

 <p>CITY OF MELTON</p>	<h2>Investment Policy Statement</h2>
Version No.	V 1.0 – 18 August 2020
Endorsement	Audit Committee – 1 July 2020 Policy Review Panel – 24 August 2020
Authorisation	Council – 14 September 2020 (Effective Date)
Review date	1 October 2021
Responsible officer	Manager Finance
Policy owner	Manager Finance

CONTENTS

1. Purpose.....	3
1.1. Purpose of this Investment Policy Statement (IPS)	3
2. The Investment Corpus	4
2.1. Background & Scope	4
2.2. Investment Objectives	4
2.3. Asset Allocation Considerations	5
2.4. Asset Allocation Weights and Ranges	5
3. Investment Guidelines	8
3.1. Allowable Investments	8
3.2. Investment Restrictions	9
3.3. Socially Responsible Investment Considerations.....	10
4. Benchmarks and Reporting	12
4.1. Performance Reporting.....	12
4.2. Performance Benchmarks	12
4.3. Reporting and Administration	12
5. External Advisers and Review	13
5.1. Appointment of Investment Adviser	13
5.2. Investment Adviser Performance	13
5.3. Investment Adviser Review	14
5.4. Breaches of Investment Policy	14
5.5. Investment Policy Statement Review	14
6. Risk Statement	15
6.1. Liquidity Risk	15
6.2. Credit Risk.....	15
6.3. Market Risk	15
6.4. Manager Risk	16
6.5. Operational Risk	16
6.6. Currency Risk	16
7. Policy Adoption.....	17
7.1. Change History	17

1. PURPOSE

1.1. Purpose of this Investment Policy Statement (IPS)

There are various purposes for this IPS:

- **Alignment of the portfolio to the needs of The Melton City Council assets** – The investments are required to exhibit characteristics and attributes that deliver on the liquidity, security, volatility and total return objectives.
- **Corporate & Investment Governance** – As an organisation we believe in strong corporate and investment governance. This document articulates a robust and considered investment policy for Melton City Council. It also articulates the authorities and responsibilities within the chain of processes. This policy forms a key part of our risk management process to provide confidence for our stakeholders.
- **Evidence of Prudence** – A policy paper trail which demonstrates our organisation’s ‘prudent’ investment management principles and processes.
- **Continuity** – We believe that investment policy continuity during times of Melton City Council personnel change is important. Similarly, the investment policy will focus on the objectives through all investment market environments.
- **A framework to review the beliefs and portfolio objectives** – This document will serve as a reference point for reviewing the organisation’s investment beliefs, portfolio objectives and performance on a periodic basis.
- **A framework to review the investment adviser** – This document will also serve as a reference point to evaluate the performance of the investment adviser on a periodic basis.
- **Legislative Compliance** – This document will ensure that Melton City Council’s investments provide maximum returns from investments that are allowed within the parameters of the Local Government Act (including sections 143 and 193).

2. THE INVESTMENT CORPUS

2.1. Background & Scope

This policy applies to investment of Council funds made by Council Officers with responsibility for managing funds (Finance) in accordance with the requirements of Section 143 of the Local Government Act.

2.2. Investment Objectives

In summary, Melton City Council operates five broad investment corpuses. These corpuses, their objectives, liquidity requirements and risk tolerances are outlined in the table below.

	Operational Funds	Major Capital Projects	Strategic Land Purchases	Developer Contributions	Income Investments
Purposes of Funds	Funds available to meet the operational requirements of Melton City Council (includes Long Service Leave provision assumed to be \$8m out of \$20m)	Funds available short term capital projects	Investment in commercial opportunities to generate alternate sources of income or purchase on land in non-precinct structure plan areas.	Payments (placed in a reserve) towards the provision of infrastructure made by the proponent of a new development	Investments made for future sustainability
Liquidity	Moderate to High. Daily access to part of the funds	Moderate to High. Daily access to part of the funds	Moderate. Funds not required short-term but liquidity should be available as requested to meet medium-term expenses	Moderate to Low. Funds are drawn on, however regularly contributed to	Low. Funds are unlikely to be drawn on
Expected Time Frame	Funds have a combination of time frames	Proportion (30%) of funds potentially required within 3-6 months, balance 3 to 5 years.	Funds likely to be called within the next 3 years	Majority of funds unlikely to be called on in the next 5 years	Majority of funds unlikely to be called on in the next 5 years
Investment Objective	Availability of non-long service leave provision capital within 90 days	Complete availability of 30% of capital within 90 days	Yield enhancement with a medium term time frame	Yield enhancement with a medium to long term time frame	Long-term growing income stream
Expected return after fees	BBSW30 + 0.25%	BBSW30 + 0.25%	BBSW30 + 1.0%	BBSW30 + 2.0%	BBSW30 + 3.0%

