



Investment Policy

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| Investment Policy | | |
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| Owner: Chief Financial Officer | Area: Finance | POL No: 205 |
| Date of Commencement: 10/07/2017 | Approval Authority: Council | Date Approved: 14/04/2020 |
| Amendment: 6 | Date of Next Review: 13/04/2021 | Review: 1 |



1. Scope

The Investment Policy provides guidance for the management of Council's cash and investment portfolio.

This policy applies to all managers and employees who actively manage Council's Cash and Investments or have the responsibility for employees who actively manage Council's Cash and Investments.

In addition, this policy covers the monitoring, reporting and accounting requirements for investments.

2. Purpose

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

- Council Funds covered by this Investment Policy;
- Council's objectives for its investment portfolio;
- How investments are to be undertaken;
- The applicable risks to be managed;
- Constraints and other prudential requirements to apply to the investment of Funds having regard to the applicable legislation and regulations governing Council investment;
- The manner in which compliance with the Policy & Strategy will be monitored and reported; and
- The appropriate benchmarks for each category of investments.

3. Policy

City of Parramatta Council is committed to optimising the investment of Council's surplus funds.

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

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- Compliance with legislation, regulations, the prudent person tests of the *Trustee Act* and best practice guidelines;
- The preservation of the amount invested;
- To ensure there are sufficient liquid funds to meet all reasonably anticipated cash flow requirements; and

Without compromising these primary objectives, the council understands that not all objectives can be measured in monetary returns, and the interests of residents and community must be considered.

Council's Investment Strategy will run in conjunction with this Investment Policy and will outline:

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

City of Parramatta is committed to all investments being fully compliant with legislation, ministerial orders, standards and other guidelines issued by national and state government departments.

4. Delegations

Authority for implementation of the Investment Policy is delegated by Council to the Chief Executive Officer in accordance with the *Local Government Act 1993*.

May be sub-delegated the authority to transact and this will be reflected in the delegations assigned to their role.

5. 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

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

6. Ethics and Conflicts of Interest

Officers with delegated authority 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 Chief Executive Officer.

Independent advisors are also required to declare that they have no actual or perceived conflicts of interest and receive no inducements in relation to Council's investments.

7. Authorised Investments

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

- Commonwealth, or Australian State / Territory Government securities e.g. bonds;
- Interest bearing deposits / senior securities issued by an eligible ADI;
- Bills of Exchange (< 200 days duration) guaranteed by an authorised deposit-taking institution (ADI);
- Debentures issued by a NSW Council under *Local Government Act (1993)*;
- Deposits with NSW TCorp &/or Investments in NSW TCorpIM Funds; and
- Existing investments grandfathered under the Ministerial Investment Order.

8. Prohibited Investments

This Investment Policy prohibits the following types of investment:

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

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This Policy also prohibits any investment with speculative purposes, including the use of leveraging (borrowing to invest) for 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 in the expenditure of loan funds.

9. Risk Management Guidelines

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.
- **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;
- **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;
- **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);
- **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;
- **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;
- **Rollover Risk** – the risk that maturing assets will be reinvested at a lower prevailing interest rate.; and
- **Fidelity and Legal Risk** – the risk of fraud, non-enforceability of obligations, security or title, or unexpected costs in rectifying contracts.

10. Investment Advisor

Council's investment advisor is appointed by the Chief Executive Officer and must operate under a licence from 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 are free to choose the most appropriate product within the terms and conditions of the investment policy. "Independence" includes receiving no commissions or other benefits in relation to

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the investments being recommended or reviewed, except as fully rebated to Council, promptly.

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

11. Accounting

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 return.

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.

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

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13. 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 as at the end of the Financial Year.

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

14. Reporting and Review

Pursuant to the *Local Government (General) Regulation 2005* (clause 212), the City will provide a monthly report to Council on investments. The monthly report to Council will include:

- the total value of the portfolio
- a complete schedule of all investments within the total portfolio
- full disclosure of all investments by type, current credit rating and face value
- net investment income for the month (actual against budget)
- the weighted average investment returns for the current month and the last 12 months rolling period (actual against benchmark)
- informative commentary on portfolio compliance and performance, current economic investment environment, and any change to current strategy
- certification that investments accord with the Act, regulations and Council's investment policy and strategy.

