



**PUBLIC TRUSTEE
AND GUARDIAN**

GOING PUBLIC

Issue 7 ■ March 2018

"This issue deals with the Public Trustee and Guardian for the ACT's (PTG) role as an **INVESTMENT AND FUNDS MANAGER**"



WELCOME

Welcome to the 7th edition of the Public Trustee and Guardian's newsletter 'Going Public'.

This issue deals with the Public Trustee and Guardian for the ACT's (PTG) role as an Investment and Funds Manager. Regardless as to whether PTG is charged with the care of a small cash trust for a child, or the ongoing financial management of a wealthy individual who has diminished decision-making capacity, invariably every account with PTG will have a financial asset of some sort requiring ongoing management.

This issue provides information as to how we approach the decisions surrounding a person or trust's assets as well how PTG professionally pools together client resources for cost-effective and prudent market investment.

We trust you find this edition of Going Public interesting and informative.

Andrew Taylor

PUBLIC TRUSTEE
AND GUARDIAN

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What we do

PTG has the following responsibilities:

- **Wills** - Wills for ACT residents who appoint PTG as Executor.
- **Financial Management Services** - Financial decision-making under order of the ACT Civil and Administrative Tribunal (ACAT) for persons with impaired decision-making ability.
- **Guardianship** - Decision-making in respect to personal and health care matters under order of ACAT for persons with impaired decision-making ability.
- **Estates** - Administration of deceased estates as executor or administrator.
- **Powers of Attorney** - Attorney services under Enduring Power of Attorney for financial, personal and health matters.
- **Investment/Funds Management** - Investment/funds management services Government and the community.
- **Trusts** - Trustee, manager or receiver of funds for those unable to manage their funds.
- **Unclaimed Money** - Investment of Unclaimed Money and payment of claims.
- **Confiscated Criminal Assets** - Administer forfeited or restrained assets.
- **Official Visitors** - Act as Chair and provide administrative services to Official Visitors Board.
- **GreaterGood** - Public Ancillary Fund enabling Canberra's to provide for charity in their community.

Meet our in-house Investment/Funds Management professionals

CALLUM HUGHES has a degree in Commerce and Business from Charles Sturt University as well registration as a Certified Practising Accountant (CPA). Callum undertakes the role of Principal Finance Officer at PTG and has responsibility for corporate finance, client investment and funds management.

DAVID STENHOUSE achieved a Diploma in Financial Services through FINSIA and KAPLAN specialising in investment products eg superannuation, shares and fund management. David has responsibility for developing and reviewing client investment plans.

Together,
Callum and David
collectively deal with some
\$350M-\$400M
in funds under management
much of which is made up of
Government and Community
client funds

Our Investment structure

Funds Management/Investment continues to be the cornerstone of PTG's business undertakings. PTG operates seven asset sector statutory common funds to accommodate varied client investment requirements. PTG also operates an internally managed Cash Common Fund.

At 30 June 2017, PTG had funds under management of \$373M. Client funds are invested through PTG's common funds in accordance with the Prudent Person Investment Principle' under the *Trustee Act 1925*. PTG's investment strategy and risk profiles enable tailored investment portfolios providing clients potential for a mix of capital growth, income returns and tax effectiveness.

Client (non-government) moneys held in these funds were \$193. 32M in 2016-17 compared to \$173. 28M in 2015-16. The *Public Trustee and Guardian Act 1985* permits PTG to take advantage of tax benefits accruing to trust clients by investing funds into superannuation where appropriate.

PTG's investment/funds activities are undertaken under the guidance and advice of the Public Trustee Investment Board appointed by the Attorney-General. An external asset/markets consultant, PricewaterhouseCoopers (PwC) reports on fund manager performance and provides advice and reviews to PTG and the Board.

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GOING PUBLIC

Public Trustee and Guardian Investment Board

The Board

The Board is a statutory body under s. 46 of the *Public Trustee and Guardian Act 1985* whose role is to provide expertise to ensure best practice in financial and risk management on -

- investment strategies concerning moneys held in the common funds or otherwise available for investment;
- core financial areas related to the development and management of the common funds on behalf of PTG client investors;
- distribution of income; and
- aspects of policy and its implementation to ensure that it complies with the *Public Trustee and Guardian Act 1985* and the *Trustee Act 1925*.

Membership

S. 48 of the Act requires that the Board be comprised of the Public Trustee and Guardian (Senior Member) and at least two other members appointed by the Minister for a term not longer than three years. Members are appointed on an honorary basis. Four members are currently appointed.

Asset Consultant

PTG appointed PwC in 2011 to provide asset/markets consultancy services to the Board including reports on an annual basis with a 5-yearly strategy review. In August 2016, PwC was contracted to review PTG's Investment Strategy (including a review of PTG's Cash Common Fund).

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Active vs Passive

Investment Portfolio Management

These approaches differ in how PTG places investments held in the portfolio over time. Active portfolio management focuses on outperforming the market compared to a specific benchmark, while passive portfolio management aims to mimic the investment holdings of a particular index.

All PTG Common Funds are invested in a passive investment style.

In August 2013, PTG's Investment Board considered a report by PTG on the question as to whether the Australian Equities Common Fund should remain under active management or be converted to passive management in line with all other PTG Common Funds. The main drivers for these discussions were reflective of PwC's view on the current level of manager risk

combined with PTACT's preference for passive (index focused) management of the remaining three external common funds. The review also sought to reduce fees and administration costs.

It is evident that over the period of 7-10 years prior to 2016 PTG's passive products have produced competitive performance. Over the same period active management had struggled to add value. Whilst it is expected that the next 5-10 years is likely to be more conducive for active management, this does not change the fact that passive management is attractive due to the lower fees and lower risk.

