



## Investment Policy

Responsible Business Unit:	Corporate Services
Responsible Author:	Chief Financial Officer
Approved By:	Director Corporate Services
Objective Document ID Number:	A1710429
Effective Date:	June 2017
Date to be Reviewed:	June 2018
Version Number:	V1

## 1 Philosophy underlying the policy

To provide guidance to maximise the the earnings from investment of Council's surplus funds within an appropriate risk-based framework while ensuring it does not support the fossil fuel industry directly and influences financial institutions away from the fossil fuel industry.

## 2 Purpose

This policy provides a framework within which the investment of Council funds is to be undertaken by authorised Council officers. The policy sets out:

- Objectives being pursued through the investment of surplus funds
- Legislative requirements
- Types of approved investments
- Parameters for exposure to credit risk, product risk and institutional risk
- Criteria to assist in selecting investments including to actively invest with fossil free financial institutions
- Processes for evaluating and reporting investment performance against established benchmarks.

Council will adopt a positive screening approach by actively investing with fossil free financial institutions.

This policy applies to all financial investments of the Darebin City Council.

## 3 Objectives / principles

The primary objective of this policy is to maximise the earnings from investment of surplus funds within an appropriate risk-based framework. The principles which guide this objective are:

- Preservation of capital
- Maintenance of sufficient cash to meet day to day liquidity requirements
- Diversification of investments across different institutions / issuers
- Targeted investment returns against relevant benchmarks.

Credit ratings provided by ratings agencies are one form of analytical filter that Council can consider when making investment decisions. Appendix 1 contains a summary of credit rating definitions provided by Standard and Poor's. Other relevant factors to consider include liquidity requirements, counterparty risk and the duration of investment decisions. Each of these elements are given consideration in this policy.

### **Ethical and sustainability considerations**

Financial institutions to be selected for investments must indicate their commitment to core values of integrity, trust, customer service and the highest ethical standards along with their strong commitment to Corporate Social Responsibility (CSR).

Darebin City Council is concerned about the impact of that the consumption of fossil fuels has on greenhouse gas emissions. Council recognises the role of financial institutions in financing new fossil fuel projects in Australia.



To ensure Council will move away from directly investing in any company for whom the extraction, production, refining, or distribution of fossil fuels forms a core part of their business strategy, or in any company whose principal business involves providing infrastructure or services to companies previously mentioned, Council will adopt a positive screening approach for Council's investment with financial institutions.

This will be implemented through actively investing with fossil free financial institutions within the parameters of this policy.

Council's investment strategy will give preference to authorised deposit-taking institutions that state they do not finance fossil fuel projects where:

- the investment transaction is compliant with the credit risk, product risk and institutional risk parameters specified in this policy, and
- the rate of investment is within 0.05 percentage points when compared against other investments available to Council at the time.

#### 4 Legislative framework

Council is governed by the Local Government Act 1989 ("the Act") which contains specific provisions on investments. The relevant sections of the Act are included in Appendix 2.

#### 5 Approved investments

In the context of the legislative framework, the following investments are allowable under the Act and are typically made by Victorian local governments.

Investment	Description	Features	Benchmark	Horizon*
11am account	Cash funds are invested on overnight deposit up until 4pm each business day. Notice of withdrawal of funds to be submitted to the bank by 11am on the day required.	Ready access to funds. No fees. Interest rate usually 0.10% below the Reserve Bank cash rate.	Reserve Bank cash rate less 0.10% (10 basis points)	ST
Term deposit	Fixed period investment offered by authorised deposit-taking institutions.	Wide range of maturity dates available. Certainty of returns.	UBSA Bank Bill Index	ST / LT
Commercial bill	Highly negotiable products sold at a discount to their face value. The bank undertakes to pay the investor the face value upon maturity.	Highly liquid product which can be redeemed at any time by selling back to the bank.	UBSA Bank Bill Index	ST
Floating rate notes	FRNs are available for terms ordinarily of 1-3 years with regular coupons (interest) usually paid quarterly.	Interest rate is set as a margin over the 90 day Bank Bill Swap Rate (BBSW).	90 day BBSW + appropriate margin **	LT
Government and Semi-Government bonds	Long dated maturities with a sovereign debt rating. Considered to be the most resilient investments in regards to adverse market movements.	Lower return than other forms of investment.	UBSA Composite Bond Index	LT
Managed funds with a minimum AAF rating	Enhanced cash funds independently managed by fund managers.	Rate of return is benchmarked against the UBS 90 day Bank Bill index.	UBS Bank Bill index + 0.20% (20 basis points)	ST / LT