2.3. Asset Allocation Considerations

The following factors are to be considered when determining the asset allocation for the investment corpuses:

- The income tax exempt status of Melton City Council funds;
 - Melton City Council is not able to benefit from franking credits.
- The purpose of the funds;
- The time horizon of capital;
- The investment objectives of the capital;
- The need for sufficient capital preservation requirements;
- The need for sufficient liquidity to meet cash flow requirements;
- The need for diversification to avoid over-exposure to individual asset classes, sectors, issuers, or instruments;
- The potential impact of inflation; and
- The utilisation of strategic asset allocation bands and dynamic asset allocation to provide for flexibility as the investment environment changes.

2.4. Asset Allocation Weights and Ranges

The **Strategic Asset Allocation** (SAA) weights represent the long-term asset allocation that we believe over the long term will deliver the investment return objective 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 weights exactly.

The ranges provide room to account for natural variations against the SAA and also provide the flexibility to allow Melton City 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 weights and ranges for the Operational Funds are:

Asset Class	Strategic Asset Allocation (SAA)	Dynamic Asset Allocation Ranges (DAA)
Defensive Assets	100%	100%
Cash (incl. term deposits)	65%	55% - 85%
Fixed Income	35%	15% - 45%
Growth Assets	0%	0%
Total	100%	

The asset allocation weights and ranges Major Capital Projects Corpus are:

Asset Class	Strategic Asset Allocation (SAA)	Dynamic Asset Allocation Ranges (DAA)
Defensive Assets	100%	100%
Cash (incl. term deposits)	60%	50% - 80%
Fixed Income	40%	25% - 50%
Growth Assets	0%	0%
Total	100%	

The asset allocation weights and ranges for the Strategic Land Purchases are:

Asset Class	Strategic Asset Allocation (SAA)	Dynamic Asset Allocation Ranges (DAA)
Defensive Assets	100%	100%
Cash (incl. term deposits)	45%	35% - 60%
Fixed Income	55%	40% - 65%
Growth Assets	0%	0%
Total	100%	

The asset allocation weights and ranges for the Developer Contributions are:

Asset Class	Strategic Asset Allocation (SAA)	Dynamic Asset Allocation Ranges (DAA)
Defensive Assets	70%	30-90%
Cash (incl. term deposits)	15%	5% - 30%
Fixed Income	55%	25% - 65%
Growth Assets	30%	10-55%
Property & Infrastructure	10%	5% - 15%
Australian Equities	20%	5% - 30%
International Equities	0%	0%-10%
Total	100%	
Unhedged Foreign Currency Exposure	0%	0%

The asset allocation weights and ranges for the Income Investments are:

Asset Class	Strategic Asset Allocation (SAA)	Dynamic Asset Allocation Ranges (DAA)
Defensive Assets	60%	40-85%
Cash (incl. term deposits)	5%	5% - 30%
Fixed Income	55%	25% - 65%
Growth Assets	40%	15-60%
Property & Infrastructure	10%	5% - 15%
Australian Equities	20%	5% - 30%
International Equities	10%	5%-15%
Total	100%	
Unhedged Foreign Currency Exposure	0%	0%

3. INVESTMENT GUIDELINES

3.1. Allowable Investments

Any financial investment made in accordance with this Investment Policy Statement must also be within the parameters of the Local Government Act (including sections 143 and 193).

