



# Draft Investment Policy

April~~As at December~~ 20220



## INVESTMENT POLICY

<b>RESPONSIBILITY</b>	Chief Financial Officer		
<b>DATE ADOPTED</b>	20 June 1995	<b>MINUTE</b>	1/17
<b>REVISED</b>	September 2020	<b>REVIEW</b>	2022
<b>ECM No</b>			
<b>ASSOCIATED POLICIES</b>	<ul style="list-style-type: none"><li>• Strathfield Council Code of Conduct</li><li>• Strathfield Council Business Ethics Policy</li></ul>		
<b>ASSOCIATED LEGISLATION</b>	<ul style="list-style-type: none"><li>• <i>Local Government Act (NSW) 1993</i></li><li>• <i>Trustee Amendment (Discretionary Investments) Act 1997</i></li><li>• <i>Local Government (General) Regulation 2005</i></li><li>• <i>Local Government Act 1993 – Ministerial Investment Order dated 12 January 2011</i></li><li>• <i>Local Government Investment Policy Guidelines (Circular 10-11)</i></li><li>• <i>Local Government Code of Accounting Practice and Financial Reporting</i></li></ul>		

### 1 Introduction

#### 1.1 Title and Commencement

This policy is titled *Strathfield Council Investment Policy*.

#### 1.2 Commencement

Date of Council Resolution	Minute	Details
20 June 1995	CFS 44/95	Policy adopted by Council
4 August 2009	303/09	Policy revised
5 April 2011	56/11	Policy revised – Revised Ministerial Investment Order
5 May 2015	132/15	Policy revised
7 June 2016	167/16	Policy reviewed
1 July 2017		Policy reviewed
October 2020		Policy reviewed and presented to Council for endorsement for exhibition
December 2020	236/20	Adopted as no submissions received

### **1.3 Purpose of the Policy**

The purpose of this Policy is to provide guidelines for the management of Council's investment.

### **1.4 Objectives of the Policy**

The objectives are:

- to ensure the security of Council funds by adopting appropriate credit risk and diversification limits
- to ensure that Council's investments comply with legislative guidelines
- to maximise earnings subject to those limits, Council's liquidity requirements and its investment time horizon.

## **2 Council Investment Strategy**

Council's strategies in relation to its investments are:

- to meet Council's cash flow expectations
- to maximise the returns of Council's investments within Investment Policy constraints and otherwise acceptable risk tolerances
- to set medium/long term strategic asset allocations for the investment portfolio
- to identify the most appropriate funds/investments for the investment portfolio
- to be able to measure the performance of individual investment relative to appropriate benchmarks
- to improve reporting on Council's investments and their performance.

## **3 Policy Statement**

### **3.1 Authority for Investment**

All investments are to be made in accordance with Council's Investment Policy, which references:

- Local Government Act 1993 – Section 625
- Ministerial Investment Order (January 2011) pursuant to Section 625 (2) Local Government Act
- The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1) & (2)
- Local Government (General) Regulation 2005 – Clause 212
- Local Government Investment Policy Guidelines (Circular to Councils 10-11)
- Local Government Code of Accounting Practice and Financial Reporting

### **3.2 Delegation**

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

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

The investment portfolio will be managed with the care, diligence and skill that a prudent person would exercise. As trustees of public money, officers are to manage Council's investment portfolio to safeguard the portfolio in accordance with this Investment Policy.

### 3.3 Authorised Investments

All investments must be denominated in Australian Dollars. Investments are limited to those allowed by the most current Ministers Investment Order that has been issued by the NSW Minister for Local Government. Authorised investments are 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~~ senior securities issued by, an authorised deposit-taking institution (as defined in the *Banking Act 1959* (Cwth)), but excluding subordinated debt obligations (or lower in the capital structure)
- 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 against a bank which has been designated as an authorised deposit-taking institution by the Australian Prudential Regulation Authority
- ~~Investments-Deposits~~ with NSW Treasury Corporation and/or investments in ~~an Hour-Glass Investment Facility of~~ NSW Treasury Corporation managed funds.

## 4 Investment Guidelines

### 4.1 Risk Management Guidelines

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

- 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;
- Market Risk - the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices;
- 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) the risk an investor is unable to redeem the investment at a fair price within a timely period;
- Reinvestment/Rollover Risk - the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future;
- 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; and
- Leveraging Risk - the magnification of an investor's risk and return that occurs when the investor takes on financial leverage through an investment product.

## 4.2 Credit & Maturity Guidelines

### (i) Overall Portfolio Credit Framework

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

Column A Long Term Debt Rating	Column B Portfolio Limit	Column C Counterpart Limit	Column D Maximum Tenor
TCorp	100%	100%	Not applicable
AAA	100%	100%	Not applicable
AA+ to AA-	100%	100%	5 years
A+ to A	100%	100%	3 years
A-	40%	20%	3 years
BBB+	35%	10%	3 years
BBB		5%	12 months
BBB- and below	0%	0%	-

*\* Investments are to be restricted to licensed banks, building societies and credit unions.*

If any of Council's investments are downgraded such that they no longer fall within these investment policy guidelines, they will be divested as soon as is practicable subject to minimising any loss of capital that may result from compliance with this provision.

From time to time financial assets may be acquired at a discount or premium to their face value. Any such discount or premium is to be taken into account in line with relevant Australian Accounting Standards.

### (i) Overall Portfolio Credit Framework

The portfolio credit guidelines to be adopted will reference the Standard & Poor's (S&P) ratings system criteria and format - however, references in the previous Minister's Orders also recognised Moody's and Fitch Ratings and any of the three ratings may be used where available.

