



**ACT**  
Government

Chief Minister, Treasury and  
Economic Development

## Strategic Procurement Plan Minute

PROCUREMENT OVERVIEW	
<b>To</b>	David Nicol Under Treasurer Chief Minister, Treasury and Economic Development Directorate (CMTEDD)
<b>Name of Project</b>	Strategic Procurement Plan for Fund Managers to provide Investment Management Services and Financial Investment Products.
<b>Purpose</b>	<p>To seek Government Procurement Board approval for this Strategic Procurement Plan in respect to the engagement of fund managers to provide investment management services and financial investment products to the ACT Government.</p> <p>The process outlined in this Strategic Procurement Plan is not inconsistent with the general processes adopted by other institutional investors (including the Australian Government, and semi-government investment entities and superannuation funds) in both the Australian and international financial markets.</p> <p>More details are set out in the 'Background' below.</p>
<b>Estimated value (\$)</b>	<p>Fund manager fees and investment product fees vary depending on the asset classes and the type of investment strategies applied by fund managers.</p> <p>Fees are typically a 'basis point' rate applied against the amount of funds under management by fund managers. Accordingly, actual fees payable to fund managers by the Territory will vary in line with the prevailing asset value of the investments. Furthermore, in some cases performance-based fees may be a component of the fee structures.</p> <p>Currently, fund manager and investment product fees are in the order of \$10 million per annum (or 0.20% expense ratio), based on the current amount of funds under management (~ \$5 billion).</p>

<p><b>Background</b></p>	<p>Asset Liability Management is a business unit of the Economic and Financial Group, a division of Treasury within CMTEDD.</p> <p>Asset Liability Management (referred as “Treasury”) is responsible for the development and implementation of key policies and strategies for the:</p> <ul style="list-style-type: none"> <li>(a) ACT Government’s financial investment funds (\$5 billion);</li> <li>(b) the management and funding of the Government’s borrowing program (\$6.5 billion);</li> <li>(c) managing the Government’s unfunded defined benefit superannuation liabilities (\$8 billion);</li> <li>(d) management of the Territory’s ‘public’ account cash flows; and</li> <li>(e) and financial accountability and reporting in relation to the investment, borrowing and superannuation liability functions.</li> </ul> <p><b><i>Financial Investments Management and Governance</i></b></p> <p>Treasury manages the majority of the Territory’s financial investment assets through the Territory Banking Account. Investment funds from relevant directorates and Territory authorities (agency investors) are pooled together under a centralised investment platform which provides a number of different investment options designed to meet specific investment objectives.</p> <p>The financial assets are managed in accordance with the individual investment plans of approved agency investors (<a href="https://apps.treasury.act.gov.au/publications">https://apps.treasury.act.gov.au/publications</a>). Each investment plan takes into consideration the particular circumstances of the agency when formulating the appropriate investment objectives.</p> <p>The financial investment assets are managed in accordance with a Treasurer approved governance framework (<a href="https://apps.treasury.act.gov.au/_data/assets/pdf_file/0007/1295035/Investment-Governance-Framework.pdf">https://apps.treasury.act.gov.au/_data/assets/pdf_file/0007/1295035/Investment-Governance-Framework.pdf</a>) and the Government’s overarching responsible investment policy framework (<a href="https://apps.treasury.act.gov.au/_data/assets/pdf_file/0008/1295045/ResponsibleInvestmentPolicy.pdf">https://apps.treasury.act.gov.au/_data/assets/pdf_file/0008/1295045/ResponsibleInvestmentPolicy.pdf</a>).</p> <p>The centralised legislative, governance and control structure has been established for a number of purposes including:</p> <ul style="list-style-type: none"> <li>• Consistent application of the Responsible Investment Policy and investment governance;</li> <li>• Single ACT entity with financial market presence;</li> <li>• Legislative compliance;</li> <li>• Economies of scale, efficiencies and systems; and</li> <li>• Consistency around financial reporting and budgeting.</li> </ul> <p>The key governance arrangements include:</p> <ul style="list-style-type: none"> <li>• The Treasurer has the ultimate responsibility for approving the high-level strategic investment policies.</li> <li>• The Under Treasurer has responsibility for investment governance, implementation, and operational management activities.</li> </ul>
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- Operational investment decisions and authorisations are made by the relevant Treasury officials in accordance with their financial delegations.
- The Treasurer appoints a non-statutory Investment Advisory Board to provide advice in relation to matters associated with the financial investment assets managed by Treasury.
- Treasury engages the services of an investment consultant to provide advice and investment services in relation to the management of the financial investment assets.
- Investments are managed by the engagement of investment managers under an investment management agreement or relevant trust deed, accompanied by (as relevant) a product disclosure statement, information memorandum, subscription agreement, or combination thereof.
- Treasury engages a custody and investment administration services provider which allows for the segregation of duties by separating the investing function undertaken by the investment managers from the safe keeping of assets, transaction settlement, record keeping and reporting of investment activities.

