

INVESTMENT POLICY**Objectives**

While exercising the power to invest, consideration needs to be given to preservation of capital, liquidity, and the return of investment.

- (a) Preservation of capital is the principal 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 threshold and parameters.
- (b) The investment portfolio will ensure there is sufficient liquidity 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.
- (c) The investment is expected to achieve a predetermined market average rate of return that takes into account the Council's risk tolerance. Any additional return target set by Council will also consider the risk limitation and prudent investment principles.

Legislative Requirements

All investments are to comply with the following:

- Local Government Act 1995 – Section 6.14;
- The Trustees Act 1962 – Part III Investments;
- Local Government (Financial Management) Regulation 1996 – Regulation 19, Regulation 28, and Regulation 49
- Australian Accounting Standards

Delegation of Authority to Invest

The authority is to be delegated to the Chief Executive Officer to make investment decisions and sign investment lodgements and withdrawals. Pursuant to the provisions of Section 5.45 of the Local Government Act 1995. The CEO may in turn delegate the day-to-day management of the Shire's investments.

Prudent Person Standard

Investment will be managed with the care, diligence and skill that a prudent person will exercise. Officers are to manage the investment portfolios to safeguard the portfolios in accordance with the spirit of this Investment Policy, and not for speculative purposes.

Authorised Institutions

Investments are limited to authorised institutions, in accordance with Local Government (Financial Management) Regulations Section 19c, being;

- Authorised deposit-taking institution as defined in the Banking Act 1959 (Commonwealth) section 5; or
- The Western Australian Treasury Corporation established by the Western Australian Treasury Corporation 1986.

Authorised Investments

The only types of authorised investments under section 6.14(1) of the Local Government Act 1995 and Regulation 19 of the Local Government (Financial Management) Regulations are as follows;

- Deposits with authorised institution and the term is to be no more than 12 months;
- Bonds that are guaranteed by the Commonwealth Government, or a State or Territory government with a maturity of up to 3 years; and

- Australian currency only.

Prohibited Investments

This investment policy prohibits any investment carried out for speculative purposes including:

- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow; and
- Stand alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.

This policy also prohibits the use of leveraging (borrowing to invest) of an investment.

Risk Management Guidelines

Investments obtained are to comply with three key criteria relating to:

- Portfolio Credit Framework: limit overall credit exposure of the portfolio
- Counterparty Credit Framework: limit exposure to individual counterparties/institutions
- Term to Maturity Framework: limits based upon maturity of securities.

In light of the recent Federal Government Guarantee on all retail and wholesale deposits with Australian Authorised Deposit Taking Institutions (ADIs) i.e. Banks, Building Societies and Credit Unions until 11th October 2011, any investment in such institutions to this date shall be considered to be AAA or A-1+ rated in line with the Federal Government's credit rating.

Further to this, any investment in an ADI which allows for Council to demand early repayment (prior to maturity) at no penalty shall be considered to be money "at call".

(a) Overall Portfolio Limits

To control the 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	Direct Investment Maximum %	Managed Funds Maximum%
AAA	A-1+	100%	100%
AA	A-1	60%	80%
A	A-2	40%	80%

(b) Counterparty Credit Framework

Exposure to an individual counterparty/institution will be restricted by their credit rating so that single entity exposure is limited, as detailed in the table below:

S&P Long Term Rating	S&P Short Term Rating	Direct Investment Maximum %	Managed Funds Maximum%
AAA	A-1+	50%	50%
AA	A-1	35%	45%
A	A-2	20%	40%

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

Investments fixed for greater than 12 months are to be reviewed on a regular basis and invested for no longer than 5 years.

(c) Term to Maturity Framework

The investment portfolio is to be invested within the following maturity constraints:

Overall Portfolio Return to Maturity		
Portfolio % <1 year	Min 40%	Max 100%
Portfolio % >1 year	Min 0%	Max 60%
Portfolio % >3 year	Min 0%	Max 50%
Portfolio % >3 year < 5 year	Min 0%	Max 25%

Investment Advisor

The Shire of Denmark does not use an investment advisor to assist in the investment decision making process, however, if such advice was to be sought any advisor must be licensed by the Australian Securities and Investment Commission. The advisor must be an independent person who has no actual or potential conflict of interest in relation to investment products being recommended and is free to recommend the most appropriate product within the terms and conditions of the investment policy.

The investment return for the portfolio is to be regularly reviewed by the investment advisor by assessing the market value of the portfolio. The market value is to be assessed at least monthly to coincide with monthly reporting.

The investment advisor should meet with the responsible staff and review the Shire's investment portfolio no less than every six months.

Benchmarking

The performance of the investment portfolio shall be measured against the UBS Warburg 90 Day Bank Bill Index and/or the Cash Rate.

Reporting and Review

A monthly report will be provided to Council in support of the monthly statement of activity. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value.

This Investment Policy will be reviewed at least once a year or as required in the event of legislative changes.

Documentary evidence must be held for each investment and details thereof maintained in an investment Register.

Certificates must be obtained from the financial institutions confirming the amounts of investments held on the Council's behalf as at 30 June each year and reconciled to the Investment Register.

