



Title: Investments

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Related legislation: Local Government Act 1993 Section 625
Local Government Act 1993 Order (of the Minister) dated 29 July 2005 ;
The Trustee Amendment (Discretionary Investments) Act 1997- Sections 14A(2), 14C(1) &(2)
Local Government (General) Regulation 2005-Clause 212.n

Related policies: Nil

Related procedures: Nil

Related forms: Nil

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1. Purpose

The purpose of this policy is to establish the investment guidelines that Canterbury City Council adopts in investing its surplus funds. The objectives are:

1. To ensure the security of Council funds by setting parameters for exposure to credit risk and duration risk within the investment portfolio and the "single party" exposure of the portfolio to individual institutions or products;
2. Subject to those constraints and Council's liquidity requirements, to maximise the earnings from the portfolio; and
3. To establish a framework for monitoring the investments and comparing performance to appropriate benchmarks.

2. Authority for Investment

All investments are to be made in accordance with (Refer Attachments):

- Local Government Act 1993 – Section 625;
- Local Government Act 1993 – Order (of the Minister) dated 29 July 2005;
- The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1) & (2);
- Local Government (General) Regulation 2005 – Clause 212.

3. Delegation of Authority

The General Manager has authority to invest surplus funds and may delegate this function to the Director Corporate Services and/or Responsible Accounting Officer

4. Variation to Policy

The General Manager or his/her delegated representative is authorised to approve variations to this policy if the investment is to Council's advantage and/or due to revised legislation.

All changes to this policy are to be reported to Council within 28 days.

5. Authorised Investments

All investments must be denominated in Australian Dollars. Authorised Investments are limited to:

- Local/State/Commonwealth Government Bonds, Debentures or Securities;

- Deposits in prescribed securities that either have a minimum long-term credit rating of 'A' or short term rating of 'A1' from Standard & Poor's (S&P) or the Moody Investor Services (Moody's) and Fitch Rating (Fitch) equivalent; (*)
- Managed funds with a minimum long-term S&P credit rating of 'A' or better, or Moody's or Fitch equivalent; (*)
- Interest bearing deposits/ securities issued by a licensed bank, building society or credit union;
- Loan offset products with a licensed bank;
- Investments with NSW Treasury Corp/Hourglass Investment Facility; and
- Deposits with the Local Government Financial Services ("LGFS").
- Other Investments Authorised under the "Minister's Order" dated 15 July 2005 and any subsequent revisions to that Order.

(*) applies at least to principal

6. Investment Guidelines – Credit Quality, Diversification and Term to Maturity Constraints

Due to significant developments in the range and complexity of available investments in recent years, credit ratings cannot be considered a consistent indicator of risk across different investment types. That is to say, a cash based managed fund with a credit rating of AA does not have the same risk profile as a structured investment with a AA rating on principal only. In order to provide a more effective risk management framework therefore, this Policy sets different exposure and duration limits for different categories of investment.

Percentage limits in the following tables refer to percentages of the **total** portfolio.

(A) Open-Ended Managed Funds

Credit Ratings (Standard & Poor's or equivalent)	Maximum Percentage With One Institution	Maximum Percentage by Credit Rating	Minimum Recommended Investment Horizon
AAA	50%	100%	0 – 3 months
AA	45%	100%	3 - 6 months
A	40%	100%	6 – 12+ months
Unrated	20%	20%	Varies by fund type

Any investments in non-credit rated managed funds must be an authorised investment and are limited to a maximum of 20% of the total investment portfolio.

Although conventional managed funds do not have a maturity date, the asset structure and features of the fund are to be consistent with the time horizon, risk parameters, and liquidity requirements of Council as set out in its Investment Strategy.

(B) "Class A Investments"

Class A securities are defined as securities for which an institution with a *rating* meeting the criteria of paragraph (k) of the *Minister's Order* (see Appendix) guarantees the **total return** of the security. E.g. capital and income (Or in the case of a floating rate security, a fixed margin above a floating benchmark.) Structured securities and subordinated debt securities are explicitly NOT Class A investments, unless this can be justified from their market valuations, as set out in (C) below. Typical examples of Class A investments would be Term Deposits, Bank Bills and senior Floating Rate Notes offered by major banks and other well rated corporations.

For Class A securities, the following table applies:

Long-term Credit Rating (Standard & Poor's or equivalent)	Short-term Credit Rating	Maximum Percentage With One Financial Institution	Maximum Percentage by Credit Rating	Maximum Duration
AAA	A-1 +	20%	100%	10 years
AA+ to AA-	A-1	20%	95%	8 years
A+ to A-	A-2	20%	90%	5 years

The features of the security are to be consistent with the time horizon, risk parameters, and liquidity requirements of Council as set out in its Investment Strategy.