The responsible investment policy framework recognises that financial, environmental, social and corporate governance risks can all impact on the long-term sustainability and performance of investments.

The implementation of the financial investment strategies is implemented using specialist external fund managers and investment products. Therefore, the selection and appointment of fund managers and investment products is a critical component of managing the investment of Territory funds.

Where the Treasury elects to invest directly into a managed fund/unlisted unit trust product, advice has been provided by the Government Solicitor that this activity will be subject to the provisions of section 38 of the *Financial Management Act 1996* and **will not** be a procurement for the purposes of the *Government Procurement Act 2001*. However, it is intended, as far as is practically possible, that a consistent and transparent process is adopted in respect of the appointment of all fund/investment managers and selection of investment products.

There are thousands of fund managers and investment products (in aggregate) globally that may (or may not) be suitable for appointment by Treasury to manage the Territory's investment funds.

Treasury does not have the resources or infrastructure to conduct the required level of research and due diligence to assess all potential fund managers and investment products. Likewise, the Territory's public tender process is not suitable for procuring fund managers or investment products as it does not provide a targeted reach to the significant range and numbers of fund managers and investment products globally.

Treasury engages the services of a financial market expert in investment issues (Investment Consultant) to assist Treasury, amongst a range of services, with fund manager and investment product searches and

evaluations, and ongoing review and analysis of fund managers and associated investment products. The key investment consulting services provided by the Investment Consultant include: investment strategy, fund manager evaluation, selection and monitoring, policy and governance, and portfolio construction.

The Investment Consultant is selected and appointed under a separate public tender process.

Recognising the need to establish a purpose fit procurement process that is consistent with relevant Territory legislation (including the *Government Procurement Act 2001*) and procurement policies, supporting the effective implementation and management of the Territory's financial investment assets, a strategic procurement plan (as provided for under section 11(1) of the *Government Procurement Regulation 2007*) for the selection and engagement of fund managers was first established (and endorsed by the Procurement Board) in 2003 (GPB105/2003). The Plan has been subsequently updated and endorsed in:

- 2008 (GPB 614/08: Strategic Procurement Plan for Fund Managers to Provide Investment Management Services); and
- 2014 (GPB 580: Strategic Procurement Plan - Investment Management Services and Financial products).

Treasury considers the current arrangements for the procurement of investment management services and investment products under the existing strategic procurement plan are sound and meet Treasury's objectives.

The current endorsed Plan however, was only approved for a period of five-years, subsequently, a new Plan has been developed for consideration and approval for a further five-year term.

<b>Timing/urgency</b>	The current Plan expires in October 2019. It is critical that we have an ongoing Strategic Procurement Plan in place to support the financial investment operations.
<b>Procurement Number</b>	Not applicable
<b>Is Government Procurement Board sign off required?</b>	Yes. As required by s11 of the <i>Government Procurement Regulation 2007</i> , an endorsed strategic procurement plan means a procurement plan that has been endorsed by the board as a strategic procurement plan.
<b>Is ACT Government Solicitor (ACTGS) Government consultation required?</b>	The ACT Government Solicitor has been consulted in relation to this Strategic Procurement Plan and will be consulted, as required, on each occasion a new fund manager or investment product is to be contracted or subscribed to (respectively) by the Territory.  The ACT Government Solicitor has developed a range of investment agreement templates for use by Treasury when new contractual arrangements are to be established and these are reviewed and updated regularly.
<b>PROCUREMENT REQUIREMENTS</b>	
<b>Objective or scope of works or services to be provided</b>	The engagement of fund managers to provide investment management services and financial investment products to Treasury.
<b>Contract Type</b>	When appointing a fund manager to provide investment management services, an investment management agreement based on a template prepared by the ACT Government Solicitor will be used.  When investing in managed fund products and unlisted unit trust structures, the investment will be subject to the applicable Trust Deed/Constitution/Product Disclosure Statement.
<b>Funding</b>	The <i>Financial Management Act 1996</i> provides that any fees or expenses reasonably incurred in making or managing an investment of public money may be deducted from the investment. Therefore, there is in effect a standing appropriation available to meet investment fees and expenses.
<b>Consultation (including pre-tender and on-site)</b>	Not Applicable.

