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POLICY CODE:	SFCS1
DIRECTORATE:	Finance & Corporate Services
BUSINESS UNIT:	Financial Services
SERVICE UNIT:	Accounting Services
RESPONSIBLE OFFICER:	Director, Finance & Corporate Services
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DAPPS Meeting:	24 May 2012 28 August 2014	25 August 2016 24 November 2016
OCM:	14 April 2011 14 June 2012	11 September 2014 8 September 2016

BACKGROUND:

Section 6.14 of the Local Government Act 1995, Local Government (Financial Management) Regulations 1996, Regulations 19, 28 and 49 provides for monies held in the Municipal and Trust funds to be invested in accordance with Part III of the Trustees Act 1962, as amended by the Trustees Amendment Act 1997 and Australian Accounting Standards.

PURPOSE:

To set investment guidelines and restrictions which comply with the requirements of Part III of the Trustees Act 1962 as amended by the Trustees Amendment Act 1997 and Regulation 19C of the Local Government (Financial Management) Regulations 1996 as amended.

POLICY:

(1) Objectives

1.1 Risk Framework

- Preservation of capital is the principal objective of the investment portfolio. The investment portfolio is expected to achieve a predetermined market average rate of return that takes into account the City's risk tolerance noted above in relevant regulations.
- Set dealing policy and controls and management reporting processes.

1.2 Operational Framework

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This framework will endeavour to ensure:

- Investments are only to be made in accordance with the guidelines for approved institutions, instruments and limits as defined in this Policy.
- Investments are only to be made with the objective of being held to maturity. No investments are to be redeemed prior to maturity without the approval of the City of Cockburn.
- All investment transactions must be appropriately authorised in accordance with the authority limits as defined in this Policy.
- All investments will be held in either safe custody or Austraclear in the name of the City of Cockburn.
- A report will be provided to Elected Members each month. The information contained in the report will provide a concise overview of City of Cockburn's investment portfolio and its performance.
- The City's Investment Policy will be reviewed at least once a year or as required in the event of Legislative changes.

(2) Approved Investment

Securities purchased on behalf of the City of Cockburn will be based on the investment framework and would comprise solely of investments made in accordance with:

- 2.1 Local Government Act 1995 – Section 6.14(2)(a) and The Trustees Act 1962, Part III and as amended by The Trustees Amendment Act 1997 and Regulation 19C of the Local Government (Financial Management) Regulations 1996 as amended.
- 2.2 Investments will be managed with the care, diligence and skill a prudent person will exercise. Officers are to manage the investment portfolios to safeguard the portfolios in accordance with the spirit of this Policy and not for speculative purposes.

Only the following types of securities may be included:

- 2.3 Interest Bearing term deposits with Authorised Deposit Taking Institutions (ADIs – Australian banks, building societies and credit unions) for a maximum term of one year.
- 2.4 Bonds guaranteed by the Commonwealth and State or Territory Government with a maturity of less than three years.

Investments held as at 4 April 2012 (the date of the revised Local Government (Financial Management) Amendment Regulations 2012) that complied with the prevailing Legislation prior to that date are eligible to be held until maturity.

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(3) Structural Investment Constraints

3.1 Benchmark Performance Index

The benchmark performance index for the City of Cockburn's investment portfolio is the UBS Warburg 90 day Bank Bill Index and the RBA official Cash Rate.

3.2 Credit Management

3.2.1 Global Credit Framework

The portfolio credit guidelines to be adopted will be based on the Standard and Poors (S & P) ratings system criteria for each institution. A description of each rating category is included in Section 6.

For Bonds guaranteed by the Commonwealth, State or Territory of Australia, the credit rating allowable will be that of the guaranteeing government.

For Australian ADI investments available limits in each rating category are as follows:

Short Term Rating Asset Concentration	Direct Securities Maximum
A-1	100%
A-2*	60%
A-3 to Unrated	10%

Direct Securities – These are individual investments placed and held in the name of City of Cockburn based on recommendations from the City's investment Advisor.

