

# Investment Policy

## POLICY ADMINISTRATION

<b>Dates</b>	<p>Policy approved 26/9/2022 (Version 3) This policy is effective upon its approval.</p> <p>Policy is due for review September 2025 or as required in the event of legislative change, significant economic/market conditions and/or mandated by the Minister's Order.</p>
<b>Approved by</b>	<p>Council Meeting 26/9/2022 (Version 3) Council Resolution CCL083-22 (FIN043-22)</p>
<b>Policy Type</b>	<p><input type="checkbox"/> Executive Policy <input checked="" type="checkbox"/> Council Policy</p>
<b>Exhibition Period</b>	N/A
<b>Policy Owner</b>	Chief Financial Officer, Business and Corporate Services
<b>Related Documents</b>	<p>Investment Procedures Investment Checklist</p>
<b>References &amp; Legislation</b>	<p><i>Local Government Act 1993 - Section 625</i> <i>Local Government Act 1993 - Order (of the Minister) dated 12 January 2011</i> <i>The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1) &amp; (2)</i> <i>Local Government General Regulation 2005</i> Division of Local Government Investment Policy Guidelines, May 2010 Office of Local Government Circulars Local Government Code of Accounting Practice and Financial Reporting Australian Accounting Standards.</p>
<b>Document Identifier</b>	<p>Policy #: Pol-035.03 Doc #: D17/96387</p>
<b>Breaches of Policy</b>	Breaches of any policy will be dealt with and responded to in accordance with adopted codes and/or relevant legislation.
<b>Record Keeping</b>	All documents and information obtained in relation to the implementation of this policy will be kept in accordance with the <i>NSW State Records Act 1998</i> , Georges River Council's Corporate Records Policy and adopted internal procedures.

## Purpose

The purpose of this Policy is to establish a framework for Council's investment practices, in order to comply with relevant legislation, regulations and ensure Council exercises care, diligence and skill in the investment of Council funds.

## Scope

This policy applies to the investment of Council's total cash portfolio, which includes:

- General unrestricted reserves
- Externally restricted reserves
- Internally restricted reserves
- Loan proceeds drawn down awaiting expenditure.

This policy applies to all officers within Georges River Council delegated to invest funds of Council.

## Definition of Terms

Term	Meaning
ADI	Authorised Deposit-taking Institutions (ADIs) are corporations that are authorised under the <i>Banking Act 1959</i> (Commonwealth) to take deposits from customers.
AusBond Bank Bill Index (BBI)	In 2014, Bloomberg acquired the UBS Australia Bond Indices. The benchmark index formerly referred to as UBSA BBI was rebranded as AusBond Bank Bill Index. Bloomberg calculates a daily Bank Bill Index representing the performance of a notional rolling parcel of bills averaging 45 days. It is the widely used benchmark for local councils and other institutional cash investors.
Bill of exchange	A bill of exchange is a written order that binds one party to pay a fixed sum of money to another party on demand or at a predetermined date. Bills of exchange are similar to cheques and promissory notes, they can be drawn by individuals or banks and are generally transferable by endorsements.
BBSW	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.
Council Funds	Surplus monies that are invested by Council in accordance with Section 625 of the <i>Local Government Act, 1993</i> .
Debenture	A debenture is a document evidencing an acknowledgement 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.

FRN	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.
Major Banks*	The ADI deposits or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups including ADI subsidiaries whether or not explicitly guaranteed, and brands (such as St George): <ul style="list-style-type: none"> <li>• Australia and New Zealand Banking Group Limited</li> <li>• Commonwealth Bank of Australia</li> <li>• National Australia Bank Limited</li> <li>• Westpac Banking Corporation</li> </ul>
Semi-Government	Issued or guaranteed by a State or Territory government (within Australia)

## Policy Statement

### 1. Authorised Investments

- 1.1. All investments must be denominated in Australian Dollars.
- 1.2. Authorised Investments are limited to those allowed by the Ministerial Investment Order (January 2011), currently:
  - Commonwealth / State / Territory Government securities e.g. bonds
  - Debentures or securities issued by a NSW Council under the *Local Government Act (1993)*
  - Interest bearing deposits with any debentures or bonds issued by an eligible Authorised Deposit Taking Institution (ADI) (excluding subordinated debt obligations)
  - Bills of Exchange (< 200 days duration) guaranteed by an ADI;
  - Deposits with NSW Treasury Corporation (TCORP) or investments in an Hour-Glass investment facility of the TCorp
  - Existing investments grandfathered (included structured investments) under the Ministerial Investment Order.
- 1.3. Council’s Investment Advisor will provide advice on all proposed investments. Comparisons will be made with other Authorised Deposit Taking Institutions in the market.

