

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		Est. Outcome	Planned	Planned	Planned	Planned
30/6/08		30/6/08	30/6/09	30/6/10	30/6/11	30/6/12
\$'000		\$'000	\$'000	\$'000	\$'000	\$'000
92,950	Cash and Deposits	138,891	126,303	134,284	139,228	157,162
2,970,437	Investments, Loans and Placements	3,093,943	3,351,348	3,581,248	3,991,314	4,421,771
3,063,387	Total Investments	3,232,834	3,477,651	3,715,532	4,130,542	4,578,933
	Comprising:					
2,311,156	Superannuation Provision Account	2,118,336	2,344,629	2,578,743	2,820,168	3,048,279
320,352	Territory Banking Account	683,830	703,683	683,244	834,074	1,024,518
34,700	Investments held on behalf of PTE agencies	7,247	7,400	7,563	7,737	7,923
148,053	ACTIA Investments	168,874	173,825	185,521	201,134	210,223
111,704	Home Loan Portfolio	111,876	114,267	116,651	119,005	121,349
137,422	Other GGS Agency Investments	142,671	133,847	143,810	148,424	166,641
3,063,387	Total Investments	3,232,834	3,477,651	3,715,532	4,130,542	4,578,933

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		Est.Outcome	Planned	Planned	Planned	Planned
30/6/08		30/6/08	30/6/09	30/6/10	30/6/11	30/6/12
\$'000		\$'000	\$'000	\$'000	\$'000	\$'000
110,725	Total Interest Revenue (as per GGS Statement)	122,350	164,671	177,516	186,362	196,630
24,788	Less: Interest Revenue on Loans from PTEs	26,298	39,625	60,768	62,966	62,733
85,937	Total Interest Return on Investments	96,052	125,046	116,748	123,396	133,897
<u>Interest Return on Investments</u>						
3,063,387	Total Investments	3,232,834	3,477,651	3,715,532	4,130,542	4,578,933
1,964,482	Less: Non-Interest Earning Investments ¹	1,530,524	1,990,988	2,190,488	2,395,570	2,589,323
1,098,905	Total Interest Earning Investments	1,702,310	1,486,663	1,525,044	1,734,972	1,989,610
85,937	Interest Return on Investments	96,052	125,046	116,748	123,396	133,897
7%	Interest Return	6%	8%	8%	7%	7%
<u>Total Return on Investments</u>						
3,063,387	Total Investments	3,232,834	3,477,651	3,715,532	4,130,542	4,578,933
85,937	Interest Return on Investments	96,052	125,046	116,748	123,396	133,897
48,554	Dividends	77,793	49,980	59,225	64,944	70,590
89,459	Market Gain/Loss on Value of Investments	-13,000	90,464	105,819	115,655	125,170
223,950	Total Investment Returns	160,845	265,490	281,792	303,995	329,657
7%	Total Investment Returns	5%	8%	8%	7%	8%

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.

2008-09 Priorities

Strategic and operational priorities to be pursued in 2008-09 include:

- implementation of the changes to the SPA investment portfolio, as required, as a result of the annual strategic investment review completed in 2007-08;
- 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
- continued implementation of the outcomes of the *Review of the Application of Environmental, Social and Governance Issues to Territory 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 2007-08 financial year is 6 per cent (original Budget estimate 6.25 per cent). The estimated nominal return for the Fixed Interest Fund for the 2007-08 financial year is 5.3 per cent (compared to the original Budget of estimate 6.5 per cent).

The returns experienced during 2007-08 are lower than what the estimated benchmark returns are likely to be (7 per cent and 6 per cent respectively), due to the impact of the downturn in global financial markets and in particular the impact of the credit crunch. The illiquidity of credit markets resulting from the United States sub-prime crisis has impacted all investments that have exposure to fixed income securities. This impact is reflected in the returns on TBA investment portfolios for 2007-08.

It is estimated that the full year returns (net of fees) in 2008-09 will be in the order of 7.25 per cent for the Cash Enhanced Fund and 7.5 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 \$2.1 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)	13.7
Australian Fixed Interest	Vanguard Investments Australia Ltd (passive)	7.2
International Fixed Interest	Vanguard Investments Australia Ltd (passive)	7.6
Australian Equities	Vanguard Investments Australia Ltd (passive)	9.3
	Perpetual Investment Management Ltd (active)	8.1
	Ausbil Dexia Ltd (active)	8.0
	Renaissance Smaller Companies Pty Ltd (active)	2.8
International Equities	Vanguard Investments Australia Ltd (passive)	16.6
	Alliance Capital Australia Ltd (active)	6.3
	Wellington International Management Co. Pty Ltd (active)	9.7
Australian Property	AMP Capital Investors Ltd (active)	6.6
Australian Private Equity	Wilshire Australia Pty Ltd (active)	4.1

The combination of investment types is designed to achieve the return objective of CPI plus 5 per cent (net of fees) over the long term. 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 2007-08, an asset allocation of 70 per cent growth and 30 per cent defensive was maintained.

Since the beginning of the 2007-08 financial year, investment markets globally have been under extreme pressure due to the current global credit crunch, resulting from the United States sub-prime mortgage crisis, and an increasing concern that the United States economy is in the grip of a recession. The Australian investment markets, including the equity markets, are not immune to global events and the volatility in all international financial markets has been reflected in the Australian markets.

The volatility in global investment markets has had a direct and negative impact on the investment portfolio performance for the 2007-08 financial year. The estimated nominal return for the portfolio for the 2007-08 financial year is approximately negative 3.2 per cent (net of fees).

Notwithstanding the negative investment return for 2007-08, strong investment returns have been achieved over the past twelve years. The portfolio has returned an annualised real rate of return of over 6 per cent, which is in excess of the target objective of 5 per cent real (net of fees and inflation) over this time.

Table 5.1.4 illustrates the estimated asset allocation break up of the SPA investments at 30 June 2008.

Table 5.1.4
Estimated Asset Allocation

SPA Asset Allocation	Estimated Asset Allocation at 30/6/08	Long-Term Target Asset Allocation ¹
Cash	13.7%	1.0%
Australian Property	6.6%	10.0%
Australian Fixed Interest	7.2%	7.0%
International Fixed Interest (hedged)	7.6%	7.0%
Australian Equities	28.3%	30.0%
International Equities (hedged)	14.1%	15.0%
International Equities (unhedged)	18.4%	20.0%
Alternative Investments	4.1%	10.0%
Total	100%	100%

Note:

1. Current approved 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.