Only investments in the following types of investments are permitted in the below asset classes:

Cash:

- Cash deposits, Cash Management Trusts/investments with Australian licensed and regulated banks and deposit taking institutions
- Term deposits
- Other bank deposits of a short-term nature

Fixed Interest

- Government & Semi-Government bonds
- Investment grade Supranational/Sovereign and Corporate fixed income securities
- Market Listed Hybrid Capital issues
- Passively Managed Investments

Listed Property & Listed Infrastructure

- Market Listed Real Estate Investment Trusts
- Market Listed Infrastructure
- Passively Managed Investments

Australian Equities

- Direct Equities
- Passively Managed Investments

International Equities

- Passively Managed Investments

3.2. Investment Restrictions

The following investment restrictions will apply:

Cash and term deposits

- 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 % Investment Per Institution	Percentage of Total Investments
A1+	40%	100%
A1	25%	60%
A2	10%	40%

Given the moderate illiquidity of term deposits it is recommended that maturities to not exceed 12 months.

Fixed Income

- No direct investments in fixed income instruments where the *issuer rating* is below investment grade (BBB- as rated by S&P)
- No more than 20% of the total portfolio in any one issuer
- For investment in the fixed interest asset class the following Standard & Poor's issuer credit rating exposure limits are to be adhered to (average credit rating used for managed investments):

Issuer Long Term Rating	Maximum % Investment Per Security	Maximum Total Exposure %
AAA	20%	100%
AA+ to AA-	15%	100%
A+ to A-	10%	75%
BBB+ to BBB-	5%	25%
Unrated / Sub Investment Grade	0%	0%

In most instances a rating on senior debt is the same as that assigned to the issuer; however, exceptions exist. Some senior debt investments do not have an issuer rating due to the structure of the investments. In this circumstance the S&P issue rating is to be used as a substitute.

Australian Equities, International Equities, Property & Infrastructure

- No direct equity ownership in companies whose market cap is below \$500m, given the liquidity constraints associated with these shares

General Conditions

- No illiquid investments, that is, investments that cannot be redeemed and converted to cash within 31 days under stressed conditions

- No direct investment to represent more than 5% of the total portfolio
- No more than 20% of the total portfolio in any one passively managed product
- Managed investments that are passive (i.e. simply replicate an index) are permitted
- Managed investments that are active (i.e. discretion of investment selection from the fund manager) in nature are prohibited from investment.

3.3. Socially Responsible Investment Considerations

Melton City Council has determined that it has a responsibility to ensure that its investment practices are in accordance with the ethics, morals and beliefs of our stakeholders, people and community.

Integration of Ethical Considerations

Melton City Council strives to be a socially responsible and ethical investor in making any investment in individual securities or enterprises. As such the Council will actively avoid investments in sectors or companies whose core business and/or business practices contradicts its values.

Current and proposed investments shall be evaluated according to the source of the underlying revenue and its related industry. In some instances investment will be prohibited entirely, whereas in others, investment will be restricted (maximum of 10% of group revenue).

Details are as follows:

Investment Type	Prohibited Investment	Restricted Investment
Human Rights & Communities (Controversy Flag)	X	
Labor Rights & Supply Chain (Controversy Flag)	X	
Manufacture of Arms and Ammunition	X	
Production or Distribution of Pornography	X	
Tobacco	X	
Gambling	X	
Alcohol		X
Thermal Coal		X
Unconventional Oil & Gas		X
Conventional Oil & Gas		X

Melton City Council understands and accepts that the exclusion of industries, specific stocks or funds has the potential to limit the investment universe available to the Investment Adviser and as such, the potential to negatively affect the risk adjusted return generated.

Environment Considerations

In accordance with the principles of the 2017-2021 Council & Wellbeing Plan, preference will be given to Financial Institutions that do not invest in the fossil fuel industry where the investment complies with this policy and all other considerations are equal.