(C) Class B Investments

Class B Investments are defined as an investment (other than an Open-Ended Managed Fund) not meeting the criteria of Class A investments. This may be due to one or more of the following criteria:

- A market-linked return component
- Unrated interest or coupon
- Issue by an unrated entity

For Class B investments, the following table applies:

Long-term Credit Rating (Standard & Poor's or equivalent)	Short-term Credit Rating	Maximum Percentage With One Financial Institution	Maximum Percentage by Credit Rating	Maximum Duration
AAA	A-1 +	20%	40%	10 years
AA+ to AA-	A-1	15%	20%	10 years
A+ to A-	A-2	10%	15%	7 years
BBB+ to BBB-*	A-3	5%	5%	2 years
Unrated*	Unrated*	5%	5%	2 years

Total Class B investments must not exceed 50 per cent of the portfolio.

*Investments with counterparties below A Category (Long Term) are restricted to licensed banks, building societies and credit unions and must not exceed [7.5] per cent of the portfolio in total.

The asset structure and features of the investment are to be consistent with the time horizon, risk parameters, and liquidity requirements of Council as set out in its Investment Strategy.

Typical examples of Class B investments would be Collateralised Debt Obligations (CDO's), Equity Linked Notes and Property Linked Notes.

However, Council may treat an investment as Class A, notwithstanding it is structured or subordinated, provided it meets the credit rating criteria and it can demonstrate by reference to credit spreads or other market measures that the market treats the investment as being of *comparable risk* to a broad selection of Australian dollar denominated Class A investments. A current example could be senior mortgage backed securities, where market yields would suggest that investors are viewing them as very low risk investments.

(D) Term-to-maturity Framework for the Portfolio

The investment portfolio is to be invested with the following term to maturity constraints.

Overall Portfolio Term to Maturity Limits	
	Maximum
Portfolio % < 1Year	100%
Portfolio % > 1 Year < 3 Years	75%
Portfolio % >3 Years < 5 Years	50%
Portfolio % > 5 Years	35%

(E) General

(i) Derivatives

Except for the purpose of reducing its exposure to investment risks, Council will not directly enter into any type of derivative transactions.

(ii) Changes in Credit Ratings

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

(iii) Accounting for Premiums and Discounts

From time to time financial assets may be acquired at a discount or premium to their face value. Any such discount or premium is to be taken into account in line with relevant Australian Accounting Standards.

(iv) Advisory Services

Council may use the services of a suitably qualified and experienced Investment advisor for the purposes of achieving the objectives of this policy.

7. Performance Benchmarks

Investment	Performance Benchmark
Cash	11am Cash Rate
Cash Enhanced / Direct Investments	UBSA Bank Bill Index
Fixed Interest	UBSA Composite Bond Index
Diversified Investments	UBSA Bank Bill Index + relevant margin
Sector Investments	UBSA Bank Bill Index + relevant margin

8. Ethical and Socially Responsible Investments

Ethical and socially responsible investments (SRI's) are a means for investors to support their principles and take into account considerations other than solely the financial return potential of particular investments. In addition to normal risk assessment, investments can be further evaluated in terms of environment, social and governance issues. A number of independent organisations have been established to evaluate and rate companies according to these criteria.

Subject to compliance with government legislation and the outlined investment strategy objectives, Council supports investments in Ethical or Socially Responsible Investments.

9. Safe Custody Arrangements

Investments may be held in safe custody on Council's behalf, as long as the following criteria are met:

- A Safe Custody agreement is in place setting out the obligations of the custodian.
- Council retains beneficial ownership of all investments.
- Adequate documentation is provided verifying the existence of the investments.
- The Custodian conducts regular reconciliation of records with relevant registries and/or clearing systems.
- The Custodian has an AFS Licence issued by ASIC that explicitly covers custodial services
- The Institution or Custodian recording and holding the assets will be:
 - Austraclear or;
 - An institution with an investment grade Standards and Poor's or Moody's credit rating or;
 - An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

10. Reporting

- (i) A monthly report will be provided to Council, detailing the investment portfolio in terms of performance and counterparty percentage exposure of total portfolio.

The report will also detail investment income earned versus budget year to date and confirm compliance of Council's investments within legislative and policy limits.

- (ii) For audit purposes, certificates must be obtained from the banks/fund managers/custodian confirming the amounts of investment held on Council's behalf at 30th June each year.

11. Glossary of Terms

Bond

A tradeable debt security, usually issued by a government or semi-government body to raise money. Holders of the bond have lent money for which they receive a fixed rate of interest over a set period of time. The bond is repaid with interest on the predetermined maturity date. Bonds can be traded on the sharemarket.

