Attachment B

2026/27 Investment Strategy

Investment Strategy

Purpose

The annual Investment Strategy ("the Strategy") sets out the City of Sydney's ("the City's) investment goals and targets for the coming year. The aim of the Strategy is to guide the management of the City's investment portfolio to:

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

Scope

The *Investment Strategy* applies to all managers and workers who actively manage the investment of surplus funds or have responsibility for workers who actively manage the investment of surplus funds.

This strategy should be read in conjunction with the *Investment Policy*.

Context

The City'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

The annual CPI inflation rate rose 4.0 per cent in the 12 months to August 2026, up from 3.5 per cent in the 12 months to July. The August 2026 CPI outcome means inflation is still above the RBA's target range of 2% to 3%.

~~Annual CPI inflation increased to 3.2% in the September 2025 quarter, up from 2.1% in the June quarter.~~ In response to the uptick in inflation, major financial institutions anticipate that the Reserve Bank of Australia (RBA) Monetary Policy Board will maintain the current cash rate at its November meeting. The RBA Board assessed that inflation is expected to remain above target for some time, with upside risks persisting, including pressures on inflation expectations. Ongoing global uncertainty continues to influence the inflation outlook and is likely to remain a key determinant in shaping the Bank's interest rate policy decisions ~~The RBA is expected to adopt a measured and cautious approach, allowing inflation to move closer to the centre of its target range before contemplating any further rate cuts. However, both global and domestic economic conditions are likely to remain key determinants in shaping the Bank's policy decision.~~

The Reserve Bank of Australia (RBA) raised the cash rate again on 29 September 2026 from 4.35% to 4.60% in response to persistent inflationary pressures ~~The RBA board lowered the cash rate by 25 basis points, to 3.60% on 12 August 2025. Note that financial institutions have reduced medium term deposit rates since the rate cut by the RBA in February 2025~~.

In Australia, a history of judicious regulation of the financial institutions by the Australian Prudential Regulation Authority (APRA) has meant that Australian based regulated financial institutions have already operated for an extended period under stringent capital adequacy and liquidity requirements. The City's investments all fall under APRA regulation with the result that the portfolio is conservative and secure.

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 several years and the most recent Ministerial Investment Order released in January 2011 continues to limit Council's investment options to:

- term deposits with Authorised Deposit-taking Institutions (ADIs)
- other ADI senior ranked securities
- investments with Australian government treasury bodies, including NSW Treasury Corporation (T-Corp)
- funds or securities issued or guaranteed by the Commonwealth or any State or Territory.

These guidelines were developed, in large part, as response to the Global Financial Crisis and its impact on the local government sector's investments. They effectively limit the City's investment profile to something similar to a cash managed fund, which generally produce lower returns but provide a high level of security. The City's returns from the investment portfolio remain in line with cash managed funds in the market.

Composition of the City'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 APRA-regulated ADIs.

Council's current portfolio is as follows (as at the end of August 2026~~5~~):

Investment	Split
Big Four banks	58~~74~~%
Australian mid-tier banks	29~~15~~%
Foreign controlled Australian based ADIs	13~~1~~%
Total	**100%**

The allocation of assets within the portfolio is with very secure institutions. In the past year, the City has diversified the portfolio with further selected investment into the Australian mid- tier banks as they continue to reflect strength and stability.

Investment strategy

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

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

Objectives

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

As noted in the investment policy, the City's primary objective in the purchase of financial investments is to collect contractual cash flows (i.e. interest revenue) over the life of the investment, and redeem the principal sum at maturity, rather than to regularly trade to make a profit. This constitutes a 'Held-to-Maturity business model'; one of three options described under AASB 9 – Financial Instruments. Under AASB 9, the classification and measurement of financial instruments is determined by an entity's business model.

Risk profile

The risk profile for the City'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.

The City's capital funding requirements will continue to remain high over coming years, including the funding of an expansive capital works program, potential community and commercial property acquisitions and the purchase of land for future open space. As a result, the maturity profile of the investment portfolio has generally become more concentrated in the short and medium term rather than the longer term. The maturity profile of the investments is adequately spread over those periods to ensure that liquidity and maturity risks are also kept to a minimum. All of these investments are held with APRA regulated financial institutions so that credit risk likewise remains minimal.