4. BENCHMARKS AND REPORTING

4.1. Performance Reporting

A performance report for the Funds should be compiled by the Investment Adviser and reviewed by the Investment Committee on a quarterly basis. The report should include:

- a review of the asset allocation strategy and its appropriateness in light of changing investment environments, which may lead to rebalancing or dynamic tilts;
- the performance of each Fund against the investment objectives and benchmark indices shown below;
- the performance for each Asset Class relative to the benchmark indexes shown below;
- quarterly, yearly and since invested performance returns within each asset class and individual investment relative to benchmark indexes;
- a review of any fund managers, investments and the risk profile of the portfolios; and
- a discussion of any investment recommendations

4.2. Performance Benchmarks

The following benchmarks are to be utilised:

Asset Class	Benchmark
Cash	Bloomberg AusBond Bank Bill Index
Fixed Interest - Domestic	Bloomberg AusBond Composite 0+ Yr Index
Fixed Interest - International	Bloomberg Barclays Global Aggregate Index \$A Hedged
Listed Property & Listed Infrastructure	S&P/ASX 200 Accumulation Index
Australian Equities	S&P/ASX 200 Accumulation Index

4.3. Reporting and Administration

The Investment Adviser will provide quarterly reports and an annual report summarising current investment strategies, the Funds' performance, and any other relevant information to the Investment Committee, which in turn will provide it to Melton City Council. This should include disclosure of any ethical issues, including breaches of human or labour rights.

5. EXTERNAL ADVISERS AND REVIEW

5.1. Appointment of Investment Adviser

The Investment Committee may appoint an Investment Adviser to, amongst other things, invest and manage the Funds as its agent on a discretionary basis. In such an event, the organisation shall enter into an agreement with the Investment Adviser directing the Investment Adviser to manage the Funds according to this Policy.

The Investment Adviser should:

- hold an appropriate Australian Financial Services License (AFSL);
- have professional indemnity insurance cover and provide evidence of it upon request;
- comply with investment requirements imposed by State laws or Territory laws;
- clearly disclose any conflicts of interest before making any recommendation or undertaking a course of action;
- invest and manage the Funds on behalf of the Investment Committee, including sourcing and making suitable investments in accordance with this IPS;
- keep the Funds under review, including making full or partial realisation of or exit from individual investments, and to confer at regular intervals with the Investment Committee regarding the investment management of the Fund;
- exercise all due diligence and vigilance in carrying out the Investment Adviser's functions, powers and duties under the Policy; and
- advise the Investment Committee of any breaches of the Investment Mandate and any material matters relating to the Investment Adviser that in the opinion of the Investment Adviser should be disclosed to the Investment Committee.

5.2. Investment Adviser Performance

The performance of the Investment Adviser is to be reviewed on an annual basis. In assessing the Investment Adviser's performance, consideration will be given to the following:

- competence;
- responsiveness;
- communication;
- value adding customer service;
- IPS compliance;
- execution effectiveness;
- management of operational risk;
- transparency and management of conflicts of interest;
- flexible, accurate and timely reporting; and
- investment performance against the investment objectives and composite benchmarks.

The Investment Committee recognises that short-term fluctuations may cause variations in performance; the Investment Committee intends to evaluate the Investment Adviser's performance from a long-term perspective.

5.3. Investment Adviser Review

Investment Advisers shall be formally reviewed by the Investment Committee at least every three years.

A material change in the circumstances of the Investment Adviser (e.g. significant change in key personnel, change in ownership structure) may trigger a formal review or result in immediate termination.

In addition, significant underperformance of the Investment Adviser against the assessment criteria mentioned in Section 7.2 above may result in Investment Adviser termination prior to the scheduled three year review.

5.4. Breaches of Investment Policy

The Investment Adviser will provide reporting on a quarterly basis where it will review and identify and disclose any breaches of this policy and the materiality of the breach to the Investment Committee.

A breach of more than 2% outside the benchmark ranges needs to be reported to the Investment Committee within 2 weeks of the breach.

Where the Investment Adviser is in breach of the terms of the IPS, the Investment Committee must consider and review the causes of the breach. Depending on the finding of this review the Investment Adviser may be terminated outside the formal review cycle.

5.5. Investment Policy Statement Review

Due to the nature of the financial markets and the potential for change in the underlying portfolio over time, an annual review of this policy, including allowable investments and restrictions will be conducted by the Investment Committee in conjunction with the Investment Adviser.

