



ACT
Government

Chief Minister, Treasury and
Economic Development

INVESTMENT PLAN

FOR THE FINANCIAL INVESTMENT ASSETS MANAGED BY THE CHIEF MINISTER,
TREASURY AND ECONOMIC DEVELOPMENT DIRECTORATE

MADE IN ACCORDANCE WITH ITEM 6 OF THE *FINANCIAL MANAGEMENT INVESTMENT
GUIDELINES 2015* AND ITEM 6 OF THE *SUPERANNUATION MANAGEMENT GUIDELINES 2015*
(COLLECTIVELY REFERRED TO AS '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 2013	Review of the investment return objective and the investment strategy completed, resulting in a refresh of the Investment Plan	Treasurer
2	May 2014	Revise Plan to include both the Superannuation Provision Account and Territory Banking Account investment assets	Treasurer
3	April 2015	Revise investment governance and SAA	Treasurer
4	August 2015	Incorporating enhancements following the review of the Investment Management Guidelines (DI2015-238, DI2015-239)	Treasurer
5	November 2015	Amend Territory Banking Account investment exposures	Treasurer

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PURPOSE

This Investment Plan (“Plan”) is established for the financial investment assets under the responsibility of the ACT Chief Minister, Treasury and Economic Development Directorate (“CMTEDD”). These financial investment assets include the Superannuation Provision Account (“SPA”) and the Territory Banking Account (“TBA”).

This Plan is not intended to be a detailed operational description but rather a general guide to the investment program and policies for the financial investment assets, including the governance and oversight of the investments. As changes occur over time, in relation to the financial markets or in the particular circumstances of the SPA or the TBA, the Plan will be modified or refined as required.

This Plan is to be read, implemented and managed in conjunction with the established *Responsible Investment Policy*.

LEGISLATIVE REQUIREMENTS

Moneys comprising the SPA investment portfolio may only be invested in accordance with the provisions of the *Territory Superannuation Provision Protection Act 2000* (“TSPPA”) and any superannuation management guidelines made for section 11 of the TSPPA.

Moneys comprising the TBA investment portfolio may only be invested in accordance with the provisions of Section 38 of the *Financial Management Act 1996* (“FMA”) and any financial management guidelines made for Section 38 of the FMA.

INVESTMENT MISSION STATEMENT

The investment mission is to derive competitive financial returns, based on prudent financial and portfolio management principles, with an investment structure that is low cost, efficient to manage, and effective in deriving market-based returns. Investment decisions will be made on an overall risk and return basis incorporating many factors and considerations, including economic and financial, as well as identified environmental, social and corporate governance risks.

INVESTMENT GOVERNANCE

The Treasurer has the ultimate responsibility for approving the high level strategic investment policy. The Under Treasurer has responsibility for investment implementation and operational policy and management activities.

INVESTMENT ADVISORY BOARD AND ASSET CONSULTANT

The Treasurer may appoint a non-statutory investment advisory board to provide advice in relation to matters associated with the SPA and TBA investment portfolios. The Treasurer will establish the purpose, role, composition, process and responsibility framework for an investment advisory board.

CMTEDD engages the services of an asset consultant to provide advice and investment services in relation to the management of the SPA and TBA investment portfolios.

The Investment Advisory Board and asset consultant provide independent advice in respect of the investment strategy including the setting of investment objectives, strategic asset allocation, portfolio construction, responsible investment policy and practices, governance and other investment matters.

The Investment Advisory Board and asset consultant's advice is considered along with all other available information by CMTEDD when formulating policy positions and recommendations. CMTEDD is responsible for implementing investment policy, including governance, reporting, directing cash flows, and rebalancing, as well as procuring external service providers, monitoring service delivery and managing service provider relationships.

ENGAGEMENT OF INVESTMENT MANAGERS

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. The agreements document the relevant investment strategy, objectives and constraints, investment compliance and reporting requirements and risk management policies and procedures.

CMTEDD, in conjunction with the asset consultant, monitors the performance of the investment managers of their obligations and ensures that investment managers comply with their obligations.

Each investment manager (or fund) must provide an independent audit report attesting to internal controls and the operating effectiveness of controls for the investment management services provided in accordance with applicable and relevant auditing standards at least annually.

ENGAGEMENT OF A CUSTODIAN

CMTEDD engages a custodian to provide investment administration services 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 custodian provides critical administration services in relation to the management of the SPA and TBA investment portfolios including: the registry and safekeeping of assets; trade settlement; income collection; corporate actions; tax reclamation; cash management; foreign exchange; unit registry; asset valuation; accounting; investment performance; and compliance reporting.

