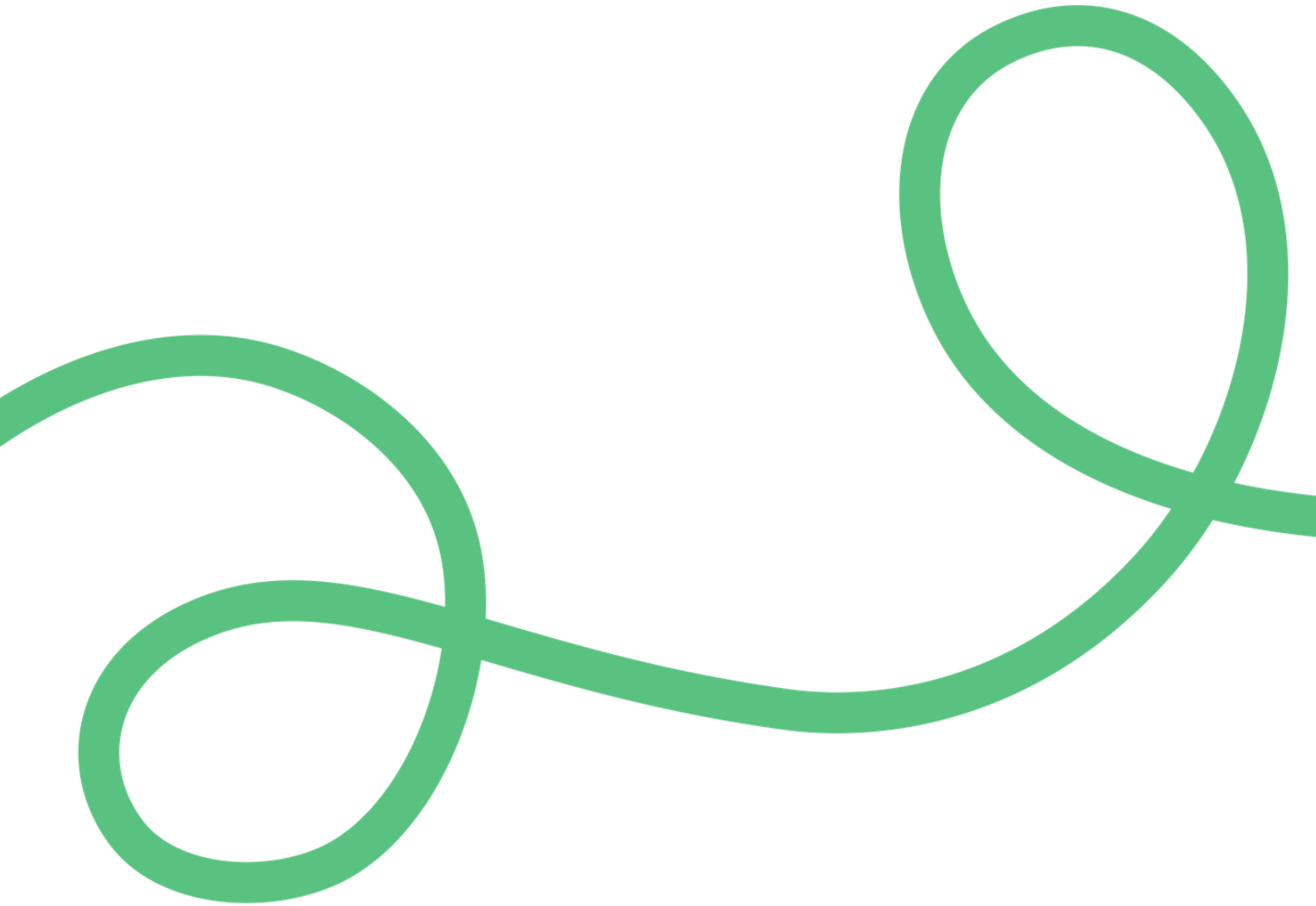
Investment Plan 2024

ACT Leave



ACT Leave acknowledge the Ngunnawal people as traditional custodians of the ACT and recognise any other people or families with connection to the lands of the ACT and region. ACT Leave acknowledge and respect their continuing culture and the contribution they make to the life of this city and this region.

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Investment Plan for the Financial Investment Assets of the Long Service Leave Authority ("ACT Leave")

This Investment Plan ("the Plan") is made in accordance with the *Financial Management Investment Guidelines 2015* (the "FMA 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 FMA Guidelines, the terms of the FMA Guidelines prevail.

