

8.1 INVESTMENTS

Investments of the General Government Sector

The Territory has a strong balance sheet and holds significant financial investments. Table 8.1.1 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 8.1.1
General Government Sector Investments

Budget		Est.Outcome	Planned		Planned	Planned	Planned
30/6/12		30/6/12	30/6/13	Var	30/6/14	30/6/15	30/6/16
\$'000		\$'000	\$'000	%	\$'000	\$'000	\$'000
163,028	Cash and Deposits	212,035	203,878	-4	207,931	219,722	232,765
3,091,781	Investments, Loans and Placements	3,227,713	3,026,185	-6	3,207,833	3,490,303	3,674,909
3,254,809	Total Investments	3,439,748	3,230,063	-6	3,415,764	3,710,025	3,907,674
	Comprising:						
2,463,724	Superannuation Provision Account	2,347,629	2,505,141	7	2,662,141	2,816,305	2,967,236
58,831	Territory Banking Account	288,659	2,154	-99	2,159	1,717	12,569
117,435	Investments held on behalf of PTE Agencies	121,840	20,249	-83	25,086	113,350	116,205
314,121	ACTIA Investments	332,449	364,289	10	392,704	444,531	474,372
112,716	Home Loan Portfolio	113,405	111,228	-2	107,270	102,566	100,089
187,982	Other GGS Agency Investments	235,766	227,002	-4	226,404	231,556	237,203
3,254,809	Total Investments	3,439,748	3,230,063	-6	3,415,764	3,710,025	3,907,674

Return on Investments

Table 8.1.2 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 in this chapter.

Table 8.1.2
General Government Sector Investments

Budget 30/6/12 \$'000		Est.Outcome 30/6/12 \$'000	Planned 30/6/13 \$'000	Planned 30/6/14 \$'000	Planned 30/6/15 \$'000	Planned 30/6/16 \$'000
153,273	Total Interest Revenue (as per GGS Statement)	172,199	142,775	144,516	153,691	163,494
74,498	Less: Interest Revenue on Loans from PTEs	68,766	72,400	75,506	78,016	79,717
78,775	Total Interest Return on Investments	103,433	70,375	69,010	75,675	83,777
<u>Interest Return on Investments</u>						
3,254,809	Total Investments	3,439,748	3,230,063	3,415,764	3,710,025	3,907,674
1,723,895	Less: Non-Interest Earning Investments ¹	1,668,808	1,753,249	1,863,149	1,971,064	2,076,715
1,530,914	Total Interest Earning Investments	1,770,940	1,476,814	1,552,615	1,738,961	1,830,959
78,775	Interest Revenue	103,433	70,375	69,010	75,675	83,777
5%	Interest Return	6%	5%	4%	4%	5%
<u>Total Return on Investments</u>						
3,254,809	Total Investments	3,439,748	3,230,063	3,415,764	3,710,025	3,907,674
78,775	Interest Revenue	103,433	70,375	69,010	75,675	83,777
66,999	Dividends	120,050	66,393	64,148	68,017	71,812
3,557	Other	3,119	2,872	3,056	3,240	3,421
78,702	Market Gain/Loss on Value of Investments	-44,292	77,376	86,879	92,014	97,046
228,033	Total Investment Returns	182,310	217,016	223,093	238,946	256,056
7%	Total Investment Returns	5%	7%	7%	6%	7%

Note:

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

2012-13 Priorities

Strategic and operational priorities to be pursued in 2012-13 include:

- managing, monitoring and reviewing, as necessary, the TBA and SPA investment portfolios in accordance with established investment policies; and
- development and implementation of a Responsible Investment Policy.

Management of Investments

Treasury manages surplus cash balances of the TBA and agencies as well as investing funds in the Australian money and capital markets in line with projected cash flow requirements and established investment policies. Treasury is also responsible for the investment portfolio comprising 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.

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.

Investment Policy

Treasury's investment policies are designed to achieve an appropriate investment return within acceptable risk tolerances. Investment decisions are made on an overall risk and return analysis incorporating many factors and considerations, such as economic, financial and identified environmental, social and corporate governance risks.

Treasury aims to implement underlying investment configurations that are efficient, low cost and well diversified across asset classes, and individual investments, to cover the return spectrum and to minimise risk.

