

REF: CM194/09

STATEMENT OF INVESTMENTS - SEPTEMBER 2009

Report of Manager Finance (EC) 12/10/09

SU23508

PRECIS

This report provides an overview of Council's investment portfolio performance for the month and a detailed report of investment held in line with legislative reporting requirements.

September investment returns were boosted by a strong performance from Council's equity investments and improved valuation of most securities during the period. The average weighted return for September was 4.95%. One of Council's investments, CLEAR 34, continues to be considered a high risk of default and has been appropriately devaluated in Council's records. The remainder of Council's portfolio continues to provide a high level of consistency in income and a high degree credit quality and liquidity.

RECOMMENDATION

- 1 Council receive the Statement of Investments for September 2009.**
- 2 Council update its Investment Policy to exclude "at call" funds with Council's banker from the 25% limit with any institution.**

BACKGROUND

Council's investment holdings as at 30 September 2009 were \$40,133,162.15 (Statement of Investments attachment) [30 September 2008: \$67,415,467.98].

During September, Council posted a weighted average return of 4.95% (annualised) compared to the benchmark return of 3.54% (annualised 90 day Bank Bill Rate as published in the Financial Review).

Council overall had good returns from Council's equity exposure within the NSW TCorp Long Term Growth Fund which returned 2.42% (\$24,767.33) for the month. It is noted that this investment was purchased as a long term growth product with expectations of short to medium term volatility and above benchmark performance over the longer term horizon of 5 to 7 years.

Overall, credit spreads (the return investors demand to compensate for perceived risk) on debt securities, including bank issued Floating Rate Notes (FRN) have narrowed over the past few months. This trend continued in September resulting in good marked to market returns for these securities (\$34,031). The Member's Equity FRN led Council's other bank exposures with an increase in valuation. In the short term, it is expected that market volatility will continue to impact the valuation of the FRN portion of Council's portfolio but that all FRN securities will meet interest and capital obligations as they fall due.

The recent contraction in credit spreads has led Moody's to revise down its default rate forecasts for the remainder of 2009. Reflecting this sentiment, Council's Ashwell 2006-5A CDO security recorded a marked to market return of (\$62,680) for September. The credit event with Thomson's recovery is still to be announced but assumed to be zero for this estimate. The security has subordination to sustain approximately six more credit events with 0% recovery before capital is at risk. The Ashwell 2006-5A is the only corporate linked CDO remaining in Council's portfolio.

As previously reported, Council's \$1M CLEAR 34 investment has been considered a high risk of default since it was significantly downgraded to CCC- in February 2008. Council has closely monitored this holding on a monthly basis in consultation with its investment advisor to formulate a

hold strategy during this time. The decision not to liquidate has been based on the security continuing to pay Council a quarterly income stream significantly above the 90 day BBSW rate and capital expectations above the current market rate. The CLEAR 34 security paid its scheduled interest payment in June and although there has been no official notice of default of this security, Merrill Lynch has informed Council's investment advisors they expect the security to make one and possibly two more quarterly coupon payments before defaulting.

The remainder of Council's portfolio which consists of a number of term deposits with highly rated Australian banks continue to offer a high level of consistency in the income stream and allow Council to retain a high degree of liquidity and credit quality.

Council's Responsible Accounting Officer has signed the complying Statement of Investments contained within the report, certifying that all investments were made in accordance with the Local Government Act 1993 and the Local Government Regulation 2005. Council's Investment Policy limits investments with individual institutions rated A-1+ to 25%. Investments with the Commonwealth Bank of Australia (CBA) (rated A-1+) represents 38% of investments at the end of September. This figure is inclusive of \$10.9M in a CBA Business Online Saver account and a government guaranteed FRN of \$1M. The CBA online account with Council's banker has been used to manage short term cash flow after changes to the Minister's Investment Order which removed the ability to use managed funds for this purpose.

