



ACT
Government

Chief Minister, Treasury and
Economic Development

INVESTMENT PLAN

FOR THE FINANCIAL INVESTMENT ASSETS

OF THE

ACT INSURANCE AUTHORITY

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	December 2017	The initial Investment Plan for the ACT Insurance Authority	General Manager, ACTIA
2	December 2018	Refresh the Investment Plan to align with the reorganisation of the Treasury financial investment structure	General Manager, ACTIA and Treasurer

TABLE OF CONTENTS

PURPOSE4

LEGISLATIVE REQUIREMENTS.....4

ACTIA DESCRIPTION AND BACKGROUND.....4

INVESTMENT RETURN OBJECTIVE5

INVESTMENT RISK OBJECTIVES.....5

STRATEGIC ASSET ALLOCATION.....6

LIQUIDITY MANAGEMENT.....6

INVESTMENT IMPLEMENTATION, GOVERNANCE AND RESPONSIBLE INVESTMENT6

PURPOSE

This Individual Investment Plan (“Plan”) is established for the financial investment assets of the ACT Insurance Authority (“ACTIA”).

This Plan is not intended to be a detailed operational description but rather a general guide to the investment strategy for ACTIA, 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 ACTIA, 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

ACTIA is established under section 7 of the *Insurance Authority Act 2005*. The Authority may only invest funds in accordance with the provisions of Section 58 of the *Financial Management Act 1996*.

Section 58 of the FMA provides that funds not immediately required for the purposes of a Territory Authority may be invested by the Treasurer, for the Territory Authority, in an investment mentioned in section 38 of the FMA.

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

ACTIA DESCRIPTION AND BACKGROUND

ACTIA was established as the ACT Government’s captive insurer to provide insurance services to all ACT Government Directorates and statutory authorities, to meet the insurable claims and losses of ACT Government agencies.

ACTIA’s captive insurance model protects the ACT Government budget from a range of catastrophic and accumulated risk exposures through its reinsurance arrangements, and the accumulation of a fund reserve to meet the cost of future legal liabilities and asset losses generated through the activities of Government. ACTIA works to protect the assets and services of the Territory by providing risk management and insurance services to a large and diverse group of ACT Government client agencies and entities.

ACTIA operates on a cost recovery basis by collecting premiums from Directorates and Statutory Authorities to meet the cost of insurable claims and losses. ACTIA’s operating costs are largely driven by provisioning for future claims and current claims expense. Interest earnings from ACTIA investments also accrue to ACTIA.

INVESTMENT RETURN OBJECTIVE

ACTIA is established with the aim of accumulating financial assets to fully fund the present and likely future liabilities of ACTIA in relation to the protection of ACT Government assets and services of the Territory.

The focus of the investment strategy is on achieving the long-term funding targets of ACTIA, rather than focusing on the financial position over shorter periods.

LONG TERM RETURN OBJECTIVE

ACTIA's long term investment return objective for the investment portfolio is to achieve an annualised return of CPI+2.5 per cent to CPI+3.5 per cent while minimising the risk taken and costs incurred in achieving that outcome - a low to medium risk tolerance.

Taking into account current market conditions versus long-term normative market conditions, an investment return assumption of 5 per cent nominal (CPI+2.5 per cent) will be used for budget estimate purposes.

INVESTMENT PERFORMANCE MEASUREMENT

Performance against the investment return objective is measured from the 2018-19 base financial year.

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

INVESTMENT RISK OBJECTIVES

It is necessary to take investment risk in order to achieve ACTIA'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 ACTIA.

There are several ways in which risk is defined and measured for ACTIA. The primary definition of risk for ACTIA 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+2.5 per cent to CPI+3.5 per cent;
- **Negative Returns:** Recognising the likelihood of negative returns, one negative year in every four years is possible; 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 10 per cent is assumed.

STRATEGIC ASSET ALLOCATION

The following 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 ACTIA’s stated 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>	<i>0.0%</i>	<i>0.0% - 20.0%</i>
<i>Australian Bonds</i>	<i>20.0%</i>	<i>10.0% - 30.0%</i>
<i>Australian Inflation Bonds</i>	<i>10.0%</i>	<i>0.0% - 20.0%</i>
<i>International Bonds (100% hedged)</i>	<i>20.0%</i>	<i>10.0% - 30.0%</i>
Total Defensive Assets	50.0%	30.0% - 70.0%
<i>Australian Equities</i>	<i>15.0%</i>	<i>5.0% - 30.0%</i>
<i>International Equities (35% hedged)</i>	<i>35.0%</i>	<i>20.0% - 45.0%</i>
Total Return Seeking Assets	50.0%	30.0% - 70.0%
Total Portfolio	100.0%	

LIQUIDITY MANAGEMENT

Working capital will be retained in ACTIA’s transactional banking account for the purpose of meeting daily cash flow payments. This allows the financial investment assets to grow over time with investment earnings re-invested, leaving ACTIA’s 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 to ensure its balance is appropriate for the management of working capital requirements.

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>.