

# INVESTMENT FRAMEWORK

## 1. Objective

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This Framework prescribes:

- how the City will invest its Long-Term Funds;
- how the City will administer the Investment Portfolio; and
- the matters which must be considered before acquiring or disposing of an Investment Asset.

## 2. Investment objective

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The objective of the Investment Portfolio is to:

- generate an income, to supplement the City's rates income, to support the present and future needs of the City; and
- grow the value of the Investment Portfolio over the long-term for the benefit of present and future Beneficiaries.

## 3. Growth investments

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### 3.1. Commercial property

The City may invest directly in commercial property, including properties outside the City of Subiaco district boundary.

The City's Investment Properties form part of the Investment Portfolio, and are to be managed in accordance with this Framework.

When investing in property, the City will prefer properties which are likely to generate a reliable income in the short to medium term (0 – 10 years) and capital growth in the medium to long term (10+ years).

The City may, from time to time, engage the services of buyer's agents, seller's agents, leasing agents and property managers.

In leasing property, the City will:

- where possible, prefer Ground Leases;
- where possible, prefer not to enter into a Retail Shop Lease; and
- where possible, prefer not to enter into a Residential Tenancy Agreement,

in order to minimise risk and the amount of work associated with ongoing lease administration.

The City is not in the business of property development. However, simple property development projects (e.g. subdivisions) may be considered where supported by a robust business case and risk analysis.

Occasionally, an Investment Property may be used to:

- support the City's operational requirements; or
- provide, or aid in the provision of, an important community or social benefit,

(collectively, a "**Change of Use**").

Every Change of Use prejudices the City's ability to achieve the investment objective contained in **section 2**. For that reason, a Change of Use should be avoided wherever possible.

Whilst the City will seek to avoid a Change of Use wherever possible, it is acknowledged that a Change of Use will from time to time occur.

Where a Change of Use occurs:

- the Change of Use should be on a temporary basis and/or consideration should be given for the Change of Use; and
- the Change of Use will not, by itself, change the designation of the property as an Investment Property.

For the duration of the Change of Use:

- income derived from the property will not be required to be dealt with in accordance with **section 4.5** of this Framework;
- in reviewing the performance of the Investment Portfolio, the property will be excluded from the yield calculation in **section 4.6.3** but included in the growth calculation in **section 4.6.4**; and
- the property will continue to be an Investment Property to be dealt with in accordance with this Framework.

### **3.2. Australian listed shares**

The City may invest in companies that are listed on the Australian Stock Exchange (ASX).

### **3.3. International listed shares**

The City may invest in companies that are listed on a foreign stock exchange.

Investment in shares in a company listed on a foreign stock exchange does not constitute investment “in a foreign currency” that is prohibited by regulation 19C(2)(e) of the Regulations. This conclusion would follow regardless of whether the investment transaction cost was paid for, directly or indirectly, in Australian dollars or in a foreign currency. An investment in shares in a company fundamentally depends on the rise or fall of the value of the company, not the rise and fall of a foreign currency.

### **3.4. Managed funds**

The City may invest in managed funds (also known as managed investment schemes). The City will prefer to invest in exchange traded funds (ETFs) due to their liquidity and ease of transacting, rather than unlisted managed investment schemes and unlisted property trusts.

## **4. Portfolio administration**

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### **4.1. Acting commercially**

In managing the Investment Portfolio the City will, as far as possible, act commercially.

### **4.2. Taking advice**

The City will obtain and consider independent and impartial advice reasonably required for the investment of the Investment Portfolio.

In obtaining financial product advice, the City will:

