

INVESTMENT POLICY

STATUS: *City Policy* ~~—A policy that is developed for administrative and operational imperatives and has an internal focus.~~

~~Developed by the Policy Committee and/or the administration and adopted by Council.~~

RESPONSIBLE DIRECTORATE: Corporate Services

OBJECTIVE: To invest the City's surplus funds, with consideration of risk and at the most favourable rate of interest available to it at the time, for that investment type, while ensuring that its liquidity requirements are met.

STATEMENT

1 DEFINITIONS

“**Authorised Institution**” means the same as that defined in Regulation 19C (1) of the Local Government (Financial Management) Regulations 1996 as amended.

“**Counterparty**” means the other party that participates in a financial transaction.

“**Credit Rating**” means an estimate of overall ability and willingness of an entity or person to fulfil financial obligations in full and on time, based on previous financial dealings. Ratings are opinions issued by credit rating agencies.

“**Short-term**” in relation to investments means it matures in 12 months or less.

“**Long term**” in relation to investments means it matures in excess of 12 months.

12 Objectives**STATEMENT**

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

(a) Preservation of capital is the principal objective of the investment portfolio. ~~Investments~~ Investing activities are to be performed 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~~ specified limits 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~~ realisation of an investment.

(c) The investment portfolio is expected to achieve a predetermined market average rate of return that takes into account ~~the Council's risk tolerance~~ legislative investment limitations. Any additional return target set by Council ~~will~~ must also

consider ~~the~~ risk limitations, liquidity requirements and prudent investment principles.

23 DETAILS

3.1 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) Regulations 1996 – Regulations 19, 19C, Regulation 28, and Regulation 49;
- Australian Accounting Standards.

3.2 Delegation of Authority to Invest:

~~The a~~Authority is ~~to be~~ delegated to the Chief Executive Officer to ~~make investment decisions and sign investment lodgements and withdrawals~~ implement this policy. Pursuant to the provisions of Section 5.45 of the ~~Local Government Act 1995~~. The ~~CEO~~Chief Executive Officer may in turn delegate the day-to-day management of the City's investments in accordance with the provisions of the Local Government Act 1995.

4.3 Prudent Person Standard:

Investments will be managed with the care, diligence and skill that a prudent person ~~will~~ would exercise. Officers ~~are to manage the investment portfolios delegated with authority to manage investments are~~ to safeguard the portfolios in accordance with the ~~spirit~~ substance of this ~~Investment P~~policy, and not for speculative or any other purposes.

5.4 Approved Investments:

~~Without approvals from~~ Unless otherwise approved by Council, investments are limited to:

- State/Commonwealth Government Bonds maturing within three years;
- Short term interest bearing deposits with Authorised Deposit-taking Institutions (ADI);
- Bank accepted/endorsed commercial bills payable within 12 months;
- ~~Bank n~~ Negotiable Certificate of Deposits issued or guaranteed by an Authorised Institution; and
- ~~Managed Funds with a minimum long term Standard & Poor (S&P) rating of "A" and short term rating of "A2"; and~~
- ~~City of Joondalup major land transactions.~~

6.5 Prohibited Investments:

This investment policy prohibits any investment carried out for speculative purposes including but not limited to:

- Derivative based instruments and/or Structured Products;

- ~~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; and~~
- Any form of investment that risks the loss of the initial capital outlay in anticipation of significant gain that may arise from expected changes in future economic conditions.

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

73.6 Risk Management Guidelines:

Officers delegated with the authority to invest must diversify the investment portfolio and avoid excessive risk concentration with any single counterparty.

The approach to diversification must be balanced with the need to seek an adequate rate of return for the City, given that higher rates of return are usually associated with higher credit risk.

Investments obtained are to ~~be guided by~~ ~~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.

The portfolio credit guidelines applied to the City's investments will be based on the Standard and Poor's (S&P) ratings system criteria, or the equivalent from Moody's or Fitch as necessary. A description of each S&P rating category is included in Appendix 1 including the meaning of the signs that may be linked to the rating.

(a)3.6.1 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 combination of long term and short term 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%

<u>Portfolio Limits</u>				
<u>Standard & Poor's Rating</u>		<u>Long Term</u>		
		<u>AAA+ to AAA-</u>	<u>AA+ to AA-</u>	<u>A+ to A-</u>
<u>Short Term</u>	<u>A-1+</u>	<u>100%</u>	<u>100%</u>	<u>Not Applicable</u>
	<u>A-1</u>	<u>Not Applicable</u>	<u>75%</u>	<u>45%</u>
	<u>A-2</u>	<u>Not Applicable</u>	<u>Not Applicable</u>	<u>10%</u>

(b)3.6.2 Counterparty Credit Framework:

Exposure to an individual counterparty/institution will be restricted by a combination of their long term and short term 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+	20%	25%
AA	A-1	15%	20%
A	A-2	10%	20%

<u>Counterparty Limits</u>				
<u>Standard & Poor's Rating</u>		<u>Long Term</u>		
		<u>AAA+ to AAA-</u>	<u>AA+ to AA-</u>	<u>A+ to A-</u>
<u>Short Term</u>	<u>A-1+</u>	<u>30%</u>	<u>25%</u>	<u>Not Applicable</u>
	<u>A-1</u>	<u>Not Applicable</u>	<u>20%</u>	<u>15%</u>
	<u>A-2</u>	<u>Not Applicable</u>	<u>Not Applicable</u>	<u>10%</u>

In the absence of any evidence to the contrary unrated wholly owned subsidiaries of a rated financial institution will be taken to have the same credit rating as its parent entity.

