Title:	**Investment Policy**
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3	21\2546	26/08/2014	Adopted
4	21\5439	30/05/2017	Adopted by Council

1 Policy Summary

The Investment Policy establishes the guidelines that City of Darwin adopts in investing funds not required to meet immediate liquidity needs with the exception of trust funds.

This policy is supplemented by Investment Procedures, which are not required to be adopted by Council. The procedures form part of Council's internal controls.

2 Policy Objectives

To invest Council's funds with consideration of risk and at the most favorable rate of interest available to it at the time for the investment type. While exercising the power to invest, consideration is to be given to preservation of capital, liquidity and the return on investment.

Primary objectives of the policy are:

- Ensure that the investment portfolio is structured to provide sufficient liquidity to meet all reasonably anticipated cash flow requirements.
- Preservation of capital; capital loses should be avoided by minimising credit risk (risk of default), market risk (risk that changes in interest rates will adversely affect the fair value of the investment) and through diversification of investment issuers.
- Earn interest.
- Ensure that funds are invested in accordance with legislative requirements.
- Identify the range of approved and prohibited investments.
- Set boundaries for exposure to the risks associated with investments.
- Ensure that Council maintains adequate control of its investments.

- Establish a framework for monitoring investments.
- Meet an agreed return benchmark appropriate to the risk tolerance of Council on a long term basis.

3 Background

Council is required to ensure that there are proper policies and procedures in place to safeguard its assets in accordance with Regulation 10 of the *Local Government (Accounting) Regulations*. An investment policy is essential to these requirements.

In April 2012 the Minister for Local Government released Local Government Investment Guidelines pursuant to sections 121(2) and 258(1) of the Local Government Act.

The 2012 guidelines provide guidance on:

- The legislative framework for the guidelines including Australian Accounting Standards and the Prudent Person Rule;
- Duties and responsibilities of councils and their staff including internal controls;
- The requirements of a good investment policy including investment types, risks returns and benchmarks;
- Governance including reporting and monitoring; and
- Audits and external reviews

4 Policy Statement

Legislative Framework

Local Government Act
Section 121(1) of the *Local Government Act* states that "a council may invest money not immediately required for the purposes of the Council".

Local Government Investment Guidelines
Section 121(3) of the *Local Government Act* states that "councils involved in investment activities must comply with the *Local Government Investment Guidelines*".

Delegation of Authority
In accordance with Section 32(2) of the *Local Government Act* Council has delegated the authority for implementation of the Investment Policy to the Chief Executive Officer.

At the time of adopting this policy and in accordance with Section 102 of the *Local Government Act* the Chief Executive Officer has delegated implementation and management of the Investment Policy to the General Manager City Performance.

This policy is however subject to any instrument of delegation or variation thereto issued from time to time by the Council or Chief Executive Officer.

Prudent Person Rule
The Prudent Person Rule requires officers to exercise the same care, diligence and skill that a prudent person would exercise in managing the affairs of other persons. Acting prudently applies to selecting investments and requires an individual to consider diversification, appropriateness of the product, risk and anticipated return, liquidity, independent financial advice and to have a clear understanding of the product.

Ethics and Conflicts of Interest
Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This policy requires officers to disclose any conflict of interest to the Chief Executive Officer.

Authorised Investments

Approved Investments
Investments are limited to the NT Local Government legal and regulatory requirements including the Ministers guidelines. If there is any conflict or contradiction between this policy and the legal requirements the legal requirements must prevail. The policy should be amended as soon as practicable after noting that a conflict or contradiction exists.

In addition to the legal requirements and without approval by specific resolution of Council investments are limited to:

- Local/State/Commonwealth Government Bonds, Debentures or Securities
- Interest bearing deposits issued by an authorised deposit taking institution (ADI)

All investments are subject to the Investment Limits stated in this policy.

