

Investment Policy



City of Ryde

Effective Date
26 September 2007

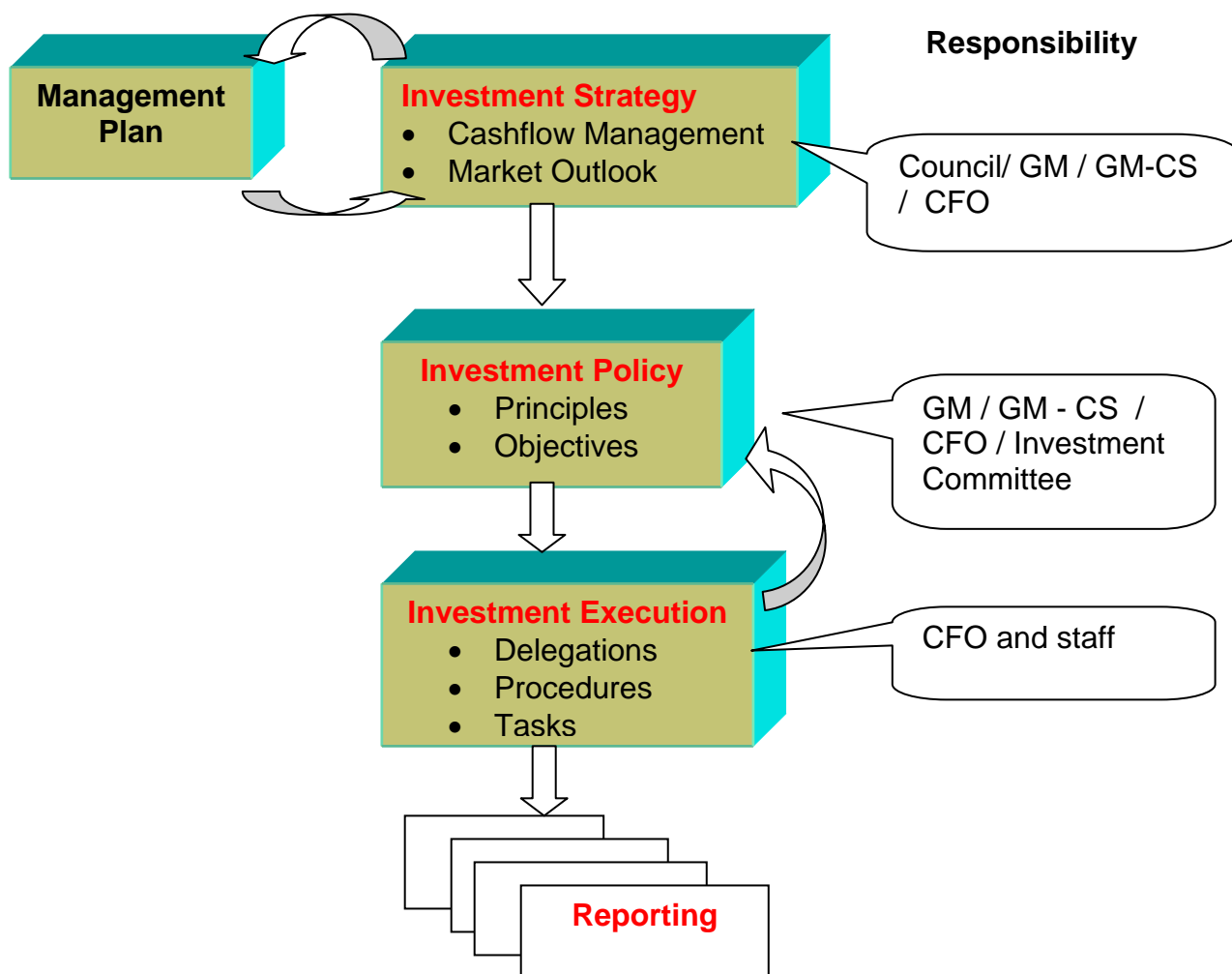
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POLICY PURPOSE

The purpose of this policy is to provide a framework for making decisions concerning appropriate investment of Council’s funds in accordance with Council’s Investment Strategy.

