

Investment Policy

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1. Scope

- 1.1 This Policy applies to all Employees who actively manage City of Parramatta Council's (Council's) cash and investments.

2. Purpose

- 2.1 This Policy sets out requirements for the management of Council's cash and investment portfolio and establishes a framework for the monitoring, reporting, and accounting requirements for Council investments.

3. Policy

3.1 Principles

- 3.1.1 Council is committed to optimising the investment of Council's surplus funds. While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity, and the return on investment.

- 3.1.2 Council will pursue three primary objectives in the management of its investment portfolio:

- (a) To comply with legislation, regulations, ministerial orders, and the Department of Premier and Cabinet Division of Local Government - Investment Policy Guidelines (2010);
- (b) To preserve the amount invested; and

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- (c) To ensure there are sufficient liquid funds to meet all reasonably anticipated cashflow requirements.

3.1.3 Council accepts that these primary objectives must be pursued while also considering the community's interests.

3.2 The Investment Policy must be read in conjunction with Council's investment advice from its external financial advisors, which is regularly updated as per market changes.

3.3 The following measures must be employed to support meeting Council's objectives for prudent investment management:

3.3.1 Prudent Person Standard

Council's investments must be managed with the care, diligence and skill that a prudent person would exercise. As trustees of public monies, Employees are to manage Council's investment portfolios with a view to safeguard the portfolio in accordance with this Policy and not for speculative purposes.

3.3.2 Ethics and Conflicts of Interest

Employees with delegated authority must refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. Employees must disclose any conflicts of interest to the Chief Executive Officer.

Independent advisors are also required to declare that they have no actual or perceived conflicts of interest, and would receive no benefits in relation to Council's investments.

3.3.3 Authorised Investments

All investments must be denominated in Australian Dollars. Authorised Investments are limited to the prevailing Ministerial Investment Order, and may consist of:

- (a) any public funds or securities issued by or guaranteed by, the Commonwealth, any State of the Commonwealth or a Territory;
- (b) any debentures or securities issued by a council (within the meaning of the *Local Government Act 1993* (NSW));
- (c) interest bearing deposits with, or any debentures or bonds issued by, an authorised deposit-taking institution (as defined in the *Banking Act 1959* (Cth)), but excluding

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- subordinated debt obligations; or
- (d) 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 which has been designated as an authorised deposit-taking institution by the Australian Prudential Regulation Authority.

3.3.4 Prohibited Investments

As per the Department of Premier and Cabinet's *Investment Policy Guidelines (2010)*, the following types of investment are prohibited:

- (a) derivative based instruments;
- (b) principal only investments or securities that provide potentially nil or negative cash flow;
- (c) standalone securities issued that have underlying futures, options, forwards contracts and swaps of any kind;
- (d) investment trusts other than TCorpIM Funds, even where the trusts' underlying assets adhere to the Minister's Order fully; and
- (e) any other investment prohibited as per the Minister's Order.

This Policy also prohibits any investment with speculative purposes, including the use of leveraging (borrowing to invest) for an investment. However, it is permitted to make a short-term investment of loan proceeds where the loan is raised for non- investment purposes and there is a delay in the expenditure of loan funds.

3.3.5 Risk Management Guidelines

Investments should only be pursued with consideration given to the following criteria:

- (a) Preservation of Capital: it is required to prevent losses in an investment portfolio's total value;
- (b) Climate Risk: the financial risks arising from investments with climate change exposure, including physical, transition and liability risks (as defined within the Australian Prudential Regulation Authority's (APRA) *Final Prudential Practice Guide CPG 229 Climate Change Financial Risks*, November 2021), which should be managed in accordance with Council's overall business strategy and risk appetite;
- (c) Credit Risk: it is required to avoid the risk that a party or guarantor to a transaction will fail to fulfil its obligations, specifically relating to the risk of loss due to the failure of an institution/entity with which an investment is held to pay

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- the interest and/or repay the principal of an investment;
- (d) Diversification: it is required to invest in a broad range of products so as not to be over exposed to a particular sector of the investment market;
 - (e) Liquidity Risk: it is required to ensure Council does not run out of cash, can redeem investments at a fair price within a timely period, and can execute its spending plans.
 - (f) Market Risk: the risk that fair value or future cash flows will fluctuate due to changes in market prices;
 - (g) Maturity Risk: the risk relating to the length of term to maturity of the investment. The longer the term, the greater the length of exposure and risk to market volatilities;
 - (h) Rollover Risk: it is required to manage the risk that maturing assets will be reinvested at a lower prevailing interest rate; and
 - (i) Fidelity and Legal Risk: it is required to avoid the risk of fraud, non-enforceability of obligations, security or title, or unexpected costs in rectifying contracts.