### 2. Delegation of Authority

- 2.1. Authority for implementation of the Investment Policy is delegated by Council to the General Manager in accordance with the *Local Government Act (1993)*.
- 2.2. The General Manager has in turn delegated the day-to-day management of Councils investment to those currently recorded in the Delegated Authority register.

2.3. Officers' delegated authority to manage Council's investments shall be recorded and required to acknowledge they have received a copy of this policy and understand their obligations in this role.

### 3. Prohibited Investments

3.1. This Investment Policy prohibits the following types of investment:

- Derivative based instruments
- Mortgage of land
- Making a deposit with the Local Government Financial Services Pty Ltd
- 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.

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

3.3. Prohibited investments are not limited to the list above, and also extend to any investments of a speculative nature.

### 4. Considerations prior to investment

#### 4.1. Risk Management Guidelines

4.1.1. Proposed investments are to be considered in light of the following key criteria:

- **Preservation of Capital** – the requirement for preventing losses in an investment portfolio's total value
- **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
- **Ethical and environmentally responsible investments** – financial institutions offering equivalent investment returns and conforms with this Policy then preference will be given to institutions demonstrating environmental and social responsibility
- **Liquidity Risk** – the risk an institution runs out of cash, and an investor is unable to redeem the investment at a fair price within a timely period
- **Market Risk** – the risk that fair value or future cash flows will fluctuate due to changes in market prices, or benchmark returns will not be achieved
- **Maturity Risk** – the risk relating to the length of term to maturity of an investment. The longer the term, the greater the length of exposure to and risk of market volatilities
- **Counterparty Credit Risk** – The risk that the counterparty to a transaction could default before the final settle of the transaction's cash flow, managed by limiting exposure to one group.

#### 4.2. Investment Advisor

4.2.1. Council may choose to appoint an Investment Advisor, if it is believed that Council lacks the necessary resources, expertise and knowledge of products in the market, to achieve the required returns on investment.

4.2.2. Council's investment advisor must be approved by Council and licensed by the Australian Securities and Investment Commission. The advisor must be independent and 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 the Investment Policy.

#### 4.3. Credit Quality Limits

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

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

<b>Credit Quality</b>	<b>Maximum % Holding</b>
Federal Government	100%
AAA Semi-Government (State guarantee)	100%
AA Other Semi-Government and Major Banks*	100%
A Category	70%
BBB Category and Unrated Category	0%

4.3.3. Ratings in no way guarantee the investment or protect Council against investment losses. The prescribed ratings should not be misinterpreted as an implicit guarantee of investments or entities that have such ratings. Even given this challenge, ratings provide the best independent information available.

#### 4.4. Counterparty Limits

4.4.1. Exposure to individual counterparties/financial institutions will be restricted by their rating so that exposure to a single entity is limited, as detailed in the table below. It excludes any government guaranteed investments.

<b>Individual Institution or Counterparty Limits</b>	
<b>Credit Quality</b>	<b>Maximum Holding</b>
AAA Semi-Government (State guarantee)	50%

AA Other Semi-Government and Major Banks*	45%
A Category	40%
BBB Category	No new placements to be permitted
Unrated Category	No new placements to be permitted

#### 4.5. Term to Maturity Framework

4.5.1. The investment portfolio will diversify its maturity profile within the following term to maturity constraints.

<b>Term to Maturity Limits</b>	<b>Minimum Allocation</b>	<b>Maximum Allocation</b>
Short: Portfolio % < 1 year	40%	100%
Short-Medium: Portfolio % >1 year ≤3 year	0%	60%
Long term: Portfolio % >3 year ≤5 year	0%	40%

#### 4.6. Performance Benchmarks

4.6.1. The performance of Council's investment portfolio will be benchmarked against the Bloomberg AusBond Bank Bill Index (BBI).

