

## Council Policy 3.3

### Management of Investments Policy

#### Strategic Plan Objective

3.4 To continue to improve financial and asset management practices

#### Purpose

To provide for the investment of EMRC's surplus funds at the most favourable rate of return whilst ensuring prudent consideration of risk and security for the investment type and that liquidity requirements are being met.

To ensure that investments are managed with care, diligence and skill and that the management of the portfolio is carried out to safeguard the portfolio and not for speculative purposes.

Establish guidelines to ensure investments:

- Meet legislative requirements;
- Optimise investment income and returns within acceptable risk parameters;
- Ensure that investments match the liquidity needs of the EMRC; and

Are invested at the most favourable rate of interest available to it at the time whilst having due consideration of risk and security for that investment type.

#### Legislation

*Local Government Act 1995 s.6.14*

*Local Government (Financial Management) Regulations 1996 – r. 19-19C, 28 & 49*

*Local Government (Financial Management) Amendment Regulations 2017 s.19C(2)(b)*

*Trustees Act 1962 - Part III*

#### Policy Statement

##### 1 Ethics and Conflicts of Interest

Officers shall refrain from personal activities that would conflict with the proper execution and management of EMRC's investment portfolio. This policy requires officers to disclose any conflict of interest to the CEO.

##### 2 Delegation of Authority

Authority for implementation of the Management of Investments Policy is delegated by Council to the CEO in accordance with the *Local Government Act 1995*. The CEO may in turn delegate the day-to-day management of Council's investment portfolio to the Chief Financial Officer.

### **3 Investment Ratings**

Investment ratings in this policy are based on those issued by Standard & Poor's.

In the event a proposed investment is not rated by Standard & Poor's but is rated by either Fitch Ratings or Moody's by a rating which is analogous to the ratings of Standard & Poor's, then the EMRC may make the investment relying on the Fitch Ratings or Moody's ratings.

In the event that the rating of an investment held by the EMRC falls below the ratings allowed under this policy for new investments, the affected investment is to be assessed and a recommendation made to the Investment Committee to decide as to whether:

- It is to be liquidated, where allowed under the terms of the investment; or
- It is to be held to maturity.
- The recommendation to the Investment Committee may be made by electronic mail (email) to expedite the approval process by circular resolution.

### **4 Approved Investments**

Approved investments are those investments permitted by s6.14(1) of the *Local Government Act 1995* as specified in the Trustees Act 1962 Part III subject to the limitations expressed in Regulation 19C of the *Local Government (Financial Management) Regulations 1996*.

### **5 Preference for Non-Fossil Fuel Investments**

When making investment decisions, the EMRC will give preference to institutions that do not invest in or finance the fossil fuel industry, where:

- The investment complies with EMRC's investment policy;
- The rate of interest is favourable to EMRC relative to alternative options available at the time;
- The credit rating of the investment is comparable to alternative options available at the time.

Non-fossil fuel investment considerations will be part of the overall selection process to best meet EMRC's investment strategy objectives while ensuring compliance with prevailing legislation and this Investment Policy.

### **6 Prohibited Investments**

This investment policy prohibits any investment which is not an Approved Investment.

### **7 Risk Management Guidelines**

Investments obtained are to be considered in light of the following key criteria:

- Preservation of Capital – the requirement for preventing losses in an investment portfolio's total value;
- Diversification – the requirement to place investments in a broad range of products so as not to be over exposed to a particular sector of the investment market;
- Market Risk - the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices;
- Liquidity Risk - the risk an investor is unable to redeem the investment at a fair price within a timely period;
- Maturity Risk - the risk relating to the length of term to maturity of the investment. The larger the term, the greater the length of exposure and risk to market volatilities; and
- Investments must be rated at not less than the Standard & Poor's ratings (or Moody's or Fitch Ratings equivalent as detailed in section 3) specified below.

