INVESTMENT POLICY

TITLE:	**Investment Policy**
RESPONSIBLE OFFICER:	**Manager Finance and Information**
APPROVED BY COUNCIL:	**November 1996**
RESOLUTION NO	**390/1996**
AMENDED ON	**03/09, 08/16, 06/19**
RESOLUTION NUMBER:	**84/2019**
REVIEW DATE	**June 2022**

1. OBJECTIVES

To invest Sorell Council ("Council") surplus funds to maximise Council's return on its investments, subject to the satisfaction of Council's three key criteria for investment; preservation of capital, sufficient liquidity and return of investment within risk tolerance.

2. LEGISLATIVE REQUIREMENTS

The permitted methods of investment of Council funds are defined within Section 75 of *the Local Government Act 1993 ("the Act").* All Council investments are to be made in accordance with the provisions of *the Act.*

Part II of the *Trustee Act 1898* – 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 1898.*

3. SCOPE

The Council has the following funds:

Nature of Funds	Purpose of Funds
Working Capital – transactional funds, including "at call" funds.	To provide sufficient cash to meet the day to day financial obligations of Council in a timely manner.
Investment Funds	Funds that are surplus to working capital are available for longer term investment.

This policy does not apply to:

- Investments other than for the management of surplus funds. Investments in associates are outside the scope of this policy.

4. CRITERIA FOR INVESTMENT

While exercising the power to invest, consideration is to be given to the following three (3) criteria for investment.

4.1 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.

4.2 Sufficient Liquidity

The investment portfolio will ensure that sufficient funds are available 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.

4.3 Return of Investment within Risk Tolerance

This criteria is subject to the two preceding criteria. Council will aim to maximise its return on investment. The investment is expected to achieve a predetermined market average rate of return that takes into account Council's risk tolerance. Any additional return target set by Council will also consider the risk limitation and prudent investment principles.

5. DELEGATION OF AUTHORITY

Authority for implementation of this Investment Policy is delegated by Council to the General Manager in accordance with *the Act*. The General Manager has delegated the implementation and management of this policy to the Manager Finance and Information, subject to regular reviews by the General Manager and Council.

6. ETHICS AND CONFLICT OF INTEREST

Responsible officers of Council 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. If engaged, independent advisors shall also be required to declare that they have no actual or perceived conflicts of interest.

7. 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.

8. INVESTMENT GUIDELINES

Without approval from Council, investments are limited to the following guidelines:

- Investments are to be made in accordance with Section 75 of *the Act.*
- Investments are to be made in accordance with this policy and specifically in accordance with this policy's risk management guidelines prescribed at section 12.
- Investments may be made for any period up to a maximum of 12 months. Investments greater than 12 months are to be approved by Council, reviewed on a regular basis and invested for no longer than 5 years.

- Investments up to three million dollars ($3,000,000).
- When an investment is proposed, quotes must be sought from a minimum of three (3) authorised deposit taking institutions (ADIs). The best quote will be successful, after taking into account administrative and banking costs.

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.

Any investments outside of the investment guidelines contained within this policy, must be referred to Council for prior approval.

9. APPROVED & PROHIBITED INVESTMENTS

Approved investments under this policy are:

- Investments with Authorised Deposit-taking Institutions (ADIs) regulated by the Australian Prudential Regulation Authority (APRA) and with a credit rating in accordance with section 12 of this policy.
- Investment arrangements accepted, guaranteed or issued by or for the Commonwealth, State or an ADI. Investment arrangements refer to arrangements that provide for, relates to, is directed towards or includes acquiring, consolidating, dealing with, disposing of, holding or issuing bonds, debentures, inscribed stock, shared, stock or other securities of a Commonwealth or State institution or an ADI.
- Managed funds with a minimum long term Standard and Poor's rating of AA and a short term rating of A1. Refer to section 11 of this policy for Standard and Poor's credit rating information.

Council prohibits investments that are carried out for speculative purposes and not in accordance the *Trustee Act 1898.* Prohibited investments under this policy include (but not limited to):

- Derivative based investments.
- Investments that provide potentially nil or negative cash flows.

- Stand-alone securities issued that have underlying future, options, forward contracts and swaps of any kind.

10. PERORMANCE BENCHMARKS

The performance of Council's investment portfolio will be measured against the following benchmarks:

Investment	Performance Benchmark
Cash	Industry Standard 11am Cash Rate
Direct Investments	Industry Standard Bank Bill Swap Rate (BBSW) 90 day Swap Rate

11. Credit Ratings

Standard and Poor's ("S&P") credit ratings are referenced in this policy's risk management guidelines prescribed at section 12. S&P is a credit-rating agency, which operates globally and measures companies' credit worthiness. If an investment of Council's does not have an S&P credit rating, an equivalent credit-rating from a different rating agency will be assessed (e.g. Moody's or Fitch Ratings). In the situation, where there is a discrepancy between the short and long-term credit ratings, the short-term credit rating limit will apply.

Refer to Appendix 1 for a detailed description of the S&P credit rating structure.

12. RISK MANAGEMENT GUIDELINES

Investments obtained are to comply with following three key risk management guidelines.

12.1 Credit Risk Limits

To control 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 Rating	S&P Short Term Rating	Maximum % of Total Investments

AAA	A.1+	100%
AA	A.1	100%
A	A.2	50%
BBB	A.3	10%

An investment which is not rated or has a rating below the above matrix ratings is prohibited under this policy.