15. Review of Policy

In accordance with the *Local Government Code of Accounting Practice & Financial Reporting*, Council will undertake an annual review of its Investment Policy and Investment Strategy.

If there are any significant changes to the Act, regulations, issued guidelines, or if the market changes to a degree that warrants an earlier examination, the Policy and/or Strategy will be reviewed and brought back to Council for its consideration.

16. Credit Quality Limits

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The portfolio credit guidelines are based on Standard & Poor's (S&P) long-term ratings system criteria and format. Moody's and Fitch Ratings may be used where no S&P rating exists. Moody's ratings are mapped to S&P (e.g. Baa1 to BBB+).

However, the primary control of credit quality is the prudential supervision and government support and explicit guarantees of the Authorised Deposit-Taking Institution (ADI) sector, not ratings.

The maximum holding limit in each rating category for Council's portfolio shall be:

| Long Term Credit Rating | Maximum Aggregate Holding |
|---|---------------------------|
| TCorp (including Cash and S/T Income), AAA | 100% |
| AA Range | 100% |
| A+ or A | 100% |
| A- | 40% |
| BBB+ | 30%, less any BBB |
| BBB | 10% |
| Other | 5% |

For ADI groups that own multiple banking licences, rating categories are based on the parent bank even if the subsidiary is not explicitly rated.

This table does not limit managed fund investments.

17. Counterparty Limits (Exposure and Tenor)

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.

This table does not apply to any managed fund investment where there is no single counterparty exposure.

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| Long Term S&P Credit Rating Range (or Moody's / Fitch equivalent) | Individual Counterparty Limits | Tenor Limits (years) |
|--|-----------------------------------|---|
| TCorp, AAA | 100% | None |
| AA Range | 100% | 5 |
| A+, A | 30% | 5 years (FRN'S) 3 years (all other investments) |
| A- | 20% | 3 |
| BBB+ | 10% | 3 |
| BBB | 5% | 1 |
| BBB- | \$1m | 1 |
| Other | \$250k | 1 |

All new investments should adhere to the limits as set out in this Investment Policy at the time of investment. Any event that results in Council's non-compliance to these limits will be reported through the monthly reporting requirements to Council. Council will look to rectify the 'overweight' position as soon as practical while considering the implications of breaking investments early before maturity.

18. 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; it is open for the Investment Strategy to define a target date for sale of a liquid investment.

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 cash flow requirements or the economic outlook.

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

- Council's liquidity requirements to cover both regular payments as well as sufficient buffer to cover reasonably foreseeable contingencies;
- Medium term financial plans and major capital expenditure forecasts;
- Known grants, asset sales or similar one-off inflows;

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- Seasonal patterns to Council’s surplus funds.

| Horizon Description | Maturity Timeframe | Minimum Allocation | Maximum Allocation |
|--------------------------------|--------------------|--------------------|--------------------|
| Working Capital Funds | 0-3 months | 20% | 100% |
| Short-Term Funds | 3-12 months | | |
| 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.

19. 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.

Council will seek information about both current and historical reward for the investments contemplated in its Strategy document – where insufficient, it will hold cash and not impose a minimum outperformance obligation as to do so mandates risk-seeking at times of minimal reward.

It is also expected that Council will take due steps to ensure that any investment, notwithstanding a yield above the benchmark rate (taking into account term), is executed at the best pricing reasonably possible.

