NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

LGFA Quarterly Report to Shareholders

September Quarter 2020

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A. September quarter highlights

Quarter	Total	Bespoke Maturity	April 2022	April 2023	April 2024	April 2025	April 2026	April 2027	April 2029	April 2033	April 2037
Bonds issued $m	**1,300**	N/A	450	-	100	-	50	50	100	50	500
Term Loans to councils $m	**1,105.2**	242.5	4.0	32.0	35.3	77.5	278.5	66.0	315.0	4.4	50.0
Term Loans to councils #.	**83**	29	1	2	6	12	15	8	8	1	1

Key points and highlights for the September quarter:

- The LGFA bond yield curve flattened and fell during the quarter to historic lows with front end yields declining less than back end yields e.g. 2022 yields closed the quarter 0.18% lower at 0.22% and 2033 yields were down 0.42% to 1.16%. Investors chased yield lower as the RBNZ continued to align its quantitative easing programme to match the increased NZGB issuance and reinforced the outlook for negative interest rates in 2021.
- LGFA issued $1.3 billion of bonds during the quarter and nearly matched the record $1.4 billion of bonds in the previous quarter. There were two tenders of $200 million each and $900 million of syndications including a new April 2037 bond. The average term of issuance during the quarter was a record 8.94 years and longer than the 6.74 years for the 2019-20 financial year.
- LGFA borrowing margins to swap narrowed between 3 bps (2022s) and 20 bps (2033s) over the quarter and continued the tightening evident in the June quarter. Movements in LGFA spreads to NZGB were mixed over the quarter.
- Long dated lending to councils during the quarter was a record $1.1 billion, surpassing the previous records of $793.5 million and $800.3 million in the June and March quarters. The average term of lending during the quarter at 7.22 years was significantly longer than the 2019-20 financial year average of 5.42 years.
- LGFA has estimated market share of 76.5% of total council borrowing for the rolling twelve-month period to September 2020 (compared to a historical average since 2012 of 74%). Despite a record quarter for council lending, our market share has slipped below our target of 85% due to a single large bond issue by Auckland Council.
- Short-term lending remains supported by councils with loans outstanding of $283.6 million as at 30 September 2020. This was a decrease of $32 million over the quarter as councils extended their borrowing into longer tenors. The number of councils using this product reduced by one to twenty-six.
- LGFA Net Operating Gain (unaudited) for the three-month period to 30 September 2020 was $2.51 million which was $462k below budget, comprising net interest income at $440k below budget and expenses at $22k above budget. The decline in interest rates was the main contributor to the shortfall to budget.
- South Waikato District Council joined LGFA as a guarantor during the quarter bringing the number of member councils to sixty-eight. There are fifty-six council guarantors as at 30 September 2020. However, we are expecting a further five councils to join over the next twelve months.

B. LGFA bond issuance during quarter

LGFA held two bond tenders and one syndication during the quarter amounting to $1.3 billion of issuance which was just behind the record $1.4 billion of issuance in the June 2020 quarter.

Tender 73: 8 July 2020 $200 million

Tender 73 - 08 July 2020	14-Apr-22	15-Apr-24	15-Apr-26	20-Apr-29
Total Amount Offered ($million)	50	50	50	50
Total Amount Allocated ($million)	50	50	50	50
Total Number of Bids Received	3	5	4	7
Total Amount of Bids Received ($million)	65	90	85	53
Total Number of Successful Bids	1	3	4	6
Highest Yield Accepted (%)	0.420	0.640	0.940	1.325
Lowest Yield Accepted (%)	0.420	0.620	0.910	1.290
Highest Yield Rejected (%)	0.450	0.660	0.940	1.360
Lowest Yield Rejected (%)	0.440	0.640	0.940	1.360
Weighted Average Accepted Yield (%)	0.420	0.630	0.922	1.309
Weighted Average Rejected Yield (%)	0.443	0.644	0.940	1.360
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	100	45.4	30	100
Coverage Ratio	1.30	1.80	1.70	1.06
NZGB Spread at Issue (bps)	16.00	22.00	38.00	52.00
Swap Spread at Issue (bps)	21.00	35.00	49.75	63.75
Swap Spread: AA council (bps)	44	57.75	72.25	85.75
Swap Spread: AA- council (bps)	49	62.75	77.25	90.75
Swap Spread: A+ council (bps)	54	67.75	82.25	95.75
Swap Spread: Unrated council (bps)	64	77.75	92.25	105.75
Coverage Ratio	1.30	1.80	1.70	1.06

The tender size of $200 million was the same size as the previous tenders held during the 2020 calendar year and above the historical average tender size ($165 million).

We tendered four tranches in order to capture as much demand as possible given that the RBNZ had been buying LGFA bonds across the curve. Price support was strongest for the 2022 and 2024 maturities with the weighted average successful yield of each bond 1 bps above mid yields, but 3 to 4 bps wider in the 2026s and 2029s. Bidding volume was poor with the bid coverage ratio of 1.47x the second equal lowest on record and a big difference amongst maturities for the number of successful bids and successful bid ranges. The school holidays and the work from home environment for many investors and banks had a negative impact on bidding interest.

The average maturity of the LGFA bonds issued was 5.03 years so the tender was larger in terms of volume and slightly shorter in terms of duration compared to the prior year.

Council borrowing demand was strong at $273.9 million as councils began to refinance their May 2021 loans with the average term of lending to councils longer than normal at 7.25 years.

Syndication of April 2022 and April 2037 Bonds: 30 July 2020 $900 million

LGFA successfully issued $600 million (including $100 million of treasury stock) of a new 15 April 2037 bond and increased the size of the 15 April 2022 bond by $400 million via syndication. Syndication is where we use a group of banks to place bonds with investors rather than use a tender. Market conditions were ideal for the launch of a new long dated maturity with a steep curve, recent decline in yields and the RBNZ continuing to buy LGFA bonds in the Large-Scale Asset Purchase (LSAP) programme.

