SUBJECT: *INVESTMENT POLICY*	FILE NO:	FIN/0501
ADOPTED BY COUNCIL ON: 21 May 2009	**MINUTE NO:**	170.05.09
AMENDED BY COUNCIL ON: 18 December 2014	**MINUTE NO:**	952.12.2014
AMENDED BY COUNCIL ON: 21 January 2016	**MINUTE NO:**	04.01.2016
AMENDED BY COUNCIL ON: 17 March 2016	**MINUTE NO:**	51.03.2016

1. Background

Council generally has funds in excess of those needed to meet its immediate day-to-day activities. Those funds are then available for investment until required, with the resultant investment income forming part of Council's budgeted revenue.

When exercising this policy, consideration is to be given to the preservation of capital, liquidity, and the return on the investment.

Preservation of capital and the return on investment in accordance with the parameters contained in Appendix 1, are the principal objectives of the investment portfolio. Investments are to be placed in a manner that is in accordance with these stated parameters.

Investments should be allocated to ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring the risk of significant costs due to the unanticipated realisation of an investment.
Investments are expected to achieve a market average rate of return in line with the Council's risk tolerance as set out in Appendix 1 of this policy.

2. Policy Objective

In accordance with legislative and common law responsibilities the objective of this Policy is to authorise and regulate the investment of Council's uncommitted funds so as to maximise earnings from authorised investments whilst ensuring the security of those funds.

3. Policy Guidelines

Funds for Investment

Any uncommitted Council's funds are to be invested in terms of this Policy document.

Authority for Investment

Investments of Council's funds are to be in accordance with Council's power of investment under:

- *Local Government Act 1993* - Section 75.
- The *Trustee Amendment (Investment Powers) Act 1997*

Prudent Persons Standard

The investment portfolio will be managed with the care, diligence and skill that a prudent person would exercise. As trustees of public monies, officers are to manage the Council's investment portfolio to safeguard the portfolio in accordance with the spirit of this policy, and not for speculative purposes.

Ethics & Conflicts Of Interest

Officers of the Council and Councillors will not engage in personal activities that may conflict with the proper execution and management of the Council's investment portfolio. All officers and Councillors must disclose any actual or potential conflict of interest to the General Manager who shall disclose the interest in accordance with prescribed practice. In the case of the General Manager such a disclosure is to be made to the Mayor.

Any person from whom advice is sought in relation to investments must also declare, in writing, that they have no actual or potential conflict of interest.

4. Approved Investments

Investments made under delegation are limited to the following:-

A. Commonwealth/State/Territory Government security (eg bonds);

B. Interest Bearing Deposits issued by an authorised deposit taking institution (ADI);

C. Bills of Exchange guaranteed by an authorised deposit taking institution; and

D. Deposits with Tasmanian Public Finance Corporation.

E. Managed Funds recommended by Council's selected Investment Advisor – refer Clause 6.3

F. Infrastructure for the benefit of the Community.

~~F.~~G. A managed fund may use derivatives to achieve its investment objectives to gain exposure to assets and markets. Derivatives may also be used to reduce risk and act as a hedge against adverse movements in a particular market and/or in the underlying assets. Derivatives may not be used to achieve a leveraged position, long or short, in any underlying asset class within the Fund. The use of derivatives must be fully explained in the Fund Product Disclosure Statement and use of the Fund must be approved by Council (or delegated person) prior to investment.

5. Prohibited Investments

The following investments are prohibited under this policy:-

A. Derivative based financial instruments;

B. Principal only investments or securities that provide potentially nil or negative cash flow;

C. Investments that have underlying futures, options, forward contracts and swaps, unless within a managed fund; ~~of any kind;~~

D. Any type of collateralised debt obligation investment; and

E. Any financial investment that requires the Council to borrow (leverage) in order to make that investment.

6. Investment Guidelines

In order to meet the policy objectives the Council must take into consideration all of the following factors when carrying out investment functions:-

a) The investment strategy detailed in Appendix 1.

b) Interest Rate;

c) Access to, and customer service history of, the institution; and

d) Available history of Managed Funds recommended by the Investment Advisor.

6.1 Risk Assessment Framework

Investments are expected to achieve a market average rate of return taking into consideration the following risk assessment framework.

a) Preservation of Capital – the requirement for preventing losses in an investment portfolio's total value.

b) Diversification – the requirement to place investments in a broad range of products so as not to be over exposed to a particular sector of the investment market, as detailed in Appendix 1. Council may at times choose to invest 100% of funds in cash.

c) Market Risk - the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices.

d) Liquidity Risk - the risk an investor is unable to redeem the investment at a fair price within a timely period.

e) 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.