The custodian must provide an independent audit report attesting to internal controls and the operating effectiveness of controls for the investment administration services provided in accordance with applicable and relevant auditing standards at least annually.

INVESTMENT BELIEFS

The investment beliefs, developed in conjunction with the asset consultant and Investment Advisory Board, form the core framework for developing investment management policies and for making investment decisions in relation to the financial investment assets under the responsibility of CMTEDD.

Belief 1:	Beta (market-related risk) is the principal driver of investment returns for the investment portfolio.
Belief 2:	The equity risk premium will be the major driver of returns above the risk-free rate, but the investment strategy will seek to exploit other risk premia such as the credit, illiquidity and term premia.
Belief 3:	Alpha (manager skill) is a secondary driver of investment returns, and will only be used where there is a high level of conviction in the manager's ability to add value on a net of fees basis.
Belief 4:	It is necessary to take investment risk in order to achieve the return objectives, but there is no reward for taking more risk than required.
Belief 5:	Risk should be viewed both qualitatively and quantitatively and particular focus given to the nature and likelihood of extreme events that can negatively impact the reputation of the ACT Government.
Belief 6:	The primary definition of risk for the investment portfolio is the likelihood of negative returns. The extent of negative returns and volatility of absolute returns are considered secondary risk measures.
Belief 7:	Diversification amongst investment managers, asset classes and individual securities is an important part of managing investment risk.
Belief 8:	The ACT Government and CMTEDD will have regard to environmental, social and governance factors when determining the investment policies and strategies for the investment portfolio.
Belief 9:	As an asset owner 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.
Belief 10:	Companies that best manage ESG risks, impacts, and opportunities, should be more financially sustainable in the long term and should deliver better long-term performance.
Belief 11:	Companies that are unwilling or unable to take important ESG issues into consideration may put the company's reputation at risk, cause loss of market opportunities or diminish company value.
Belief 12:	The success of the investment outcomes will be directly related to the strength of investment governance arrangements.
Belief 13:	Costs and fees are an important consideration and all investment opportunities will be evaluated on a net of cost and fees basis.

RISK MANAGEMENT

The overarching risk management principle recognises that it is necessary to take investment risk in order to achieve the return objectives, but there is no reward for taking more risk than required.

In general the investment strategies adopted will be the main influence on the returns generated. Investment strategies are primarily influenced by the investment objectives and the time horizon over which these are to be achieved.

The investment strategy requires a significant proportion of the investments to be held in assets carrying market risk, resulting in volatility of returns over shorter periods. Diversification amongst investment managers, asset classes and individual securities is an important part of managing investment risk.

INVESTMENT RISKS

Market Risk

Market risk is the risk of losses due to factors that affect the overall performance of financial markets.

The exposure to market risk is a result of the investment strategy and asset allocation prescribing investments across certain asset classes. Exposure to a wide range of assets will be held with the expectation of resultant returns exceeding the risk-free rate over the long term.

Principal exposures include: broad equity market risk; broad debt market risk, including default risk; foreign currency exposure risk; and broad asset class risk within alternate asset classes such as property and private markets.

Market risk is generally managed through: implementing a risk profile that is considered appropriate for the return objectives and time horizons based on analysis of the risk and return characteristics of the potential investible asset classes; diversification between asset classes to spread risk exposure; and ongoing assessment of risk exposures taking into consideration prevailing market conditions and economic outlook.

Investment Manager Risk

Investment manager risk is the risk that the appointed investment manager may fall short of the objectives for which they are appointed.

Investment managers may be appointed to deliver the equivalent of a particular market return (beta) or to outperform a particular market return (alpha). Investment manager risk is generally managed by: extensive due diligence, evaluation and rating assessment by the appointed asset consultant recommending the most suitable investment managers for use by the Territory; ongoing monitoring and assessment of investment managers by the asset consultant to ensure there is sufficient conviction that each manager will continue to meet

their investment objectives and operate within their investment constraints; and diversification in the use of investment managers by the Territory.

Credit Risk

Credit risk (or counterparty risk) is the risk of default by the counterparty on its contractual obligations.

Risk exposures are to remain within approved exposure limits based on the credit ratings of financial instruments and counterparties set out within the strategy, objectives and constraints permitted by individual investment management agreements or trust deeds as relevant, as agreed by CMTEDD.

Appointed managers of investments are required to ensure: credit quality within the manager's portfolio is within agreed guidelines; the exposure to different tiers of credit are within agreed guidelines; the maximum permitted exposure to any one issuer is within agreed guidelines; and the long-term debt of all entities in which the manager invests is either rated by an approved rating agency or, if it is not rated, is limited to the maximum permitted exposure to such debt.

