LGFA

New Zealand Local Government Funding Agency
Te Pūtea Kāwanatanga ā-rohe

LGFA Quarterly Report to Shareholders

March Quarter 2022

Contents

A. March Quarter highlights

Quarter	Total	Bespoke Maturity	April 2022	April 2023	April 2024	April 2025	April 2026	April 2027	May 2028	April 2029	May 2031	April 2033	May 2035	April 2037
Bonds issued $m	400	N/A	-	-	120	-	-	60	60	90	-	30	40	-
Term Loans to councils $m	675.9	338	-	-	14	26	14	25	39.8	19	155.1	5	40	-
Term Loans to councils #	59	16	-	-	4	5	4	7	9	5	7	1	1	-

Year to date	Total	Bespoke Maturity	April 2022	April 2023	April 2024	April 2025	April 2026	April 2027	May 2028	April 2029	May 2031	April 2033	May 2035	April 2037
Bonds issued $m	2,455	N/A	-	90	240	150	150	205	760	190	80	120	440	30
Term Loans to councils $m	2318.2	1057.65	10	17.7	149.1	137	112.3	123	82.8	254.13	321.1	5	48.4	-
Term Loans to councils #	184	64	1	3	15	11	16	19	15	21	16	1	2	-

Key points and highlights for the March quarter:

- The LGFA bond yield curve rose and steepened over the quarter as the RBNZ tightened monetary policy through increasing the OCR by 0.25 bps to 1.00% and markets began pricing in more aggressive tightening over the 2022 and 2023 calendar years. LGFA 2024 bond yields rose 111 bps while the 2037 yields rose 80 bps.
- LGFA issued $400 million of bonds during the quarter through two tenders in what remained a difficult environment for issuance. The average term of issuance during the quarter was a shorter than normal 5.73 years compared to 7.28 years for the financial year to date.
- LGFA borrowing margins widened with spreads to swap wider between 3 bps (2023s) and 15 bps (2027s) as global high grade credit spreads widened on softer equity markets and global central banks adopting quantitative tightening. LGFA spreads to NZGB also widened between 5 bps (2029s) and 16 bps (2024s).
- Long dated lending to councils during the quarter of $675.9 million was in line with the long run averages. The average term of lending at 8.01 years was longer than the prior quarter and the previous financial year average of 6.65 years.
- LGFA has an estimated market share of 78.5% of total council borrowing for the rolling twelve-month period to March 2022 compared to a historical average of 75% since 2012.
- Short-term lending to councils has increased by $5 million to $389 million of short-term loans outstanding on 31 March 2022 to twenty-eight councils.
- LGFA Net Operating Gain (unaudited management estimate) for the nine-month period to 31 March 2022 was $9.05 million which was $184k below budget, comprising total operating income at $407k below budget and expenses at $190k below budget.
- We have achieved or on track to achieve seven out of our ten performance objectives over the financial year with our market share, financial performance and the number of council visits tracking below our target.
- There were no new council members during the quarter. We currently have seventy-four councils and one CCO as members and are expecting another two councils to join in the next six months.

B. LGFA bond issuance over quarter

We issued $400 million of bonds via two tenders during the quarter (February and March) as we do not tend to issue during January. Issuance conditions were difficult with rising interest rates, widening credit spreads and subdued investor sentiment.

Tender 87 / 02 February 2022	15 Apr 2024	15 May 2028	15 Apr 2029	15 May 2031
Total Amount Offered ($million)	60	60	60	40
Total Amount Allocated ($million)	60	60	60	40
Total Number of Bids Received	11	11	12	15
Total Amount of Bids Received ($million)	150	138	157	126
Total Number of Successful Bids	3	1	2	8
Highest Yield Accepted (%)	2.470	2.990	3.035	3.125
Lowest Yield Accepted (%)	2.455	2.990	3.030	3.090
Highest Yield Rejected (%)	2.530	3.050	3.140	3.205
Lowest Yield Rejected (%)	2.470	3.000	3.065	3.125
Weighted Average Accepted Yield (%)	2.463	2.990	3.033	3.103
Weighted Average Rejected Yield (%)	2.484	3.026	3.115	3.166
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	100	100	100	13.9
Coverage Ratio	2.50	2.30	2.62	3.15
NZGB Spread at Issue (bps)	39.00	51.00	52.00	53.00
Swap Spread at Issue (bps)	1.75	20.50	24.75	30.50
Swap Spread: AA council (bps)	16.75	37.25	39	45.5
Swap Spread: AA- council (bps)	21.75	42.25	44	50.5
Swap Spread: A+ council (bps)	26.75	47.25	49	55.5
Swap Spread: Unrated council (bps)	36.75	57.25	59	65.5

The February tender of $220 million was a larger amount than the usual $200 million but reflected our assessment of stronger market conditions as well as a large amount of council borrowing to be financed. We tendered tranches of 2024s, 2028s, 2029s and 2031s to meet demand from the bank credit trading books.

Offshore investor and domestic institutional demand since the previous early December 2021 tender had left the trader market short. Price support was strong for all maturities with yields flat to 2 bps below prevailing market mid rates at the time of the tender. Coverage was good at 2.6x given the larger tender size.

The average maturity of the LGFA bonds issued was 5.97 years but we deliberately kept the tenor short to avoid a failed tender given the larger amount of bonds being auctioned. While we issued $220 million of LGFA bonds we on-lent $290 million to fourteen councils with an average term of 8.83 years.

Tender 88 / 09 March 2022	15 Apr 2024	15 Apr 2027	15 Apr 2029	14 Apr 2033
Total Amount Offered ($million)	60	60	30	30
Total Amount Allocated ($million)	60	60	30	30
Total Number of Bids Received	12	10	12	13
Total Amount of Bids Received ($million)	230	110	57	56
Total Number of Successful Bids	4	7	7	9
Highest Yield Accepted (%)	3.055	3.450	3.600	3.745
Lowest Yield Accepted (%)	3.030	3.405	3.535	3.660
Highest Yield Rejected (%)	3.180	3.500	3.660	3.850
Lowest Yield Rejected (%)	3.055	3.450	3.600	3.745
Weighted Average Accepted Yield (%)	3.039	3.434	3.581	3.713
Weighted Average Rejected Yield (%)	3.078	3.465	3.622	3.810
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	60	50	90	70
Coverage Ratio	3.83	1.83	1.90	1.87
NZGB Spread at Issue (bps)	48.00	64.00	72.00	76.00
Swap Spread at Issue (bps)	3.50	27.50	41.50	54.50
Swap Spread: AA council (bps)	18	44	54	70.5
Swap Spread: AA- council (bps)	23	49	59	75.5
Swap Spread: A+ council (bps)	28	54	64	80.5
Swap Spread: Unrated council (bps)	38	64	74	90.5

The March tender size of $180 million was a normal size tender and we tendered four tranches with a high degree of confidence in the front-end maturities but were unsure of the long-dated demand given the lack of secondary market turnover and poor market sentiment.

