

Policy

Investment

Responsible Manager (Title)	Manager Finance & Supply		
Adopted by Council	Date: 23/06/2020	Minute Number: 6c.20.085	
File Reference Number	DWS 2129320	Version 10.0	Review Due June 2021
Document(s) this policy Supersedes	Version 9.0 - 23 July 2019 - 6c.19.026		
Community Plan Linkage	5 Leadership		
	5.2 We will have an effective and efficient organisation		
	5.2.1 Operates in a financially responsible and sustainable manner		

1 Purpose

The purpose of this document is to establish the framework within which investment principles are to apply to the investment of Council funds. It details:

1. Council Funds covered by this Investment Policy Statement;
2. Council's objectives for its investment portfolio/s;
3. How investments are to be undertaken;
4. The applicable risks to be managed;
5. Any constraints and other prudential requirements to apply to the investments of Funds having regard to the applicable legislation and regulations governing Council investment;
6. The manner in which compliance with the Policy will be monitored and reported; and
7. Appropriate benchmarks for each category of investments.

2 Definitions

Act	<i>Local Government Act 1993 (NSW).</i>
ADI	Authorised Deposit-Taking Institutions (ADIs) are corporations that are authorised under the <i>Banking Act 1959 (C'wlth)</i> to take deposits from customers and regulated by APRA.
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.
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. These can be underwritten by banks, to become “bank bills” on which the benchmark return is calculated.
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 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.
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.
Grandfathered	Investments held by Council that were previously allowed under the Minister’s Order but were Grandfathered (<i>i.e.</i> eligible to retain but not add to or restructure existing investments) when the NSW State Government changed the list of Approved Investments as a result of the Cole enquiry reflected in the Ministerial Order dated 31/7/2008 and the revised order dated 12/1/2011. (It would also apply to any future similarly structured regulatory change, or any assets that do not comply by virtue of a Policy change.)
LGGR	<i>Local Government (General) Regulation 2005 (NSW).</i>
OLG	NSW Office of Local Government (Department of Planning, Industry and Environment), including historical references to previous Divisions or Departments.
TCorp/TCorpIM	New South Wales Treasury Corporation (NSW TCorp), including the TCorp Investment Management arm which manages the TCorpIM Funds.

3 Background/legislative requirements

All investments are to comply with the following:

1. *Local Government Act 1993 (NSW)*;
2. *Local Government (General) Regulation 2005 (NSW)*;
3. Ministerial Investment Order;
4. *Trustee Amendment (Discretionary Investments) Act (1997)* – Section 14;
5. Local Government Code of Accounting Practice and Financial Reporting;
6. Australian Accounting Standards;
7. Office of Local Government Investment Policy Guidelines; and
8. Office of Local Government Circulars.

4 Policy statement

Investment Objective

The purpose of this Policy is to provide a framework for the optimum investment of Clarence Valley Council's Funds at the most favourable terms and rates of return available to it at the time to maximise returns, whilst having due consideration of risk, liquidity and security for its investments.

While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity and the return of investment. Council therefore has several primary objectives for its investment portfolio:

1. Compliance with legislation, regulations, the prudent person tests of the Trustee Act and best practice guidelines;
2. The preservation of the amount invested;
3. To ensure there is sufficient liquid funds to meet all reasonably anticipated cash flow requirements; and
4. To generate income from the investment that exceeds the performance benchmarks mentioned later in this document.

5 Implementation

5.1 Effective Date and Investment Strategy

The effective date of this Investment Policy is the date it is adopted by Council and will be reviewed at regular twelve monthly intervals, or when either changes in regulation or market conditions necessitate a review.

Council's Investment **Strategy** will run in conjunction (a separate document) with its Investment **Policy** and will outline:

1. Council's current cash flow expectations and the implications for deviations from a long-term liquidity profile;
2. Diversification: the allocation of investment type, credit quality, counterparty exposure and term to maturity profile;
3. Market conditions and the appropriate responses – particularly relative positioning within the limits outlined in this policy;
4. Relative return outlook, risk-reward considerations, assessment of the market cycle and hence constraints on risk; and
5. Appropriateness of overall investment types for Council's portfolio.

The Investment Strategy will be reviewed at regular twelve monthly intervals, or as required in the event of legislative change or as a result of significantly changed economic/market conditions.

Council is in regular contact with its advisors and is able to adjust strategy as market conditions dictate.

5.2 Prudent Person Standard

The 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 portfolios to safeguard the portfolio in accordance with the spirit of this Investment Policy and not for speculative purposes.

5.3 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.

