

**ORDINARY MEETING OF COUNCIL
28 APRIL 2008**

SUPPLEMENTARY REPORT

A6

**INVESTMENT POLICY -
SUPPLEMENTARY REPORT**

LOCATION/ADDRESS:

RESPONSIBLE EXECUTIVE DIRECTOR:

**SALLY CALDER, EXECUTIVE DIRECTOR,
ORGANISATION SYSTEMS & SUPPORT**

AUTHOR:

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& INVESTMENTS**

FILE NO.:

ATTACHMENTS:

INVESTMENT POLICY

1. EXECUTIVE SUMMARY

- 1.1 Council's investment policy (for surplus cash funds) has been reviewed and a report on this presented to the Strategy Policy Review Committee on 7 April 2008.
- 1.2 At this meeting Council called for a supplementary report that expanded on the four pillar approach including further information on how Council would consider placing funds in Ethical investment products.
- 1.3 Council also requested further clarity on investment options available to it through the Victorian Funds Management Corporation (VFMC).

2. KEY ISSUES

- 2.1 The revised investment policy gives Council the option for the first time to invest indirectly in Australian equities through a managed fund or the VFMC.
- 2.2 The investment policy also empowers Council to direct investments to managed funds that have an Ethical investment approach on the basis that economic returns will not be compromised.
- 2.3 Ethical investment funds would typically avoid investing in companies that have significant operations in the gaming, liquor and tobacco sectors, have poor environmental track records and contribute significantly to greenhouse gas emissions. These funds would typically promote investment in companies that make meaningful contributions to the community, have good environmental track records and are more likely to have significant operations in the health, education and social services sectors.
- 2.4 The VFMC have been contacted and have confirmed that they have approached their fund managers with a view to them complying with the United Nations Principles of Responsible Investment. While this is not binding on them and they don't have any Sustainable Responsible Investment (SRI) mandates in place for their investment managers, they have indicated that they are able to tailor investment streams where the quantum of funds placed makes it economically viable.

- 2.4 However the relatively small scale of the proposed Port Phillip equity investment (\$2M) means that funds placed with the VFMC would in all likelihood be pooled with other investments that they manage to maintain appropriate investment returns.
- 2.6 The other main change in the investment policy is the classification of Council’s cash and investment holdings into three categories with tailored investment approaches for;
 - 2.6.1 liquid cash investments – that enable Council to meet its day to day operating cash commitments
 - 2.6.2 short term investments – that are required to enable Council to manage its uneven and seasonal cash cycle
 - 2.6.3 longer term investments – typically funds that will be required by Council to meet the cash commitments that will arise as it progresses its capital works program.

3. CONTEXT

- 3.1 Notwithstanding the changes to the investment policy that permit Council to invest indirectly in equities, it needs to be noted that the restrictions imposed by the policy will limit its total investment in equities to some \$2M or approximately 5 % of the total investment portfolio.
- 3.2 Council employs a four pillar approach in its decision making processes that requires it to take the following factors into account, social equity, economic viability, environmental responsibility and cultural vitality. Given that the main driver of Council’s investment policy is to maximize its risk adjusted return on its large investment portfolio it is not unreasonable to place a greater weighting on the economic implications of its investment approach.
- 3.3 As a good corporate citizen Council will also strive to ensure that funds invested on its behalf are placed with fund managers who will direct these into companies that have sound ethical business practices and make meaningful societal contributions.

4. OPTIONS

- 4.1 Option 1
 - 4.1.1 Sustainability assessment

Economic pillar	The proposed policy will enable Council to optimize its investment performance by enabling it to access different asset classes (including equities) and a range of money market instruments (bank bills, bonds and commercial paper).
Environmental pillar	Council now has an option to place a portion of its investment portfolio in an ethical managed share fund.
Cultural pillar	Council now has an option to place a portion of its investment portfolio in an ethical managed share fund.
Social pillar	Council now has an option to place a portion of its investment portfolio in an ethical managed share fund.

4.1.2 Policy and legislative implications

Section 143 of the Local Government Act defines the investment types that are permitted for Victorian councils to place surplus funds. These include:

- Any other manner approved by the Minister, including investments in managed funds and trusts which have a rating of AAm or AAf from Standards and Poor's Australian ratings. It has been confirmed that investments in managed equity funds or the VFMC will normally be approved by the Minister.

4.1.3 Risk implications

In developing the policy a risk management framework has been established within which Council may undertake its investments. The guidelines have considered the following:

- Market risk
- Counterparty risk
- Liquidity risk
- Maturity risk

4.1.4 Resource implications

The implementation of this policy will not have a direct cost to Council. It is expected that the policy will enable an improvement in the performance of the investment portfolio over time and the achievement of the proposed benchmarks should enable it to earn some \$200K more in interest revenue (based on average funds invested of \$40M).

5. RECOMMENDATION

- 5.1. That the Council adopt the revised investment policy set out in Attachment 1 to this report.
- 5.2. That the Manager, Finance & Investments be given delegated authority to exercise investment decisions on behalf of Council that are in accordance with this policy.
- 5.3. That where Council elects to invest in managed equity funds, it investigates Ethical investment options in the first instance and proceeds with these providing they achieve equivalent returns.
- 5.4. That Council receive a quarterly report on the performance of its investment portfolio against the proposed benchmarks.