

7.2 ACT GOVERNMENT INVESTMENTS

Overview

This chapter provides details of the Territory's investment arrangements, including investments held within the General Government Sector investment portfolio and the Superannuation Provision Account (SPA) investment portfolio.

Investments of the General Government Sector

Table 7.2.1 outlines the components of investments held by the General Government Sector.

Table 7.2.1
General Government Sector Investments

	Est. Outcome	Planned	Planned	Planned	Planned
	30/6/05	30/6/06	30/6/07	30/6/08	30/6/09
	\$'000	\$'000	\$'000	\$'000	\$'000
Cash	76 909	71 558	71 537	71 178	72 102
Current Investments	637 857	348 298	258 451	283 450	361 334
Non Current Investments	1 666 338	1 865 243	2 021 986	2 215 166	2 441 576
Total Investments	2 381 104	2 285 099	2 351 974	2 569 794	2 875 012
<i>Comprising:</i>					
Superannuation Investments	1 448 607	1 628 401	1 831 046	2 043 732	2 268 085
Territory Banking Account Investments	382 719	154 278	24 418	42 172	110 352
Investments held on behalf of PTE agencies	22 688	17 981	19 929	20 000	23 737
ACTIA Investments	106 477	137 283	152 098	154 954	164 823
Home Loan Portfolio	101 235	104 045	106 674	109 094	111 338
Other GGS Agency Investments	319 378	243 111	217 809	199 842	196 677
Total Investments	2 381 104	2 285 099	2 351 974	2 569 794	2 875 012

Return on Investments

Table 7.2.2 provides the forecast return on investments held by the General Government Sector. Further detail on investment strategies in relation to general government and superannuation investments is provided in the Significant Investment Holdings section within this chapter.

Table 7.2.2
General Government Sector Investments

	Est. Outcome 30/6/05 \$'000	Planned 30/6/06 \$'000	Planned 30/6/07 \$'000	Planned 30/6/08 \$'000	Planned 30/6/09 \$'000
Total Interest Revenue (as per GGS statement)	78 138	69 020	57 566	53 799	55 211
less: Interest payments received on loans from PTEs	20 735	21 660	21 034	20 945	20 191
Total Interest Return on Investments	57 403	47 360	36 532	32 854	35 020
<u>Interest Return on Investments</u>					
Total Investments	2 381 104	2 285 099	2 351 974	2 569 794	2 875 012
less: non-interest earning investments*	1 447 094	1 626 868	1 829 509	2 042 190	2 266 537
Total interest earning investments	934 010	658 231	522 465	527 604	608 475
Interest Revenue	57 403	47 360	36 532	32 854	35 020
% Interest return	6%	7%	7%	6%	6%
<u>Total Return on Investments</u>					
Total Investments	2 381 104	2 285 099	2 351 974	2 569 794	2 875 012
Interest Revenue	57 403	47 360	36 532	32 854	35 020
Dividends	17 013	19 287	21 686	24 427	24 427
Market Gain/Loss on Value of Investments	124 216	85 840	108 492	121 042	137 162
<i>sub-total Investment returns</i>	198 632	152 487	166 710	178 323	196 609
% Total Investment return	8%	7%	7%	7%	7%

* such as shares and property investments, and unitised cash/fixed interest investments for which income is recorded as gains/losses.

Management of Investments

The Department of Treasury, through the Central Financing Unit (CFU), manages the surplus cash balances of the ACT and invests funds in the money market within projected cash flow requirements and established investment policies. The Department, through the Superannuation Unit, is responsible for the investment portfolio representing the total assets set aside for the Superannuation Provision Account (SPA).

The CFU and Superannuation Unit utilise the services of an independent external Finance and Investment Advisory Board and an investment consultant to develop and implement investment objectives, strategies, benchmarks, funds manager research and appointment and other general investment advice as required.

The Territory currently has a contractual arrangement with JP Morgan Chase to provide master custodian services to the Territory, including safekeeping, settlement, derivatives clearing, valuation of investments, accounting reconciliations, accounting reporting, mandate compliance reporting, performance measurement, performance reporting, audit, performance attribution, transition of assets and taxation equivalent reporting.

The key initiatives for 2005-06 are to undertake:

- a strategic asset allocation review of the SPA investments and implement any changes to the investment portfolio structure as required; and
- policy research and development for the implementation of continuous value-add investment strategies for all Territory financial investment assets.

Significant Investment Holdings

General Government Investment Portfolio

The cash of the general government, not required for immediate expenditure, is currently invested in a cash enhanced fund and a domestic fixed interest fund. These investment funds comprise the cash balance from the Territory Banking Account and the cash held by Government Departments. Territory Authorities have the option of transferring funds to the CFU for inclusion in the pooled investment arrangement.

The cash enhanced fund is managed by Macquarie Investment Management Limited, and the domestic fixed interest fund is managed by Vanguard Investments Australia Limited.

The key investment objectives of these funds are shown below.

