7.2 INVESTMENTS

Investments of the General Government Sector

The ACT Government has a strong balance sheet and holds significant investments. Table 7.2.1 outlines the components of investments held by the General Government Sector.

Table 7.2.1
General Government Sector Investments

Budget 30/6/06 $'000		Est. Outcome 30/6/06 $'000	Planned 30/6/07 $'000	Planned 30/6/08 $'000	Planned 30/6/09 $'000	Planned 30/6/10 $'000
71,558	Cash	76,379	71,909	71,179	75,896	77,830
348,298	Current Investments	512,955	296,048	257,059	396,006	594,265
1,865,243	Non Current Investments	2,032,209	2,176,657	2,342,437	2,540,152	2,746,417
2,285,099	**Total Investments**	**2,621,543**	**2,544,614**	**2,670,675**	**3,012,054**	**3,418,512**
	Comprising:					
1,628,401	Superannuation Investments	1,801,755	1,997,521	2,185,860	2,384,095	2,591,537
154,278	Territory Banking Account Investments	307,711	119,143	56,655	170,314	346,471
17,981	Investments held on behalf of PTE agencies	47,320	35,717	42,210	63,540	77,293
137,283	ACTIA Investments	137,463	150,459	151,610	159,897	168,650
104,045	Home Loan Portfolio	110,690	112,942	115,016	116,928	118,703
243,111	Other GGS Agency Investments	216,604	128,832	119,324	117,280	115,858
2,285,099	**Total Investments**	**2,621,543**	**2,544,614**	**2,670,675**	**3,012,054**	**3,418,512**

Return on Investments

Table 7.2.2 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 7.2.2
General Government Sector Investments

Budget 30/6/06 $'000		Est. Outcome 30/6/06 $'000	Planned 30/6/07 $'000	Planned 30/6/08 $'000	Planned 30/6/09 $'000	Planned 30/6/10 $'000
69,020	Total Interest Revenue (as per GGS statement)	98,016	91,231	78,490	77,989	90,562
21,660	*less:* Interest payments received on loans from PTEs	22,502	23,834	25,302	27,458	28,675
47,360	**Total Interest Return on Investments**	**75,514**	**67,397**	**53,188**	**50,531**	**61,887**
	Interest Return on Investments					
2,285,099	Total Investments	2,621,543	2,544,614	2,670,675	3,012,054	3,418,512
1,626,868	*less:* non-interest earning investments*	1,332,255	1,477,122	1,856,782	2,025,282	2,201,608
658,231	Total interest earning investments	1,289,288	1,067,492	813,893	986,772	1,216,904
47,360	Interest Revenue (a)	75,514	67,397	53,188	50,531	61,887
7%	**% Interest return**	**6%**	**6%**	**7%**	**5%**	**5%**
	Total Return on Investments					
2,285,099	Total Investments	2,621,543	2,544,614	2,670,675	3,012,054	3,418,512
47,360	Interest Revenue (a)	75,514	67,397	53,188	50,531	61,887
42,332	Dividends	45,070	42,332	44,497	47,499	51,717
85,840	Market Gain/Loss on Value of Investments	185,884	71,780	87,889	103,862	112,921
175,532	*sub-total Investment returns*	306,468	181,509	185,574	201,892	226,525
8%	**% Total Investment return**	**12%**	**7%**	**7%**	**7%**	**7%**

* SPA shares, equities and property investments. The decrease in 2005-06 reflects a reclassification of SPA unit trust investment earnings from capital gains to interest, dividends and capital gains.

Management of Investments

The Department of Treasury, through the Central Financing Unit (CFU), manages the surplus cash balances of the ACT and invests funds in the money market within projected cash flow requirements and established investment policies. Treasury, through the Superannuation Unit (SU), is responsible for the investment portfolio representing the total assets set aside for the SPA.

The CFU and SU use the services of external, institutional investment managers for the management of all financial assets. The CFU and SU also utilise the services of an independent external Finance and 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 to the Territory, including safekeeping of assets, settlement, derivatives clearing, valuation of investments, accounting reconciliations, accounting reporting, mandate compliance reporting, performance measurement, performance reporting, audit, performance attribution, transition of assets and taxation equivalent reporting.

2006-07 Priorities

Strategic and operational priorities to be pursued in 2006-07 include:

- the implementation of new investment arrangements applying to agencies as a result of new cash management arrangements which will require that agencies' cash will be maintained centrally and will be disbursed on a needs basis. Agencies maintain cash holdings only to meet their working capital needs or in cases where there is a need to separately account for cash balances (for example, under the terms of an agreement with the Australian Government);
- effectively managing investment assets of approximately $2.6 billion;
- undertaking a strategic asset allocation review of the Superannuation Provision Account investments and implement any changes to the investment portfolio structure as required; and
- policy research and development for the implementation of continuous value-add investment strategies for all Territory financial investment assets.