Price support was strong for the 2024s with yields 2 bps below market but then weakened the further along the curve with 2027s (5 bps above), 2029s (7 bps above) and 2033s (7 bps above) despite the smaller volumes for the 2029s and 2033s. Overall bidding volume was good at 2.5x coverage but much of the demand was for the 2024s with that maturity receiving a greater volume of bids than the other three tranches combined. The tails ranged between 2.5 bps (2024s) out to 8.5 bp (2033s) and the number of successful bids ranged between four (2024s) and nine (2033s).

The average maturity of the LGFA bonds issued was shorter than normal at 5.44 years compared to the average for the financial year to date of 7.28 years.

We on-lent $275.6 million to fourteen councils. The average term of lending was a lengthy 8.83 years which was the second longest term of lending (after February's tender) for nearly three years and above the long-term average of 7.7 years.

LGFA NZX-listed bonds on issue (NZ$ million, face value)

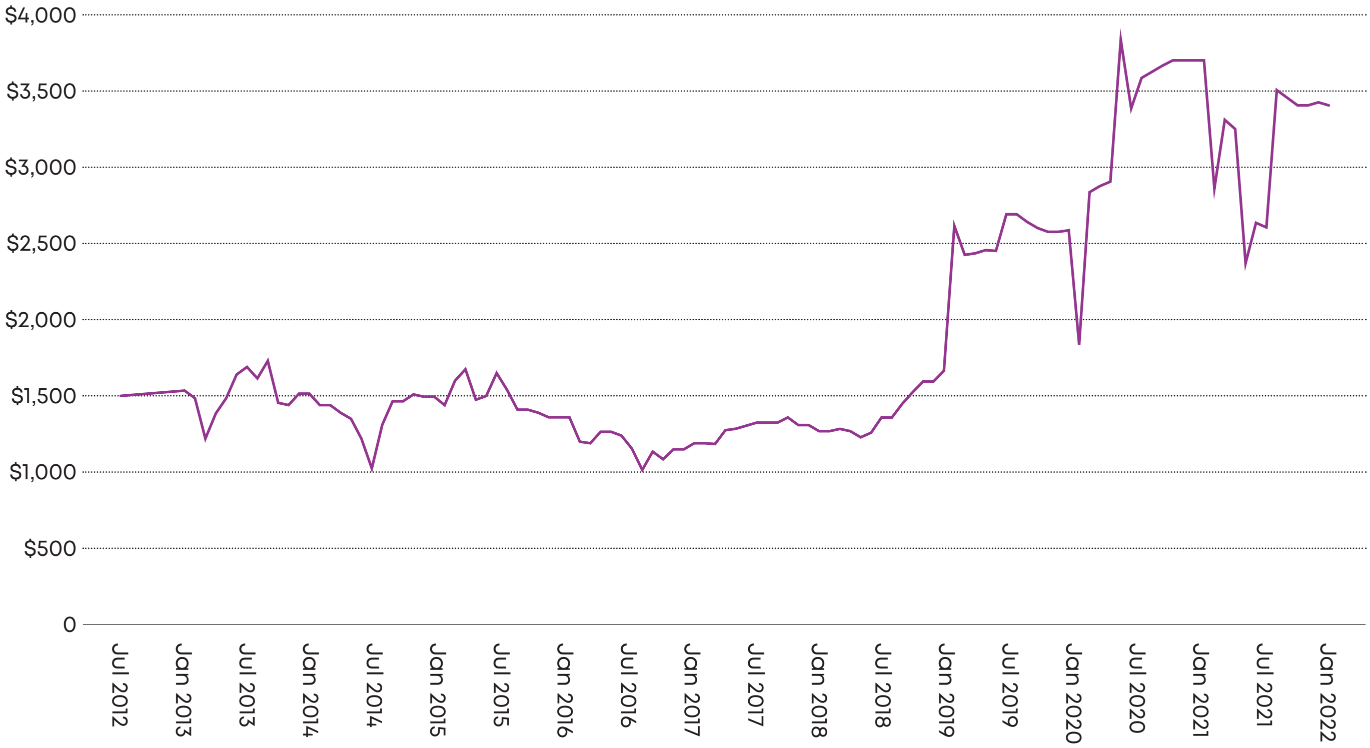
As at 31 March 2022 NZ$ 16,335 million

Includes NZ$1,200 million treasury stock

In addition to the retail bonds listed on the NZX, LGFA has NZ$130 million of wholesale floating rate notes on issue.

Our issuance volume on a rolling 12-month basis of $3.405 billion is unchanged from the prior quarter and just below the record $3.84 billion in the year to July 2020.

Rolling 12 month Issuance ($ millions)



C. Summary financial information (provisional and unaudited)

The following results are management estimates only and are unaudited.

Financial Year ($m)	YTD as at Q1	YTD as at Q2	YTD as at Q3
Comprehensive income	**30-Sep-21**	**31-Dec-21**	**31-Mar-22**
Interest income	88.98	185.89	285.91
Interest expense	83.83	176.71	272.26
Net interest revenue	**5.15**	**9.18**	**13.65**
Other operating Income	0.26	0.53	0.79
Total operating income	**5.41**	**9.70**	**14.44**
Issuance and On-lending costs	0.58	1.31	1.90
Approved issuer levy	Nil	0.33	0.33
Operating expenses	1.05	2.14	3.16
Issuance and operating expenses	**1.62**	**3.77**	**5.39**
Net Profit	**3.79**	**5.94**	**9.05**

Financial position ($m)	30 Sep 2021	31 Dec 2021	31 Mar 2022
Retained earnings + comprehensive income	72.68	74.82	77.94
Total assets (nominal)	14,635.29	15,854.9	16,441.3
Total LG loans (nominal)	12,960.37	13,496.1	13,825.0
Total LGFA bills (nominal)	600	535.0	533.0
Total LGFA bonds (nominal)	13,465.00	14,865.0	15,265.0
Total borrower notes (nominal)	233.8	250.0	260.6
Total equity	97.68	99.8	102.9

D. Key performance indicators (Section 5 of SOI)

Section 5 of the SOI sets out the ten key performance targets for LGFA.