Liquidity Risk

Liquidity risk is the risk that a security or asset cannot be traded (sold) when required, or the price achieved is materially different from the quoted price, or short term financial obligations are unable to be met when required.

Investment strategies are primarily influenced by the investment objectives and the time horizon over which these are to be achieved therefore providing for illiquidity in relevant circumstances as well as allocations to liquid asset classes as required.

Liquidity risk is generally managed by: maintaining adequate levels of operational and investment liquidity; appropriate diversification of asset classes and security holdings; limiting maximum investment exposures to illiquid asset classes or assets; and setting appropriate limitations on security holdings or assets in the investment management agreements.

OPERATIONAL RISK

Operational risk arises in the event of deficient or unsuccessful internal processes, people resources (both internal and external) and systems or from external events.

Operational risk is reduced by: segregation of duties achieved by separating the investing function undertaken by the investment managers from the transaction settlement, recording and reporting of investment activities which is undertaken by the custodian; and requiring investment managers and the custodian to provide third party covenants or assurances against certain events, have in place insurance arrangements to cover claims in those events, annually confirm the existence and effectiveness of internal controls and procedures, as well as to provide for regular compliance reporting.

DERIVATIVES

A derivative is a financial asset or liability whose value depends on, or is derived from, other assets, liabilities or indices. Derivatives include a wide range of financial instruments such as futures, forwards, swaps, warrants and options that can be traded on an exchange or over-the-counter.

USE OF DERIVATIVES

The use of derivatives is an essential part of the investment and risk management process. Derivatives may be used for the following purposes: protecting the value, or limiting changes in value, of an investment of the investment portfolio; protecting the return on an investment of the investment portfolio; and achieving best execution and transactional efficiency in implementing an investment strategy, achieving an investment or market exposure, or in adjusting an investment strategy, investment or market exposure.

DERIVATIVE CONTROLS

The use of derivatives must be within the strategy, objectives and constraints permitted by individual investment management agreements or trust deeds as relevant.

Derivative contracts held will be valued using a mark-to-market methodology, unless otherwise specifically approved. All derivative positions must be covered by collateral in the form of cash or cash equivalents to offset the investment portfolio's exposure. There must be sufficient assets to meet potential obligations arising from the underlying exposure represented by the derivative position.

Appropriate market standard contractual arrangements such as an ISDA Master Agreement and associated Credit Support Annex must be in place between the investment manager or the Territory and the counterparty in a form satisfactory to CMTEDD.

Non over-the-counter derivatives must be traded on an exchange which has a licensed central counterparty that guarantees the financial settlement obligations of the exchange traded contracts.

To manage counterparty risk, a derivative trade must be with a counterparty that has an acceptable level of credit risk. The obligations of that counterparty may be collateralised under a credit support annex or the trade may be cleared through an acceptable central counterparty clearing house.

Each investment manager is required to have in place appropriate risk management policies and procedures, in a form satisfactory to CMTEDD. On an annual basis, each investment manager is required to provide CMTEDD with a copy of its current policies relating to derivatives usage and to certify that it is managing its derivative exposures in accordance with those policies.

SUPERANNUATION PROVISION ACCOUNT

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.

SPA INVESTMENT RETURN OBJECTIVES

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+5 per cent (net of fees) whilst minimising the risk taken and costs incurred in achieving that outcome.

Performance against this objective is measured from the 1996-97 base financial year. The Long Term investment objective is more important than the short term objective.

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.

Performance against this objective is measured on rolling financial year periods.

SPA 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 + 5 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.

SPA 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
<i>Australian Cash</i>	5.0%	0.0% - 40.0%
<i>Australian Bonds</i>	5.0%	0.0% - 10.0%
<i>Australian Inflation Bonds</i>	5.0%	0.0% - 10.0%
<i>International Bonds (100% hedged)</i>	5.0%	0.0% - 10.0%
<i>Global Investment Grade Credit</i>	5.0%	0.0% - 10.0%
Total Defensive Assets	25.0%	20.0% - 40.0%
<i>Australian Equities</i>	17.0%	10.0% - 25.0%
<i>International Equities (50% hedged)</i>	30.5%	20.0% - 40.0%
<i>Diversity (Risk Parity/Real Return)</i>	10.0%	0.0% - 15.0%
<i>Australian Property</i>	7.5%	0.0% - 10.0%
<i>Infrastructure</i>	5.0%	0.0% - 10.0%
<i>Private Equity</i>	5.0%	0.0% - 10.0%
Total Return Seeking Assets	75.0%	60.0% - 80.0%
Total Portfolio	100.0%	

SPA INVESTMENT MONITORING AND REPORTING

The activities and performance of the SPA investment assets are subject to ongoing oversight, monitoring and reporting, including: assessment of overall results relative to the stated objectives; performance of the investment managers relative to established standards and benchmarks; compliance of investments with this Plan and underlying investment mandates, with any requirements or limitations for specific investment managers and all applicable legislation; and monthly and annual financial reporting.

