ACT Government

Chief Minister, Treasury and Economic Development

INVESTMENT PLAN

FOR THE FINANCIAL INVESTMENT ASSETS

OF THE

SUPERANNUATION PROVISION ACCOUNT

MADE IN ACCORDANCE WITH THE *FINANCIAL MANAGEMENT INVESTMENT GUIDELINES 2015*
AND THE *SUPERANNUATION MANAGEMENT GUIDELINES 2015*
(“INVESTMENT 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 Investment Guidelines, the terms of the Investment Guidelines prevail.

Version Control

Version No.	Date	Comments	Approver
1	December 2018	Establish a new Individual Investment Plan for the Superannuation Provision Account following the reorganisation of the Treasury financial investment structure, replacing the Superannuation Provision Account and Territory Banking Account Investment Plan last amended June 2018.	Treasurer

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PURPOSE

This Individual Investment Plan ("Plan") is established for the financial investment assets of the Superannuation Provision Account ("SPA").

This Plan is not intended to be a detailed operational description but rather a general guide to the investment strategy for the SPA, including the investment risk and return objectives and strategic asset allocation. As changes occur over time, in relation to the financial markets or in the particular circumstances of the SPA, the Plan will be modified or refined as required.

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

LEGISLATIVE REQUIREMENTS

The SPA is established by the *Territory Superannuation Provision Protection Act 2000* (the "TSPPA"). Section 11 of the TSPPA provides that an amount in a Superannuation banking account that is not immediately needed for a purpose mentioned in section 9 of the TSPPA may be invested—

(a) on deposit with an authorised deposit-taking institution; or
(b) in Territory , State or Commonwealth securities; or
(c) in any investment prescribed by a superannuation investment guideline,

and

Transfers between the territory banking account and superannuation banking accounts to facilitate investment may be made without appropriation.

SPA moneys are invested in accordance with the provisions of Section 38 of the FMA, the *Financial Management Investment Guidelines 2015*, Section 11 of the TSPPA, and the *Superannuation Management Guidelines 2015*.

SPA DESCRIPTION AND BACKGROUND

The SPA was established in 1991 to assist the ACT Government in managing its defined benefit superannuation liabilities. It is an ACT Government account established to receive budget appropriation funding and to make payments to the Commonwealth Government in connection with the Government's defined benefit superannuation liabilities. The SPA is not a superannuation fund or scheme for ACT employees.

The financial investment assets represent funds set aside by the ACT Government to be used to pay the emerging benefits in respect of the employer component of the Commonwealth Superannuation Scheme (CSS) and Public Sector Scheme (PSS) defined benefit superannuation liabilities.

INVESTMENT RETURN OBJECTIVE

The SPA is established with the aim of accumulating financial assets to meet the ACT Government's defined benefit superannuation liability obligations.

LONG TERM RETURN OBJECTIVE

The SPA's long term investment return objective for the investment portfolio is to achieve an annualised return of CPI + 4.75 per cent (net of fees) whilst minimising the risk taken and costs incurred in achieving that outcome.

SHORT TERM RETURN OBJECTIVE

The short term investment objective for the SPA investment portfolio is to achieve a gross of fees annualised return which equals or exceeds the performance of SPA's Strategic Asset Allocation benchmark return.

INVESTMENT PERFORMANCE MEASUREMENT

Performance against the long term investment objective is measured from the 1996-97 base financial year.

Performance against the short term objective is measured on rolling financial year periods.

The long term investment objective is more important than the short term objective.

INVESTMENT RISK OBJECTIVES

It is necessary to take investment risk in order to achieve the SPA's return objectives, but there is no reward for taking more risk than required.

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 SPA.

There are several ways in which risk is defined and measured for the SPA. The primary definition of risk for the SPA 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:

- Return Objective: Achieving a probability of approximately 50 per cent of meeting the CPI + 4.75 per cent (net of fees) target return;
- Negative Returns: Recognising the likelihood of negative returns, one negative year in every three to five years is tolerable; and
- Portfolio Volatility: Volatility of returns is a reflection of 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 approximately 9-11 per cent is targeted.

STRATEGIC ASSET ALLOCATION

The following strategic asset allocation has been established on the basis that it is considered to represent an efficient portfolio (acceptable risk/return outcome) based on allowable asset classes to achieve the stated SPA investment objectives.

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.

Table 1 – SPA Strategic Asset Allocation

Asset Class	Asset Allocation	Allowable Range
Australian Cash	*5.0%*	*0.0% - 40.0%*
Australian Bonds	*7.5%*	*0.0% - 10.0%*
Australian Inflation Bonds	*5.0%*	*0.0% - 10.0%*
International Bonds (100% hedged)	*7.5%*	*0.0% - 10.0%*
Total Defensive Assets	***25.0%***	***15.0% - 45.0%***
Australian Equities	*16.5%*	*10.0% - 25.0%*
International Equities (35% hedged)	*38.5%*	*30.0% - 50.0%*
Australian Property	*10.0%*	*0.0% - 15.0%*
Infrastructure	*5.0%*	*0.0% - 10.0%*
Private Equity	*5.0%*	*0.0% - 10.0%*
Total Return Seeking Assets	***75.0%***	***55.0% - 85.0%***
Total Portfolio	***100.0%***	

LIQUIDITY MANAGEMENT

Working capital will be retained in the SPA transactional banking account for the purpose of meeting daily cash flow payments. This allows the financial investment assets to grow over time with all investment earnings re-invested, leaving the SPA investment portfolio unencumbered by the management of the cash flows associated with payments.

The cash balance of the banking account will be reviewed periodically with any cash in excess of working capital requirements transferred to the investment account.

INVESTMENT IMPLEMENTATION, GOVERNANCE AND RESPONSIBLE INVESTMENT

Refer to the *Investment Governance Policy Framework* and the *Responsible Investment Policy* for the financial investment assets managed by Treasury. The details of these policies are available at http://apps.treasury.act.gov.au/publications.