

Investment Policy

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Policy owner:	Manager Finance <u>Chief Financial Officer</u>
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Council's Investment Policy is influenced by its corporate financial needs and objectives and is governed by the Local Government Act 1993. The Policy aims to ensure that Council's funds are invested in a financially responsible manner, and that the capital component of investment funds is maintained in real terms and in addition, a reasonable rate of return is achieved.

Purpose

The purpose of this Investment Policy ~~(IP)~~ is to establish Council's guidelines that Officers utilise when investing funds in order to maximise the return to Council in accordance with the risk appetite of Council.

The objectives of this Policy are:

- to confirm the regulation relevant to management of Council's investments and the range of authorised investments
- to set boundaries for exposure to market risk, credit risk and interest rate risk within the investment portfolio and the 'counterparty' exposure of the portfolio to individual institutions or products
- to ensure the investment portfolio holds sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring significant costs due to the unanticipated sale of an investment
- to establish a framework for monitoring investments
- to confirm delegations and other relevant governance matters in relation to Council's investments

Scope

This Policy applies to all Council investments.

Responsibilities

Authority for implementation of the Investment Policy is delegated by the Council to the General Manager in accordance with the *Local Government Act 1993*. The General Manager has in turn delegated the day-to-day management of the Council's investments to Officers, subject to regular reviews.

Reporting Requirements

Documentary evidence must be held for each investment and details thereof maintained in an investment register. The documentary evidence must provide Council legal title to the investment.

For audit purposes, audit confirmation certificates must be obtained from the financial institutions confirming the amount of investments held on Council's behalf as at 30 June each year and reconciled to the investment register.

All investments are to be appropriately recorded in Council's financial records and reconciled at least on a monthly basis.

As required by Section 212 of the Local Government (General) Regulation 2005, a monthly investment report will be provided to Council. The report will detail the investment portfolio in terms of holdings and impact of changes in market value since the previous report. The monthly report will also detail the investment performance against the applicable benchmark, investment income earned versus budget year to date and confirm compliance of Council's investments within legislative and policy limits. Council may nominate additional content for reporting.

Approval Arrangements

An investment form will be completed for all investments to ensure appropriate documentation of the investment decision. All decisions require approval by two (2) Officers who have the appropriate delegation from the General Manager.

Review procedures

The Investment Policy will be reviewed annually and as required in the event of legislative change or as a result of significantly changed economic or market conditions. The Investment Policy may also be changed as a result of other amendments that are to the advantage of Council and in the spirit of this Policy.

Any amendment to the Investment Policy must be by Council resolution.

Policy Provisions

Investment Objectives

The purpose of this Policy is to provide a framework for the optimum investment of Council's Funds at the most favourable rate of interest available to it at the time and maximising returns, whilst having due consideration of risk, liquidity and security for its investments.

While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity, and the return on investment. Council therefore has several primary objectives for its investment portfolio:

- Compliance with legislation, regulations, the prudent person tests of the Trustee Act and best practice guidelines.
- The preservation of the amount invested;
- To ensure there is sufficient liquid funds to meet all reasonably anticipated cash flow requirements; and
- To generate income from the investment that exceeds the performance benchmarks mentioned later in this document.

Council's Investment decisions will be made in conjunction with its Investment Policy and will consider:

- Councils current cash flow expectations and the implications for deviations from a long-term liquidity profile;
- Diversification: allocation of investment type, credit quality, counterparty exposure and term to maturity profile;
- Market conditions and the appropriate responses – particularly relative positioning within the limits outlined in this policy;
- Relative return outlook, risk-reward considerations, assessment of the market cycle and hence constraints on risk; and
- Appropriateness of overall investment types for Council's portfolio.

Prudent Person Standard

The investments will be managed with the care, diligence and skill that a prudent person (as derived by legislation, Trustees Act 1925, and case law) would exercise. As trustees of public monies, Officers are to manage Council's investment portfolios to safeguard the portfolio in accordance with the spirit of this Investment Policy, and not for speculative purposes.

Ethics and Conflicts of Interest

Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This Policy requires Officers to disclose any conflict of interest to the General Manager as soon as possible.

Independent advisors are also to declare that they have no actual or perceived conflicts of interest and receive no inducements in relation to Council's investments.