Collateralised Debt Obligations (CDOs)

The term "Collateralised Debt Obligation" refers to a very broad range of structured investments that re-package underlying assets. These can be mortgages, credit-card receivables, vehicle leases, corporate debt or other derivatives such as credit default swaps(CDS)

Debenture

A loan to a company at a fixed rate of interest and for a fixed term, usually one to five years. The debenture is secured by a trust deed over an asset, or assets, of a company

Debt security

Debt security means:

- a. an unsecured note, except one convertible to a share or unit;
- b. a debenture, except one convertible to a share or unit;
- c. any security that ASX decides to classify as a debt security;
- d. but not a security ASX decides to classify as an equity security.

Derivative

A derivative is a financial instrument that derives its value from that of an underlying instrument (such as shares, share price indices, fixed interest securities, commodities, currencies etc). Warrants Futures and, exchange- traded options and some warrants are types of derivatives.

Diversified Investments

Spreading investments over a variety of investment categories in order to reduce risk.

Equity Linked Notes

A note, usually capital-protected, that provides variable returns referencing a basket, fund or index of shares.

Fixed Interest

A security where the return when held to maturity is fixed. Fixed interest securities normally receive periodic interest payments and repayment of principal at maturity. The term also embraces discount securities which may not attract interest payments.

Liquidity

A high level of trading activity, allowing buying and selling with minimum price disturbance. Also, a market characterized by the ability to buy and sell with relative ease. Antithesis of illiquidity.

Loan Offset

Elimination of a long or short position by making an opposite transaction.

Managed investments

Managed Investments offer investors exposure to a professionally managed portfolio of assets through a single security. Investors own a proportion of the investment portfolio commensurate with the size of their investment, and are entitled to any profits and distributions (dividends), but also subject to losses should the value of the portfolio decline.

Property Linked Notes

A promise by an institution or trust to pay specified coupons (if any) and capital at maturity, along with any other distributions at that time. For convenience of grouping, "notes" include bank deposits and fund investments with similar characteristics.

UBS Bank Bill Index

UBS calculates a daily index representing the performance of a notional parcel of bills averaging 45 days.

12. ATTACHMENTS

Attachment A

Local Government Act 1993 - Section 625

How may councils invest?

- (1) A council may invest money that is not, for the time being, required by the council for any other purpose.
- (2) Money may be invested only in a form of investment notified by order of the Minister published in the Gazette.

Note: See Gazette No 152 of 24.11.2000, p 12041.

- (3) An order of the Minister notifying a form of investment for the purposes of this section must not be made without the approval of the Treasurer.
- (4) The acquisition, in accordance with section 358, of a controlling interest in a corporation is not an investment for the purposes of this section.

Attachment B



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FORMS OF INVESTMENT - MINISTER'S ORDER

Attached is a copy of an Order of the Minister notifying forms of investment for the purposes of section 625 (2) of the *Local Government Act 1993*. The Order was published in the Government Gazette on 29 July 2005 and takes effect on and from that date. The Order replaces the previous Order published in the Government Gazette of 24 November 2000.

The new Order notifies three changes to the investment powers of councils compared with the previous Order. Items (k) and (l) have been amended to include Fitch Ratings as a prescribed rating agency. Item (p) Shares in the Inland Marketing Corporation Limited has been removed.

In addition, council's attention is drawn to Update 13 of the Code of Accounting Practice and Financial Reporting that contains a policy direction that states, "councils must maintain an investment policy". That investment policy must comply with the legislation and investment guidelines.

In keeping with existing arrangements it is the responsibility of each individual council to determine that its investments are authorised in terms of the listed securities.

A handwritten signature in blue ink, appearing to be 'Garry Payne', written in a cursive style.

Garry Payne
Director General

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LOCAL GOVERNMENT ACT 1993 – INVESTMENT ORDER

(Relating to investments by councils)

I, David Campbell, MP, Acting Minister for Local Government, in pursuance of section 625 (2) of the Local Government Act 1993 and with the approval of the Treasurer, do, by this my Order, notify for the purposes of section 625 of that Act that a council may only invest money (on the basis that all investments must be denominated in Australian Dollars) in the following forms of investment:

- (a) any public funds or Government stock or Government securities of the Commonwealth or any State of the Commonwealth;
- (b) any debentures or securities guaranteed by the Government of New South Wales;
- (c) any debentures or securities, issued by a public or local authority, or a statutory body representing the Crown, constituted by or under any law of the Commonwealth, of any State of the Commonwealth or of the Northern Territory or of the Australian Capital Territory and guaranteed by the Commonwealth, any State of the Commonwealth or a Territory;
- (d) any debentures or securities issued by a Territory and guaranteed by the Commonwealth;
- (e) any debentures or securities issued by a council (within the meaning of the Local Government Act 1993);
- (f) mortgage of land in any State or Territory of the Commonwealth;
- (g) purchase of land (including any lot within the meaning of the Strata Schemes Management Act 1996) in any State or Territory of the Commonwealth;
- (h) interest bearing deposits in a bank authorised to carry on the business of banking under any law of the Commonwealth or of a State or Territory of the Commonwealth;
- (i) interest bearing deposits with a building society or credit union.
- (j) any bill of exchange which has a maturity date of not more than 200 days; and if purchased for value confers on the holder in due course a right of recourse against a bank, building society or credit union as the acceptor or endorser of the bill for an amount equal to the face value of the bill;
- (k) any securities which are issued by a body or company (or controlled parent entity either immediate or ultimate) with a Moody's Investors Service, Inc. credit rating of "Aaa", "Aa1", "Aa2", "Aa3", "A1" or "A2" or a Standard & Poor's Investors Service, Inc credit rating of "AAA", "AA+", "AA", "AA-"; "A+", or "A" or a Fitch Rating credit rating of "AAA", "AA+", "AA", "AA-", "A+" or "A";
- (l) any securities which are given a Moody's Investors Service Inc credit rating of "Aaa", "Aa1", "Aa2", "Aa3", "A1"; "A2" or "Prime-1" or a Standard and Poor's Investors Service, Inc credit rating of "AAA", "AA+", "AA", "AA-", "A+"; "A"; "A1+" or "A1" or a Fitch Rating credit rating of "AAA", "AA+", "AA", "AA-", "A+" or "A";
- (m) any debentures or securities issued by a bank, building society or credit union;
- (n) a deposit with the Local Government Investment Service Pty Ltd;
- (o) a deposit with the New South Wales Treasury Corporation or investments in an Hour-Glass investment facility of the New South Wales Treasury Corporation.

Dated this day of 15TH JULY 2005


Hon DAVID CAMPBELL MP
Acting Minister for Local Government

Attachment C

The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1) & (2);

Section 14A - Duties of trustee in respect of power of investment

- (1) This section has effect subject to the instrument (if any) creating the trust.
- (2) A trustee must, in exercising a power of investment:
 - (a) if the trustee's profession, business or employment is or includes acting as a trustee or investing money on behalf of other persons, exercise the care, diligence and skill that a prudent person engaged in that profession, business or employment would exercise in managing the affairs of other persons, or
 - (b) if the trustee is not engaged in such a profession, business or employment, exercise the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.

Note: Some Acts deem investments under the Acts to be investments that satisfy the prudent person test. See, for example, section 39 of the Public Authorities (Financial Arrangements) Act 1987.
- (3) A trustee must exercise a power of investment in accordance with any provision of the instrument (if any) creating the trust that is binding on the trustee and requires the obtaining of any consent or approval with respect to trust investments.
- (4) A trustee must, at least once in each year, review the performance (individually and as a whole) of trust investments.

Section 14C - Matters to which trustee is to have regard when exercising power of investment

- (1) Without limiting the matters that a trustee may take into account when exercising a power of investment, a trustee must, so far as they are appropriate to the circumstances of the trust, if any, have regard to the following matters:
 - (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, and the risk associated with, 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 or income loss or depreciation,
 - (f) the potential for capital appreciation,
 - (g) the likely income return and the timing of 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 commissions, fees, charges and duties payable) of making the proposed investment,

- (o) the results of a review of existing trust investments in accordance with section 14A (4).
- (2) A trustee may, having regard to the size and nature of the trust, do either or both of the following:
 - (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 the advice,
 - (b) pay out of trust funds the reasonable costs of obtaining the advice.
- (3) A trustee is to comply with this section unless expressly forbidden by the instrument (if any) creating the trust.

Attachment D

Local Government (Financial Management) Regulation 2005 – Clause 212

Reports on Council Investments

- (1) The responsible accounting officer of a council:
 - (a) Must provide the council with a written report (setting out details of all money that the council has invested under section 625 of the Act) to be presented:
 - (i) If only one ordinary meeting of the council is held in a month, at that meeting, or
 - (ii) If more than one such meeting is held in a month, at whichever of those meetings the council by resolution determines, and
 - (b) Must include in the report a certificate as to whether or not the investment has been made in accordance with the Act, the regulations and the council's investment policies.
- (2) The report must be made up to the last day of the month immediately preceding the meeting.

Note: Section 625 of the Act says how a council may invest its surplus funds (Attachment A)