



DATE ADOPTED: 25 June 2019

VERSION: 9.0

POLICY OBJECTIVES

The objectives of this policy are to:

- Provide a framework for the investing of Council's funds.
- Give due consideration to preservation of capital, liquidity, risk and return on investment.

POLICY SCOPE

This policy applies to employees that form part of the Maitland City Council Investment Strategy Group.

POLICY STATEMENT

1.0 Purpose of this policy

The purpose of this Policy is to ensure that Council and its representatives exercise care, diligence and skill that a prudent person would exercise in investing funds that are surplus to Council's immediate requirements.

2.0 Policy objective

To provide a framework for the investing of Council's funds at the most favourable return available to it at the time whilst having due consideration of risk and security for that investment type and ensuring that its liquidity requirements are being met.

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

- 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 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 an investment.
- Investments are expected to achieve a market average rate of return in line with the Council's risk tolerance.

3.0 Policy guidelines

3.1 Legislative requirements

All investments are to comply with the following:

- Local Government Act 1993 (NSW);
- Local Government (General) Regulation 2005 (NSW);
- Local Government Act 1993 – Investment Order (of the Minister) – in accordance with the most recently published Order;;
- Local Government Code of Accounting Practice and Financial Reporting;
- Australian Accounting Standards; and
- Office of Local Government Circulars

3.2 Delegation of authority

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

The General Manager may in turn delegate the day-to-day management of Council's investment to the Responsible Accounting Officer or senior staff, subject to regular reviews.

Delegated staff will have the appropriate level of skills to undertake the investment functions of Council.

Officer's delegated authority to manage Council's investments shall be recorded and required to acknowledge they have received a copy of this Policy and understand their obligations in this role.

Delegations and signatories are required to be reviewed annually in conjunction with the Investment Policy review, and amendments to delegations and signatories will be made immediately upon the commencement or cessation of staff.

3.3 Prudent person standard

Council has a fiduciary responsibility when investing. 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.

3.4 Ethics and conflicts of interest

Officers 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 General Manager.

Independent advisors are also required to declare that they have no actual or perceived conflicts of interest.

4.0 Approved investments

Investments are limited to those allowed by the Ministerial Investment Order and include:

- a) Investments with Australian Deposit-taking Institutions (ADI) and foreign subsidiary ADI's
 - At call deposits
 - Senior ranked Fixed Rate Bonds
 - Term Deposits
 - Senior ranked Floating Rate Notes
 - Bank Bills and Negotiable Certificates of Deposits (NCD's)



- b) Investments not with ADI's
 - Commonwealth/State/Territory Government Securities e.g.: bonds
 - Deposits with NSW Treasury &/or Investments in NSW Treasury Corporation's Investment Management (NSW TCorpIM) Funds

5.0 Prohibited investments

This investment policy prohibits but is not limited to any investment carried out for speculative purpose, 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.

6.0 Risk management guidelines

Investments are expected to achieve a market average rate of return in line with the Council's risk tolerance and are to be considered in light of the following key criteria:

- Preservation of Capital – the requirement for preventing the loss of capital and considering the effect of the time value of money the total value of the portfolio.
- Diversification – spreading the portfolio over different institutions and investing in different asset types to mitigate credit risk.
- Issuer/Credit risk – the risk of default of the Issuer/Counterparty. Note that any issuer default may result in partial or total investor capital loss.
- Market risk –The risk to the value of an investment caused by changes in related markets. Tradeable securities are exposed to market perceptions of issuer credit and credit markets generally.
- Liquidity risk – The risk that Council may be unable to sell any or part of an investment on to the secondary market at a level suitable to them – or at all. Tradeable securities may be liquid in normal market conditions; however, rates/margins may change substantially in periods of market stress.
- 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 risk to market volatilities.

Interest Rate risk – the risk to the value of an investment caused by changes by in market interest rates. Floating Rate Securities have limited interest rate risk; Fixed Rate Securities are exposed to mark-to-market changes caused by movements in swap markets

6.1 Credit and maturity guidelines

Investments are to comply with three key criteria relating to:

- **Overall Portfolio Credit Framework:** limit overall credit exposure of the portfolio;
- **Institutional Credit Framework:** limit exposure to individual institutions based on their credit ratings; And
- **Term to Maturity Framework:** limits based upon maturity of securities.

