



Briefing Note

To: His Worship the Mayor and Councillors
From: Paul Radalj, Manager Finance & Treasury
Date: 2 September 2015
Subject: Investment Policy CP011
Agenda Reference: CCS132
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Council Policy CP011 Investment Policy

Proposed amendments reflect the current market and the approach undertaken by the City in the investments of funds.

- The Review Frequency has been updated from biennially to triennially
- The title of the Owner – Director Corporate and Commercial Services has been amended from – Director Corporate Services to reflect the current title of the position.
- Objective amendments:

Current:

To provide guidelines for the investment of surplus council funds.

Proposed:

To provide guidelines for the investment of council funds.

- Policy Principle amendments:
Clause 5 - Overall Portfolio Limits

Current:

S&P Long Term Rating	S&P Short Term Rating	Direct Investment Maximum %	Managed Funds Maximum %
AAA	A1+	100%	100%
AA	A1	100%	100%
AA-	A2	60%	80%





Proposed:

S&P Long Term Rating	S&P Short Term Rating	Direct Investment Maximum %
AAA to AA-	A-1+	100%
A+	A-1+ to A-1	100%
A to A-	A-1 to A-2	60%

Reason for Change:

To reflect the current rating of banking institutions in Australia taking into account the highest rated banks (4 major) are now only rated AA-. The City does not invest in “Managed Funds” so this has been deleted from the table.

Clause 5 - Counterparty Credit Framework:

Current:

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. Only multiple investments in AAA or A1+ institutions can be made from the table below.

S&P Long Term Rating	S&P Short Term Rating	Direct Investment Maximum %	Managed Funds Maximum %
AAA	A1+	45%	50%
AA	A1	35%	45%
AA-	A2	20%	40%

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

Proposed:

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 %
AAA to AA-	A-1+	60%
A+	A-1+ to A-1	50%
A to A-	A-1 to A-2	40%

Note: The “Direct Investment Maximum %” only applies if the City’s investment portfolio at any one time exceeds \$7 million.

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



Reason for Change:

An increase in percentages related to the amount invested in any one institution allows the City to source the most competitive investment rates available at time of investing while still minimising any potential risk exposure.

Clause 5 - Term to Maturity Framework

Current:

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

(ADI – Approved Deposit – taking Institution)

Proposed:

Clause deleted. The “Term to Maturity Framework” has been removed from the policy as the City’s does have a level of liquidity (short to medium term) or available funds to invest for periods that would exceed one year

Clause 7 – Benchmarking

Current:

Performance benchmarks need to be established.

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

Proposed

Clause deleted – not relevant



Clause 8 – Reporting and Review

Current:

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

Proposed:

Clause deleted. The new proposed monthly report to Council does not include a report on investments.

Standard & Poor's Rating Categories:

Short Term Credit Rating

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.

Long Term Credit Rating

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 in 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.