Executive Summary

The key features of the Plan are:

- a return objective to exceed Average Weekly Ordinary Time Earnings ("AWOTE") by 2.5% per annum over rolling 5-year periods across all Schemes;
- performance is also monitored against the Consumer Price Index ("CPI") + 3.5% per annum for additional context on whether the portfolios are performing to expectations;
- risk tolerance:
  - potential negative returns in investment portfolios of 1 year in every 4 years; and
  - ex-ante portfolio volatility of up to 10% p.a. under normal risk assumptions;
- a liability matching objective targeting an Accrued Benefit Reserve Index ("ABRI") of 110% for all Schemes over rolling 5-year actuarial forecasts;
- a strategic asset allocation ("SAA") to growth assets of 65% and income assets of 35%;
- passive external management of the financial investment assets other than for cash at bank which is managed internally;
- a rebalancing policy to focus on growth/income asset allocation within stated tolerances; and
- financial investment assets invested in line with ACT Leave's Responsible Investment Guidelines.

Purpose

This Plan is not intended to be a detailed operational description but rather a general guide to the investment strategy for ACT Leave, including the investment risk and return objectives, and strategic asset allocation. As changes occur over time, in relation to the financial markets or the particular circumstances of ACT Leave, the Plan will be modified or refined as required.

Legislative Requirements

ACT Leave is established under the *Long Service Leave (Portable Schemes) Act 2009* (the "Act"). The payment of long service leave is financed through employer levy contributions and the investment earnings made on the accumulated balance of those contributions, after long service leave claim payments.

ACT Leave may only invest funds in accordance with the provisions of Section 58 of the *Financial Management Act 1996* ("FMA"), and the *Financial Management Investment Guidelines 2015 ("*FMA Guidelines").

- Section 58(1)(c) of the FMA provides that funds not immediately required for the purposes of a territory authority may be invested "in an investment prescribed for this paragraph".
- Section 5 of the FMA Guidelines sets out the Prescribed Investments.
- Section 7 of the FMA Guidelines requires that investments made under Section 58(1)(c) of the FMA must be made in accordance with a Treasurer approved Investment Plan.

Description and Background

ACT Leave is responsible for administering the schemes covered by the Act (the "Schemes"). The current Schemes are:

- Building and Construction Scheme;
- Contract Cleaning Scheme;
- Community Sector Scheme; and
- Security Industry Scheme.

On 29 March 2023, the ACT Legislative Assembly passed the *Long Service Leave (Portable Schemes) Amendment Act 2023*, which expands portable long service leave schemes in the ACT to additional industries. The new Services Industry Scheme, incorporating the existing Contract Cleaning Scheme, is due to commence in April 2025, and will cover contract cleaning, hairdressing and beauty, and accommodation and food services.

Under the Act, ACT Leave is not a Territory instrumentality and does not represent the Territory. ACT Leave's statutory administrative functions under the Act are to:

- administer portable long service leave schemes established by the Act;
- make long service leave payments;
- maintain a register of employers, employees and contractors; and
- exercise any other function under the Act or by any other Territory law.

ACT Leave's primary stakeholders are employers, employees and independent contractors engaged in the covered industries in the ACT. Under the National Reciprocal Agreement, ACT Leave liaises with similar portable long service leave organisations in other jurisdictions, in relation to employees' interstate long service leave entitlements and their claim payments.

Investment Strategy

The investment strategy is focused on achieving the long-term funding targets of ACT Leave, rather than the financial position over shorter periods.

In considering the return targets for the Schemes, ACT Leave takes into account the current Accrued Benefit Reserve Index (ABRI) funding levels of all Schemes, the employer contribution rates and the duration of the Schemes' liability profiles. ACT Leave, in conjunction with the consulting actuary, seeks to:

- maintain adequate levels of Scheme funding;
- minimise the required contribution of employers; and
- consider sequencing risks that accompany investment portfolio volatility.

Investment Return Objective

To manage efficient Schemes, ACT Leave considers the return targets should exceed AWOTE increases by a margin that compensates for both the cost of running the Schemes and a real premium. A 2.5% per annum real return above AWOTE over 5 years is considered by ACT Leave as an appropriate return target that aims to preserve and enhance the purchasing power of employer contributions, whilst maintaining the security of employee benefits.

Time Horizon

Due to the long-term nature of the liabilities the investment strategy time horizon is considered long-term, or greater than 5 years.

The investment strategy risk and return objectives are considered over a 5-year time horizon.

Investment Risk Objectives

It is necessary to take investment risk to achieve ACT Leave'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 Schemes.

The incorporation of a maximum risk target for the Schemes balances the desire for high real returns against the higher uncertainty that results from higher growth asset portfolios, thereby ensuring the portfolios are managed in a prudent and responsible manner. Risk considerations are forward looking i.e. based on forward risk projections, as market risk has fluctuated historically, and short-term historical risk constraints may result in portfolio actions that are not in the interest of Scheme participants.

It is expected that investment asset market volatility will result in portfolio volatility both above and below longer-term expectations, due to the dynamic nature of investment asset markets. This will not cause ACT Leave to propose a change in asset allocation for Scheme portfolios unless ACT Leave believes that there has been a structural change in the long-term volatility of individual investment asset markets. There are several ways in which risk is defined and measured for ACT Leave: the likelihood of negative annual returns; and the volatility of returns.