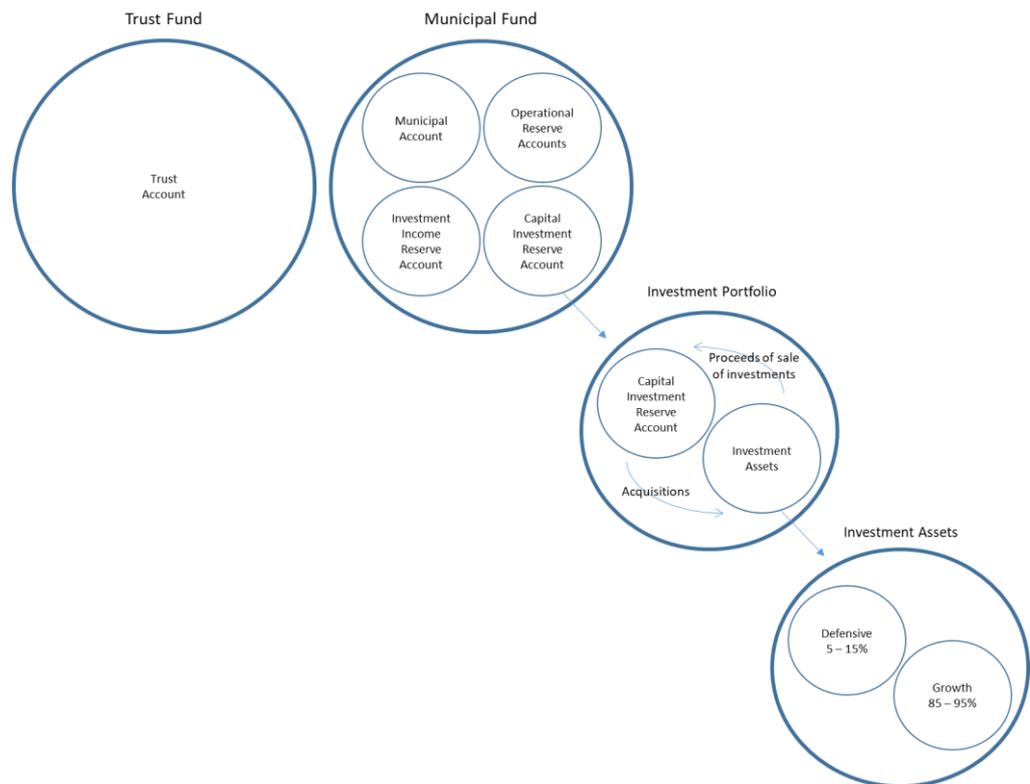
- only engage advisers who the City reasonably believes to be competent and of good character;
- only engage advisers who have an AFSL or who are authorised representatives of an AFSL; and
- prefer to pay a “fee for service” rather than a commission or a fee which is based on a percentage of funds under advice.

### **4.3. Asset allocation**

The City will invest its Long-Term Funds in a mixture of defensive investments and growth investments. In making new investment decisions, the City will target an asset allocation of:

<b>Investment Assets</b>	
<b>Defensive investments</b>	<b>Growth investments</b>

5 - 15%	85 - 95%
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#### 4.4. Capital Investment Reserve

The City will, at all times, maintain a reserve account (“**Capital Investment Reserve**”) set aside for the purpose of holding:

- the balance of the Capital Investment Reserve;
- the proceeds of sale of investments;
- the City’s share of the net surplus under the Surplus Share Agreement; and
- such other funds as approved by Council from time to time.

Unless otherwise resolved by Council, funds held in the Capital Investment Reserve will be used to:

- acquire additional investments;
- undertake capital works to Investment Properties; and
- undertake simple property development projects.

#### 4.5. Investment Income Reserve

The City will, at all times, maintain a reserve account (“**Investment Income Reserve**”) set aside for the purpose of holding all nett income derived from the Investment Portfolio.

Unless otherwise resolved by Council, funds held in the Investment Income Reserve will be used to:

- undertake capital projects;
- maintain, repair, replace and upgrade City assets; and
- repay loans procured by the City.

Where resolved by Council, funds held in the Investment Income Reserve may also be:

- used to supplement general revenue; or
- transferred into the Capital Investment Reserve to be dealt with in accordance with **section 4.4**.

#### **4.6. Measuring performance**

##### *4.6.1. Annual review*

Each year, the City will review the performance (individually and as a whole) of the investments comprised in the Investment Portfolio.

##### *4.6.2. Valuation of Investment Properties*

The City will procure a licensed valuer to calculate the fair value of each Investment Property as at 30 June each year, in accordance with the Australian Accounting Standards.

##### *4.6.3. Gross income yield*

In reviewing the performance of the Investment Portfolio, the City will target a gross income yield of CPI + 2.0% per annum, or such other rate as approved by Council from time to time.

##### *4.6.4. Capital growth rate*

In reviewing the performance of the Investment Portfolio, the City will target a capital growth rate of CPI + 2.0% per annum, or such other rate as approved by Council from time to time.

## **5. Exercise of investment power**

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### **5.1. Matters to be considered – acquisitions**

Before making an acquisition, the City will have regard to (so far as they are appropriate in the circumstances) the factors contained in section 20 of the *Trustees Act 1962 (WA)* including, without limitation, the objective of the Investment Portfolio and the desirability of diversifying investments.

## **5.2. Matters to be considered – disposals**

Before making a disposal, the City will have regard to:

1. so far as they are appropriate in the circumstances, the factors contained in **section 5.1**;
2. the opportunity cost of continuing to hold the investment; and
3. the historical performance of the investment.

## **5.3. Subject to Council approval**

The City will not enter into an unconditional contract to acquire or dispose of a growth investment, where the total unencumbered value of the asset is more than one hundred thousand Australian dollars (AUD \$100,000), without Council approval.

## **5.4. Statutory requirements**

### *5.4.1. Disposals of property*

The City must not dispose of (including lease) property unless, before agreeing to dispose of the property, the City complies with section 3.58 of the *Local Government Act 1995 (WA)*.

