



ACT
Government

Chief Minister, Treasury and
Economic Development

INVESTMENT PLAN

FOR THE FINANCIAL INVESTMENT ASSETS

OF THE

PUBLIC SECTOR WORKERS COMPENSATION FUND

MADE IN ACCORDANCE WITH THE *FINANCIAL MANAGEMENT INVESTMENT GUIDELINES 2015*
("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 Guidelines, the terms of the Guidelines prevail.

Version Control

Version No.	Date	Comments	Approver
1	1 March 2019	The initial Investment Plan for the PSWC Fund	Public Sector Workers Compensation Commissioner and Treasurer

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PURPOSE

This Individual Investment Plan (“Plan”) is established for the financial investment of assets of the Public Sector Workers Compensation Fund (“PSWC Fund”).

This Plan is not intended to be a detailed operational description but rather a general guide to the investment strategy for the PSWC Fund, including the investment risk and return objectives and strategic asset allocation. As changes occur over time, in relation to financial markets or in the particular circumstances of the PSWC Fund, 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 PSWC Fund is established by the *Public Sector Workers Compensation Fund Act 2018* (the “PSWCA”). Section 14 of the PSWCA provides that an amount in a PSWC Fund banking account that is not immediately needed for a purpose mentioned in section 12 of the PSWCA 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 PSWC fund investment guideline under section 17.

Note The Treasurer may also invest an amount in a PSWC fund banking account in an investment mentioned in the *Financial Management Act 1996* (FMA), s 38.

PSWC Fund moneys are invested in accordance with the provisions of Section 38 of the FMA and the *Financial Management Investment Guidelines 2015*.

PSWCA DESCRIPTION AND BACKGROUND

On 28 November 2018, the Safety, Rehabilitation and Compensation Commission determined to grant the ACT Government a self-insurance licence under the *Safety, Rehabilitation and Compensation Act 1988*. The self-insurance licence commenced on 1 March 2019 and from this date, the ACT Government is responsible for all aspects of workers’ compensation for ACT public servants.

The PSWCA establishes supporting prudential and financial governance arrangements for the Territory’s workers’ compensation self-insurance operations.

INVESTMENT RETURN OBJECTIVE

The PSWC Fund is established with the aim of maintaining financial assets to fully fund the present and future liabilities of the ACT Government in relation to workers' compensation claims under the *Safety, Rehabilitation and Compensation Act 1988* and associated expenses.

The focus of the investment strategy is on optimising returns through effective asset-liability matching.

LONG TERM RETURN OBJECTIVE

The PSWC Fund's long term investment return objective for the investment portfolio is to achieve an annualised return of CPI+1.5 per cent to CPI+2.5 per cent while minimising the risk taken and costs incurred in achieving that outcome - a low to medium risk tolerance.

This long-term objective provides capacity to meet short term liquidity requirements.

Taking into account current market conditions versus long-term normative market conditions, an investment return assumption of 4 per cent nominal (CPI + 1.5 per cent) will be used for budget estimate purposes.

INVESTMENT PERFORMANCE MEASUREMENT

Performance against the investment return objective is measured from the commencement of PSWC Fund investments during the 2018-19 financial year.

For the purpose of measuring the investment performance of the PSWC Fund, interest earned on working capital cash held in the transactional banking account is excluded from the performance calculation.

INVESTMENT RISK OBJECTIVES

It is necessary to take investment risk in order to achieve the PSWC Fund'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 PSWC Fund.

There are several ways in which risk is defined and measured for the PSWC Fund. The primary definition of risk for the PSWC Fund 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 long-term target return of CPI+1.5 per cent to CPI+2.5 per cent;
- 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 up to a maximum of 8 per cent is targeted.

STRATEGIC ASSET ALLOCATION

The following long-term strategic asset allocation, applying to the funds held in the investment account only, 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 PSWC Fund’s 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 –Strategic Asset Allocation

Asset Class	Asset Allocation	Allowable Range
<i>Australian Cash</i>	10.0%	0.0% - 20.0%
<i>Australian Bonds</i>	22.5%	10.0% - 30.0%
<i>Australian Inflation Bonds</i>	15.0%	0.0% - 20.0%
<i>Global Bonds (100% hedged)</i>	22.5%	10.0% - 30.0%
Total Defensive Assets	70.0%	30.0% - 90.0%
<i>Australian Equities</i>	9.0%	5.0% - 15.0%
<i>International Equities (35% hedged)</i>	21.0%	10.0% - 25.0%
Total Return Seeking Assets	30.0%	10.0% - 40.0%
Total Portfolio	100.0%	

LIQUIDITY MANAGEMENT

Working capital will be retained in the PSWC Funding transactional banking account for the purpose of servicing daily cash flow payments and ensuring compliance with the Territory’s self-insurance licence. This allows the financial investment assets to grow over time with investment earnings re-invested, leaving the PSWC Fund investment portfolio largely unencumbered by the management of the cash flows associated with payments.

Periodically, the cash balance of the banking account will be reviewed with any cash determined to be excess to 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>.