INVESTMENT POLICY

TITLE:	**INVESTMENT POLICY**
RESPONSIBLE OFFICER:	**MANAGER FINANCE AND INFORMATION**

APPROVED BY COUNCIL ON:	**26 November 1996**
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SORELL COUNCIL

INVESTMENT POLICY

1) STATEMENT OF INTENT

To invest Sorell Council's surplus funds with consideration of risk and at the most favourable rate of interest available to it at the time, for that investment type, while ensuring that its liquidity requirements are being met.

2) OBJECTIVES

While exercising the power to invest, consideration is to be given in preservation of capital, liquidity and the return investment.

a) Preservation of Capital

This is the principle 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.

b) Sufficient Liquidity

The investment portfolio will ensure there is 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) Return of Investment within Risk Tolerance

The investment is expected to achieve a predetermined market average rate of return that takes into account Sorell Council's risk tolerance. Any additional return target set by Sorell Council will also consider the risk limitation and prudent investment principles.

3) LEGISILATIVE REQUIREMENTS

All investments are to comply with the following:

- *Local Government Act 1993* – Section 75;
- *The Trustees Act 1868* - Part 11 Investments;

  (All investments are to be made exercising care, diligence and skill that a prudent person of business would exercise in managing the affairs of another person in accordance with the Trustee Act).
- Australian Accounting Standards.

4) 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*. The General Manager may in turn delegate the day to day management of Council's investments to the Manager Finance and Information subject to regular reviews.

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

5) ETHICS AND CONFLICT OF INTEREST

Officers shall refrain from personal activities that would conflict with the proper execution and management of Sorell Council's investment portfolio. This policy requires officers to disclose any conflict of interest to the General Manager. If engaged, independent advisors shall also be required to declare that they have no actual or perceived conflicts of interest.

PRUDENT PERSON OF BUSINESS

Responsible officers of Council ensure all investments are made exercising due care, diligence and skill and within acceptable risk tolerance levels. Officers are to manage the investment portfolio to safeguard the portfolio in accordance with the spirit of this Investment Policy, and not for speculative purposes.

6) APPROVED INVESTMENTS

Without approval from Council, investments are limited to

- Up to 1 million;
- Investment term less than 12 months;
- Interest bearing deposits;
- State/Commonwealth Government Bonds;
- Commercial paper;
- Bank accepted/endorsed bank bills;
- Bank negotiable Certificate Deposits; and
- Managed Funds with a minimum long term S&P rating of "AA" and a short term rating of A1.

7) RISK MANAGEMENT GUIDELINES

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

a) Individual Investment Limits

To control credit quality on the entire portfolio, the following credit framework limits the percentage of each individual instrument exposed to any particular credit rating category.

S&P Long Term Rating	S&P Short Term Rating	Direct Investment Maximum %	Managed Funds Maximum %
AAA	A-1 +	100%	100%
AA	A-1	100%	100%

Note: this policy prohibits any investment which is not rated and is rated below the matrix ratings above.

b) Provision of a Risk Assessment

Type of Risk	Criteria
Market Risk	Impact of changes in interest rates and commodity prices. Ability to obtain monthly market valuations.
Maturity Risk	Term of maturity (risk of exposure to valuation).
Credit Risk	Comply with above ratings, counter party rating =/> AA
Liquidity Risk	Secondary Market availability, buy/sell spread.
Leverage Risk	Not to be entered into investments with exposure to leverage risk.

c) Counterparty Credit Framework

Exposure to an individual counterparty/institution will be restricted by its credit rating so that a single entity exposure is limited, as detailed in the table below;

S&P Long Term Rating	S&P Short Term Rating	Direct Investment Maximum % of Total Portfolio	Managed Funds Maximum % of Total Portfolio
AAA	A-1 +	90%	50%
AA	A-1	75%	40%
A	A-2	40%	30%

If any of the investments are downgraded such that they no longer fall within the investment policy, they will be divested as soon as practicable.

Investments greater than 12 months are to be approved by Council and reviewed on a regular term and invested for no longer than 5 years.

d) 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	100 Max: 10% Min
Portfolio % > 1 Year	60%
Portfolio % > 3 Years	45%
Portfolio % < 5 Years	25%

8) REPORTING

i) A report is to be provided to the General Manager and Councillors each month including the following information

(1) Investments at the beginning of the month with Portfolio details including risk, expected return, maturity date, financial institution,

(2) Investments which will mature for the month,

(3) Monthly market valuations,

(4) New investments upcoming,

(5) New Investment place in the month.

(6) Portfolio return, risk and structure to be measured against benchmark.

9) PERORMANCE BENCHMARKS

The performance of the investment portfolio shall be against the industry standard 11am Cash Rate for cash investments and BBSW 90 Day Swap Rate for direct investments.

10) INVESTMENT ADVISOR

Should Council engage an investment advisor, the advisor must be approved by the General Manager 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. 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, including that they are not receiving any commissions or other benefits in relation to the investments being recommended or reviewed.

11) REVIEW OF POLICY

This policy shall be reviewed every two years and any amendments, if necessary shall be approved by resolution of Council.

12) APPENDIXES

Appendix A – Risk and The Value of An Investment Portfolio

All investments entail some risk. Generally the higher the expected rate of return of an investment, the higher the risk and the greater the variability of returns. The following provides an understanding on the nature of risk exposures that need to be recognised in the development of robust and sound investment guidelines.

Market Risk

This is the exposure resulting from the changes in market prices, including changes in interest rates and commodity prices.