ADDED by Res: 210309 / 24 March 2009
AMENDED by Res: 110217 / 21 February 2017

INVESTMENT POLICY (amended)**Objective**

The objective of this Policy is to provide the criteria for making authorised investments of funds which are surplus to the Shire of Denmark's immediate requirements and to ensure the security of the Shire's funds.

Policy Statement

The principal objective of Council with respect to the investment of surplus funds is the preservation of capital.

While a conservative approach is to be adopted, the maximisation of returns within the confines of this Policy is also encouraged

This Policy applies to all investments associated with the operation of the Shire and includes reserves, other restricted funds and general revenue funds in excess of immediate cash-flow requirements.

The following factors are to guide investment decisions:

- a) Compliance - investment decisions are made with adherence to appropriate legislative requirements.
- b) Preservation of capital - 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 threshold and parameters.
- c) Liquidity - the investment portfolio will ensure there is sufficient liquidity 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.
- d) Return on Investment - investments are expected to achieve predetermined market average rate of return taking into account the Council's risk tolerance.

Investment Guidelines**Authorised Institutions**

Investments are limited to authorised institutions, in accordance with Local Government (Financial Management) Regulations Section 19c, being

- Authorised deposit-taking institution (ADI) as defined in the Banking Act 1959 (Commonwealth) section 5, or
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Authorised Investments

The only types of authorised investments under section 6.14(1) of the Local Government Act 1995 and Regulation 19 of the Local Government (Financial Management) Regulations are as follows

- Deposits with authorised institution and the term is to be no more than 12 months,
- Bonds that are guaranteed by the Commonwealth Government, or a State or Territory government with a maturity of up to 3 years, and
- Australian currency only.

Prohibited Investments

This investment policy prohibits any investment carried out for speculative purposes including

- Derivative based instruments,

- Principal only investments or securities that provide potentially nil or negative cash flow, and
- Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.

This policy also prohibits the use of leveraging (borrowing to invest) of an investment.

Rating Agency

The credit framework credit ratings will adopt the Standard Poor (S&P) ratings agency system criteria. The institution credit ratings are to be reviewed on a regular basis to ensure the credit quality of the investment portfolio is maintained.

Authority to Invest

The authority to invest is to be delegated to the Chief Executive Officer to make investment decisions and sign investment lodgements and withdrawals. Pursuant to the provisions of Section 5.44 of the Local Government Act 1995. The CEO may in turn delegate the day-to-day management of the Shire's investments.

Prudent Person Standard

Investments will be managed with the care, diligence, and skill that a prudent person will exercise.

Non-Fossil Fuel Investment

Subject to the policy objectives and risk management guidelines as outlined in this document, the Shire will ensure its financial investments consider the reduction of fossil fuels, by investing with non-fossil fuel lending banks. The Shire will refer to the research of third-party bank monitoring services to determine eligible non fossil fuel lending banks.

Risk Management Guidelines

All investments are to comply with the following three key criteria.

- (a) Portfolio Credit Framework - to control the 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	Direct Investment Maximum %	Managed Funds Maximum%
AAA	A-1+	100%	100%
AA	A-1	60%	80%
A	A-2	40%	80%

- (b) Counterparty Credit Framework - exposure to an individual counterparty/institution will be restricted by their credit rating so that single entity exposure is limited, as detailed in the table below.

S&P Long Term Rating	S&P Short Term Rating	Direct Investment Maximum %	Managed Funds Maximum%
AAA	A-1+	50%	50%
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A	A-2	25%	40%

- (c) Term to Maturity Framework - the investment portfolio is to be invested within the following maturity constraints.

Overall Portfolio Return to Maturity		
Portfolio % <1 year	Min 40%	Max 100%
Portfolio % >1 year	Min 0%	Max 60%
Portfolio % >3 year	Min 0%	Max 50%
Portfolio % >3 year < 5 year	Min 0%	Max 25%

Investments fixed for greater than 12 months are to be reviewed on a regular basis and invested for no longer than 5 years.

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

Investment Advisor

If an investment advisor is appointed, they must be an independent person approved by Council and licensed by the Australian Securities and Investment Commission. Any appointed investment advisor must abide by all guidelines in the Investment Policy.

Benchmarking

The performance of the investment portfolio shall be measured against the Reserve Bank of Australia (RBA) Cash Rate.

Legislative Requirements

All investments are to comply with the following:

- Local Government Act 1995 – Section 6.14;
- The Trustees Act 1962 – Part III Investments;
- Local Government (Financial Management) Regulation 1996 – Regulation 19, Regulation 28, Regulation 34, and Regulation 49
- Australian Accounting Standards

Reporting and Review

As a minimum, a report will be provided to the Council on a monthly basis detailing the performance of the investment portfolio, Counterparty percentage exposure of total portfolio and investment maturity dates. The report will also detail investment income earned versus budget year to date and confirm compliance of the Council's investments within legislative and policy limits.

This Investment Policy will be reviewed at least once a year or as required in the event of legislative changes.

Documentary evidence must be held for each investment and details thereof maintained in an Investment Register.

Certificates must be obtained from the financial institutions confirming the amounts of investments held on the Council's behalf as at 30 June each year and reconciled to the Investment Register.

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