Council's current Investment Policy needs to be updated to reflect the need for flexibility in the present turbulent environment. Strict compliance with our Investment Policy would have limited us to a 25% investment with CBA inclusive of the Online Saver account where we had a 38% investment. Choosing to place 38% was a prudent financial decision that had a financial gain for Council. The current Investment Policy was developed at a time where substantial use of 11AM accounts (on call account) was not contemplated and it is now considered that a change to Council's Policy is required to ensure an efficient administrative process for managing short term funds. A similar inconsistency occurred at the end of August which was not identified at the time.

This is to certify that all of the above investments have been placed in accordance with the Act and Regulations.

Name	Position Title
Author:	
Elizabeth Cohen	Accountant Taxation + Finance
Authorised by:	
Brian Jenkins	Manager Finance
Illana Halliday	Director Corporate + Community Services
David Farmer	General Manager

ATTACHMENTS

1. Statement of Investments - September 2009

WOLLONGONG CITY COUNCIL
STATEMENT OF INVESTMENTS
30 September 2009

DIRECT INVESTMENTS

Investment Body	Rating	Purchase Price	Fair Value of Holding	Security	Purchase Date	Maturity Date	Interest / Coupon Rate	FYTD (Actual)
St. George Bank	A-1+	\$120,000.00	\$120,000.00	11am	30/09/2009	1/10/2009	3.00%	0.00%
CBA Business On-line Saver	A-1+	\$10,900,000.00	\$10,900,000.00	11am	30/09/2009	1/10/2009	3.50%	0.00%
PLC SERIES 34 Credit Linked Enhanced Asset	CCC-	\$1,001,047.00	\$386.00	A/Bac	2/04/2007	21/03/2012	3.32%	50.15%
Commonwealth Bank Australia zero coupon bond with a \$4M face value	AA	\$2,000,000.00	\$2,280,000.00	BOND	21/01/2008	22/01/2018	7.17%	-1.75%
ASHWELL 2006-5A	B-	\$2,000,820.00	\$1,238,160.00	CDO	21/03/2006	21/03/2011	4.37%	41.13%
Commonwealth Bank Australia	AA-	\$1,002,420.00	\$998,982.82	FRN	15/01/2008	16/02/2010	3.58%	1.87%
ANZ	AA-	\$990,350.00	\$981,414.00	FRN	30/11/2007	17/08/2010	3.57%	2.67%
Adelaide Airport	BBB	\$2,000,000.00	\$1,935,120.00	FRN	15/12/2000	15/12/2010	3.79%	1.73%
Westpac	AA-	\$998,460.00	\$969,590.00	FRN	29/08/2007	24/01/2012	3.38%	3.70%
Members Equity Bank	BBB-	\$1,000,000.00	\$938,700.00	FRN	27/09/2006	8/03/2012	4.29%	23.59%
Commonwealth Bank Australia (Government Guaranteed)	AAA	\$1,000,000.00	\$1,039,033.24	FRN	17/12/2008	17/12/2013	4.46%	1.58%
EMERALD A Mortgage Backed Security	AAA	\$972,414.08	\$916,646.13	M/Bac	17/07/2006	22/08/2011	3.72%	-0.91%
EMERALD B Mortgage Backed Security	AA	\$2,000,000.00	\$1,767,840.00	M/Bac	17/07/2006	22/08/2011	4.02%	-2.15%
Newcastle	A1+	\$5,000,000.00	\$5,000,000.00	T/Deposit	9/09/2009	9/12/2009	4.70%	-
IMB	A2	\$5,000,000.00	\$5,000,000.00	T/Deposit	9/09/2009	9/11/2009	4.10%	-
Bankwest		\$5,000,000.00	\$5,000,000.00	T/Deposit	9/09/2009	9/10/2009	3.75%	-

MANAGED FUNDS

Investment Body	Rating	Purchase Price	Fair Value of Holding	Purchase Date	Monthly Return (Actual)	Annualised % p.a.	FYTD (Actual)
Tcorp Long Term Growth Facility Trust	N/A	\$1,131,841.44	\$1,047,287.96	13/06/2007	2.42%	49.60%	10.69%

Investment Body	Face Value	Security
Southern Phone Company	\$2.00	shares

TOTAL \$40,133,162.15

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B JENKINS
RESPONSIBLE ACCOUNTING OFFICER