Tender 74: 9 September 2020 $200 million

Tender 74 - 09 September 2020	15-Apr-24	15-Apr-27	15-Apr-29	14-Apr-33
Total Amount Offered ($million)	50	50	50	50
Total Amount Allocated ($million)	50	50	50	50
Total Number of Bids Received	9	13	16	15
Total Amount of Bids Received ($million)	145	181	184	141
Total Number of Successful Bids	1	1	1	7
Highest Yield Accepted (%)	0.205	0.525	0.830	1.190
Lowest Yield Accepted (%)	0.205	0.525	0.830	1.160
Highest Yield Rejected (%)	0.240	0.575	0.910	1.270
Lowest Yield Rejected (%)	0.215	0.535	0.835	1.190
Weighted Average Accepted Yield (%)	0.205	0.525	0.830	1.178
Weighted Average Rejected Yield (%)	0.225	0.549	0.865	1.231
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	100	100	100	48
Coverage Ratio	2.90	3.62	3.68	2.82
NZGB Spread at Issue (bps)	14.00	30.00	40.00	42.00
Swap Spread at Issue (bps)	20.50	30.75	43.25	51.75
Swap Spread: AA council (bps)	41.75	58.5	67	86
Swap Spread: AA- council (bps)	46.75	63.5	72	91
Swap Spread: A+ council (bps)	51.75	68.5	77	96
Swap Spread: Unrated council (bps)	61.75	78.5	87	106
Coverage Ratio	2.90	3.62	3.68	2.82

The tender size of $200 million was the same size as previous tenders and we again offered four bond maturities to capture as much demand as possible.

Price support was strongest for the 2024, 2027 and 2029 maturities with the weighted successful average yield of each bond relative to market 1.5 bps below prevailing mid yields (and after yields had rallied 5 bps going into the tender) and 1 bps above mid rates on the 2033s.

Bidding volume was strong with the overall bid coverage ratio of 3.26x the second highest in eighteen months and consistent ratios across all maturities. The number of successful bids were only 1 each for the 2024s, 2027s and 2029s and successful bid ranges were very tight, between nil (2024s, 2027s and 2029s) and 3 bps (2033s).

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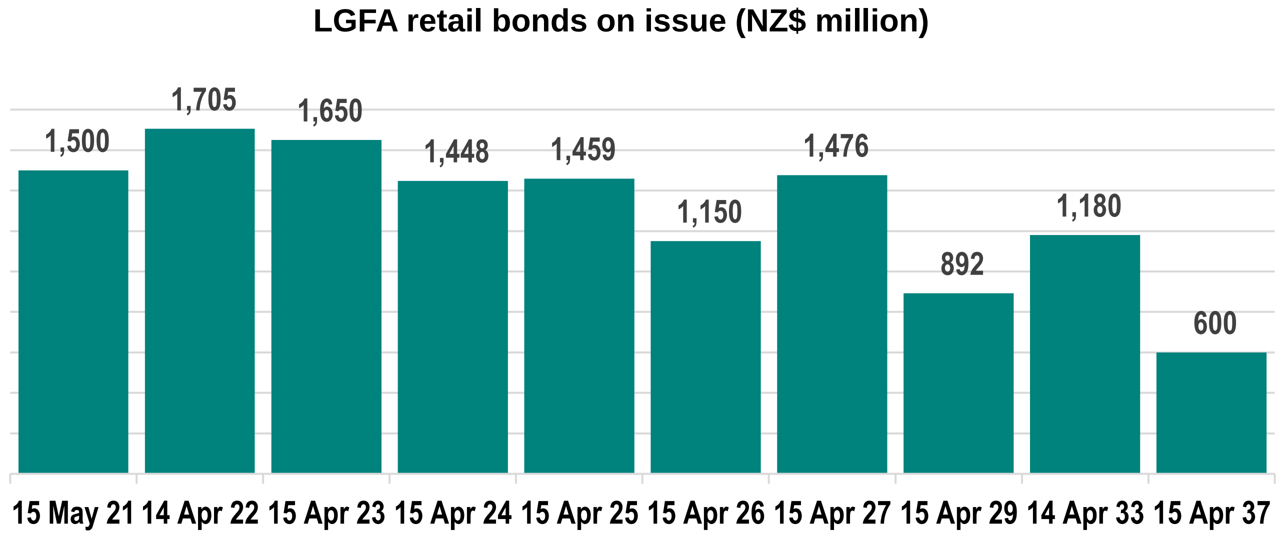
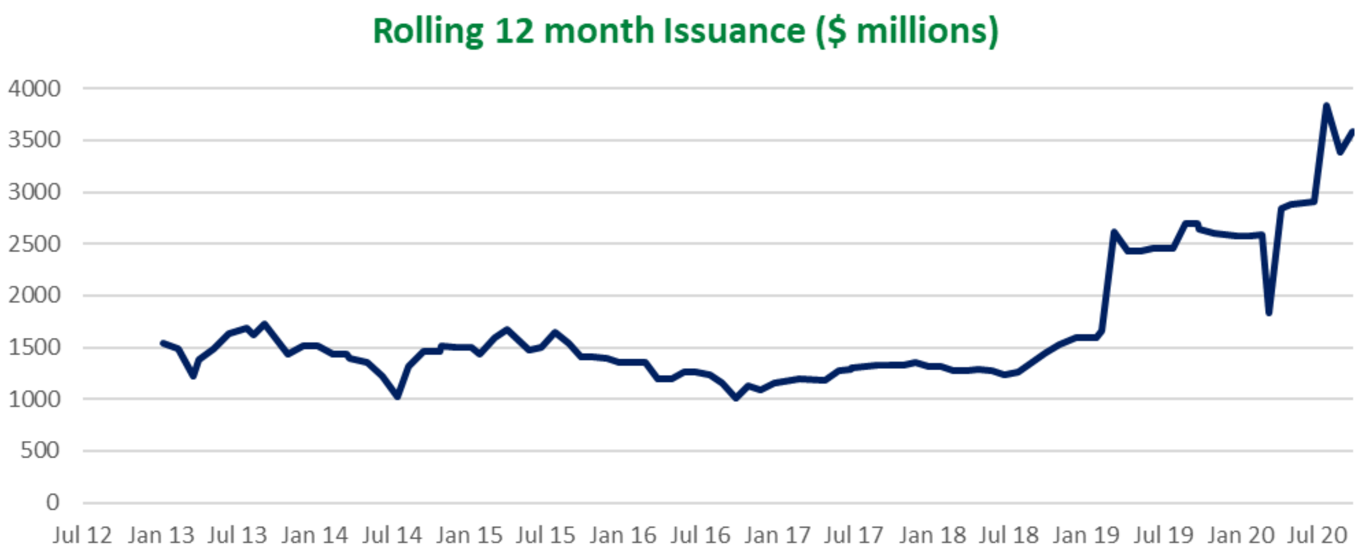
The average maturity of the LGFA bonds issued was a long 7.85 years While we issued $200 million of LGFA bonds we on-lent $161 million to seven councils with an average term of lending of 6.7 years.

Bonds on issue as at 30 September 2020 was $13.060 billion (including $900 million of Treasury Stock) across ten tranches. We have a soft cap per maturity of $1.75 billion.



