

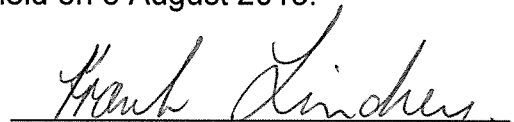


MINUTES

CERTIFICATION OF CONFIRMATION OF COMMITTEE MEETING MINUTES

22 NOVEMBER 2012

I, Cr Frank Lindsey, hereby certify that the following minutes pages [1 to 29] of the Meeting of **INVESTMENT COMMITTEE** held on 22 November 2012 were confirmed at a meeting of the Committee held on 8 August 2013.


Signature

Cr Frank Lindsey

Person presiding at the Committee Meeting held on 8 August 2013

INVESTMENT COMMITTEE

MINUTES

22 November 2012

(REF: COMMITTEES-14417)

A meeting of the Investment Committee was held at the EMRC Administration Office, 1st Floor, 226 Great Eastern Highway, BELMONT WA 6104 on **Thursday, 22 November 2012**. The meeting commenced at **6:32pm**.

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1 DECLARATION OF OPENING AND ANNOUNCEMENT OF VISITORS

The Chairman opened the meeting at 6:32pm.

2 ATTENDANCE, APOLOGIES AND LEAVE OF ABSENCE PREVIOUSLY APPROVED

Councillor Attendance

Cr Frank Lindsey (Chairman)	EMRC Member	Shire of Kalamunda
Cr Gerry Pule (Deputy Chairman)	EMRC Member	Town of Bassendean
Cr Alan Radford	EMRC Member	City of Bayswater
Cr Alan Pilgrim	EMRC Member	Shire of Mundaring

Councillor Observers

Cr Jennie Carter (<i>to 7:09pm</i>)	EMRC Member	Town of Bassendean
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EMRC Officers

Mr Peter Schneider	Chief Executive Officer
Mr Hua Jer Liew	Director Corporate Services
Mr David Ameduri	Manager Financial Services
Ms Mary-Ann Winnett	Personal Assistant to Director Corporate Services (Minutes)

Guests

Mr Haydn Robinson	Haydn Robinson Barrister Solicitor
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3 DISCLOSURE OF INTERESTS

Nil

4 ANNOUNCEMENT BY THE CHAIRMAN OR PERSON PRESIDING WITHOUT DISCUSSION

Nil

5 RESPONSE TO PREVIOUS PUBLIC QUESTIONS TAKEN ON NOTICE

Nil

6 PUBLIC QUESTION TIME

Nil

7 APPLICATION FOR LEAVE OF ABSENCE

Nil

8 PETITIONS, DEPUTATIONS AND PRESENTATIONS

Nil



9 CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS

9.1 MINUTES OF THE INVESTMENT COMMITTEE MEETING HELD 10 MAY 2012

That the minutes of the Investment Committee meeting held on 10 May 2012 which have been distributed, be confirmed.

INVESTMENT COMMITTEE RESOLUTION(S)

MOVED CR PILGRIM SECONDED CR PULE

THAT THE MINUTES OF THE INVESTMENT COMMITTEE MEETING HELD ON 10 MAY 2012 WHICH HAVE BEEN DISTRIBUTED, BE CONFIRMED.

CARRIED UNANIMOUSLY

10 QUESTIONS BY MEMBERS OF WHICH DUE NOTICE HAS BEEN GIVEN

Nil

11 QUESTIONS WITHOUT NOTICE

Nil

12 ANNOUNCEMENT OF CONFIDENTIAL MATTERS FOR WHICH THE MEETING MAY BE CLOSED TO THE PUBLIC

NOTE: Section 5.23(2) of the Local Government Act 1995, details a number of matters upon which Council may discuss and make decisions without members of the public being present. These matters include: matters affecting employees; personal affairs of any person; contractual matters; legal advice; commercial-in-confidence matters; security matters; among others.