### *5.4.2. Major land transactions*

The City must not acquire or dispose of an interest in land, or develop land, if the total value of the land transaction exceeds the prescribed amount, unless the City complies with section 3.59 of the *Local Government Act 1995 (WA)* which includes provisions for preparing a business plan, giving Statewide public notice of the business plan and considering any submission made.

### *5.4.3. Major trading undertakings*

The City must not carry out any activity with a view to producing profit if the total value of the trading undertaking exceeds the prescribed amount, unless the City complies with section 3.59 of the *Local Government Act 1995 (WA)* which includes provision for preparing a business plan, giving Statewide public notice of the business plan and considering any submission made.

### *5.4.4. Conditional tenure land*

Several of the City’s current Investment Properties initially formed part of the City’s endowment lands. The endowment lands were held by the City on trust that those lands be used solely for the purpose of “municipal endowment”. As part of the transaction whereby the City transferred a large parcel of its endowment lands to the Subiaco Redevelopment Authority (to facilitate the sinking of the railway and surrounding redevelopment), the State agreed to introduce legislation to remove the restriction on the sale of the City’s remaining endowment lands. This was effected by section 38 the *Reserves Act 1992 (WA)*, which came into operation on 25 September 1996. What this means is that there is now no restriction on the sale by the City of any part of its endowment lands.

Despite the removal of the restriction, titles for the original endowment lands are still encumbered by a Crown grant in trust, making them “conditional tenure land” within the meaning of the *Land Administration Act 1997 (WA)*. What this means is that the City cannot dispose of (including lease) properties comprising the original endowment lands without first obtaining the Minister for Land’s consent under section 75 of the *Land Administration Act 1997 (WA)*.

## 6. Definitions

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<b>ADI</b>	Authorised deposit-taking institution, as defined in section 5 of the <i>Banking Act 1959 (Cth)</i> .
<b>AFSL</b>	Australian financial services licensee, regulated by ASIC.
<b>Beneficiaries</b>	Present and future residents and ratepayers of the City.
<b>Capital Investment Reserve</b>	Has the meaning given in <b>section 4.4</b> .
<b>City</b>	City of Subiaco.
<b>CPI</b>	The consumer price index (all groups) Perth, as published by the Australian Bureau of Statistics from time to time.
<b>Framework</b>	This document.
<b>Ground Lease</b>	A commercial arrangement pursuant to which the tenant is given the right to possession of the relevant land on the basis that it will carry out improvements on the land which will enhance its use and which will revert to the landlord at the expiry of the lease.

<b>Investment Asset</b>	An asset, owned by the City, that: <ul style="list-style-type: none"> <li>• was purchased to generate an income or capital appreciation or both;</li> <li>• is held to generate an income or capital appreciation or both; or</li> <li>• is designated in the City’s accounts as an investment asset,</li> </ul> but does not include an asset acquired using Short-Term Funds.
<b>Investment Income Reserve</b>	Has the meaning given in <b>section 4.5</b> .
<b>Investment Portfolio</b>	Comprises: <ul style="list-style-type: none"> <li>• the balance of the Capital Investment Reserve; and</li> <li>• each of the City’s Investment Assets.</li> </ul>
<b>Investment Property</b>	A property (whether land, buildings or both) that is an Investment Asset.
<b>Long-Term Funds</b>	Has the meaning given in the <b>Investment Policy</b> adopted by Council from time to time.
<b>Regulations</b>	The <i>Local Government (Financial Management) Regulations 1996 (WA)</i> .
<b>Residential Tenancy Agreement</b>	Has the meaning given in the <i>Residential Tenancies Act 1987 (WA)</i> .
<b>Retail Shop Lease</b>	Has the meaning given in the <i>Commercial Tenancy (Retail Shops) Agreements Act 1985 (WA)</i> .
<b>Short-Term Funds</b>	Has the meaning given in the <b>Investment Policy</b> adopted by Council from time to time.
<b>Surplus Share Agreement</b>	The agreement between the City and the Minister for Planning dated 12 April 1996 pursuant to which the parties agreed to work together to implement the Subi Centro Project.

## 7. Related resources

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*Local Government Act 1995 (WA)*, section 6.14(1).

*Trustees Act 1962 (WA)*, sections 16 – 26E.

Local Government (Financial Management) Regulations 1996 (WA), regulation 19C.

Investment Policy.

Framework Details		
<b>Responsible Directorate</b>	Corporate Services	
<b>Responsible Branch</b>	Commercial Services and Property	
<b>Responsible Officer</b>	Manager Commercial Services and Property	
<b>Affected Branches</b>	Finance	
<b>Council Adoption</b>	<b>Meeting Date</b>	
<b>Reviewed/Modified</b>	<b>Meeting Date</b>	
<b>Reviewed/Modified</b>	<b>Meeting Date</b>	