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## INVESTMENT POLICY 2023

### 1. PURPOSE

The purpose of this Policy is to provide a formal investment decision framework that meets council's adopted Investment Strategy and complies with the legislative requirements of the *Local Government Act 1993*.

### 2. SCOPE

This Policy applies to the investment of all funds placed by council, except:

- funds held in, or transferred between, council's current account and cash management account(s) held with its primary banker
- loans made and authorised by council to external bodies, and
- investments associated with financing facilities (offset arrangements).

### 3. DEFINITIONS

The following definitions apply to this Policy:

Council	means the Clarence City Council.
Policy	means this policy.

### 4. POLICY STATEMENT

Council will:

- preserves its invested capital
- articulate the risk parameters within which it will invest
- optimise the return on funds invested within defined risk parameters, and
- invest in accordance with its regulatory framework.

## 5. RELATIONSHIP TO COUNCIL STRATEGIC PLAN

The following Strategic Plan goals are relevant and apply to this Policy:

- *Governance and Leaderships - To provide leadership and accessible, responsive, transparent and accountable governance of the city.*
- *Council's Assets and Resources - To efficiently and effectively manage our financial, human, and property resources to attain strategic goals and meet statutory obligations.*

## 6. RELATED DOCUMENTS

### LEGISLATIVE (ACTS, REGULATIONS AND STANDARDS)

- *Local Government Act 1993*

### COUNCIL POLICY, PLANS, PROCEDURES AND GUIDELINES

- Investment Strategy 2023
- Procurement Procedure

## 7. REQUIREMENTS

### CATEGORY 1 PORTFOLIO (WORKING CAPITAL)

#### Investment and return objective

The objective of Category 1 Portfolio investments is to preserve the capital contained within the portfolio and seek the maximum yield.

The return objective of the category is to achieve a return in excess of:

- the average 30-day Bank Bill rate published by the Reserve Bank of Australia, or
- the Bank Bill Swap Rate index where the portfolio holds a concentration of managed cash products.

The measurement of investment return is made against the indices at the date when the investment was placed.

The Category 1 Portfolio return against benchmark will be considered in the context of the relative risk and duration of the portfolio. In the absence of significant investments outside bank term deposits and cash equivalent products, performance is expected to closely track benchmark. Short term variations may arise from market timing. Significant long-term variations require further investigation and consideration of risk mitigation strategies. For example, a long-term trend below benchmark may indicate issues with market timing prior to making investment decisions, while a long-term trend above benchmark may indicate an increase in the level of risk contained within the portfolio.

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## Liquidity

Liquidity for Category 1 Portfolio funds is paramount. The portfolio shall be structured to ensure that the maturity profile of investments, combined with other forms of liquidity (e.g. cash flows, short term facilities), is sufficient to meet council's short-term funding needs.

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## Permitted investments

- Direct investment in term deposits, bank bills, fixed and floating rate notes, and similar investments offered by Tascorp, banks, credit unions, building societies, and similar financial institutions appropriately licensed in Australia.
- Direct investment in cash management funds operated by financial institutions appropriately licensed in Australia.
- Direct investment in managed cash funds operated by licensed Trustee companies.
- Direct investment in securities issued by Commonwealth or State Governments or their government business enterprises where capital is guaranteed by the relevant Government.
- Placement of funds for management with appropriately licensed and experienced investment intermediaries, provided that:
  - the asset classes utilised by the intermediaries are consistent with this Policy,
  - council retains effective ownership of the investment, and
  - a service level agreement is in place establishing investment and authorisation parameters.
- Assets with a Standard and Poor's rating within the parameters contained within Schedule 1 are assessed as being low risk in the context of the total portfolio.

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## Documentation

Appropriate documentation must be prepared prior to the placement of each investment, including:

- details of quotations obtained
- recommended investment to be placed, and
- required authorisations.

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## Quotations on investments

- At least three quotations must be obtained from authorised deposit taking institutions whenever a direct investment is proposed. The best quote of the day will be successful, after allowing for administrative and banking costs, along with consideration of council's Sustainability Strategy, providing the proposed investment complies with requirements of this Policy.
- Where a specific investment opportunity arises, this may be taken up without seeking further quotations providing the amount does not exceed \$1 million and authorisation is obtained from either the Chief Executive Officer or Chief Financial Officer.
- Where it is desirable to reinvest a maturing investment with the same institution, this may be undertaken once, for a period of up to 90 days, without seeking further quotations.

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## Term to maturity

The term to maturity of any council direct investment may range from 'at call' to a maximum of 12 months. A term of greater than 12 months may be agreed where the investment carries option(s) for return of capital prior to maturity (provided that the time between such option(s) is no greater than 12 months), or there is an established market for the sale of the investment to a third party.