The most favourable market for term deposits is often with the APRA regulated Big Four Banks and Australian mid- tier banks. Accordingly, investments with these banks comprise approximately 8~~7~~9% of the City's total holdings at the time of writing and provide diversity within the portfolio.

Liquidity / Maturity

A significant portion of the City's cash and investments portfolio is held as internally restricted and externally restricted cash reserves to satisfy the City's legislative responsibilities and to set aside specific funds for the City's funding commitments to the major initiatives within the Delivering Sustainable Sydney 2030-2050 Community Strategic Plan.

To ensure the City has available funds to meet these commitments and its short-term operational and capital cash commitments, the following liquidity targets are set in accordance with the Investment Policy.

Investment period	Cumulative Minimum % of total portfolio
1 month	10% or $50M *(the greater of)*
2 to 12 months	40%
1 to 3 Years	55%
3 to 5 Years	90%
> 5 Years	100%

The City's liquidity is monitored on a daily basis to ensure the City's cash requirements are met and that liquidity parameters remain within allowable limits set out in the *Investment Policy*.

Return / Income

The City uses the following benchmarks to measure investment performance, in relation to both current month and 12-month rolling returns, against its return/income objectives:

- Bloomberg AusBond Bank Bill Index
- 30 day Bank Bill Rate as published by the Reserve Bank of Australia

The City aims to achieve portfolio returns equal to or above these benchmark rates for the period. However, this achievement remains secondary to the critical strategies of maintaining a prudent and conservative risk profile and in meeting the City's liquidity needs. This includes immediate operational and capital commitments as well as future years' capital commitments.

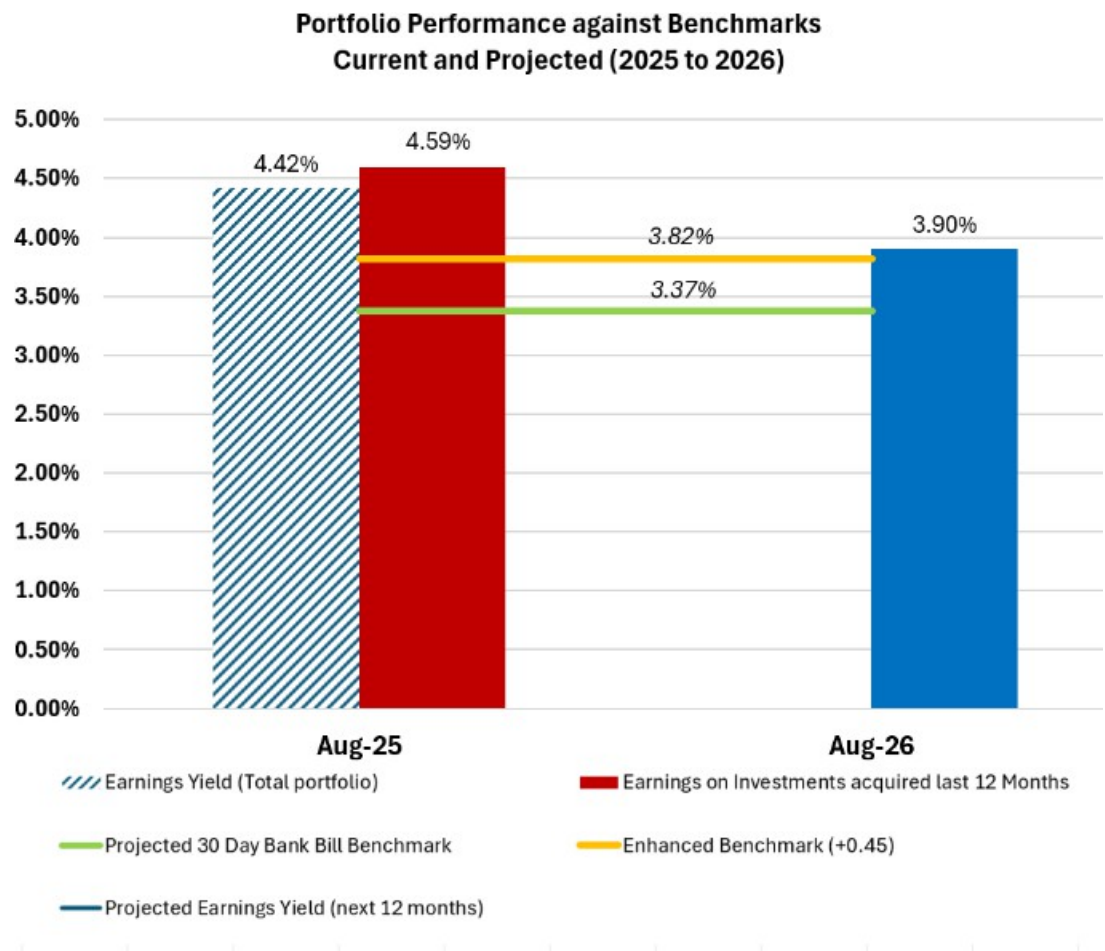
In addition, the City has utilised an additional strategic benchmark rate to measure its investment performance - exceeding the 30 day benchmark returns by at least 45 additional basis points (0.45% p.a.). The 45 basis point increase is based on observed historical average increased credit spreads (or margins) over bank bill rates on offer in relation to 30–90 day investments. The 30-90 bank bill rates represented a reflective benchmark at the time of adoption.

