ACT Government

Chief Minister, Treasury and Economic Development

INVESTMENT PLAN

FOR THE FINANCIAL INVESTMENT ASSETS OF THE ACT INSURANCE AUTHORITY

MADE IN ACCORDANCE WITH THE *FINANCIAL MANAGEMENT INVESTMENT GUIDELINES 2015* (“GUIDELINES”)

This Investment Plan, unless expressly indicated to do so, does not have an exhaustive and binding effect on all investments and investment processes. Where this policy is silent or conflicts with a provision of the Guidelines, the terms of the Guidelines prevail.

Version Control

Version No.	Date	Comments	Approver
1	December 2017	The initial Investment Plan for the ACT Insurance Authority	General Manager, ACTIA
2	December 2018	Refresh the Investment Plan to align with the reorganisation of the Treasury financial investment structure	General Manager, ACTIA and Treasurer
3	24 September2021	Periodic review of the investment strategy, allowable asset classes and strategic allocations	General Manager ACTIA and Treasurer

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PURPOSE

This Individual Investment Plan is established for the financial investment assets of the ACT Insurance Authority.

This Investment Plan is not intended to be a detailed operational description but rather a general guide to the investment strategy for the ACT Insurance Authority, including the investment risk and return objectives and strategic asset allocation. As changes occur over time the Investment Plan will be modified or refined as required.

This Investment Plan is to be read in conjunction with the *Investment Governance Policy Framework* and the *Responsible Investment Policy* for the financial investment assets managed by Treasury.

LEGISLATIVE REQUIREMENTS

The ACT Insurance Authority is established under section 7 of the *Insurance Authority Act 2005*. The ACT Insurance Authority may only invest funds in accordance with the provisions of Section 58 of the *Financial Management Act 1996* (the "FMA").

Section 58 of the FMA provides that funds not immediately required for the purposes of a Territory Authority may be invested by the Treasurer, for the Territory Authority, in an investment mentioned in section 38 of the FMA.

ACT Insurance Authority moneys are invested in accordance with the provisions of Section 38 of the FMA and the *Financial Management Investment Guidelines 2015*.

ACT INSURANCE AUTHORITY DESCRIPTION AND BACKGROUND

The ACT Insurance Authority is established as the Government's captive insurer to provide insurance services to all Government Directorates and statutory authorities, to meet the insurable claims and losses of Government agencies.

The captive insurance model protects the Government's budget from a range of catastrophic and accumulated risk exposures through its reinsurance arrangements, and the accumulation of a fund reserve to meet the cost of future legal liabilities and asset losses generated through the activities of the Government.

The ACT Insurance Authority works to protect the assets and services of the Territory by providing risk management and insurance services to a large and diverse group of Government client agencies and entities.

The ACT Insurance Authority operates on a cost recovery basis by collecting premiums from Directorates and Territory Authorities to meet the cost of insurable claims and losses. Operating costs are largely driven by provisioning for future claims and current claims expense.

INVESTMENT STRATEGY

The purpose of the investment strategy is to accumulate financial assets to fully fund the present and likely future liabilities of the ACT Insurance Authority in relation to the protection of Government assets and services of the Territory.

INVESTMENT RETURN OBJECTIVE

The long-term investment return objective is to achieve a return of CPI+2.5 per cent per annum while minimising the risk taken and costs incurred in achieving this return objective.

Performance is measured from the 2018-19 base financial year.

TIME HORIZON

Due to the long-term nature of the liabilities the investment strategy time horizon is considered long-term, or greater than 10 years.

The investment strategy risk and return objectives are considered over a 10-year time horizon.

INVESTMENT RISK OBJECTIVES

Recognising the long-term time horizon for the investment strategy, nature of the liabilities and liquidity requirements, the ACT Insurance Authority is considered to have an average to above average ability to take investment risk.

Investment risk is viewed both qualitatively and quantitatively with particular focus given to the nature and likelihood of extreme events that can negatively impact on the financial assets of the ACT Insurance Authority.

There are several ways in which risk is defined and measured for the ACT Insurance Authority. The primary definition of risk is the likelihood of negative annual returns. The extent of negative returns and volatility of absolute returns are considered secondary risk measures.

The key risk metrics which underpin the long-term portfolio strategic asset allocation considerations include:

Negative Returns	Recognising the likelihood of negative returns, one negative year in every three to five years is tolerable.
Portfolio Volatility	Volatility of returns reflects the inherent risk in the portfolio. The higher the volatility the greater the variance in returns measured by the standard deviation. A standard deviation of up to a maximum of 8 per cent is targeted under normal risk assumptions.

STRATEGIC ASSET ALLOCATION

The following strategic asset allocation has been established on the basis that it is considered to represent an efficient portfolio (lowest acceptable risk for the target return) based on the allowable asset classes and the target investment objective.

The allowable range outlines the minimum and maximum acceptable percentages that permit short term deviations away from the targeted asset allocation to allow for changing market conditions or the availability of investment opportunities.

Portfolio Asset Allocation

Asset Class	Asset Allocation	Allowable Range
Low Duration Investment Grade Credit	10.0%	0.0% - 20.0%
Australian Bonds	10.0%	0.0% - 20.0%
Australian Inflation-Linked Bonds	10.0%	0.0% - 20.0%
International Sovereign Bonds	10.0%	0.0% - 20.0%
Total Defensive Assets	**40.0%**	**30.0% - 70.0%**
Unlisted Property	5.0%	0.0% - 10.0%
Unlisted Infrastructure	5.0%	0.0% - 10.0%
Alternate Debt	5.0%	0.0% - 10.0%
Australian Equities	15.0%	0.0% - 30.0%
International Equities	30.0%	0.0% - 45.0%
Total Return Seeking Assets	**60.0%**	**30.0% - 70.0%**
Total Portfolio	**100.0%**	
Foreign Currency Exposure[1]	**19.5%**	
Illiquid Asset Exposure[2]	**15.0%**	

INVESTMENT STRATEGY LIQUIDITY

The ACT Insurance Authority is considered to have a below average liquidity requirement over the short to medium-term. The strategic asset allocation incorporates a limited exposure to illiquid assets. Even under a stressed financial market scenario, where it is expected that the portfolio's exposure to illiquid assets would increase, the investment strategy is considered to maintain an appropriate level of liquidity.

[1] Unhedged foreign currency exposure is based on international sovereign bonds being 100 per cent hedged to Australian dollars and international equities being 35 per cent hedged to Australian dollars.
[2] Illiquid asset exposures include 100 per cent of the unlisted property and unlisted infrastructure allocations, as well as 50 per cent of the alternate debt allocation.

Working capital will be retained in the ACT Insurance Authority transactional banking account for the purpose of meeting daily cash flow requirements. Periodically the cash balance of the banking account will be reviewed with any cash determined to be excess to working capital requirements transferred to the investment account in line with the objectives of the Authority's Capital Management Plan.

INVESTMENT GOVERNANCE

Refer to the *Investment Governance Policy Framework* for the financial investment assets managed by Treasury.

The policy is available at http://www.treasury.act.gov.au/publications.

RESPONSIBLE INVESTMENT

Refer to the *Responsible Investment Policy* for the financial investment assets managed by Treasury.

The policy is available at http://www.treasury.act.gov.au/publications.