

Investment Policy Statement	
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Adopted by	Council
Endorsed by	Audit and Risk Committee - 8 November 2023 Policy Review Panel – 5 December 2023
Review due	December 2025
Responsible officer	Manager Finance
Records reference	9207849

1. Purpose

The purpose of this Policy is to provide a framework for the investment management of funds that maximises returns whilst managing risk within Council's approved investment objectives.

This Policy aims to ensure that:

- all funds are invested in accordance with legislative and Council requirements;
- effective internal controls are in place to minimise investment risk and unauthorised appropriation of Council funds;
- all investment transactions are appropriately authorised and documented;
- investment decisions are based on the security of funds by limiting unnecessary exposure to risk;
- the financial yield is enhanced through prudent investment of funds whilst ensuring sufficient liquidity for each fund's commitments;
- legally restricted funds are appropriately invested so as to earn a reasonable income towards their purposes (whilst limiting unnecessary exposure to risk).

2. Application and Scope

This Policy is made in accordance with Section 103 of the *Local Government Act 2020* (the Act). This Policy applies to all:

- investments held with the Victorian Funds Management Corporation (VFMC) and Authorised Deposit-taking Institution's (ADIs);
- funds in Council's operating bank account; and
- any other investments approved by the relevant Minister and the Treasurer as suitable for use by Council.

Council is only permitted to invest in those investments authorised under Section 103 of the Act, which include:

- in Government securities of the Commonwealth;
- in securities guaranteed by the Government of Victoria;
- with an ADI;

- with any financial institution guaranteed by the Government of Victoria;
- on deposit with an eligible money market dealer within the Corporations Act; and
- in any other manner approved by the Minister, either generally or specifically, to be an authorised manner of investment for the purposes of this section. (The Minister approved investments in the VFMC Pooled Funds in June 2022.)

3. Ethics and Conflicts of Interest

Councillors and Council Officers shall refrain from personal activities that would conflict with the proper execution and management of Council’s investment portfolio. This includes activities that would impair the Councillor’s or Council Officer’s ability to make impartial decisions. The Policy requires that Councillors and Council Officers disclose any conflict of interest on any investment positions that could be related to the investment portfolio.

All investments are to be made exercising care, diligence and skill that a prudent financial officer would exercise in managing the affairs of other persons. When acting under the provisions of this policy Councillors and Council Officers must always maintain a professional balance of risk and return and act as a steward of Council funds.

4. Investment Objectives

Council operates five broad investment funds. The investment objectives, liquidity requirements and risk tolerances are outlined in the table below.

Table 1: Investment Fund Objectives

Investment Fund	Purpose	Liquidity	Investment Time Frame	Investment Objective		VFMC Fund Options
				Return:	Risk:	
Operating Funds	Operational, LSL provisions & short-term capital works	Daily	< 2 years	Funds within 90 days	n.a.	50% Term Deposits (via ADIs) 50% Enhanced Income
Major Capital Works	Medium to long term infrastructure projects	Moderate to Low	75% < 5 years 25% > 5 years	CPI + 2% p.a. over rolling 7 years	An expected negative return 1 in every 5 years	75% Conservative 25% Balanced
Strategic Land Purchases	Purchase of land	Medium	< 3 years	CPI + 0.50% p.a. over rolling 5 years	An expected negative return 1 in every 9 years	50% Enhanced Income 50% Conservative
Developer Contributions	Provision of future infrastructure from PSPs	Moderate to Low	75% < 5 years 25% > 5 years	CPI + 2% p.a. over rolling 7 years	An expected negative return 1 in every 5 years	75% Conservative 25% Balanced
Income Generating Investments	Commercial opportunities	Low	> 5 years	CPI + 3% p.a. over rolling 7 years	An expected negative return 1 in every 5 years	100% Balanced

4.1. Strategic Asset Allocation and Ranges

The Strategic Asset Allocation (SAA) target represents the long-term asset allocation that is expected to deliver the Council's investment return objective over the long term at an acceptable level of risk. It is understood that with market fluctuations, withdrawals and contributions, it is unlikely that at any point in time the actual asset allocation will equal the SAA targets exactly.

The SAA ranges provide room to account for natural variations against the SAA and also provide the flexibility to allow Council to take Dynamic Asset Allocation (DAA) positions away from SAA in light of the opportunities and risks in each of the asset classes throughout the investment cycle.

