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| POLICY NO | CP/FIN-3203 | |
| POLICY | Investments | |
| RESPONSIBLE DIRECTORATE | Corporate Services | |
| RESPONSIBLE OFFICER | Director Corporate Services | |
| COUNCIL ADOPTION | Date: 24 June 2014 | Resolution No: 10448 |
| REVIEWED/MODIFIED | Date: 24 November 2015 | Resolution No: 11173 |
| | Date: 28 November 2017 | Resolution No: 117841 |
| | Date: 27 October 2020 | Resolution No: 118323 |
| REVIEW DUE | Date: October 2025 | |
| LEGISLATION | <ol style="list-style-type: none"> 1. <i>Local Government Act 1995 – Section 6.14</i> 2. <i>Local Government (Financial Management) Regulations 1996 – Regulations 8, 19, 19C, 28 and 49</i> 3. <i>The Trustees Act 1962 – Part III Investments</i> 4. <i>Banking Act 1959</i> 5. <i>Australian Accounting Standards:</i> <ol style="list-style-type: none"> a. <i>AASB 132 – Financial Instruments: Presentation;</i> b. <i>AASB 7 – Financial Instruments: Disclosure;</i> c. <i>AASB 139 – Financial Instruments: Recognition and Measurement;</i> d. <i>AASB 136 – Impairment of Assets</i> | |
| RELATED POLICIES | <ol style="list-style-type: none"> 1. Code of Conduct for Council Members, Committee Members and Employees 2. Audit (Finance and Risk) Committee Terms of Reference 3. <i>CP/FIN-3201 Significant Accounting Policies</i> | |
| RELATED ORGANISATIONAL DIRECTIVES | Delegations Register: <ol style="list-style-type: none"> a. Delegation 15: Investments b. Delegation 12: Payments from the Municipal Fund and Trust Fund | |

PURPOSE:

The purpose of this policy is to outline the Council's position, and to provide guidance to Officers when investing surplus funds in order to maximise the return to the Shire while minimising risk.

DEFINITIONS:

ADI Authorised Deposit-Taking Institutions (ADI) are corporations that are authorised under the *Banking Act 1959* to take deposits from customers.

Authorised Institution means an authorised deposit taking institution (ADI) as defined in the *Banking Act 1959* (Commonwealth) section 5 or the Western Australian Treasury Corporation established by the *Western Australian Treasury Corporation Act 1986*.

Currency risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in foreign exchange rates.

Credit Risk is the risk of loss to an investor due to counterparties failure to pay the interest and/or repay principal of an investment.

Counterparty is both a legal and financial term that refers to the other individual or institution to an agreement or contract.

Derivative Based Instruments are financial contracts, or financial instruments, whose values are derived from the value of something else (known as the underlying). The underlying on which a derivative is based can be an asset (e.g., commodities, equities (stocks), residential mortgages, commercial real estate, loans, bonds), an index (e.g., interest rates, exchange rates, stock market indices, consumer price index (CPI) — see inflation derivatives), or other items (e.g., weather conditions, or other derivatives). Credit derivatives are based on loans, bonds or other forms of credit. The main types of derivatives are: forwards (which if traded on an exchange are known as futures); options; and swaps).

Financial Instrument is any contract that gives rise to a financial asset of one entity, and a financial liability or equity instrument of another entity.

Interest Rate Risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market interest rates.

Investment Portfolio is a collection of investments.

Liquidity Risk is the risk an investor is unable to realise at a fair price within a timely period.

Leverage Risk is the magnification of an investor's risk and return that occurs when the investor takes on financial leverage through an investment product.

Market Risk is the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices.

Maturity Risk is the risk relating to the length of term to maturity of the investment. The larger the term, the greater the length of exposure.

OTC – Over the Counter can generally be described as markets where financial instruments are exchanged directly between two parties rather than through the mechanism of an organised market or centralised exchange.

Par Value is the maturity value or face value of a security that an issuer agrees to pay on maturity.

Preservation of Capital refers to an investment strategy with the primary goal of preventing losses in an investment portfolio's total value.

Risk Aversion is the reluctance of an individual to invest in a product with a higher risk compared to a product with lower risk, but possibly lower returns.

Rating Agencies include Credit Rating Agencies such as Standard and Poor's (S&P), Moody's and Fitch are professional organisations that provide opinion on the general credit worthiness of an obligor with respect to particular debt security or other financial obligations. 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 creditor rights.

Speculative includes a speculative deal which involves deliberately taking a higher risk, in the hope of making an extraordinary gain.

Vanilla Instrument/Transaction is a straightforward one. These are the most basic or standard versions of a financial instrument and can be contrasted with its opposite, an exotic instrument, which alters the components of a traditional financial instrument, resulting in a more complex security. Structured products are therefore clearly not vanilla instruments. Vanilla instruments are generally also traded in more liquid markets according to more or less standardised contracts and market conventions.

Yield is the annual rate of return on an investment.

POLICY STATEMENTS:

1. Objectives

The principal objectives are:

- a. Preservation of capital – whereby investments are to be undertaken in a manner that seeks to ensure security and safeguard the investment portfolio.
- b. Ensure sufficient liquidity to meet all reasonable anticipated cashflow requirements, as and when they fall due, without incurring significant costs due to the unanticipated sale of an investment.
- c. A rate of return comparable to a predetermined market average rate of return that takes into account the Council's risk tolerance while maximising the financial return to the Shire.