In addition to the retail bonds listed on the NZDX, LGFA has NZ$130 million of Wholesale Floating Rate Notes on issue



C. Summary financial information (provisional and unaudited)

Financial Year ($m)	YTD as at Q1	YTD as at Q2	YTD as at Q3	YTD as at Q4
Comprehensive income	**30-Sep-20**	**31-Dec-20**	**31-Mar-21**	**30-June-21**
Interest income	93.38			
Interest expense	82.22			
Net interest revenue	**4.16**			
Issuance and On-lending costs	0.73			
Approved issuer levy	Nil			
Operating expenses	0.93			
Issuance and operating expenses	**1.66**			
Net Profit	**2.51**			

Financial position ($m)	30-Sep-20	31-Dec-20	31-Mar-21	30-Jun-21
Retained earnings + comprehensive income	60.25			
Total assets (nominal)	13,317.68			
Total LG loans (nominal)	11,906.65			
Total LGFA bills (nominal)	594.50			
Total LGFA bonds (nominal)	12,290.00			
Total borrower notes (nominal)	195.92			
Total equity	85.24			

D. Key performance indicators (Section 5 of SOI)

Section 5 of the SOI sets out the ten key performance targets

We are currently meeting six out of our ten performance targets and on track to meet one more target. The Net Interest income is lower due to the decline in interest rates while our market share is lower due to Auckland Council issuing a $500 million bond during the quarter.

Measure		Prior full year to June 2020	Q1 30 Sept 2020	Q2 31 Dec 2020	Q3 31 Mar 2021	Q4 30 June 2021
LGFA net interest income for the period to June 2021 will be greater than $18.8 million	Target ($)		**$4.6 m (YTD as at Q1)**	**$9.2 m (YTD as at Q2)**	**$14.4 m (YTD as at Q3)**	**$18.8 m (FULL YEAR)**
	Actual ($)	$18.28 m	$4.2 m			
Annual issuance and operating expenses (excluding AIL) will be less than $6.30 million	Target ($)		**$1.63 m (YTD as at Q1)**	**$3.4 m (YTD as at Q2)**	**$5.0 m (YTD as at Q3)**	**$6.8 m (FULL YEAR)**
	Actual ($)	$6.28 m	$1.65 m **On track**			

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Total nominal lending (short and long term) to participating councils to be at least $9.79 billion	Target ($)		**$11.45 b (YTD as at Q1)**	**$12.19 b (YTD as at Q2)**	**$12.62 b (YTD as at Q3)**	**$11.66 b (FULL YEAR)**
	Actual ($)	$10.899 b	$11.91 b ✓			
Conduct an annual survey of councils and achieve 85% satisfaction score as to the value added by LGFA to council borrowing activities	Target ($)		**Annual Survey in August each year**			
	Actual (%)	100%	August 2020 survey outcome of 98.8% ✓			
Meet all lending requests from PLAs	Target (%)		**100%**	**100%**	**100%**	**100%**
	Actual (%)	100%	100% ✓			
Achieve 85% market share of all council borrowing in New Zealand	Target (%) Rolling annual average		**>85%**	**>85%**	**>85%**	**>85%**
	Actual (%)	85.7%	76.5% ✗			
Review each PLA financial position, its headroom under LGFA policies and arrange to meet each PLA at least annually	Target (number)		**Council visits to total 67 over one year** **Financial Position + Headroom Review Undertaken in December Quarter**			
	Actual	31	no council visits due to COVID travel difficulties ✗			
No breaches of Treasury Policy, any regulatory or legislative requirements including H&S	Target (zero breaches)		**nil**	**nil**	**nil**	**nil**
	Actual	Two	Nil ✓			
Successfully refinance of existing loans to councils and LGFA bond maturities as they fall due	Target (%)		**100%**	**100%**	**100%**	**100%**
	Actual (%)	100%	100% ✓			
Maintain a credit rating equal to the New Zealand Government rating where both entities are rated by the same credit rating entity	Target (equivalence)		**AA+/AA+**			
	Actual	AA+/AA+	AA+/AA+ ✓			

E. Performance against SOI objectives

Primary objectives (Section 3 of SOI)

Primary Objective:
LGFA will optimise the debt funding terms and conditions for Participating Borrowers. Among other things, this includes:

- **Providing interest cost savings relative to alternative sources of financing;**
- **Offering flexible short and long-term lending products that meet Participating Borrowers' borrowing requirements;**
- **Delivering operational best practice and efficiency for its lending services;**
- **Ensuring certainty of access to debt markets, subject always to operating in accordance with sound business practice.**

LGFA lending base margins are 20 bps for all borrowing terms. Base margins were increased by 10 bps following the biennial review of the LGFA Capital Structure in March 2020. The base margin covers our operating costs and provides for capital to grow in line with the growth in our balance sheet. There is an additional credit margin added to the base margin depending upon whether a council has a credit rating or is a guarantor or non-guarantor of LGFA.

As at 30 September 2020, our estimated annual savings to councils based upon the secondary market levels of LGFA bonds compared to bonds issued by Auckland and Dunedin councils are between -5 bps and 19 bps of savings depending upon the term of borrowing. The amount of savings depends upon market conditions and the relative amount of issuance by LGFA (on behalf of the sector) and Auckland and Dunedin councils. We believe that over the interest rate and credit cycle, LGFA will provide savings to councils.

LGFA continues to borrow at very competitive spreads compared to the AAA rated SSA issuers (who borrow in the New Zealand debt capital markets), the domestic banks and our closest peer issuer Kainga Ora.

