# 5.1 INVESTMENTS

## Investments of the General Government Sector

The Territory has a strong balance sheet and holds significant investments. Table 5.1.1 outlines the components of investments held by the General Government Sector including the Territory Banking Account (TBA), Superannuation Provision Account (SPA) and other investments.

**Table 5.1.1**
**General Government Sector Investments**

| Budget 30/6/09 $'000 | | Est.Outcome 30/6/09 $'000 | Planned 30/6/10 $'000 | Planned 30/6/11 $'000 | Planned 30/6/12 $'000 | Planned 30/6/13 $'000 |
|---|---|---|---|---|---|---|
| 126,303 | Cash and Deposits | 174,156 | 138,098 | 142,176 | 147,428 | 153,041 |
| 3,351,348 | Investments, Loans and Placements | 2,817,554 | 2,533,878 | 2,713,903 | 2,842,153 | 3,129,325 |
| **3,477,651** | **Total Investments** | **2,991,710** | **2,671,976** | **2,856,079** | **2,989,581** | **3,282,366** |
| | **Comprising:** | | | | | |
| 2,344,629 | Superannuation Provision Account | 1,791,120 | 1,968,891 | 2,145,321 | 2,301,467 | 2,456,789 |
| 703,683 | Territory Banking Account | 630,794 | 152,415 | 122,781 | 69,550 | 177,379 |
| 7,400 | Investments held on behalf of PTE agencies | 25,000 | 8,000 | 11,500 | 20,000 | 30,000 |
| 173,825 | ACTIA Investments | 229,937 | 263,861 | 294,918 | 313,438 | 329,285 |
| 114,267 | Home Loan Portfolio | 120,722 | 119,950 | 118,010 | 115,843 | 113,468 |
| 133,847 | Other GGS Agency Investments | 194,137 | 158,859 | 163,549 | 169,283 | 175,445 |
| **3,477,651** | **Total Investments** | **2,991,710** | **2,671,976** | **2,856,079** | **2,989,581** | **3,282,366** |

## Return on Investments

Table 5.1.2 provides the forecast return on investments held by the General Government Sector. Further detail on investment strategies in relation to TBA and SPA investments is provided in the Significant Investment Holdings section within this chapter.

**Table 5.1.2**
**General Government Sector Investments**

| **Budget 30/6/09 $'000** | | **Est.Outcome 30/6/09 $'000** | **Planned 30/6/10 $'000** | **Planned 30/6/11 $'000** | **Planned 30/6/12 $'000** | **Planned 30/6/13 $'000** |
|---:|---|---:|---:|---:|---:|---:|
| 164,671 | Total Interest Revenue (as per GGS Statement) | 147,617 | 92,512 | 90,805 | 92,221 | 96,437 |
| 39,625 | *Less: Interest Revenue on Loans from PTEs* | 35,018 | 34,514 | 51,350 | 48,406 | 50,524 |
| **125,046** | **Total Interest Return on Investments (a)** | **112,599** | **57,998** | **39,455** | **43,815** | **45,913** |
| | **Interest Return on Investments** | | | | | |
| 3,477,651 | Total Investments | 2,991,710 | 2,671,976 | 2,856,079 | 2,989,581 | 3,282,366 |
| 1,990,988 | *Less: Non-Interest Earning Investments*[1] | 1,101,553 | 1,640,214 | 1,784,794 | 1,911,416 | 2,036,452 |
| 1,486,663 | Total Interest Earning Investments | 1,890,157 | 1,031,762 | 1,071,285 | 1,078,165 | 1,245,914 |
| 125,046 | Interest Revenue (a) | 112,599 | 57,998 | 39,455 | 43,815 | 45,913 |
| **8%** | **Interest Return** | **6%** | **6%** | **4%** | **4%** | **4%** |
| | **Total Return on Investments** | | | | | |
| 3,477,651 | Total Investments | 2,991,710 | 2,671,976 | 2,856,079 | 2,989,581 | 3,282,366 |
| 125,046 | Interest Revenue (a) | 112,599 | 57,998 | 39,455 | 43,815 | 45,913 |
| 49,980 | Dividends | 69,395 | 35,782 | 44,101 | 47,662 | 50,996 |
| 90,464 | Market Gain/Loss on Value of Investments | -360,805 | 88,866 | 100,040 | 107,604 | 114,888 |
| 265,490 | Total Investment Returns | -178,811 | 182,646 | 183,596 | 199,081 | 211,797 |
| **8%** | **Total Investment Returns** | **-6%** | **7%** | **6%** | **7%** | **6%** |

**Note:**

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

## Management of Investments

The Department of Treasury (Treasury) manages surplus cash balances of the TBA and agencies 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 to meet the defined benefit employer superannuation liabilities of the Territory.

Treasury uses the services of external, institutional investment managers for the management of the financial investment assets. Treasury also utilises 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.

Treasury also engages an external service provider to deliver 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.