Mandatory Conditions
There are certain mandatory conditions that all investments must comply with:
- All investments must be in the name of City of Darwin. If using the services of an Investment Advisor or Broker, Council must ensure that ownership is retained.
- All investments must be denominated in Australian dollars.
- All investments must be placed through a licensed financial services institution with a current Australian Financial Services Licence issued by the Australian Securities and Investment Commission, unless placed directly with the issuing entity whose interest bearing securities must be compliant with the investment policy.

Prohibited Investments

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

- Subordinated bank debt (all bank debt should be prime).
- Derivative based instruments.
- Principal only investments or securities that provide potentially nil or negative cash flow.
- Standalone securities issued that have underlying futures, options, forward contracts and swaps of any kind.
- Shares of any kind.

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

Risk Management Guidelines

Council is risk averse; risk aversion is the reluctance to invest in a product with a higher risk compared to a product with lower risk, but possibly lower returns. Risk can never be completely mitigated and no investment is risk free.

This policy outlines the limits on investments that assist in mitigating risk within Council's control without unnecessary detrimental impact on investment returns.

Investments are to comply with key criteria relating to:

a) Credit Risk: limit overall credit exposure of the portfolio.
b) Counterparty Credit Risk: limit exposure to individual counterparties/ institutions.
c) Diversification – setting limits to the amounts invested with a particular financial institution or government authority to reduce credit, interest rate, liquidity and market risks.
d) Interest Rate Risk – the risk the fair market value of the investment fluctuates significantly due to changes in underlying interest rates.
e) Liquidity Risk – the risk council is unable to redeem the investment at a fair price within a timely period, or the risk the fair price has changed significantly due to market risks and council is in a position where it must sell before maturity incurring a loss.
f) Market Risk – the risk the fair value or future cash flows of an investment will fluctuate due to changes in market conditions and prices, principally interest rate, credit and liquidity risks.
g) Maturity Risk: limits based upon maturity of investments.
h) Protection of Principal: investments entered into should be structured to minimise the risk of loss of principal.
i) Grant Funding Conditions: conditions related to grant funding available to invest must be complied with.

Investment Limits

Term to Maturity
The portfolio is to be invested with the following term to maturity constraints:

Maturity Band	Minimum Portfolio Exposure	Maximum Portfolio Exposure
<1 year	30%	100%
>1 year	0%	50%
>3 year	0%	30%
>5 years	0%	10%

All investments greater than 5 years must be issued by a government entity or carry a long term rating of AA- or above from S&P (or an equivalent ratings agency).

Liquidity Requirements
The term of investments must also take into account Council's long term financial plan and liquidity requirements. The portfolio must be structured so that there are always sufficient funds available to meet weekly cash requirements.

Credit Ratings
Credit ratings are a guide or standard for an investor, which indicate the ability of a debt issuer or debt issue to meet the obligations of repayment of interest and principal. Credit rating agencies such as Moody's, Standard and Poor's (S&P) and Fitch Rating make these independent assessments based on a certain set of market and non-market information.

Ratings in no way guarantee the investment or protect Council against investment losses. The prescribed ratings should not be misinterpreted as an implicit guarantee of investments or entities that have such ratings. Even given this challenge, ratings provide the best independent information available.

The following table provides a comparison of the rating equivalents between the different rating agencies:

Standard & Poor's		**Moody's**		**Fitch**	
Short Term	Long Term	Short Term	Long Term	Short Term	Long Term
A1+	AAA	P1	Aaa	FI	AAA
A1+	AA+	P1	Aa1	F2	AA
A1+	AA	P1/P2	Aa2	F2	AA
A1+	AA-	P1/P2	Aa3	F2	AA
A1	A+	P1/P2	A1	F2	A
A1	A	P1/P2	A2	F2	A
A2	A-	P1/P2	A3	F3	A
A2	BBB+	P2	Baa1	F3	BBB
A2	BBB	P3	Baa2	F3	BBB
A3	BBB-	P3	Baa3	F3	BBB

