



# Council Policy Manual

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## CP9.3 MANAGEMENT OF INVESTMENTS

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### POLICY OBJECTIVE

The objective of this policy is to provide a framework for the investment of the City’s excess funds. While exercising the power to invest, consideration will be given to the following:

- (a) Preservation of capital: Investment management is to be undertaken in a manner that seeks to ensure security and safeguarding the investment portfolio. This includes managing credit and interest rate risk where applicable within identified threshold and parameters.
- (b) Liquidity: There is to be 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 of an investment.
- (c) Investment Return: Investments are expected to achieve a market average rate of return taking into account the City’s risk tolerance.

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### TABLE OF CONTENTS

#### Contents

2	Legislative Requirements .....	2
3	Prudent Person Standard .....	2
4	Approved Investments.....	2
5	Risk Management Guidelines.....	3
(d)	Overall Portfolio Limits .....	3
(b)	Institution Credit Framework .....	4
(c)	Term to Maturity Framework.....	4
6	Investment Advisor.....	4
7	Benchmarking.....	5



# Council Policy Manual

---

## CP9.3 Management of Investments

8	Reporting and Review.....	5
	<i>Appendix 1</i> .....	5
	<i>Standard &amp; Poor’s Ratings Description</i> .....	5
	The issue rating definitions are expressed in terms of default risk.....	6
A-1	6	
A-2	6	
A-3	6	
	Unrated .....	6
	<i>Long-Term Ratings are:</i> .....	7
AAA	7	

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## POLICY STATEMENT

### 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) Regulation 1996 – Regulation 19 and Regulation 19C
- Australian Accounting Standards

### 2 Prudent Person Standard

Investment will be managed with the care, diligence and skill that a prudent person will exercise. Officers are to manage the investment portfolios to safeguard the portfolios in accordance with the spirit of this Investment Policy, and not for speculative purposes.

### 3 Approved Investments



# Council Policy Manual

## CP9.3 Management of Investments

Investments are limited to:

- Interest Bearing term deposits with Authorised Deposit Taking Institutions (ADIs – Australian banks, building societies and credit unions) for a term not exceeding 12 months.
- Interest Bearing deposits with the Western Australian Treasury Corporation (WATC) for a term not exceeding 12 months.
- Bonds guaranteed by the Commonwealth Government or State or Territory for a term not exceeding 3 years.

Investments held as at the 4<sup>th</sup> April 2012 (the date of the revised Local Government (Financial Management) Amendment Regulations 2012) that complied with the prevailing Legislation prior to that date are eligible to be held until maturity.

## 4 Risk Management Guidelines

Investments obtained are to comply with three key criteria relating to:

- Portfolio Credit Framework: limit overall credit exposure of the portfolio.
- Counterparty Credit Framework: limit exposure to individual ADIs and government.
- Term to Maturity Framework: limits based upon maturity of investments.
- Overall Portfolio Limits

### Global Credit Framework

The portfolio credit guidelines to be adopted will be based on the Standard and Poors (S&P) ratings system criteria for each institution. A description of each rating category is included in Appendix 1.

<b>S&amp;P* Long Term Rating Category Applicable for Government Bonds Only Investments</b>	<b>S&amp;P* Short Term Rating Category Applicable for ADI and WATC Only Investments</b>	<b>Overall Portfolio Maximum Limit</b>
AAA/AA	A-1	100%
	A-2	60%



# Council Policy Manual

## CP9.3 Management of Investments

	A-3 to Unrated ADI	10%
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\* or Moody's / Fitch equivalents

(b) Institution Credit Framework

Exposure to an individual ADI or government will be restricted by their credit rating so that single entity exposure is limited, as detailed in the table below:

S&P* Long Term Rating Category Applicable for Government Bonds Only Investments	S&P* Short Term Rating Category Applicable for ADI and WATC Only Investments	Overall Portfolio Maximum Limit
AAA/AA	A-1	45%
	A-2	40%
	A-3 to Unrated ADI	10%

\* or Moody's/Fitch equivalents

If any of the City's investments are downgraded such that they no longer fall within the investment policy category limits, 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		
Portfolio <1 year	Min 30%	Max 100%
>1 year ≤ 3 years	Min 0%	Max 70%

## 5 Investment Advisor

The City's investment advisor must be 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 recommend the most appropriate product within the terms and conditions of the investment policy.



# Council Policy Manual

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## **CP9.3 Management of Investments**

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 advisor should meet with the responsible staff and review the City's investment portfolio not less than every six months.

### **6 Benchmarking**

The performance of the investment portfolio shall be measured against the UBS Warburg 90 Day Bank Bill Index and/or the Cash Rate.

### **7 Reporting and Review**

A monthly report will be provided to the Finance and Budget Committee in support of the monthly statement 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.

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 City'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. Where, as result of amendment to legislation or the ability arises to invest to the advantage of the City contrary to the provisions of this policy, the Chief Executive Officer may, in accordance with Delegated Authority as detailed in the City's Delegated Authority Register, initiate such variations as deemed necessary subject to the submission of a report to the Council advising of the changes implemented to the next ordinary Council meeting.

## ***Appendix 1***

### ***Standard & Poor's Ratings Description***

#### **Credit Ratings**



# Council Policy Manual

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## CP9.3 Management of Investments

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.

### Short-Term Obligation Ratings are:

#### A-1

This is the highest short-term category used by S&P. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.

#### A-2

A short-term obligation rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

#### A-3

A short-term obligation rated A-3 exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Unrated



# Council Policy Manual

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## CP9.3 Management of Investments

Are not rated by S&P however the City's Investment Policy does allow limited investment in those ADIs that are supervised by the Australian Prudential Regulatory Authority (APRA).

### *Long-Term 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.

**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 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.



# Council Policy Manual

## CP9.3 Management of Investments

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