\* ST generally refers to investment horizons suitable up to 12 months and LT suitable over 12 months.

\*\* The appropriate margin would be reviewed and agreed at the point of investment.

Council may invest in any of the above investments subject to the limits listed below and subject to the specific requirements of the Act. Different investment products will have differing levels of use, practicality and desirability at different times of the economic cycle. The decision regarding investment types will be made with regard to the prevailing economic and market conditions, the timeframe of the particular investment, and the rates of return applicable at the time.

When considering investments in managed funds, enquiries will be made regarding the investments made by the fund and independent advice must be sought.

## 6 Overall portfolio rating limits

To control the credit quality on the investment 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*	Investment Maximum %
AAA	A1+	100%
AA+ to AA-	A1	100%
A+ to A-	A2	70%
BBB+ to BBB-	A3	50%

\* Appendix 2 contains definitions of ratings provided by Standard and Poor's

## 7 Counterparty credit framework

Exposure to an individual counterparty or 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	Investment Maximum %
AAA	A1+	60%
AA+ to AA-	A1	50%
A+ to A-	A2	30%
BBB+ to BBB-	A3	15%

If any of the investments are downgraded such that they no longer fall within the investment policy, they will be divested as soon as practicable.

In addition to the above requirements, any single investment in an AA rated managed fund will represent no more than 40% of the investment portfolio.

## 8 Investment maturity

The maturity of investments will be based on forecast cash requirements and assessment of interest rates available at the time of investment. Investments will be placed at optimal maturities without compromising the objective of maintaining cash to meet daily liquidity requirements. The term of maturity of any investment may range from "at call" to five years.

## 9 Investment maturity

Investments should not only take into account the typical risks including counterparty, diversification, liquidity, market, duration and capital risk, but also consider reinvestment risk.

## 10 Investment maturity

A monthly investment report will be provided to the Director Corporate Services detailing the investments held at month-end, investment ratings, investment returns against relevant benchmarks and the investment maturity dates.

A quarterly report will be provided to the Executive Management team and a report to the Audit Committee will be provided on the mid-year and full-year investment performance.

## 11 Definitions

Authorised Deposit-taking Institutions	<p>Authorised Deposit-taking Institutions (ADIs) are corporations which are authorised under the <i>Banking Act 1959</i>. ADIs include banks, building societies, and credit unions.</p> <p>All ADIs are subject to the same Prudential Standards but the use of the names 'bank', 'building society' and 'credit union' is subject to corporations meeting certain criteria.</p>
Credit Rating Agency	<p>A credit rating agency is a company that assigns credit ratings, which rate a debtor's ability to pay back debt by making timely interest payments and the likelihood of default. An agency may rate the creditworthiness of issuers of debt obligations, of debt instruments, and in some cases, of the servicers of the underlying debt, but not of individual consumers.</p>
Direct Divestment	<p>No direct investment in any company that involves fossil fuel in their core business strategy or principle business activity. This usually refers to stocks held for resources companies and alike, and has been the main focus of many organisations that have declared their commitment to fossil fuel divestment.</p> <p>Constrained by the <i>Local Government Act 1989</i>, Council cannot invest in direct shares of companies or invest in managed funds and therefore is already in compliance with direct divestment.</p>
Indirect Divestment	<p>Divest from financial institutions or companies that invest in fossil fuel companies. Diversification of portfolios amongst companies makes it difficult to readily identify all indirect investments; therefore companies usually limit their divestment policies to direct investments only.</p>
Market Forces	<p>An affiliate project of Friends of the Earth Australia. Market Forces present the results of their research online (<a href="http://www.marketforces.org.au/banks/compare">http://www.marketforces.org.au/banks/compare</a>) to give a guide to bank investment/ financing of fossil fuel assets.</p>
Negative screening	<p>This refers to stopping dealing with ADIs that are involved in fossil fuel investments</p>
Positive screening	<p>This refers to increasing dealings with ADIs that commit to fossil fuel free investments</p>
Standard & Poor's	<p>Standard &amp; Poor's Financial Services (also referred to as S&amp;P) is an American financial services company, founded by Henry Varnum Poor in 1860 in New York. S&amp;P controls approximately 40% of the global credit rating market share</p>