As an asset owner, and reflecting Treasury's prudent investment responsibilities, it is accepted that both financial and non-financial risks, specifically, environmental, social and corporate governance (ESG) issues, can impact on long term investment value and performance. Reflecting the relevance of ESG issues upon current investment practices, the Territory is a signatory to the Principles of Responsible Investment (PRI) in relation to the financial investment assets managed by Treasury.

Significant Investment Holdings

Territory Banking Account Investment Portfolio

The cash of the general government, not required for immediate expenditure, is invested domestically with exposures to cash, bank term deposits, bank bill securities, residential mortgage backed securities and bonds issued by the Commonwealth and State Governments and some corporate investment grade bonds. The investments are made by allocations to three externally managed funds: Cash Fund; Cash Enhanced Fund; and Fixed Interest Fund.

The estimated 2011-12 net nominal return for the total portfolio of invested funds is 5.75 per cent (original budget estimate 4.75 per cent).

The budgeted full year return (net of fees) for 2012-13 is 3.75 per cent.

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 projected defined benefit employer superannuation liability and projected cash flow requirements.

The SPA investments, currently totalling approximately \$2.3 billion, are managed by a number of specialist external institutional investment managers. The investment manager arrangements currently in place for the management of SPA assets are shown in Table 8.1.3. These managers provide either active or index (passive) investment management services.

Table 8.1.3
External Fund Manager Arrangements

Asset Class	Manager	Percentage of Portfolio¹
Cash	Macquarie Investment Management Ltd (active)	11
Australian Fixed Interest	Vanguard Investments Australia Ltd (index)	9
	Ardea Investment Management Pty Ltd (active)	4
International Fixed Interest	Vanguard Investments Australia Ltd (index)	5
Australian Shares	Vanguard Investments Australia Ltd (index)	7
	Perpetual Investment Management Ltd (active)	6
	Ausbil Dexia Ltd (active)	5
International Shares	Renaissance Smaller Companies Pty Ltd (active)	3
	Vanguard Investments Australia Ltd (index)	24
	Alliance Capital Australia Ltd (active)	4
Australian Property	Wellington International Management Co. Pty Ltd (active)	6
	AMP Capital Investors Ltd (active)	8
Australian Private Equity	Queensland Investment Corporation (active)	3
	Wilshire Australia Pty Ltd (active)	5

Note

1. Estimated allocation as at 30 June 2012

The SPA investment portfolio has a long term investment strategy based on a strategic asset allocation (portfolio allocations to cash, fixed interest, shares and property investments) with a long term average return objective of CPI plus 5 per cent per annum (net of fees). The investment asset allocation modelling also assumes that there is an expectation for negative investment returns once 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 shares) and 30 per cent of the portfolio being invested in defensive assets (such as cash and fixed interest investments). For the most part of 2011-12, an asset allocation of 71 per cent growth and 29 per cent defensive was maintained.

Investment markets have been mixed over the course of the 2011-12 financial year. The nominal return for the portfolio for 2011-12 is estimated to be in the order of 5.3 per cent (net of fees).

Incorporating this estimated outcome for 2011-12, the SPA portfolio will have returned an annualised net return of CPI plus 4.3 per cent over the past sixteen years, compared with the current target investment return objective of CPI plus 5 per cent (net of fees). In dollar terms, the SPA portfolio earnings equate to a net gain of approximately \$112 million in 2011-12.

Table 8.1.4 illustrates the estimated asset allocation of the SPA investments at 30 June 2012.

**Table 8.1.4
Estimated Asset Allocation**

SPA Asset Allocation	Estimated Asset Allocation at 30/6/12	Long-Term Target Asset Allocation Policy
Cash	11%	5%
Australian Property	11%	10%
Australian Fixed Interest	13%	20%
Global Fixed Interest (hedged)	5%	5%
Australian Equities	21%	20%
Global Equities (hedged)	17%	15%
Global Equities (unhedged)	17%	20%
Australian Private Equity	5%	5%
Total	100%	100%

Other Significant Investment Holdings

As detailed in Table 8.1.1 Total Territory investments include the investment assets of the ACT Insurance Authority. Amounts included at Table 8.1.1 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.

