

## 8.2 ACT GOVERNMENT INVESTMENTS

### Overview

This chapter provides details of the Territory's investment arrangements, including investments held within the general government investment portfolio and the Superannuation Provision Account (SPA) investment portfolio.

### Investments of the General Government Sector

Table 8.2.1 outlines the components of investments held by the General Government Sector.

**Table 8.2.1**  
**General Government Sector Investments**

	<b>Est. Outcome</b>	<b>Planned</b>	<b>Planned</b>	<b>Planned</b>	<b>Planned</b>
	<b>30/6/04</b>	<b>30/6/05</b>	<b>30/6/06</b>	<b>30/6/07</b>	<b>30/6/08</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Cash	96 091	62 194	59 242	58 885	52 859
Current Investments	707 152	569 604	429 174	394 727	448 881
Non Current Investments	1 344 562	1 501 280	1 686 483	1 882 313	2 102 872
<b>Total Investments</b>	<b>2 147 805</b>	<b>2 133 078</b>	<b>2 174 899</b>	<b>2 335 925</b>	<b>2 604 612</b>
<i>Comprising:</i>					
Superannuation Investments	1 194 295	1 360 606	1 542 511	1 735 217	1 952 995
Territory Banking Account Investments	469 061	341 616	210 727	178 782	225 028
Investments held on behalf of PTE agencies	21 500	8 895	9 290	9 685	10 079
ACTIA Investments	102 589	118 372	125 779	133 824	143 905
Home Loan Portfolio	91 659	95 157	98 500	101 583	104 456
Other GGS Agency Investments	268 701	208 432	188 092	176 834	168 149
<b>Total Investments</b>	<b>2 147 805</b>	<b>2 133 078</b>	<b>2 174 899</b>	<b>2 335 925</b>	<b>2 604 612</b>

## Return on Investments

Table 8.2.2 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 8.2.2**  
**General Government Sector Investments**

	Est. Outcome 30/6/04 \$'000	Planned 30/6/05 \$'000	Planned 30/6/06 \$'000	Planned 30/6/07 \$'000	Planned 30/6/08 \$'000
Total Interest Revenue (as per GGS statement)	81 663	74 359	65 817	59 740	60 093
less: Interest payments received on loans from PTEs	19 401	20 556	21 361	20 719	20 615
<b>Total Adjusted Interest Revenue (a)</b>	<b>62 262</b>	<b>53 803</b>	<b>44 456</b>	<b>39 021</b>	<b>39 478</b>
<b><u>Interest Return on Investments</u></b>					
Total Investments	2 147 805	2 133 078	2 174 899	2 335 925	2 604 612
less: non-interest earning investments*	798 844	1 087 685	1 248 623	1 422 058	1 620 156
Total interest earning investments	1 348 961	1 045 393	926 276	913 867	984 456
Interest Revenue (a)	62 262	53 803	44 456	39 021	39 478
<b>% Interest return</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>4%</b>	<b>4%</b>
<b><u>Total Return on Investments</u></b>					
Total Investments	2 147 805	2 133 078	2 174 899	2 335 925	2 604 612
Interest Revenue (a)	62 262	53 803	44 456	39 021	39 478
Dividends	15 504	17 013	19 287	21 686	24 427
Market Gain/Loss on Value of Investments	57 754	61 446	76 409	85 944	113 877
<i>sub-total Investment returns</i>	135 520	132 262	140 152	146 651	177 782
<b>% Total Investment return</b>	<b>6%</b>	<b>6%</b>	<b>6%</b>	<b>6%</b>	<b>7%</b>

\* such as shares and property investments

## 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. The Department, through the Superannuation Unit, is responsible for the investment portfolio representing the total assets set aside for the Superannuation Provision Account (SPA).

The CFU and Superannuation Unit utilise the services of an independent external Investment Advisory Board and an investment consultant to develop and implement investment objectives, strategies, benchmarks, funds manager research and appointment, 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, 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. A full review of all investment arrangements was completed in 2003-04. Following a comprehensive procurement process a panel of new fund managers has been appointed to manage the investment assets of the Territory.

The key initiatives for 2004-05 are:

- finalising the implementation of the new SPA investment objectives and strategy which will include the selection and appointment of funds managers for the Property and Alternative Investment asset classes and the introduction of a regular asset rebalancing process; and
- implementing a robust cashflow model for the Territory Banking Account.

## 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 ACT Government Departments. Territory Authorities have the option of transferring funds to the CFU for inclusion in the pooled investment arrangement.

During 2003-04 the external fund manager arrangements were reviewed. Following a procurement process Macquarie Investment Management Limited was appointed to manage a Cash Enhanced Fund, and Vanguard Investments Australia Limited was appointed to manage a Domestic Fixed Interest Fund.

