

CITY OF
CANADA BAY

INVESTMENT POLICY

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Purpose

To provide a framework for the investing of Council's surplus funds in a prudent manner to generate the most favourable returns within acceptable risk parameters whilst ensuring that Council's liquidity requirements are being met.

Specific strategies maybe employed at different times to achieve this objective so long as those strategies always lie within the policy.

Background and Standards

Section 625 of the Local Government Act 1993 allows Council to invest funds in particular securities so long as the funds are not required for any other purpose.

The Minister for Local Government issued revised guidelines in 2010 which placed emphasis on observing the 'prudent person test'.

The investment 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 (DLG - May 2010).

At the same time the investment of Council's funds must be conducted to the highest of ethical standards:

Officers shall refrain from personal activities that would conflict with the proper execution and management of this portfolio. This policy requires officers to disclose any conflict of interest to the General Manager. Independent advisors are also required to declare that they have no actual or perceived conflicts of interest. (DLG - May 2010).

Authority for Investment

The Council may invest surplus funds pursuant to the:

- Local Government (General) Regulation 2005 c
- Local Government Act 1993
- Ministerial Investment Order of 12 January 2011
- Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards
- Division of Local Government Circulars
- The Trustee Act 1925 Section 14 and the Trustee Amendment (Discretionary Investments) Act 1997- Sections 14A(2), 14C(1) and (2)
- Investment Policy Guidelines 2010

Delegation Authority

Authority for implementation of this Policy is delegated by the elected Council to the General Manager in accordance with the Local Government Act 1993 (NSW).

Subject to regular review, the General Manager has delegated the day-to-day management of Council's Investment Portfolio to the:

- Director Corporate Services;
- Manager Finance;
- Coordinator, Corporate Accounting
- Management Accountant –Investments

To be effective a delegation must be in writing.

Staff members delegated to manage Council's Investment Portfolio must acknowledge that they have received a copy of this Policy and that they understand the obligations and responsibilities of their role.

Authorised Investments

Investments are limited to those allowed by the most current Ministerial Investment Order that has been issued by the NSW Minister for Local Government.

The most current Ministers Order is dated 12 January 2011 and is detailed in Attachment A.

Authorised Investments will be limited to:

- any public funds or securities issued by or guaranteed by, the Commonwealth, any State of the Commonwealth or a territory;
- any Debentures or Securities issued by a Council, within the meaning of the Local Government Act 1993 (NSW);
- interest bearing deposits with, or debentures or bonds issued by, an Authorised Deposit-taking institution (ADI), as defined in the Banking Act 1959 (Commonwealth), but excluding subordinated debt obligations; refer to Attachment B for a listing of ADIs
- any bill of exchange which has a maturity date of not more than 200 days and if purchased for value confers on the holder in due course a right of recourse against a bank which has been designated as an ADI;
- a deposit with the NSW Treasury Corporation or investments in an Hourglass Investment Facility of the New South Wales Treasury Corporation.

Prohibited Investments

In accordance with the Ministerial Investment Order, this investment policy prohibits, but is not limited, to any investment carried out for speculative purposes including:

- derivative based instruments
- principal only investments or securities that provide nil or negative cash flow
- standalone securities issued that have underlying futures, options, forward contracts and swaps of any kind
- shares of any kind
- Any investments not denominated in Australian Dollars or that carry foreign exchange risk.

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

Council officers should ensure that before new investments are made, they establish whether a product complies with the investment policy and, where necessary, obtain independent financial advice in writing on the nature and risk of the financial product.

Investment Guidelines

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

- Preservation of capital is the principle objective of the investment portfolio. Investments are to be placed in a manner that seeks to ensure security and safeguarding the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.
- Investments should be allocated to ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring the risk of significant costs due to the unanticipated sale of the investment.
- Investments are expected to achieve a market return in line with the Council's risk tolerance.