3.3.7 Safe Custody Arrangements

Where necessary, investments may be held in safe custody on Council's behalf in accordance with the following criteria:

- (a) Council must retain beneficial ownership of all investments;
- (b) adequate documentation must be provided such as a confirmation letter of investment, monthly financial statements, or any other documentation required to allow Council to show ownership of investment or make decisions about the status of its investment;
- (c) the Custodian conducts regular reconciliation of records with relevant registries and/or clearing systems; and
- (d) the Institution or Custodian recording and holding the assets must be:
 - i. The Custodian nominated by NSW TCorp for their TCorpIM Funds;
 - ii. Austraclear;
 - iii. An institution with an investment grade Standard and Poor's, Moody's or Fitch rating; or
 - iv. An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

3.4 Credit Quality Limits

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3.4.1 The maximum holding limit in each rating category for Council's portfolio must be as per Table 1 below.

Portfolio credit guidelines are based on Standard & Poor's (S&P) long-term ratings system criteria and format. Moody's and Fitch Ratings may be used where no S&P rating exists. Moody's ratings are mapped to S&P (e.g. Baa1 to BBB+).

However, the primary control of credit quality is the prudential supervision and government support and explicit guarantees of the Authorised Deposit-Taking Institution (ADI) sector, not ratings.

Table 1: Maximum holding limits per rating category

Long Term Credit Rating	Maximum Aggregate Holding
TCorp (including Cash and S/T Income)	25%
AAA	100%
AA Range or Major Bank	100%
A Range	80%
BBB Range	30%
Unrated ADIs	10%

3.4.2 For ADI groups which own multiple banking licences, rating categories are based on the parent bank even if the subsidiary is not explicitly rated.

3.4.3 The S&P ratings attributed to each individual institution will be used to determine maximum holdings. In the event of disagreement between agencies as to the rating band ("split ratings") Council shall use the higher in assessing compliance with portfolio Policy limits, but for conservatism shall apply the lower in assessing new purchases.

3.4.4 The provisions in Table 1 exclude managed fund investments.

3.5 Counterparty Limits (Exposure)

3.5.1 Exposure to individual counterparties or financial institutions will be restricted by their rating so that single entity exposure is limited, as per Table 2 below.

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This Table does not apply to any managed fund investment where there is no single counterparty exposure.

Table 2: Counterparty Limits

Long Term S&P Credit Rating Range (or Moody's / Fitch equivalent)	Individual Counterparty Limits
Individual TCorpIM Funds	10%
AAA	50%
AA Range or Major Bank	40%
A Range	25%
BBB Range	15%
Unrated ADI Category	Max. of \$5m or 1%

3.5.2 All new investments must adhere to the limits as set out in this Investment Policy at the time of investment. Any event that results in non-compliance to these limits must be reported through the monthly reporting requirements to Council.

3.6 Investment Horizon Limits

3.6.1 Council's investment portfolio should be structured around the intended minimum term of the investment (horizon) to ensure that liquidity and income requirements are met.

Once the primary aim of liquidity is met, Council will ordinarily diversify its maturity profile as this is a low-risk method of obtaining additional return and reduces the risks to Council's income. However, Council always retains the flexibility to invest as short as required by cash flow requirements or the economic outlook.

3.6.2 The information used by Council to determine the ideal maturity timeframes and monetary allocation includes the following principles and the information in Table 3 below:

- (a) Council's liquidity requirements to cover both regular payments as well as sufficient buffer to cover reasonably foreseeable contingencies;
- (b) medium term financial plans and major capital expenditure forecasts;
- (c) known grants, asset sales or similar one-off inflows; and
- (d) seasonal patterns to Council's surplus funds.

