

## **POLICY MANUAL**

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### **Investment Policy (July 2018)**

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#### **1. POLICY**

##### **1.1 Objectives**

- To undertake authorised investment of surplus funds after assessing credit risk and diversification limits.
- To maximise earnings from authorised investments and ensure the security of Tamala Park Regional Council (TPRC) funds.
- To preserve TPRC capital funds.
- To ensure provision of sufficient liquidity to meet TPRC cash flow requirements as and when they fall due without incurring significant costs due to unanticipated sales of investments.
- To target a minimum market average return based upon accepted investment indicators reflecting the Council's risk tolerance.

##### **1.2 Authority for Investment**

All investments are to be made generally in accordance with:

- Local Government Act 1995 Section 6.14.
- Trustees Act 1962 and particularly Part 3 Investments
- The Local Government Financial Management Regulations
- Local Government Operational Guidelines No 19 – Investment Policy
- Australian Accounting Standards

##### **1.3 Delegation of Authority**

The Chief Executive Officer or delegated representative(s) have authority to invest surplus funds.

##### **1.4 Prudent Person Standard**

The investment will be managed with the care, diligence and skill that a prudent person would 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.

##### **1.5 Risk Profile**

When exercising the power of investment, the following are to be given consideration:

- The purpose of the investment and the needs and circumstances;
- The desirability of diversifying investments;
- The nature of and risk associated with existing investments;
- The need to maintain the real value of the capital and income;
- The risk of capital or income loss or depreciation;
- The potential for capital appreciation;

## POLICY MANUAL

### Investment Policy (July 2018)

- The likely income return and the timing of income return;
- The length of the term of the proposed investment;
- The liquidity and the marketability of the proposed investment during, and on the determination of, the term of the proposed investment;
- The aggregate value of the investment;
- The effect of the proposed investment in relation to the tax liability (if any)
- The likelihood of inflation affecting the value of the proposed investment;
- The costs (including commissions, fees, charges and duties payable) of making the proposed investment; and
- The results of a review of existing investments.

#### 1.6 Authorised Investments

##### (i) *Investments in Managed Funds would include:*

Fund Type	Minimum Investment Time Horizon	Minimum Rating (where applicable)	Maximum Exposure as % Total Investment Portfolio
Cash Funds (at call)	0-366 days	A	0-100
Cash Plus/Cash Enhanced	3-12 months	A	0-95
Diversified Funds/or Equivalent	3-5 years	A	0-15
Fixed Interest Funds	3-5 years	A	0-15

##### (ii) *Council Direct Investments would include, but not necessarily be limited to:*

- Bank accepted/endorsed bank bills;
- Bank negotiable Certificates of Deposit;
- Bank interest bearing deposits;
- State/Commonwealth Government Bonds;
- Bank backed floating rate notes
- Mortgage backed securities

#### 1.7 Guidelines

##### (a) Council's Direct Investments

###### (i) *Quotations on Investments*

Not less than three (3) quotations shall be obtained from authorised institutions whenever an investment is proposed. The best quote on the day will be successful after allowing for administrative and banking costs, as well as having regard to the limits set in this Policy.

## POLICY MANUAL

### Investment Policy (July 2018)

**(ii) Term to Maturity**

The term to maturity of any Council's direct investment may range from At-Call to 1 year or 366 days.

**(b) Diversification/Credit Risk**

**(i) Managed Fund Investments**

The total amount invested with any one fund manager should not exceed **45%** of average annual funds invested (or projected).

Long Term Rating	Short Term Rating	Maximum % of funds
AAA to AA	A1+	45%
A+ to A-	A1	30%
BBB+BBB-	A2	nil

**(ii) Credit Ratings**

If any of the funds/securities held are downgraded such that they no longer fall within Council's investment policy guidelines, they will be divested within **30** days or as soon as is practicable.

**The short-term rating order 0-365** days (as defined by S & P Australian Ratings) is:

A1+	Extremely strong degree of safety regarding timely payout
A1	A strong degree of safety for timely payment
A2	A satisfactory capacity for timely payment
AAA+ to AAA	An extremely strong capacity to repay
AA+ to AA	A strong capacity to repay
A+ to A-	A strong capacity to repay
BBB+ to BBB-	An adequate capacity to repay

## POLICY MANUAL

### Investment Policy (July 2018)

#### (c) Performance Benchmarks

Investment	Performance Benchmark
Cash/Cash Plus/or Equivalent/Direct Investments	11AM and UBSWA Bank Bill Index UBSWA 0-3yr &/or
Fixed Interest	Master Index
Capital Stable Funds	CPI + 2% AV. Rolling 3 yr periods

#### (d) Reporting

A report will be provided to each bi-monthly ordinary Council meeting, detailing the investment portfolio in terms of performance and counterpart percentage exposure of total portfolio, maturity date and changes in market value.

