TITLE:	Investment Policy		
DIVISON:			
ADOPTED BY:	Council		
DATE OF ADOPTION:	March 20, 2014	DATE OF REVIEW:	March 2018
MOTION NUMBER:	41/14		
POLICY NUMBER:	CP000017		
AUTHORISED:	Chief Executive Officer		

THIS POLICY APPLIES TO:
All employees and Elected Members of the Barkly Regional Council

PREAMBLE

The aim of all policy is for Councillors to provide strategic input into the effective operational framework of the organisation under S.11 of the Local Government Act

SUMMARY

This Policy deals with the management of Council's investments and includes the principles that the Council requires its administration to follow in relation to balancing investment risk and return, identification of approved and prohibited investments and reporting requirements.

OBJECTIVES

To invest the council's surplus funds at the most favourable rate of interest available at the time, for that investment type having regard for legislative requirements, level of risk and ensuring that Council's liquidity requirements are met.

BACKGROUND

Council investments must comply with Ministerial guidelines made pursuant to Section 121(3) of the *Local Government Act.* This Policy has been developed to facilitate compliance with the guidelines.

POLICY STATEMENT

The Council's surplus funds are to be invested at the most favourable rate of interest available at the time, for that investment type having regard for legislative requirements, level of risk and ensuring that Council's liquidity requirements are met. While exercising the power to invest, consideration is to be given to preservation of capital, liquidity, and the return of investment.

- Preservation of capital is the principal objective of the investment portfolio. Investments are to be made in a manner that seeks to ensure the security and safeguarding of the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.

- The investment portfolio must ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring significant costs due to the unanticipated sale of an investment.

- The investment is expected to achieve a predetermined market average rate of return that takes into account the Council's risk tolerance. Any additional return target set by Council must also consider the risk limitation and prudent investment principles.

All investments are to comply with the legislative requirements and the Ministerial Guidelines. **In addition the following requirements apply:**

Prudent Person Standard: The investment will be managed with the care, diligence and skill that a prudent person would exercise. Staff are to manage the investment portfolios to safeguard the portfolios in accordance with the spirit of this Investment Policy, and not for speculative purposes.

Ethics and Conflicts of Interest: Staff shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This policy requires staff to disclose any conflict of interest to the CEO.

Approved Investments: Without approval by resolution of Council, investments are limited to:

- State/Commonwealth Government Bonds;
- Interest bearing deposits such as bank accounts and term deposits;
- Bank accepted/endorsed bank bills;

Prohibited Investments: This investment 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, forwards contracts and swaps of any kind.

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

Risk Management Guidelines

Investments obtained must comply with key criteria as indicated below relating to:

a) Portfolio Credit Framework: limit overall credit exposure of the portfolio
b) Counterparty Credit Framework: limit exposure to individual counterparties/institutions
c) Term to Maturity Framework: limits based upon maturity of securities.
d) Protection of Principal: investments entered into must be structured to minimise risk of loss of principal.

e) Grant Funding Conditions: conditions related to grant funding available to invest must be complied with.

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 Fund Maximum %
AAA	A-1+	100%	100%
AA	A-1	100%	100%
A	A-2	60%	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 Fund Maximum %
AAA	A-1+	45%	50%
AA	A-1	35%	45%
A	A-2	20%	40%

If any of the council's approved investments are downgraded such that they no longer fall within approved credit rating category documented within the investment policy, they must be divested as soon as practicable. Investments fixed for greater than 12 months are to be approved by Council and reviewed on a regular term and invested for no longer than 5 years.

C. Term to Maturity Framework

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

Overall Portfolio Term to Maturity Limits	
Portfolio % < 1 year	100% Max; 40% Min
Portfolio % > 1 year	60%
Portfolio % > 3 year	35%
Portfolio % > 5 year	25%
Individual Investment Maturity Limits	
ADI	5 years
Non ADI	3 years

Investment Advisor

If the Council appoints an investment advisor the advisor must hold an Australian Financial Securities Licence issued by the Australian Securities and Investment Commission and their appointment as advisor must be approved by resolution of Council. The advisor approved by council resolution 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 advisor must be representative of a recognised reputable firm of investment advisors.