We are currently meeting or on track to meet seven out of our ten performance targets with our operating income, council visits and market share targets the objectives we are currently tracking behind budget. The COVID related lockdowns has impacted our ability to travel although we did undertake some council meetings by Zoom over the quarter. While we undertook 51 council and CCO visits during the twelve-month period to March 2022, many will roll off by June 2022 if we are unable to travel. A sharp increase in interest rates has had a short-term negative impact on net interest income.

Measure		Q1 Sept 2021	Q2 Dec 2021	Q3 Mar 2022	Q4 June 2022
LGFA total operating income for the period to June 2022 will be greater than $19.1 million	Target ($)	$4.8 m	$9.4 m	$14.8 m	$19.1 m
	Actual ($)	$5.2 m ✓	$9.7 m ✓	$14.4 m ✗	
Annual issuance and operating expenses (excluding AIL) will be less than $7.2 million	Target ($)	$1.7 m)	$3.5 m	$5.3 m	$7.2 m
	Actual ($)	$1.6 m ✓	$3.4 m ✓	$5.06 m ✓	
Total nominal lending (short and long term) to participating councils to be at least $13.294 billion	Target ($)	$12.6 b	$13.2 b	$13.8 b	$13.29 b
	Actual ($)	$12.96 b ✓	$13.5 b ✓	$13.8 b ✓	
Conduct an annual survey of councils and achieve 85% satisfaction score as to the value added by LGFA to council borrowing activities	Target ($)	August 2021 survey outcome 99.2%			
	Actual (%)	✓	✓	✓	
Meet all lending requests from PLAs	Target (%)	100%	100%	100%	100%
	Actual (%)	100% ✓	100% ✓	100% ✓	
Achieve 80% market share of all council borrowing in New Zealand	Target (%) Rolling annual average	>80%	>80%	>80%	>80%
	Actual (%)	91% ✓	78.8% ✗	78.5% ✗	
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 74 over one year Financial Position + Headroom Review Undertaken in December Quarter			
	Actual	51 council and CCO visits over past 12 months and below target due to COVID related travel disruption ✗			
No breaches of Treasury Policy, any regulatory or legislative requirements including H&S	Target	nil	nil	nil	nil
	Actual	Nil ✓	Nil ✓	Nil ✓	
Successfully refinance of existing loans to councils and LGFA bond maturities as they fall due	Target (%)	100%	100%	100%	100%
	Actual (%)	100% ✓	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	AAA/AA+			
	Actual	AAA/AA+ ✓	AAA/AA+ ✓	AAA/AA+ ✓	

E. Performance against SOI objectives

We have two primary and eight secondary objectives outlined in our Statement of Intent (SOI)

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 reduced the base lending margin by 5 bps from 1 July 2021 to 15 bps for all borrowing terms. 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. There is a negative impact on Net Operating Income from a lower base lending margin but we are comfortable with current levels of profitability.

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.

Comparison to other high-grade issuers – secondary market spread to swap (bps)

30 Sep 2021	Comparison to other high-grade issuers – secondary market spread to swap (bps)												
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2033	2035	2037
LGFA (AAA)	2	7	13	25	28	38	41	44	46	54	65	70	47
Kainga Ora (AAA)	12		22	27		41		48			70		
Asian Development Bank (AAA)	6	8	15	17	19	27			40				
IADB (AAA)	7	12	16	19	21	38							
International Finance Corp (AAA)	11	11	15	16	21								
KBN (AAA)	10	15	18		27			46					
Rentenbank (AAA)	5	10	16		19								
World Bank (AAA)	5	10	11	17	21	27		38					
Nordic Investment Bank (AAA)	6		16										
ANZ (AA-)	49	52											
BNZ (AA-)	24		62	74									
Westpac Bank (AA-)	35	58	65	74	88								
SSA Average	7	11	15	17	21	31	31	42	40				
Bank Average	36	55	64	74	88								

During the quarter LGFA issued across seven bond maturities from 2024 to 2035 to capture as much investor demand as possible in the short to mid dated part of the yield curve. There was greater demand for the shorter maturities as investors were defensive and it was difficult to issue bonds beyond 2029 e.g. we issued $330 million of bonds shorter than 2029 and only $70 million longer than 2033.

Standby facilities outstanding to councils and CCOs were $522 million as at 31 March 2022 and there was no change in this amount over the quarter. We are expecting a further two councils to enter into facilities with us in the June quarter.