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

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

Overall Policy or Credit Quality Limits	
Long Term Ratings Category	Maximum Portfolio Limit
AAA Category	100%
AA Category or Major Bank^	100%
A Category	70%
BBB Category	35%
Unrated ADIs	10%

**Commented [MC1]:** This means Council could invest 100% in a single TCorp Fund, potentially the Medium Term or Long-Term Growth Funds, which invests in shares. One of the primary objectives of the Policy is to preserve capital i.e. this increases the risk of capital losses

**Commented [MC2]:** All these 100% individual counterparty limits means very little diversification

**Commented [MC3]:** Biggest risk Council faces given very restrictive Minister's Order is not credit risk, but rollover/reinvestment risk. Limiting "A" rated and "BBB+" to maximum term of 3yrs, and "BBB" to 12 months will cost Council significant interest income over future financial years. Council is only investing in senior ranked assets (term deposits or FRNs/bonds) issued by ADIs highly regulated by APRA.

^ For the purpose of this Policy, "Major Banks" are currently defined as the ADI deposits or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups:

- Australia and New Zealand Banking Group Limited (ANZ)
- Commonwealth Bank of Australia (CBA)
- National Australia Bank Limited (NAB)
- Westpac Banking Corporation (WBC)

including ADI subsidiaries whether or not explicitly guaranteed, and brands (such as St George).

Council may ratify an alternative definition from time to time. Standard & Poor's ratings attributed to each individual institution will be used to determine maximum holdings.

In the event of disagreement between agencies as to the rating band ("split ratings") Council shall use the higher in assessing compliance with portfolio Policy limits, but for conservatism shall apply the lower in assessing new purchases.

#### **(ii) Counterparty Limits**

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.

Limits do not apply to Federal or NSW-guaranteed investments, which are uncapped. It should be noted that the NSW government does not guarantee the capital value or unit price of the TCorpIM Funds.

<b><u>Individual Institutional or Counterparty Limits</u></b>	
<b><u>Long Term Ratings Category</u></b>	<b><u>Maximum Portfolio Limit</u></b>
<u>AAA Category</u>	<u>40%</u>
<u>AA Category or Major Bank^</u>	<u>35%</u>
<u>A Category</u>	<u>20%</u>
<u>BBB Category</u>	<u>15%</u>
<u>Unrated ADIs</u>	<u>5%</u>
<u>TCorpIM Funds</u>	<u>10%</u>

#### **(ii) 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. The maturity profile should also maintain a level of diversification to address rollover/reinvestment risk.

"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 cashflow 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;
- Seasonal patterns to Council's surplus funds.

<u>Description</u>	<u>Investment Horizon</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
<u>Working Capital</u>	<u>0 – 3 months</u>	<u>10%</u>	<u>100%</u>
<u>Short Term</u>	<u>3 – 12 months</u>	<u>0%</u>	<u>100%</u>
<u>Short-Medium Term</u>	<u>1 – 2 years</u>	<u>0%</u>	<u>70%</u>
<u>Medium-Term</u>	<u>2 – 5 years</u>	<u>0%</u>	<u>50%</u>
<u>Long-Term</u>	<u>+5 years</u>	<u>0%</u>	<u>25%</u>
<u>TCorplM Funds</u>	<u>Open Ended<sup>^^</sup></u>	<u>0%</u>	<u>20%</u>

Within these broad ranges, Council relies upon assumptions of expected investment returns and market conditions that have been examined with its investment advisor.

<sup>^^</sup>For the TCorplM Medium-Term & Long-Term Growth Funds, given they invest a proportion of the underlying assets in the highly volatile asset class of shares, Council should view them with a minimum +7 year investment horizon.

## 5 Performance Benchmarks

The performance of the investment portfolio will be reported to Council monthly, in accordance with the requirements of the Local Government Act 1993. The monthly report should contain a comparison of the performance of the portfolio, benchmarked to industry index.

<u>Investment</u>	<u>Performance Benchmark</u>
Cash	11 am Cash Rate
Direct Investments/Fixed Interest	Bloomberg AusBond Bank Bill Index
<u>TCorplM Funds</u>	<u>Internal Benchmark identified by TCorp</u>

## 6 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.
- The Custodian conducts regular reconciliation of records with relevant registries and/or clearing systems.
- The Institution or Custodian recording and holding the assets will be:
  - i. Austraclear; or
  - ii. An institution with an investment grade Standards and Poor's or Moody's rating; or
  - iii. An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities

under any agreement.



## **7 Reporting**

- i. 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.
- ii. A monthly report will be provided to Council, detailing the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value.
- iii. The report will also detail investment income earned versus budget year to date and confirm compliance of Council's investments within legislative and policy limits.
- iv. For audit purposes, certificates must be obtained from the banks/fund managers/custodian confirming the amounts of investment held on Council's behalf at 30 June each year.

## **8 General**

- i. Except for the purpose of reducing its exposure to investment risks, Strathfield Council will not directly enter into any type of derivative transactions
- ii. Strathfield Council will not make investment decisions outside the bounds of the agreed Investment Strategy or be engaged in overly speculative investments.
- iii. Investment limits as determined in this policy are as at the date of new funds been invested.
- iv. Any investment held at the date of approval of this policy that falls outside the policy constraints may be held to maturity.
- v. This Policy ~~is should~~ be reviewed ~~at least every two (2) years~~ annually.