To limit overall credit exposure of the portfolio, Council has placed the following limits on portfolio credit ratings:

Long Term Rating (S&P or equivalent)	Short Term Rating (S&P or equivalent)	Maximum Percentage of Total Investments
AAA TO AA- (or Major Bank Senior Debt)	A-1+	100%
A+ TO A-	A-1	45%
BBB+ TO BBB-	A-2	25%
Unrated*	A-3 or unrated*	10%

- *Unrated institutions must be an "ADI" with an asset base greater than $1B.
- If the instrument has a maturity date of less than 1 year, the short term rating will apply and if it has a maturity greater than 1 year the longer term rating will apply.
- Major Banks for the purpose of this policy are defined as ANZ, CBA, NAB and Westpac
- If the credit rating of any institution or investment is downgraded and, as a result, the investment no longer falls within the policy guidelines it will be divested as soon as it is practical (taking into account the cost and benefits of doing so).

<u>Downgrades & "Grandfathering"</u>
If the credit rating of any institution or investment is downgraded and, as a result, the investment no longer falls within the policy guidelines it will be divested as soon as it is practical (taking into account the cost and benefits of doing so).

Any investment purchased when compliant with the investment policy may be held to maturity or sold as Council believes best dependent on the individual circumstances, so long as the risk management strategy for the investment is in accordance with the principles of the Investment Guidelines as above, the prevailing legislation and the prudent person principles.

Specifically, Grandfathering will apply to any investment that:
- Was made ineligible by a previous change to the external legislation if that change allows for grandfathering.
- Is made ineligible as a result of a change to this investment policy.
- Is in breach of the investment policy due to a change of circumstance. (e.g. because the investment has been downgraded or has had its credit rating withdrawn post purchase).
- Is in breach due to a change of portfolio size or composition (e.g. because the overall portfolio size has decreased and as a result the percentage of total portfolio limit which applies to individual remaining investments increases and therefore causes a breach)".

Individual Counterparty Credit Framework (diversification)
The individual credit guidelines to be adopted will be based on the Standard and Poor's (S&P) ratings system criteria (or Moody's / Fitch equivalent if an S&P rating is not available). The maximum available limits in each rating category are as follows:

Long Term Rating	Short Term Rating	Maximum Individual Limit
Federal, State or Territory Government		100%
AAA to AA- (or Major Bank Senior Debt)	A-1+	40%
A+ to A-	A-1	30%
BBB+ to BBB-	A-2	10%
Unrated	A-3 or unrated	10%

Administration of Policy

Investment Register
Council must keep an up to date Investment Register supported by appropriate documentary evidence for each investment held.

For external audit purposes, certificates must be obtained from the financial institutions confirming the investments held on the Council's behalf as at 30 June each year and reconciled to the Investment Register.

Reporting
A monthly investment report will be provided to Council containing the following:
- List of investments by financial institution.
- Total cash and investments held.
- Percentage exposure to individual financial institutions.
- Adherence to the investment limits set in this policy.
- Investment portfolio performance against established benchmarks, including budget.

Benchmark
The performance of the investment portfolio shall be compared to the Bloomberg Ausbond Bank bill Index (Bank Bill Index) and the 90 day Bank Bill Swap Rate (BBSW) as quoted at the end of each month.

Variations to Policy
The Chief Executive Officer is authorised to approve temporary variations to the policy if required by legislative changes. All changes to the policy will be reported to Council within 30 days. All other variations to the policy are required to be authorised by Council.

Investment Procedures
The Investment Procedures supplement this policy and define the procedures that officers must adhere to when managing investments including but not limited to: authorisation, placement, redemption and reinvestment.

Quotation for Purchase and Sale of Investments
The investing officer must satisfy themselves that they are obtaining a fair market price for all investments made at all times. This can be accomplished by obtaining three (3) independent quotes from reputable market makers where the investment is widely traded or where it is not widely traded by reference to other similar instruments that are traded in the market place.