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

### 5. **Accounting and Reporting**

5.1. Accounting records must be kept in a form that accords with the Code.

5.2. Accounting practices must accord with the Code.

5.3. Documentary evidence must be held for each investment and details maintained in an investment register and reconciled at least on a monthly basis.

5.4. A monthly Investment Report is to be provided to Council. The report will detail:

- Amount of money invested
- Particulars of the security or form of investment in which the money is invest
- If appropriate, the rate of interest to be paid and the amount of money that the council has earned in respect of money invested.

- the investment portfolio in terms of holdings and the impact of changes in market value since the previous report. The monthly report will also detail the investment performance against the applicable benchmark, actual investment income earned compared to the year to date budgeted figure and confirm compliance of Council’s investments with legislative and policy limits. Council may nominate additional content for reporting.

5.5. The documentary evidence must provide Council’s legal title to the investment (or, where an approved custodian, clearing house or nominee is used, beneficial ownership).

5.6. For audit purposes, certificates must be obtained from the banks/fund managers/custodian confirming the amounts of investment held on Council’s behalf at 30 June each year.

## 6. Safe Custody Arrangements

6.1. Investments may be held in safe custody on Council’s behalf, as long as the following criteria are met:

- a) Council must retain beneficial ownership of all investments, and assets cannot be pledged, secured, or lent by the custodian.
- b) Adequate documentation is provided, verifying the existence of the investments at inception, in regular statements and for audit.
- c) The Custodian conducts regular reconciliations of records with relevant registries and/or clearing systems.
- d) The Institution or Custodian recording and holding the assets will be:
  - The Custodian nominated by TCorpIM for their Funds
  - Austraclear
  - A major global bank subsidiary specialising in custody arrangements with adequate licensing and insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

## Responsibilities

Position	Responsibility
Council Officials (Investment Management with Delegated responsibility)	<ul style="list-style-type: none"> <li>• Comply with the conditions of this policy</li> <li>• Council officers must act with the duty of care, skill, prudence and diligence that a prudent person would exercise when investing and managing their own funds. The “prudent person” principle is set out in section 14 of the Trustee Act.</li> <li>• Officers shall refrain from personal activities that would conflict with the proper execution and management of Council’s investment portfolio.</li> </ul>



	This policy requires officers to disclose any conflict of interest to the General Manager as soon as they rise.
Investment Advisor/s	<ul style="list-style-type: none"> <li>Required to provide written confirmation that they do not have any actual or potential conflicts of interest in relation to investments they are recommending or reviewing, including confirmation that they are not receiving any commissions or other benefits in relation to the investments being recommended or reviewed, except as fully rebated to Council promptly.</li> <li>Due to the investment advisor being a separate party to brokers of recommended investments, and all recommended investments are at the highest rate available with a minimum of two other investments provided for comparison, any brokerage, commission and other fees charged by the brokers of the investments are acceptable.</li> </ul>
Finance	<ul style="list-style-type: none"> <li>Manage any updates required within the Investment Policy.</li> <li>Manage the investment management process and the conditions within this Policy.</li> </ul>

## Version control and change history

Version	Amendment Details	Policy Owner	Period Active
1.0	New Council Policy	Chief Financial Officer	04/07/2016 – 26/10/2020
2.0	<ul style="list-style-type: none"> <li>Revised policy into new template</li> <li>Additional Ethical and environmentally responsible investments</li> <li>BBB and unrated investment reduction in eligibility for investment</li> </ul> <p>Adopted by Council 26.10.20 (CCL068-20)</p>	Chief Financial Officer	26/10/2020 – 26/9/2022
3.0	<ul style="list-style-type: none"> <li>Revised Individual Institution or Counterparty Limits</li> <li>Revised Term to Maturity limits</li> <li>Removed duplicate policy clauses that are covered under thresholds</li> </ul>	Chief Financial Officer	26/09/2022 - ongoing

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- Strengthened wording to greater align to regulations
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