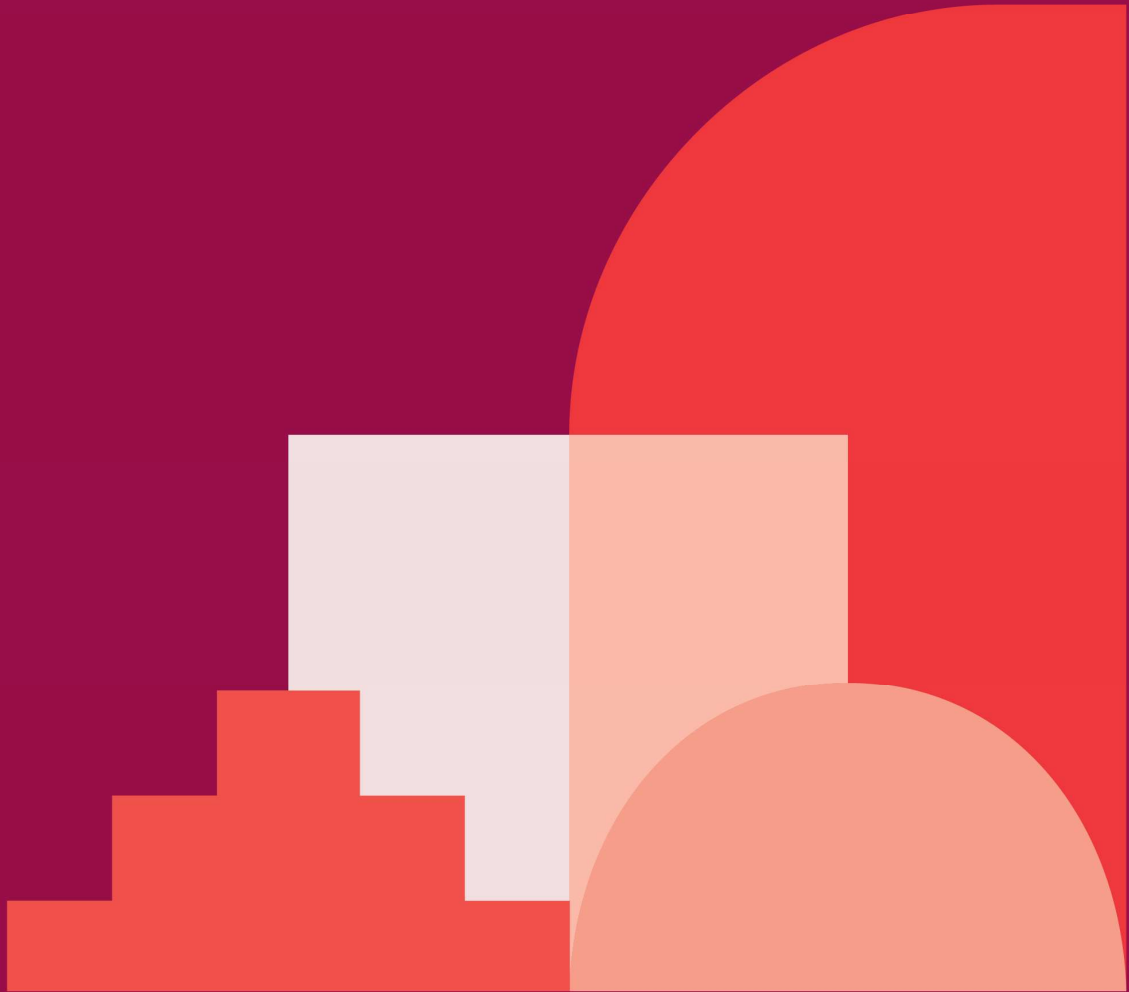


# Investment Policy

V3



<b>Title</b>	<b>Investment Policy</b>
<b>Summary</b>	To provide a framework for the investing of Council's funds at the most favourable return 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.
<b>Document Type</b>	Policy
<b>Relevant Strategic Plan Objective</b>	Strategic Direction 5: Progressive responsive and effective civic leadership.
<b>Legislative Reference</b>	<ul style="list-style-type: none"> <li>• <i>Local Government Act 1993</i></li> <li>• Local Government (General) Regulation 2021</li> <li>• <i>Modern Slavery Act 2018</i></li> </ul>
<b>Related Council Documents</b>	<ul style="list-style-type: none"> <li>• Model Code of Conduct</li> <li>• Risk Management Policy</li> <li>• Risk Management Procedure</li> <li>• Ministerial Investment Order (17 February 2011)</li> <li>• Local Government Code of Accounting Practice and Financial Reporting</li> <li>• Australian Accounting Standards</li> </ul>
<b>Version Control</b>	See last page

