

Investments Policy

Purpose

This policy provides a framework for the investing of Riverina Water County Council’s (Riverina Water) funds.

Policy Statement

Riverina Water will invest funds at the most favourable rate of interest available to it at the time, whilst having due consideration of risk and security for that investment type and ensuring that its liquidity requirements are being met.

While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity, and the return of investment:

- Preservation of capital is the principal objective of the investment portfolio. Investments are to be placed in a manner that seeks to ensure security and safeguard the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and 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 sale of an investment.
- Investments are expected to achieve a market average rate of return in line with the Riverina Water’s risk tolerance

Scope

This policy applies to all investments made by Riverina Water.

Definitions

| | |
|------------------|---|
| Act | Local Government Act 1993 |
| ADI | Authorised Deposit Taking institutions (ADIs) are corporations that are authorised under the Banking Act 1959 (Cwth) to take deposits from customers. |
| AusBond BBI | The Bank Bill Index represents the performance of a notional rolling parcel of bills averaging 45 days and is the widely used benchmark for local councils and other institutional cash investments. |
| BBSW | The Bank Bill Swap reference rate (BBSW) is the average of mid-rate bank-bill quote from brokers on the BBSW Panel. The BBSW is calculated daily. Floating rate securities are most commonly reset quarterly to the 90-day BBSW. |
| Bill of Exchange | A bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person, or to bearer. |
| Council funds | Surplus monies that are invested by Riverina Water in accordance with section 625 of the Act |

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| Debenture | A debenture is a document evidencing an acknowledgement of a debt, which a company has created for the purposes of raising capital. Debentures are issued by companies in return for medium and long-term investment of funds by lenders. |
| FRN | A Floating Rate Note (FRN) is a medium to long term fixed interest investment where the coupon is a fixed margin (“coupon margin”) over a benchmark, also described as a “floating rate”. The benchmark is usually the BBSW and is reset at regular intervals - most commonly quarterly. |
| IP | The Investment Policy (IP) provides the general investment goals and objectives of Riverina Water and describes the strategies that must be employed to meet these objectives. Specific information on matters such as asset allocation, risk tolerance, and liquidity requirements are also included in the IP. |
| LGGR | Local Government (General) Regulation 2021 (NSW). |
| NCD | Is a short-term investment in an underlying security being a negotiable certificate of deposit (NCD) where the term of the security is usually for a period of 185 days or less (sometimes up to 2 years). NCDs are generally discount securities, meaning they are issued and on-sold to investors at a discount to their face value. |
| OLG | NSW Office of Local Government. |
| RAO | Responsible Accounting Officer of Riverina Water means a member of the staff of the council designated by the Chief Executive Officer (CEO), or if no such member has been designated, the CEO. (LGGR, clause 196) |
| T-Corp | New South Wales Treasury Corporation. |

Legislative Context

All investments are to comply with the following:

- Local Government Act 1993
- Local Government (General) Regulation 2021
- Ministerial Investment Order
- Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards; and
- Office of Local Government Circulars.

1 Policy Principles

1.1 Delegation of Authority

Authority for implementation of the Investments Policy is delegated by Riverina Water to the CEO in accordance with the Local Government Act 1993.

The CEO may in turn delegate the day-to-day management of Riverina Water's Investments to the Director Corporate Services.

Officers' who have delegated authority to manage Riverina Water's investments will be recorded and are required to acknowledge they have received a copy of this policy and understand their obligations in this role.

1.2 Prudent Person Standard

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

1.3 Ethics and Conflicts of Interest

Officers will refrain from personal activities that would conflict with the proper execution and management of Riverina Water's investment portfolio. This policy requires officers to disclose any conflict of interest to the CEO.

Independent advisors are also required to declare that they have no actual or perceived conflicts of interest.

1.4 Approved Investments

All investments must be denominated in Australian Dollars. Authorised investments are limited to those allowed by the Ministerial Investment Order, currently:

- Commonwealth / State / Territory Government securities, for example bonds
- Interest bearing deposits / senior securities issued by an eligible ADI
- Bills of Exchange (< 200 days duration) guaranteed by an ADI
- Debentures issued by a NSW Council under Local Government Act (1993); and
- Deposits with T-Corp &/or Investments in T-CorpIM Funds

1.5 Prohibited Investments

In accordance with the Ministerial Investment Order, this investment policy prohibits but is not limited to any investment carried out for speculative purposes including:

- Derivative based instruments
- Principal only investments or securities that provide potentially nil or negative cash flow
- Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind

This policy also prohibits the use of leveraging (borrowing to invest) of an investment.

