INVESTMENT POLICY

MURRAY RIVER COUNCIL

INVESTMENT POLICY

POL203.V1

ADOPTED: 17 October 2017
1. POLICY SUMMARY

1.1 The Murray River Council (the ‘Council’) Investment Policy (the ‘Policy’) provides details on the investment of funds by Council in undertaking well considered investments that meet the legislative requirements set by government.

1.2 The Policy covers risk management guidelines, approved investments, direct investments, credit ratings and assessment, sets limits to certain entities, and reporting to the Council.

2. POLICY OBJECTIVES

2.1 The objectives of this Policy are to:

- Provide a framework for the investing of Council’s funds at the most favourable rate, whilst ensuring consideration is given to the preservation of capital, liquidity, level of risk and security.
- Undertake the investment of surplus funds in authorised investments, to secure maximum returns, taking into account legislative requirements, risk, diversification, funds availability, overdraft exposure and Council’s Annual Operational Plan and Four Year Delivery Program.
- Manage Council’s cash flow to meet obligations as and when due.
- Report to the Council in accordance with the *Local Government (General) Regulation 2005*.

3. BACKGROUND

3.1 This Policy applies to the surplus Council funds (not required for other purposes) and funds tied to approved grants.

3.2 It replaces all other investment policies of the Council (whether written or not).

4. POLICY STATEMENT

4.1 This Policy applies to all Council investments.

4.2 Council’s investment portfolio will be managed with the care, diligence, and skill that a prudent person would exercise. As trustees of public monies, Council officers are to manage Council’s investment portfolio to safeguard the portfolio in accordance with the spirit of this Investment Policy, and not for speculative purposes.
4.3 This Policy is to ensure Council:
(a) protects Council/ratepayers’ capital whilst earning an acceptable income from investments.
(b) has appropriate working capital funds available to carry out its strategic objectives as outlined in the Delivery Program and Resourcing Strategies.
(c) holds a reasonable level of funds that are immediately accessible in the event of a disaster or unexpected failure of infrastructure.
(d) meets its liability commitments as they fall due.
(e) legally restricted funds, are appropriately accounted for and invested to earn reasonable income towards their purposes. Legally restricted funds include unexpended grants, etc.
(f) resolves to set aside investments for particular purposes and these funds earn interest towards those purposes and are readily available when called upon (it should be recognised that these funds are by policy of Council only and have no enduring legal status that would bind a future Council).

4.4 Risk Management Guidelines
Investments are expected to achieve a market average rate of return in line with the Council’s risk tolerance and are to be considered in the light of the following considerations:
► Preservation of Capital – the requirement for preventing losses in an investment portfolio’s total value (the time value of money);
► Diversification – the requirement to place investments in a broad range of products so as not to be over exposed to an entity or sector of the market;
► Credit Risk – the risk that a council has invested in fails to pay interest and/or principal on maturity;
► 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.

4.5 Approved Investments
4.5.1 Investments are limited to those allowed by the Ministerial Investment Order (2011) that has been issued by the NSW Minister of Local Government. This policy limits the types of investments to:
► Interest-bearing deposits or senior bonds issued by an Authorised Deposit-taking Institution (ADI);
► Securities issued by the Commonwealth Government, any State of the Commonwealth, or a Territory;
► Any debentures or securities issued by a Council (within the meaning of the Local Government Act 1993);
► A bill of exchange where the maturity date is not greater than 200 days’ duration and is issued by an ADI;
► A deposit with NSW Treasury Corporation or investments in an hour-glass investment facility of the NSW Treasury Corporation.
4.5.2 Authorised investments allowed under this Policy include the following examples:

- Bonds and Debentures
- Term Deposits
- On-Call/Cash Accounts
- Bills of Exchange
- Negotiable Certificate of Deposit

All examples above must only be issued by ADIs (such as banks, credit unions and building societies) or by the Commonwealth, State, or Territory Governments.

All investments must be denominated in Australian Dollars ($).