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## 1 Purpose

To provide a framework for the investing of Council's funds at the most favourable return 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. The consideration for the preservation of capital, liquidity, and the return on investment is to be maintained at all times.

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 safeguarding 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 Council's Risk Management Guidelines.

In conjunction with the above objectives, Council has determined to proactively maintain a non-fossil fuel investment portfolio.

## 2 Scope

This policy applies to all Councillors, Council Officers and contractors working for Council regardless of whether they are permanent, temporary, full-time, part-time or casual. For the purposes of this policy, the term contractor includes on-hired temporary labour services (agency staff) and sub-contractors.

## 3 Definitions

In the Investment Policy, the following terms have the following meanings:

<b>Councillor</b>	Inner West Council elected representative
<b>Council Officer</b>	Inner West Council members of staff (including full-time, part-time, casual and contracted staff)
<b>Act</b>	Local Government Act 1993
<b>Regulation</b>	Local Government (General) Regulation 2021

## 4 Statement

The main objective in investing funds is to preserve the capital, ie prevent any loss to the amount invested, while gaining the most advantageous rate of return with minimum risk.

## 5 Legislative Requirements and Guidelines

All investments are to comply with the following:

- *Local Government Act 1993*;
- Local Government (General) Regulation 2021;
- Ministerial Investment Order 17 February 2011;
- Local Government Code of Accounting Practice and Financial Reporting;
- Australian Accounting Standards;
- *Modern Slavery Act 2018*; and
- Division of Local Government Investment Policy Guidelines May 2010

## 6 Delegation of Authority

Authority for implementation of the Investment Policy is delegated by Council to the General Manager in accordance with the *Local Government Act 1993*.

Authorised Officer	Roles and Responsibilities
<b>General Manager</b>	Authority to invest surplus funds and authority to delegate this function in accordance with the councils adopted investment policy.  As per executed Delegation of Authority
<b>Director Corporate</b>	
<b>Chief Financial Officer</b>	As per executed Delegation of Authority
<b>Financial Reporting and Control Manager</b>	As per executed Delegation of Authority

Those officers with delegated authority to manage Council’s investments, as per above, shall acknowledge they have received a copy of this policy and understand their obligations in this role.

## 7 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 Council's investment portfolios to safeguard the portfolio in accordance with the spirit of this Investment Policy, and not for speculative purposes.

## 8 Ethics and Conflicts of Interest

Officers with delegated authority to manage Council's investments shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This policy requires officers to operate, in accordance with Council's Code of Conduct and Conflict of Interest Policy.

Independent advisors are also required to operate, in accordance with Council's Code of Conduct and Conflict of Interest Policy.

## 9 Approved Investments

Investments are limited to those allowed by the Ministerial Investment Order dated 17 February 2011 and include:

- Any public funds or securities issued by or guaranteed by the Commonwealth, any State of the Commonwealth or a Territory;
- Interest bearing deposits or debenture or bonds issued by an authorised deposit taking institution (ADI), excluding subordinated debt obligations;
- Bills of exchange, (<200 days duration), guaranteed by and authorised deposit taking institution (ADI);
- Debentures or securities issued by a NSW council
- Deposits with NSW Treasury &/or Investments in the TCorpIM Funds; and
- Investments grandfathered under the previous Ministerial Investment Order.

## 10 Prohibited Investments

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; and
- Standalone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.

Council shall have no investments with banking institutions and organisations who have not adopted the Modern Slavery Act 2018.