3.2.2 Institution Credit Framework

All investments made on behalf of City of Cockburn will comply, where applicable, with the credit guidelines based on the S&P ratings for each institution.

Exposure to an individual institution of fund manager will be restricted, where applicable, by their S&P rating so that single entity exposure is limited, as detailed in the table below:

Short Term Credit Rating	Direct Investment Maximum
A-1	50%
A-2*	40%

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A-3 to Unrated	10%
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(4) Operational Management

4.1 Portfolio Management

The City of Cockburn portfolio will have the following structural constraints:

Category Description	Minimum	Maximum
Portfolio % < 1 Year	75%	100%
Portfolio % > 1 Year < 3 Years	0%	25%

(5) Reporting Requirements

5.1 A report shall be submitted to Elected Members on a monthly basis. This will include a full summary of investments held in the portfolio and the following:

- Investments in each issuer by dollar amount compared to institution credit framework.
- Percentage and dollar value of portfolio invested in each S & P ratings category versus the global credit framework.
- Portfolio's actual monthly performance versus Index.
- A summary of portfolio's historical returns against the Index based on the past 3, 6 and 12 months.
- Mark-to-market of securities with the inclusion of interest accruals.
- Current portfolio yield.
- Current duration and modified duration on the portfolio versus the Index.
- A summary of the dollar value of investments according to the term to maturity.

5.2 An annual report on the performance of the investment portfolio will be submitted to Council outlining the performance of the portfolio for the financial year.

(6) Record Keeping Requirements

- Documentary evidence must be kept for each investment held and details thereof maintained in an appropriate register.
- Certificates must be obtained from issuing financial institutions confirming the amounts of investments held on Council's behalf as at 30th June each year and reconciled to Council's records.

(7) Standard & Poor's Ratings Description

Credit Ratings:

Standard & Poor's (S & P) is a professional organisation that provides analytical services. An S & P rating is an opinion of the general

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creditworthiness of an obligor with respect to particular debt security or other financial obligation — based on relevant risk factors.

Credit ratings are based, in varying degrees, on the following considerations:

- Likelihood of payment.
- Nature and provisions of the obligation.
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganisation or other laws affecting creditors' rights.

The issue rating definitions are expressed in terms of default risk.

Short-Term Obligation Ratings are:

A-1

This is the highest short-term category used by S&P. The institution'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 somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the institution's capacity to meet its financial commitment on the obligation is satisfactory.

A-3

A short-term obligation rated A-3 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.

Long-Term Ratings are:

AAA

An institution rated AAA has the highest rating assigned by S&P. The institution's capacity to meet its financial commitment on the obligation is extremely strong.

AA

An institution rated AA differs from the highest rated obligations only in a small degree. The institution's capacity to meet its financial commitment on the obligations is very strong.

A

An institution rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than institutions in higher

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rated categories. However, the institutions capacity to meet its financial commitment on the obligation is still strong.

BBB

An institution rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to the institution to meet its financial commitment on the obligation.

UNRATED

Securities issued by institutions that cannot justify going through the formal and expensive exercise of attaining a credit rating from a credit rating agency such as Standard and Poors.

Plus (+) or Minus (-): The ratings from “AA” to “CCC” may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

CreditWatch highlights an emerging situation, which may materially affect the profile of a rated corporation and can be designed as positive, developing or negative. Following a full review the rating may either be affirmed or changed in the direction indicated.

A Rating **Outlook** assesses the potential direction of an issuer’s long-term debt rating over the intermediate-to-long term. In determining a Rating Outlook, consideration is given to possible changes in the economic and/or fundamental business conditions. An outlook is not necessarily precursor of a ratings change or future CreditWatch action. A “Rating Outlook – Positive” indicates that rating may be raised. “Negative” means a rating may be lowered. “Stable” indicates that ratings are not likely to change. “Developing” means ratings may be raised or lowered.