## 2009-10 Priorities

Strategic and operational priorities to be pursued in 2009-10 include:

- continuing to monitor and review as necessary the SPA investment portfolio;
- undertaking a strategic review of the TBA investment portfolio and implementation of changes as required;
- undertaking policy research and development for the implementation of value-adding investment strategies for the SPA and TBA investment portfolios; and
- continuing with the implementation, monitoring and reporting of the Government’s policy in relation to the application of Environmental, Social and Governance issues and risks in the Territory’s 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, the cash held by departments and some Territory Authorities.

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 for the Cash Enhanced Fund for the 2008-09 financial year is 4.25 per cent (original Budget estimate 7.25 per cent). The estimated nominal return for the Fixed Interest Fund for the 2008-09 financial year is 12.6 per cent (compared to the original budget estimate of 7.5 per cent).

The returns experienced during 2008-09 are lower than what was estimated due to the reduction in interest rates generally (the Reserve Bank has lowered the official cash rate by 4.25 percentage points since September 2008) and the continued volatility from the ongoing global financial crisis and illiquidity of credit markets in particular.

It is estimated that the full year returns (net of fees) in 2009-10 will be in the order of 3 per cent for the Cash Enhanced Fund and 3.5 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 $1.8 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 5.1.3**
**External Fund Manager Arrangements**

| Asset Class | Manager | Percentage of Portfolio |
|---|---|---|
| Cash | Macquarie Investment Management Ltd (active) | 17.6 |
| Australian Fixed Interest | Vanguard Investments Australia Ltd (passive) | 9.5 |
| International Fixed Interest | Vanguard Investments Australia Ltd (passive) | 9.6 |
| Australian Equities | Vanguard Investments Australia Ltd (passive) | 7.8 |
| | Perpetual Investment Management Ltd (active) | 7.5 |
| | Ausbil Dexia Ltd (active) | 7.0 |
| | Renaissance Smaller Companies Pty Ltd (active) | 1.9 |
| International Equities | Vanguard Investments Australia Ltd (passive) | 12.4 |
| | Alliance Capital Australia Ltd (active) | 4.9 |
| | Wellington International Management Co. Pty Ltd (active) | 8.5 |
| Australian Property | AMP Capital Investors Ltd (active) | 7.6 |
| Australian Private Equity | Wilshire Australia Pty Ltd (active) | 5.7 |

The SPA investment portfolio has a long-term investment strategy that is based on a strategic asset allocation (amount of exposure to cash, fixed interest, equity and property) that is expected to deliver a long-term average return of CPI plus 5 per cent (net of fees) per annum. The investment asset allocation modelling also assumes that there is an expectation for negative investment returns once in every 4 to 5 years. The long-term Strategic Asset Allocation (SAA), consistent with this long-term investment objective, currently equates to 70 per cent of the portfolio invested in growth assets (such as equities) and 30 per cent of the portfolio being invested in defensive assets (such as cash and fixed interest investments). For the most part of 2008-09, an asset allocation of 60 per cent growth and 40 per cent defensive was maintained.

Investment markets have been under extreme pressure due to the global financial crisis and significant deterioration in the global economic outlook. The SPA investment portfolio is not immune to global financial market turmoil and the portfolio has been negatively impacted by falling share prices.

The nominal return for the portfolio for the 2008-09 financial year is estimated to be negative 13 per cent (net of fees). The investment losses being recognised by the Territory are in-line with investment losses being recognised by other institutional and growth-orientated superannuation fund investors.

The portfolio has returned an annualised net return of CPI plus 3.9 per cent, compared with the target objective CPI plus 5 per cent real (net of fees) over the past thirteen years. This is the first time the annualised return has fallen below the target objective. In dollar terms, the negative SPA portfolio earnings equates to a net loss of approximately $262 million.

Table 5.1.4 illustrates the estimated asset allocation break up of the SPA investments at 30 June 2009.

**Table 5.1.4**
**Estimated Asset Allocation**

| SPA Asset Allocation | Estimated Asset Allocation at 30/6/09 | Long-Term Target Asset Allocation 1 |
|---|---|---|
| Cash | 17.6% | 0% |
| Australian Property | 7.6% | 10.0% |
| Australian Fixed Interest | 9.5% | 0% |
| Global Fixed Interest (hedged) | 9.6% | 30.0% |
| Australian Equities | 24.2% | 20.0% |
| Global Equities (hedged) | 10.4% | 12.0% |
| Global Equities (unhedged) | 15.4% | 18.0% |
| Australian Private Equity | 5.7% | 5.0% |
| Emerging Markets | 0.0% | 5.0% |
| Total | 100% | 100% |

**Note:**
1. Current approved long term strategic asset allocation strategy following the strategic investment review completed in 2007-08.

During 2009-10 it will be necessary to consider what implications there may be on the recently approved long-term strategic asset allocation as a result of the global financial crisis. This means reconsidering the assumptions about return and risks for the various asset classes and whether these still remain appropriate for achieving a long-term annualised return of

CPI plus 5 per cent (net of fees). It may be necessary to adopt a different long-term strategic asset allocation strategy.

### *Other Significant Investment Holdings*

As detailed in Table 5.1.1 Total Territory investments include the investment assets of the ACT Insurance Authority. Amounts included at Table 5.1.1 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.