5. LEGISLATION, TERMINOLOGY AND REFERENCES

5.1 All investments are to be made in accordance with:

- Local Government Act 1993
- Local Government (General) Regulation 2005
- Ministerial Investment Order (2011)
- The Trustee Amendment (Discretionary Investments) Act (1997) – Section 14
- Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards
- Office of Local Government Investment Policy Guidelines
- Office of Local Government Circulars to Councils

5.2 Standard and Poor’s – Rating Definitions

The general meaning of Standard and Poor’s credit rating opinions is summarised below:

<table>
<thead>
<tr>
<th>Investment Grade</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘AAA’</td>
<td>Extremely strong capacity to meet financial commitments. Highest Rating.</td>
</tr>
<tr>
<td>‘AA’</td>
<td>Very strong capacity to meet financial commitments.</td>
</tr>
<tr>
<td>‘A’</td>
<td>Strong capacity to meet financial commitments but somewhat susceptible to adverse economic conditions and changes in circumstances.</td>
</tr>
<tr>
<td>‘BBB’</td>
<td>Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.</td>
</tr>
<tr>
<td>‘BBB-’</td>
<td>Considered lowest investment grade by market participants.</td>
</tr>
</tbody>
</table>

*Note: Ratings from ‘AA’ to ‘BBB’ may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories*
6. IMPLEMENTATION AND DELEGATION

Council will meet the following guidelines:

6.1 Direct investments

6.1.1 Investment of surplus funds are only to be placed with ADI’s and investment products that are covered under the Federal Government's Financial Claims Scheme.

6.1.2 The term to maturity of any of Council’s direct investments may range from “At Call” to three (3) years, unless specifically approved by the Council.

6.1.3 At least two (2) suitable quotes must be obtained from the market prior to any investment being made. The successful quote may not necessarily be based solely on the highest quote but also with administrative considerations.

6.2 Credit and maturity guidelines

6.2.1 Overall Portfolio Credit Framework – 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:

<table>
<thead>
<tr>
<th>S&amp;P Local Long Term Ratings*</th>
<th>S&amp;P Local Short Term Ratings</th>
<th>Maximum Holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA Category</td>
<td>A1+</td>
<td>100%</td>
</tr>
<tr>
<td>AA Category</td>
<td>A1</td>
<td>100%</td>
</tr>
<tr>
<td>A Category</td>
<td>A2</td>
<td>50%</td>
</tr>
<tr>
<td>BBB Category</td>
<td>A3</td>
<td>30%</td>
</tr>
<tr>
<td>Unrated Authorised Deposit Institution’s</td>
<td>Unrated</td>
<td>30%</td>
</tr>
</tbody>
</table>

*Only applies to approved ADI institutions. The Trustee Act provides for investments with building societies and credit unions, however they are not rated. The maximum amount of funds allowed to be invested in total with building societies/credit unions is 30%.

6.2.2 Institutional Framework – exposure to an individual institution will be restricted by their credit rating so that single entity exposure is limited, as detailed in the following table:

<table>
<thead>
<tr>
<th>S&amp;P Local Long Term Ratings*</th>
<th>S&amp;P Local Short Term Ratings</th>
<th>Maximum Holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA Category</td>
<td>A1+</td>
<td>50%</td>
</tr>
<tr>
<td>AA Category</td>
<td>A1</td>
<td>45%</td>
</tr>
<tr>
<td>A Category</td>
<td>A2</td>
<td>40%</td>
</tr>
<tr>
<td>BBB Category</td>
<td>A3</td>
<td>20%</td>
</tr>
<tr>
<td>Unrated Authorised Deposit Institution’s</td>
<td>Unrated</td>
<td>10%</td>
</tr>
</tbody>
</table>

| WAW Credit Union | Membership of Credit Union Financial Support System | 20% |

*Only applies to approved ADI institutions. The Trustee Act provides for investments with building societies and credit unions, however they are not rated. The maximum amount of funds allowed to be invested in total with building societies/credit unions is 10%, except WAW Credit Union which is 15% as it is the only banking facility available in some council locations.
Credit ratings – If any of Council’s investments are downgraded such that they no longer fall within the below investment policy guidelines, they will be divested as soon as practicable. The short-term credit rating limit will apply in the case of discrepancies between short and long-term ratings.