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

## 11 Investment Risk Management Framework

Investments are expected to achieve a market average rate of return in line with the Council’s risk appetite. Investments are to be considered in the light of the following key criteria:

- Preservation of Capital – the requirement for preventing losses in an investment portfolio’s total value;
- 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;
- Market Risk - the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices;
- Liquidity Risk - the risk an investor is unable to redeem the investment at a fair price within a timely period;
- 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; and
- Leveraging Risk - the magnification of an investor’s risk and return that occurs when the investor takes on financial leverage through an investment product

## 12 Credit and Maturity Guidelines

Investments are to comply with three key criteria relating to:

- **Overall Portfolio Credit Framework:** limit overall credit exposure of the portfolio;
- **Institutional Credit Framework:** limit exposure to individual institutions based on their credit ratings. and;
- **Term to Maturity Framework:** limits based upon maturity of securities.

### (1) Overall Portfolio Credit Framework

To control the credit quality on the entire portfolio, the following credit framework limits the percentage of the total portfolio exposed to particular credit rating categories.

Long Term Credit Ratings	Portfolio Max %
AAA, AA+, AA, AA-	100%
A+, A, A-	70%
BBB+, BBB	20%
BBB- and lower & Unrated (excluding NSW TCorpIM Funds)	0%
Specific Ministerial Approved Forms of Investment	Portfolio Max %
NSW TCorpIM Funds	20%





Credit ratings are based upon the Standard & Poor’s Investment Rating, or equivalent, where a Standard & Poor’s Investment Rating does not exist.

## (2) Institutional Credit Framework

Council’s exposure to an individual institution will be restricted by the institution’s credit rating, with the exception of the NSW TCorpIM funds, which do not have credit ratings.

Long Term Credit Ratings	Institution Max %
AAA, AA+, AA, AA-	50%
A+, A, A-	30%
BBB+, BBB	10%
BBB- and lower & Unrated (excluding NSW TCorpIM Funds)	0%
<b>NSW TCorp IM Funds</b>	<b>Max %</b>
TCorpIM Short Term Income Fund	20%

Credit ratings are based upon the Standard & Poor’s Investment Rating, or equivalent, where a Standard & Poor’s Investment Rating does not exist.

If any of the Council’s investments are downgraded such that they no longer fall within the investment policy limits, they will be divested as soon as practicable having regard to potential losses resulting from early redemption and subject to minimising any loss of capital that may arise from compliance with this provision.

## (3) Term to Maturity Framework

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

Overall Portfolio Term to Maturity Limits		
Portfolio % ≤1 year	Min 40%	Max 100%
Portfolio % >1 year ≤10 years	Min 0%	Max 60%
Portfolio % > 3 years	Min 0%	Max 30%

## 13 Investment Strategy

An Investment Strategy will run in conjunction with the investment policy. The investment strategy will be reviewed with an independent investment advisor once a year. The Strategy will outline:

- Council's cash flow expectations;
- Optimal target allocation of investment types, credit rating exposure and term to maturity exposure; and
- Appropriateness of overall investment types for Council's portfolio.

## 14 Ethical Investment

Within the limits of prevailing Legislation and this Investment Policy, Council's investments will be made in consideration of the principles of ethical investment management.

Council's investment portfolio is to consist entirely of socially responsible investments and deposits in non-fossil fuel aligned banks.

## 15 Investment Advisor

Council's investment advisor must be approved by Council and licensed by the Australian Securities and Investment Commission. The advisor must be an independent person who has no actual or perceived 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 that they do not have any actual or perceived 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.

Council's appointed independent investment adviser will be required to provide written confirmation to Council.

## 16 Measurement

The investment return for the portfolio is to be regularly reviewed by an independent financial advisor by assessing the market value of the portfolio. The market value is to be assessed at least once a month to coincide with monthly reporting.

## 17 Performance Benchmarks

The performance of the investment portfolio shall be measured against the industry standard Bloomberg AusBond Bank Bill Index, the industry standard benchmark for past performance of cash and fixed interest portfolios. A comparison between Council's benchmark and the return on Council's portfolio should be included in the monthly report to Council from the Responsible Accounting Officer.

As a budget benchmark, Council's budgeted target for interest income is a minimum return of 40 basis points above the BBSW.

## 18 Reporting and Reviewing of Investments

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

The documentary evidence must provide 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 reconciled to the Investment Register.