As at 30 September 2020	Comparison to other high-grade issuers - secondary market spread to swap (bps)												
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
LGFA (AA+)	**7**	**14**	**16**	**18**	**22**	**26**	**29**	**35**	**41**	**48**	**54**	**61**	**67**
Kainga Ora (AA+)			17		27	32		40		49			
Asian Development Bank (AAA)	7		16	23	28	33							
IADB (AAA)	8		16	25	30			50					
International Finance Corp (AAA)	7		18	25	29		35						
KBN (AAA)	11		21	21	25					58			
Rentenbank (AAA)	8	10	17	26	35								
World Bank (AAA)	6	11	17	22	26		36						
Nordic Investment Bank (AAA)	6		18		31								
ANZ (AA-)	8		34	39									
BNZ (AA-)			29		47								
Westpac Bank (AA-)		21	28	41	46								
SSA Average	**8**	**11**	**18**	**24**	**29**	**33**	**36**	**50**		**58**			
Bank Average	**8**	**21**	**30**	**40**	**47**								

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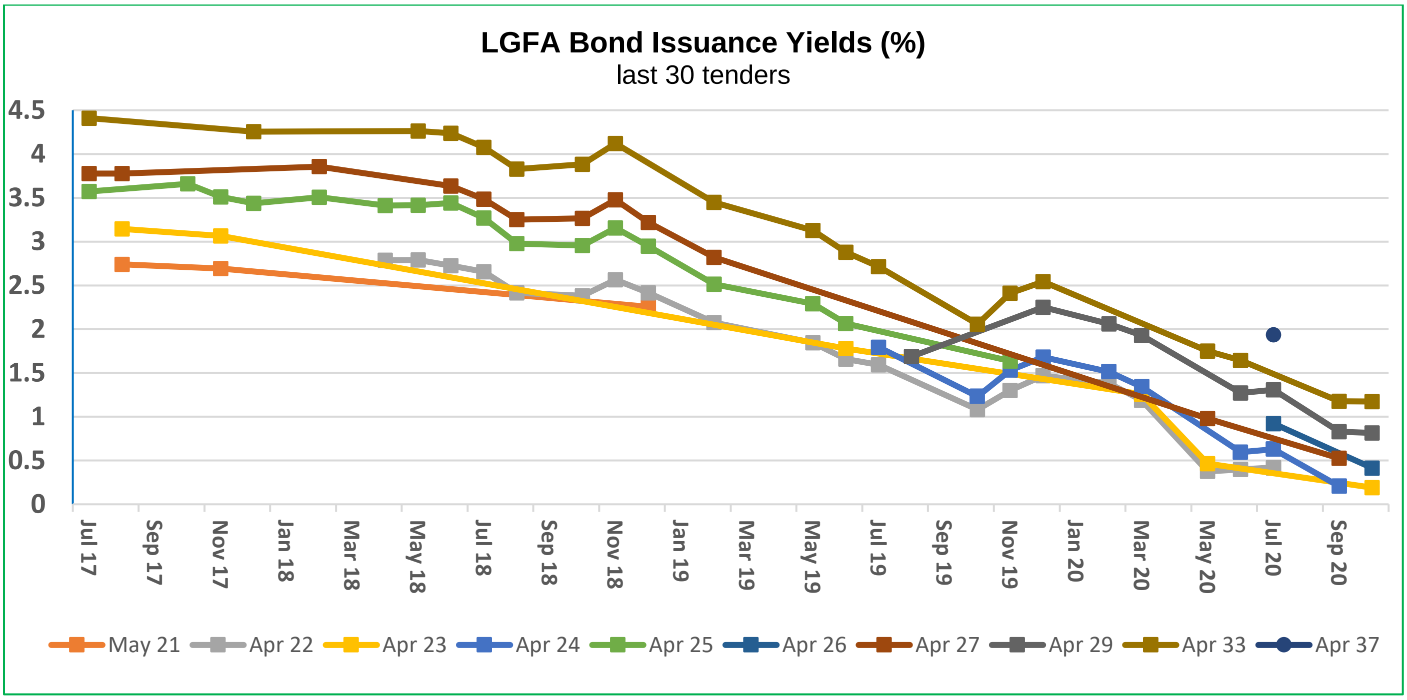
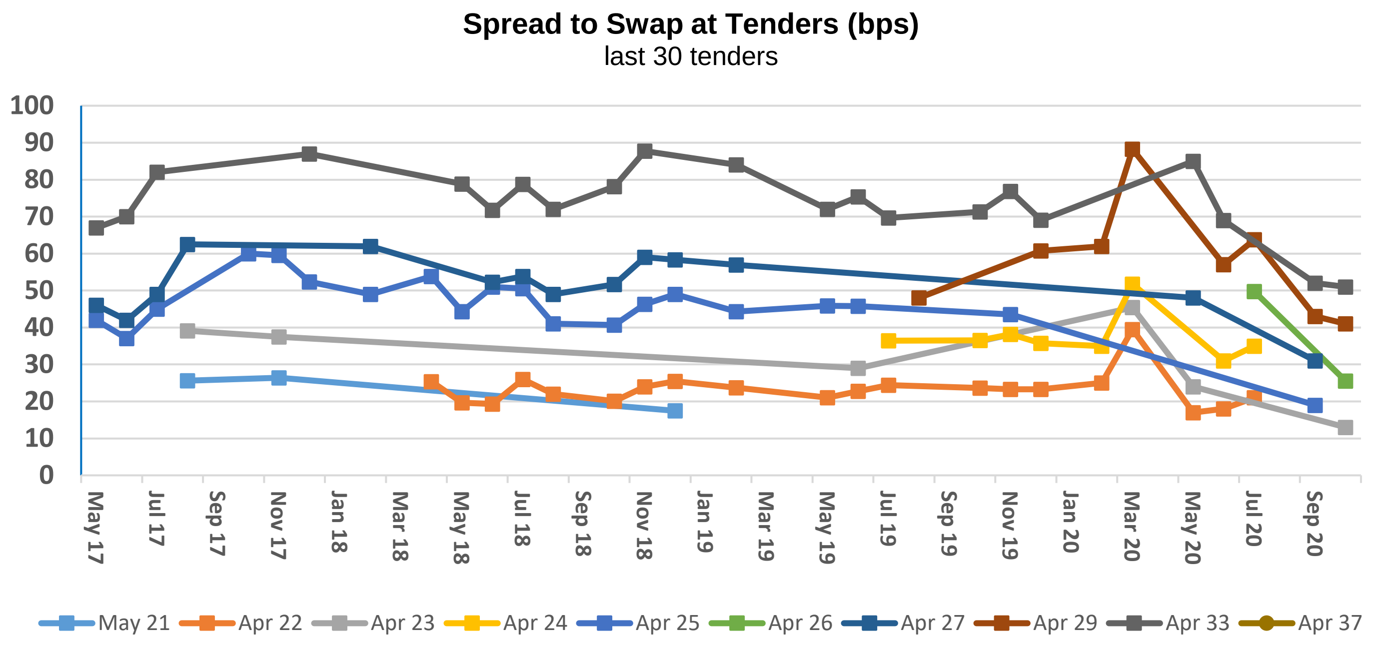
During the quarter LGFA issued a new April 2037 bond and this now provides councils with the opportunity to extend their borrowing further from the previous April 2033 limit.