#### (e) Variation to Policy

The Chief Executive Officer is authorized to approve variations to this policy following consultation with the Chairman if the investment is to Council's advantage and/or due to revised legislation.

All changes to this policy are to be reported to the meeting of the Council following the change and in the event that a meeting of the Council is not scheduled within 14 days then an interim report is to be made to both the Chairman of the Council and to the Chairman of the Audit Committee of the Council.

## 2. OPERATIONAL PROVISIONS

### Investment Limits

- Maximum investment of total funds with any one institution having an A1+ short term rating or better shall be 75%.
- Maximum investment of total funds with any one institution having an A1 or less short-term rating shall be 60%.
- Total funds held in shares should not exceed 5% of funds invested and no single shareholding in a public company should have a value greater than 1% of total investment funds at the time of placement.
- No single property value should be greater than 5% of the total investment funds at the time of purchase and total property value is not to exceed 15% of total investment of funds at any one time.

## **POLICY MANUAL**

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### **Investment Policy (July 2018)**

---

- Notwithstanding the investment limits shown above, the Council, **where land or capital funds are invested in property development within the TPRC area** may vary the investment limits subject to the criteria listed under the heading 'TPRC investments in TPRC development'.

#### **Preference**

Priority is to be given to institutions that are Australian institutions with business offices located in Western Australia.

Income maximisation and risk level management is to feature prominently in the determination of fund's placement with preferred institutions.

#### **Guarantee**

That in the case of term deposits, the return of principle and interest is a pre-requisite of a financial investment. Institutions that fall short of this requirement are required to provide a guarantee of return or a back-to-back arrangement with another institution for the return of investments on maturity.

#### **Prohibited Investments**

This 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, forward contracts and swaps of any kind.

This Policy prohibits the use of leveraging, (borrowing to invest) of an investment, however, this prohibition may be varied, subject to the criteria listed under the heading 'TPRC investments in TPRC development', except in the special circumstances where investment is made in infrastructure or capital developments within the TPRC area.

#### **Monthly Reconciliation and Advice**

It is a requirement that funds placed with approved institutions or withdrawal of such funds made are to be reconciled monthly and matched with Council records.

Details of maturity and rollover investments are to be recorded as expended on new investments (as the case requires) in the Investment Register with an Investment Transaction Voucher prepared on the date of maturity or rollover for ledger entry.

## **POLICY MANUAL**

---

### **Investment Policy (July 2018)**

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#### **Register**

An Investment Register shall be maintained containing the following particulars with respect to each investment:

1. Date of investment;
2. Fund in which money is being invested;
3. The investment amount;
4. The investment house or party with whom the investment is lodged;
5. Type of investment;
6. Security status and nature of security;
7. Date of maturity;
8. Investment interest rate;
9. Interest payment terms;
10. Penalties applicable for pre-expiry termination of investment;
11. Officer initialising the investment;
12. The particulars and location of any security held by Trustees on behalf of the TPRC;
13. The location and any security for an investment held directly by the TPRC;
14. The Investment Register is to be completed prior to the close of business on the day on which the investment is made;
15. The Investment Register and Ledger are to be reconciled at least monthly.

#### **Initiating Investment**

1. All cheques initiating investments are to be drawn by voucher or bill payment request.
2. Investments made with a new investment house must receive and be endorsed by the Chief Executive Officer.
3. The purchase of shares or related products and/or properties for the purpose of long term investments, as endorsed by Council shall have such investments evaluated by professional experts prior to purchase.
4. A maturing investment payment from one investment may not be used to directly initiate one investment of another class or with another borrower.

#### **TPRC Investments in TPRC Development**

Notwithstanding anything contained in this Policy, the Council may, subject to receiving investment advice:

Invest funds in property development within the TPRC development project where the application of funds:

- Is consistent with the TPRC purpose and development objectives;
- Will produce economic, social and environmental outcomes consistent with the TPRC development objectives;

## **POLICY MANUAL**

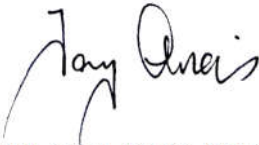
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### **Investment Policy (July 2018)**

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- Has potential for increasing (of the unsold) value of land in the TPRC area other than the land in respect of which the direct investment is made;
- Has a defined payback period for invested principal;
- Produces an internal rate of return at least equivalent to the 30 day USBW cash rate for the period of investment;
- Has an ongoing revenue return following repayment of principle; and
- Is independently assessed for financial viability and security by a competent investment adviser.

This Investment Policy is authorised by the Chief Executive Officer on 16 August 2018.

Signature: 

Name: JOHN ANTHONY ARIAS

Date: 16 August 2018