



8. FINANCE

Policy 8.7

INVESTMENT POLICY

Version 10

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OBJECTIVE

To establish the framework within which investment principles are to apply to the investment of Council funds. The Investment Policy (Policy) guides:

1. Council funds covered by the Policy;
2. Council's objectives for the investment portfolio;
3. The way in which investments are to be undertaken;
4. Applicable risks to be managed;
5. Any constraints and other prudential requirements to apply to the investment of funds having regard to the applicable legislation and regulations governing Council investment;
6. The way compliance with the Policy & Investment Strategy (Strategy) will be monitored and reported; and
7. Appropriate benchmarks for each category of investments.

POLICY

1. AUTHORITY FOR INVESTMENT

Council will comply with investment regulations and directions of the Office of Local Government (OLG) – which will prevail in the event of inconsistencies with the adopted Policy and the Investment Strategy.

All investments are to be made in accordance with:

- Local Government Act (1993);
- Local Government (General) Regulation (2021);
- Ministerial Investment Order dated 12 January 2011;
- The Trustee Amendment (Discretionary Investments) Act (1997) – Section 14;
- Local Government Code of Accounting Practice and Financial Reporting;
- Australian Accounting Standards;
- OLG Investment Policy Guidelines; and
- OLG Circulars.

2. DEFINITIONS

| | |
|-------------------------|---|
| Act | Local Government Act, 1993. |
| ADI | Authorised Deposit-Taking Institutions (ADIs) are corporations that are authorised under the Banking Act 1959 (Commonwealth) to take deposits from customers. |
| 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 midpoint of the nationally observed best bid and offer for Australian Financial Markets Association (AFMA) Prime Bank eligible securities. The BBSW is calculated daily. Floating rate securities are most commonly reset quarterly to the 90-day BBSW. |

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| Council Funds | Surplus monies that are invested by Council in accordance with section 625 of the Act. |
| 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. |
| OLG | NSW Office of Local Government. |
| 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. |
| LGGR | Local Government (General) Regulation 2021 (NSW). |
| RAO | Responsible Accounting Officer of a council means a member of the staff of the council designated by the General Manager. (LGGR, clause 196). |
| T-Corp / TCorpIM | New South Wales Treasury Corporation. |
| AusBond BBI | The Bank Bill Index represents the performance of a notional rolling parcel of bills averaging 45 days and is the widely used benchmark for local councils and other institutional cash investments. |

3. DELEGATION OF AUTHORITY

Authority for implementation of the Policy is delegated by Council to the General Manager in accordance with the Act.

The General Manager has in turn delegated the day-to-day management of Council's investments to the Director Finance & Governance and the Financial Services Manager who must ensure adequate skill, support and oversight is exercised in the investment of Council funds. The RAO is the Director Finance & Governance as delegated by the General Manager.

Officers' delegated authority to manage Council's investments shall be recorded and acknowledged in the Delegations Register.

4. INVESTMENT OBJECTIVES

The purpose of this Policy is to provide a framework for the optimum investment of Council's funds.

While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity and the return of the 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 adequate liquidity to meet all reasonably anticipated cash flow requirements; and
- To generate income from investments that exceeds nominated performance.

Council's Strategy will be implemented on an on-going basis, in conjunction with the Policy and will outline:

- Councils current cash flow expectations and the implications for deviations from a long-term liquidity profile;
- Diversification in relation to the 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.

5. PRUDENT PERSON STANDARD

Investments will be managed with the care, diligence and skill that a prudent person would exercise. As trustees of public monies, officers are to manage Council’s investment portfolio to safeguard the portfolio in accordance with the spirit of this Policy and not for speculative purposes.

6. 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 in accordance with the adopted Code of Conduct.

Any appointed Investment Advisor is also to declare that they have no actual or perceived conflicts of interest and receive no inducements in relation to Council’s investments.

7. AUTHORISED INVESTMENTS

All investments must be denominated in Australian Dollars. Authorised Investments are limited to those allowed by the Ministerial Investment Order issued in January 2011, currently:

- Commonwealth / State / Territory Government securities e.g. bonds;
- Interest bearing deposits / senior securities issued by an eligible ADI;
- Bills of Exchange (< 200 days duration) guaranteed by an ADI;
- Debentures issued by a NSW Council under the Act;
- Deposits with T-Corp &/or Investments in T-CorpIM Funds; and
- Existing investments grandfathered under the Ministerial Investment Order.