Cash Enhanced Fund

The investment objectives for this fund are specified in the following table:

**Table 7.2.3
Investment Objectives – Cash Enhanced Fund**

Benchmark	UBS Australian Bank Bill Index
Outperformance Target	Benchmark + 0.10% p.a. (before fees) over rolling 1 year periods
Tracking Error	No greater than 0.10% p.a.
Duration Range	Benchmark \pm 1 years

Domestic Fixed Interest Fund

The investment objectives for this fund are specified in the following table:

**Table 7.2.4
Investment Objectives – Domestic Fixed Interest Fund**

Benchmark	UBS Australian Composite Bond Index
Outperformance Target	Benchmark (before fees) over rolling 1 year periods
Tracking Error	No greater than 0.20% p.a.
Duration Range	Benchmark \pm 2 years

The estimated nominal return (net of fees) for the cash enhanced fund for the 2004-05 financial year is 5.92%. The estimated nominal return (net of fees) for the Fixed Interest Fund for the 2004-05 financial year is 5.29%.

The low Fixed Interest Fund return during 2004-05 is mainly due to rising domestic interest rates, impacting on market prices and hence reducing the market value of bonds held.

It is estimated that the full year returns (net of fees) in 2005-06 will be in the order of 5.92% for the Cash Enhanced Fund and 5.99% for the Fixed Interest Fund.

Superannuation Provision Account Investment Portfolio

Funds are set aside in the SPA to assist the Government in meeting its long-term employer superannuation obligations. These funds are invested in accordance with an established asset allocation strategy that takes into account the long-term nature of the SPA liabilities and projected cashflow requirements.

These funds, totalling approximately \$1.4 billion, are managed by a number of specialist external funds managers. The fund manager arrangements currently in place for the investment management of SPA assets are detailed below. These managers provide either active or passive investment management services.

**Table 7.2.5
External Fund Manager Arrangements**

Asset Class	Manager
Cash	Vanguard Investments Australia Limited (passive)
Australian Fixed Interest	Vanguard Investments Australia Limited (passive)
International Fixed Interest	Vanguard Investments Australia Limited (passive)
Australian Equities	Vanguard Investments Australia Limited (passive) Perpetual Investment Management Limited (active) WESTLB Asset Management(Aust) Pty Ltd (active) Renaissance Smaller Companies Pty Ltd (active)
International Equities	Vanguard Investments Australia Limited (passive) Alliance Capital Australia Limited (active) Wellington International Management Co. Pte Ltd (active)
Australian Property	Colonial First State (active) AMP Capital (active) Queensland Investment Corporation (active)
Australian Private Equity	Wilshire Australia Pty Ltd (active)

The long-term Strategic Asset Allocation (SAA), consistent with the long-term investment objective of an average 5% (net of fees) real return per annum over the long-term, equates to 85% of the portfolio invested in growth assets (such as equities and property) and 15% of the portfolio being invested in defensive assets (such as cash and fixed interest investments).

For the most part of 2004-05, an asset allocation of 68% growth and 32% defensive was maintained. Funds manager arrangements for the Property and Private Equity (Alternative) Investment asset classes have been finalised, but significant cash allocations are yet to be made. Due to the illiquid nature of these asset classes, cash is allocated on a progressive basis. As such, there will be a continued higher exposure to cash for this proportion of the SAA until the cash is fully drawn.

The key investment objective of the SPA is to achieve a long-term annual rate of return averaging 5% real (net of fees). The 2004-05 financial year has seen good returns from domestic and global equity markets that commenced when these markets recovered in 2003-04. The real rates of return assumptions used for the 2005-06 Budget are 4.5% in 2005-06 and 5% thereafter.

The estimated nominal return for the portfolio for the 2004-05 financial year is 11% reflecting the improvement in the financial markets.

The following table (7.2.6) illustrates the estimated asset allocation break up of the SPA at 30 June 2005.

Table 7.2.6
Estimated Asset Allocation

Asset Allocation - Superannuation Investment Portfolio	Estimated Asset Allocation at 30/6/05	Long-Term Target Asset Allocation
Cash	19.1%	1.0%
Australian Property	1.7%	10.0%
Australian Fixed Interest	6.7%	7.0%
International Fixed Interest (hedged)	6.7%	7.0%
Australian Equities	31.8%	30.0%
International Equities (hedged)	14.9%	15.0%
International Equities (unhedged)	19.0%	20.0%
Alternative Investments	0.1%	10.0%
Total	100%	100%

Other Significant Investment Holdings

Investments of the ACT Insurance Authority are also managed by the Central Financing Unit. Amounts included at Table 7.2.1 identify the increasing allocation of claims provisioning to cover future liabilities. For example, as medical malpractice and public liability claims can take a number of years to be paid, these funds can be set aside for investment purposes.

Another significant investment holding is that of the Home Loan Portfolio, also managed by the Central Financing Unit. The level of investment reflects the repayment of home loans by clients, which are used to offset and repay historical debt relating to the original financing of the Home Loan Scheme.