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Table 3: Investment Horizon Limits

Horizon Description	Maturity Timeframe	Minimum Allocation	Maximum Allocation
Working Capital Funds	0-3 months	20%	100%
Short-Term Funds	3-12 months	0%	100%
Short-Medium Term Funds	1-2 years	0%	70%
Medium-Term Funds	2-5 years	0%	60%
Long-Term Funds	5-10 years	0%	15%

3.6.3 Within these broad ranges, Council relies upon assumptions of expected investment returns and market conditions that have been examined by the Investment Advisor.

3.7 Performance Benchmarks

3.7.1 The performance of each investment should be assessed against the benchmarks listed in Table 4 below:

Table 4: Performance Benchmarks

Investment	Performance Benchmark	Time Horizon
11am and Notice accounts, cash management accounts, professional funds accounts, TCorpIM Cash Fund, short-dated bank bills, deposits of appropriate term.	AusBond Bank Bill Index (BBI)	3 months or less
Bank bills over 90 days, term deposits of appropriate remaining term, senior securities (FRNs or bonds) nearing maturity, TCorpIM Short Term Income Fund.		3 months to 12 months
Term deposits and senior securities (FRNs or bonds) with a remaining term 1-2 Years.		1 to 2 years
Long term deposits and senior securities (FRNs or bonds) except as otherwise designated on a shorter horizon, Grandfathered Income Funds.		2 to 5 Years
Other TCorpIM assets	Fund's Internal Benchmark	5+ Years (L/T Growth Fund or Growth assets)

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		2-5 Years (Other)
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3.7.2 It is Council's expectation that the performance of each investment will be greater than or equal to the applicable benchmark by sufficient margin to justify the investment, considering its risks, liquidity, and other benefits of the investment.

Council will seek information about both current and historical reward for its investments – where insufficient, it will hold cash and not impose a minimum outperformance obligation as to do so mandates risk-seeking at times of minimal reward.

3.7.3 Council must ensure that any investment, notwithstanding a yield above the benchmark rate (taking into account term), is executed at the best pricing reasonably possible.

3.7.4 Managed funds are allocated to the appropriate horizon based on appropriate minimum holding period and should be taken into account when allocating the rest of the portfolio.

3.7.5 The decision to exit grandfathered investments should be based on a range of criteria specific to the investments, including but not limited to:

- (a) returns expected over the remaining term;
- (b) fair values;
- (c) competing investment opportunities;
- (d) costs of holding;
- (e) liquidity and transaction costs, against other benefits of doing so;
- (f) outlook for future investment values; and
- (g) risk of defaulting payment.

Professional advice should be obtained before transacting in grandfathered investments. This Policy does not presume disposal; however, the removal of an asset from the Minister's Order would warrant a review of its suitability for retention.

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4. Delegation

- 4.1 There are Administrative and/or Legislative Delegations applicable to this Policy, which are provided for in Council's Delegations Manual.

5. Procedure

5.1 Role of Investment Advisor

Council's Investment Advisor is appointed by way of Expressions of Interest (EOI) which will be reviewed by the Finance Panel. The Investment Advisor must operate with an appropriate license from the Australian Securities and Investment Commission (ASIC). The Advisor must be independent and must confirm in writing that they have no actual or potential conflict of interest in relation to investment products being recommended and are free to choose the most appropriate product within the terms and conditions of the Investment Policy. Independence includes receiving no commissions or other benefits in relation to the investments being recommended or reviewed, except as fully rebated to Council, promptly.

Council's appointed Investment Advisor will provide pro-active investment advice as market circumstances are likely to evolve continuously. The Investment Advisor will always be available to provide informed decisions to Council to implement an optimal strategy when investing and divesting funds on any given day.

- 5.2 Counterparty Limits may fall outside of the limits set out in section 3.5.1 due to movements in the overall investment portfolio's balances (e.g. inflows or outflows such as capital expenditure) or a credit event (e.g. upgrade or downgrade of a bank, or a takeover of an institution). Temporary breaches of these limits are generally considered immaterial and likely to be rectified within a short timeframe as the portfolio can be rebalanced quickly.

Council will look to rectify any overweight position as soon as practical while considering the implications of breaking investments early before maturity after consultation with its Investment Advisor.