(a) Overall Portfolio Credit Framework

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 Credit Rating Category*	Maximum %
AAA	100%
AA	90%
A	60%
BBB+ and BBB total	35%
BBB+	up to 35%
BBB	up to 15%
Specific Ministerial Approved Forms of Investment	
NSW Treasury Corp: TCorpIM Funds (unrated)	50%

*or Moody's / Fitch equivalents

(b) Institutional Credit Framework

Exposure to an individual 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 Credit Rating Category*	Maximum %
AAA	45%
AA	35%
A	20%
BBB+	10%
BBB	5%
Specific Ministerial Approved Forms of Investment	
NSW TCorpIM Cash Fund (unrated)	45%
NSW TCorpIM Short Term Income Fund (unrated)	35%

* or Moody's / Fitch equivalents

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.

(c) Term to Maturity Framework

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

Overall Portfolio Term to Maturity Limits		
Portfolio % ≤ 1 year	Min 40%	Max 100%
Portfolio % > 1 year	Min 0%	Max 60%
Portfolio % > 3 year ≤ 5 year	Min 0%	Max 30%
BBB+ rated ADI 3 year maximum		
BBB rated ADI 12 month maximum		

7.0 Investment strategy

An Investment Strategy will run in conjunction with the Investment Policy. The investment strategy will be reviewed with an independent investment advisor at least once a year. The Strategy will outline:

- Council's cash flow expectations;
- Optimal target allocation of investment types, credit rating exposure and term to maturity exposure; and
- Appropriateness of overall investment types for Council's portfolio.

8.0 Investment advisors

Council's investment advisor must be approved by Council and 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 choose the most appropriate product within the terms and conditions of the Investment Policy.

Council is required to conduct an ASIC search annually in conjunction with the Investment Policy review and also on appointment of an advisor. This is to ensure that the advisor is appropriately licensed and that evidence of this is sufficiently documented.

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. Any commissions paid to the advisor by banks/product providers will be rebated, or otherwise onforwarded, to Council as per ASIC requirements for an independent investment advisor.

Annually, on the anniversary of the appointment of the advisor, a written declaration of continued independence is to be obtained from the advisor stating that no conflicts of interest have arisen since the signing of the last declaration.

9.0 Measurement

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

10.0 Performance benchmarks

The performance of the investment portfolio shall be measured against the industry standard Bloomberg AusBond Bank Bill Index and/or the Official Cash Rate.

11.0 Reporting and reviewing of investments

For all new investments, an investment authority is to be prepared by one staff member, then reviewed and approved by a second authorised staff member. This will be filed electronically with all rates, investment advice and reason for the decision.

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.

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.

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

A monthly report will be provided to Council. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value.

12.0 Review of investment policy and variation to investment policy

This Investment Policy will be reviewed at least once a year or as required in the event of legislative changes. The General Manager or his/her delegated representative is authorised to approve variations to this Policy if the investment is to council's advantage and/or due to revised legislation.

All changes to this Investment Policy are to be reported as soon as practicable with any amendments to the Investment Policy to ultimately be by way of Council resolution.



Schedules (5 pages)

- Schedule 1 – Investment Instrument Descriptions;
- Schedule 2 – Standard's & Poor's Ratings Description;



SCHEDULE 1 (two pages)

Investment Instrument Description

At call deposits

Cash invested on an overnight basis with an Australian Authorised Deposit-taking Institution (ADI). Funds can be recalled or re-invested prior to the bank's Real Time Gross Settlement cut-off each day.

Term Deposit

Interest bearing deposit held at an ADI for a specific contracted period. Term deposits are not tradeable in the market. They typically have a fixed rate for their life, but floating rate term deposits are also available. Prior to the introduction of Covered Bonds into the Australian market, in early 2012, term deposits ranked at the top of an ADI's capital structure.

Bank Bills and Negotiable Certificates of Deposits (NCDs)

Similar types of interest-bearing securities issued/accepted by ADIs, typically short dated. Unlike term deposits, these are tradeable in the market prior to maturity.

Floating Rate Note/Bond (FRN)

The FRN is a longer-term debt security issued for a fixed period of time but has a variable (floating) coupon on a monthly or quarterly basis. The coupon reflects current interest rates, which is determined as a margin over the BBSW rate set. FRN's appeal to investors who are reluctant to commit funds to fixed interest investments for longer periods in times of fluctuating interest rates. Typical issuers are banks, corporates, financial institutions and securitised vehicles. Only Senior FRNs issued by an Australian Authorised Deposit Taking Institution such as a bank, credit union or building society are an eligible form of FRN investment.

Fixed Interest Securities (Bonds)

Securities issued by Commonwealth, State or corporate institutions that pay a fixed rate of interest (coupon) and mature at a fixed point in time. The interest (coupon) is paid at regular intervals (semi-annually, but can be paid monthly, quarterly, or annually). These securities are generally issued for a period of greater than one year.