1.6 Risk Management Guidelines

Investments obtained are to be considered in light of the following key criteria:

- Preservation of Capital - the requirement for preventing losses in an investment portfolio's total value (considering the time value of money)
- Diversification - setting limits to the amounts invested with a particular financial institution or government authority to reduce credit risk
- Credit Risk - the risk that a council has invested in fails to pay the interest and or repay the principal of an investment
- Market Risk - the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices
- Rollover/Reinvestment Risk - the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future
- Liquidity Risk - the risk an investor is unable to redeem the investment at fair price within a timely period; and
- 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.

1.7 Investment Advisor

Riverina Water's investment advisor must be approved by Riverina Water and licensed by the Australian Securities and Investment Commission. The advisor must be an independent person who has no actual or potential conflict of interest in relation to investment products being recommended and is free to choose the most appropriate product within the terms and conditions of the investment policy.

The independent advisor is required to provide written confirmation promptly that they do not have any actual or potential conflicts of interest in relation to the investments they are recommending or reviewing, including that they are not receiving any commissions or other benefits in relation to the investments being recommended or reviewed, except as fully rebated to Riverina Water.

2 Investment Guidelines

Investments are to comply with three key criteria relating to:

- (1) Portfolio Credit Framework: - limit overall credit exposure of the portfolio
- (2) Counterparty/Institution Credit Framework: -limit exposure to individual institutions based on their credit ratings, and
- (3) Term to Maturity Framework: - limits based upon maturity of securities

3 Portfolio Credit Framework

The portfolio credit guidelines to be adopted will be based on the Standard & Poor's (S&P) ratings system criteria. The maximum available limits in each rating category are as follows:

| OVERALL PORTFOLIO CREDIT LIMITS | | |
|--|---------------------------------|--|
| Long Term Credit Ratings | Maximum percentage of portfolio | Definition |
| AAA Category | 100% | Extremely strong capacity to pay |
| AA Category or Major Bank [^] | 100% | Extremely strong capacity to pay |
| A Category | 80% | Strong capacity to pay |
| BBB Category | 70% | Adequate capacity to pay |
| Unrated Category | 20% | Unrated e.g. building societies, credit unions including local branches (all are ADIs regulated by APRA) |

For the purpose of this Policy, Major Banks are currently defined as the ADI deposits or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups.

- Australia and New Zealand Banking Group Limited (ANZ)
- Commonwealth Bank of Australia (CBA)
- National Australia Bank Limited (NAB)
- Westpac Banking Corporation (WBC)
including ADI subsidiaries whether or not explicitly guaranteed, and brands (such as St George).

Riverina Water may ratify an alternative definition from time to time.

- S&P ratings attributed to each individual institution will be used to determine maximum holdings. If the ADI is not rated by S&P i.e. by Moody's or Fitch, Riverina Water will apply the S&P equivalent rating

3.1 Counterparty/Institution Credit Framework

Exposure to individual counterparties/financial institutions will be restricted by their S&P rating so that single entity exposure is limited, as detailed in the table below:

| INDIVIDUAL INSTITUTION LIMITS | | |
|--|--|--|
| Long Term Credit Ratings | Maximum percentage of total investments with any one institution | Definition |
| AAA Category | 60% | Extremely strong capacity to pay |
| AA Category or Major Bank [^] | 50% | Extremely strong capacity to pay |
| A Category | 40% | Strong capacity to pay |
| BBB Category | 35% | Adequate capacity to pay |
| Unrated Category | 10% | Unrated e.g. building societies, credit unions including local branches (all are ADIs regulated by APRA) |

3.2 Term to Maturity Framework

The investment portfolio is to be invested within the following terms to maturity constraints:

| OVERALL PORTFOLIO TERM TO MATURITY LIMITS | | |
|---|---------|---------|
| | Minimum | Maximum |
| Portfolio % <3 months | 20% | 100% |
| Portfolio % >3 months <1 year | 0% | 100% |
| Portfolio % >1 year <2 years | 0% | 70% |
| Portfolio % >2 years <5 years | 0% | 50% |
| Portfolio % >5 years | 0% | 0% |

This will be the maximum investment term or WAL (weighted average life) for mortgage and asset-backed securities

4 Performance Benchmarks

Performance benchmarks need to be established and should be based on sound and consistent methodology.

| Investment | Performance Benchmark |
|--------------------------|-------------------------|
| Cash | RBA Cash Rate |
| Fund/ Direct Investments | AusBond Bank Bill Index |

5 Quotations on New Investments

Not less than three (3) quotations shall be obtained from authorised institutions when a new direct investment is proposed. Investments may be ‘rolled over’ with the current holder of the investment within the guidelines set out above.

