

An aerial photograph of Dubbo, Australia, showing the city, a large green field, and a river surrounded by dense trees. The image is partially framed by a large teal semi-circle on the left and a white semi-circle on the right.

# **2025** INVESTMENT STRATEGY



# Acknowledgement of Country

We acknowledge the Wiradjuri people who are the traditional custodians of the land on which we live, work and play. We pay our respects to Elders past and present of the Wiradjuri Nation and thank them for their care of the land, water and sky and extend that respect to other Indigenous Australians.

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## 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 maturity 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 Arlo Advisory Pty Ltd.

## Related Information

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.

This document replaces any previous Strategy document approved by Council. The effective date of this Strategy is 25 March 2025 and will be reviewed in March each year or when a change in either regulation or market conditions necessitates a review.

## Related Legislation

All investments are to comply with the following:

- Australian Accounting Standards;
- Local Government Act (1993);
- Local Government Code of Accounting Practice and Financial Reporting;
- Local Government (General) Regulation (2021);
- Ministerial Investment Order;
- Office of Local Government Circulars;
- Office of Local Government Investment Policy Guidelines;
- The Trustee Amendment (Discretionary Investments) Act (1997) – Section 14;

## 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.



# Investment Strategy

## 1. Global and Domestic Investment Environments

The following commentary on Global and Domestic Environments has been provided by Council's Investment advisor Arlo Advisory Pty Ltd.

*"In the US, economic growth remains robust, downside labour market risks have receded, and inflation is still above target. However, after delivering their latest 25bp rate cut in December 2024, US Fed Chair Powell reaffirmed that they are going to be much more cautious in 2025, reflective of sticky inflation combined with President Trump's proposed economic policies (which is expected to exacerbate price pressures). In December 2024, US core CPI was +0.2% m/m against +0.3% expected, with the annual rate coming in at +3.2% y/y (above their 2% target).*

*With the US Federal Reserve (Fed) having already recalibrated to less restrictive settings, they are set to hold policy rates unchanged for several meetings. The majority of the US FOMC members predicted they would only cut the federal funds rate by 50bp in 2025 - half of the cuts they made in 2024.*

*China's Q4 GDP and December activity readings drew scepticism surrounding the +5.4% Q4 y/y GDP print. This was aided by somewhat curious large upward revisions to both Q2 and Q3 GDP, and the economy evidently regained some momentum last quarter, thanks to tailwinds from recent fiscal and monetary policy easing.*

*The January IMF World Economic Outlook revealed that global growth is expected to be +3.3% in both 2025 and 2026, largely unchanged from the forecasts from October.*

*Domestically, Australia's Consumer Price Index (CPI) rose +0.2% in the December 2024 quarter and +2.4% annually (against expectations +2.5%). Annual trimmed mean inflation was +3.2% in the December 2024 quarter, down from +3.6% in the September 2024 quarter.*

*The unemployment rate in Australia was 4.0% in December 2024 (rising from 3.93% to 3.98%). Employment growth was a strong +56k. The strong employment increase confirms trend employment growth remains healthy at 31k. The underemployment rate fell 0.1% to 6.0%, back around its 2022 lows after having moved up to 6.7%. Meanwhile, Australia's GDP rose by +0.3% q/q (+0.8% y/y) in Q3, weaker than consensus (+0.5%) and the RBA at +0.5% q/q. Overall, growth remains very soft in annual terms and is still around its weakest (ex. COVID) since the early 1990s.*

*The RBA is becoming more confident that inflation is slowly tracking towards their long-term target band ("Board is gaining some confidence"). In their last meeting of 2024, they removed the prior hawkish language that "policy will need to be sufficiently restrictive". Financial markets are currently expecting up to three rate cuts priced in by calendar year-end with the first RBA rate cut delivered in February 2025."*

## 2. 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.

### 3. Composition of Council's Investment Portfolio

The conservative nature of Council's Investment Strategy is clearly reflected in the structure of the portfolio, where ~95% of the portfolio is invested with Australian Prudential Regulation Authority (APRA)- regulated ADIs and the remaining ~5% of the portfolio is invested in Northern Territory Government Bonds.

Council's current portfolio is as follows (as at the end of January 2025)

Investment	Split
Big Four banks	49.4%
Australian mid-tier banks	41.6%
Foreign controlled Australian based ADIs	3.2%
Unrated – Local ADI	0.7%
<b>Total APRA-regulated ADIs</b>	<b>94.9%</b>
Northern Territory Government Bonds	5.1%
<b>Total Investment Composition</b>	<b>100.00%</b>

### 4. Strategy Management

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

- Council's Investment Policy and related legislative and regulatory requirements;
- Internal control practices to preserve capital; and
- Council's operational and capital funding requirements.

#### 4.1 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.

#### 4.2 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.

Current investments are with APRA regulated financial institutions and Northern Territory Government Bonds 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.

Council holds at-call funds to meet cash flow liquidity requirements and invests excess funds to maximise returns. Council has historically held Floating Rate Notices (FRNs) to maturity; however a 'held-for-trading' strategy (sale prior to maturity) would be considered if this would optimise the overall returns of the investment portfolio.

## 4.3 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. Major capital expenditures in 2025 are anticipated to be approximately \$97.8 million.

Additional requirements for capital expenditure are being funded from restricted assets which impacts 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.

## 4.4 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;**

- Maintain ongoing cash holdings at around 15-20% for cash flow requirements. Keeping a sufficient cash balance under 20% should not jeopardise liquidity, but it should also aid overall returns as the official cash rate dropped by .25bp in February 2025. Placing a spread of fixed term deposits between 12 months to 5 years, as term deposit rates are predicted to have peaked and have the potential to fall further as 2025 progresses;
- Take advantage of longer tenor specials available in fixed assets. This could either be in fixed term deposits, or fixed bonds both in the primary (new) and secondary market;
- Naturally prioritise investments by highest ratings when the variance in interest rates is marginal. Where rates are the same, as per the Policy, if within the adopted limits, Council will consider placement with the environmentally and socially responsible investment;
- Purchase secondary market FRNs where investment can be optimised reducing the liquidity risk and interest rate risk while having no impact on credit risk of the portfolio;
- Maintain a well-structured portfolio with a mix of maturities ladder across tenors.

## 5. 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 co-investments. 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.

Status	Version	Author	Date	Changes
Endorsed	1.0	Financial Operations	April 2025	

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