The asset allocation targets and ranges for each of the five broad investment funds are as follows:

Investment Fund	Strategic Asset Allocation (SAA)		Strategic Asset Allocation Range
Operating Fund	Cash and Term Deposits	50%	0% - 100%
	VFMC Enhanced Income Fund	50%	0% - 50%
Major Capital Works Fund	VFMC Conservation Fund	75%	0% - 100%
	VFMC Balanced Fund	25%	0% - 35%
Strategic Land Purchases Fund	VFMC Enhanced Income Fund	50%	0% - 100%
	VFMC Conservative Fund	50%	0% - 60%
Developer Contributions Fund	VFMC Conservative Fund	75%	0% - 100%
	VFMC Balanced Fund	25%	0% - 35%
Income Generating Investments Fund	VFMC Balanced Fund	100%	100%

4.2. Investment Restrictions

For investment in the cash asset class the following Standard & Poor's issuer credit rating exposure limits are to be adhered to:

Short Term Rating	Maximum Term to Maturity	Maximum % Investment Per One Institution	Percentage of Total Investments
A1+	2 Years	40%	100%
A1		25%	60%
A2		10%	40%

5. Investment Objective Implementation

The investment strategy will be implemented by investing:

- with the VFMC in its Enhanced Income, Conservative and Balanced Funds;
- in term deposits with ADI's or eligible money market dealers; and
- surplus short-term funds in the Commonwealth bank or with a designated bank to cover liquidity requirements.

6. Investment Delegations

These include:

- The Council must approve of any change to investment strategy including investment objectives, strategic asset allocations & ranges, and VFMC investment funds.
- All portfolio investment services must be provided by VFMC as the Investment Manager.
- All term deposits must be provided through an ADI.
- Approval of new deposits, rollovers and redemptions of funds are to be administered as per the below:
 - Up to a total of \$25 million in any one day by the Coordinator Accounting Services, with approval by the Manager Finance
 - Over \$25 million and up to a total of \$50 million in any one day by the Manager Finance, with approval by the Chief Financial Officer
 - In excess of \$50 million in any one day by the Chief Financial Officer
- Initial term deposit investments with a new institution must be approved by the Manager Finance.
- New investments must be made through the Accounts Payable process and authorised by two signatories to Council's bank account.

7. Investment Risks

In seeking to achieve the investment objectives in this Policy, the Council acknowledges that risks are being taken to achieve investment returns above the risk-free rate of return. Risks accepted to achieve the investment objective include the following:

7.1. Liquidity risk

Liquidity risk is the risk that the Council cannot satisfy its day to day cash flow commitments when they fall due. Liquidity risk is managed by investing a proportion of funds in highly liquid assets.

7.2. Credit risk

Credit risk is the risk that the Council will suffer financial loss due to the inability of a counterparty to meet its financial obligations in full and on time. Credit risk is reduced by diversifying exposures across a broad range of counterparties.

7.3. Inflation risk

Inflation risk is the risk that investment performance fails to match long-term inflation. This risk is being managed by maintaining a strategic allocation toward medium to long-term growth assets.

7.4. Interest rate risk

Interest rate risk is the risk that movements in interest rates has an adverse impact on the value of the investment portfolio or of the valuation of the Council. This risk is being managed by maintaining a diversified investment portfolio with exposure to a broad range of asset classes, including an allocation to floating and fixed rate assets.

7.5. Market risk

Market risk is the financial risk associated with macroeconomic factors impacting portfolio performance. This risk is managed by maintaining a diversified investment portfolio with exposure to a broad range of assets classes.

7.6. Foreign exchange risk

Foreign exchange risk is the risk that the Council will suffer financial loss due to adverse movements in foreign exchange rates. This risk is managed by maintaining a diversified exposure within the investment portfolio and the investment manager's active foreign currency hedging approach within the Pooled Fund portfolios.

7.7. Operational risk

Operational risk is the risk that the Council will suffer loss owing to the mismanagement of the investment function. These may include risks of financial loss due to error, fraud or unauthorised dealing or use of financial products.

Operational risk is monitored and controlled through the following risk management practices:

- effective performance and compliance reporting of investment activities and operations to management and the Audit and Risk Committee;
- oversight by Executive and the Audit and Risk Committee;
- regular internal and external audits;
- the execution of the investment strategy through VFMC;
- adherence to the investment management policies and procedures outlined in this Investment Policy Statement, including fully documented dealing and authorisation limits;
- appropriate organisational structure, resourcing and segregation of duties within the investment function;
- measures to protect the integrity of information systems including security, backup, and disaster recovery of information systems.

7.8. Environmental, Social and Governance (ESG) risks

Council recognises that ESG considerations present both risks and potential opportunities. ESG considerations are factored into the selection, management and monitoring of internally and externally managed investments in accordance with VFMC's Investment Stewardship Policy. VFMC makes full use of ownership rights by actively exercising votes at company and fund meetings and by engaging with investee companies, fund managers and policymakers on material ESG issues.

