

## 6.1 INVESTMENTS

### Investments of the General Government Sector

The Government has a strong balance sheet and holds significant investments. Table 6.1.1 outlines the components of investments held by the General Government Sector including the Territory Banking Account, Superannuation Provision Account and Other Investments.

**Table 6.1.1**  
**General Government Sector Investments**

<b>Budget</b>		<b>Est.</b>	<b>Planned</b>	<b>Planned</b>	<b>Planned</b>	<b>Planned</b>
<b>30/6/07</b>		<b>Outcome</b>				
<b>\$'000</b>		<b>30/6/07</b>	<b>30/6/08</b>	<b>30/6/09</b>	<b>30/6/10</b>	<b>30/6/11</b>
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
80,452	Cash and Deposits	129,044	92,950	104,031	119,398	136,851
2,464,142	Investments, Loans and Placements	2,814,762	2,970,437	3,234,370	3,599,750	4,070,273
<b>2,544,594</b>	<b>Total Investments</b>	<b>2,943,806</b>	<b>3,063,387</b>	<b>3,338,401</b>	<b>3,719,148</b>	<b>4,207,124</b>
	<b>Comprising:</b>					
1,997,521	Superannuation Provision Account	2,075,389	2,311,156	2,543,587	2,788,403	3,045,801
119,143	Territory Banking Account	422,556	320,352	345,047	466,666	681,302
35,717	Investments held on behalf of PTE agencies	22,299	34,700	34,526	33,648	34,905
150,459	ACTIA Investments	145,271	148,053	153,959	155,519	157,719
112,942	Home Loan Portfolio	113,658	111,704	113,854	115,880	117,776
128,812	Other GGS Agency Investments	164,633	137,422	147,428	159,032	169,621
<b>2,544,594</b>	<b>Total Investments</b>	<b>2,943,806</b>	<b>3,063,387</b>	<b>3,338,401</b>	<b>3,719,148</b>	<b>4,207,124</b>

## Return on Investments

Table 6.1.2 provides the forecast return on investments held by the General Government Sector. Further detail on investment strategies in relation to general government and superannuation investments is provided in the Significant Investment Holdings section within this chapter.

**Table 6.1.2**  
**General Government Sector Investments**

Budget		Est.	Planned	Planned	Planned	Planned
30/6/07		Outcome	30/6/08	30/6/09	30/6/10	30/6/11
\$'000		\$'000	\$'000	\$'000	\$'000	\$'000
91,231	Total Interest Revenue (as per GGS Statement)	114,679	110,725	112,199	125,407	141,688
23,834	Less: Interest Revenue on Loans from PTEs	25,620	24,788	32,435	36,763	39,661
<b>67,397</b>	<b>Total Interest Return on Investments</b>	<b>89,059</b>	<b>85,937</b>	<b>79,764</b>	<b>88,644</b>	<b>102,027</b>
<b><u>Interest Return on Investments</u></b>						
2,544,594	Total Investments	2,943,806	3,063,387	3,338,401	3,719,148	4,207,124
1,447,122	Less: Non-Interest Earning Investments <sup>1</sup>	1,529,561	1,964,482	2,162,049	2,370,143	2,588,931
1,067,472	Total Interest Earning Investments	1,414,245	1,098,905	1,176,352	1,349,005	1,618,193
67,397	Interest Revenue	89,059	85,937	79,764	88,644	102,027
<b>6%</b>	<b>Interest return</b>	<b>6%</b>	<b>7%</b>	<b>7%</b>	<b>7%</b>	<b>7%</b>
<b><u>Total Return on Investments</u></b>						
2,544,594	Total Investments	2,943,806	3,063,387	3,338,401	3,719,148	4,207,124
67,397	Interest Revenue	89,059	85,937	79,764	88,644	102,027
42,332	Dividends	43,851	48,554	52,486	57,453	62,675
71,780	Market Gain/Loss on Value of Investments	171,057	89,459	108,254	118,975	130,234
181,509	Total Investment Returns	303,967	223,950	240,504	265,072	294,936
<b>7%</b>	<b>Total Investment Returns</b>	<b>10%</b>	<b>7%</b>	<b>7%</b>	<b>7%</b>	<b>7%</b>

**Note:**

1. Shares, equities and property investments of Superannuation Provision Account (SPA)

## Management of Investments

The Department of Treasury (Treasury) manages surplus cash balances and invests funds in the money market within projected cash flow requirements and established investment policies. Treasury is also responsible for the investment portfolio representing the total assets set aside for the Superannuation Provision Account (SPA).

Treasury uses the services of external, institutional investment managers for the management of the financial investment assets. Treasury also utilise the services of an independent external Investment Advisory Board and an investment consultant to develop and implement investment risk/return objectives, strategies, benchmarks, funds manager research, and other general investment advice as required.

The Territory currently has a contractual arrangement with JP Morgan Chase to provide master custodian services, including safekeeping of assets, settlement, derivatives clearing, valuation of investments, accounting reconciliations and reporting, mandate compliance reporting, performance measurement and reporting, audit, performance attribution, transition of assets and taxation equivalent reporting.