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

A monthly investment report will be provided to Council in line with the Local Government (General) Regulation 2021 clause 212. This clause requires a written report be presented to Council on a monthly basis detailing all money invested under section 625 of the Act. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value. The report must include a certificate as to whether or not the investment have been made in accordance with the Act, the regulations and the Council's investment policies.

## 19 The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14B, 14C (1), (2) & (3)

### 14A (2) Duties of trustee in respect of power of investment

A trustee must, in exercising a power of investment:

- (a) if the trustee's profession, business or employment is or includes acting as a trustee or investing money on behalf of other persons, exercise the care, diligence and skill that a prudent person engaged in that profession, business or employment would exercise in managing the affairs of other persons, or
- (b) if the trustee is not engaged in such a profession, business or employment, exercise the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.

- (c) A trustee must exercise a power of investment in accordance with any provision of the instrument (if any) creating the trust that is binding on the trustee and requires the obtaining of any consent or approval with respect to trust investments.
- (d) A trustee must, at least once in each year, review the performance (individually and as a whole) of trust investments.

## 14B Law and equity preserved

- (1) Any rules and principles of law or equity that impose a duty on a trustee exercising a power of investment continue to apply except to the extent that they are inconsistent with this or any other Act or the instrument (if any) creating the trust.
- (2) Without limiting the generality of subsection(1), a duty imposed by any rules and principles of law or equity includes the following:
  - (a) A duty to exercise the powers of a trustee in the best interests of all present and future beneficiaries of the trust,
  - (b) A duty to invest trust funds in investments that are not speculative or hazardous,
  - (c) A duty to act impartially towards beneficiaries and between different classes of beneficiaries,
  - (d) A duty to take advice.
- (3) Any rules and principles of law or equity that relate to a provision in an instrument creating a trust that purports to exempt, limit the liability of, or indemnify a trustee in respect of a breach of trust, continue to apply.
- (4) If a trustee is under a duty to take advice, the reasonable costs of obtaining the advice are payable out of trust funds.

## 14C Matters to which trustee is to have regard when exercising power of investment

- (1) Without limiting the matters that a trustee may take into account when exercising a power of investment, a trustee must, so far as they are appropriate to the circumstances of the trust, if any, have regard to the following matters:
  - (a) the purposes of the trust and the needs and circumstances of the beneficiaries,
  - (b) the desirability of diversifying trust investments,
  - (c) the nature of, and the risk associated with, existing trust investments and other trust property,
  - (d) the need to maintain the real value of the capital or income of the trust,
  - (e) the risk of capital or income loss or depreciation,

- (f) the potential for capital appreciation,
  - (g) the likely income return and the timing of income return,
  - (h) the length of the term of the proposed investment,
  - (i) the probable duration of the trust,
  - (j) the liquidity and marketability of the proposed investment during, and on the determination of, the term of the proposed investment,
  - (k) the aggregate value of the trust estate,
  - (l) the effect of the proposed investment in relation to the tax liability of the trust,
  - (m) the likelihood of inflation affecting the value of the proposed investment or other trust property,
  - (n) the costs (including commissions, fees, charges and duties payable) of making the proposed investment,
  - (o) the results of a review of existing trust investments in accordance with section 14A (4).
- (2) A trustee may, having regard to the size and nature of the trust, do either or both of the following:
- (a) obtain and consider independent and impartial advice reasonably required for the investment of trust funds or the management of the investment from a person whom the trustee reasonably believes to be competent to give the advice,
  - (b) pay out of trust funds the reasonable costs of obtaining the advice.
- (3) A trustee is to comply with this section unless expressly forbidden by the instrument (if any) creating the trust.

## 20 Local Government (General) Regulation 2021 – Clause 212

### 212 Reports on council investments

- (1) The responsible accounting officer of a council:
  - (a) must provide the council with a written report (setting out details of all money that the council has invested under section 625 of the Act) to be presented:
    - i) if only one ordinary meeting of the council is held in a month, at that meeting, or

- (ii) if more than one such meeting is held in a month, at whichever of those meetings the council by resolution determines, and
- (b) must include in the report a certificate as to whether or not the investment has been made in accordance with the Act, the regulations and the council's investment policies.
- (2) The report must be made up to the last day of the month immediately preceding the meeting.

Note. Section 625 of the Act says how a council may invest its surplus funds.