SPA INVESTMENT ALLOCATION REBALANCING

The primary objective of investment portfolio allocation rebalancing is to hold the portfolio's actual investment allocations within approved allocation ranges to the target strategic asset allocation – a portfolio risk control mechanism.

CMTEDD may be required to vary the dollar allocations to the underlying investment managers and investment products to maintain the desired allocation weightings.

The rebalance process utilises a tolerance range approach. As long as the portfolio asset allocations remain within specified ranges there is no need to rebalance the portfolio and incur unnecessary transaction costs. This approach is to provide the best trade-off between portfolio risk control and transaction cost minimisation over the long-term.

There will be times when the actual portfolio allocations will not align with the target strategic asset allocation. This can be due to a number of reasons, including investment market conditions and availability of suitable investment opportunities. Any new investment will be subject to appropriate due diligence, advice, positive investment case, and ability to be implemented in a cost effective and timely manner.

TERRITORY BANKING ACCOUNT

TBA DESCRIPTION AND BACKGROUND

As required by the FMA, the Treasurer must open and maintain a banking account for the purposes of the Territory. The TBA is the central or public account of the Territory.

The TBA manages the Territory's liquidity position by taking into account aggregate revenue receipts and appropriation payments of the Territory. The TBA invests surplus cash of the TBA. The TBA also manages the short term liquidity requirements of the Territory through the issuance of domestic short term commercial paper, as well as managing the long-term capital requirements of the Territory through the issuance of domestic fixed rate nominal bonds and inflation-indexed bonds in accordance with the Territory's debt issuance program.

To facilitate an efficient cash and investment management structure, a centralised investment platform facility is provided by the TBA which makes available a range of single and multi-asset class funds for Directorates and Territory Authorities to meet their specific investment objectives.

The unitised investment platform provides for very low investment management fees due to economies of scale with investment options that target market-based returns.

At the TBA's balance sheet level, cash balances and general government investment balances are a reflection of the TBA's cash management and funding role as well as being custodian of the aggregate investments balances of underlying Directorates, Territory Authorities and monies held in the Territory public account.

Investment earnings of the TBA's invested funds are retained within the TBA as an increase in publicly available funds. Investment earnings on investments made on behalf of a Directorate or Territory Authority are paid as distributions to the relevant entity where those funds are authorised to earn and retain investment earnings.

INVESTMENT RISK AND RETURN OBJECTIVES

The investment strategies adopted within the TBA investment portfolio will be primarily influenced by the investment objectives and the time horizon over which these are to be achieved.

Where there is a high reliance on the income generated and a low ability to tolerate investment risk the investment exposure is limited to defensive, income producing assets ranging from domestic money market discount securities (cash) to domestic fixed interest debt securities (bonds).

Where there is a greater tolerance for increased investment risk due to the underlying risk profile of the liabilities being funded, the investment exposure may include investment in growth asset classes (both domestic and international), for example property and shares.

The platform of single and multi asset class funds available on the TBA investment platform includes, but is not limited to:

- Cash Index Fund
- Cash Enhanced Fund
- Australian Fixed Interest Index Fund
- Australian Inflation-Linked Bond Index Fund
- Australian Corporate Fixed Interest Index Fund
- Australian Government Bond Index Fund
- International Fixed Interest Index Fund (Hedged)
- Australian Property Securities Index Fund
- International Property Securities Index Fund (Hedged or Unhedged)
- Australian Shares Index Fund
- International Shares Index Fund (Hedged or Unhedged)
- Conservative Index Fund
- Balanced Index Fund
- Growth Index Fund

TBA STRATEGIC ASSET ALLOCATION

The investment funds have been established to cater for a range of return objectives and risk tolerances for underlying investors that access the TBA investment platform.

The actual allocations made to the investment funds will reflect the investment requirements of the individual underlying investors.

TBA INVESTMENT MONITORING AND REPORTING

The activities and performance of the TBA investment assets are subject to ongoing oversight, monitoring and reporting, including: assessment of overall results relative to the stated objectives; performance of the investment managers relative to established standards and benchmarks; compliance of investments with this Plan and underlying investment mandates, with any requirements or limitations for specific investment managers and all applicable legislation; and monthly and annual financial reporting.