The following report item is covered in section 18 of this agenda:

12.1 INVESTMENT COMMITTEE UPDATE - NOVEMBER 2012

13 BUSINESS NOT DEALT WITH FROM A PREVIOUS MEETING

Nil



14 REPORTS OF OFFICERS

14.1 INVESTMENT POLICY REVIEW

REFERENCE: COMMITTEES-14416

PURPOSE OF REPORT

The purpose of this report is for the Investment Committee to review Council Policy 3.3 Management of Investments.

KEY ISSUES AND RECOMMENDATION(S)

- Council Policy 3.3 Management of Investments was last reported to and adopted by Council on 25 November 2010.
- From February 2012, the Government Guarantee on deposits under the Commonwealth's Financial Claim scheme was amended to only the first \$250,000 per institution.
- From 20 April 2012, new regulations limited local governments to investing in authorised deposit taking institutions for a term not exceeding 12 months and bonds that are guaranteed by the Commonwealth/State/Territory Governments for a term not exceeding three years.
- Portfolio management by institutional investors such as local governments is more prudently addressed through the use of a policy containing risk management guidelines and investment strategies to address the risk issues while at the same time allowing a sufficient amount of institutions to be utilised.
- A revised policy was tabled at the 10 May 2012 Investment Committee meeting for discussion and it was resolved that recommendations of the EMRC's legal representative be taken into account.

Recommendation(s)

That the revised EMRC Policy 3.3 Management of Investments forming attachment 3 to this report be adopted by Council.

SOURCE OF REPORT

Director Corporate Services

BACKGROUND

In February 2008 the Department of Local Government and Regional Development (the Department) issued Local Government Guideline 19 - Investment Policy, intended to be a "best practice guide" to assist local governments in developing their own investment policy.

Council referred its existing Management of Investments Policy to the Investment Committee when it was reported to Council in September 2008 (Ref: Committees-8509).

On 2 December 2008 (Ref: Committees-8786) the Investment Committee issued guidelines and resolved that:

- "1. THE EMRC SPREAD THE FUNDS UP TO \$1M TO BANKS COVERED BY THE \$1M GUARANTEE.*
- 2. LIMIT ADDITIONAL FUNDS TO THE BIG 4 BANKS AND NOT PURCHASE THE .7% GUARANTEE, HOWEVER IF EMRC OFFICERS CONSIDER THIS NEEDS TO CHANGE THE OFFICERS BE AUTHORISED TO SECURE THE .7% GOVERNMENT INVESTMENT GUARANTEE."*
- 3. THE ESTABLISHED FLOATING RATE NOTES ABOVE \$1M BE SECURED BY THE .7% GOVERNMENT INVESTMENT GUARANTEE."*



Item 14.1 continued

A revised Investment Policy was referred to the Investment Committee at its meeting held on 6 May 2010 (Ref: Committees-10616) where it was broadly supported subject to some comments being taken into consideration.

These matters were subsequently addressed and Council approved the revised Investment Policy on 19 August 2010 (Ref: Committees-11332).

At the 23 September 2010 Council Meeting (Ref: Committees-11431), when dealing with item 14.5 Review of Council Policies, a query was raised in relation to the Overall Portfolio Limits contained within the Investment Policy. As a result, Council resolved inter alia:

“That 3.3 Management of Investments Policy be adopted but a further review be undertaken by the Investment Committee.”

At the 25 November 2010 Council Meeting (Ref: Committees-11605), Council adopted the revised Investment Policy by reducing the direct investment weighting for the Counterparty Credit Framework for A (Long Term) and A-2 (Short Term) investments from 20% to 10%. Council also adopted the reduction in the Overall Portfolio limits for A (Long Term) and A-2 (Short Term) from 60% to 40%.