### 2007-08 Priorities

Strategic and operational priorities to be pursued in 2007-08 include:

- undertaking an investment manager and strategic asset allocation review and implementing changes to the SPA and Territory Banking Account (TBA) investment portfolios as required;
- undertaking policy research and development for the implementation of value-adding investment strategies for the SPA and TBA investment portfolios; and
- implementation of the Government's agreed recommendations arising out of the 'Review of the Application of Environmental, Social and Governance Issues to Territory Investment Practices'.

### Significant Investment Holdings

#### *Territory Banking Account Investment Portfolio*

The cash of the general government, not required for immediate expenditure, is currently invested in a cash enhanced fund and a domestic fixed interest fund. These investment funds comprise the cash balance from the TBA and the cash held by departments. Territory Authorities have the option of transferring funds to the TBA for inclusion in the pooled investment arrangement.

The cash enhanced fund is managed by Macquarie Investment Management Limited, with the domestic fixed interest fund managed by Vanguard Investments Australia Limited.

The estimated nominal return (net of fees) for the Cash Enhanced Fund for the 2006-07 financial year is 6.32 per cent (benchmark 6.3 per cent). The estimated nominal return (net of fees) for the Fixed Interest Fund for the 2006-07 financial year is 5.24 per cent (benchmark 5.25 per cent).

The Fixed Interest Fund return during 2006-07 is lower than the cash enhanced fund return due to rising domestic interest rates, impacting on market prices and hence reducing the market value of bonds held.

It is estimated that the full year returns (net of fees) in 2007-08 will be in the order of 6.25 per cent for the Cash Enhanced Fund and 6.5 per cent for the Fixed Interest Fund.

### *Superannuation Provision Account Investment Portfolio*

Funds set aside in the SPA are to assist the Government in meeting its long-term defined benefit employer superannuation obligations. These funds are invested in accordance with an established asset allocation strategy that takes into account the long-term nature of the SPA projected defined benefit employer superannuation liabilities and projected cashflow requirements.

These funds, totalling approximately \$2.1 billion, are managed by a number of specialist external institutional fund managers. The fund manager arrangements currently in place for the investment management of SPA assets are detailed below. These managers provide either active or passive investment management services.

**Table 6.1.3  
External Fund Manager Arrangements**

<b>Asset Class</b>	<b>Manager</b>	<b>Percent of Portfolio</b>
Cash	Vanguard Investments Australia Ltd (passive)	13.0
Australian Fixed Interest	Vanguard Investments Australia Ltd (passive)	6.5
International Fixed Interest	Vanguard Investments Australia Ltd (passive)	6.5
Australian Equities	Vanguard Investments Australia Ltd (passive)	10.0
	Perpetual Investment Management Ltd (active)	8.5
	Ausbil Dexia Ltd (active)	8.5
	Renaissance Smaller Companies Pty Ltd (active)	3.0
International Equities	Vanguard Investments Australia Ltd (passive)	17.5
	Alliance Capital Australia Ltd (active)	7.0
	Wellington International Management Co. Pte Ltd (active)	10.5
Australian Property	AMP Capital Investors Ltd (active)	6.5
Australian Private Equity	Wilshire Australia Pty Ltd (active)	2.5

The combination of investment types is designed to achieve the return objective of CPI plus 5 per cent (net of fees) over the long term. Over the past ten years the portfolio has achieved a return in excess of this target. The long-term Strategic Asset Allocation (SAA), consistent with this long-term investment objective equates to 85 per cent of the portfolio invested in growth assets (such as equities) and 15 per cent of the portfolio being invested in defensive

assets (such as cash and fixed interest investments). For the most part of 2006-07, an asset allocation of 75 per cent growth and 25 per cent defensive was maintained.

The 2006-07 financial year has seen strong returns from both domestic and global equity markets, offset by a rising Australian dollar. The estimated nominal return for the portfolio for the 2006-07 financial year is approximately 13 per cent (net of fees). The real rate of return assumption used for the 2007-08 Budget and forward year estimates is 5 per cent. Table 6.1.4 illustrates the estimated asset allocation break up of the SPA investments at 30 June 2007.

**Table 6.1.4  
Estimated Asset Allocation**

<b>SPA Asset Allocation</b>	<b>Estimated Asset Allocation at 30/6/07</b>	<b>Long-Term Target Asset Allocation</b>
Cash	13.0%	1.0%
Australian Property	6.5%	10.0%
Australian Fixed Interest	6.5%	7.0%
International Fixed Interest (hedged)	6.5%	7.0%
Australian Equities	30.0%	30.0%
International Equities (hedged)	15.0%	15.0%
International Equities (unhedged)	20.0%	20.0%
Alternative Investments	2.5%	10.0%
<b>Total</b>	<b>100%</b>	<b>100%</b>

### *Other Significant Investment Holdings*

As detailed in Table 6.1.1, total Territory investments include the investment assets of the ACT Insurance Authority. Amounts included at Table 6.1.1 identify the increasing allocation of claims provisioning to cover future liabilities. For example, as medical malpractice and public liability claims can take a number of years to be paid, these funds can be set aside for investment purposes.

Another significant investment holding is the Home Loan Portfolio. The level of investment reflects the repayment of home loans by clients, which are used to offset and repay historical debt relating to the original financing of the Home Loan Scheme.