Investment Plan

There is one strategic asset allocation applied to all covered Schemes.

The Plan's key risk metrics which underpin the long-term portfolio strategic asset allocation considerations include:

- A return objective to exceed AWOTE by 2.5% per annum over rolling 5-year periods across all Schemes;
- Performance is also monitored against CPI + 3.5% per annum for additional context on whether the portfolios are performing to expectations;
- Risk tolerances:
  - potential negative returns in investment portfolios of 1 year in every 4 years;
  - ex-ante portfolio volatility of up to 10% p.a. under normal risk assumptions;
- A liability matching objective targeting an ABRI of 110% for all Schemes over rolling 5-year actuarial forecasts;
- A SAA to growth assets of 65% and income assets of 35%;
- Passive external management of the financial investment assets other than for cash at bank which is managed internally;
- A rebalancing policy to focus on growth/income asset allocation within stated tolerances; and
- financial investment assets invested in line with ACT Leave's Responsible Investment Guidelines.

Liability Profile

It is common in schemes where the benefits are independent of the investment returns to have a funding objective. This objective balances the needs of the beneficiaries to have some certainty of the schemes' ability to pay benefits against the desire of scheme funders to control the cost of benefits. The level of margin of assets over liabilities is a matter of judgement but actuarial advice[1] is that the ABRI of 110% over a five-year period would be reasonable for the Schemes administered by ACT Leave.

Investment Strategy Liquidity

The Schemes are considered to have a low liquidity requirement over the short to medium term.

Working capital is retained in ACT Leave's transactional banking accounts to meet daily cash flow requirements. Periodically the cash balance of the banking accounts is reviewed with any cash determined to be excess to working capital requirements transferred to the relevant Scheme investment portfolio.

[1] PFS Report "ACT Long Service Authority – Report on Investment Objectives and Asset Allocation" dated 11 Feb 2014.

Strategic Asset Allocation

The following strategic asset allocation has been established on the basis that it is considered to represent an efficient portfolio (lowest acceptable risk for the target return) based on allowable asset classes and the target investment objective.

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	SAA (%)	Allowable Range
Cash	3%	0%-6%
Australian Fixed Interest	11%	8%-14%
International Fixed Interest	21%	18%-24%
Total Income Assets	**35%**	**32%-38%**
Australian Equities	28.75%	25.75%-31.75%
International Equities	28.75%	25.75%-31.75%
Listed Property	7.5%	4.5%-10.5%
Total Growth Assets	**65%**	**62%-68%**
Total	**100%**	

Responsible Investment

ACT Leave considers that environmental, social and corporate governance (ESG) risks and ownership responsibilities should be incorporated in investment decision-making processes to mitigate investment risk and improve the sustainability of returns over the long term.

ACT Leave supports the use of business activity or industry exclusion-based (negative) screening to form part of the financial investment strategy supporting responsible investment.

ACT Leave's implementation of its responsible investment guidelines is achieved by the investment in its external fund manager's relevant managed fund products.

The relevant fund products for the Australian Equity and International Equity asset classes exclude the securities of companies that have a specified level of business involvement in fossil fuels, nuclear power, alcohol, tobacco, cannabis, gambling, adult entertainment, or weapons. These fund products also exclude companies that the index provider determines are involved in controversial conduct related to principles of the United Nations Global Compact.

The relevant fund product for the International Fixed Interest asset class excludes corporate and government-related issuers that have a specified level of business involvement in fossil fuels, nuclear power, alcohol, tobacco, gambling, weapons or adult entertainment. Additionally, the fund product excludes corporate and government-related issuers that have been identified by the index provider's ESG Controversies research as being directly involved in one or more very severe ongoing ESG controversies through its actions, products or operations. Issuers with the index provider's ESG rating of below "BBB" are also excluded.

The transition process to support the implementation of the responsible investment guidelines will occur largely across the 2024 year. Funds in all four Schemes' current equity and international fixed interest asset classes will be transferred to the fund managers' relevant managed fund products, as described, in equal exit size tranches each month during the transition period.

Version control

Version	Date	Approver	Comments
V1	September 2008	Sarah Schoonwater, Chair of the Governing Board, and Treasurer	ACT Construction Industry Long Service Leave Authority Investment Plan
V2	July 2013	Glenys Roper, Chair of the Governing Board, and Treasurer	The initial Investment Plan for the Long Service Leave Authority
V3	May 2014	Glenys Roper, Chair of the Governing Board, and Treasurer	Amendments to the 2013 Investment Plan
V4	May 2024	Anne O'Donnell, Chair of the Governing Board, and Treasurer	Updated Investment Plan for ACT Leave, moving to a new Investment Plan template and following a review of the Return and Risk objectives and Strategic Asset Allocation