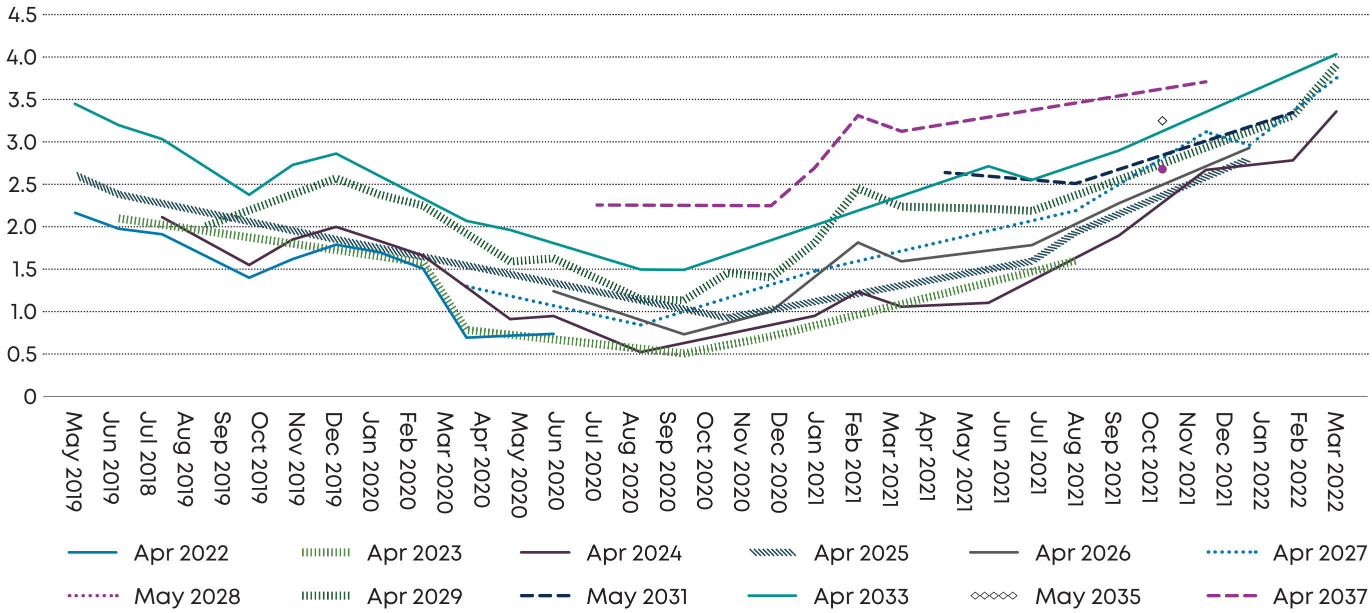
The LGFA bond yield curve rose and flattened for the second consecutive quarter. Front end yields (2024s) rose by 111 bps while long dated yields (2037s) rose by 80 bps. The front end of the curve rose aggressively as the RBNZ increased the OCR by 25 bps in February to 1.0% and the markets began pricing in substantial increases over the 2022 calendar year. The rise in yields and curve flattening trend is common across all global bond markets as central banks have commenced tightening monetary policy as inflation reaches multi decade highs on pent up demand, supply shortages and the Ukrainian conflict lifting commodity prices. Over the past nine months the 2024 LGFA bond yield has risen 2.38% (to 3.36%) while the 2037 LGFA bond yield has risen 1.33% (to 4.05%).

LGFA borrowing margins to swap widened between 3 bps (2023s) and 15 bps (2027s) as global credit spreads widened on softer equity markets and central banks tightening monetary policy. Central Banks had been large buyers of credit as part of their Quantitative Easing (QE) programmes over the past two years. LGFA spreads to NZGB also widened over the quarter between 5 bps (2029s) and 16 bps (2024s) as swap spreads to NZGB widened and it was announced that NZGBs would be included in the global bond indices at the end of 2022. The underperformance of LGFA bonds relative to both swap and NZGB was surprising given the large amount of offshore investor buying of our bonds over the quarter.

We closely monitor the Kauri market for ongoing supply and price action as 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 March quarter was an active period for Kauri bond issuance with five issues totalling $2.8 billion and all issuance was in the 5-year (2027) maturity. January is always the busiest month for Kauri issuance with three issues in January, two in February and no issuance in March.

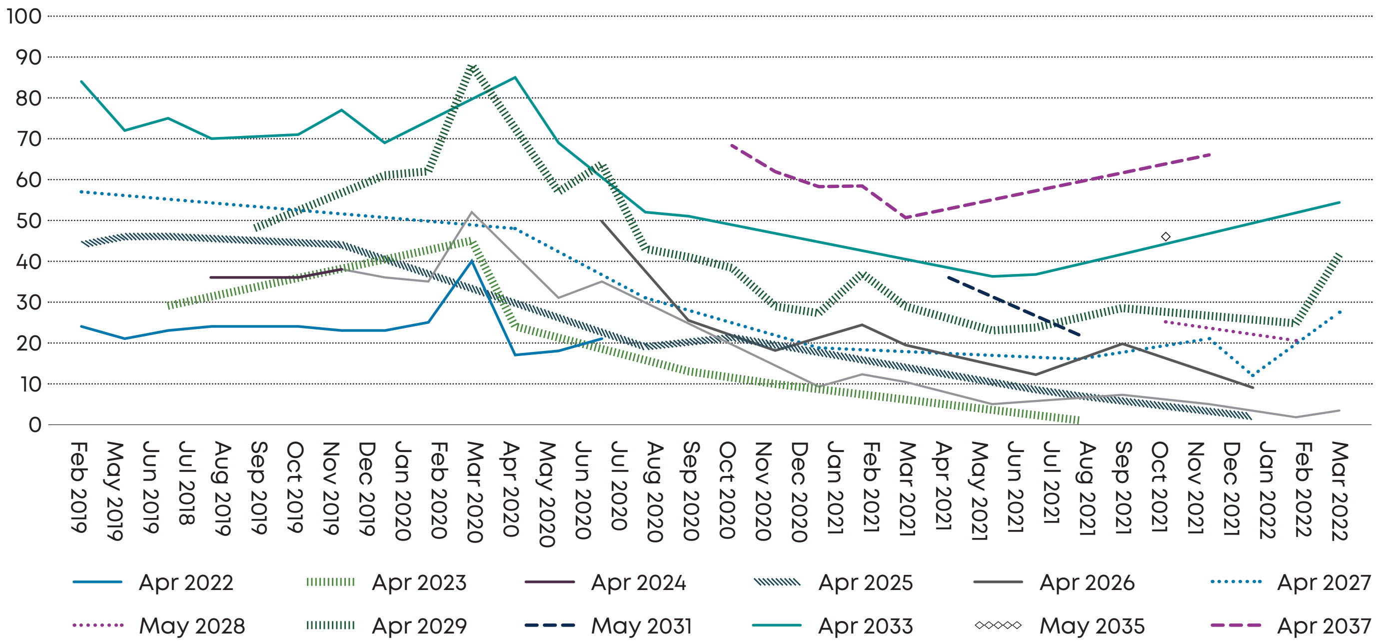
LGFA Bond Issuance Yields (%)