The LGFA bond curve continued to flatten and fall during the quarter with front end yields falling (2022 yields down 0.18%) less than the back-end yields (2033 yields down 0.42%). The RBNZ continues to adjust the size of its quantitative easing programme to match the forecast increased NZGB issuance and global central banks remain committed to keeping interest rates low for as long as it takes to ensure a post COVID-19 economic recovery. The RBNZ continued to talk about a negative Official Cash Rate in 2021 and other unconventional monetary policy measures to lower interest rates and reduce overall borrowing costs. LGFA borrowing yields are now at historic lows.

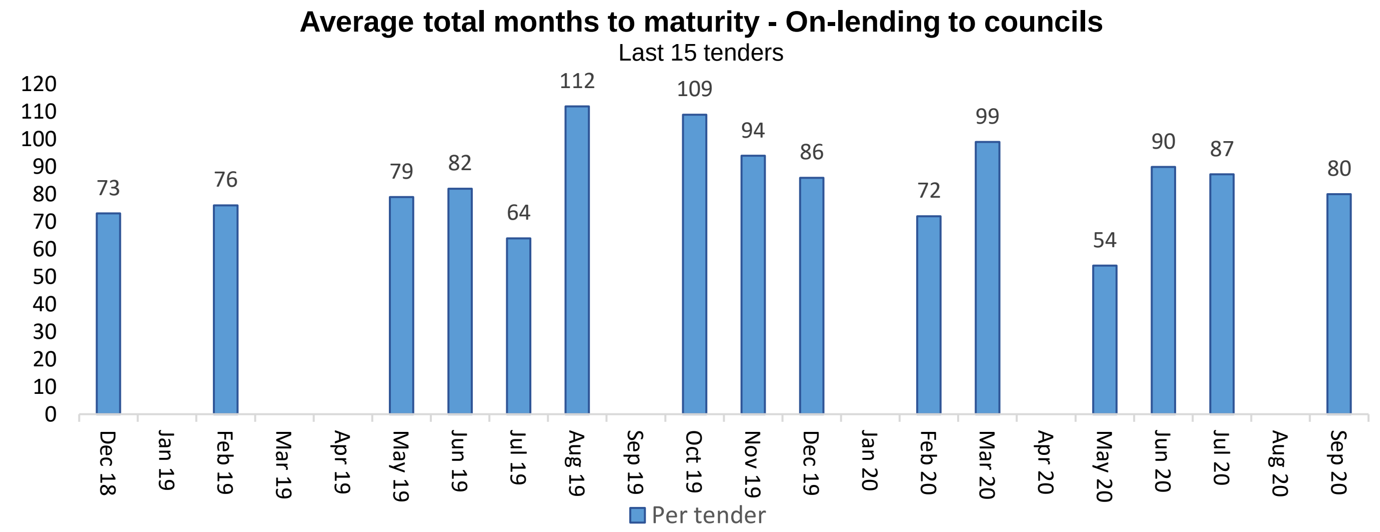
LGFA margins to swap narrowed between 3 bps (2022s) and 20 bps (2033s) over the quarter continuing the June quarter tightening and recovery from the March quarter highs. LGFA bond issuance spreads to swap are now at their historic lows. LGFA spreads to NZGB were more volatile with spreads on the 2033 bond maturity 6 bps tighter while the 2029 LGFA bond spread to NZGB was 8 bps wider.

We closely monitor the Kauri market for ongoing supply and price action as this other high-grade issuance by "AAA" rated Supranational issuers such as the International Finance Corporation (IFC), Inter-American Development Bank (IADB) and the Asian Development Bank (ADB) influences LGFA demand and pricing. These borrowers are our peer issuers in the NZD market and have the most influence on our pricing. The September quarter was another busy period for Kauri bond issuance with issuance of $1.7 billion compared to $2.615 billion in the June quarter. Issuance activity increased on renewed investor demand although by the end of the quarter it was more attractive for this type of global borrower to issue bonds in currency markets other than the NZD.





The average borrowing term (excluding short dated borrowing) for the September quarter by council members was a lengthy 7.22 years and this was longer than the average term of 5.42 years for the year to June 2020. This reflected refinancing of the May 2021 loans by councils taking advantage of a recent flattening in the curve, lower outright yields and tighter credit spreads.



Short term borrowing by councils has been well received with loan terms of between one month and 12 months of $283.6 million outstanding as at 30 September 2020 to twenty-six councils. The decline in the number of councils using this product (by one) and fall in total amount outstanding (by $32 million) over the quarter is due to councils extending their term of borrowing given the low underlying level of interest rates.

