

# INVESTMENT POLICY

## POLICY ADMINISTRATION

<b>Dates</b>	<p>Policy approved 26/10/2020 (Version 2) This policy is effective upon its approval.</p> <p>Policy is due for review October 2023 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 26/10/2020 (Version 2) Council Resolution CCL068-20</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-035.02 Doc #: D20/96387</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 NSW State Records Act 1998, 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 regulations;
- Preserve the original capital investment;
- Ensure sufficient liquid funds/cash flow for operations;
- Manage risk exposure; and
- Aim to exceed performance benchmark and optimum returns.

## SCOPE

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

- General unrestricted reserves created through rate income and other revenue sources;
- Externally restricted reserves that include developer contributions, special grants, etc.;
- Internally restricted reserves that include employee leave liability, asset management, etc.; and
- 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 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.
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 Local Government Act, 1993.
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)
T-Corp Grandfathered	New South Wales Treasury Corporation investments held by Council that were previously allowed under the Minister’s Order but were grandfathered when the NSW State Government changed the list of Approved Investments as a result of the Cole enquiry (which was reflected in the Ministerial Order dated 31/7/2008).

## 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, currently:

- Commonwealth / State / Territory Government securities e.g. bonds;
- Interest bearing deposits / senior securities issued by an eligible Authorised Deposit Taking Institution (ADI);
- Bills of Exchange (< 200 days duration) guaranteed by an ADI;
- Debentures issued by a NSW Council under the Local Government Act (1993);
- Deposits with T-Corp &/or Investments in T-Corp Hour-Glass Funds; and

- 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;
- 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.

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** – security of capital must be paramount
- **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 amount of an investment;
- **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;

- **Liquidity Risk** – the risk an institution runs out of cash, is unable to redeem investments at a fair price within a timely period and thereby Council incurs additional costs (or in the worst case is unable to execute its spending plans), or that Council requires funds prior to the maturity of its investments and incurs additional costs;
- **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;
- **Rollover Risk** – the risk that income will not meet expectations or budgeted requirements because interest rates are lower than expected; and
- **Counterparty** – The risk that a party to a transaction will fail to fulfil its obligations. In the context of this document it relates to Council's policy of limiting its exposure to any one ADI based on its credit rating.
- **Ethical and environmentally responsible investments** – Council will consider placing ethical and environmentally responsible investments which are low risk and have returns equal to or greater than existing investments.

#### 4.2. Investment Advisor

- 4.2.1. Council may choose to appoint an Investment Advisor, if it is believed that Council lacks the necessary 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. 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.

- 4.3.3. Since credit ratings cannot be considered a consistent indicator of risk across different investment types, to provide a more effective risk management framework, this policy sets different exposure and duration terms for different categories of investments.
- 4.3.4. The primary control of credit quality is the prudential supervision and government support and explicit guarantees of the ADI sector, not ratings.
- 4.3.5. In 2019, Council decided to only deal with institutions who have investments that are globally rated A and above. Council's investments that were below this grade, at the time the decision was made, can be held to maturity and then reinvested with an institution that has the appropriate grading. This strategy will result in a lower return on its investments as it limits the number of institutions that Council can invest with and the lower rated institutions usually offer a higher return.
- 4.3.6. The maximum holding in each rating category for Council's portfolio shall be:

<b>Credit Quality</b>	<b>Maximum % Holding</b>
<i>Federal Government</i>	100%
<i>AAA Semi-Government (State guarantee)</i>	100%
<i>AA Other Semi-Government and Major Banks*</i>	100%
<i>A Category</i>	70%
<i>BBB Category and Unrated Category</i>	40% (pre 2019) - No new placements to be permitted

#### 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.
- 4.4.2. Breaches of individual or aggregate limits due to downgrades of an institution require only suspension of new purchases within the affected category until compliance is restored.

<b>Individual Institution or Counterparty Limits</b>	
<b>Credit Quality</b>	<b>Maximum Holding</b>
<i>AAA Semi-Government (State guarantee)</i>	40% (pre 2019) / 45% (post 2019)
<i>AA Other Semi-Government and Major Banks*</i>	30% (pre 2019) / 35% (post 2019)
<i>A Category</i>	15% (pre 2019) / 20% (post 2019)
<i>BBB Category</i>	10% (pre 2019) - No new placements to be permitted
<i>Unrated Category</i>	5% (pre 2019) - No new placements to be permitted

#### 4.5. Investment Horizon Limits

4.5.1. Council's Investment Horizon Limits are structured around the cash requirements of the Council and the management of liquidity risk. The investment portfolio will diversify its maturity profile within the following term to maturity constraints

<b>Investment Horizon Description</b>	<b>Investment Horizon – Maturity Date</b>	<b>Maximum Allocation</b>
Working capital funds	0-3 months	100%
Short term funds	3-12 months	100%
Short-Medium term funds	1-2 years	70%
Medium term funds	2-5 years	50%
Long term funds	5-10 years	25%

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

#### 4.6. Performance Benchmarks

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

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.

<b>Investment</b>	<b>Performance Benchmark</b>	<b>Time Horizon</b>
11 am Account, short dated bills, deposits issued by financial institutions of appropriate term.	AusBond BBI	3 months or less
Term Deposits of appropriate remaining term, FRNs nearing maturity.	AusBond BBI	3 to 12 months
Term Deposits with a maturity date between 1 and 2 Years, FRNs.	AusBond BBI	1 to 2 years
Bonds, Term deposits with a maturity date between 2 and 5 Years (except as otherwise designated on a shorter horizon).	AusBond BBI	2 to 5 years
T-Corp Hour Glass Managed Funds	Fund's Internal Benchmark	5-10 years

## 5. Accounting for Investments

- 5.1. Council will comply with accounting standards in valuing its investments and quantifying its investment returns.
- 5.2. 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 and losses, and interest income.
- 5.3. Other relevant issues will be considered in line with relevant Australian Accounting Standards, such as discount or premium, designation as held-to-maturity or on a fair value basis and impairment.

## 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 TCorp for Hour-Glass 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.

## 7. Reporting

- 7.1. Documentary evidence must be held for each investment and details maintained in an investment register and reconciled at least on a monthly basis.
- 7.2. A monthly Investment Report is to be provided to Council. The report will detail 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.
- 7.3. 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).
- 7.4. 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.

## RESPONSIBILITIES

Position	Responsibility
<i>Council Officials (Investment Management with Delegated responsibility)</i>	<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. This policy requires officers to disclose any conflict of interest to the General Manager as soon as they rise.</li> </ul>
<i>Investment Advisor/s</i>	<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> </ul>
<i>Finance</i>	<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>	Chief Financial Officer	26/10/2020 - ongoing