Last 30 tenders



Spread to swap

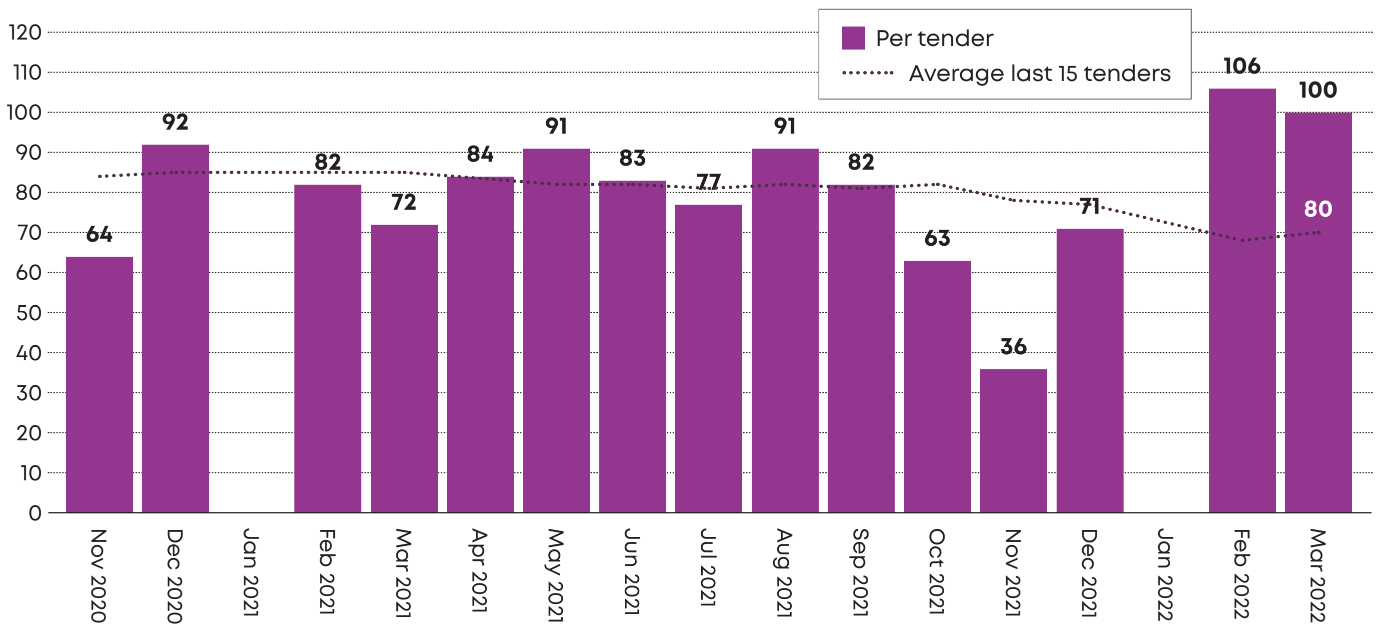
Last 30 tenders



The average borrowing term (excluding short-dated borrowing) for the March quarter by council members was a lengthy 8.01 years compared to the average term of 6.89 years for council borrowing for the year to June 2021. For the nine-month period to 31 March 2022 the average term of borrowing was 6.43 years and we think this general shortening is due to the recent sharp rise in interest rates and councils borrowing for terms to coincide with the June 2024 expected transition date for the Three Waters Reform Programme.

Average total months to maturity – on lending to councils

Last 15 tenders

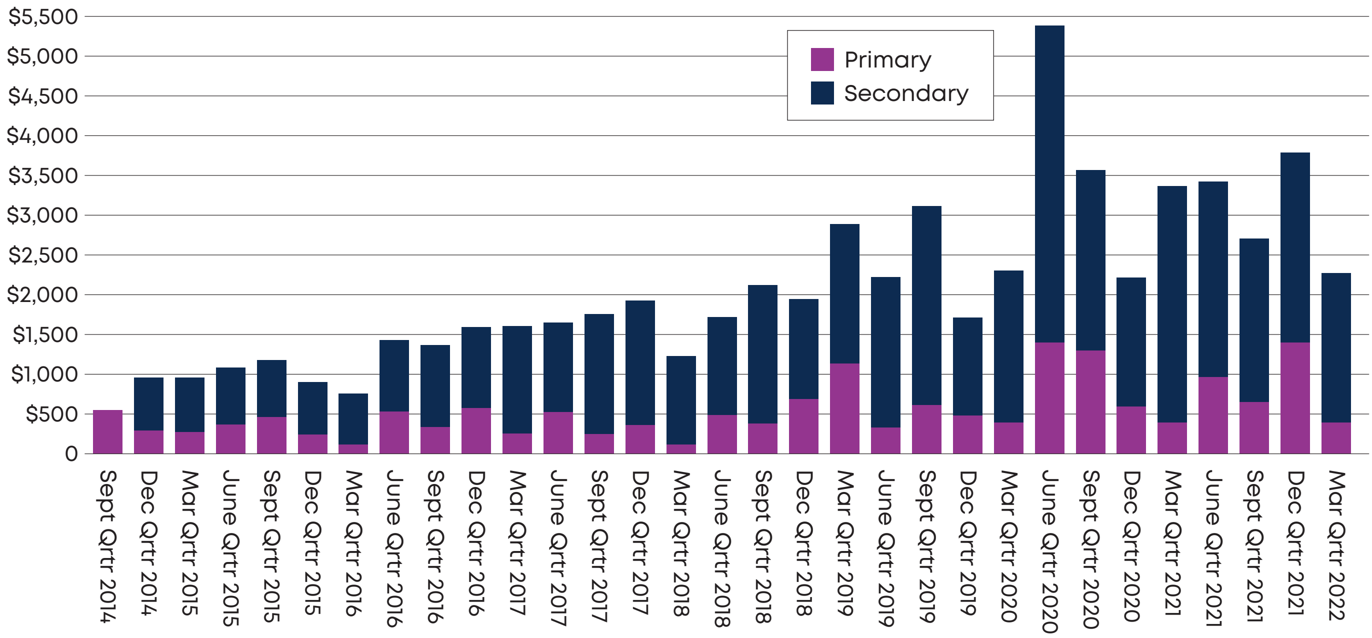


Short-term borrowing by councils and CCOs with loan terms of between one month and 12 months remains well supported with $389.9 million of loans outstanding as of 31 March 2022 to twenty-eight councils. The number of councils and CCOs using this product decreased by four over the quarter while the total amount outstanding increased by $5 million.