Investment Guidelines

Authorised Investments

All investments must be denominated in Australian Dollars. Authorised Investments are limited to those allowed by the Ministerial Investment Order and include:

- Commonwealth / State / Territory Government securities e.g. bonds;
- Interest bearing deposits / senior securities (including 'covered' bonds) issued by an eligible ADI;
- Bills of Exchange, (< 200 days duration) guaranteed by an ADI;
- Debentures issued by a NSW Council under Local Government Act (1993);
- Deposits with TCorp &/or Investments in TCorp Managed Funds;

Prohibited Investments

This Investment Policy prohibits the following types of investment¹:

¹ Prohibited Investments are not limited to the list below and extends to any investment carried out for speculative purposes.

- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow;
- Stand alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind; and
- Mortgage of land

This Policy also prohibits the use of leveraging (borrowing to invest) of an investment. However, nothing in the Policy shall prohibit the short-term investment of loan proceeds where the loan is raised for non-investment purposes and there is a delay prior to the expenditure of loan funds.

Risk Management Guidelines

Investments obtained are to be considered in light of the following key criteria relating to:

- Portfolio Credit Framework – to limit overall credit exposure of the portfolio;
- Counterparty Credit Framework – to limit exposure to individual counterparties / institutions;
- Investment Horizon Framework – limits based upon maturity of securities.

Portfolio Credit Framework

The portfolio credit guidelines to be adopted will reference the Standard & Poor's (S&P) ratings system criteria and format – however, references to the Minister's Order also recognise Moody's and Fitch Ratings and any of the three (3) ratings may be used where available.

However, the primary control of credit quality is the prudential supervision and government support of the ADI sector, not ratings.

The maximum holding limit in each rating category for Council's portfolio shall be:

Long Term Rating Range (or Moody's equivalent)	Maximum Holding
AAA Category	100%
AA Category or Major Banks	100%
A Category	70%
BBB Category	31%
Unrated ADIs ²	6%
TCorplM Growth Funds	10%

² Council can make new investments with unrated ADI's and where possible will take advantage of the Australian Government's deposit guarantee arrangements.

Counterparty Credit Framework

Exposure to individual counterparties/financial institutions will be restricted by their rating so that single entity exposure is limited, as detailed in the table below. These limits exclude any government guarantee investments.

This table does not apply to any grandfathered managed fund or structured investment where it is not possible to identify a single counterparty exposure.

Long Term Rating Range (or Moody's equivalent)	Limit
AAA Category	40%
AA Category or Major Banks	30%
A Category	15%
BBB Category	10%
Unrated Category ³	5%
TCorpIM Growth Funds	10%

Investment Horizon Limits

Council's investment portfolio shall be structured around the time horizon of investment to ensure that liquidity and income requirements are met.

Horizon represents the intended minimum term of the investment; it is open for Investment decisions to be made regarding a target date for sale of a liquid investment.

Once the primary aim of liquidity is met, Council will diversify its maturity profile, as this will reduce the volatility of Council's income. However, Council always retains the flexibility to invest as short as required by taking into consideration the future economic outlook.

The factors and/or information used by Council to determine minimum allocations to the shorter durations include:

- Council's liquidity requirements to cover both regular payments as well as sufficient buffer to cover reasonably foreseeable contingencies;
- Medium term financial plans and major capital expenditure forecasts;
- Known grants, asset sales or similar one-off inflows;
- Seasonal patterns to Council's investment balances.

³ This category includes unrated ADI's such as some Credit Unions and Building Societies where falling outside deposit guarantees for at least part of the investment term.

Investment Horizon Description	Investment Horizon - Maturity Date	Minimum Allocation	Maximum Allocation
Working capital funds	0-3 months	10.0%	100.0%
Short term funds	3-12 months	10.0%	100.0%
Short-Medium term funds	1-2 years	0%	70.0%
Medium term funds	2-5 years	0%	50.0% 60.0%
Long term funds	5-10 years	0%	25.0% 15.0%

Within these broad ranges, Council relies upon assumptions of expected investment returns and market conditions that have been examined with its investment advisor.

Investment Advisor

Council's investment advisor must hold an Australian Financial Services license (AFSL), issued by the Australian Securities and Investment Commission (ASIC). The advisor must be independent and must confirm in writing that they have no actual or potential conflict of interest in relation to investment products being recommended and is free to choose the most appropriate product within the terms and conditions of investment policy. This includes receiving no commissions or other benefits in relation to the investments being recommended or reviewed, except if any commissions are fully rebated to Council.

Performance Benchmarks

The performance of each investment will be assessed against the benchmarks listed in the table below.

It is Council's expectation that the performance of each investment will be greater than the applicable benchmark by a sufficient margin to justify the investment, taking into account its risks, liquidity and other benefits of the investment.