<b>PROCUREMENT POLICIES AND PRACTICES</b>	
<b>Small to Medium Enterprise (SME) Opportunities</b>	Not applicable. The required financial investment fund managers and investment products are provided by global institutional investment management organisations.
<b>Canberra Region Local Industry Participation Policy (LIPP)</b>	Not applicable. The required financial investment fund managers and investment products are provided by global institutional investment management organisations.
<b>Sustainable Procurement</b> What are the key sustainability risks and opportunities that will be addressed through this procurement?	Nil. Not applicable.
<b>Social Procurement</b> Is this suitable to be a Social Procurement?	No. Not applicable.
<b>Indigenous Procurement</b> Is there a Canberra Region indigenous supplier potentially able to meet requirement?	No. Not applicable.
<b>PROCUREMENT RISK</b>	
<b>Risk</b>	The level of risk in relation to the procurement of fund managers to provide investment management services and investment products is assessed as LOW for the reasons set out in the Risk Assessment at <u>Attachment A</u> .

## PROCUREMENT METHODOLOGY

### Description of the procurement method to be used

The procurement of investment management services and investment products under this Strategic Procurement Plan will involve the issue of a short-form select/single select Request for Quotations (RFQs) to fund managers that have been:

- (a) recommended by the Investment Consultant, and
- (b) approved by the relevant Territory delegate.

Noting the advice of the ACT Government Solicitor that the *Government Procurement Act 2001* does not apply to the investment of funds by the Treasurer made in accordance with section 38 of the *Financial Management Act 1996*, for clarity and consistency in processes, it is the intent that where practically possible the procurement methodology set out in this section would also apply to those investments.

#### **Investment Consultant recommendation**

Treasury, in consultation with the Investment Consultant, will determine its requirement for either a new investment manager and/or access to an investment product. Examples of the fund manager/product structures include:

- (a) a fund manager that directly invests funds for the Territory under a discrete investment account structure;
- (b) a fund manager that provides a pooled trust type product that the Territory invests directly into; and
- (c) a fund-of-funds or multi manager structure.

The Investment Consultant will provide Treasury a shortlist of recommended fund managers and/or investment products (as relevant), supported with appropriate reasoning and analysis. In some instances, a shortlist may comprise a single recommended fund manager or investment product.

Examples of the supporting analysis may include:

- (a) a summary of other fund managers and/or investment products considered and the reasons for their non recommendation;
- (b) an analysis of each fund manager's skills and experience, including key issues such as business management, people, culture and environment, investment philosophy, investment processes, special attributes, and performance;
- (c) the Investment Consultant's ratings for fund manager from its proprietary rating system;
- (d) an analysis of the type of mandate (i.e. pooled trust, discrete, fund-of-funds, or combination thereof) and/or investment products offered by the fund manager;
- (e) if more than one fund manager/product is recommended, a preferred ranking of the shortlisted fund managers/product; and
- (f) indicative fees.

***Territory evaluation process***

Treasury will:

- (a) review the recommendation analysis provided by the Investment Consultant;
- (b) seek approval from the Under Treasurer (or Director-General or other delegate) for a select/single select procurement process to be conducted (s10 of the *Government Procurement Regulation 2007*, regardless of whether an investment management service is being sourced or there will be a direct investment into a managed fund);
- (c) issue a select/single select RFQ to the fund manager(s) recommended by the Investment Consultant. Examples of the types of information that may be sought, noting that the questions/assessment criteria will vary depending on the type of fund manager, product or structure being considered, is described as follows:
  - i. compliance with the Territory's legislated investment guidelines;
  - ii. investment management processes, including the use of financial derivatives, and associated reporting processes;
  - iii. compliance processes and systems;
  - iv. investment decision making processes, including segregation of responsibilities, key decision makers, any conflicts of interest, and alignment of interests with clients;
  - v. consideration of environmental, social and government (ESG) factors in the decision-making processes;
  - vi. client servicing;
  - vii. key personnel, including business and client servicing and investment professionals;
  - viii. samples of reporting and any research available to clients;
  - ix. description of client access web systems (if any);
  - x. agreement to the Territory's confidentiality and conflict of interest requirements;
  - xi. details of organisation ownership and business structure, and relevant licensing (e.g. Australian Financial Services Licence);
  - xii. insurance arrangements (i.e. public liability and professional indemnity insurance);
  - xiii. fund manager's risk management statement/plan and derivatives risk statement or equivalents thereof;
  - xiv. fees for the provision of the investment management services and/or investment product.