Benchmarking

The following performance benchmarks apply:

Investment	**Performance Benchmark**
Cash	Cash Rate
Enhanced/Direct Investments	UBSWA Bank Bill
Diversified	CPI + appropriate margin over rolling 3 year periods (depending upon composition of fund)

Reporting and Review

A monthly report must be provided to Council in support of the monthly statement of activity. The report must detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value.

Documentary evidence must be held for each investment and Certificates must be obtained from the financial institutions confirming the amounts of investments held on the Council's behalf as at 30 June each year and reconciled to Council's records.

LEGISLATION, TERMINOLOGY AND REFERENCES

NT Local Government Act and the NT Local Government (Accounting) Regulations

Ministerial Guidelines

IMPLEMENTATION AND DELEGATION

The Director of Corporate Services is responsible to the CEO for compliance with this Policy.

EVALUATION AND REVIEW

This Policy should be evaluated on the basis that the Audit Committee is satisfied that it has been and is being implemented.

This Policy is to be reviewed every four (4) years, and may be reviewed at other times at the discretion of Chief Executive Officer.

Appendix A – Risk and The Value Of An Investment Portfolio

All investments entail some risk. Generally, the higher the expected rate of return of an investment, the higher the risk and the greater the variability of returns. It is important that a council recognises all risk in its investments and effectively communicates its understanding of, and tolerance to, its risk exposures in an investment policy. It is important to recognise that risk arises in many ways, not simply market risk, and to be aware of at least the following risks.

Market Risk: One of the most prominent exposures is market risk. More specifically, the exposure resulting from the changes in market prices, which includes changes in interest rates, currency and other prices (for example, commodity prices).

Term to Maturity: Term to maturity impacts the investment's exposure in two ways: through maturity risk and liquidity risk.

Maturity risk identifies the impact of maturity on the valuation of the investment - the longer the term to maturity the greater the length of exposure. The other aspect of maturity risk is the impact of term to maturity on the valuation of an investment. That is, an increase in term to maturity leads to an increase in the impact of changes in market prices on the present value of the investment. Both of the above effects are important and both need to be considered when assessing the impact of the term to maturity on the risk exposure to an investment.

Liquidity risk usually arises if there is a lack of market depth for the investment; for example, the investment has unique or structured elements, is traded in low-volume or non-standardised markets or is not regularly priced by independent market dealers. Standardised instruments in well-traded markets will reduce the exposure to liquidity risk. However, investing solely in liquid assets is not enough as liquidity risk may also be caused by a market disturbance that leads to a "flight to quality" - an environment where a rapid decline in demand for low credit quality instruments exists. As a result an investor may be affected by credit spread risk where a decline in the perception of the credit worthiness of a particular sector or class of instruments leads to a fall in the value of the corresponding class of investments.

Leverage Risk: Another exposure that is not often readily apparent but still needs consideration is the effect of leverage on an investment. Leverage increases the potential return of an investment, but also increases the potential loss as an increase in leverage has a multiplicative effect on the exposure. Leverage risk usually arises through investment in structured products or derivatives, which can potentially be used to create leveraged positions where the exposures obtained are greater than the value of assets required to support them.

Complex and Structured Instruments Increase Risk: Straightforward financial instruments are referred to as "vanilla instruments". These are the most basic or standard version of a financial instrument and can be contrasted with "exotic instruments", which alter the components of a traditional financial instrument, resulting in more complex securities. There are significant benefits in transacting in vanilla instruments. As these instruments are more transparent, generally well-established, more readily understood and financially less

complicated the risks are more easily assessed. Vanilla instruments are generally traded in liquid markets, with standardised contracts and conventions. Independent and fair market values are readily available and instruments are more readily traded in times of market stress. Structured products combine elements of vanilla products. Bundling a number of characteristics into an investment product usually heightens risk and reduces transparency. This obscurity can mask elements of risk and make it difficult to assess the true risk in the product. It is also often difficult to ascertain independent and fair market values due to the uniqueness of products and thin market trading. Consequently, it can be difficult to assess whether such investments meet risk and return objectives. If the risk and price of an asset cannot be reliably measured it must not be considered an acceptable security type for inclusion in an investment portfolio.