6.2.3 Performance Benchmarks

<table>
<thead>
<tr>
<th>Investment</th>
<th>Performance Benchmark</th>
<th>Time Horizon</th>
</tr>
</thead>
<tbody>
<tr>
<td>11am Account, short dated term deposits bank bills, deposits issued by financial institutions</td>
<td>Official RBA Cash Rate</td>
<td>3 months or less</td>
</tr>
<tr>
<td>Term Deposits &amp; Bank Bills</td>
<td>S&amp;P/ASX Bank Bill Index - 1 year</td>
<td>3 months to 12 months</td>
</tr>
<tr>
<td>Term Deposits &amp; Bank Bills</td>
<td>S&amp;P/ASX Bank Bill Index - 3 years</td>
<td>12 months to 3 years</td>
</tr>
</tbody>
</table>

6.2.4 Term to Maturity Framework – terms of maturity shall be limited to the following maximums:

<table>
<thead>
<tr>
<th>Term Deposits</th>
<th>Term to Maturity Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>On-call/Cash Accounts</td>
<td>No Limit if On-call</td>
</tr>
<tr>
<td>Term Deposits</td>
<td>See below criteria</td>
</tr>
<tr>
<td>Bills of Exchange</td>
<td>Not more than 200 days</td>
</tr>
<tr>
<td>Negotiable Certificate Deposits</td>
<td>Not more than 185 days of six (6) months</td>
</tr>
</tbody>
</table>

Term deposits – the investment portfolio is to be invested within the following maturity constraints:

<table>
<thead>
<tr>
<th>Overall Portfolio Term to Maturity Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio under 1 year</td>
</tr>
<tr>
<td>Portfolio between 1 to 2 years</td>
</tr>
<tr>
<td>Portfolio between 3 to 5 years</td>
</tr>
</tbody>
</table>

6.2.5 Quotation Framework – a minimum of three (3) quotations from financial institutions must be reviewed prior to placing any new or renewal investment.

6.3 Prohibited investments

6.3.1 In accordance with the Ministerial Investment Order, this Policy prohibits, but is not limited to, the following investments:

(a) Derivative based instruments;
(b) Principal only investments or securities that provide potentially nil or negative cash flow; and
(c) Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.

6.3.2 This Policy also prohibits the use of leveraging (borrowing to invest) of an investment.
6.4 Reporting
6.4.1 A monthly report is to be submitted to the Council, detailing the investment portfolio in terms of performance and counterparty exposure of total portfolio.
6.4.2 For audit purposes, certificates will be obtained from financial institutions confirming the amounts of investments held on Council’s behalf at 30 June each year.

7. EVALUATION AND REVIEW

7.1 The General Manager has authority to invest surplus funds and has delegated this function to Council’s Director Corporate Services and Manager Finance.

7.2 The General Manager, or their delegated representative, is authorised to approve variations to this Policy if the investment is to Council’s advantage and/or due to revised legislation or statutory guidance.

7.3 It is the responsibility of the Director Corporate Services to monitor the adequacy of this Policy and recommend appropriate changes.

7.4 All changes to this Policy are to be reported as soon as practicable with any amendments to the Policy to ultimately be by way of Council resolution.

7.5 This Policy will be formally reviewed annually or as needed, whichever comes first.

8. ASSOCIATED DOCUMENTS

- Murray River Council Integrated Planning and Reporting Framework

DOCUMENT CONTROL

<table>
<thead>
<tr>
<th>Version No.</th>
<th>Details</th>
<th>Date</th>
<th>Resolution No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Initial Issue – On 12 May 2016, the Premier of NSW, The Hon Mike Baird MP, made the Local Government (Council Amalgamations) Proclamation 2016 under the Local Government Act 1993, whereby Murray Shire Council and Wakool Shire Council were amalgamated to constitute the new area to be known as Murray River Council, effective immediately.</td>
<td>17 Oct 2017</td>
<td>231017</td>
</tr>
</tbody>
</table>

Council reserves the right to review, vary or revoke this policy at any time
This Policy is scheduled for review in October 2018