From February 2012, the Government Guarantee on deposits under the Commonwealth’s Financial Claim Scheme was amended. The Government’s guarantee on the first \$1m with any Authorised Deposit taking Institution (ADI) has been scaled back to only the first \$250,000 per institution for all new deposits from February 2012 onwards.

The Local Government (Financial Management) Amendment Regulations 2012 were gazetted on 20 April 2012. These regulations contained amendments required to give effect to provisions in the Amendment Act as well as other reform amendments. One of the key amendments included a new regulation prescribing restrictions on local government investment practices and takes effect as existing investments mature or new investments are made.

The new regulation limits local governments to investing money referred to in section 6.14(1) of the Act in:

- (a) Authorised deposit taking institutions and the Western Australian Treasury Corporation for a term not exceeding 12 months;
- (b) Bonds that are guaranteed by the Commonwealth Government or a State or Territory for a term not exceeding three years; and
- (c) Australian currency.

A revised policy was tabled at the 10 May 2012 Investment Committee meeting (Ref: Committees-13926), for discussion and it was resolved that recommendations of the EMRC’s legal representative be taken into account and referred to a future investment committee meeting.

REPORT

Following the last Investment Committee meeting, discussions were held with the EMRC’s legal representative, in relation to his recommendations on the proposed changes to the EMRC Policy 3.3 Management of Investments. The basis of the revised changes were to ensure compliance with the Local Government (Financial Management) Amendment Regulations 2012 and the overall prudence of the EMRC investment strategy. All of the recommendations of the EMRC’s legal representative have been incorporated into the proposed changes.



Item 14.1 continued

The existing investment policy (Attachment 1) has been reviewed and the revised changes have been tracked (Attachment 2). The revised policy 3.3 Management of Investments (Attachment 3) is recommended to be adopted by Council.

The key highlights of the revised policy incorporating all changes are as follows:

a. Overall Portfolio Limits and Single Entity Exposure

Under the existing policy (Attachment 1), the EMRC can invest up to 40% of its investment funds in financial institutions rated A (Long Term) and A-2 (Short Term). Additionally, the Investment Policy under the Single Entity Exposure (previously termed Counterparty Credit Framework), also stipulates that for any individual institution rated A (Long Term) and A-2 (Short Term), the EMRC can only invest up to 10% of total investments directly.

It is proposed that the Investment Policy be updated to reflect that EMRC's investment strategy of not investing in any rated A (Long Term) and A-2 (Short Term) investments.

Table 1 – Proposed changes to Overall Portfolio Limits

S&P Long Term Rating	S&P Short Term Rating	Existing Direct Investment Maximum %	Proposed Direct Investment Maximum %
AAA	A-1 +	100%	100%
AA	A-1	100%	100%
A	A-2	40%	0%

Table 2 – Proposed changes to Counterparty Credit Framework

S&P Long Term Rating	S&P Short Term Rating	Existing Direct Investment Maximum %	Proposed Direct Investment Maximum %
AAA	A-1+	45%	45%
AA	A-1	35%	35%
A	A-2	10%	0%

b. Term to Maturity Framework

The Local Government (Financial Management) Amendment Regulations 2012 limits local governments to investing money referred to in section 6.14(1) of the Act in:

- (a) Authorised deposit taking institutions and the Western Australian Treasury Corporation for a term not exceeding 12 months;
- (b) Bonds that are guaranteed by the Commonwealth Government or a State or Territory for a term not exceeding three years; and
- (c) Australian currency.

It is proposed that of the total amount invested from time to time, a minimum of 40% must be invested for a term not exceeding 12 months.



Item 14.1 continued

STRATEGIC/POLICY IMPLICATIONS

Key Result Area 4 – Good Governance

- 4.1 To improve member Council and EMRC financial viability
- 4.6 To provide responsible and accountable governance and management of the EMRC
- 4.7 To continue to improve financial and asset management practices

FINANCIAL IMPLICATIONS

Has management of financial risk implications.

SUSTAINABILITY IMPLICATIONS

Has future economic sustainability implications.