5.3 Accounting

Council must comply with appropriate accounting standards in valuing its investments

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and quantifying its investment returns.

Published reports should specify the duly calculated investment returns as realised and unrealised capital gains and losses, and interest return.

5.4 Reporting

Documentary evidence must be held for each investment, and details must be maintained in an investment register. The documentary evidence must provide Council's legal title to the investment.

For audit purposes, certificates must be obtained from the banks, fund managers, or custodians which confirm the amounts of investment held on Council's behalf as at the end of the Financial Year.

All investments are to be reconciled at least on a monthly basis.

Pursuant to clause 212 of the *Local Government (General) Regulation 2005* (NSW), Council must provide a monthly report to Council on investments which documents:

- (a) the total value of the portfolio;
- (b) a complete schedule of all investments within the total portfolio;
- (c) full disclosure of all investments by type, current credit rating and face value;
- (d) net investment income for the month (actual against budget);
- (e) the weighted average investment returns for the current month and the last 12 months rolling period (actual against benchmark);
- (f) informative commentary on portfolio compliance and performance, current economic investment environment, and any change to current strategy; and
- (g) certification that investments accord with the Act, regulations and Council's Investment Policy.

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6. Definitions

Act	Refers to the <i>Local Government Act, 1993</i> (NSW)
AusBond Bank Bill Index (BBI)	Formerly the UBS BBI. The UBS Australia index family was acquired by Bloomberg from Q3 2014, and while branding changed the benchmark is unaltered. The Bank Bill Index represents the performance of a notional rolling parcel of bills averaging 45 days and is the widely used benchmark for local councils and other institutional cash investments.
Authorised Deposit-Taking Institutions (ADIs)	Corporations authorised under the <i>Banking Act 1959</i> (Cth) to take deposits from customers and are regulated by the Australian prudential regulation authority (APRA).
Council	Refers to City of Parramatta Council
Council Funds	Surplus monies invested by Council in accordance with Section 625 of the <i>Local Government Act, 1993</i> .
Debenture	A document evidencing an acknowledgement of a debt, which a company has created for the purposes of raising capital. Debentures are issued by companies in return for medium and long-term investment of funds by lenders.
Employee	A person who is directly employed by Council on a full time, part time, temporary or casual basis.
Floating Rate Note (FRN)	A medium to long term fixed interest investment where the coupon is a fixed margin ("coupon margin") over a benchmark, also described as a "floating rate". The benchmark is usually the Bank Bill Swap reference rate (BBSW) and is reset at regular intervals, typically quarterly.
Grandfathered	Investments eligible to retain but which do not add to or restructure existing investments, and which have become ineligible due to regulatory or Policy changes, or through a rating downgrade.
Horizon	Represents the intended minimum term of the investment; it is open for the ongoing strategy in consultation with Council's Investment Advisor as to define a target date for sale of a liquid investment.
Major Banks	Currently defined as the Authorised Deposit-Taking Institution (ADI) deposits or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups: (a) Australia and New Zealand Banking Group Limited (ANZ); (b) Commonwealth Bank of Australia (CBA);

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	(c) National Australia Bank Limited (NAB); (d) Westpac Banking Corporation (WBC); and (e) ADI subsidiaries whether or not explicitly guaranteed, and brands (such as St George).
TCorp / TCorpIM	Refers to the New South Wales Treasury Corporation (NSW TCorp), including the TCorp Investment Management arm which manages the TCorpIM Funds (formerly Hour-glass).
Tenor	Remaining period to maturity (a variable, declining period - as opposed to "term" which is set at issue).

REFERENCES	Australian Accounting Standards <i>Final Prudential Practice Guide CPG 229 Climate Change Financial Risks</i> <i>Local Government Act (1993) (NSW)</i> <i>Local Government (General) Regulation(2021) (NSW)</i> Local Government Code of Accounting Practice and Financial Reporting (NSW) Ministerial Investment Order Office of Local Government Investment Policy Guidelines Office of Local Government Circulars <i>The Trustee Amendment (Discretionary Investments) Act (1997) – Section 14 (NSW)</i>
ASSOCIATED POLICIES	Nil
ATTACHMENTS	Nil

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