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 through 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 high turnover implies a healthy market.

Activity in LGFA bonds in both the primary market (tender or syndicated issuance) and secondary market (between banks and investors) during the quarter was more subdue than recent quarters. We issued only $400 million of bonds and secondary market turnover of $1.9 billion during the quarter was the lowest compared to the past five quarters.

LGFA Primary and Secondary Market Activity – Quarterly (NZ$ million)



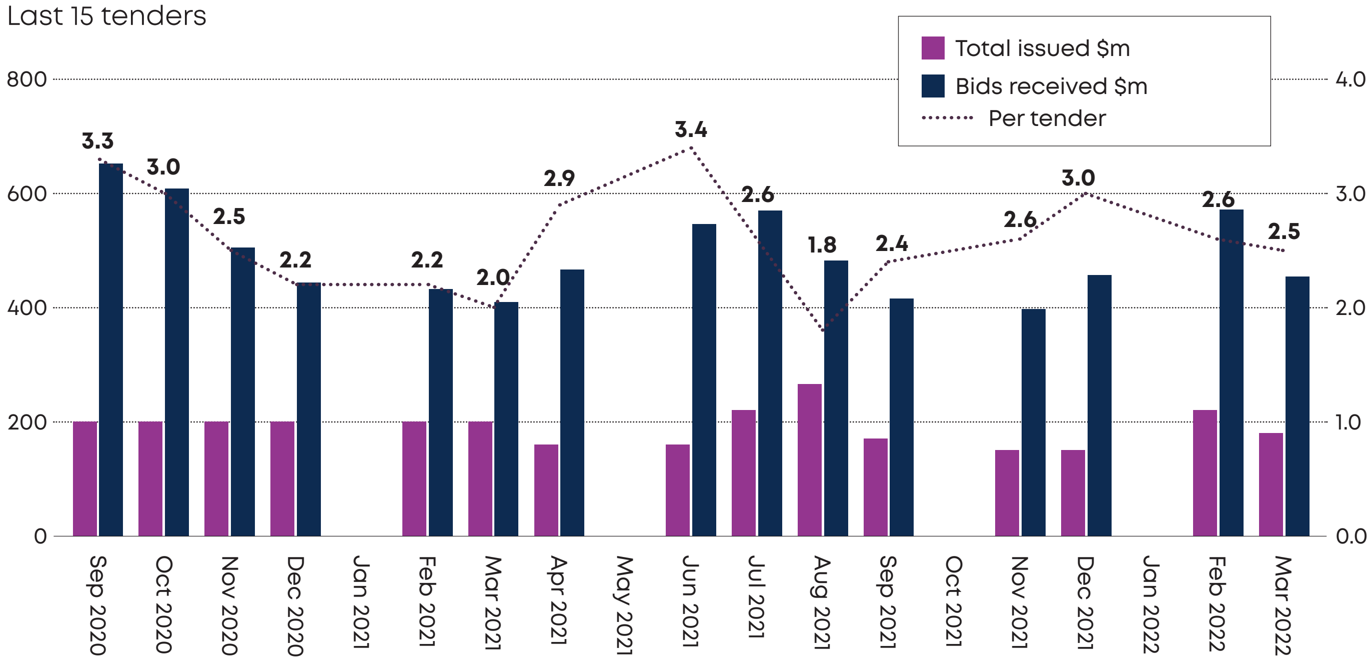
LGFA commenced issuing LGFA Bills and short dated (less than 1 year) lending to councils in late 2015. As at 31 March 2022 there were $533 million of LGFA Bills on issue and the amount on issue has been relatively constant for the past eighteen months. We use proceeds from LGFA bills to fund short term lending to councils and invest the balance in our liquid asset portfolio.

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.

Over the past quarter we have seen mixed support for our bond tenders with strong bidding, tight spreads and good bid coverage ratios for shorter dated maturities but less strength in demand for long dated tenors.

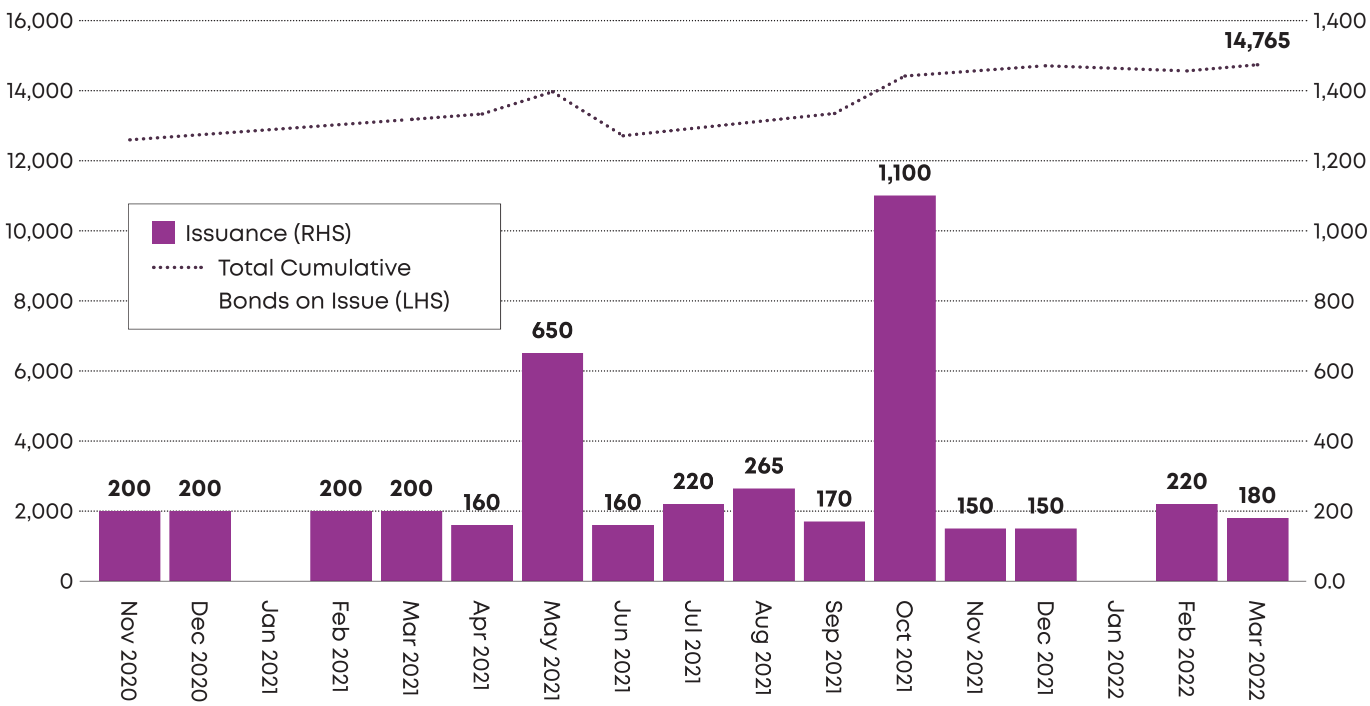
Tender bid coverage ratio

Last 15 tenders



LGFA bond issuance ($ million)