Independent advisors are also to declare that they have no actual or perceived conflicts of interest and receive no inducements in relation to Council's investments, as outlined more fully in section 5.8 *Investment Advisor*.

5.4 Authorised Investments

All investments must be denominated in Australian Dollars. Authorised Investments are limited to those allowed by the Ministerial Investment Order and include:

1. Commonwealth / State / Territory Government securities e.g. bonds;
2. Interest bearing deposits / senior securities issued by an eligible ADI;
3. Bills of Exchange (< 200 days duration) guaranteed by an ADI;
4. Debentures issued by a NSW Council under Local Government Act 1993 (NSW);
5. Deposits with NSW TCorp &/or Investments in NSW TCorpIM Funds;
6. Existing investments grandfathered under the Ministerial Investment Order; and
7. Any investment in TCorpIM Funds other than Cash and Short-Term Income, while permitted by the Order, can only be made after Council approval – reflecting the greater risk of moving outside traditional bank and government fixed interest.

5.5 Prohibited Investments

This investment policy prohibits the following types of new investment¹:

1. Derivative based instruments;
2. Principal only investments or securities that provide potentially nil or negative cash flow;
3. Stand alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind;
4. Investment trusts other than TCorpIM Funds, even where the trusts adhere to the Minister's Order fully; and
5. Any other investment written out of the Minister's Order.

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

¹ Prohibited investments are not limited to the list above and extend to any investment carried out for speculative purposes.

5.6 Risk Management Guidelines

Investments obtained are to be considered in light of the following key criteria:

1. **Preservation of Capital** – the requirement for preventing losses in an investment portfolio's total value;
2. **Legal/Fidelity** – avoiding loss of title through failure of internal action or inaction;
3. **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 of an investment;
4. **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;
8. **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);
9. **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;
10. **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
11. **Rollover Risk** – the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future.

5.7 Third Party Suppliers and Dealers

Council will structure its affairs in order to be economical in its investment management costs, favouring dealing direct in its fixed interest (or, where intermediated, arrangements that result in a rebate of brokerage) where possible.

At times, it will be advantageous to deal with third parties that are remunerated on a transaction rather than retainer basis. Council will use such suppliers where to its advantage, and have regard to the "best execution" test in its Investment Policy. Specifically, Council will have regard to:

1. Administrative cost savings;
2. Ability to access higher (retail) rates where exceeding the direct transaction costs;
3. Access to ADIs that would not normally have an institutional direct channel;
4. Limited access or IPO deals, or other secondary market opportunities that are only available from specific sources; and
5. The costs of other distribution channels that do not involve transaction remuneration.

Council will take steps to ensure that:

6. Any suppliers used are appropriately licensed, reputable and capable;
7. Funds and identification data are sufficiently secured;
8. Third party arrangements do not materially worsen Council's credit risks by creating exposure to the dealer as counterparty; and

9. Remuneration arrangements are reasonable and transparent, whether paid by Council or by the issuer directly.

5.8 Investment Advisor

An investment advisor engaged by the 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 investment policy. This includes receiving no commissions or other benefits in relation to the investments being recommended or reviewed, unless such remuneration is rebated 100% to Council.

5.9 Accounting

Council will comply with appropriate accounting standards in valuing its investments and quantifying its investment returns.

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.

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.

5.10 Safe Custody Arrangements

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

1. Council must retain beneficial ownership of all investments;
2. Adequate documentation is provided, verifying the existence of the investments at inception, in regular statements and for audit;
3. The Custodian conducts regular reconciliation of records with relevant registries and/or clearing systems; and
4. The Institution or Custodian recording and holding the assets will be:
 - a. The Custodian nominated by NSW TCorp for NSW TCorpIM Funds;
 - b. Austraclear;
 - c. An institution with an investment grade Standard and Poor's, Moody's or Fitch rating; or
 - d. An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

5.11 Credit Quality Limits

The portfolio credit guidelines to be adopted will reference the Standard & Poor's (S&P) ratings system criteria and format - however, references to the Minister's Order also recognises Moody's and Fitch Ratings and any of the three ratings may be used where available. During "split ratings" (different agencies assigning different rating bands), existing investments are assessed at the highest rating, but new investments must be tested against the lower rating.

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

The maximum holding limit in each rating category and the target credit quality weighting for Council's portfolio shall be:

Long Term Rating Range (or Moody's equivalent)	Maximum Holding
AAA Category	100%
AA Category or major banks*	100%
A Category	60%
BBB Category	50%

*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:

1. Australia and New Zealand Banking Group Limited
2. Commonwealth Bank of Australia
3. National Australia Bank Limited
4. 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.

Products with a guarantor or security can have a higher rating than the issuer.

