

	LG511 INVESTMENTS
Key Focus Area Leadership and Governance	Relevant Council Delegation DA 2.1.7 Power to Invest and Manage Investments

Purpose

This Policy provides clear guidance for the prudent allocation and management of the Town's investments.

Policy

Council is custodian for the Town's assets and this includes both cash and real assets. The underlying principles of the policy are the preservation of the capital and the maintenance of the real value of income.

Investments must be ethically sound and not have the potential to undermine confidence in the Council.

Council will at all times meet its fiduciary responsibilities under all legislation including Section 6.14 of the *Local Government Act 1995* and Section 18 (1)(a) of the *Trustees Act 1962* (as amended) (the 'Prudent Person' Rule) when considering investment decisions. Council requires the same diligence of any officer to whom responsibility is delegated for any investment decisions.

Council will not accept high risk to seek high returns. Council will seek to manage risk by:

- Having a balanced portfolio;
- Avoiding high risk investments;
- Frequent monitoring of investments;
- Monitoring the investment environment;
- Obtaining external expertise as necessary (Investment advisor must be licensed by ASIC);
- Implanting its investments in accordance with policy; and
- Monthly reporting to the Council in support of the monthly statement of activity.

Authorised Investments

Unless otherwise specifically authorised by Council, investments shall be limited to:

- State/Commonwealth or Local Government Bonds
- Interest bearing term deposits with Western Australian Treasury Corporation or Authorised Deposit Taking Institutions (ADI's) for a maximum term of one year
- Bank accepted /endorsed bank bills;
- Bank negotiable Certificates of Deposit;
- The investment already held in land within the Town.

- Council may authorise the following alternate investments, however such investments will be supported by an appropriate business case and comply with the clause 3.59 of the *Local Government Act 1995* relating to commercial enterprise.
- Additional land holdings within the Town.

Stand-alone securities that have underlying futures, options, forwards contracts and swaps of any kind, which includes CDO's are prohibited.

Benchmarking

The performance of the investment portfolio shall be measured against the UBS Warburg 90 Day Bank Bill Index and/or the Reserve Bank of Australia's Official Cash Rate.

Delegation of Authority to Invest

The authority to make investment decisions and sign investment lodgements and withdrawals pursuant to the provisions of Section 5.45 of the *Local Government Act 1995* is delegated to the Chief Executive Officer. The CEO may in turn sub-delegate the day-to-day management of the Council's investments.

Risk Management Guidelines

Investments are to comply with three criteria relating to:

a) Portfolio Credit Framework

Limits overall credit exposure of the portfolio to S and P related institutions as follows:

<i>S and P Long-Term Rating</i>	<i>S and P Short-Term Rating</i>	<i>Direct Investment</i>
AAA	A-1+	100%
AA	A-1	100%
A	A-2	30%

b) Counterparty Credit Framework (Diversification)

The amount invested with any one *institution should not exceed the following percentages (restricted by the institution's credit rating) so that single entity exposure is limited (*institution is defined as including wholly owned subsidiaries):

<i>S and P Long-Term Rating</i>	<i>S and P Short-Term Rating</i>	<i>Direct Investment</i>
AAA	A-1+	45%
AA	A-1	35%
A	A-2	10%

c) Term of Maturity Framework

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

Overall Portfolio Return to Maturity		
Portfolio % <1 year	Min 40%	Max 100%
Portfolio % >1 year ≤ 3 years	Min 0%	Max 60%

Document Control Box			
Business Unit:	Finance		
Legislation:	Local Government (Financial Management) Regulation 1996 Local Government Act 1995 Trustees Act 1962		
Organisational:	Appendix 1: Standard and Poor's Rating Description Appendix 2: Explanatory Notes to Investment Policy		
Review Frequency:	Every 3 years	Next Due:	2026
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5.	Reviewed	9 December 2014	203/14
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8.	Modified	13 December 2016	206/16
9.	Reviewed	18 December 2018	228/18
10.	Reviewed	28 November 2023	164/23

APPENDIX 1

Standards and Poor's Rating Description

Credit Ratings

Standard and Poor's ('S&P') is a professional organisation that provides analytical services. An S&P rating is an opinion of the general creditworthiness of an obligor with respect to particular debt security or other financial obligation, based on relevant risk factors.

Credit ratings are based, in varying degrees, on the following considerations:

- Likelihood of payment
- Nature and provisions of the obligation.

Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganisation or other laws affecting creditors' rights.

The issue rating definitions are expressed in terms of default risk.

Short-Term Obligation Ratings

- A-1** This is the highest short-term category used by S&P. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.
- A-2** A short-term obligation rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.
- A-3** A short-term obligation rated A-3 exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Long-Term Obligation Ratings

- AAA** An obligation/obligor rated AAA has the highest rating assigned by S&P. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
- AA** An obligation /obligor rated AA differs from the highest rated obligations only in a small degree. The obligor's capacity to meet its financial commitment on the obligations is very strong.
- A** An obligation /obligor rated A differs from the highest rated obligations in that it has a strong capacity to meet its financial commitments but is somewhat susceptible to adverse economic conditions and changes in circumstances.

BBB	An obligation /obligor rated A differs from the highest rated obligations in that it has adequate capacity to meet its financial commitments but more subject to adverse economic conditions.
Plus (+) or Minus (-)	The ratings from 'AA' to 'CC' may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.
CreditWatch	Highlights an emerging situation, which may materially affect the profile of a rated corporation and can be designed as positive, developing or negative. Following a full review the rating may either be affirmed or changed in the direction indicated.
Rating Outlook	Assesses the potential direction of an issuer's long-term debt rating over the intermediate-to-long term. In determining a Rating Outlook, consideration is given to possible changes in the economic and/or fundamental business conditions. An outlook is not necessarily precursor of a ratings change or future CreditWatch action. A 'Rating Outlook – Positive' indicates that rating may be raised. 'Negative' means a rating may be lowered. 'Stable' indicates that ratings are not likely to change. 'Developing' means ratings may be raised or lowered.

APPENDIX 2

Explanatory Notes to Investment Policy

Overview

1. The investment policy is an all-encompassing document for the overall management of Council's short and long-term funds.
2. The policy's risk management framework consists of four primary guidelines which help ensure the overall security of Council's investment portfolio:
 - a) **Global Credit Framework:** The percentage of the total portfolio exposed to any particular Standard & Poor's rating category is limited to control the overall credit quality of the portfolio. For example, Council may have 100% of its portfolio in AAA rated securities, but only a maximum of 10% in unrated building societies or credit unions.
 - b) **Counterparty Credit Framework:** exposure to an individual institution is also restricted by their S&P credit rating. For example, while Council may have 100% of its portfolio in AAA securities only 25% of its total portfolio may be exposed to an individual AAA rated institution.
 - c) **Term to Maturity Framework:** exposure to longer dated securities is limited by their maturity. For example, 100% of Council's portfolio may be invested in securities of less than one year while only 25% of the total portfolio may be invested in securities greater than five years.
 - d) **Authorised Deposit Taking Institutions:** Council's authorised investments are to be limited to Standard & Poor's 'investment grade' categories (AAA, AA, A). ADI's are regulated by, and subject to the prudential standards of, the Australian Prudential Regulation Authority (APRA).
3. Individual investment selection for each account (i.e., General Municipal, Reserves and Others) is to comply with the counterparty credit rating and term to maturity guidelines as detailed in this document.
4. Specific strategies for each account will be updated and reviewed on a more regular basis than the investment policy