



# INVESTMENT OF FUNDS

## Policy 5/2021-2024

### DATE

- Extraordinary Meeting of Council 13.07.1993
- Corporate Development Committee Meeting 17.03.1998
- Ordinary Meeting of Council 15.02.2000
- Corporate Development Committee Meeting 17.10.2000,
- Corporate Development Committee Meeting 12.02.2008
- Corporate Development Committee Meeting 14.07.2009
- Ordinary Meeting of Council 24.11.2015, 22.05.2018 and 12.07.2022

<b>POLICY NO:</b>	<b>5/2021-2024</b>
<b>LEGISLATIVE REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>• Local Government Act 1993 – Section 412 &amp; 625;</li> <li>• Local Government Act 1993 – Order (of the Minister) Circular No 11/01 gazetted on 12 February 2011 or most current</li> <li>• The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1), &amp; (2)</li> <li>• Local Government (General) Regulation 2005 – Clause 212</li> </ul>
<b>RESPONSIBILITY:</b>	<b>CHIEF FINANCIAL OFFICER</b>
<b>OBJECTIVE:</b>	<p>Preservation of capital is the principal objective of the investment portfolio.</p> <p>Investments are to be placed in a manner that safeguards the investment portfolio. This includes managing credit and interest rate exposure risk within identified thresholds and parameters.</p>
<b>REVIEW</b>	Within the first 12 months of each term of Council or as required.

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## 1. Objective

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Preservation of capital is the principal objective of the investment portfolio.

Investments are to be placed in a manner that safeguards the investment portfolio. This includes managing credit and interest rate exposure risk within identified thresholds and parameters.

Other Objectives are:

- to maximise the return to Council in line with all requirements of the policy
- to comply with the legislative requirements and regulations
- to ensure sufficient liquidity to meet all cash flow requirements
- to establish a framework for monitoring investments.
- to confirm delegations and other relevant governance

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## 2. Authorised Investments

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

All investments must be denominated in Australian Dollars. Authorised investments would include but not necessarily limited to:

- Interest bearing deposit/securities issued by a licensed bank, building society or credit union;
- Local / State / Commonwealth Government Debentures or Securities
- Investments with the NSW Treasury Corporation

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## 3. Prohibited Investments

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This investment policy prohibits the following types of investment:

- Derivative based instruments (*e.g. Collateralised Debt Obligations - CDO*).
- Principal only investments or securities that provide potentially nil or negative cash flow.
- Standalone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.
- Leveraging (borrowing to invest) of an investment.

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## 4. Risk Management

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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:

- 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 to reduce credit risk
- Credit Risk – the risk a borrowing institution fails to pay the interest and, or repay the principal lent (invested)
- Market Risk – The risk that the fair value of future cash flows of an investment will fluctuate due to changes in market price  
Liquidity Risk – the risk that an investor is unable to redeem the investment at fair price within a timely period
- 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 the market volatilities

Credit guidelines to be adopted reference the Standard & Poors (S&P) ratings system criteria and format – however, references to the Minister’s Order also recognise Moody’s and Fitch Ratings and any of the three may be used where available.

The prescribed ratings should not be misinterpreted as an implicit guarantee of investments or entities that have such ratings. Since credit ratings cannot be considered a consistent indicator of risk across different investment types, to provide a more effective risk management framework, this policy sets different exposure and duration terms for different categories of investments.

The following table provides a comparison of the rating equivalents between the different rating agencies:

Risk	Moody’s		S&P		Fitch	
	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term
<b>Prime</b>	Aaa	P1	AAA	A1+	AAA	F1+
<b>High Grade</b>	Aa1		AA+		AA+	
	Aa2		AA		AA	
	Aa3		AA-		AA-	
<b>Upper Medium Grade</b>	A1	P2	A+	A1	A+	F1
	A2		A		A	
	A3	A-	A2	A+	F2	
<b>Lower Medium Grade</b>	Baa1	P3	BBB+	A3		BBB+
	Baa2		BBB+		BBB+	F3
<b>Non Investment Grade</b>	Baa3		BBB-		BBB-	
<b>Speculative</b>	Ba1	Not Prime	BB+	B	BB+	B
	Ba2		BB		BB	
	Ba3		BB-		BB-	
<b>Highly Speculative</b>	B1		B+		B+	
	B2	B	B			
	B3	B-	B-			
		B-	B-			

To minimise risk and to maximise protection of capital, Council will only invest in Prime, High Grade, Upper Medium Grade investment classes. All investments must have a S&P long term credit rating of A or stronger.

The maximum holding limit in each rating category and the target credit quality weighting for Council's portfolio is proposed below:

Rating Range S&P (or Moody's, Fitch equivalent)		Maximum Holding
AAA, AA, A Category	Long Term	100%
A+, A1, A2 Category	Short Term	100%

If any of Council's investments are downgraded such that they no longer fall within these policy guidelines, they will be divested as soon as is practicable.

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## 5. Investment Horizon

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The term to maturity framework is structured around the cash requirements of the Council and the management of liquidity risk. The investment portfolio will diversify its maturity profile within the following term to maturity constraints.

Investment Horizon		Maximum Allocation
Description	Maturity Date	
Working capital funds	0-1 years	100%
Short term funds	1-2 years	100%
Long term funds	2-5 years	25%

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## 6. Benchmarks

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The performance of each investment will be assessed against the following:

- Cash – Official RBA Cash Rate
- Investments > 90 day Bank Bill index

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## 7. Monitoring and Reporting

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All investments are to be appropriately recorded in Council's financial records and reconciled on a monthly basis. Documentary evidence must be held for each investment

and details maintained in an investment register. A monthly report shall be provided to Council detailing the following

- % invested under each rating category
- % invested by Institution
- % invested by Maturity
- Monthly last 12 months moving average on the Portfolio against the benchmark

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**8. Associated Documents**

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Nil

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**9. Appendices**

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Nil