2. Legislative Requirements

All investments are to comply with the following:

- a. *Local Government Act 1995, section 6.14*
- b. *Local Government (Financial Management) Regulations 1996*
- c. *The Trustee Act 1962, Part III Investments*
- d. Australian Accounting Standards

If at any stage the legislation or standards are amended which are contrary to this Policy, then the legislative or standards requirements will prevail.

3. Delegation of Authority

Authority for implementation of this Policy is delegated by Council to the CEO in accordance with section 5.42 of the Local Government Act 1995. The CEO may in turn delegate the day-to-day management of Council's Investments to senior staff subject to regular reviews.

4. Prudent Person Standard

Investments are to be managed with the care, diligence and skill that a "prudent person" (as derived by legislation, Trustees Act 1962, and case law) would exercise. Officers are to manage investments to safeguard the portfolio in accordance with the spirit of this Investment Policy, and not for speculative purposes.

5. Ethics and Conflicts of Interest

Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investments, and must disclose any conflict of interest to the CEO as soon as possible.

6. Approved Investments

Without approval from Council, investments are limited to:

- a. State/Commonwealth Government Bonds;
- b. Interest Bearing Deposits;
- c. Bank accepted/endorsed bank bills;
- d. Commercial paper;
- e. Bank negotiable Certificate of Deposits

7. Prohibited Investments

This investment policy prohibits any investment carried out for speculative purposes including:

- a. Derivative based instruments;
- b. Principal only investments or securities that provide potentially nil or negative cash flow;
- c. Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind;
- d. Deposits with an institution except an authorised institution;
- e. Deposit for a fixed term of more than 12 months;
- f. Investment in bonds that are not guaranteed by the Commonwealth Government, or a State or Territory government;
- g. Invest in bonds with a term to maturity of more than 3 years; and
- h. Investment in a foreign currency.

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

8. Risk Management Guidelines

Investments obtained are to comply with three (3) key criteria relating to:

- a. Portfolio Credit Framework - to limit overall credit exposure of the portfolio;
- b. Counterparty Credit Framework – to limit exposure to individual counterparties/institutions;
- c. Term to Maturity Framework – limits based upon maturity of securities.

9. Portfolio Credit Framework

To control credit quality on the entire portfolio, the following credit framework limits the percentage of the portfolio exposed to a particular credit rating category:

| S & P Long Term Rating | S & P Short Term Rating | Direct Investment Maximum % |
|------------------------|-------------------------|-----------------------------|
| AAA | A-1+ | 100% |
| AA | A-1 | 100% |
| A | A-2 | 60% |

10. Counterparty Credit Framework

Exposure to an individual counterparty/institution will be restricted by its credit rating so that single entity exposure is limited as detailed in the table below:

| S & P Long Term Rating | S & P Short Term Rating | Direct Investment Maximum % |
|------------------------|-------------------------|-----------------------------|
| AAA | A-1+ | 45% |
| AA | A-1 | 35% |
| A | A-2 | 20% |

If any of the investments are downgraded such that they no longer fall within the investment policy, they will be divested as soon as practicable.

11. Term to Maturity Framework

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

| Overall Portfolio Term to Maturity Limits | |
|--|-------------------|
| Portfolio % < 1 year | 100% Max; 40% Min |
| Portfolio % > 1 year | 60% |
| Portfolio % > 3 year | 35% |

| Individual Investment Maturity Limits | |
|--|-----------|
| Authorised Deposit Institution | 12 Months |
| State/Commonwealth Government Bonds | 3 years |

12. Investment Guidelines

Not less than three (3) quotations shall be obtained from authorised institutions when an investment is proposed. The best quotation will be accepted after allowing for banking, administrative and transactional costs as well as limitations outlined in this Policy for each institution. The investment must then be approved by two signatories to the bank account who are authorised by way of a Sub Delegation made by the Chief Executive Officer.

Municipal funds will be invested for short term, and reserve funds for short or long terms, depending on the purpose of the funds and when they're intended to be utilised. To maintain accountability and transparency, municipal funds and reserve funds are to be invested in separate accounts.

13. Reporting and Review

A monthly report will be provided to Council in support of the monthly statement of activity. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value (if applicable).

Documentary evidence must be held for each investment and details thereof maintained in an investment register.

For audit purposes, certificates will be obtained from financial institutions confirming the amounts of investment held on the Shire's behalf as at 30 June each year and reconciled to the Investment Register.

14. Benchmarking

Performance benchmarks will be based upon the following table:

| Investment Product | Performance Benchmark |
|-----------------------------|---|
| Cash | Cash Rate |
| Enhanced/Direct Investments | UBSWA Bank Bill Index (United Bank of Switzerland Australia) |
| Bonds | CPI + appropriate margin over rolling 3 year periods (depending upon composition of fund) |

EXPLANATORY NOTES:

For the purposes of this Policy funds are categorised into the following:

- Short term – liquid investments (at call) that are readily convertible to cash with no impairment to the original value of the investment and mature in 12 months or less.
- Long term – refers to a term of greater than 12 months and matures within 3 years of the initial investment.

Investment Advisor

Should an Investment Advisor be appointed they must be approved by Council and be licensed by the Australian Securities and Investment Commission. Any advisor appointed must be an independent person who has 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 this Policy.

RISK:

Risk: Failure to develop appropriate, meaningful policies which enable the administration to perform in an effective and efficient way.

Control: Review policies and procedures in accordance with review schedule.

Risk: Failure to manage the disbursement of funds to meet the needs of the Shires forward planning requirements, including the Strategic Community Plan, Corporate Business Plan, Long Term Financial Plans and Annual Budget.

Control: Monthly and quarterly progress and financial reporting against Corporate Business Plan and Annual Budget.