ACT Government

Chief Minister, Treasury and Economic Development

INVESTMENT PLAN

FOR THE FINANCIAL INVESTMENT ASSETS

OF THE

LIFETIME CARE AND SUPPORT 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	April 2016	The initial Investment Plan for the LTCS Fund	Lifetime Care and Support Commissioner
2	May 2017	Amend Strategic Asset Allocation and add an additional investment fund	Lifetime Care and Support Commissioner
3	December 2018	Refresh the Investment Plan to align with the reorganisation of the Treasury financial investment structure	Lifetime Care and Support Commissioner and Treasurer

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PURPOSE

This Individual Investment Plan ("Plan") is established for the financial investment assets of the Lifetime Care and Support Fund ("LTCS Fund").

This Plan is not intended to be a detailed operational description but rather a general guide to the investment strategy for the LTCS Fund, 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 LTCS 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 LTCS Fund is established by the *Lifetime Care and Support (Catastrophic Injuries) Act 2014* (the "LTCSA"). Clause 80 of the LTCSA provides that an amount in a LTCS Fund banking account that is not immediately needed for a purpose mentioned in clause 79 of the LTCSA may be invested—

(a) in a way that is authorised by the *Financial Management Act 1996* (the "FMA"); or
(b) in any other way prescribed by the LTCS investment guidelines, if any.

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

LTCS DESCRIPTION AND BACKGROUND

The LTCS Scheme was established in 2014 and provides on-going treatment and care to people who have been catastrophically injured as a result of a motor accident in the Australian Capital Territory, on or after 1 July 2014, on a no-fault basis.

Amendments to the LTCSA extended the LTCS Scheme to also cover private sector workers that are catastrophically injured on or after 1 July 2016 in the course of the their employment in the ACT.

The LTCS Fund will pay for treatment, rehabilitation and care for people who have been catastrophically injured in a motor accident or a private sector workplace accident in the ACT.

The LTCS Fund is funded by two levies: a levy on compulsory third-party insurance policies; and a levy on workers compensation insurers and self insurers.

Interest earnings from LTCS Fund investments also accrue to the LTCS Fund.

INVESTMENT RETURN OBJECTIVE

The LTCS Fund is established with the aim of accumulating financial assets to fully fund the present and likely future liabilities of the LTCS in relation to people who become participants in the scheme and to meet the payments needed to be made from the fund.

The focus of the investment strategy is on achieving the long-term funding of the scheme, rather than focusing on the financial position over shorter periods, particularly in the early years.

LONG TERM RETURN OBJECTIVE

The LTCS Fund'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.

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 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 2016-17 base financial year.

For the purpose of measuring the investment performance of the LTCS 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 LTCS 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 LTCS Fund.

There are several ways in which risk is defined and measured for the LTCS Fund. The primary definition of risk for the LTCS 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+2.5 per cent to CPI+3.5 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 10 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 LTCS 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
Australian Cash	*0.0%*	*0.0% - 20.0%*
Australian Bonds	*20.0%*	*10.0% - 30.0%*
***Australian** Inflation Bonds*	*10.0%*	*0.0% - 20%*
Global Bonds (100% hedged)	*20.0%*	*10.0% - 30.0%*
Total Defensive Assets	***50.0%***	***30.0% - 70.0%***
Australian Equities	*15.0%*	*5.0% - 30.0%*
International Equities (35% hedged)	*35.0%*	*20.0% - 45.0%*
Total Return Seeking Assets	***50.0%***	***30.0% - 70.0%***
Total Portfolio	***100.0%***	

LIQUIDITY MANAGEMENT

Working capital will be retained in the LTCS Funding 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 LTCS Fund investment portfolio 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.