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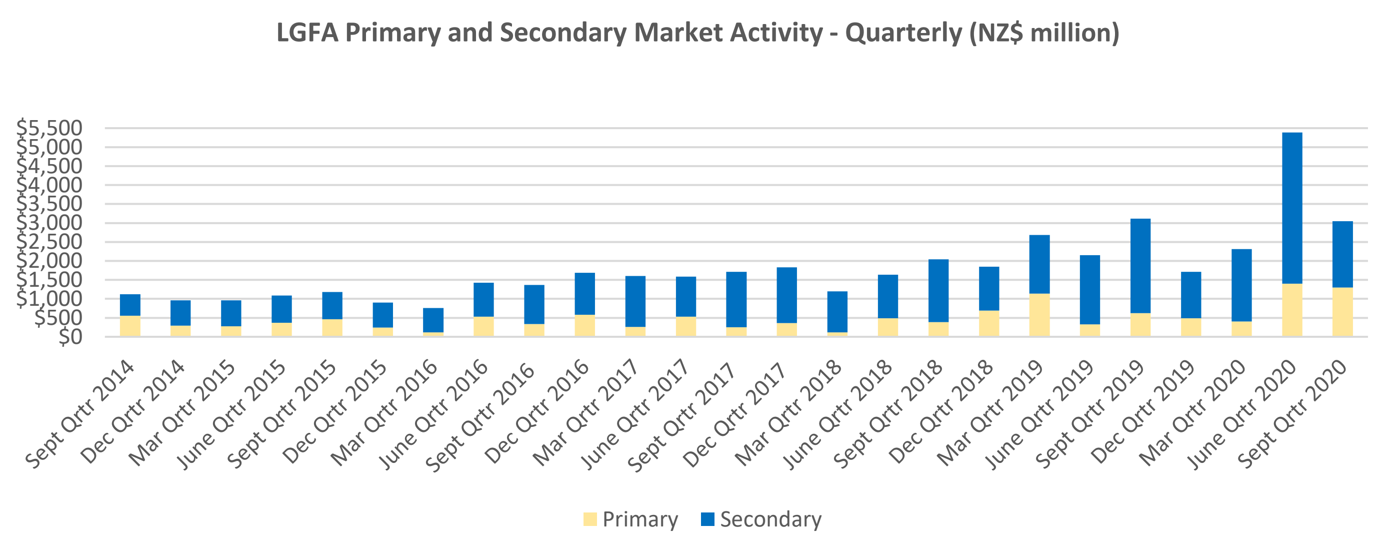
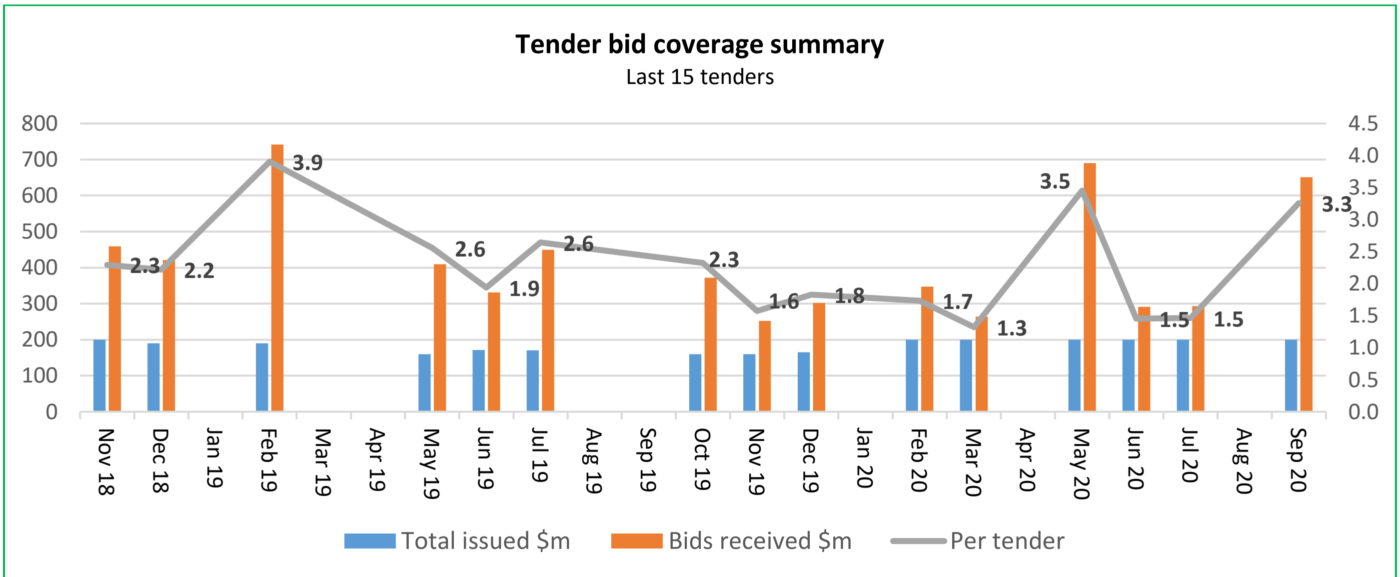
For LGFA to provide certainty of access to markets for our council borrowers we need to have a vibrant primary and secondary market in LGFA bonds. The primary market is the new issuance market and we measure strength with participation by investors at our tenders through bid-coverage ratios and successful issuance yield ranges. The secondary market is the trading of LGFA bonds following issuance and a healthy market implies high turnover.

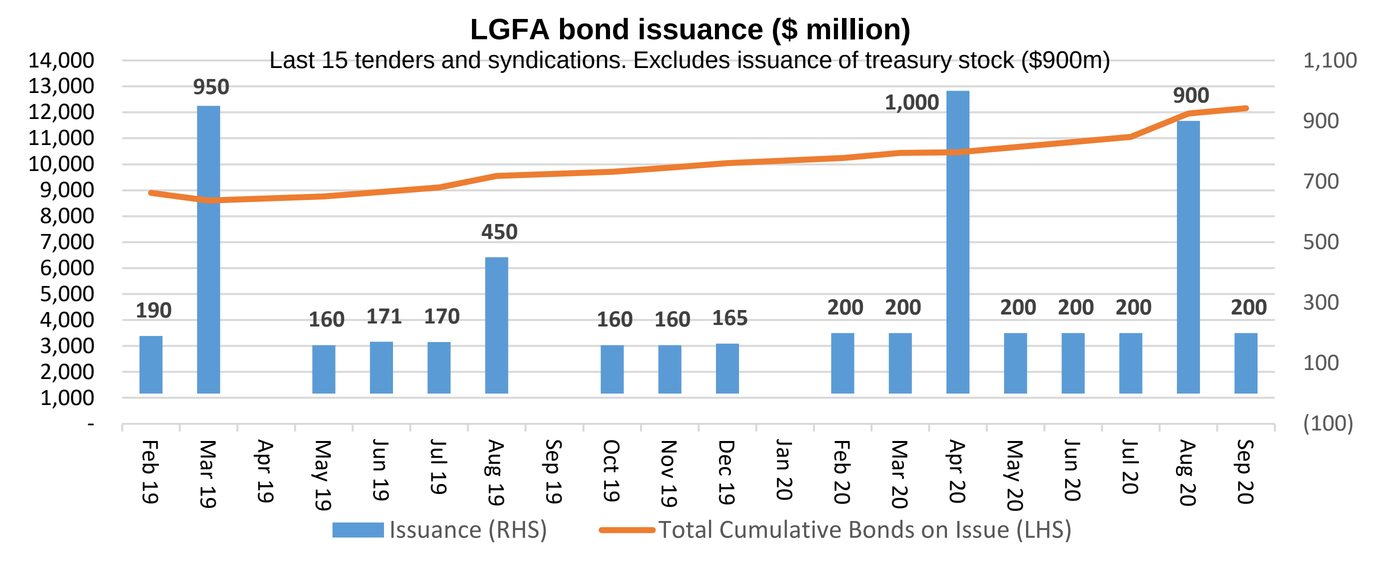
Activity in LGFA bonds in both the primary market (tender or syndicated issuance) and secondary market (between banks and investors) during the quarter was the third highest quarter on record at $3.0 billion but below the record $5.4 billion in the June quarter. There was $1.3 billion of primary issuance and $1.7 billion of secondary market activity in LGFA bonds during the quarter.



LGFA started issuing LGFA Bills and short dated (less than 1 year) lending to councils in late 2015. As at 30 September 2020 there were $595 million of LGFA Bills on issue.

LGFA documented an Australian Medium-Term Notes Programme in November 2017. We have no immediate intention to use this programme, but it provides flexibility if there is a market disrupting event in the future.