Significant Investment Holdings

General Government 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 Territory Banking Account and the cash held by Government Departments. Territory Authorities have the option of transferring funds to the CFU for inclusion in the pooled investment arrangement.

New cash management and control arrangements to be implemented from 1 July 2006, will mean that most agencies will only hold working capital cash balances and no longer hold investments with the CFU. The majority of cash is to be maintained centrally in the Territory Banking Account. Cash will be disbursed to agencies on a needs basis. As a result, interest earnings that previously accrued on agency investment balances and was paid to agencies will now accrue to the budget. There may be some balances maintained by agencies where special conditions apply and these will continue to be managed under the previous cash and investment management framework.

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

The key investment objectives of these funds are shown below.

Cash Enhanced Fund

The investment objectives for the Cash Enhanced Fund are specified in the following table:

Table 7.2.3
Investment Objectives – Cash Enhanced Fund

Benchmark	UBS Australian Bank Bill Index
Outperformance Target	Benchmark + 0.10% p.a. (before fees) over rolling 1 year periods
Tracking Error	No greater than 0.10% p.a.
Duration Range	Benchmark ± 1 years

Domestic Fixed Interest Fund

The investment objectives for the Domestic Fixed Interest Fund are specified in the following table:

Table 7.2.4
Investment Objectives – Domestic Fixed Interest Fund

Benchmark	UBS Australian Composite Bond Index
Outperformance Target	Benchmark (before fees) over rolling 1 year periods
Tracking Error	No greater than 0.20% p.a.
Duration Range	Benchmark ± 2 years

The estimated nominal return (net of fees) for the Cash Enhanced Fund for the 2005-06 financial year is 5.96 per cent (benchmark 5.71 per cent). The estimated nominal return (net of fees) for the Fixed Interest Fund for the 2005-06 financial year is 3.93 per cent (benchmark 3.78 per cent).

The low Fixed Interest Fund return during 2005-06 is mainly 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 2006-07 will be in the order of 5.75 per cent for the Cash Enhanced Fund and 6 per cent for the Fixed Interest Fund.

Superannuation Provision Account Investment Portfolio

Funds are set aside in the SPA 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 liabilities and projected cashflow requirements.

These funds, totalling approximately $1.8 billion, are managed by a number of specialist external institutional funds 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 7.2.5
External Fund Manager Arrangements

Asset Class	Manager
Cash	Vanguard Investments Australia Limited (passive)
Australian Fixed Interest	Vanguard Investments Australia Limited (passive)
International Fixed Interest	Vanguard Investments Australia Limited (passive)
Australian Equities	Vanguard Investments Australia Limited (passive) Perpetual Investment Management Limited (active) WestLB Mellon Asset Management (Aust) Pty Ltd (active) Renaissance Smaller Companies Pty Ltd (active)
International Equities	Vanguard Investments Australia Limited (passive) AllianceBernstein Investment Management Aust. (active) Wellington International Management Co. Pte Ltd (active)
Australian Property	Colonial First State (active) AMP Capital (active)
Australian Private Equity	Wilshire Australia Pty Ltd (active)

The key investment objective of the SPA is to achieve a long-term annual rate of return averaging 5 per cent real (net of fees and inflation). 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 2005-06, an asset allocation of 74 per cent growth and 26 per cent defensive was maintained.

Fund manager arrangements for the Private Equity (Alternative) Investment asset class have been finalised, but significant cash allocations are yet to be made. Due to the illiquid nature of this asset class, cash is drawn-down on a progressive basis over a number of years. As such, there will be a continued higher exposure to cash for this proportion of the SAA until the cash is fully drawn.

The 2005-06 financial year has seen strong returns from both domestic and global equity markets. The estimated nominal return for the portfolio for the 2005-06 financial year is approximately 17 per cent. The real rate of return assumption used for the 2006-07 Budget and forward year estimates is 5 per cent.

Table 7.2.6 illustrates the estimated asset allocation break up of the SPA investments at 30 June 2006.

Table 7.2.6
Estimated Asset Allocation

Asset Allocation - Superannuation Investment Portfolio	Estimated Asset Allocation at 30/6/06	Long-Term Target Asset Allocation
Cash	14.0%	1.0%
Australian Property	6.5%	10.0%
Australian Fixed Interest	6.0%	7.0%
International Fixed Interest (hedged)	6.0%	7.0%
Australian Equities	31.5%	30.0%
International Equities (hedged)	15.0%	15.0%
International Equities (unhedged)	20.0%	20.0%
Alternative Investments	1.0%	10.0%
Total	100%	100%

Other Significant Investment Holdings

Investments of the ACT Insurance Authority are also managed by the Central Financing Unit. Amounts included at Table 7.2.1 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 that of the Home Loan Portfolio, also managed by the Central Financing Unit. 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.