Some examples of structured products include investment products with embedded formulae, payoffs contingent on other underlying instruments or events, or exposure to multiple counterparties. Embedded formulae, contingent payoffs and multiple exposures will often act to leverage the exposure to risk. While these products can offer enhanced returns, council should recognise that the risk may be leveraged and assess the potential downside against its risk tolerance. Councils must also consider option features that may be packaged within a complex product and the distinction between purchasing and selling an option. The purchase of an option entails the payment of a premium to cover a specified exposure. Once the premium is paid there is no further obligation on behalf of the buyer. In contrast, the seller of an option receives a premium in return for covering a specified exposure. The potential obligation can be unlimited. Thus the sale of options does not have a place in an investment portfolio.

While a single risk measure is easier to understand than a multi-dimensional measure, the reality is that risk cannot be adequately captured in a single measure such as a credit rating. Ratings need to be supplemented by other risk measures that portray a true picture of the prospect of loss, in all its manifestations, including extreme or tail events. In complex products the risk of tail events can be several times greater than for a similarly rated bond or loan.

Complex instruments and structured products can incur very large leakage in value because of issues such as:

- Products passing through a chain of intermediaries and several levels of structuring with fees being incurred at each step;
- The complexity involved and associated overheads such as the additional time and effort required to package and distribute the deal;
- These products are often traded as Over The Counter ("OTC") products with limited secondary markets;
- Non-standardised products that lack well-established market convention; and
- Large buy/sell spreads due to limited liquidity.

Significant leakage of value through fees may mean the final investor's return is not sufficient and commensurate with the risk of the security. It is essential to check the levels of fees that will be incurred on each investment.

Complex financial instruments do not fit within the context of risk aversion and therefore are not congruent with a conservative appetite for risk.

Deadweight Costs: The major consideration in the evaluation of any candidate security is that the return is sufficient and commensurate with the risk of the security. Each time that fees are deducted as investment products pass through the various financial intermediaries there is a leakage of value or "deadweight costs". These deadweight costs subtract from the return which reduces the level of compensation receivable for the additional risk.

Pricing Advantages: The fair price of a security can be considered to be the price that will earn just enough to cover the additional risk of the security. If priced correctly the expected return of an investment will fully reflect the amount of risk in the investment. For standardised instruments trading in highly liquid markets the fair price will be uncontentious and readily observable. As the instruments become more complex and less liquid, determining the fair price becomes increasingly difficult. Furthermore, to the extent that uncertainty exists in determining this price it can be expected that the financial institution structuring the product will incorporate this uncertainty into the price. Large financial institutions will also be better placed to assess the riskiness of complex financial instruments and thus have significant pricing advantages in these products. Put simply, there is no basis for an assumption that the price paid for a product will more than compensate for the risk in the product.

If anything, especially in regard to structured, opaque or complex instruments it is quite likely that the converse will be true.

Market Value: An essential requirement for establishing the validity and credibility of an asset in an investment portfolio is the ability to measure its value. The Australian Accounting Standards prescribe the reporting and valuation requirements for financial instruments. The value of a financial instrument is initially recognised at its fair value plus any related transaction costs. Fair value can be established from quoted prices in an active market. For standardised instruments trading in highly liquid markets there is usually little difficulty in determining a good indication of fair value. For these instruments the market price will be transparent and readily determinable. The costs involved in regular valuations will also be relatively small.

Caution must be exercised in valuing those instruments that are thinly traded, and where reliable market estimates are not readily available. The problem of obtaining good estimates of fair value becomes increasingly complicated for non-standardised instruments and particularly difficult (and costly) in the case of complex financial instruments. Similarly, if the instruments are not traded in regular markets the illiquidity will make fair valuation difficult. For example, for instruments sold in OTC Markets the only price available may be from the counterparty that sold the instrument in the first place.

Appendix B – Ratings Agencies' Credit Ratings

The table below details three ratings agencies' credit ratings for short and long term investments.