6 Consideration of local economic benefit when making investment decisions

The relative local economic benefit provided by financial institutions is to be considered when making investment decisions. Preference is to be given to investments with locally owned and operated financial institutions that support the Riverina Water supply area, when:

- (1) they are offering a competitive rate of return, not more than 5 basis points below the highest rate attainable (within policy limits) for the same volume and duration; and
- (2) the investment complies with Riverina Water’s credit, counterparty, and term to maturity frameworks under this policy.

Riverina Water will maintain a list of locally owned and operated financial institutions.

7 Environmentally and Socially Responsible Investments (SRI)

Where financial institutions are offering competitive investment returns with a similar credit rating, and the investment fits within the provisions of this Investment Policy, preference will be given to placing funds with institutions identified as being socially, ethically and environmentally responsible.

Without compromising the risk and return profile of the investment portfolio, Riverina Water gives preference to Socially Responsible Investments (SRI) which can transparently demonstrate:

- the avoidance of funding fossil fuel in the investment product
- they are offering a competitive rate of return, not more than 5 basis points below the highest rate attainable (within policy limits) for the same volume and duration
- the investment complies with Riverina Water’s credit, counterparty, and term to maturity frameworks under this policy.

SRI status may be in respect of the individual investment product, the issuer of the investment, or both and should be endorsed by an accredited environmentally and socially responsible industry body or institution. The criteria for SRI are all preferred and not mandatory requirements.

Riverina Water's criteria for an SRI are those which direct investment towards the socially and/or environmentally productive activities listed below.

Environmentally productive activities are considered to be:

- resource efficiency-especially water and energy
- renewable energy
- production of environmentally friendly products recycling, and waste and emissions reduction

Socially productive activities are considered to be:

- fair trade and provision of a living wage
- human health and aged care
- equal opportunity employers, and those that support the values of communities, indigenous peoples and minorities
- provision of housing, especially affordable housing

Riverina Water will also look to avoid investment in socially and/or environmentally harmful activities.

Environmentally harmful activities are considered to be:

- production of pollutants, toxins and greenhouse gases (either in Australia or abroad)
- habitat destruction, especially destruction of forests and marine eco-systems.
- nuclear power
- uranium mining

Socially harmful activities are considered to be:

- abuse of Human Rights and Labour Rights
- involvement in bribery/corruption
- production or supply of armaments
- manufacture of alcohol, tobacco or gambling products

8 Reporting and Reviewing Investments

Documentary evidence must be held for each investment and details thereof maintained in an Investment Register.

The documentary evidence must provide Riverina Water legal title to the investment.

Certificates must be obtained from the financial institutions confirming the amounts of investments held on the Riverina Water's behalf as at 30 June each year and reconciled to the Investment Register.

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

A monthly report will be provided to Riverina Water. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value.

This Investment Policy will be reviewed at least once a board term or as required in the event of legislative changes. The Investment Policy may also be changed as a result of other amendments that are to the advantage of Riverina Water and in the spirit of this policy. Any amendment to the Investment Policy must be by way of Board resolution.

Non-Compliance

Non-compliance with adopted policy may be considered a breach under the Code of Conduct. As such, any suspected or known non-compliance will be reported to the CEO.

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| Policy number | 4.10 |
| Responsible area | Finance & Sourcing |
| Approved by | Riverina Water Board - Res 24/088 |
| Approval date | 7 August 2024 |
| Legislation or related strategy | Local Government Act 1993 Local Government (General) Regulation 2021 Ministerial Investment Order Local Government Code of Accounting Practice and Financial Reporting Australian Accounting Standards |
| Documents associated with this policy | |
| Policy history | Vers 4 23 Feb 2023 Res 23/010 Vers 3 22 Feb 2017 Res 17/15 (previous 1.23) Vers 2 22 Jun 2016 Res 16/84 Vers 1 24 Apr 2013 Res 13/39 Original 27 Apr 2011 Res 11/39 |
| Review schedule | Every 2 years - due for review June 2026 |

Policy details may change prior to review date due to legislative or other changes, therefore this document is uncontrolled when printed.

END OF POLICY STATEMENT