Furthermore investments are to comply with three key criteria relating to:

### 7.1 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	Portfolio Maximum %
AAA	100%
AA & A	100%
BBB	40%

### 7.2 Single Entity Exposure

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

S&P Long Term Rating	Portfolio Maximum %
AAA	45%
AA & A	35%
BBB	20%

### 7.3 Term to Maturity Framework

Term	Minimum %	Maximum %
Portfolio % ≤1 year	40%	100%
Portfolio % >1 year ≤ 3 year	0%	60%

Standard & Poor's long-term rating definitions:

AAA	An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
AA	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
A	An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.
BBB	An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to the obligor to meet its financial commitment on the obligation.

Source <http://www.standardandpoors.com>

## **8 Measurement**

The investment return for the portfolio is to be regularly reviewed. The market value and investment maturities are to be assessed at least once a month to coincide with management reporting.

## **9 Procedures**

Investments placed by Council's authorised advisor/s and managers must be appropriately documented at the time of placement.

Appropriate procedures and controls in regards to record keeping, reconciliation, authorisation forms and accounting for investments shall be prepared and maintained to give effect to this policy.

All investments must be authorised in writing by the CEO, or EMRC's authorised managers as per the CEO's delegated authority, prior to the investments being made.

## **10 Reporting**

An investment report is to be prepared each month detailing compliance with the criteria outlined in this policy.

The investment report is to be presented to Council at the next ordinary meeting of the Council following the end of the month to which the report relates. If the statement is not prepared in time to present it to that meeting it is to be presented at the next Ordinary Meeting of the Council following that meeting.

## **11 Investment Advisor**

The CEO has delegated authority to appoint an investment adviser when considered appropriate.

The local government's investment 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 choose the most appropriate product within the terms and conditions of the investment policy.

## **12 Investment Strategy**

EMRC's investment strategy is to optimise investment income within its acceptable levels of risk whilst ensuring the security of these funds enabling the EMRC to meet its business objectives.

Key considerations in this regard include funding requirements identified in the Five Year Plan.

To implement the requirement for diversification, Council's authorised advisors and managers will comply with the Overall Portfolio Limits, Single Entity Exposure, and Term to Maturity limits, as detailed in section 7(a)(b)(c).

The EMRC may invest all of the total investments in Commonwealth/State/Territory bonds.

An indicative sample list of complying authorised deposit-taking institutions (ADI's) is reflected in the Appendix and may vary from time to time

As indicated in this policy.

**Appendix: Indicative Sample List of Compliant Authorised Deposit-Taking Institutions (ADI's)**

**As at August 2021**

<b>ADI Name</b>	<b>Standard &amp; Poor's Credit Rating (Long/ Short)</b>	<b>EMRC Policy Limit per ADI Based on Short-Term Credit Rating Limits</b>
ANZ Banking Group Ltd.	AA-	45%
Bank of Western Australia Ltd.	AA-	45%
Commonwealth Bank of Australia	AA-	45%
National Australia Bank Ltd.	AA-	45%
Westpac Banking Corp.	AA-	45%
Suncorp Metway Ltd	A+	35%
Macquarie Bank Ltd	A+	35%
ING Bank	A	35%
Bank of Queensland	BBB+	20%
Bendigo & Adelaide Bank	BBB+	20%
Rural Bank	BBB+	20%
Great Southern Bank (ex-CUA)	BBB	20%
ME Bank	BBB	20%
AMP Bank Ltd	BBB	20%



### **Adopted/Reviewed**

29 June 2000  
27 July 2000  
2 May 2002  
17 June 2004  
23 February 2006  
18 September 2008 (reported to Council and referred to Investment Committee)  
19 August 2010  
23 September 2010  
25 November 2010  
10 May 2012  
6 December 2012  
18 September 2014  
6 December 2018  
21 February 2019  
23 September 2021

### **Next Review**

Following the Ordinary Elections in 2023

### **Responsible Unit**

Business Support Team