POLICY FRAMEWORK

The following diagram shows how the Investment Policy relates to other policies, plans and strategy within Council.



- * GM – General Manager
- * GM – CS Group Manager, Corporate Services
- * CFO – Chief Financial Officer

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POLICY PRACTICES AND PROCEDURES

1. Objectives

- To undertake investment of surplus funds in line with Council's current Investment Strategy
- To ensure the security of Council's capital
- To maximise earnings from authorised investments

2. Authority for Investment

All investments are to be made in accordance with:

- Local Government Act 1993 - Section 625
- Local Government Act 1993 - Order (of the Minister) dated 15 July 2005
- The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1) & (2)
- Local Government (Financial Management) Regulation 1993
- The Code of Accounting Practice and Financial Reporting
- Investment Guidelines issued by the Department of Local Government

3. Delegation of Authority

The General Manager has authority to invest surplus funds. The General Manager can further delegate this authority to senior Council officers.

4. Investment Committee

The General Manager, recognising the significant source of revenue Council earns from its Investment Portfolio, has established an Investment Committee which meets on a monthly basis to monitor and review the performance of Council's investment portfolio and review and recommend investment opportunities.

In reviewing performance, the Investment Committee also considers investment risk, fund manager credentials and ethics and economic outlook.

The Investment Committee is also concerned with the economic performance of Council's Investment Property portfolio which is managed by Council's Investment Property Committee.

Whilst returns on investment are the primary consideration for acquiring investment properties, the Investment Committee acknowledges that Council does acquire Investment properties for other strategic purposes.

The Investment Committee is responsible for stipulating targeted returns from Council's Investment Property portfolio.

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The Investment Committee comprises the following senior Council Officers:

General Manager
Group Manager Corporate Services
Chief Financial Officer

All Group Managers are invited to attend Investment Committee meetings.

The Financial Accountant / Senior Accountant provide support to the Investment Committee.

5. Authorised Investments

All investments must be denominated in Australian Dollars. Subject to the guidelines in Section 5, authorised Investments are:

- Debentures or securities issued by, or guaranteed by, Local, State and Commonwealth governments.
- Securities issued by a body or company, including a funds manager, (or its ultimate controlling parent entity), which has a minimum long term credit rating of 'A' from Standard & Poors Australian Ratings, Moody Investor Services or Fitch rating equivalent.
- Any securities that either have a minimum long term credit rating of 'A' or short term rating of 'A1' from Standard & Poors or Moody Investor Services equivalent.
- Interest bearing deposits/ securities issued by a licensed bank, building society or credit union
- Investments with the NSW Treasury Corporation
- Deposits with the Local Government Investment Services ("LGIS").

6. Guidelines

The overall objective of Council's investment policy is to maximise returns from surplus funds within the constraints imposed by the guidelines in sub-sections (A) to (K) below, which place specific limitations on the investments authorised in Section 4.

(A) Prudence

Investment decisions will be made by a "prudent person" who has exercised a "duty of care", as defined by the Trustee Amendment (Discretionary Investments) Act 1997. A prudent person is entrusted to act with a duty of care, not as an average person would act but as a wise, cautious and judicious person. Such a person will:

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- Have a full understanding of Council's Investment Policy
- Understand the legislative constraints regarding Council's investments
- Actively manage investments by regular market monitoring. Performance of investments is to be reviewed (individually and as a whole portfolio) on a monthly basis. Where necessary, advice and assistance should be sought from professional people with experience in investment markets. Any professional advice obtained must contain a statement by the advisor as to their financial interest in the advice given.
- Review Council's investment strategy, at least annually
- Balance the investment risk/return trade off by not taking an overtly conservative (low risk, low return) stance or overtly risky stance.
- Have a full understanding of Council's investment strategy and its specific requirements for cashflow to meet its obligations and consider this in selecting duration of investments.