8. PROHIBITED INVESTMENTS

The 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
- Standalone securities issued that have underlying futures, options, forward contracts and swaps of any kind.

This Policy also prohibits any investment with speculative purposes, including the use of leveraging (borrowing to invest) for 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.

9. RISK MANAGEMENT GUIDELINES

Investments obtained are to be considered using the following key criteria:

- **Preservation of Capital** – the requirement for preventing losses in an investment portfolio’s total value;
- **Credit Risk** – The risk that a party or guarantor to a transaction will fail to fulfil its obligations to redeem an investment. In the context of this Policy 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;
- **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 that an investment held by Council cannot be sold in the market at a fair price due to a lack of buyers for the investment;
- **Market Risk** – the risk that fair value or future cash flows will fluctuate due to changes in market prices, or benchmark returns will unexpectedly overtake the investment’s return;
- **Maturity Risk** – the risk relating to the length of term to maturity of the investment. The longer the term, the greater the length of exposure and risk to market volatilities; and
- **Re-investment Risk** – the risk, at an investment’s maturity, that funds cannot be invested at least at the same rate as the original investment causing a decrease in ongoing income to Council.

10. INVESTMENT ADVISOR

Any Investment Advisor engaged by Council must be licensed by the Australian Securities and Investment Commission. 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 the Policy. Independence includes receiving no commissions or other benefits in relation to the investments being recommended or reviewed.

11. ACCOUNTING

Council will comply with appropriate accounting standards in classifying and valuing its investments and quantifying its investment returns. In addition to recording investment income according to accounting standards, reports may show a break-down of its duly calculated investment returns into realised and unrealised capital gains and losses, and interest.

12. SAFE CUSTODY ARRANGEMENTS

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

- Council must retain beneficial ownership of all investments;
- Adequate documentation is provided, verifying the existence of the investments at inception, in regular statements and for audit;
- 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 TCorpIM for their Funds;
 - Austraclear;
 - An institution with an investment grade Standard and Poor’s, Moody’s or Fitch 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.

13. CREDIT QUALITY LIMITS

The portfolio credit guidelines to be adopted will reference the Standard & Poor's (S&P) ratings system criteria and format. Additionally, references in the previous Minister's Orders also recognised Moody's and Fitch Ratings and any of the three ratings may be used where available.

However, the primary control of credit quality is the prudential supervision and government support and explicit guarantees of the Approved Deposit Institution (ADI) sector, not ratings.

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

| Long Term Rating Range | Maximum Holding |
|----------------------------|-------------------------|
| AAA Category | 100% (no change) |
| AA Category or Major Bank* | 100% (no change) |
| A Category | 60% (reduced from 100%) |
| BBB Category | 50% (reduced from 100%) |

*For the purpose of this Policy, "Major Banks" are currently defined as:

The ADI deposits or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups:

- o Australia and New Zealand Banking Group Limited;
- o Commonwealth Bank of Australia;
- o National Australia Bank Limited; and
- o Westpac Banking Corporation including ADI subsidiaries whether or not explicitly guaranteed, and brands (such as St George).

Council may ratify an alternative definition from time to time by resolution.

Standard & Poor's (or equivalent Moody's or Fitch) ratings attributed to each individual institution will be used to determine maximum holdings.

In the event of disagreement between two agencies as to the rating band ("split ratings") Council shall use the lower of the ratings. Where more than two ratings exist, Council shall discard the lowest rating and then use the lower of the higher two ratings when assessing new purchases.

Investments graded lower than BBB are not shown as they are considered non-investment grade speculative and therefore would be prohibited under this policy.

14. COUNTERPARTY LIMITS

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.

Limits do not apply to Federal or NSW-guaranteed investments, which are uncapped. It should be noted that the NSW government does not guarantee the capital value or unit price of the TCorpIM Growth Funds.