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## Asset allocation and diversification

Individual investments must have regard to the overall diversification of the Category 1 Portfolio, particularly in respect of counterparty risk. Unless prevented by market factors, investments may only be placed within the parameters set out in Schedules 1 and 2 of this Policy.

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## CATEGORY 2 PORTFOLIO (MEDIUM TO LONG-TERM INVESTMENT)

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### Purpose

The purpose of the Category 2 Portfolio is to enhance the yield on funds over the medium to longer-term, while also ensuring appropriate risk considerations, sufficient liquidity to meet medium to longer-term capital expenditure requirements and infrastructure renewal needs.

### Investment and return objective

The investment objective of the Category 2 Portfolio is to achieve an acceptable level of yield, relative to the risk, within the allowable investments listed below, and having regard to the context of a capital preservation overlay.

The return objective of the category is to achieve a return in excess of:

- 50% Bloomberg Ausbond Composite Bond Index, or
- 50% Average 90 Day Bank Bill Rate + 1.50%.

The measurement of investment return is made against the indices at the date when the investment was placed.

### Liquidity

Investments held in the Category 2 Portfolio are not required to fund short-term working capital (funded by the Category 1 Portfolio), therefore these funds may be invested for up to a maximum of 7 years. However, a portion of the Category 2 Portfolio may be required at any time for significant capital expenditure. This requires liquidity with 3-6 months prior notice (where possible) to ensure access to investments to meet this need.

The Category 2 Portfolio must maintain a maturity profile with sufficient spread to limit circumstances under which investments would need to be liquidated prior to maturity.

### Permitted investments

Given the objectives of the Category 2 Portfolio, the following investments are endorsed:

- all investments endorsed for the Category 1 Portfolio
- Australian Government and State Government Bonds
- Financial and Corporate Senior Secured, Senior Unsecured and Subordinated bonds issued by investment grade quality issuers (risk rated BBB- and above with Standard and Poor's or equivalent)

- Hybrid Securities issued by investment grade quality issuers (risk rated BBB and above with Standard and Poor's or equivalent), and
- assets with a Standard and Poor's rating within the parameters contained within Schedule 2 are assessed as being low risk in the context of the total portfolio.

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#### Asset allocation and diversification

Individual investments must be undertaken having regard to the overall diversification requirements of the Category 2 Portfolio, particularly in respect of counterparty risk. Unless prevented by market factors, investments may only be held within the parameters set out in Schedule 2 of this Policy. Further to this, no single investment shall exceed 10% of the Category 2 Portfolio total.

## 8. AUTHORISATIONS

Each investment must be authorised by two of the following officers:

#### Group A Officer

- Chief Executive Officer
- Chief Financial Officer
- Manager Governance

#### Group B Officer

- Management Accountant
- Asset Accountant
- Financial Accountant
- Systems Accountant

unless otherwise stated in this Policy.

At least one of the authorising officers must be a "Group A" Officer (as above) for placement of Category 1 Portfolio funds in investment categories 3 and 4 as identified in Schedule 1 or the placement of any Category 2 Portfolio funds not undertaken through an appointed Investment Manager.

## 9. INVESTMENT MANAGER

Council may appoint an appropriately qualified Investment Manager to invest and manage Category 2 Portfolio funds, and other functions as directed. A formal written agreement is required directing the Investment Manager to manage the portfolio in accordance with this Policy. Selection of the Investment Manager is to be in accordance with council's Procurement Procedure.

The performance of the Investment Manager will be reviewed annually, with a full review every three years to consider the portfolio returns and management of the portfolio.

The agreement may include that the Investment Manager, or sub-custodian, provides custodial services and in doing so holds the assets of the portfolio as nominee for the council. Under this agreement the beneficial ownership of the Fund's assets must remain with the council at all times. This includes a prohibition on the Investment Manager or sub-custodian lending out any asset held on behalf of the council.

In addition, the Investment Manager will:

- hold an appropriate Financial Services License
- have and maintain at all relevant times professional indemnity insurance cover and provide evidence of it upon request
- comply with investment requirements imposed by relevant laws
- invest and manage the portfolio on behalf of the council, including sourcing and making suitable investments, in accordance with the Investment Strategy and this Policy
- keep the portfolio under review, including making full or partial realisation of or exit from investments, and to confer at regular intervals with council management regarding the investment management of the portfolio
- exercise all due diligence and vigilance in carrying out the Investment Manager's functions, powers and duties under this Policy
- advise management of any breaches of this Policy and any material matters relating to the Investment Manager that in the opinion of the Investment Manager should be disclosed to the council, and
- comply with reporting requirements as outlined.