(B) (a) Diversification - Institution Exposure Constraint

The total amount invested with any one institution (or controlling parent entity) must not exceed 15% of average annual funds invested at the time the investment is made. Where as a result of changes in Council's Investment Portfolio this percentage limit is exceeded, this will be considered by the Investment Committee for divestment as soon as practicable to maintain this limit.

(b) Diversification – Product range Exposure Constraint

The total amount invested with any one product type must not exceed the following percentages % of average funds invested at the time the investment is made.

| Product Type | Max Exposure | Min Rating |
|--|--------------|------------|
| Cash | 100% | AAA |
| Managed Funds | 50% | AA |
| Floating Rate Notes | 30% | A+ |
| Collateralised Debt Obligations *) | 15% | AAA |
| Constant Proportion Debt Obligations *) | | |
| Other Capital Protected Financial Products | 20% | A+ |

Where as a result of changes in Council's Investment Portfolio this percentage limit is exceeded, this will be considered by the Investment Committee for divestment as soon as practicable to maintain these limits.

- * Council increased the required credit rating for new CDO & CPDO investments to AAA in adopting its revised Investment policy at its meeting on Tuesday, 25 September 2007

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(C) Credit Risk Constraint

The appropriate risk rating of any proposed investment should be ascertained and the investment only made if it will not cause the composition of the investment portfolio to exceed the proportions in the following table:

| Long Term Rating (Standard & Poors) for Investments maturing in greater than 12 months | Short Term Rating (Standard & Poors) for Investments maturing in less than 12 months | Maximum Percentage of Total Investments |
|---|---|--|
| AAA | A1+ | 100% |
| AA | A1 | 100% |
| A * | A2 * | 25% |

*Investments with long term ratings below 'A' and short term ratings below A1 are only permissible if they are issued by a Bank, Building Society, Credit Union, the Local Government Investment Services (LGIS), or the NSW Treasury Corporation.

In situations where securities have a different rating to the rating of the institution offering the security, the security credit rating must be used to meet the tests in the above table.

(D) Liquidity, Cashflow and Investment Time Horizon

Council's investment portfolio will be sufficiently liquid at all times to meet its forecast obligations.

Long term and short term cashflow requirements must be determined in advance with reference to the approved Council Management Plan, expenditure and income trend monitoring, liability forecasting and other information sources. In line with budgets, cash flow planning should be on, at least, a monthly basis for the first year and, at least, yearly for subsequent years.

The result of detailed cashflow planning will allow the determination of investments that need to be held extremely liquid to meet immediate needs and those that can be invested for longer periods to meet liabilities in future years. Funds can be categorised into three groups for the purpose of matching them to investment types:

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| Investment Duration Category | Characteristics | Appropriate Investment Time Horizon |
|-------------------------------------|---|--|
| Short term | Required to fund the current years budget | Less than 12 months |
| Medium term | Required to fund liabilities identified in years 2 and 3 of the current Management Plan | Up to 3 years |
| Long Term | Not required within the period of the current Management Plan | 3 years to 7 years |

(E) Investment Maturity Exposure Constraint

The maturity date of an investment is defined as the date at which it can be converted to cash and therefore used to discharge liabilities or be re-invested.

The maximum permissible maturity date of any investment will be in accordance with the categorisation of the funds comprising it, as determined by the "Investment Time Horizon" shown in the table in sub-section (D).

Some investments may have characteristics which modify their categorisation. If the investment can be readily converted to cash in the short term (maximum of 14 days) they can be regarded as having a time horizon of less than 12 months regardless of the actual specified maturity date(s) of the underlying securities. This may be the case, for example, with:

- (i) an investment in a managed fund, or
- (ii) an investment in any type of security for which there is a vigorous, assured secondary market, or
- (iii) a security subject to a re-purchase contract or option.

(F) Interest Rate Risk Constraint

Longer term investments are subject to interest rate risk and greater capital price volatility.

Interest rate risk is the risk that market rates of interest for a security of given credit risk will change over time and adversely affect the capital value of longer term securities at fixed interest held by Council.