12.2 Institutional Credit Framework Limits

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	Maximum % of Total Portfolio
AAA	A.1+	80%
AA	A.1	50%
A	A.2	25%
BBB	A.3	10%

12.3 Provision of a Risk Assessment

Investments should be made with consideration to the below risks and the criteria assessing these risks:

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 risk management guidelines and S&P credit risk ratings.
Liquidity Risk	Secondary market availability, buy/sell spread.
Leverage Risk	Investments with exposure to leverage risk are not to be entered into.

12.4 Term to Maturity

The maturity profile of Council's investment portfolio should enable Council to meet planned future cash flow requirements as reflected in the annual budget and the long-term financial plan.

13. INVESTMENT REPORTING

A report is to be provided to the General Manager and Council. The monthly investment report should provide details of all the investments held at the end of the month, including the following portfolio details:

- The financial institution.
- The investment type.
- The deposit date and maturity date.
- The investments market value.
- The expected return (e.g. interest rate).

The monthly investment report should also provide the following details:

- Investments which matured during the month and were not reinvested.
- New investments which were entered into during the month.

14. INVESTMENT DOCUMENTATION

For each investment, documents are to be held to support Council's legal title to the investment. The relevant financial institution investment certificates/account statements confirming the investments held by Council must be obtained as at 30 June each year. All investments are to be correctly recorded in Council's general ledger and financial records and reconciled on a monthly basis.

15. 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 (ASIC). The advisor must be an independent person who has no actual or potential conflict of interest in relation to investment products being recommended and, be free to choose the most appropriate product within the terms and conditions of this 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.

APPENDIX 1 - Standard and Poor's Global Ratings Definition

The below definitions are Standard and Poor's (2018) S&P Global Ratings Definitions, retrieved from https://www.standardandpoors.com/en_AU/web/guest/article//view/sourceId/504352

15.1 Issuer Credit Ratings

An S&P Global Ratings issuer credit rating is a forward-looking opinion about an obligor's overall creditworthiness. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation.

Both corporate credit ratings and sovereign credit ratings are forms of issuer credit ratings.

Issuer credit ratings can be either long-term or short-term.

Robert Higgins
GENERAL MANAGER

1. Long-Term Issuer Credit Ratings

Table 3

Long-Term Issuer Credit Ratings*	
Category	**Definition**
AAA	An obligor rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by S&P Global Ratings.
AA	An obligor rated 'AA' has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors only to a small degree.
A	An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.
BBB	An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments.
BB, B, CCC, and CC	Obligors rated 'BB', 'B', 'CCC', and 'CC' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'CC' the highest. While such obligors will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposure to adverse conditions.
BB	An obligor rated 'BB' is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions that could lead to the obligor's inadequate capacity to meet its financial commitments.
B	An obligor rated 'B' is more vulnerable than the obligors rated 'BB', but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.
CCC	An obligor rated 'CCC' is currently vulnerable and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments.
CC	An obligor rated 'CC' is currently highly vulnerable. The 'CC' rating is used when a default has not yet occurred but S&P Global Ratings expects default to be a virtual certainty, regardless of the anticipated time to default.
R	An obligor rated 'R' is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision, the regulators may have the power to favor one class of obligations over others or pay some obligations and not others.
SD and D	An obligor is rated 'SD' (selective default) or 'D' if S&P Global Ratings considers there to be a default on one or more of its financial obligations, whether long- or short-term, including rated and unrated obligations but excluding hybrid instruments classified as regulatory capital or in nonpayment according to terms. A 'D' rating is assigned when S&P Global Ratings believes that the default will be a general default and that the obligor will fail to pay all or substantially all of its obligations as they come due. An 'SD' rating is assigned when S&P Global Ratings believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. A rating on an obligor is lowered to 'D' or 'SD' if it is conducting a distressed exchange offer.
***Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories.**	

2. Short-Term Issuer Credit Ratings

Table 4

Short-Term Issuer Credit Ratings	
Category	**Definition**
A-1	An obligor rated 'A-1' has strong capacity to meet its financial commitments. It is rated in the highest category by S&P Global Ratings. Within this category, certain obligors are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitments is extremely strong.
A-2	An obligor rated 'A-2' has satisfactory capacity to meet its financial commitments. However, it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in the highest rating category.
A-3	An obligor rated 'A-3' has adequate capacity to meet its financial obligations. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments.
B	An obligor rated 'B' is regarded as vulnerable and has significant speculative characteristics. The obligor currently has the capacity to meet its financial commitments; however, it faces major ongoing uncertainties that could lead to the obligor's inadequate capacity to meet its financial commitments.
C	An obligor rated 'C' is currently vulnerable to nonpayment that would result in an 'SD' or 'D' issuer rating and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments.
R	An obligor rated 'R' is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision, the regulators may have the power to favor one class of obligations over others or pay some obligations and not others.
SD and D	An obligor is rated 'SD' (selective default) or 'D' if S&P Global Ratings considers there to be a default on one or more of its financial obligations, whether long- or short-term, including rated and unrated obligations but excluding hybrid instruments classified as regulatory capital or in nonpayment according to terms. A 'D' rating is assigned when S&P Global Ratings believes that the default will be a general default and that the obligor will fail to pay all or substantially all of its obligations as they come due. An 'SD' rating is assigned when S&P Global Ratings believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. A rating on an obligor is lowered to 'D' or 'SD' if it is conducting a distressed exchange offer.