## 10. REPORTING

### VALUATION AND MEASUREMENT

The Annual Financial Report is to account for investments in accordance with the provisions of the *Local Government Act 1993*, relevant Australian Accounting Standards and other mandatory financial reporting requirements.

### REPORTING

A report is to be provided to the Chief Executive Officer each month detailing:

- portfolio details at the beginning of the month
- investments maturing during the month
- investments placed during the month
- portfolio return against benchmark
- portfolio structure against benchmark, and
- portfolio risk profile against benchmark.

A report is to be provided in each Quarterly Report to council including, as a minimum:

- overview of portfolio structure
- portfolio return against benchmark
- portfolio structure by institution against Policy maximum, and
- portfolio structure by investment category against Policy maximum.

### AUDIT

For audit purposes, certificates or custodial reports must be obtained from all financial institutions confirming the amounts held on council's behalf on 30 June each year.

## 11. VARIATIONS TO THE POLICY

The Chief Executive Officer and the Chief Financial Officer are authorised to approve investments outside this Policy in exceptional circumstances. For example, if the investment is to the council's advantage, or if there is legislative change. Such approvals are required to be made by both the Chief Executive Officer and the Chief Financial Officer. Any such variation must be reported to council in the next Quarterly Report.



## 12. REVIEW

Due to the nature of the financial markets and the potential for change in the underlying portfolio over time, an annual review of this Policy will be conducted by management (in conjunction with the Investment Manager if appropriate).

This review process will also address issues such as any proposals to alter council's Investment Strategy, alterations to delegated authority and any additional information reporting requirements.

Any proposed amendments to either the Investment Strategy or Investment Policy will be reported to council for endorsement prior to implementation of any change.

## 13. IMPLEMENTATION AND COMMUNICATION

The Chief Financial Officer is responsible for the implementation of this Policy. This Policy will be communicated via council's intranet

## 14. ADMINISTRATIVE ARRANGEMENTS

### TABLE OF AMENDMENTS

No.	Date	Brief Details
1		

### APPROVAL

COUNCIL APPROVAL DATE	19 June 2023
REVIEW	Every 4 years
RESPONSIBLE POSITION	Chief Financial Officer
ECM REFERENCE	ECM_4982977



## ASSET ALLOCATION AND INVESTMENT DIVERSIFICATION

### Category 1 Portfolio

Item	Category	Typical Long-Term Rating	Typical Short-Term Rating	Maximum Percentage of Category to Total Investments	Maximum Percentage of Individual Institution Investments Within Portfolio
		Standard and Poor's	Standard and Poor's		
1	Government Guaranteed (including Tascorp and any investment guaranteed by the Australian Government's 2008 Deposit and Wholesale Funding Guarantees) and major Australian Banks (CBA, WBC, ANZ, NAB)	AAA to AA-	A-1+	100%	50%
2	Other banks holding an Australian Banking Licence	A+ to A-	A-1	50%	30%
3	Other Available Direct Investments	BBB+ to BBB-	A-1	30%	15%
4	Managed and Trustee Investment	AAA to BBB+	A-1+ to A-1	100%	30%
5	Excluded Investments	Below BBB-	Below A-2	Nil	Nil



**ASSET ALLOCATION AND INVESTMENT DIVERSIFICATION**

**Category 2 Portfolio**

Item	Instrument	Typical Instrument Credit Rating (Standard & Poor's)	Portfolio Benchmark Asset Allocation	Portfolio Target Ranges	Portfolio Maximum Allowable Ranges
1	Government Bonds	AAA to AA-	25%	15% - 30%	0% - 40%
2	Senior Secured Bonds	AA+ to BBB-	5%	0% - 15%	0% - 40%
3	Senior Unsecured Bonds	AA+ to BBB-	25%	20% - 30%	0% - 40%
4	Subordinated Bonds	A to BBB-	20%	15% - 25%	0% - 35%
5	Hybrid Securities	BBB+ to BB+ (Some Not Rated)	25%	20% - 30%	0% - 30%

## ISSUE CREDIT RATINGS

Issue credit ratings are based on the following considerations:

- likelihood of payment capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation
- nature of and provisions of the obligation, and
- protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

## DEBT SECURITY DEFINITIONS

Debt security definitions are the criteria given by Standard & Poor's and are as follows:

AAA	An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
AA	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
A	An obligation rated 'A' is more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.
BBB	An obligation rated 'BBB' 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.

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## SHORT-TERM ISSUE CREDIT RATINGS

A-1	A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. 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 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.