Individual Institution Counterparty Limits

| Long Term Rating Range | Limit |
|--|-------|
| AAA Category ¹ | 50% |
| AA Category or Major Bank ² | 50% |
| A Category ³ | 40% |
| BBB Category | 40% |

1. AAA Category includes TCorp Hour-Glass Cash Facility, which typically maintains a credit score consistent with an AAA rating.
2. AA Category includes TCorp Hour-Glass Strategic Cash Facility, which typically maintains a credit score consistent with an AA rating.
3. A Category includes TCorp Medium Term Growth Fund and TCorp Long Term Growth Fund, which typically maintains a credit score consistent with an A rating.

15. 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 the Investment Strategy to define a target date for sale of a liquid investment.

Once the primary aim of liquidity is met, Council will ordinarily diversify its maturity profile as this will ordinarily be a low-risk method of obtaining additional returns as well as reducing the risks to Council’s income. However, Council always retains the flexibility to invest as short-term as may be required by cashflow requirements or the 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 a sufficient buffer to cover reasonably foreseeable contingencies;
- Medium term financial plans and capital expenditure forecasts;
- Known grants, asset sales or similar one-off inflows; and
- Seasonal patterns to Council’s surplus funds

| Investment Horizon Description | Investment Horizon | Minimum Allocation | Maximum Allocation |
|--------------------------------|-----------------------|--------------------|--------------------|
| Short term funds ¹ | < 1 year | 10% | 100% |
| Short-Medium term funds | Between 1 and 2 years | 0% | 70% |
| Medium term funds | Between 2 and 5 years | 0% | 50% |
| Long term funds ² | > 5 years | 0% | 25% |

1. Short term funds includes TCorp Hour-Glass Cash Facility and TCorp Hour-Glass Strategic Cash Facility.
2. Long term funds includes TCorp Medium Term Growth Fund and TCorp Long Term Growth Fund.

Within these broad ranges, Council relies upon assumptions of expected investment returns and market conditions together with the advice of any appointed investment advisor.

16. ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING

ESG Investing refers to the investment in institutions or funds that are implementing policies and actions that are pro-social, environmentally friendly, and have good corporate governance. These institutions and funds generally have greater alignment with the objectives within Council's Community Strategic Plan and have lower risk, therefore reducing the risk-exposure to Council.

Where financial institutions are offering equivalent investment returns with the same credit rating and assessed financial risk and the investment fits within the provisions of this Investment Policy, preference will be given to placing funds with institutions identified as having the higher ESG standards.

17. 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 or equal to the applicable benchmark whilst considering its risks, liquidity and other benefits.

It is also expected that Council will take due steps to ensure that any investment is executed at the best pricing reasonably possible.

| Investment | Performance Benchmark | Time Horizon |
|--|-------------------------------|-----------------------|
| Funds held in overnight accounts - Cash Management Accounts, Professional Funds Accounts | AusBond Bank Bill Index (BBI) | 3 months or less |
| Short dated bills, deposits issued by ADIs of appropriate term. Term Deposits of appropriate remaining term, FRN's nearing maturity. | AusBond Bank Bill Index (BBI) | 3 months to 12 months |
| Term Deposits and senior FRNs with a maturity date between 1 and 2 Years. | AusBond Bank Bill Index (BBI) | 1 to 2 years |
| FRN's, Bonds, Term deposits with a maturity date between 2 and 5 Years (except as otherwise designated on a shorter horizon) | AusBond Bank Bill Index (BBI) | 2 to 5 Years |
| TCorpIM Growth Funds | TCorp's Internal Benchmark | +5 years |

18. REPORTING

Documentation must be held for each investment and details thereof maintained in an Investment Register. The documentation must include Council's legal title to the investment.

For audit purposes, certificates must be obtained from the banks/fund managers/custodian confirming the amounts of investment held on Council's behalf as at the end of each Financial Year.

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

A monthly report will be provided to Council. The report will detail the investment portfolio in terms of holdings by maturity, reconciliation of movements in investments, funding requirements for restricted reserves and interest returns in comparison with the budget. The monthly report will also confirm compliance of Council's investments within legislative and policy limits. Council may nominate additional content for reporting.

19. REVIEW

This Policy will be reviewed annually.

The policy will also be reviewed in the event of legislative change or because of significantly changed economic/market conditions. As mandated by the Minister's Order, an amended Policy does not take effect until ratified by a resolution of Council.

To the extent that the Policy becomes inconsistent with the regulatory framework, the regulations will prevail.

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