

INVESTMENT POLICY

COUNCIL POLICY

PURPOSE

The purpose of this policy is to enable Council to invest surplus funds, with consideration of risk and at the most favourable rate of interest available at the time, for that investment type, while ensuring that council's liquidity requirements are being met. While exercising the power to invest, consideration is to be given to preservation of capital, liquidity, and the return of investment.

Preservation of capital is the principal objective of the investment portfolio. Investments are to be made in a manner that seeks to ensure the security and safeguarding of the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.

The investment portfolio must 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.

The investment is expected to achieve a predetermined market average rate of return that considers the Council's risk tolerance.

PRINCIPLES

Council is committed to maximising appropriate investment returns whilst maintaining a conservative risk/return portfolio. All activities regarding Council's investments are exercised with the care, diligence and skill of a prudent person, and not undertaken for speculative purposes.

DEFINITIONS

For the purposes of this Policy, the following definitions apply:

TERM	DEFINITION
Credit Risk	Credit risk is the risk of loss to an investor due to counterparty's failure to pay the interest and/or repay principal of an investment.
Liquidity Risk	Liquidity risk is the risk that an investor is unable to realise the investment at a fair price within a timely period resulting in a loss upon realisation.
Market Risk	Market risk is the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices.

POLICY STATEMENT

1. Risk Management

The risk of all assets included in the investment portfolio must be known, measurable and acceptable to Council.

- 1.1. As the principle objective of the Council is to preserve capital, the Council has a low tolerance to investment risk and a conservative, risk adverse investment strategy is required.
- 1.2. Risk Management Guidelines: To manage risk the following frameworks have been established and investments must comply with these frameworks. If any of Council's investments are downgraded such that they no longer fall within the investment policy requirements, they will be divested as soon as practicable but in a manner that does not give rise to an unnecessary loss to Council.
- 1.2.1 Portfolio Credit Framework: The Portfolio Credit Framework limits overall credit exposure of the investment portfolio. The limits on the percentage of the portfolio exposed to any particular credit rating category must be complied with as outlined in the following credit framework table.

RATING TABLE								
Short Term ≤ 12 months					Long Term > 12 months			
Standard & Poor	A1	A2	A3	B	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-
Moody's	P1	P2	P3	NP	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to Ba3
Fitch	F1	F2	F3	B	AAA to AA-	A+ to A-	BBB+ to BBB	BB+ to BB-
Max. Limit – % of Total Investment Portfolio	100%	60%	40%	10%	100%	60%	30%	5%

If a counterparty has different ratings with different rating agencies the most recent rating shall be applied.

- 1.2.2 Counterparty Credit Framework: The Portfolio Credit Framework limits exposure to individual counterparties/institutions by its credit rating so that single entity exposure is limited, as detailed below.

RATING TABLE								
Short Term ≤ 12 months					Long Term > 12 months			
Standard & Poor	A1	A2	A3	B	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-
Moody's	P1	P2	P3	NP	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to Ba3
Fitch	F1	F2	F3	B	AAA to AA-	A+ to A-	BBB+ to BBB	BB+ to BB-
Maximum Limit – as % of total Investment Portfolio	60 %	40%	30%	5%	60%	40%	25%	5%

If a counterparty has different ratings with different rating agencies the most recent rating shall be applied.

1.2.3 Term to Maturity Framework: The Term to Maturity Framework limits based upon maturity of securities. All investments have to be invested within the maturity constraints identified in the table below.

% OF TOTAL INVESTMENT PORTFOLIO		
Duration	Minimum	Maximum
≤ 12 months	50%	100%
> 1 year ≤ 3 years	0%	50%
> 3 years ≤ 5 years	0%	25%
> 5 years	0%	10%

2. Prudent Person Rule

The investments of Council will be managed with the care, diligence and skill that a prudent person would exercise. Officers are to manage the investment portfolio to safeguard it in accordance with the spirit of this policy and not for speculative purposes.

3. Ethics and Conflict of Interest

All staff involved in the investment process must refrain from activities, personal or otherwise, that would conflict with the proper execution and management of Council's Investment Portfolio. This policy requires all staff involved in the investment process to:

- Disclose in writing any actual, apparent or potential conflict of interest to the Chief Executive Officer;
- Avoid any actual, apparent or potential conflict of interest; and
- Control any actual, apparent or potential conflict of interest.

An independent advisor, where appointed, is also required to declare that they have no actual or perceived conflicts of interest.

4. Prohibited Investments

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

- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow;
- Standalone securities issued that have underlying futures, options, forward contracts and swaps of any kind;
- Share in an unlisted company or contribute capital to an unlisted trust.
- The use of leveraging (borrow to invest) of an investment.
- Complex financial instruments that are not in line with the conservative risk appetite of Council; and
- Any kind of investments with counterparties without a credit rating.

5. Approved Investments

All investments with comply with the following:

- 5.1. Authorised Investments will be limited to:
 - State or Commonwealth Government Bonds;
 - Interest bearing deposits with an Authorised Deposit-taking Institution (ADI) (as defined under the Banking Act 1959 (Commonwealth)).
 - Bank accepted/endorsed bank bills;
 - Bank negotiable Certificate of Deposits; and
 - Managed funds with a minimum long-term Standard and Poor rating of A and short-term rating of A2;
- 5.2. Three competitive quotations are to be sought to ensure Council receives the best rate of return whilst complying with this policy.
- 5.3. All investment must be in the name of the City of Palmerston. Additionally, the City of Palmerston must be the beneficial owner of all investments.
- 5.4. All investments must be denominated in Australian Dollars.
- 5.5. Documentary evidence must be held for each investment and details thereof must be maintained in an Investment Register.

6. Benchmarking

Performance benchmarks must be established for all investments held or intended to be held. The benchmarks included in the following table are to be complied with for the relevant instruments.

INVESTMENT	PERFORMANCE BENCHMARK
Cash	Cash Rate
Enhanced/Direct Investments	BBSW 90-day rate
Diversified	CPI + appropriate margin over rolling 3-year periods (depending upon composition of funds)
Property Investment Portfolio	Review of performance, assess property's value and usefulness, compare to current cash rates



ASSOCIATED DOCUMENTS

- Register of Delegations

REFERENCES AND RELATED LEGISLATION

- Australian Accounting Standards
- *Local Government Act 2019*

POLICY DETAILS

OWNER	Chief Executive Officer	RESPONSIBLE OFFICER	Executive Manager Financial Performance
APPROVAL DATE	6 December 2022	NEXT REVIEW DUE	6 December 2026
RECORDS NUMBER	641431	COUNCIL DECISION	10/642