Last 15 tenders and syndications. Excludes issuance of treasury stock ($1,200m)



We survey our council members each year on their satisfaction with LGFA and the latest stakeholder survey result in August 2021 was a 99% result to the question "How would you rate LGFA in adding value to your borrowing requirements?". We also received a 98% result to the question "How satisfied are you with the pricing that LGFA has provided to your Council?" Both outcomes are slightly better than last year.

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.

We had sixty- five meetings with fifty-one councils and CCOs over the past twelve months to 31 March 2022. LGFA continues to review council agendas and management reports on an ongoing basis for those councils on the LGFA borrower watch-list.

All councils and CCO borrowers provided compliance certificates for LGFA covenants and no council has requested that they be measured on a group basis.

We continue to have dialogue with Central Government on the proposed Three Waters reforms and provided feedback regarding financing of the proposed entities during and beyond the transition period. We are waiting for clarification from Central Government as to the role that LGFA could play, if any in providing financing. The annual LGFA Board Strategy Day was held in March and the focus was solely on Three Waters Reform and Sustainability.

We co-sponsored the KangaNews Australasian high grade investor book that showcases high grade borrowers such as LGFA and the underlying local government sector to global investors.

We provided an update on LGFA and key development to a Special Interest Group of council CFOs and Corporate Services Managers.

In March we launched the LGFA Future Directors Programme that offers a council or CCO staff member the opportunity to work alongside the LGFA board for an 18-month period starting in July 2022. Applications close in April with an appointment likely in May 2022.

We continue to assist the sector and their advisers in finding ways for LGFA to play a supporting role in providing solutions to off balance sheet financing for councils. LGFA continues to provide technical expertise to the proposed Ratepayer Financing Scheme (RFS).

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.

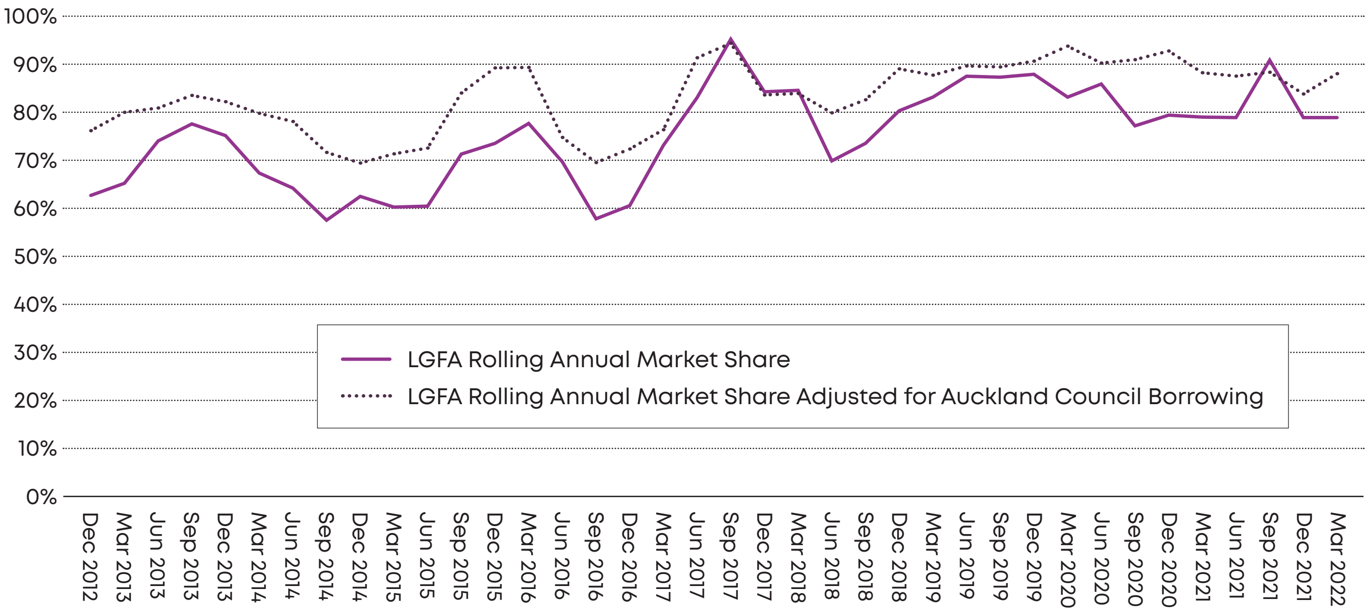
   On 2 March 2022, S&P affirmed our long-term local currency credit rating of AAA and our long-term foreign currency credit rating of AA+. Both ratings are the same as the New Zealand Government.

   On 1 November 2021 Fitch affirmed both our local currency credit rating of AA+ (stable) and foreign currency credit rating of AA (positive outlook.

2. **Provide at least 80% 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 31 March 2022 was 78.5%. If we adjust for Auckland Council borrowing of $500 million over the past year in the domestic market, then our market share increases to 89.7%. This compares to a historical average of 75.0% and our market share remains high compared to our global peers.