If this is not possible or impractical, the investing officer can rely on representations made by an Independent Advisor with no conflicts of interest regarding the purchase or sale of the investment.

For the avoidance of doubt the investing officer must not rely or representations made by the buyer, seller or broker or any other person with a potential conflict of interest.

Investment Strategy
On a quarterly basis and in conjunction with this Investment Policy, an Investment Strategy will be formulated and documented taking into consideration the following:

- Council's cash flow requirements and implications for the portfolio liquidity profile.
- Allocation of investment types, credit quality, counterparty exposure and term to maturity.
- Current and projected market conditions and any likely impacts on relative positioning in terms of the portfolio and any necessary policy implications.
- Relative return outlook; risk-reward considerations; assessment of the market cycle and hence constraints on risk.
- Appropriateness of overall investment types for Council's portfolio and,
- The projected investment portfolio level for the forthcoming year.

Safe Custody
All investments must settled and held directly with the ADI or via the proxy Austraclear account to be maintained by Council as an associate member of Austraclear.

Investment Advisor
Independent investment advice should be obtained on a regular basis in relation to Councils policy (annual), strategy (quarterly) and tactics (monthly).

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 choose the most appropriate product within the terms and conditions of the investment policy.

The independent advisor is required to provide written confirmation that they do not have any actual or potential conflicts of interest in relation to the investments they are recommending or reviewing, including that they are not receiving any commission or other benefits in relation to the investments being recommended or reviewed.

Investment Advisor Performance Assessment

Investment Advisor performance should be measured by returns on the investment portfolio net of fees when compared with likely performance of the investment portfolio without external advice.

In making this comparison Council should also take into account the risks taken to achieve the returns and any other services the Investment Advisor may provide such as reporting, valuations, assistance with audit requirements, current market information and alerts all of which have an indirect benefit to Council in saving internal resources such as staff time."

Trading Policy

Council will make every effort and will undertake cash flow forecasting to match investment maturities to cash flow requirements to minimise liquidation of investments prior to scheduled maturities and any associated penalties either explicit in the form of break costs or implicit in terms of broker fees, market spreads and liquidity risks.

Investments will be acquired with the intention of holding them to maturity, and cash liquidity requirements will be managed to ensure that Council avoids a situation which will require a forced sale of these assets in normal circumstances.

However, if Investment Policy Limits have been breached due to a change in the overall size of the investment portfolio, external or internal changes to investment policy parameters or for any other reason, then investments maybe sold prior to maturity. Under these situations Council has the authority to make the necessary arrangements to withdraw from the investment as soon as practicable.

Council may also sell assets prior to maturity in the following circumstances:

If the asset is liquid, easily tradeable, can be sold without significant loss and was purchased as part of a "liquidity buffer" against the event of unforeseen and unexpected liquidity requirements.

If Council judges the asset has deteriorated in credit quality and there is a material risk of loss on the asset if held to maturity and Council, upon seeking external advice from a competent and reputable advisor, is advised that a sale of the asset is in the best interests of Council for risk management purposes to potentially minimise any future losses.

For the avoidance of doubt, Council will not adopt an active trading strategy buying and selling assets on broker recommendations for the purposes of enhancing returns through the accumulation of capital profits.

Council will not view maximum and minimum allocations in investment categories as “target” allocations. The portfolio should in normal circumstances be operated with a degree of margin around any policy restrictions to provide flexibility in the event of any unforeseen circumstances”

Trust Funds

Trust funds are excluded from this policy as they must be kept in separate bank account as per the requirements of Section 120 of the *Local Government Act (NT)*.

5 Legislation, terminology and references

All investments are to be made in accordance with the following:

- *Local Government Act* – Part 10.2
- *Local Government (Accounting) Regulations* – Regulation 18
- *Guidelines pursuant to the Act* and;
- *Australian Accounting Standards*

6 Evaluation and review

This policy will be reviewed annually or more often as required.