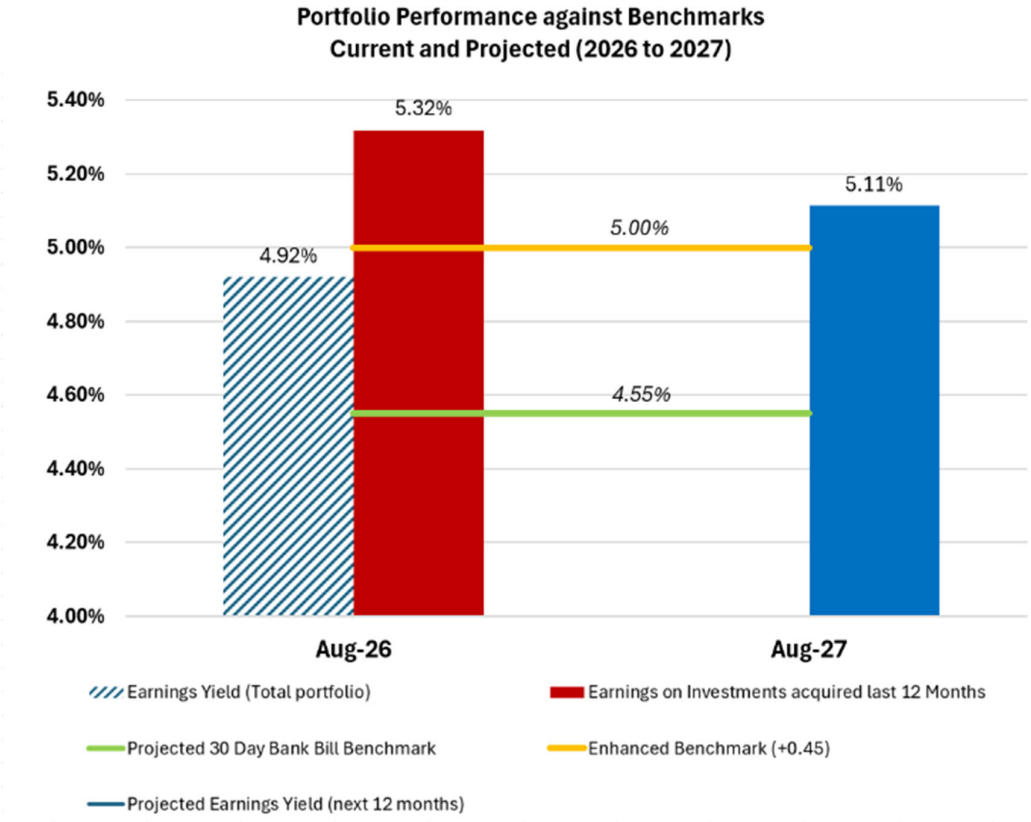
The City's returns from the investment portfolio are in line with cash managed funds in the market. As at August 2026~~5~~ around 81 per cent of the portfolio, including at call account, is due to mature in the coming year. ~~The City's investment portfolio returns are comparable to those of cash managed funds available in the market.~~

The following chart illustrates how earnings yields may potentially be impacted over the coming year as a result of the above factors. The chart assumes the re-investment of maturing deposits at prevailing rates at the time of writing.