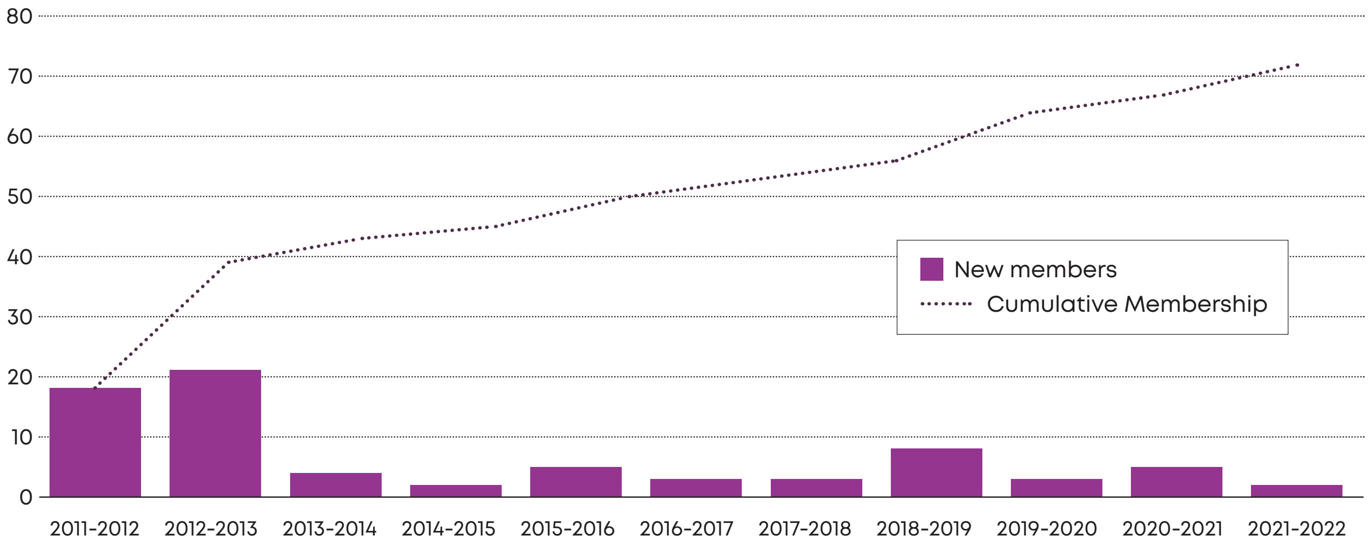
LGFA Market Share – rolling one year average



As at 31 March 2022, there are seventy-four councils and one CCO as members of LGFA. There were no new council or CCO members during the quarter and the number of guarantors was unchanged at sixty-five.

Invercargill City Holdings joined as a member in July 2021. As at 31 March 2022 they have borrowings outstanding of $90.3 million.

Council Membership (as at 31 March 2022)



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 nine-month period to 31 March 2022, Net Interest Income ("NII") was estimated by management on an unaudited basis to be $407k under budget while expenses are $190k below budget. Net Operating Gain of $9.05 million was $184k 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 but turns to a profit if interest rates rise. Due to a rise in interest rates since June 2021, the year-to-date revaluation is a profit of $1.78 million.

Expenses for the nine-month period forecast by management and on an unaudited basis were $5.387 million which is $190k below budget. This variance is the consequence of:

- Issuance and on-lending costs (excluding AIL) at $1.895 million were $94k below budget. A lower NZ Government Liquidity Facility fee was offset by higher NZX fees due to the additional amount of bond issuance.
- Operating costs at $3.167 million was $102k below budget due to lower consultants, travel and IT costs offset by higher personnel costs relative to budget.
- Approved Issuer Levy (AIL) payments of $325k were $6k above budget. We pay AIL on behalf of offshore investors at the time of semi-annual coupon payment for a small number of LGFA bond maturities.

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

See Section D on page 7 of this report.

For the first half period of the financial year ended 30 June 2022 we are on track to achieve seven (and possibly eight) out of the ten performance targets.

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.

Both the Auckland and Wellington based staff were working from home during the lockdown period and we have adopted safety protocols to keep our staff safe during COVID upon returning to the offices. All staff, directors and visitors are required to be double vaccinated before entering LGFA offices.

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 31 March 2022.

7. Assist the local government sector with significant matters such as COVID-19 response and the proposed Three Waters Reform Programme.

Over the 2020 and 2021 calendar years, LGFA has

- Made changes to the Foundation Policy covenants 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.
- Been contributing expertise to the Ratepayer Financing Scheme project that if successful could offer temporary financial relief to ratepayers via rates postponement.
- Offer the Standby Facility product to provide greater certainty of access to emergency funding for councils at a lower cost than going to the traditional bank provider. This has been well supported by councils with $522 million of standbys written with nine councils.
- Responded to a request from the Shareholders Council to outline its views on the proposed Three Waters Reform. The Shareholders Council distributed this response to all council members.

8. Improve sustainability outcomes within LGFA and assist the local government sector in achieving their sustainability and climate change objectives.

Over the 2021-22 financial year, LGFA has

- Established a Sustainability committee comprising
  - Three LGFA staff members and
  - Four external members - Alison Howard, Chris Thurston, David Woods and Erica Miles
- In October 2021 we launched a Green, Social and Sustainable Lending Programme for council and CCO members. Projects that meet one of the sixteen green or social lending categories will now be eligible for a discounted loan margin. Wellington City (WCC) and Greater Wellington Regional (GWRC) Councils have borrowed under this programme
  - WCC have borrowed to finance the construction of the Takina, the Wellington Convention and Exhibition Centre.
  - GWRC have borrowed to finance the council's flood protection work on the RiverLink project in the Hutt Valley.
- We have an Intern from Massey University researching the councils that declared a climate change emergency and what that means for additional related capex and borrowing.

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 31 March 2022 we issued $400 million of LGFA bonds. The change in holdings amongst our investor groups during the quarter was

- Offshore investor holdings increased by $508 million (and increased by $1.65 billion from 31 March 2021) with holdings estimated to be $4.91 billion on 31 March 2022.
- Domestic bank holdings decreased by $227 million (and down $141 million from 31 March 2021), with holdings estimated to be $3.76 billion on 31 March 2022.
- Domestic investor (retail and institutional) holdings increased by $60 million (and up $739 million from 31 March 2021), with holdings estimated to be $4.89 billion as of 31 March 2022.
- The Reserve Bank of New Zealand (RBNZ) holdings were unchanged over the quarter and totalled $1.69 billion as of 31 March 2022.

LGFA Bond Holdings by Investor Group