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| Investment | Performance Benchmark | Time Horizon |
|--|-------------------------------|--|
| 11am and Notice accounts, cash management accounts, professional funds accounts, TCorpIM Cash Fund, short-dated bank bills, deposits of appropriate term. | AusBond Bank Bill Index (BBI) | 3 months or less |
| Bank bills over 90 days, term deposits of appropriate remaining term, senior securities (FRNs or bonds) nearing maturity, TCorpIM Short Term Income Fund. | | 3 months to 12 months |
| Term deposits and senior securities (FRNs or bonds) with a remaining term 1-2 Years. | | 1 to 2 years |
| Long term deposits and senior securities (FRNs or bonds) except as otherwise designated on a shorter horizon, Grandfathered Income Funds. | | 2 to 5 Years |
| Other TCorpIM assets | Fund's Internal Benchmark | 5+ Years (L/T Growth Fund or Growth assets) 2-5 Years (Other) |

Managed funds are allocated to the appropriate horizon based on appropriate minimum holding period and should be taken into account when allocating the rest of the portfolio.

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

- Returns expected over the remaining term
- Fair values
- Competing investment opportunities
- Costs of holding
- Liquidity and transaction costs, against other benefits of doing so
- Outlook for future investment values; and
- 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 would warrant a review of its suitability for retention.

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20. Definitions

| | |
|------------------------------|---|
| Act | <i>Local Government Act, 1993.</i> |
| ADI | Authorised Deposit-Taking Institutions (ADIs) are corporations that are authorised under the <i>Banking Act 1959</i> (Commonwealth) to take deposits from customers and regulate by APRA |
| BBSW | The Bank Bill Swap reference rate (BBSW) is the midpoint of the nationally observed best bid and offer for AFMA Prime Bank eligible securities. The BBSW is calculated daily. Floating rate securities are most commonly reset quarterly to the 90-day BBSW. |
| 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. |
| Bloomberg AusBond BBI | Formerly the UBS BBI. The UBS Australia index family was acquired by Bloomberg from Q3 2014, and while branding changed the benchmark is unaltered. 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. |
| 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 |

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is usually the BBSW and is reset at regular intervals – most commonly quarterly.

Grandfathered Investments held by Council that were previously allowed but are Grandfathered (*i.e.* eligible to retain but not add to or restructure existing investments) which became ineligible due to regulatory change, any Policy changes, or through a rating downgrade.

LGGR *Local Government (General) Regulation 2005 (NSW).*

NCD / TCD Is an investment in an underlying security, being a negotiable certificate of deposit (NCD) where the term of the security is often for a period of 185 days or less (but occasionally longer terms). Short NCDs are generally discount securities, meaning they are issued and on-sold to investors at a discount to their face value. Sometimes also “transferable certificate of deposit” (TCD).

OLG NSW Office of Local Government, its predecessors and successors.

RAO Responsible Accounting Officer of a council means a member of the staff of the council designated by the Chief Executive Officer. (*LGGR*, clause 196)

TCorp / TCorpIM New South Wales Treasury Corporation (NSW TCorp), including the TCorp Investment Management arm which manages the TCorpIM Funds (formerly Hour-glass).

Tenor Remaining period to maturity (a variable, declining period - as opposed to “term” which is set at issue).

21. Associated documents

Local Government Act 1993 and Ministerial Investment Order.

This policy statement has been prepared to recognise the legislative requirements and obligations for the investment of Council’s funds. The legislative requirements are detailed within this Investment Policy.

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Council will comply with the investment regulations and directions of the Office of Local Government – which will prevail in the event of inconsistencies with the adopted Policy and Strategy.

22. History

- Investment Policy adopted at the Council Meeting held on 25th November 2013.
- Internally Reviewed by Finance June 2014 no change
- Internally Reviewed by Finance June 2015 no change
- Internally Reviewed by Finance June 2016 no change
- Policy Review and Update February 2017
- Policy Review and Update April 2020

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| REFERENCES | <i>Local Government Act (1993); Local Government (General) Regulation (2005); Ministerial Investment Order; The Trustee Amendment (Discretionary Investments) Act (1997) – Section 14; Local Government Code of Accounting Practice and Financial Reporting; Australian Accounting Standards; Office of Local Government Investment Policy Guidelines; and Office of Local Government Circulars</i> |
| POLICIES | |
| ATTACHMENTS | |

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