6.2 Interest Rate and Quotations on Investments

Not less than two (2) quotations shall be obtained from authorised deposit taking institutions and Managed Funds investments.

6.3 Investment advisor

Where Council obtains the services of an investment advisor, the advisor must be approved by Council and licensed by the Australian Securities and Investment Commission or operate as a corporate representative of a body and licensed. The advisor must demonstrate their ability to choose the most appropriate product within the terms and conditions of this policy.

The advisor will be required to provide written confirmation that it does not have any actual or potential conflicts of interest in relation to the products that it may be reviewing or recommending.

7. Reporting

Documentary evidence must be held for each investment and details thereof maintained in an investment Register. The documentary evidence must provide the Council legal title to the investment. 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 the General Manger to ensure the confirmation is reconciled to the Investment Register.

All investments are to be appropriately recorded in the Council's financial records and reconciled at least on a monthly basis.

A monthly report summarising investment performance will be provided to Council. A quarterly report detailing the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value will also be provided to Council.

8. Variations to Policy

The General Manager is authorised to approve temporary variations to this policy in exceptional circumstances, if the investment is to Council's advantage and/or also due to revised legislation.

Such variation will be reported to the Mayor immediately. All major variations to this policy will be submitted to Council for approval prior to the enactment.

9. Review

This Investment Policy will be reviewed at least every 2 years, or as required in the event of legislative changes.

Any amendment to the Investment Policy must be by way of Council resolution.

Appendix 1

Flinders Council – Investment Strategy

Introduction

This investment strategy documents the intent of Flinders Council ("Council") when purchasing, holding and selling investments pursuant to the Investment Policy of which this document forms an integral part.

The general intent is to maintain a well-diversified portfolio to support Council's requirements for income and possible capital drawings in the both the short and long terms, but bearing in mind the need to preserve the underlying capital investment.

This strategy applies to either direct investments or those made through an Investment Advisor selected under Clause 6.3 of the Investment Policy

Investment Objectives

Council shall always act prudently to obtain the maximum rate of return within the set parameters, the need for income, access to cash and in consideration of appropriate levels of diversification.

Performance Objectives

Council has considered the current and likely expenditure and time frame needs and has determined that it is appropriate to provide a long term return on capital of a minimum of 2% per annum (net of taxes) above the underlying inflation rate.

Interest

Council at budget time shall determine the proportion of interest payments to be reinvested.

Risk Profile

In light of the Investment Objectives of this document Council has determined the asset allocation and appropriate ranges to be applied, either directly or through managed funds, are:

Asset Classes	Minimum	Maximum
Cash	5%	100%
Fixed Interest – Australian	5%	25%
Fixed Interest – International	5%	25%
Property Trusts – Australian	5%	10%
Property Trusts – International	5%	10%
Property Direct	0%	5%
Shares – Australian	5%	30%
Shares – International	5%	30%
Infrastructure	0%	5%
Alternative	0%	15%
Exotic	0%	5%

Australian Fixed Interest

Australian Fixed Interest investments can be made in two forms: ASX listed or unlisted via a managed fund. As a defensive investment, this asset class must be evaluated on its merits as to its potential capacity to provide income and a degree of negative correlation to equity market volatility. As the barriers to entry for direct investments into bonds can be high, Council shall generally consider investing in this asset class through the use if managed funds.

Property

Property in the form of owning a direct asset is typically the least liquid form of investment. Typically, it requires a buyer at the time of offer to purchase the entire building and/or land. This can have a considerable lead time.

However property can provide a relatively secure level of income. The risk is the inability of the tenant to meet their rental obligations.

One final consideration with direct property is the capital required to purchase one asset. This may be a significant proportion of Council's assets.

Should the Investment Advisor consider investment in a direct property it shall obtain appropriate valuations for the purchase price and rental income to satisfy themselves that the price or units of the property reflect the true value of the investment.

An investment in managed funds will generally provide more diversification through exposure to various properties across different property markets in Australia and overseas and will provide a more liquid form of investment as:

- The investment is unlikely to be more than a few percent of the total value of such a managed fund; and
- Because the managed fund is listed, there will generally be a number of potential buyers.

In terms of managed funds property ownership the Investment Advisor will have greater flexibility in their decision making.

Shares – Australian

Share investments can be made in two forms, listed or unlisted via a managed fund.

When considering investments in the form of direct shareholdings Council shall ensure the decision is based upon the anticipated longer term capital appreciation of the investment, as measured by the increase in its share price, as well as the potential dividend stream.