## 21 Breaches of this Policy

Breaches of this policy may result in an investigation of the alleged breach in line with relevant Council policies including the Model Code of Conduct.

Any alleged criminal offence or allegation of corrupt conduct will be referred to the relevant external agency.

## 22 Administrative Changes

From time-to-time circumstances may change leading to the need for minor administrative changes to this document. Where an update does not materially alter this document, such a change may be made including branding, Council Officer titles or department changes and legislative name or title changes which are considered minor in nature and not required to be formally endorsed.

## 23 Version Control – Policy History

This policy will be formally reviewed every year from the date of adoption or as required.

Governance use only:

<b>Document</b>	<b>Investment Policy</b>	<b>Uncontrolled Copy When Printed</b>	
<b>Custodian</b>	Chief Financial Officer	<b>Version #</b>	Version 3
<b>Approved By</b>	Council	<b>ECM Document #</b>	37728173
<b>Next Review Date</b>	February 2024		

<b>Amended by</b>	<b>Changes made</b>	<b>Date Adopted</b>
Finance	IWC Created the Investment Policy	23 May 2017
Finance	2021 Annual review to include specific authorised officers to manage Council's investments and changes to the Credit and Maturity Guidelines. Adopted by Council C0521(2) Item 1.	24 May 2021
Finance	2023 Annual review. Update to the definitions and legislative requirements in	9 May 2023

	<p>line with current legislation. Administrative changes made to reflect organisational structure changes and Policy placed in Council's new policy template, approved by Director Corporate.</p> <p>Deletion of reference to Broadspectrum Ltd and Wilson Security in Section 10 Prohibited Investments and included Modern Slavery Act 2018. Amended the portfolio maximum percentage allowed with TCorpIM Funds to 20% and deleted the reference to TCorpIM Cash Fund no longer available.</p>	
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Circular No. 11-01  
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### REVISED MINISTERIAL INVESTMENT ORDER

A revised Investment Order pursuant to section 625 of the *Local Government Act 1993* has been issued. The Minister for Local Government signed the revised Order on 12 January 2011 and it was published in the NSW Government Gazette on 11 February 2011. It replaces the Order dated 31 July 2008. The revised Order is attached to this circular.

Changes to the Investment Order include:

- the removal of the ability to invest in the mortgage of land (part (c) of the Investment Order dated 31 July 2008)
- the removal of the ability to make a deposit with the Local Government Financial Services Pty Ltd (part (f) of the order dated 31 July 2008)
- the addition of “Key Considerations” in the revised Investment Order, which includes a comment that a council’s General Manager, or any other staff, with delegated authority by a council to invest in funds on behalf of the council must do so in accordance with the council’s adopted investment policy.

Councils are reminded that on 25 May 2010 the Division of Local Government issued Investment Policy Guidelines (Circular to Councils 10-11 refers). It is expected that all councils will by now have adopted an Investment Policy in accordance with the Guidelines.

**Ross Woodward**  
 Chief Executive, Local Government  
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## 25 Appendix 2 – Local Government Act 1993 – Investment Order

### LOCAL GOVERNMENT ACT 1993 – INVESTMENT ORDER

(Relating to investments by councils)

I, the Hon. Barbara Perry MP, Minister for Local Government, in pursuance of section 625(2) of the *Local Government Act 1993* and with the approval of the Treasurer, do, by this my Order, notify for the purposes of section 625 of that Act that a council or county council may only invest money (on the basis that all investments must be denominated in Australian Dollars) in the following forms of investment:

- (a) any public funds or securities issued by or guaranteed by, the Commonwealth, any State of the Commonwealth or a Territory;
- (b) any debentures or securities issued by a council (within the meaning of the *Local Government Act 1993* (NSW));
- (c) interest bearing deposits with, or any debentures or bonds issued by, an authorised deposit-taking institution (as defined in the *Banking Act 1959* (Cwth)), but excluding subordinated debt obligations;
- (d) any bill of exchange which has a maturity date of not more than 200 days; and if purchased for value confers on the holder in due course a right of recourse against a bank which has been designated as an authorised deposit-taking institution by the Australian Prudential Regulation Authority;
- (e) a deposit with the New South Wales Treasury Corporation or investments in an Hour-Glass investment facility of the New South Wales Treasury Corporation;

All investment instruments (excluding short term discount instruments) referred to above include both principal and investment income.