8. Internal Controls and Systems

8.1. Internal Audit

Internal audits will be carried out by an appropriate accounting firm approved by Council.

Internal audits will be conducted at least every two years, and more regularly at the request of the Audit and Risk Committee. The internal audit reports will be provided to the Audit and Risk Committee for their consideration. The Audit and Risk Committee may recommend that Council engage additional internal audit activities at any time should it be required.

8.2. Operational policies

Management and Council staff must comply with the requirements of the relevant Directions and Instructions outlined in Council policies and relevant legislation and policies.

The Manager Finance is responsible for ensuring systems are in place to identify, measure and evaluate potential financial risks as and when they eventuate. The Accountable Officer should frequently review the risk environment of the Council and update the Investment Policy Statement as required.

The Council must ensure adequate segregation of duties to minimise the risk of error or fraud in the investment management process and enhance the probability of discovering error or fraud.

The Council is responsible for ensuring that management policies and directions, including this Investment Policy Statement, are being adhered to by management and staff.

8.3. Information systems

The Accountable Officer must ensure that computer systems, including accounting software and communications systems can support the investment function at all times.

8.4. Breach reporting

The Accountable Officer must ensure a process is in place to report breaches to the Council of any requirements in this Policy, including procedures to ensure that breaches are appropriately addressed, and internal controls amended if required.

All breaches of this Policy should be recorded to ensure that the breaches are learnt from and not repeated. Breaches must be reported in accordance with the Compliance and Reporting Direction.

9. Reporting to Council

The Chief Financial Officer must ensure that reports to the Council are provided on at least a quarterly basis detailing investment operations and performance of the investment portfolio.

The Investment Manager (VFMC) will provide comprehensive investment reporting on a monthly, quarterly, and annual basis. More frequent reporting may be prudent in periods of high market volatility.

Quarterly investment reports to Council should contain the following features:

- a regular reporting of portfolio values using the mark-to-market methodology;
- a breakdown of investment performance for each asset class or product including a comparison of performance against relevant benchmarks; and
- a note verifying compliance with the Investment Policy Statement, and all relevant legislation, subordinate legislation, Ministerial Directions and Instructions including the provision of a detailed explanation where any of the above requirements are breached.

10. DEFINITIONS

Term	Definition
The Act	means the <i>Local Government Act 2020 (Vic)</i>
ADI	means Authorised Deposit-taking Institution's which are corporations authorised under the Banking Act 1959. ADIs include banks, building societies, and credit unions.
Council	means the entire Melton City Council including Councillors, employees, all contractors, agents and consultants engaged by Council.
Credit rating	means an assessment of the creditworthiness of an investment in general terms or with respect to a particular debt or financial obligation.
ESG principles	refers to how VFMC aims to improve risk-adjusted returns by managing environmental, social and governance (ESG) risks alongside other investment factors.
Investment Manager (VFMC)	Refers to VFMC being responsible for managing investments on behalf of Council
Risk-free rate of return	represents the interest an investor would expect from an absolutely risk-free investment over a specified period of time.
S&P	<p>means Standard & Poor's. This is the world's leading index provider and the foremost source of independent credit ratings.</p> <p>The following details the S&P's investment ratings:</p> <ul style="list-style-type: none"> • AAA – Highest credit quality – This rating indicates the lowest expectation of credit risk. They are assigned only in the case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events. • AA – Very high credit quality – This rating indicates expectations of very low credit risk. They indicate very strong

Term	Definition
	<p>capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p> <ul style="list-style-type: none"> • A – High credit quality – This rating indicates expectations of low credit risk. The capacity for payment of financial commitments is considered strong. The capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings. • BBB – Good credit quality – this rating indicates that there is currently an expectation of low credit risk. The capacity for payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions is more likely to impair this capacity.
VFMC	Victorian Funds Management Corporation

11. RELATED DOCUMENTS

This document should be read in conjunction with the following legislation as it applies to the operations of the Council:

Name	Location
<i>Audit Act 1994</i>	http://www.legislation.vic.gov.au
<i>Borrowing and Investment Powers Act 1987</i>	http://www.legislation.vic.gov.au
<i>Local Government Act 2020 (Vic)</i>	http://www.legislation.vic.gov.au
Standing Directions of the Assistant Treasurer, especially Direction 3.7.2	http://www.dtf.vic.gov.au
<i>Treasury Corporation of Victoria Act 1992</i>	http://www.legislation.vic.gov.au
<i>Victorian Funds Management Corporation Act 1994</i>	http://www.legislation.vic.gov.au
<i>Compliance and Reporting Direction</i>	http://www.dtf.vic.gov.au
VFMC's Investment Stewardship Policy	https://www.vfmc.vic.gov.au