	<p>(d) provide the Delegate, Under Treasurer (or Director-General or other authorised delegate) with an evaluation report and recommendation of the preferred fund manager and/or investment product (as relevant);</p> <p>i. noting any approval by the Delegate for an appointment under the <i>Government Procurement Act 2001</i> will be made in accordance with s10 of the <i>Government Procurement Regulation 2007</i> or for a non-procurement investment, in accordance with section 38 of the <i>Financial Management Act 1996</i>.</p> <p>(e) subject to the delegate approval, undertake the necessary negotiation and contracting arrangements; and</p> <p>(f) in some circumstances (e.g. change in ownership of a legal entity where the Investment Consultant recommendation of the fund manager is maintained), conduct a short-form due diligence and risk assessment, under a single select procurement approval, as opposed to conducting a select/single select RFQ process</p>
<b>Evaluation</b>	A methodology, evaluation plan and proposed Tender Evaluation Team will be developed by Treasury and will be approved by the Delegate prior to commencing each investment/procurement process.
<b>TENDER EVALUATION TEAM</b>	
<b>Statement on team composition</b>	<p>Evaluation teams will be established on an as required basis and will comprise staff from Asset Liability Management, specifically, the Executive Branch Manager, Senior Director and Director.</p> <p>Asset Liability Management staff have the required technical knowledge and detailed understanding of the investment functions. The required level of expertise is limited to the Asset Liability Management business unit within Treasury.</p>

<b>CONTRACT MANAGEMENT</b>	
<b>Number of contracts</b>	The number and type of relevant legal documentation in relation to appointed fund managers and/or investments in managed fund will vary.
<b>Type of Agreement</b>	When appointing a fund manager to provide investment management services, an investment management agreement based on a template prepared by the ACT Government Solicitor will be used.  When investing in managed fund products and unlisted unit trust structures, the investment will be subject to the applicable Trust Deed/Constitution/Product Disclosure Statement.
<b>Contract management</b>	The management of fund manager agreements and the monitoring of investment exposures is undertaken by Asset Liability Management staff in consultation, as required, with the ACT Government Solicitor.
<b>Period of contract(s)</b>	Variable subject to the contractual arrangement. <i>Investment Management Agreements</i> Typically, a 5-year term; however, this will be assessed on a case-by-case basis. <i>Managed Fund Investments</i> A unit trust structure involves the direct investment by the Territory into a particular trust or fund. There is, generally, no 'term' associated with a unit trust structure - that is, a unit trust structure is open until funds are withdrawn or it is closed.
<b>AUSTRALIAN FREE TRADE AGREEMENTS (FTAs)</b>	
<b>Does the AUSFTA / Australia-Chile FTA apply?</b>	No - select tenders.
<b>AUSTRALIAN GOVERNMENT FUNDING</b>	
<b>Is there Australian Government funding attached to this procurement?</b>	No.

SHARED SERVICES PROCUREMENT RECOMMENDATION			
<b>Project Officer</b>	Phil Slater	<b>Signature</b>	
		<b>Date</b>	
		<b>Phone Number</b>	70229
<b>Manager</b>		<b>Signature</b>	
		<b>Date</b>	
<b>Director</b>	Dom Kraljevic		
<b>Executive Director</b>		<b>Signature</b>	
		<b>Date</b>	
AGENCY ENDORSEMENT			
<b>Name</b>	Patrick McAuliffe	<b>Phone Number</b>	70187
<b>Position</b>	Executive Branch Manager – Asset Liability Management		
<b>Signature</b>		<b>Date</b>	

DIRECTOR GENERAL/DELEGATE APPROVAL			
<b>Name</b>	David Nicol		
<b>Position</b>	Under Treasurer		
<b>Statement</b>	This Procurement Plan (including its attachment) is approved.		
<b>Signature</b>		<b>Date</b>	