NSW Treasury Corporation's Investment Management Funds:

The NSW Treasury Corporation Investment Management Funds (TCorpIM Funds) comprises a number of pooled managed funds options each set up as a unit trust. The current cash and fixed income options available through TCorpIM are the Cash Fund and the Short-Term Income Fund.

The Cash Fund is primarily a cash management tool allowing for same day access to funds whilst paying a slightly higher return than could be expected from a bank cash management account. This fund is designed as a high-volume transactional account for investors that deposit and redeem large tranches of funds at least weekly. The fund is designed for investments with time horizons ranging from overnight to 1.5 years.

The Short-Term Income Fund holds longer dated securities than the Cash Fund, consequently it has potential for more volatile month-to-month returns than its sister fund. The intended investment time horizon for the Strategic Cash Fund is 1½ to 3 years, making it an alternative to medium length term deposits.

Both funds will pay back the balance of the investment generally within 24 to 72 hours.



SCHEDULE 2 (three pages)

STANDARD & POOR'S RATINGS DESCRIPTION

Credit Ratings

Standard & Poor's (S&P) is a professional organisation that provides analytical services. An S&P rating is an opinion of the general creditworthiness of an obligor with respect to particular debt security or other financial obligation — based on relevant risk factors.

Credit ratings are based, in varying degrees, on the following considerations:

- Likelihood of payment.
- Nature and provisions of the obligation.
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganisation or other laws affecting creditors' rights.

The issue rating definitions are expressed in terms of default risk.

LONG-TERM OBLIGATIONS RATINGS ARE:

AAA: An obligation/obligor rated AAA has the highest rating assigned by S&P. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA: An obligation/obligor rated AA differs from the highest rated obligations only in a small degree. The obligor's capacity to meet its financial commitment on the obligations is very strong.

A: An obligation/obligor rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations/obligor in higher rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

BBB: An obligation/obligor rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to the obligor to meet its financial commitment on the obligation.

Plus (+) or Minus (-): The ratings from "AA" to "CCC" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

CreditWatch highlights an emerging situation, which may materially affect the profile of a rated corporation and can be designed as positive, developing or negative. Following a full review, the rating may either be affirmed or changed in the direction indicated.

A Rating Outlook assesses the potential direction of an issuer's long-term debt rating over the intermediate-to-long term. In determining a Rating Outlook, consideration is given to possible changes in the economic and/or



fundamental business conditions. An outlook is not necessarily a precursor of a ratings change or future CreditWatch action. A "Rating Outlook – Positive" indicates that rating may be raised. "Negative" means a rating may be lowered. "Stable" indicates that ratings are not likely to change. "Developing" means ratings may be raised or lowered.



POLICY ADMINISTRATION

BUSINESS GROUP:	Strategy, Performance and Business Systems
RESPONSIBLE OFFICER:	Group Manager Strategy, Performance and Business Systems
COUNCIL REFERENCE:	TBA
POLICY REVIEW DATE:	One (1) year from date of adoption
FILE NUMBER:	82/2
RELEVANT LEGISLATION	<ul style="list-style-type: none"> • Local Government Act 1993 (NSW) • Local Government (General) Regulation 2005 (NSW) • Ministerial Investment Order 2011 • Local Government Code of Accounting Practice and Financial Reporting • Australian Accounting Standards • Office of Local Government Circulars • Trustee Act 1925
RELATED POLICIES / PROCEDURES / PROTOCOLS	



POLICY HISTORY

VERSION	DATE APPROVED	DESCRIPTION OF CHANGES
1	8 February 2005	
2	24 April 2007	
3	14 April 2009	
4	22 June 2010	
5	28 June 2011	Ministerial Investment Order in section 3.1 and Schedule 3 updated to latest 2011 version. Addition in section 3.2 of requirement of staff to have an appropriate level of skill. Addition in section 3.3 noting that Council has a fiduciary responsibility. Land mortgages and deposits with Local Government Investment Services Pty Ltd deleted from section 4.
6	25 September 2012	Formalisation of process for Authorised Signatories and independence of Investment Advisor and ASIC checks.
7	February 2014	Update wording of sections 4, 6 to match the investment strategy and portfolio review provided by Council's investment advisors 30/01/14.
8	26 April 2016	Periodic review. Update to approved investment categories & references
9	25 June 2019	Periodic review. Updated to reflect investment framework proposed by TCorp.