This review process will also address issues such as any proposals to alter the investment risk management strategy, alterations to delegated authority and any additional management information reporting requirements

6. RISK STATEMENT

In seeking to maximise returns Melton City Council is mindful of the inherent risks. Those risks are considered because they offer a reasonable expectation of compensation in the form of returns above the risk free rate (excess returns) over the time horizon of the Funds. Risks accepted in order to pursue the investment objective fall into the following categories:

6.1. Liquidity Risk

Melton City Council also recognises that there is a premium to be earned on investments that are less liquid than others, such as term deposits or illiquid loans, and that this premium can be measured in the search for additional investment returns. The extra return earned should compensate for the illiquidity risk.

The Investment Committee recognises that short term risks may arise from the potential of the Funds to experience a shortfall in the income required to meet the expected cash outflows from the Funds. To offset this, the Funds should:

- maintain sufficient liquidity,
- take into account the expected cash flows and costs.

6.2. Credit Risk

Credit risk (or counterparty risk) is the risk of default by the counterparty on its contractual obligations. At a Fund level, a framework exists to ensure that risk exposures remain within approved exposure limits based on the credit ratings of financial instruments and counterparties. Appointed managers of investments are required to ensure:

- the average credit quality within the manager's portfolio is within agreed guidelines;
- the exposure to different tiers of credit (including unrated debt) are within agreed guidelines; and
- the maximum permitted exposure to any one issuer is within agreed guidelines.

6.3. Market Risk

The Funds hold exposure to a wide range of assets which Melton City Council expects will produce returns divergent from and superior to the risk-free rate over the long term.

Principal exposures include:

- broad equity market risk, both globally and in Australia;
- broad debt market risk, including interest rate duration, credit spread duration, credit quality migration and default risks;
- currency exposure, including risks of movement in the value of both the Australian dollar and the foreign currencies held;
- non-uniform performance within broad asset markets (e.g. divergence in returns by sector, geographic region, growth vs. value styles, and large vs. small stocks); and
- return uncertainties within the property, infrastructure and alternatives.

6.4. Manager Risk

The requirements on the Funds' external Fund Managers to deliver superior returns also entail some risks. In particular, appointed managers may exceed or fall short of the objectives set for them by Melton City Council. Market returns (beta) and manager performance (alpha) should be largely independent (i.e. performance of a manager relative to the broader market should not be impacted by the performance of that market itself).

Manager risk is generally managed by:

- careful selection and monitoring of managers to ensure there is sufficient confidence that each manager warrants the allocation of active risk to them; and
- monitoring the composition of the portfolios of active managers to ensure that there are no unintended biases away from the intended investment strategy.

6.5. Operational Risk

This is general operational risk that may involve an economic loss or reputation risk. It includes fraud, theft, unauthorised use of financial instruments and other breaches of delegated authority. This also includes loss due to poor transaction documentation, inadequate information systems or human error. To minimise this risk the Investment Committee will:

- keep proper accounts and records of the transactions and affairs;
- maintain a sufficient internal control framework that minimises potential loss arising from unrecorded or unauthorised transactions;
- place priority on the retention and recruitment of high quality staff; and
- ensure the availability and reliability of hardware and software systems.

The Investment Adviser must also ensure that it maintains tight controls around operational risk. It must ensure that it has an appropriate degree of separation of duties at all times.

6.6. Currency Risk

Investments in securities that are not denominated in Australian dollars carry the risk that movements in the value of the related currencies will impact adversely on the carrying value of the underlying investment.

Investments in non-Australian securities may be hedged to mitigate the impact of these currency movements. A decision to invest in non-Australian securities may be a part of the approved investment strategy of the Melton City Council, and should be taken in tandem with a decision on currency hedging.

The Investment Adviser is required to identify potential risks arising on new investments from a hedged or unhedged position, and to make recommendations on an appropriate hedging strategy in accordance with the requirements stipulated above.

7. POLICY ADOPTION

The Investment Committee will make all recommendations to Melton City Council for approval for any changes to this Investment Policy. The Policy adoption and amendments resulting from policy reviews must be approved and signed off by Melton City Council.

7.1. Change History

Version	Approval date	Approved by	Change
1.0	14 September 2020	Council	Investment Policy Adopted