The key investment objective for these funds is as follows:

- Cash Enhanced Fund:

The investment objectives for this mandate are specified in the following table:

**Table 8.2.3  
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 $\pm$ 1 years

- Domestic Fixed Interest Fund:

The investment objectives for this mandate are specified in the following table:

**Table 8.2.4  
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 $\pm$ 2 years

The estimated nominal return (net of fees) for the Cash Enhanced Fund for the 2003-04 financial year is 5.10%. The estimated nominal return (net of fees) for the Fixed Interest Fund for the 2003-04 financial year is 2.10%.

The low Fixed Interest Fund return during 2003-04 is mainly due to the recovery in equities causing a lower demand for bonds and hence reducing the market value of bonds held.

It is estimated that the full year return in 2004-05 will be in the order of 5.60% for the Cash Enhanced Fund and 6.10% for the Fixed Interest Fund..

### *Superannuation Provision Account Investment Portfolio*

Funds are set aside in the Superannuation Provision Account (SPA) to assist the Government in meeting its long-term 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 \$1.2 billion, are managed by a number of specialist external funds managers. During 2003-04 the external funds manager arrangements were reviewed. Following a procurement process the following fund manager arrangements were implemented:

**Table 8.2.5  
External Fund Manager Arrangements**

<b>Asset Class</b>	<b>Manager</b>
Cash	Vanguard Investments Australia Limited
Australian Fixed Interest	Vanguard Investments Australia Limited
International Fixed Interest	Vanguard Investments Australia Limited
Australian Equities	Vanguard Investments Australia Limited Perpetual Investment Management Limited WESTLB Asset Management(Aust) Pty Ltd Renaissance Smaller Companies Pty Ltd
International Equities	Vanguard Investments Australia Limited Alliance Capital Australia Limited Wellington International Management Co. Pte Ltd
Property	Colonial First State

The Superannuation Unit has commenced procurement activities to also appoint new fund managers for the Property and Alternative Asset classes. It is expected that these new arrangements will be finalised by the end of the first quarter of 2004-05.

The long-term Strategic Asset Allocation (SAA), consistent with the long-term investment objective of an average 5% (net) real return per annum over the long-term, equates to 85% of the portfolio invested in growth assets (such as equities and property) and 15% of the portfolio being invested in defensive assets (such as cash and fixed interest investments).

For the most part of 2003-04 a more defensive asset allocation of 50% growth and 50% defensive was maintained. By the end of the 2003-04 year, it is expected that portfolio assets will be rebalanced to approximately 75% growth and 25% defensive. The move to the long-term SAA (all assets classes with the exception of Property and Alternative Assets due to ongoing procurement) at this time is regarded as appropriate. Until the fund manager arrangements for the Property and Alternative Investment asset classes are finalised, there will be a continued higher exposure to cash for this proportion of the SAA. The key investment objective of the Superannuation Provision Account (SPA) is to achieve a long-term annual rate of return averaging 5% real (net of fees). This reflects the actuarial assumed earnings rate necessary to achieve a long-term objective of a 90% level of funding of the Territory employer superannuation liability by 2039-40. The 2003-04 financial year has seen a global improvement in equity markets and subsequently investment performance. The real rates of return assumptions used for the 2004-05 budget are 4% in 2004-05 to 2006-07 and 5% thereafter. This reflects the gradual implementation of the SAA.

The estimated nominal return for the portfolio for the 2003-04 financial year is 7.50% reflecting the improvement in the financial markets.

The following table (8.2.6) illustrates the estimated asset allocation break up of the SPA at 30 June 2004.

**Table 8.2.6**  
**Estimated Asset Allocation**

<b>Asset Allocation - Superannuation Investment Portfolio</b>	<b>Estimated Asset Allocation at 30/6/04</b>
Cash	11%
Australian Property	5%
Australian Fixed Interest	7%
International Fixed Interest (hedged)	7%
Australian Equities	30%
International Equities (hedged)	15%
International Equities (unhedged)	20%
Alternative Investments	5%
<b>Total</b>	<b>100%</b>

### *Other Significant Investment Holdings*

Investments of the ACT Insurance Authority are also managed by the Department of Treasury (Central Financing Unit). Amounts included at Table 8.2.1 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.

The investments of the Authority ensure that the Territory is able to meet the cost of its insurable claims and losses in an orderly, timely and cost effective manner, and protect the Territory's budget from the risk of substantial claims.

Another significant investment holding is that of the Home Loan Portfolio, also managed by the Department of Treasury (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.