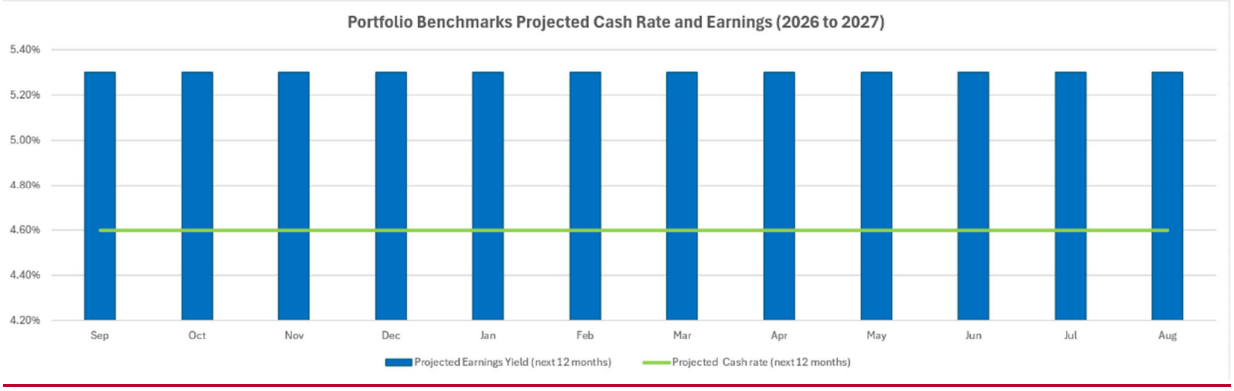
In response to sustained inflationary pressures, the Reserve Bank of Australia (RBA) increased the cash rate from 4.35% to 4.60% on 29 September 2026. Based on recent economic projections, the cash rate is not expected to decrease until late 2027, after which future rate cuts may be considered. Consequently, banks have been offering improved term deposit rates, providing more favourable returns for investors

~~Previous increases in official cash rates led to better rates of return. However, following the rate cut in February 2025, market rates have tightened, and banks have started lowering term deposit rates in anticipation of further cash rate cut from the Reserve Bank of Australia. This downward trend is expected to remain throughout the current financial year.~~


Portfolio Performance against Benchmarks
Current and Projected (2025 to 2026)
5.00%
4.50%
4.00%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
4.42%
4.59%
3.82%
3.37%
3.90%
Aug-25
Aug-26
Earnings Yield (Total portfolio)
Earnings on Investments acquired last 12 Months
Projected 30 Day Bank Bill Benchmark
Enhanced Benchmark (+0.45)
Projected Earnings Yield (next 12 months)


Portfolio Performance against Benchmarks
Current and Projected (2026 to 2027)
5.40%
5.20%
5.00%
4.80%
4.60%
4.40%
4.20%
4.00%
5.32%
5.11%
5.00%
4.92%
4.55%
Aug-26
Aug-27
Earnings Yield (Total portfolio)
Earnings on Investments acquired last 12 Months
Projected 30 Day Bank Bill Benchmark
Enhanced Benchmark (+0.45)
Projected Earnings Yield (next 12 months)

This trend is anticipated to continue beyond the current financial year which is represented in the chart below. The ~~below chart~~chart below represents a correlation between the cash rate and projected earnings yield for the next 12 months.



Environmentally and Socially Responsible Investments

The City'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
- excess demand for environmentally and socially responsible investments has reduced market rates of return on these products.

The City will, however, continue to explore opportunities for supporting environmentally and socially responsible investments within these constraints. The investment climate is changing over time and the City notes that many large scale renewable projects are expected to evolve, which may result in additional sustainable investment offers in the medium to long term. The City has continued to strive to acquire environmentally and socially responsible investments, but opportunities to invest further are constrained by market conditions, particularly the credit rating of investments and associated investment limits under the City's Investment Policy. The City 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.

In an increasingly volatile world, it should be noted that the investment policy continues to contain provisions that encourage environmentally and socially responsible investments (SRI) and seek to avoid investments in environmentally and socially harmful activities.

References

Laws and standards	• Local Government Act 1993 • Local Government (General) Regulation 2021 • Ministerial Investment Order • Local Government Code of Accounting Practice and Financial Reporting • Australian Accounting Standards • Office of Local Government Circulars
Policies and procedures	• Investment Policy

Approval

Review

Review period	Next review date	TRIM reference
The Code of Accounting Practice & Financial Reporting requires Council to undertake an annual review of its Investment Policy and Investment Strategy.	November 2026	