We survey our council members each year and the latest stakeholder survey result in August 2020 was a 99% result to the question "How would you rate LGFA in adding value to your borrowing requirements?". We also received a 97% result to the question "How satisfied are you with the pricing that LGFA has provided to your Council?"

Primary Objective:
LGFA will ensure its asset book remains at a high standard by ensuring it understands each Participating Borrower's financial position, as well as general issues confronting the Local Government sector. Amongst other things, LGFA will:

- **Proactively monitor and review each Participating Borrower's financial position, including its financial headroom under LGFA policies;**
- **Analyse finances at the Council group level where appropriate and report to shareholders;**
- **Endeavour to visit each Participating Borrower annually, including meeting with elected officials as required, or if requested; and**
- **Take a proactive role to enhance the financial strength and depth of the local government debt market and work with key central government and local government stakeholders on sector and individual council issues.**

Travel restrictions due to the COVID-19 shutdown restricted our ability to meet with councils during the quarter but we will accelerate the number of visits in the next three quarters. LGFA reviews council agendas and management reports on an ongoing basis for those councils on the LGFA borrower watch-list.

No council has yet to request to LGFA that they be measured on a group basis.

During the quarter, LGFA management had virtual meetings with representatives from Reserve Bank of New Zealand, Department of Internal Affairs, Office of the Auditor General, SOLGM and members of the Three Waters Reform Group. We held investor conference calls for investors and banks relating to bond issuance and provided updates on the impact on the local government sector from COVID-19.

We continue to assist the sector and the advisers in finding ways for LGFA to play a supporting role in providing solutions to off balance sheet financing for councils. We are currently providing technical input into the Cameron Partners Ratepayer Financing Scheme (RFS).

We signed the amended Crown liquidity facility that has extended the facility term to December 2031 (from December 2021) and increased the facility size to $1.5 billion (from $1 billion).

We were fortunate to hold our annual Shareholder – Borrower Day in August (between the two lockdown periods) and had forty-three councils attend with external speakers from Department of Internal Affairs, Cameron Partners, BNZ, PwC and Bancorp.

Additional objectives (Section 3 of SOI)

1. Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency.

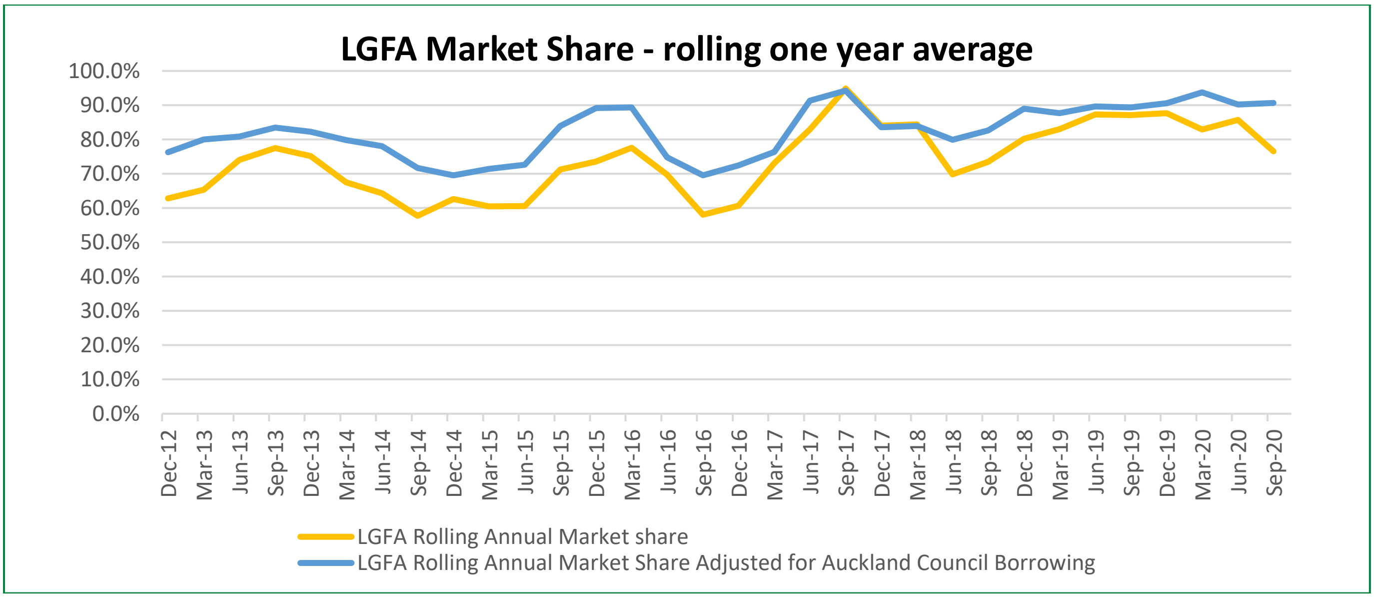
LGFA has an annual review process regarding our credit ratings from Standard and Poor's ("S&P") and Fitch Ratings ("Fitch") and meets with both agencies at least annually. Formal review meetings were last held in November 2019 with S&P and in October 2020 with Fitch.

On 28 February 2020, S&P affirmed our long-term local currency credit rating (AA+) and our long-term foreign currency credit rating (AA). Both ratings remain on positive outlook and the same as the New Zealand Government.

