



# Council Policy

## Investment



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## Policy scope

To outline the requirements for investing surplus, long term cash, current assets and other funds in authorised investments in accordance with the *Local Government Act 1995* and other relevant legislation.

## Policy statement

This policy sets out the parameters for the investment of surplus funds:

### 1. Preservation of capital

1.1 Investments are to be undertaken in a manner that seeks to provide security and safeguarding of the investment portfolio to ensure capital preservation.

### 2. Ensuring sufficient liquidity

2.1 Investments are to be made in a manner to ensure sufficient liquidity to meet all reasonably anticipated cash flow requirements, without incurring significant costs due to the unanticipated sale of an investment.

2.2 If any liquid investments held are downgraded such that they no longer fall within these policy guidelines, they will be divested within 30 days or as soon as is practicable.

### 3. Performance

3.1 Investments are to be managed in a manner that enables maximum returns on the investment within the credit risk and diversification limits set out in this policy.

3.2 The performance of Council's investment portfolio will be benchmarked against the Bloomberg AusBond Bank Bill Index (BBI).

3.3 It is Council's expectation that the performance of each investment will be greater than or equal to the applicable benchmark by sufficient margin to justify the investment taking into account its risks, liquidity and other benefits of the investment.

3.4 Where performance and part 6 (diversification) of this policy conflict, part 6 is to take precedence but only in the context of the credit risk and diversification limits.

### 4. Portfolio credit framework

4.1 To control the credit quality of the portfolio, the following credit framework limits the percentage of the portfolio exposed to any particularly credit rating category.



| <b>Credit quality</b> | <b>Maximum % of total investments</b> |
|-----------------------|---------------------------------------|
| Tier 1 AAA to AA-     | 100%                                  |
| Tier 2 A+ to A-       | 60%                                   |
| Tier 3 BBB+ to BBB-   | 35%                                   |
| Tier 4 Unrated        | 15%                                   |

4.2 Deposits qualifying for the Federal Government Guarantee are to be considered Tier 1 in line with the Federal Government’s credit rating, and should not count towards a counterparty limit as outlined in this policy.

## **5. Counterparty credit framework**

5.1 Investments are not to exceed the following percentages of average annual funds invested with any one financial institution and consideration should be given to the relationship between credit rating and interest rate.

| <b>Credit quality</b>                       | <b>Maximum % of total investments</b> |
|---|---------------------------------------|
| Tier 1 AAA to AA-<br>(excl. AAA government) | 45%                                   |
| Tier 2 A+ to A-                             | 25%                                   |
| Tier 3 BBB+ to BBB-                         | 10%                                   |
| Tier 4 Unrated                              | (\$1m)                                |

5.2 Standard & Poor’s (or equivalent Moodys or Fitch) ratings attributed to each individual institution will be used to determine maximum holdings.

5.3 In the event of disagreement between two agencies as to the rating band (“split ratings”) Council shall use the lower of the ratings. Where more than two rating exist, Council shall discard the lowest rating and then use the lower of the higher two ratings when assessing new purchases.

## **6. Authorised Investments**

6.1 Investment are limited to those allowed by the most current *WA Local Government Act 1995*.

6.2 All investments must be denominated in Australian Dollars. Authorised Investments are limited to those confirmed in the *Local Government (Financial Management) Regulations 1996*, currently:

- Deposits with authorised deposit taking institutions
- Deposit for a fixed term no greater than 3 years
- Commonwealth / State / Territory Government Bonds
- Bonds with a term to maturity no greater than 3 years



## 7. Ethical Investment

- 7.1 The City of Fremantle will preference investing in financial institutions which support the same values as our council. Consideration will consider how the institution supports the environment and society in a positive way.
- 7.2 The City also considers climate crisis a serious threat to current and future generations locally, nationally and internationally.

Most world governments have agreed through the 2009 Copenhagen Accord that any warming above a 2°C (3.6°F) rise would be unsafe, and that future carbon emissions release should be significantly limited.

The Carbon Tracker Initiative found that fossil fuel companies possess proven fossil fuel reserves that would release approximately 2,795 gigatons of CO<sub>2</sub> if they are burned, which is five times the amount that can be released without exceeding 2°C of warming.

- 7.3 The City of Fremantle has committed to carbon neutrality, and to this end seeks to ensure its financial investments consider the reduction of fossil fuels and our One Planet Fremantle Strategy.
- 7.4 To this end the City of Fremantle will review and manage its investment portfolio to identify financial institutions which support either direct or indirect support of fossil fuel companies and will limit investments in these institutions to the minimum required which will allow compliance with parts 4 and 5 above.

## 8. Liquidity

- 8.1 The investment portfolio is to be invested within the following maturity parameters.

| <b>Credit quality</b> | <b>Maximum % of total investments</b> |
|-----------------------|---------------------------------------|
| Portfolio % <90 days  | 100% (with 10% minimum)               |
| Portfolio % <1 year   | 100% (with 50% minimum)               |
| Portfolio % 1-3 years | 60%                                   |
| Portfolio % >3 years  | Not permitted                         |



| <b>Responsibility and review information</b> |   |
|--|---|
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