Some longer term investments may have floating coupon rates of interest. Such rates should float in accord with an appropriate industry benchmark. This reduces interest rate risk inherent in a security of longer duration to

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the interest reset period. With these investments an appropriate industry benchmark is one with the characteristics set out in sub-section (J).

To control interest rate risk, no more than 10% of Council's investments should be held in securities where the interest rate is adjusted less frequently than every 12 months.

(G) Divestment

If the characteristics of any of Council's investments change with market conditions such that they no longer fall within these investment policy guidelines, they will be considered by the Investment Committee for divestment as soon as is practicable.

(H) Fund Managers

Fund managers act as an agent to re-invest Council's funds in underlying securities. As such, any investment in a managed fund is subject to the constraints in sub-sections (A) to (G), above. They should only be made after due consideration of the funds credit risk, liquidity, performance, diversification and maturity profile.

Investments should only be made in funds where all fees are fully disclosed and fund performance is evaluated on an after fees basis.

Regardless of the liquidity offered by managed funds, the maturity of the permissible securities in which the fund invests should be matched to the investment time horizon determined for the invested funds in accordance with sub-section (D) above. Names and types of managed funds available are highly variable over time as marketing styles and opportunities change. Thus, the primary determination of appropriate fund type is an examination of the funds trust deed to verify the restrictions on investment type, maturity and other factors imposed upon the fund manager. In general, the following is a guide to currently available managed fund types:

| Fund Type | Maximum Investment Time Horizon |
|--|--|
| Cash Funds (at call) Rated AA | 0-180 days |
| Cash Plus / Cash Enhanced Funds / or equivalent rated AA | 3 months plus |
| Cash Funds rated less than AA | 1 Year |
| Fixed Interest Funds | 3 years plus |

Investments should not be made in any funds which have non-interest bearing investments forming any part of the fund.

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(I) Quotations on Investments

Where possible, once an appropriate investment has been determined using the above guidelines and several equivalent investment instruments are available from different sources, consideration will be given by the Investment Committee for independent expert analysis for review to assist investment selection.

(J) Performance Benchmarks

An appropriate performance benchmark should be determined for monitoring and reporting on all investments. Characteristics of acceptable benchmarks are:

- They represent market conditions
- They are, preferably, not measured by a body directly involved in the supply of investment products. If they are, the products of that body do not have a significant bearing upon the benchmark and the calculation of the benchmark from its components could be independently verified.
- They are accepted industry standards
- They are readily and publicly available
- They are appropriate to the investment that is being measured

Examples of currently available performance benchmarks considered appropriate are:

| Investment type | <i>Performance Benchmark</i> |
|---|--|
| Cash funds /At call deposits | 11 AM cash rate |
| Cash Plus/ Cash Enhanced Funds/ Bank Bills/ Floating Rate Notes / Term deposits | UBSA Bank Bill Index (duration appropriate to the maturity of the fund or interest reset period) |
| Fixed Interest securities with maturities exceeding 12 months | UBSA 0-3yr and/or All Maturities Indices (or equivalent) |

(K) Reporting

(i) A monthly report should be provided to Council with the following details:

- Cumulative financial year to date performance of each investment compared to the adopted benchmark
- Exposure by Investment Type, Investment Institution/Fund Manager, and credit rating as a percentage of total portfolio
- Exposure by investment maturity compared to benchmark
- Sources of funds and purposes for which they are held

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- Certification that investments are in accordance with Council policy and applicable legislation, or recovery action to be taken
 - Investment income earned versus budget year to date.
- (ii) For audit purposes, certificates must be obtained from all institutions where investments are held, confirming the amounts of investment held on Council's behalf at 30th June each year.
- (iii) Longer term investments which are not foreseen to be held to maturity are to be valued to market price for inclusion in the Council Statement of Financial Position as required by the Code of Accounting Practice.

(L) Variation to Policy

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

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

(M) Review of Investment Policy

This investment policy should be reviewed annually as part of the development of the annual Management Plan.