's short term income fund.

## **Environmentally and Socially Responsible Investments**

Council's ability to acquire environmentally and socially responsible investments within the current investment and policy environment remains limited, as:

- the structure of many of these investments remains prohibited under the current Ministerial Investment Order; and
- the global financial crisis caused significant declines in the valuation of the financial assets that comprise many of these investments.

Council will, however, continue to explore opportunities for supporting environmentally and socially responsible investments within these constraints. The investment climate is changing over time and Council notes that many large scale renewable projects are expected to evolve, which may offer sustainable investment opportunities in the future *via* coinvestments. Council will continue to encourage and give preference to these investments where they comply with the Ministerial Investment Order and satisfy Council's policy and investment objectives.

## **References**

### **Laws and standards**

- *Local Government Act 1993*;
- *Local Government (General) Regulation 2005*;
- Ministerial Investment Order;
- *Local Government Code of Accounting Practice and Financial Reporting*;
- Australian Accounting Standards;
- Office of Local Government Circulars.

### **Policies and procedures**

- and • Investment Policy