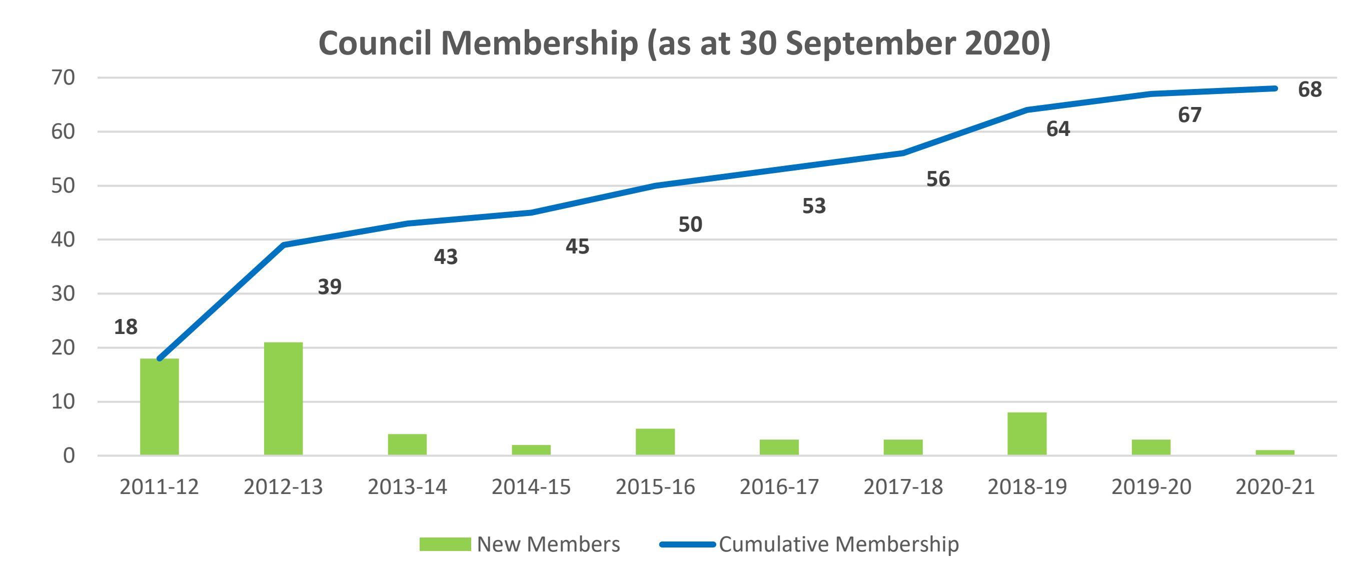
On 18 November 2019, Fitch reaffirmed our long-term local currency credit rating as AA+ and classified LGFA as a corporate mission, government related entity (GRE) under its GRE rating criteria. Fitch equalises our ratings with those of the New Zealand Government. On 28 January 2020 Fitch placed our foreign currency credit rating of AA on positive outlook. Fitch left the local currency credit rating unchanged at AA+ with a stable outlook.

2. Provide at least 85% of aggregate long-term debt funding to the Local Government sector.

We use the PwC Local Government Debt Report as our source of market share. Our estimated market share for the rolling twelve-month period to 30 September 2020 was 76.5%. If we adjust for Auckland Council borrowing, then it is 90.7%. This compares to a historical average of 73.7% and our market share is strong compared to our global peers.



As at 30 September 2020, there are sixty-eight participating local authority members of LGFA. This was an increase of one over the quarter with South Waikato District Council joining as a guarantor. We estimate a further five councils could become members in the next twelve months.



3. Achieve the financial forecasts outlined in section 4 for net interest income and operating expenses, including provision for a shareholder dividend payment in accordance with approved dividend policy.

For the three-month period to 30 September 2020, Net Interest Income ("NII") was estimated by management on an unaudited basis to be $440k below budget while expenses are $22k above budget. Net Operating Gain of $2.51 million was $462k below budget.

Included in the NII is the unrealised mark to market movement in fixed rate swaps that are not designated effective for hedge accounting purposes. We have used these swaps to reduce exposure to fixed rate loans made outside of the normal tender process and to reduce mismatches between borrowing and on-lending terms in our balance sheet. The unrealised loss increases as interest rates fall and the year to date revaluation is a loss of $240k.

A council borrower also undertook a blend and extend loan where the market to market loss on the loan of $280k was incorporated into the new longer-term loan. LGFA suffers a negative impact to NII in the current financial year but receives the benefit of a higher NII over the life of the new loan.

Expenses for the three-month period on an unaudited basis were $1.653 million which is $22k above budget. This variance is the consequence of:

- Issuance and on-lending costs (excluding AIL) at $725k were $62k above budget. A larger amount of bond issuance and short-term lending increased these costs relative to budget, primarily in relation to higher NZX costs and legal costs. These were offset to some extent from lower fees than budgeted relating to the NZDM facility.

- Operating costs at $928k were $40k below budget due to lower travel and general overhead costs offset by slightly higher legal and IT costs relative to budget.

- There was no Approved Issuer Levy (AIL) payments during the quarter as there were no coupons paid to investors. Our coupon payment months are April, May, October and November. We pay AIL on behalf of offshore investors at the time of semi-annual coupon payment.

4. Meet or exceed the Performance Targets outlined in section 5.

See Section D on page 6 of this report.

As at 30 September 2020 we were meeting six out of the ten performance targets but are confident that we will meet nearly all targets by 30 June 2021.

5. Comply with the Health and Safety at Work Act 2015

LGFA has a Health and Safety staff committee and reporting on Health and Safety issues are made to the LGFA board on a regular basis by the Risk and Compliance Manager. There were no Health and Safety incidents during the quarter.

6. Comply with Shareholder Foundation Polices and the Board-approved Treasury Policy at all times.

There were no compliance breaches during the three-month period ending 30 September 2020.

7. Assist the local government sector with their COVID-19 response.

Shareholders on 30 June 2020 approved a change to the Foundation Policy covenants. For the financial year ending 30 June 2021 the net debt/total revenue covenant for borrowers with an external credit rating of at least 'A+' has been increased from 250% to 300%. This is to provide short term relief from a temporary reduction in revenue and allows councils to coinvest alongside central Government in infrastructure projects in response to COVID-19

As mentioned previously, LGFA has been contributing to the Ratepayer Financing Scheme project that if successful could offer temporary financial relief to ratepayers via rates postponement.

F. Investor relations

Managing relations with our investor base is very important as the amount of LGFA bonds on issue has yet to peak and we require investors and banks to support our ongoing tender issuance.

Over the three-month period to 30 September 2020 we issued $1.3 billion of LGFA bonds and there were no bond maturities. The change in holdings amongst our investor groups during that time were

- Offshore investor holdings increased by $113 million (and up by $25 million from 30 September 2019) and are estimated to hold $2.92 billion as at 30 September 2020
- Domestic bank holdings increased by $322 million (up $4371 million from 30 September 2019) and are estimated to hold $4.16 billion as at 30 September 2020
- Domestic investor (retail and institutional) holdings increased by $306 million (up $564 million from 30 September 2019) and are estimated to hold $3.583 billion as at 30 September 2020
- The Reserve Bank of New Zealand (RBNZ) increased their holdings by $527 million over the quarter and now hold $$1.531 billion as at 30 September 2020.

Quarterly Report

Quarter 1: 2020 - 2021
Period ended: 30 September 2020

Domestic banks continue to buy the short to mid curve LGFA bonds for their liquid asset books given the low interest rate environment and subdued outlook for lending. Domestic institutional and retail investors were strong supporters of the new April 2037 bond maturity with 78.5% held by this investor group. Offshore investors remain supportive of LGFA bonds but are not significant new buyers given the relative unattractiveness of NZ to other markets.