It is also expected that Council will take the appropriate steps to ensure that any investment, notwithstanding a yield above the benchmark rate (taking into account term), is executed at the best pricing reasonably possible.

Investment	Performance Benchmark	Time Horizon
Cash-at-call accounts, short dated bills, deposits issued by financial institutions of appropriate term.	AusBond Bank Bill Index (BBI)	3 months or less
Term Deposits of appropriate remaining term, FRN's nearing maturity.	AusBond Bank Bill Index (BBI)	3 months to 12 months
Term Deposits with a maturity date between 1 and 2 Years, FRN's.	AusBond Bank Bill Index (BBI)	1 to 2 years

Investment	Performance Benchmark	Time Horizon
FRN's, Bonds, Term deposits with a maturity date between 2 and 5 Years.	AusBond Bank Bill Index (BBI)	2 to 5 Years
TCorp Growth Managed Funds	Fund's Internal Benchmark	3 Years (M/T Growth) 5+ Years (L/T Growth)

The decision as to when to exit an investment is based on a range of criteria specific to the investment – including but not limited to factors such as:

- Returns expected over the remaining term
- Fair values
- Competing investment opportunities
- Costs of holding
- Liquidity and transaction costs
- Outlook for future investment values

In general, it is expected that professional advice will be sought before exiting an investment.

Accounting

Council will comply with appropriate accounting standards in valuing its investments and quantifying its investment returns.

In addition to recording investment income according to accounting standards, published reports may show a break-down of its duly calculated investment returns into realised and unrealised capital gains/losses, and interest.

Other relevant issues will be considered in line with relevant Australian Accounting Standards, such as discount or premium, designation and impairment.

Safe Custody Arrangements

Where necessary, investments may be held in safe custody on Council's behalf, as long as the following criteria are met:

- Council must retain beneficial ownership of all investments;
- Adequate documentation is provided, verifying the existence of the investments;
- The Custodian conducts regular reconciliation of records with relevant registries and/or clearing systems; and
- The Institution or Custodian recording and holding the assets will be:
 - The Custodian nominated by TCorp for their managed funds;
 - Austraclear

- An institution with an investment grade Standard and Poor's or Moody's rating; or
- An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

Legislative Context

- Local Government Act (1993)
- Local Government (General) Regulation (2005)
- Ministerial Investment Order
- Trustee Act 1925
- Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards
- Office of Local Government Investment Policy Guidelines
- Office of Local Government Circulars

Related Documents

This Policy has been prepared to recognise the legislative requirements and obligations for the investment of Council's funds. The legislative requirements are listed in the Investment Policy adopted by Council. It is Council's intention to comply with investment regulation and nothing in this statement is to override these obligations.

Definitions

Term	Definition
Act	<i>Local Government Act, 1993</i>
Authorised Deposit-taking Institutions	Authorised Deposit-Taking Institutions (ADIs) are corporations that are authorised under the Banking Act 1959 (Cwth) to take deposits from customers.
AusBond Bank Bill Index	The AusBond Bank Bill Index is the leading benchmark for the Australian fixed income market. It is interpolated from the RBA Cash rate, 1 month and 3 month Bank Bill Swap rates and is the widely used benchmark for local councils.
Bank Bill Swap Rate	The Bank Bill Swap reference rate (BBSW) is the average of mid-rate bank-bill quote from brokers on the BBSW Panel. The BBSW is calculated daily. Floating rate securities are most commonly reset quarterly to the 90-day BBSW.
Bill of Exchange	A bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person, or to bearer.

Term	Definition
Council Funds	Surplus monies that are invested by Council in accordance with section 625 of the Act
Conflict of Interest	A conflict of interest can be pecuniary (involving financial gain or loss) or non-pecuniary (based on animosity, friendship or family connection). A conflict of interest can also arise from avoiding personal losses as well as gaining personal advantage, financial or otherwise. Conflicts of interest can be actual, perceived, or potential.
Counterparty	Both a legal and financial term that refers to the other individual or institution to an agreement or contract.
Covered Bonds	A senior, secured, dual-recourse bond instrument issued by an ADI. The underlying assets of a covered bond stay on the balance sheet of the ADI issuing the bond. Therefore, if the ADI becomes insolvent, investors holding the bonds may still receive their scheduled interest payments from the underlying assets of the bonds (high-quality assets such as prime mortgages), as well as the principal at the bond's maturity. Due to the extra layer of protection, covered bonds typically have a "AAA" rating.
Credit Risk	The risk that a party or guarantor to a transaction will fail to fulfil its obligations. In the context of this document it relates to the risk of loss due to the failure of an institution/entity with which an investment is held to pay the interest and/or repay the principal of an investment.
Debenture	A debenture is a document evidencing an acknowledgment of a debt, which a company has created for the purposes of raising capital. Debentures are issued by companies in return for medium and long-term investment of funds by lenders.
Derivative Based Instruments	Financial contracts, or financial instruments, whose values are derived from the value of something else (known as the underlying). The underlying on which a derivative is based can be an asset (e.g. Commodities, equities (stocks), residential mortgages, commercial real estate, loans, bonds), and index (e.g. interest rates, exchange rates, stock market indices, consumer price index (CPI) – see inflation derivatives). Credit derivatives are based on loans, bonds or other forms of credit. The main types of derivatives are: forwards (which is traded on an exchange are known as futures); options and swaps.
Diversification	The requirement to place investments in a broad range of products so as not to be over exposed to a particular sector of the investment market.
Financial Instrument	Any contract that gives rise to a financial asset of one entity, and a financial liability or equity instrument of another entity.

