

## 2.1 INVESTMENT POLICY

<b>Policy Number</b>	<b>2.1</b>	<b>Date Commenced</b>	24 <sup>th</sup> October 2012
<b>Date Adopted</b>	23 <sup>rd</sup> October 2012	<b>Resolution Number</b>	23/10/12/018
<b>Review Timeframe</b>	4 years		
<b>Last Review Date</b>	10/2/16	<b>Next Scheduled Review Date</b>	February 2020
<b>Policy Responsibility</b>	Finance Manager		

### Document History

Version	Date Amended	Details Comments e.g. Resolution Number
<b>2.1.001</b>	10/2/16	Add committee to Approved Investments

### OBJECTIVE

To provide policy guidelines for investments of the Council's funds which are surplus to immediate requirements.

### POLICY STATEMENT

#### Objectives

- To invest the council's surplus funds, with consideration of risk and at the most favourable rate of interest available at the time, for that investment type, while ensuring that council's liquidity requirements are being met. While exercising the power to invest, consideration is to be given to preservation of capital, liquidity, and the return of investment.
- Preservation of capital is the principal objective of the investment portfolio. Investments are to be made in a manner that seeks to ensure the security and safeguarding of the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.
- The investment portfolio must ensure there is 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.
- The investment is expected to achieve a predetermined market average rate of return that takes into account the Council's risk tolerance. Any additional return target set by Council must also consider the risk limitation and prudent investment principles.

## **Legislative Requirements**

All investments are to comply with the following:

- *Local Government Act*
- *Local Government (Accounting) Regulations*
- *Australian Accounting Standards*

## **Other Requirements**

### **Prudent Person Standard**

The investment will be managed with the care, diligence and skill that a prudent person would exercise. Staff are to manage the investment portfolios to safeguard the portfolios in accordance with the spirit of this Investment Policy, and not for speculative purposes.

### **Ethics and Conflicts of Interest**

Staff shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This policy requires staff to disclose any conflict of interest to the CEO.

### **Approved Investments**

Investments must be approved by a committee that transacts the investments.

The committee is to be the CEO, Finance Manager and President.

Any two (2) of the committee must approve the investment via email.

The investment is to be reported to Council in the monthly Finance Reports.

Without approval by resolution of Council, investments are limited to:

- State/Commonwealth Government Bonds;
- Interest bearing deposits such as bank accounts and term deposits;
- Bank accepted/endorsed bank bills;
- Commercial paper (a loan of less than 270 days backed by assets such as loans or mortgages);
- Bank negotiable Certificate of Deposits; and
- Managed Funds with a minimum long term Standard & Poor (S&P) rating of "A" and short term rating of "A2".

### **Prohibited Investments**

This investment policy prohibits any investment carried out for speculative purposes including:

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

This policy also prohibits the use of leveraging (borrowing to invest) of an investment.

### **Risk Management Guidelines**

Investments obtained must comply with key criteria as indicated below relating to:

- a) Portfolio Credit Framework: limit overall credit exposure of the portfolio
- b) Counterparty Credit Framework: limit exposure to individual counterparties/institutions
- c) Term to Maturity Framework: limits based upon maturity of securities.
- d) Protection of Principal: investments entered into must be structured to minimise risk of loss of principal.
- e) Grant Funding Conditions: conditions related to grant funding available to invest must be complied with.

#### **a) Overall Portfolio Limits**

To control the credit quality on the entire portfolio, the following credit framework limits the percentage of the portfolio exposed to any particular credit rating category.

<b>S&amp;P Long Term Rating</b>	<b>S&amp;P Short Term Rating</b>	<b>Direct Investment Maximum %</b>	<b>Managed Fund Maximum %</b>
AAA	A-1+	100%	100%
AA	A-1	100%	100%
A	A-2	60%	80%

#### **b) Counterparty Credit Framework**

Exposure to an individual counterparty/institution will be restricted by its credit rating so that single entity exposure is limited, as detailed in the table below:

<b>S&amp;P Long Term Rating</b>	<b>S&amp;P Short Term Rating</b>	<b>Direct Investment Maximum %</b>	<b>Managed Fund Maximum %</b>
AAA	A-1+	45%	50%
AA	A-1	35%	45%
A	A-2	20%	40%

If any of the council's approved investments are downgraded such that they no longer fall within approved credit rating category documented within the investment policy, they must be divested as soon as practicable. Investments fixed for greater than 12 months are to be approved by Council and reviewed on a regular term and invested for no longer than 5 years.

#### **c) Term to Maturity Framework**

The investment portfolio is to be invested within the following maturity constraints:

<b>Overall Portfolio Term to Maturity Limits</b>	
Portfolio % < 1 year	100% Max; 40% Min
Portfolio % > 1 year	60%
Portfolio % > 3 year	35%
Portfolio % > 5 year	25%
<b>Individual Investment Maturity Limits</b>	
ADI	5 years
Non ADI	3 years

### Measurement

The investment return for the portfolio is to be annually reviewed by Council's audit committee by assessing the market value of the portfolio. The market value is to be assessed by Council at least once a month to coincide with monthly reporting.

### Benchmarking

Performance benchmarks (*must be established here in this policy*).

Investment	Performance Benchmark
Cash	Cash Rate
Enhanced/Direct Investments	UBSWA Bank Bill
Diversified	CPI + appropriate margin over rolling 3 year periods (depending upon composition of fund)

### Reporting and Review

A monthly report must be provided to Council in support of the monthly statement of activity.

An Investment Strategy must run in conjunction with the investment policy. (The Investment Policy and Strategy may be presented as one document). The investment strategy must be reviewed by Council's audit committee every six months with a more formal review once a year. The Strategy must outline:

- Council's cash flow expectations;
- Optimal target allocation of investment types, credit rating exposure, and term to maturity exposure and;
- Appropriateness of overall investment types for Council's portfolio.

This Investment Policy will be reviewed at least once a year or as required in the event of legislative changes.

Documentary evidence must be held for each investment and details thereof maintained in an investment Register.

Certificates must be obtained from the financial institutions confirming the amounts of investments held on the Council's behalf as at 30 June each year and reconciled to the Investment Register.