Moody's		**Standard & Poor's**		**Fitch**	
Long Term	**Short Term**	**Long Term**	**Short Term**	**Long Term**	**Short Term**
Aaa	Prime 1	AAA	A1	AAA	F1+
Aa1	Prime 1	AAA-	A1	AA+	F1+
Aa2	Prime 1	AA+	A1	AA	F1+
Aa3	Prime 1	AA	A1	AA-	F1+
A1	Prime 1	AA-	A1	A+	F1 or F1+
A2	Prime 1 or 2	A+	A1	A	F1
A3	Prime 1 or 2	A	A2	A-	F2 or F1
Baa1	Prime 2	A-	A2	BBB+	F2 or F1
Baa2	Prime 2 or 3	BBB+	A2	BBB	F3 or F2
Baa3	Prime 3	BBB	A2	BBB-	F3 or F2
Ba1	Not Prime	BBB-	A3	BB+	B
Ba2	Not Prime	BB+	A3	BB	B
Ba3	Not Prime	BB	B	BB-	B
Caa1	Not Prime	BB-	B	B+	B
Caa2	Not Prime	B+	B	B	B
Caa3	Not Prime	B	B	B-	B
Ca	Not Prime	B-	B	CCC	C
C	Not Prime	CCC+	C	CCC	C
		CCC	C	CCC	C
		CCC-	C	RD/D	D
		CC+	C		
		CC			
		CC-			
		C+			
		C			

Risk Scale

Least Risky			Most Risky
Investment Grade			Not Investment Grade

Appendix C – Sample Monthly Investment Summary Report to Council

Part (A)

Summary: Through the use of a variety of investment products, Council has been able to obtain investment returns comparable to the benchmark established by Council. This was achieved with a high quality, low risk investment portfolio.

Background: The investment policy requires Council to review the performance of its investment on a monthly basis. In accordance with the policy, a report of investments is presented to Council, which provides a summary of investments. This report provides a summary of investment movement (See Report Part B) of the past month, to determine if the investment strategy met the objective of Council, in terms of maximising investment returns and maintaining an acceptable level of risk.

Report: During the year, Council funds were invested in six products, which have been rated by Standard and Poor's as follows.

Investments	
ADI Issued	**S&P Ratings**
Security 1	AA-
Security 2	AAA+
Security 3	AA+
Security 4	AAA
Non-ADI issued	
Sec A	A
Sec B	AAA

ADI* Authorised Deposit-Taking Institution

At all times during the year the designated investment exposure limits were adhered to.

Performance: The attached Summary of Portfolio Movement identifies Council's investment type, term to maturity, volume held, percentage to total portfolio, monthly price and monthly variation. The portfolio comprised of four ADI issued interest bearing securities and two Non-ADI issued securities. The total portfolio returns in September were positive overall. There were:

- 2,100,000 units held at a market value of $2,221,958. Total monthly gain was $35,479, representing a 1.6% increase in market value compare to the previous month. This is higher than the 0.53% UBSWA bank bill benchmark performance in September.

Monthly Economic Update: Australian and US government bond yields rose in September as investors viewed the Fed's bigger than expected 50 basis point cut to 4.75% as likely to prevent the US economy from sliding into recession. US economic reading during September were predominately soft, notably the August reading of housing starts, new home sales and existing home sales. August non-farm payrolls also surprised on the weak side of market expectations showing a small fall and calling into question whether consumption spending would hold up given weak housing activity and soft employment.

In contrast, Australian economic readings were predominantly strong through September with very strong August employment and July retail sales and international trade. The Reserve Bank held its cash rate at 6.5% but further liquidity hoarding saw the 90 day bank bill yield push up to 7.1% early in the month. While short-term money market rates came below 7.0% later in the month.

Monthly Economic Updates can be obtained from:

- http://www.commbank.com.au/business/campaigns/economic-update.aspx
- http://www.nab.com.au/wps/wcm/connect/nab/nab/home/Business_Solutions/10/1/?n
- cID=ZBA
- http://www.anz.com/corporate/economics-markets-research/
- http://www.westpac.com.au/about-westpac/media/reports/australian-economicreports/

Recommendations

That the report be received.

Part (B)

Financial Report

The financial report is to include (by investment):

- description
- credit rating
- maturity/conversion date
- volume held
- % of total portfolio
- unit price for the last four months
- market value for the last four months
- monthly variation