Term	Definition
Floating Rate Notes	A Floating Rate Note (FRN) is a medium to long term fixed interest investment where the coupon is a fixed margin (“coupon margin”) over a benchmark, also described as a “floating rate”. The benchmark is usually the BBSW and is reset at regular intervals – most commonly quarterly.
Interest Rate Risk	The risk that the fair value or future cash flows of an investment will fluctuate because of changes in market interest rates.
Investment Portfolio	A collection of investments.
Investment Policy	The Investment Policy (IP) provides the general investment goals and objectives of Council and describes the strategies that must be employed to meet these objectives. Specific information on matters such as asset allocation, risk tolerance, and liquidity requirements are also included in the IP .
Liquidity Risk	The risk an investor runs out of cash, is unable to redeem investments at a fair price within a timely period, and thereby incurs additional costs (or in the worst case is unable to execute its spending plans).
Major Banks	<p>For the purpose of this Policy, “Major Banks” are currently defined as:</p> <p>The ADI deposits or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups:</p> <ul style="list-style-type: none"> • Australia and New Zealand banking Group Limited (ANZ) • Commonwealth Bank of Australia (CBA) • National Australia Bank Limited (NAB) • Westpac Banking Corporation (Westpac) <p>including ADI subsidiaries such as Bankwest whether or not explicitly guaranteed, and brands (such as St George).</p> <p>Similarly, with other ADI groups (such as Bendigo & Adelaide Bank) whom own multiple banking licences, rating categories are based on the parent bank even if the subsidiary is not explicitly rated.</p> <p>Council may ratify an alternative definition from time to time.</p>
Market Risk	The risk that fair value or future cash flows of an investment will fluctuate due to changes in market prices, or benchmark returns will unexpectedly overtake the investment’s return.
Preservation of Capital	An investment strategy with the primary goal of preventing losses in an investment portfolio’s total value.

Term	Definition
Rating Agencies	<p>Includes Credit Rating Agencies such as Standard and Poor's (S&P), Moody's and Fitch who are professional organisations that provide opinion on the general credit worthiness of an obligor with respect to particular debt security or other financial obligations. Credit ratings are based, in varying degrees, on the following considerations:</p> <ul style="list-style-type: none"> • Likelihood of payment; • Nature and provisions of the obligation; <p>Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganisation or other laws affecting creditor rights.</p> <p>In the event of disagreement between agencies as to the rating ("split ratings") Council shall use the higher in assessing compliance with portfolio Policy limits, but for conservatism shall apply the lower in assessing new purchases.</p>
Speculative Deal	A deal which involves deliberately taking a higher risk, in the hope of making an extraordinary gain.
TCorp	New South Wales Treasury Corporation.
Term Deposits	Non-tradeable investments offered by ADIs with varying maturity dates and a rate set at the outset. Interest is normally payable upon maturity or if the term is longer than 12 months, annually from the investment date. Penalties apply if the funds are withdrawn before maturity and a notice period of 31 days is usually required.
Yield	The annual rate of return on an investment.

Revision History

Revision number	Council resolution	Council meeting date
0	Res No: 07/302.5	13 August 2007
1	Res No: 09/077	27 July 2009
2	Res No: 12/359	17 December 2012
3	Res No: 13/224.1	26 August 2013
4	Res No: 15/339.15	23 November 2015
5	Res No: 17/279	28 August 2017
6	Res No: 18/059	26 February 2018

Revision number	Council resolution	Council meeting date
7	Res No: 19/133	29 April 2019
8	Res No: 20/210	15 June 2020