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. If the credit rating of any counterparty is downgraded such that any investments held with such party no longer comply with this policy, the City will take steps to divest such investments as soon as practicable, but within six months of the downgrade.

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

(e)3.6.3 Term to Maturity Framework:

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

Overall Portfolio Return to Maturity	Minimum	Maximum
Up to 12 months	60 70%	100%
13 to 24 months	0%	40 30%
25 to 36 months	0%	20%

Officers delegated to invest must take into account ongoing liquidity requirements when placing investments to ensure availability of funds to meet the City's payment obligations as and when they fall due.

83.7 Investment Advisor:

The City may appoint an investment advisor to provide independent advice regarding the management of the City's investments.

AnyThe City's investment advisor appointed by the City must be appropriately licensed by the Australian Securities and Investment Commission. The investment 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 advisors appointment is to be subject to a letter of engagement setting out the terms of appointment which may include:

- Monthly reporting;
- Monthly market review of returns and market value of the portfolio and
- Meetings with the responsible City officers no less than six monthly to review the City's investment portfolio.

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

93.8 Benchmarking:

The performance of the benchmark for the City's investment portfolio shall be measured against the UBS Warburg Bank Bill Index and also against is set at fifty basis points above the average Reserve Bank Cash Rate for the current financial year reporting period.

103.9 Reporting and Review:

-A monthly report will be provided to Council in support of the monthly Financial Activity sStatement 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.

~~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.

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

Appendix 1 – Investment Policy Standard & Poor’s Ratings Definitions

Standard and Poor’s (S&P) is a professional ratings agency that provides analysis of corporate and institutional creditworthiness. An S&P rating is an opinion of the general creditworthiness of an entity, either as a whole or with respect to a particular financial obligation, based on relevant risk factors.

According to S&P, credit ratings are based, in varying degrees, on the following considerations:

- Likelihood of payment;
- Nature and provisions of the obligation; and
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganisation or other legal arrangement that affects creditors’ rights.

<u>Ratings – Long Term Financial Obligations (Maturity greater than 365 days)</u>	
<u>AAA</u>	<u>Extremely strong capacity to meet financial commitments on the long term obligation</u>
<u>AA</u>	<u>Very strong capacity to meet financial commitments</u>
<u>A</u>	<u>Strong capacity to meet financial commitments, but somewhat susceptible to adverse circumstances and economic conditions</u>
<u>BBB</u>	<u>Adequate capacity to meet financial commitments, but susceptible to adverse circumstances and economic conditions</u>
<u>BB</u>	<u>Currently has capacity to meet financial commitments, but clearly vulnerable to adverse circumstances and economic conditions</u>
<u>B</u>	<u>Currently has capacity to meet financial commitments, but highly vulnerable to adverse circumstances and economic conditions</u>
<u>CCC</u>	<u>Currently vulnerable to non-payment, and dependent on favourable economic conditions to meet financial commitments</u>
<u>CC</u>	<u>Currently highly vulnerable to non-payment</u>
<u>R</u>	<u>Under regulatory supervision. Highly likely not to meet financial commitments</u>

<u>Ratings – Short Term Financial Obligations (Maturity not more than 365 days)</u>	
<u>A-1</u>	<u>Strong capacity to meet financial commitments on the short term obligation</u>
<u>A-2</u>	<u>Satisfactory capacity to meet financial commitments, but somewhat susceptible to adverse circumstances and economic conditions</u>
<u>A-3</u>	<u>Adequate capacity to meet financial commitments but susceptible to adverse circumstances and economic conditions</u>
<u>B</u>	<u>Current capacity to meet financial commitments but vulnerable to adverse circumstances and economic conditions and faces major ongoing uncertainty which could lead to inadequate capacity</u>
<u>C</u>	<u>Currently vulnerable to non-payment and is dependent on favourable economic conditions to meet financial commitments</u>
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Ratings may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

(Source: Standard & Poor’s Ratings Definitions, <http://www.standardandpoors.com/ratings/articles/en/us/?articleType=HTML&assetID=1245345872839>, Accessed 25 February 2013).

Amendments: CJ213-06/99, CJ121-06/02, CJ232-09/02, CJ213-09/03,
CJ206-10/05, CJ207-10/07, CJ052-04/08

Related Documentation: Local Government Act 1995 Delegated Authority Manual

Issued: April 2008



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“Long term” in relation to investments means it matures in excess of 12 months.

2 STATEMENT

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- a Preservation of capital is the principal objective of the investment portfolio. Investing activities are to be performed in a manner that seeks to ensure the security and safeguarding of the investment portfolio. This includes managing credit and interest rate risk within specified limits 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 realisation of an investment.
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3 DETAILS

3.1 Legislative Requirements:

All investments are to comply with the following:

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If the credit rating of any counterparty is downgraded such that any investments held with such party no longer comply with this policy, the City will take steps to divest such investments as soon as practicable, but within six months of the downgrade.

3.6.3 Term to Maturity Framework:

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

Overall Portfolio Return to Maturity	Minimum	Maximum
Up to 12 months	70%	100%
13 to 24 months	0%	30%
25 to 36 months	0%	20%

Officers delegated to invest must take into account ongoing liquidity requirements when placing investments to ensure availability of funds to meet the City's payment obligations as and when they fall due.

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- Meetings with the responsible City officers no less than six monthly to review the City's investment portfolio.

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The performance benchmark for the City's investment portfolio is set at fifty basis points above the average Reserve Bank Cash Rate for the reporting period.

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