#### Transitional Arrangements

- (i) Subject to paragraph (ii) nothing in this Order affects any investment made before the date of this Order which was made in compliance with the previous Ministerial Orders, and such investments are taken to be in compliance with this Order.
- (ii) Paragraph (i) only applies to those investments made before the date of this Order and does not apply to any restructuring or switching of investments or any re-investment of proceeds received on disposal or maturity of such investments, which for the avoidance of doubt must comply with this Order.

#### Key Considerations

An investment is not in a form of investment notified by this order unless it also complies with an investment policy of council adopted by a resolution of council.

All councils should by resolution adopt an investment policy that is consistent with this Order and any guidelines issued by the Chief Executive (Local Government), Department of Premier and Cabinet, from time to time.

The General Manager, or any other staff member, with delegated authority by a council to invest funds on behalf of a council must do so in accordance with the council's adopted investment policy.

Councils have a fiduciary responsibility when investing. Councils should exercise the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.

When exercising the power of investment councils should consider, but not be limited by, the risk of capital or income loss or depreciation, the likely income return and the timing of income return, the length of the term of the proposed investment, the liquidity and marketability of the proposed investment, the likelihood of inflation affecting the value of the proposed investment and the costs (including commissions, fees, charges and duties payable) of making the proposed investment.

Dated this 12<sup>th</sup> day of January 2011

  
**Hon BARBARA PERRY MP**  
**Minister for Local Government**

## 26 Appendix 3 – Extracts of Legislative Requirements

### LOCAL GOVERNMENT ACT 1993 - SECT 412 & 625

#### Section 412 Accounting Records

- (1) A council must keep such accounting records as are necessary to correctly record and explain its financial transactions and its financial position.
- (2) In particular, a council must keep its accounting records in a manner and form that facilitate:
  - (a) the preparation of financial reports that present fairly its financial position and the results of its operations, and
  - (b) the convenient and proper auditing of those reports.

#### Section 625 How May Councils Invest?

- (1) A council may invest money that is not, for the time being, required by the council for any other purpose.
- (2) Money may be invested only in a form of investment notified by order of the Minister published in the Gazette.
- (3) An order of the Minister notifying a form of investment for the purposes of this section must not be made without the approval of the Treasurer.
- (4) The acquisition, in accordance with section 358, of a controlling interest in a corporation is not an investment for the purposes of this section.

## 27 APPENDIX 3 – NSW Local Government Eligible Investments

### Definitions of Eligible ADI Investments:

**11am call deposits:** Cash invested on an overnight basis with an Australian Authorised Deposit-taking Institution (ADI). Funds can be recalled or re-invested prior to the bank's Real Time Gross Settlement cut-off each day.

#### *Benefits*

- 11am account provides a quick and easy investment solution for current balances that are not being used otherwise.

#### *Major Risks / Disadvantages*

- Potentially a lower return investment product.
- Credit risk is a function of the creditworthiness of the issuer.

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**Covered Bonds:** interest bearing senior ranking debt obligations of an Authorised Deposit-taking Institution (ADI) which have specific bank assets, ie loans, backing the bond. Covered bonds are market traded securities. They can be either fixed rate or floating rate interest bearing and typically are issued with 5+ year maturities. In the case of a bank failure, holders of covered bonds rank ahead of depositors and unsecured senior bond holders having first recourse to the underlying pool of assets backing the bond. If the pool's assets are not sufficient to meet the covered bond's obligations, holders then have recourse to the bank's total assets equal to other senior unsecured bondholders.

## *Benefits*

- Highest ranking securities within a bank's capital structure.
- Securities are liquid allowing them to be sold on the secondary market.
- Fixed rate: Future coupons are known which helps with cash flow forecasting.
- Floating rate: Coupons move with the market, allowing for investor participation when interest rates increase.

## *Major Risks / Disadvantages*

- Credit risk is a function of the creditworthiness of the issuer/underlying assets.
- Fixed rate: interest rate risk applies in that a pre-determined coupon rate is locked in.
- Floating rate: coupons move with the market, allowing for reduced earning capacity when interest rates decrease.