Maturity Risk

Term to maturity impacts the investment's exposure in two ways

- Maturity – The longer the term to maturity the greater the length of exposure from market prices on the present value of the investment.
- Liquidity – The longer the term the greater exposure to changing conditions in the market, thus potential future liquidity.

Liquidity Risk

Usually results if there is a lack of market depth for the investment, e.g. low volume traded or non standardised markets or not regularly priced by independent market dealers. Standardised instruments in well traded markets will reduce the exposure to liquidity risk. Liquidity can also be impacted by market disturbances which creates a perception of low credit worthiness for a class of instruments reducing the demand and thus the liquidity of the investment.

Leverage Risk

Leverage increases the potential return of an investment, but also increases the potential loss as an increase in leverage has a multiplicative effect on the exposure. Leverage risk usually arises through investment in structured products or derivatives, which can potentially be used to create leveraged positions where the exposures obtained are greater than the value of assets required to support them.

Pricing Advantages

The fair price of a security can be considered to be the price that will earn just enough to cover the additional risk of the security. For standardised instruments trading in highly liquid markets the fair price will be uncontentious and readily observable. As instruments become more complex and less liquid, determining the fair price becomes increasingly difficult. Large institutions will more than likely structure this uncertainty into the price.

There is no basis for the assumption that the price paid for a product will more than compensate for the risk in the product.

Market Value

The value of a financial instrument is initially recognised at its fair value plus any related transaction costs. Fair value can be established from quoted prices in an active market.

Caution must be exercised in valuing those instruments that are thinly traded, and where reliable market estimates are not readily available.

Appendix B – Rating Agencies' Credit Ratings

a) S&P Domestic Long-Term Issuer Credit Rating

To provide more detailed indications of credit quality, Standard & Poor's may modify ratings from "AA" to "CCC" with the addition of a plus sign (+) or minus sign (-) to show relative standing within the major debt rating categories.

The ratings categories include:

Code	Rating	Description
2	AAA	The highest issuer credit rating assigned by Standard & Poor's, the AAA rating indicates an extremely strong capacity of the obligor to meet its financial commitments.
4	AA+	AA indicates a very strong capacity to meet financial commitments, and differs from the highest rating only in small degree.
5	AA	AA indicates a very strong capacity to meet financial commitments, and differs from the highest rating only in small degree.
6	AA-	AA indicates a very strong capacity to meet financial commitments, and differs from the highest rating only in small degree.
7	A+	A indicates a strong capacity to meet financial commitments, but it is somewhat more susceptible to adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.
8	A	A indicates a strong capacity to meet financial commitments, but it is somewhat more susceptible to adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.
9	A-	A indicates a strong capacity to meet financial commitments, but it is somewhat more susceptible to adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

b) S&P Domestic Short-Term Issuer Credit Rating

Standard & Poor's grades ratings into several categories ranging from "A-1" (the highest quality obligation) to "C" (the lowest quality obligation). Standard & Poor's assigns codes that correspond to the actual S&P commercial paper rating categories.

The rating categories include:

Code	Rating	Description
101	A-1	Highest rating. The obligor's capacity to meet its financial commitment on the obligation is strong.
102	A-1+	Highest rating. 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 (+) to connote that the obligor's capacity to meet its financial commitments is extremely strong.
103	A-2	Satisfactory capacity to meet financial commitments. Somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.
104	A-3	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 commitments.
105	B	Vulnerable. Significant speculative characteristics. The obligor currently has the capacity to meet its financial commitments. However, if faces major ongoing uncertainties, which could lead to its inadequate capacity to meet its financial commitments.
106	C	Currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitments.

Appendix C – Section 7 *Trustees Act 1898*

Duty of trustee

1. Subject to any provision to the contrary in an instrument creating a trust, a trustee, in exercising a power of investment –
   1.a. if the trustee's profession, business or employment is or includes acting as a trustee or investing money on behalf of other persons, must exercise the care, diligence and skill that a prudent person engaged in that profession, business or employment would exercise in managing the affairs of another person; or
   1.b. if the trustee is not engaged in such a profession, business or employment, must exercise the care, diligence and skill that a prudent person of business would exercise in managing the affairs of another person.
2. A trustee, in exercising a power of investment, must comply with any provision of the instrument creating the trust that is binding on the trustee and requires the obtaining of consent or an approval or a compliance with any direction with respect to trust investments.
3. Subject to the instrument creating the trust, a trustee must, at least once in each year, review the performance, individually and as a whole, of the trust investments.

Appendix D – Section 8 *Trustees Act 1898*

Without limiting the matters that a trustee may take into account when exercising a power of investment, a trustee, so far as is appropriate to the provisions of the trust, may have regard to any one or more of the following:

a. the purposes of the trust and the needs and circumstances of the beneficiaries;
b. the desirability of diversifying trust investments;
c. the nature of existing trust investments and other trust property;

d. the need to maintain the real value of the capital or income of the trust;
e. the risk of capital loss or depreciation;
f. the potential for capital appreciation;
g. the likely income and the timing of the income return;
h. the length of the term of the proposed investment;
i. the probable duration of the trust;
j. the liquidity and marketability of the proposed investment during, and on the determination of, the term of the proposed investment;
k. the aggregate value of the trust estate;
l. the effect of the proposed investment in relation to the tax liability of the trust;
m. the likelihood of inflation affecting the value of the proposed investment or other trust property;
n. the costs, including any commission, fee, charge or duty payable, of making the proposed investment;
o. the results of a review of any existing trust investments.

A trustee may–

a. obtain and consider independent and impartial advice reasonably required for the investment of trust funds or the management of the investment, from a person whom the trustee reasonably believes to be competent to give that advice; and
b. pay out of trust funds the reasonable costs of obtaining the advice.