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

- Preservation of Capital- the requirement for preventing losses in an investment portfolio's total value (considering the time value of money)
- Diversification- setting limits to the amounts invested with a particular financial institution or government authority to reduce credit, interest rate, liquidity and market risks
- Credit risk- the risk the investment council has made fails to pay the interest and repay the principal when due
- Liquidity Risk - the risk council is unable to redeem the investment at a fair price within a timely period, or the risk the fair price has changed significantly due to market risks and council is in a position where it must sell before maturity incurring a loss
- Interest Rate Risk- the risk the fair market value of the investment fluctuates significantly due to changes in underlying interest rates
- Market Risk- the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market conditions and prices, principally interest rate, credit and liquidity risks
- Maturity Risk- the risk relating to the length of term to maturity of the investment. The larger the term, the greater the length of exposure and exposure to market risks.

Direct Investments

Portfolio Credit Framework

The portfolio credit guidelines to be adopted will be based on the Standard and Poor's (S&P) ratings system criteria (or Moody's I Fitch equivalent if an S&P rating is not available). The maximum available limits in each rating category are as follows:

Long Term Rating	Short Term Rating	Maximum Portfolio Limit
AAA to AA-	A- 1+	100%
A+ to A-	A-1	80%
BBB+ to BBB-	A-2	30%
Unrated	A-3 or unrated	15%

If the instrument has a maturity date of less than 1 year the short term rating will apply and if it has a maturity greater than 1 year the longer term rating will apply.

Individual Counterparty Credit Framework

The individual credit guidelines to be adopted will be based on the Standard and Poor's (S&P) ratings system criteria (or Moody's I Fitch equivalent if an S&P rating is not available). The maximum available limits in each rating category are as follows:

Long Term Rating	Short Term Rating	Maximum Individual Limit
Federal or NSW Government		100%
AM to AA-	A-1+	45%
A+ to A-	A-1	30%
BBB+ to BBB-	A-2	10%
Unrated	A-3 or unrated	10%

If the instrument has a maturity date of less than 1 year the short term rating will apply and if it has a maturity greater than 1 year the longer term rating will apply.

Term to Maturity Framework

The portfolio is to be invested with the following term to maturity constraints.

Maturity Band	Minimum Portfolio Exposure	Maximum Portfolio Exposure
<1 year	30%	100%
>1 year	0%	70%
>3 year	0%	30%
>5 years	0%	10%

All investments greater than 5 years must be issued by a government entity or carry a long term rating of AA- or above from S&P (or an equivalent ratings agency).

Investment Strategy

On a quarterly basis and in conjunction with this Investment Policy, an Investment Strategy will be formulated and documented taking into consideration the following:

- Council's cash flow requirements and implications for the portfolio liquidity profile.
- Allocation of investment types, credit quality, counterparty exposure and term to maturity.
- Current and projected market conditions and any likely impacts on relative positioning in terms of the portfolio and any necessary policy implications.
- Relative return outlook; risk-reward considerations; assessment of the market cycle and hence constraints on risk.
- Appropriateness of overall investment types for Council's portfolio and,
- The projected investment portfolio level for the forthcoming year.

Grandfathering

Any investment purchased when compliant with the investment policy may be held to maturity or sold as Council believes best dependent on the individual circumstances, so long as that risk management strategy is accordance with the principles of the Investment Guidelines as above, the prevailing legislation and the prudent person guidelines.

Specifically, Grandfathering will apply to any investment that:

- Was made ineligible by a previous change to the external legislation if that change allows for grandfathering (e.g., changes regarding COO's following the change of legislation post the Cole Report)
- Is made ineligible as a result of a change to this investment policy •
- Is in breach of the investment policy due to a change of circumstance. (e.g., because the investment has been downgraded or has had its credit rating withdrawn post purchase)
- Is in breach due to a change of portfolio size or composition (e.g. because the overall portfolio size has decreased and as a result the percentage of total portfolio limit which applies to individual remaining investments increases and therefore causes a breach).

Trading Policy

Council will make every effort and will undertake cash flow forecasting to match investment maturities to cash flow requirements to minimise early liquidation of investments prior to scheduled maturities and any associated penalties either explicit in the form of break costs or implicit in terms of broker fees, market spreads and liquidity risks.

Investments will be acquired with the intention of holding them through maturity, and cash liquidity requirements will be managed to ensure that Council avoids a situation that will require a forced sale of these assets in normal circumstances.