**Term deposits:** interest bearing deposit held at an ADI for a specific contracted period. Term deposits are not tradeable in the market. They typically have a fixed rate for their life, but floating rate term deposits are also available.

## *Benefits*

- Term deposits are considered to be a relatively low-risk investment.
- As these funds are not callable prior to maturity, banks generally offer a return premium.
- This type of investment allows investors to match cash flow requirements.
- The return is known.

## *Major Risks / Disadvantages*

- Liquidity risk applies in that deposits are not redeemable before maturity. Deposits may not be breakable at all or may only be broken after a prohibitive break fee is paid.
- Interest Rate risk applies in that the rate of return is fixed.
- Credit risk is a function of the creditworthiness of the ADI.
- Counterparty/credit risk increases if invested with unrated/low rated financial institutions.



**Bank Bills and Negotiable Certificates of Deposits (NCDs):** are similar types of interest bearing securities issued/accepted by ADIs, typically short dated. Unlike term deposits, these are tradeable in the market prior to maturity.

#### *Benefits*

- Counterparty party risk is partially mitigated by the accepting/issuing bank, which is typically a bank with very high credit rating.
- The return on the bank Bill and NCD is known if held until maturity.
- Bank bills and NCDs are liquid and can be traded on the secondary market.

#### *Major Risks / Disadvantages*

- Being a lower risk investment option, Bank Bills/NCDs provide a lower return.
- Interest Rate risk is present in that the rate is locked in for a fixed term.
- Credit risk is a function of the creditworthiness of the institution.

**Senior Debt Bonds:** interest bearing securities which are senior debt obligations of the issuing ADI. Senior bonds are tradeable in the market. They can be either fixed rate or floating rate interest bearing and are typically issued with 3+ year maturities. Interest is paid at scheduled intervals based on the face value of the bond with repayment of capital paid upon maturity. In the case of a bank failure, senior bond holders rank above subordinated debt holders and shareholders but below covered bond holders and depositors.

#### *Benefits*

- High ranking securities within a bank's capital structure.
- Securities are liquid allowing them to be sold on the secondary market.
- Fixed rate: Future coupons are known which helps with cash flow forecasting.
- Floating rate: Coupons move with the market, allowing for investor participation when interest rates increase.

#### *Major Risks / Disadvantages*

- Credit risk is a function of the creditworthiness of the issuer/underlying assets.
- Interest rate risk applies in that a pre-determined coupon rate is locked in.
- Fixed rate: interest rate risk applies in that a pre-determined coupon rate is locked in.
- Floating rate: coupons move with the market, allowing for reduced earning capacity when interest rates decrease.



Other NSW Local Government Eligible Investments (Non-ADI) being actively monitored:

Commonwealth/State/Territory Government securities e.g. bonds:-

These are interest paying securities which are issued by one of the above Australian government bodies and are guaranteed by that issuer. As such, these securities carry the same credit rating as the issuing government body.

#### *Benefits*

- Among the most secure investments available to Australian investors.
- Future coupons are known which helps with cash flow forecasting.

#### *Major Risks / Disadvantages*

- Typically much lower yielding than other investment options due to low investment risk of issuer.
- Interest rate risk applies in that a pre-determined coupon rate is locked in.

Deposits with NSW Treasury &/or Investments in NSW TCorpIM Funds:

The NSW Treasury Corporation IM Funds comprises a number of pooled managed funds options each set up as a unit trust. The cash and fixed income options available through the TCorpIM Funds are the Cash Fund and the Strategic Cash Fund.

The Cash Fund provides the more transactional type option and is designed for investments ranging from overnight to 1.5 years, whilst the Strategic Cash Fund is designed for investments ranging from 1.5 years out to 3 years.

Both investments will pay back the balance of the investment generally within 24 to 72 hours.

#### *Benefits*

- Investments are pooled and as such a much more diversified pool of underlying investment is possible over investing in securities directly – particularly for small investment amounts.
- A broader investment pool usually allows for a smoothing of any volatility in the underlying investments.

#### *Major Risks/Disadvantages*

- As a unit trust, investment in the TCorpIM Funds are not deposits or liabilities of NSW TCorp.
- The TCorpIM Funds are subject to market and liquidity risk associated with their underlying securities.
- Usually an additional layer of fees is incurred via a managed fund to pay for fund manager costs.