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Investment Policy – Appendix 1  
Standard & Poor's Rating Definitions

<b><u>SHORT TERM</u></b>		<b><u>LONG TERM</u></b>	
<b>A1+</b>	Extremely strong capacity to pay	<b>AAA</b>	Extremely strong capacity to pay
<b>A1</b>	Strong capacity to pay	<b>AA+</b>	Very strong capacity to pay
<b>A2</b>	Satisfactory capacity to pay	<b>AA</b>	
		<b>AA-</b>	
<b>A3</b>	Adequate capacity to pay	<b>A+</b>	Strong capacity to pay
		<b>A</b>	
<b>B</b>	Vulnerable to default/speculative	<b>A-</b>	
		<b>BBB+</b>	Adequate Capacity to Pay
		<b>BBB</b>	
		<b>BBB-</b>	
		<b>BB+</b>	Uncertainties or Adverse Conditions could lead to inadequate capacity to Pay
		<b>BB</b>	
		<b>BB-</b>	
		<b>B+</b>	Adverse conditions likely to impair capacity to pay
		<b>B</b>	
		<b>B-</b>	
		<b>CCC</b>	Vulnerable to default
		<b>CC</b>	High risk of default
		<b>D</b>	Default

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### **Principles of sound financial management (section 136)**

- (1) A Council must implement the principles of sound financial management.
- (2) The principles of sound financial management are that a Council must -
  - (a) manage financial risks faced by the Council prudently, having regard to economic circumstances;
  - (b) pursue spending and rating policies that are consistent with a reasonable degree of stability in the level of the rates burden;
  - (c) ensure that decisions are made and actions are taken having regard to their financial effects on future generations;
  - (d) ensure full, accurate and timely disclosure of financial information relating to the Council.
- (3) The risks referred to in subsection (2)(a) include risks relating to—
  - (a) the level of Council debt;
  - (b) the commercial or entrepreneurial activities of the Council;
  - (c) the management and maintenance of assets;
  - (d) the management of current and future liabilities;
  - (e) changes in the structure of the rates and charges base.

### **Investments (section 143)**

A Council may invest any money—

- (a) in Government securities of the Commonwealth;
- (b) in securities guaranteed by the Government of Victoria;
- (c) with an authorised deposit-taking institution;
- (d) with any financial institution guaranteed by the Government of Victoria;
- (e) on deposit with an eligible money market dealer within the meaning of the Corporations Act;
- (f) in any other manner approved by the Minister after consultation with the Treasurer either generally or specifically, to be an authorised manner of investment for the purposes of this section.

The Minister for Local Government authorised the following investments for the purposes of section 143(f) in July 2007:

- Certificates of deposit and bills of exchange
- Investments in the Treasury Corporation of Victoria
- Investments in managed investment schemes with a rating of AAm or AAF from Standard and Poor's Australian Ratings
- Fixed interest securities of an Australian Authorised Deposit Taking Institution and Shares listed on the Australian Stock Exchange, subject to certain conditions. These conditions include compliance with the Prudential Statement issued by the Minister for Local Government and approval of such investments under an appropriate plan by the Department of Treasury & Finance.