MEMBER COUNCIL IMPLICATIONS

Member Council	Implication Details
Town of Bassendean	} No direct implications
City of Bayswater	
City of Belmont	
Shire of Kalamunda	
Shire of Mundaring	
City of Swan	

ATTACHMENT(S)

1. Original Management of Investments Policy 3.3 (Ref: Committees-14894)
2. Revised Management of Investments Policy 3.3 with tracked changes to the original policy (Ref: Committees-14893)
3. Revised Management of Investments Policy 3.3 (Ref: Committees-14896)

VOTING REQUIREMENT

Simple Majority

RECOMMENDATION

That the revised EMRC Policy 3.3 Management of Investments forming attachment 3 to this report be adopted by Council.



Item 14.1 continued

The CEO summarised the report and advised that additional information provided by EMRC's legal representative had been incorporated into the policy.

IC RECOMMENDATION

MOVED CR PULE

SECONDED CR PILGRIM

That the revised EMRC Policy 3.3 Management of Investments forming attachment 3 to this report be adopted by Council.

CARRIED UNANIMOUSLY



3.3 Management of Investments Policy

STRATEGIC PLAN OBJECTIVE

3.4 To improve member Council and East Metropolitan Regional Council (EMRC) financial viability.

PURPOSE

To establish a policy 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 Section 6.14
 Local Government (Financial Management) Regulations 1996 Regulations 19, 28 and 49
 Trustees Act 1962 – Part III Investments
 Australian Accounting Standards

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 Investment 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 to the Director, Corporate Services.



3. Investment Ratings

Investments rating in this policy are based on those issued by Standard and Poor's. International ratings agencies used as a basis for assessing EMRC's investments are required to be reviewed periodically by the CEO.

4. Approved Investments

Without approvals from Council, new investments are limited to:

- Commonwealth/State/Territory or Local Government Bonds;
- Interest bearing deposits and securities issued by Australian authorised deposit-taking institutions (ADIs) as authorised by the Australian Prudential and Regulatory Authority (APRA) and with a Standard & Poor's (or its equivalent) credit rating of A-2 (short term) or A (long term) or higher (subject to overall limits);
- Bank accepted/endorsed bank bills, guaranteed by Australian authorised deposit-taking institutions (ADI's);
- Bank negotiable Certificate of Deposits; and
- Managed Funds with a minimum long term Standard & Poor (S&P) rating of "A" and short term rating of "A-2".

5. Prohibited Investments

This investment policy prohibits but is not limited to 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.

6. 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
- Leveraging Risk - the magnification of an investor's risk and return that occurs when the investor takes on financial leverage through an investment product.



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

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	100%	100%
A	A-2	40%	80%

b. Counterparty Credit Framework

Exposure to an individual counterparty/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	S&P Short Term Rating	Direct Investment Maximum %	Managed Funds Maximum %
AAA	A-1+	45%	50%
AA	A-1	35%	45%
A	A-2	10%	40%

c. Term to Maturity Framework

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

Overall Portfolio Term to Maturity Limits		
	Min	Max
Portfolio % < 1 year	40%	100%
Portfolio % > 1 year	0%	60%
Portfolio % > 3 year	0%	35%
Portfolio % > 5 year	0%	25%

Individual Investment Maturity Limits	

Maximum term to maturity limit of all investments

5 years



Standard and Poors 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 obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

Standard and Poors Short term rating definitions:

A-1	A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.
A-2	A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.
A-3	A short-term obligation rated 'A-3' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

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

7. 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.

8. Procedures

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

Furthermore 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.



9. Reporting

An investment report is to be prepared for each month detailing compliance with the 'key criteria' outlined in section 6 (a), (b) and (c) of 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.

10. 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.

11. Investment Strategy

EMRC's current investment strategy in light of the 'Global Financial Crisis' 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.