However, if Investment Policy Limits have been breached due to a change in the overall size of the investment portfolio, external or internal changes to investment policy parameters or for any other reason, then investments may be sold prior to maturity. Under these situations Council has the authority to make the necessary arrangements to withdraw from the investment as soon as practicable.

Council may also sell assets prior to maturity in the following circumstances:

- If the asset is liquid, easily tradeable, can be sold without significant loss and was purchased as part of a "liquidity buffer" against the event of unforeseen and unexpected liquidity requirements.
- If Council judges that the asset has deteriorated in credit quality and there is a material risk of loss on the asset if held to maturity and Council upon seeking external advice from a competent and reputable advisor is advised that a sale of the asset is in the best interests of Council for risk (management purposes to potentially minimise any future losses).

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For the avoidance of doubt, Council will not adopt an active trading strategy buying and selling assets on broker recommendations for the purposes of enhancing returns through the accumulation of capital profits

Quotations for Purchases and Sales of Investments

The investing officer must satisfy themselves that they are obtaining a fair market price for all investments made at all times. This can be accomplished by obtaining three (3) independent quotes from reputable market makers where the investment is widely traded or where it is not widely traded by reference to other similar instruments that are traded in the market place.

If this is not possible or impractical, the investing officer can rely on representations made by an Independent Advisor with no conflicts of interest regarding the purchase or sale of the investment.

For the avoidance of doubt the investing officer must not rely on representations made by the buyer, seller or broker or any other person with a potential conflict of interest.

Performance Benchmark

The performance of the Investment Portfolio has been set at the Bloomberg Bank Bill Index plus 25bps on a long term basis.

A return of 25bps (a quarter of 1%) over the benchmark is considered to be in line with Council's conservative risk appetite.

Safe Custody Arrangements

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

- Council must retain beneficial ownership of the all investments
- Adequate documentation is provided verifying the existence of the investments
- The Custodian conducts regular reconciliation of records with relevant registries and/or clearing systems
- The institution of Custodian recording and holding the assets will be:
 - Austraclear or an equivalent globally recognised registry service or,
 - A major Australian Bank (ANZ, CBA, NAB, Westpac)
 - An entity with a credit rating of AA- rating from S&P (or its equivalent rating from Fitch or Moody's) or better

Reporting

All investments are to be appropriately recorded in Council's financial records and reconciled at least on a monthly basis. 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 (or any other date which is the end of financial year) and reconciled in the Investment Register.

A monthly report will be provided to Council which details:

- Portfolio performance
- Portfolio composition with relevant data on types of investment, credit ratings and maturities
- Compliance with the terms of the investment policy (with any breaches noted)
- Independent financial assessments of the value of the investments and the investments portfolio.

Investment Advisor

Council's investment advisor must be approved by Council and hold an Australian Financial Services License issued 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 choose the most appropriate product within the terms and conditions of the investment policy.

The independent advisor is required to provide written confirmation that they do not have any actual or potential conflicts of interest in relation to the investments they are recommending or reviewing, including that they are not receiving any commission or other benefits in relation to the investments being recommended or reviewed.

Review of Policy

This investment policy will be reviewed at least once a year or as required in the event or result of legislative changes.

The Investment Policy may also be changed as a result of other amendments that are to the advantage of Council and in the spirit of this policy. Any amendment to the Investment Policy must be by way of Council resolution.

Glossary

ADI - Authorised Deposit-Taking. Institution are corporations that are authorised under the Bank Act 1959 (Cwth) to take deposits from customers.

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:

Debentures - 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.

DLG - NSW Division of Local Government, Department of Premier and Cabinet.

Grandfather Clause - Grandfather clause is a legislative clause, which, in prohibiting a certain activity, exempts those who were already engaged in the activity at the time the legislation was passed.

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

Prudent person standard - Prudent person standard is a legal standard restricting the investing and managing of a client's account to what a prudent person seeking reasonable income and preservation of capital might exercise for his or her own investment.

Securities - for financial markets these are many types of financial instruments (i.e. documents) that are traded in financial markets (except futures contracts) e.g. bills of exchange, transferable certificates of deposit, negotiable certificates of deposit, floating rate notes.