

## 7.2 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 7.2.1 outlines the components of investments held by the General Government Sector.

**Table 7.2.1**  
**General Government Sector Investments**

	<b>Est. Outcome</b>	<b>Planned</b>	<b>Planned</b>	<b>Planned</b>	<b>Planned</b>
	<b>30/6/03</b>	<b>30/6/04</b>	<b>30/6/05</b>	<b>30/6/06</b>	<b>30/6/07</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Cash	90 870	48 033	41 017	40 578	46 716
Current Investments	808 409	833 555	758 682	810 793	925 486
Non Current Investments	957 219	1 101 943	1 234 874	1 368 222	1 503 285
<b>Total Investments</b>	<b>1 856 498</b>	<b>1 983 531</b>	<b>2 034 573</b>	<b>2 219 593</b>	<b>2 475 487</b>
<i>Comprising:</i>					
Superannuation Investments	1 032 082	1 170 779	1 310 257	1 465 126	1 626 585
Territory Investments	403 109	347 076	233 368	238 857	304 262
Investments held on behalf of PTE agencies	20 192	58 995	55 121	50 696	48 335
Insurance Investments	51 549	69 375	82 944	97 033	111 485
Home Loan Portfolio	120 950	139 260	154 831	158 281	163 294
Other Agency Investments	228 616	198 046	198 052	209 600	221 526

### 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**

	<b>Est. Outcome</b>	<b>Planned</b>	<b>Planned</b>	<b>Planned</b>	<b>Planned</b>
	<b>30/6/03</b>	<b>30/6/04</b>	<b>30/6/05</b>	<b>30/6/06</b>	<b>30/6/07</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Total Interest Revenue (as per GGS statement)	110 110	106 417	110 771	119 147	128 080
<i>less:</i> Interest payments received on loans from PTEs	20 921	19 930	19 710	19 317	18 815
<b>Interest Revenue</b>	<b>89 189</b>	<b>86 487</b>	<b>91 061</b>	<b>99 830</b>	<b>109 265</b>
<b><u>Interest Return on Investments</u></b>					
Total Investments (excluding cash)	1 765 628	1 935 498	1 993 556	2 179 015	2 428 771
<i>less:</i> non-interest earning investments*	402 568	467 911	523 703	585 650	650 234
Total interest earning investments	1 363 060	1 467 587	1 469 853	1 593 365	1 778 537
Interest Revenue (a)	89 189	86 487	91 061	99 830	109 265
<b>% Interest return</b>	<b>7%</b>	<b>6%</b>	<b>6%</b>	<b>6%</b>	<b>6%</b>
<b><u>Total Return on Investments</u></b>					
Total Investments (excluding cash)	1 765 628	1 935 498	1 993 556	2 179 015	2 428 771
Interest Revenue (a)	89 189	86 487	91 061	99 830	109 265
Dividends	14 013	15 504	17 068	18 804	20 616
Market Gain/Loss on Value of Investments	- 55 593	9 375	23 327	23 686	26 496
<i>Sub-Total Investment Returns</i>	47 609	111 366	131 456	142 320	156 377
<b>% Total Investment return</b>	<b>3%</b>	<b>6%</b>	<b>7%</b>	<b>7%</b>	<b>6%</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.

In November 2001, Commonwealth Custodial Services was appointed by the Territory to provide master custodian services to the Territory. Commonwealth Custodial Services provides the following services:

- safekeeping; settlement; derivatives clearing; valuation of investments; accounting reconciliation; accounting reporting; mandate compliance reporting; performance measurement; performance reporting; audit; performance attribution; transition of assets; and tax equivalent reporting.

A full review of all investment arrangements commenced in 2002-03 beginning with the SPA investment portfolio. A new Strategic Asset Allocation (SAA) policy for the SPA and a fund manager configuration paper supporting the SAA policy was developed and endorsed during 2002-03. The implementation of the new arrangements commenced in the latter part of 2002 and will be finalised during 2003-04. Additionally, it is expected that a review of general government investment facilities and managers will also be completed during 2003-04.

The key initiatives for 2003-04 are:

- finalising the implementation of the new SPA investment objectives and strategy which will include a review of all existing external fund manager appointments and the appointment of several new fund managers; and
- finalising a review of the investment objectives and strategies for the general government investment portfolio culminating in the establishment of new investment facilities and a review of existing external fund manager appointments.

## **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.

A specialist external funds manager manages these funds on behalf of the Territory.

The key investment objective for these funds is to achieve returns greater than the official cash rate. General government funds are invested in 'defensive' assets such as cash and high grade fixed interest bonds. The estimated nominal return for the total portfolio for the 2002-03 financial year is 6.50%. The general government investment portfolio has been largely unaffected by the global recession and volatile financial markets experienced during the past two years as its exposure is limited to domestic cash and a high grade domestic fixed interest bonds. It is expected that returns for 2003-04 will be at similar levels to those experienced in 2002-03 as a result of domestic interest rates remaining relatively unchanged. It is estimated that the full year return in 2003-04 will be in the order of 5%.

### *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 billion, are managed by a number of specialist external funds managers. These currently include Australian Equities, International Equities, Australian Fixed Interest, Australian Cash Enhanced and Australian Property.

A revised long-term Strategic Asset Allocation (SAA), consistent with the long-term investment objective of an average 5% (net) real return, was endorsed during the year that will result in a much higher percentage of the total portfolio (85%) being invested in growth assets (such as equities and property) and a much smaller percentage (15%) of the portfolio being invested in defensive assets (such as cash and fixed interest investments).

Due to the current state of the financial markets and in particular the negative returns being experienced on equity investments, a more defensive asset allocation of 40% growth and 60% defensive was maintained throughout 2002-03, and this will be continued into 2003-04. During 2002-03 no new cash flows were directed to equity investments. It is expected that there will be a measured move toward the new SAA over the forward years as equity markets stabilise.

The new investment configuration, designed to support the long-term SAA will continue to be implemented and finalised in 2003-04. A large percentage of the portfolio will be moved from active style management to passive style management. It is expected that this will result in a net reduction in management fees while still providing the required return objectives. Additionally, the new asset allocation strategy provides for exposure to International Fixed Interest and Private Equity investments.

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 actuarially 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. Due to the poor results experienced over the past two years and an expectation that the recovery of the financial markets will be gradual over the coming years, the assumptions for short term real rates of return are 3% in 2003-04, 4% in 2004-05 to 2006-07 and 5% thereafter. Over the longer term however, it will be important to adopt the long-term SAA to increase the probability of the long-term investment objective of 5% real being achieved.

The estimated nominal return for the portfolio for the 2002-03 financial year is -1% reflecting the continued uncertainty in the financial markets as a result of global economic and political events.

The following table (7.2.3) illustrates the estimated asset allocation break up of the SPA at 30 June 2003.

**Table 7.2.3  
Estimated Asset Allocation**

<b>Asset Allocation - Superannuation Investment Portfolio</b>	<b>Estimated Asset Allocation at 30/6/03</b>
Cash	25%
Australian Property	4%
Australian Fixed Interest	35%
Australian Equities	18%
International Equities	18%
<b>TOTAL</b>	<b>100%</b>

### *Other Significant Investment Holdings*

Investments of the ACT Insurance Authority are also managed by the Department of Treasury. 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.

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. 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.