Given the Federal Government Guarantee on retail deposits up to \$1 million with Australian Authorised Deposit Taking Institutions (ADIs) 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.

The investment strategy employed over the period of the Federal Government Guarantee that complies with relevant legislation would be:

1. Invest funds in Australian ADI's up to \$1 million covered by the guarantee
2. Limit additional funds to the specified banks listed below from the 31st March 2010
3. Investment terms not to exceed 5 years.

Specified banks; National Australia Bank, Bankwest, Westpac, St George, Commonwealth Bank, and ANZ.

FINANCIAL CONSIDERATIONS

Nil

Adopted/Reviewed by Council	<ol style="list-style-type: none">1. 29 June 20002. 27 July 20003. 02 May 20024. 17 June 20045. 23 February 20066. 18 September 2008 (reported to Council and referred to Investment Committee)7. 19 August 20108. 23 September 2010
Next Review	Following the Ordinary Elections in 2013
Responsible Unit	Governance and Corporate Services



3.3 Management of Investments Policy

STRATEGIC PLAN OBJECTIVE

3.4 To improve member Council and East Metropolitan Regional Council (EMRC) financial viability.

PURPOSE

To establish a policy 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 [Section 6-14](#)
 Local Government (Financial Management) Regulations 1996 [Regulations 19, 28 and 49](#)
 Trustees Act 1962 – Part III Investments
 Australian Accounting Standards

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 Investment 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 to the Director, Corporate Services.

TEL (08) 9424 2222 FAX (08) 9277 7598 EMAIL mail@emrc.org.au WEB www.emrc.org.au

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3. Investment Ratings

Investments rating in this policy are based on those issued by Standard and 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.

International ratings agencies used as a basis for assessing EMRC's investments are required to be reviewed periodically by the CEO.

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 1926 Part III subject to the limitations expressed in Regulation 19C of the Local Government (Financial Management) Regulations.

Without approvals from Council, new investments are limited to:

- Commonwealth/State/Territory or Local Government Bonds;
- Interest bearing deposits and securities issued by Australian authorised deposit-taking institutions (ADIs) as authorised by the Australian Prudential and Regulatory Authority (APRA) and with a Standard & Poor's (or its equivalent) credit rating of A-2 (short term) or A (long term) or higher (subject to overall limits);
- Bank accepted/endorsed bank bills, guaranteed by Australian authorised deposit-taking institutions (ADI's);
- Bank negotiable Certificate of Deposits; and
- Managed Funds with a minimum long term Standard & Poor (S&P) rating of "A" and short term rating of "A-2".

5. Prohibited Investments

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

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6. 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;

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- 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
- ~~Leveraging Investments must be rated at not less than the Standard & Poor's ratings specified below. Risk - the magnification of an investor's risk and return that occurs when the investor takes on financial leverage through an investment product.~~



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

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	100%	100%
A	A-2	40%	80%

b. Counterparty Single Entity Exposure Credit Framework

Exposure to an individual counterparty/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	S&P Short Term Rating	Direct Investment Maximum %	Managed Funds Maximum %
AAA	A-1+	45%	50%
AA	A-1	35%	45%
A	A-2	10%	40%

c. Term to Maturity Framework

~~The investment portfolio is to be invested within the following maturity constraints~~ Of the total amount invested from time to time, a minimum of 40% must be invested for a term not exceeding 12 months.:

Overall Portfolio Term to Maturity Limits		
	Min	Max
Portfolio % < 1year	40%	100%
Portfolio % > 1year	0%	60%
Portfolio % > 3year	0%	35%
Portfolio % > 5year	0%	25%

Individual Investment Maturity Limits	
Maximum term to maturity limit of all investments	5 years



Standard and Poors 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 obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

Standard and Poors Short term rating definitions:

A-1	A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.
A-2	A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.
A-3	A short-term obligation rated 'A-3' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

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

7. 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.

