

INVESTMENT POLICY

Policy Owner: Director, Corporate Strategy & Performance
Contact Person: Manager Finance
Date of Approval: 14 December 2010

1 Investment Strategy and Objectives

While exercising the power to invest, consideration needs to be given to preservation of capital, liquidity, and the return on investment.

- (a) Preservation of capital is the principal objective of the investment portfolio. Investments are to be performed in a manner that seeks to ensure security and safeguarding the investment portfolio. This includes managing credit and interest rate risk within identified threshold and parameters.
- (b) The investment portfolio will ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring significant costs due to the unanticipated sale of an investment.
- (c) The investment is expected to achieve a predetermined market average rate of return that takes into account the Council's risk tolerance. Any additional return target set by Council will also consider the risk limitation and prudent investment principles.

2 Legislative Requirements

All investments are to comply with the following:

- Local Government Act 1995 – Section 6.14;
- The Trustees Act 1962 – Part III Investments;
- Local Government (Financial Management) Regulation 1996 – Regulation 19, Regulation 28, and Regulation 49
- Australian Accounting Standards

3 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 City's investments.

4 Prudent Person Standard

Investment will be managed with the care, diligence and skill that a prudent person will exercise. Officers are to manage the investment portfolios to safeguard the portfolios in accordance with the spirit of this Investment Policy, and not for speculative purposes.

5 Approved Investments

Without approvals from Council, investments are limited to:-

- State/Commonwealth Government Bonds;
- Interest bearing deposits;
- Bank accepted/endorsed commercial bills;
- Commercial paper:
- Bank negotiable Certificate of Deposits;
- Bank issue Senior Fixed/Floating Rate Notes which have a minimum long term Standard & Poor (S&P) or equivalent rating of "A";
- Managed Funds with a minimum long term Standard & Poor (S&P) or equivalent rating of "A".

6 Prohibited Investments

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

- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow; and
- Stand alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.

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

7 Risk Management Guidelines

Investments obtained are to comply with three key criteria relating to:

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

In light of the Federal Government Guarantee on deposits with Australian Authorised Deposit Taking Institutions (ADIs) i.e. Banks, Building Societies and Credit Unions until 11 October 2011, any investment in such institutions to this date shall be considered to be AAA or A-1+ rated in line with the Federal Government's credit rating.

Further to this, any investment in an ADI that allows Council to demand early repayment (prior to maturity) at no penalty shall be considered to be money "at call".

(a) Overall Portfolio Limits

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

S&P Long Term Rating	S&P Short Term Rating	Direct Investment Maximum %	Managed Funds Maximum%
AAA	A-1+	100%	100%
AA	A-1	60%	80%
A	A-2	40%	80%

(b) Counterparty Credit Framework

Exposure to an individual counterparty/institution will be restricted by their 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 %	Managed Funds Maximum%
AAA	A-1+	50%	50%
AA	A-1	35%	45%
A	A-2	20%	40%

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

Investments fixed for greater than 12 months are to be reviewed on a regular basis and invested for no longer than 5 years.

(c) Term to Maturity Framework

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

Overall Portfolio Term to Maturity		
Portfolio % <1 year	Min 40%	Max 100%
Portfolio % >1 year <3 year	Min 0%	Max 60%
Portfolio % ≥3 year ≤5 year	Min 0%	Max 50%

8 Investment Advisor

The City's investment advisor must be licensed by the Australian Securities and Investment Commission. The advisor 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 recommend the most appropriate product within the terms and conditions of the investment policy.

The investment return for the portfolio is to be regularly reviewed by the investment advisor by assessing the market value of the portfolio. The market value is to be assessed at least monthly to coincide with monthly reporting.

The investment advisor should meet with the responsible staff and review the City's investment portfolio no less than every six months.

9 Benchmarking

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

10 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.

In addition to the monthly reporting, an annual review of the City's investment strategy will be undertaken of the investment portfolio, which will consider the City's short and medium term cash flow requirements, the various portfolio limits and the City's investment 'risk' appetite profile. A report will be presented to Council for consideration in association with the annual review of the investment policy.

This Investment Policy will be reviewed at least once a year or as required in the event of legislative changes.

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

Certificates must be obtained from the financial institutions confirming the amounts of investments held on the Council's behalf as at 30 June each year and reconciled to the Investment Register.

RESPONSIBILITY FOR IMPLEMENTATION

Director Corporate Strategy & Performance

Version	Next Review	Record No:
CS03-03/02 19 March 2002		
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