

	<p><b>LG511 INVESTMENTS</b></p>
<p><b>Key Focus Area</b> Leadership and Governance</p>	<p><b>Responsible Directorate</b> Office of the Chief Executive</p> <p><b>Relevant Council Delegation</b> Nil</p>

### 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 which may be available to manage in a prudent and efficient manner as an investment portfolio. 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 conform to its fiduciary responsibilities under 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 and requires the same diligence of any officer to whom responsibility is delegated for any investment decisions.

### Framework

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
- 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.

**The Following Investments Shall be Prohibited**

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

**Restrictions on Investments**

Investments are to comply with the Regulation 19C of the *Local Government (Financial Management) Regulation 1996*.

**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 is to be delegated to the Chief Executive Officer to make investment decisions and sign investment lodgements and withdrawals pursuant to the provisions of Section 5.45 of the *Local Government Act 1995*. The CEO may in turn 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:

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

**Variation to Policy**

Council will not vary the Policy without first giving public advertising of its intention, which will include the reason for its intent to act outside this Policy.

**Review**

The Policy must be kept under review to ensure it is appropriate for the circumstances of the time. The CEO is to present a review of the policy biannually or more often if it is judged that circumstances have changed to the extent that an earlier review is prudent.

<b>Document Control Box</b>			
<b>Business Unit:</b>	Finance		
<b>Legislation:</b>			
<b>Organisational:</b>	Appendix 1: Standard and Poor's Rating Description Appendix 2: Explanatory Notes to Investment Policy		
<b>Review Frequency:</b>	Annual	<b>Next Due:</b>	2021
<b>Version #</b>	<b>Decision:</b>	<b>OCM Date:</b>	<b>Resolution Number:</b>
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6.	Modified	2 June 2015	99/15
7.	Reviewed	15 December 2015	226/15
8.	Modified	13 December 2016	206/16
9.	Reviewed	18 December 2018	228/18

## 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.

**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.