8. Procedures

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

~~Furthermore appropriate~~ 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 Chief Executive Officer prior to the investments being made.



9. Reporting

An investment report is to be prepared for each month detailing compliance with the 'key criteria' outlined in ~~section 6 (a), (b) and (c)~~ of 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.

10. 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.

11. Investment Strategy

EMRC's ~~current~~ investment strategy ~~in light of the 'Global Financial Crisis'~~ 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, no more than 45% of the total investments will be invested in any one bank in short term investments rated A-1+ and no more than 30% of the total investments will be invested in any one bank in short term investments rated A-1.~~

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

~~A list of complying ADIs are reflected in the Appendix and may vary from time to time.~~

~~Given the Federal Government Guarantee on retail deposits up to \$1 million with Australian Authorised Deposit Taking Institutions (ADIs) 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.~~

~~The investment strategy employed over the period of the Federal Government Guarantee that complies with relevant legislation would be:~~

- ~~1. Invest funds in Australian ADI's up to \$1 million covered by the guarantee~~
- ~~2. Limit additional funds to the specified banks listed below from the 31st March 2010~~
- ~~3. Investment terms not to exceed 5 years.~~

~~Specified banks; National Australia Bank, Bankwest, Westpac, St George, Commonwealth Bank, and ANZ.~~

FINANCIAL CONSIDERATIONS

Nil

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Report Attachment 2 to IC - Investment Committee - Management of Investments Policy – Tracked – 22 November 2012.docx



Appendix: List of Compliant ADIs

As at August 2012:

<u>ADI Name</u>	<u>Standard and Poor's Credit Rating (Long / Short)</u>	<u>EMRC Policy Limit per ADI based on short-term credit rating limits</u>
<u>First tier:</u>		
<u>ANZ Banking Group Ltd.</u>	<u>AA- / A-1+</u>	<u>45%</u>
<u>Bank of Western Australia Ltd.</u>	<u>AA- / A-1+</u>	<u>45%</u>
<u>Commonwealth Bank of Australia</u>	<u>AA- / A-1+</u>	<u>45%</u>
<u>HSBC Bank Australia Ltd.</u>	<u>AA- / A-1+</u>	<u>45%</u>
<u>Rabobank Australia Ltd.</u>	<u>AA / A-1+</u>	<u>45%</u>
<u>National Australia Bank Ltd.</u>	<u>AA- / A-1+</u>	<u>45%</u>
<u>Westpac Banking Corp.</u>	<u>AA- / A-1+</u>	<u>45%</u>

← Formatted Table



Adopted/Reviewed by Council

1. 29 June 2000
2. 27 July 2000
3. 02 May 2002
4. 17 June 2004
5. 23 February 2006
6. 18 September 2008 (reported to Council and referred to Investment Committee)
7. 19 August 2010
8. 23 September 2010
9. 25 November 2010
10. 10 May 2012

Next Review

Following the Ordinary Elections in 2013

Responsible Unit

Governance and Corporate Services



3.3 Management of Investments Policy

STRATEGIC PLAN OBJECTIVE

3.4 To improve member Council and East Metropolitan Regional Council (EMRC) financial viability.

PURPOSE

To establish a policy 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
 Local Government (Financial Management) Regulations 1996
 Trustees Act 1962 – Part III Investments
 Australian Accounting Standards

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 Investment 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 to the Director, Corporate Services.



3. Investment Ratings

Investments rating in this policy are based on those issued by Standard and 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.

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 1926 Part III subject to the limitations expressed in Regulation 19C of the Local Government (Financial Management) Regulations.

5. Prohibited Investments

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

6. 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 specified below.

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

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	100%	100%



b. 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	S&P Short Term Rating	Direct Investment Maximum %	Managed Funds Maximum %
AAA	A-1+	45%	50%
AA	A-1	35%	45%

c. Term to Maturity Framework

Of the total amount invested from time to time, a minimum of 40% must be invested for a term not exceeding 12 months.