Rating categories may be deduced from a parent where a subsidiary is not explicitly rated. Where appropriate, such as TCorpIM fixed interest funds, rating quality is based on the underlying investment mix. TCorpIM Cash is treated as AAA category, and Short Term Income Fund as AA.

Credit ratings are monitored regularly by Finance staff to ensure ongoing compliance. Investments with credit ratings downgraded to an extent that they no longer comply will be assessed for divestment as soon as practicable, in accordance with the grandfathering provisions of this policy.

In the event of disagreement between agencies as to the rating (“split ratings”) Council shall use the higher in assessing compliance with portfolio Policy limits, but for conservatism shall apply the lower in assessing new purchases.

5.12 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. It excludes any government guaranteed investments.

This table does not apply to any managed fund or structured investment where it is not possible to identify a single counterparty exposure.

Individual Institution or Counterparty Limits	
Long Term Rating Range (or Moody’s equivalent)	Limit
AAA Category ²	40%
AA Category or major banks*	30%
A Category	15%
BBB Category	15%

The definitions are as in the previous section.

5.13 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, which can be designated as shorter than the legal maturity in case of an expectation of earlier call or the intention to sell the investment. (Such a designation may have accounting implications which must be taken into account.)

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 return as well as reducing the risks to Council’s income. However, Council always retains the flexibility to invest as short as required by internal requirements or the economic outlook.

² Commonwealth Government and Government-guaranteed deposits are included in this category to the extent of the guarantee and not according to the bank’s actual rating, but without any upper limit applying to the government as counterparty.

The factors and/or information used by Council to determine minimum allocations to the shorter durations include:

1. Council's liquidity requirements to cover both regular payments as well as sufficient buffer to cover reasonably foreseeable contingencies;
2. Medium term financial plans and major capex forecasts;
3. Known grants, asset sales or similar one-off inflows; and
4. Seasonal patterns to Council's investment balances.

Investment Horizon - Description	Investment Horizon - Maturity Date	Minimum Allocation	Maximum Allocation
Working capital funds	0-3 months	10%	100%
Short term funds	3-12 months	20%	100%
Short-Medium term funds	1-2 years	0%	70%
Medium term funds	2-5 years	0%	50%
Long term funds	5-10 years	0%	25%

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

5.14 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 by sufficient margin to justify the investment taking into account its risks, liquidity and other benefits of the investment.

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
11 am Account including TCorpIM Cash Fund, short dated bills, deposits issued by financial institutions of appropriate term.	AusBond Bank Bill Index (BBI)	3 months or less
Term Deposits of appropriate remaining term, FRN's nearing maturity, TCorpIM Short Term Income Fund.	AusBond Bank Bill Index (BBI)	3 months to 12 months
Term Deposits with a maturity date between 1 and 2 Years, FRN's designated for sale.	AusBond Bank Bill Index (BBI)	1 to 2 years
FRN's, Bonds, Term deposits with a longer maturity date not intended for sale.	AusBond Bank Bill Index (BBI)	2 to 5 Years
TCorpIM Managed Funds (Diversified or growth asset sectors).	Fund's Internal Benchmark	3 Years (M/T Growth) 5+ Years (L/T Growth or Growth Sector Funds)

5.15 Grandfathering

Grandfathered investments (managed funds or securities) are allocated to the appropriate horizon based on expected or average maturity date and should be taken into account when allocating the rest of the portfolio.

The decision on when to exit such investments are based on a range of criteria specific to the investments – including but not limited to factors such as:

1. Returns expected over the remaining term;
2. Fair values;
3. Competing investment opportunities;
4. Costs of holding;
5. Liquidity and transaction costs
6. Outlook for future investment values; and
7. Risk of defaulting payment.

In general, it is expected that professional advice will be sought before transacting in “grandfathered” investments. This policy does not presume disposal; however, the removal of an asset from the Minister’s Order or under a new Policy would warrant a review of its suitability for retention.

5.16 Reporting

Council will maintain a separate record of money it has invested under section 625 of the Act, in accordance with the criteria defined by the Local Government Code of Accounting Practice and Financial Reporting. Documentary evidence must be held for each investment and details thereof maintained in an investment register. The documentary evidence must provide Council 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 at the 30th of June each year.

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

A monthly report will be provided to Council. The report will detail the investment portfolio in terms of holdings and impact of changes in market value since the previous report. The monthly report will also detail the investment performance against the applicable benchmark, investment income earned versus budget year to date and confirm compliance of Council's investments within legislative and policy limits. Council may nominate additional content for reporting.

6 Related Documents

Investment Strategy.