When investing in direct shares Council shall also give due consideration to the current exposure of the Fund to:

- The sectors of business the companies operate within (i.e. industrial, banking, retail, resources etc.);
- The manner in which the companies act and respond in various market conditions, (i.e. recession, recovery etc.); and
- The requirement for ongoing monitoring of such investments on a regular basis.

Where Council is of the opinion it does not hold or have access to the requisite skill set or experience or time to appropriately evaluate and monitor a portfolio of direct shareholdings, then the investments shall be made through managed funds recommended by the selected Investment Advisor approved and appointed by Council.

Managed funds may also be used as an investment option in conjunction with a portfolio of direct shareholdings or in isolation.

The tax effectiveness of franking credits which are derived from holding investments may form part of the investment decision.

The Australian equity component of the portfolio is to be managed within the following guidelines:

- The majority of the exposure to Australian equities is to be held "directly" in stocks in the ASX 50 Index. The exposure to any one stock in the ASX 50 Index is limited to the greater of:
    - 5% of the value of the Australian equity component of the portfolio; or
    - 1.5 times its weighting within the ASX 200 Index.
- The maximum aggregate exposure to Australian small/mid cap stocks is to be limited to 20% of the value of the Australian equity component of the portfolio; and
    - The exposure to any one listed investment company and/or unlisted managed fund and/or other similar investment vehicle is limited to 7.5% of the value of the Australian equity component of the portfolio; and
    - The exposure to any one small/mid cap stock (defined as any stock outside the ASX 50 Index held "directly" is limited to 2.5% of the value of the Australian equity component of the portfolio.

Shares – International

Historically this asset class has provided investors with the highest capital return. Past performance is no guarantee of future performance and this asset class must be evaluated on its merits as to its potential capacity to provide:

- Income return;
- Capital return, in excess of the prevailing inflation rate by a minimum of 2.0% per annum; and
- Volatility in the capital value.

Again this asset class can be accessed through both direct investment and managed funds.

Direct investment in international shares requires more time and administration than its counterpart. As such, Council shall generally consider investing in this asset class primarily through the use of managed funds.

Infrastructure Investments

Infrastructure is a relatively new asset class in Australia for private investors. It comprises investments in such assets as power and water stations and associated distribution; major roads and bridges; and air and sea ports.

The way in which these assets are financed, the nature of the services they provide and the way in which those services are charged for often means an investment in infrastructure can provide reliable and tax advantaged cash flow and potential for capital growth.

In Australia, investments in infrastructure are principally available through listed unit trusts holding a number of assets. More recently, unlisted managed funds holding direct investments and listed unit trusts have become available.

Council shall consider investing in this asset class primarily through managed funds.

Alternate Investments

This category of asset class is varied. It allows for all forms of asset types not covered in the other outlined asset classes. This can include unlisted and tax advantaged investments in specialists industries.

The purpose of 'alternative investments' is to provide risk and return profiles that are not correlated to any particular asset class, but instead seek to deliver 'absolute returns' that are positive in all market conditions.

Exotic Investments

Council may consider investments in assets that may be deemed to be exotic. In considering such an asset, Council must be able to demonstrate the investment in such an asset meets one of the arms of the Objectives of the Fund as well as the risk profile of the Fund.

Risk Management

In relation to the risks involved with investing the assets of the Fund, when making an investment decision Council shall give consideration to the following range of possible risks:

Mismatch Risk – The chosen investment may not be suitable for the various needs, goals and circumstance of Council.

Inflation Risk - The real purchasing power of invested funds may not keep pace with inflation.

Reinvestment Risk – If Council relies on fixed rate investments, maturing funds may have to be reinvested at a lower rate of interest.

Market Risk – Movements in the market mean the value of investments can go down as well as up, and sometimes suddenly.

Timing Risk – Trying to time entry to and exit from markets can involve exposure to potentially greater short-term volatility.

Risk of not diversifying - If all funds are invested into one market a fall in that market will adversely affect all of the capital

Liquidity Risk - Access to funds may not occur as quickly as required without suffering a fall in value.

Credit Risk - The institution that funds are invested with may not be able to make the required interest payments or repay capital

Legislative Risk – Investment strategies or products could be affected by changes in current laws and regulations.

Value Risk – Too much may be paid for the investment or it is sold too cheaply.

Manager Risk –The personnel or ownership of the fund manager may change so that the manager no longer has access to the skills or attitudes that contributed to earlier performance levels.

Currency Risk – Investments in assets located in other countries may rise or fall due to the relative value of the Australian currency.

Declaration

The documented Investment Strategy and its included principles, conditions and regulations are accepted by the Council.