Standard and Poors 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.

Standard and Poors Short term rating definitions:

A-1	A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.
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Source: <http://www.standardandpoors.com>

7. 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.

8. 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 Chief Executive Officer prior to the investments being made.



9. 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.

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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, no more than 45% of the total investments will be invested in any one bank in short term investments rated A-1+ and no more than 30% of the total investments will be invested in any one bank in short term investments rated A-1.

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

A list of complying ADIs are reflected in the Appendix and may vary from time to time.

FINANCIAL CONSIDERATIONS

Nil



Appendix: List of Compliant ADIs

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National Australia Bank Ltd.	AA- / A-1+	45%
Westpac Banking Corp.	AA- / A-1+	45%

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Next Review

Following the Ordinary Elections in 2013

Responsible Unit

Governance and Corporate Services



15 REPORTS OF DELEGATES

Nil

16 MEMBERS MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN

Nil

17 NEW BUSINESS OF AN URGENT NATURE APPROVED BY THE CHAIRMAN OR PERSON PRESIDING OR BY DECISION OF MEETING

Nil

18 CONFIDENTIAL MATTERS FOR WHICH THE MEETING MAY BE CLOSED TO THE PUBLIC

RECOMMENDATION (Closing meeting to the public)

That the meeting be closed to members of the public in accordance with Section 5.23 (2) (c) of the Local Government Act for the purpose of dealing with matters of a confidential nature.

IC RESOLUTION(S)

MOVED CR PILGRIM

SECONDED CR PULE

THAT WITH THE EXCEPTION OF EMRC COUNCILLORS, MR ROBINSON, THE CEO, THE DIRECTOR CORPORATE SERVICES, THE MANAGER FINANCIAL SERVICES AND THE PERSONAL ASSISTANT TO THE DIRECTOR CORPORATE SERVICES, THE MEETING BE CLOSED TO MEMBERS OF THE PUBLIC IN ACCORDANCE WITH SECTION 5.23 (2) (C) OF THE LOCAL GOVERNMENT ACT FOR THE PURPOSE OF DEALING WITH MATTERS OF A CONFIDENTIAL NATURE.

CARRIED UNANIMOUSLY

The doors of the meeting were closed at 6:40pm.

18.1 INVESTMENT COMMITTEE UPDATE – NOVEMBER 2012

REFERENCE: COMMITTEES-14905

The Committee considered the Confidential Item circulated with the Agenda under separate cover.

RECOMMENDATION [Meeting re-opened to the public]

That the meeting be re-opened, the members of the public be invited to return to the meeting and the recommendations passed behind closed doors be recorded.

IC RESOLUTION(S)

MOVED CR PILGRIM

SECONDED CR PULE

THAT THE MEETING BE RE-OPENED, THE MEMBERS OF THE PUBLIC BE INVITED TO RETURN TO THE MEETING AND THE RECOMMENDATIONS PASSED BEHIND CLOSED DOORS BE RECORDED.

CARRIED UNANIMOUSLY



Item 18 continued

The meeting was opened to the public at 7:10pm.

Recording of the recommendations passed behind closed doors, namely:

18.1 INVESTMENT COMMITTEE UPDATE – NOVEMBER 2012

REFERENCE: COMMITTEES-14905

IC RESOLUTION(S)

MOVED CR PULE

SECONDED CR RADFORD

THAT:

1. THE REPORT BE NOTED.
2. THE REPORT AND ATTACHMENTS REMAIN CONFIDENTIAL AND BE CERTIFIED BY THE CHAIRMAN AND THE CEO.

CARRIED UNANIMOUSLY

19 FUTURE MEETINGS OF THE INVESTMENT COMMITTEE

The Investment Committee will meet as required. Next Investment Committee meeting will be advised.

20 DECLARATION OF CLOSURE OF MEETING

There being no further business, the meeting was closed at 7:10pm.