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Investment Strategy

PTG's investment strategy and risk profiles enable tailored investment portfolios, providing clients potential for a mix of capital growth, income returns and tax effectiveness. PTG seeks to maximise returns within a diversified, stable, low risk and cost effective investment strategy.

A scheduled 5-yearly review of the strategy completed in 2017 recommended a transfer of risk models into three new common funds known as Conservative, Balanced and High Growth. To minimise the impact of Capital Gains on clients, funds will be transferred from the current to the new funds in increments over two financial years.

PTG COMMON FUNDS

Cash Common Fund

Managed internally and invested in a range of bank and non-bank financial institution deposits, notes and bills of exchange. Interest returns vary with the market cash rate. The review completed in 2017, found that PTG's Cash Common Fund had outperformed the Bloomberg AusBond Bank Bill Index over the 1, 3, 5 and 7 years to 30 June 2016. The fund also outperformed three similar commercial products benchmarked against.

Australian Equities Common Fund

Invested into a managed portfolio of stocks listed on the Australian Securities Exchange.

Australian Fixed Interest Common Fund

Invested into a managed pooled trust of corporate and government bonds and floating rate notes.

Australian Listed Property Trust Common Fund

Invested into a managed pooled trust holding listed property trusts across retail, industrial and commercial sectors.

International Equities Common Fund

Invested in a hedged index trust.

Conservative Common Fund

Invested in a diversified index trust.

Balanced Common Fund

Invested in a diversified index trust.

High Growth Common Fund

Invested in a diversified index trust.



RISK PROFILES

Investments reflect individual client risk profiles as assessed and reviewed annually under the 'prudent person trustee investment principle' in the *Trustee Act 1925*. Clients of similar risk profiles are grouped into risk models for investment in appropriate allocations into the common funds.

Conservative Model Portfolio

The objective is to provide income return, moderate volatility and potential for some growth to protect the real value of the trust. It is suitable for trusts with income needs, shorter terms or conservative risk profiles.

Balanced Model Portfolio

The objective is to provide a balance between income and capital return with moderate volatility. It is suitable for medium term trusts or those with a mix of income and capital needs for beneficiaries.

Growth Model Portfolio

The objective is to attain higher long term returns in excess of inflation. A higher weighting in growth assets provides potential for superior long term returns for clients able to accept increased volatility in the short term and provides prospective tax efficiencies associated with franked dividends and capital growth.

Capital Stable Portfolio

Accounts requiring stability of capital are invested through the Cash Common Fund providing a market interest return on daily balances with funds available at call. The Cash Common Fund is suitable for cash balances and trusts of uncertain term.

Following the review completed in 2017, funds held in the fund are placed in the short term money market for periods ranging from 'at call' up to 365 days to optimise returns and to ensure the unit price is held at a steady \$1.00

PTG's Cash Common Fund

PTG's Cash Common Fund pools cash held by PTG for investment in the respect to the following matters -

- Estate matters
- Short term trusts (maturing within 12 months)
- Unclaimed moneys
- Management Order clients with only cash assets (e. g. pension)
- Power of Attorney clients with only cash assets (e. g. pension)
- Confiscated asset funds (paid out within 12 months of being received)
- Client funds received yet to be invested in the Common Fund (equities, fixed interest etc).

Being a statutory fund, it does not require registration or a constitution. PTG follows established principles for management of cash funds under trust law, the *Trustee Companies Act 1947*, the *Managed*

Investments Act 1998 (Clth) and the *Income Tax Assessment Act 1997* (Clth).

Investments are made in prime quality, highly liquid, short-term securities which have a maturity date of 12 months or less from date of acquisition and can include –

- government securities;
- deposits with an Australian bank or financial institution; or
- bills or securities endorsed or accepted without qualification by an Australian bank or financial institution.

Following the review completed in 2017, funds held in the fund are placed in the short term money market for periods ranging from 'at call' up to a 365 days to optimise returns and to ensure the unit price is held at a steady \$1.00. PTG's Cash Common Fund investment strategy is for rollovers with regular maturities.

Investment pools range in size from \$500,000.00 to \$1,000,000.00. Investments may be held for a period of twelve months, however, these investments can be redeemed if required with a 30 day waiting period as per the Basel III reforms.

The portfolio is structured for full investment with a minimum of two security maturities per week to provide for any withdrawal requirements by PTG.

On recommendation of the Public Trustee and Guardian Investment Board, for risk management purposes, PTG diversifies cash investments through a range of Authorised Deposit Taking Institutions with no more than 40% of the total fund placed with any one institution and no more than 10% with Building Society/Credit Unions and no lower than a 'BBB' rating.

Investment for Government

By instrument made under the *Financial Management Act 1996*, all trust money and other non-public money managed by ACT Government Directorates is required to be invested with PTG.

Government funds held at 30 June 2017 included -

- ACT Civil and Administrative Tribunal
- ACT Health
- ACT Health Ethics Committee
- ACT Procurement Solutions
- ACT Planning and Land Authority
- Agents Act Consumer Compensation
- Canberra Cemeteries
- Confiscated Assets Trust Fund
- Default Insurance Fund – Uninsured Employer Fund
- Default Insurance Fund – Collapsed Insurer Fund
- Motor Vehicle Dealers Compensation Fund
- Office of the Nominal Defendant of the ACT
- Residential Rental Bonds Trust Account
- Uncollected Goods Trust Account.

These funds are invested in a range of securities, including bank bills and financial institution deposits managed internally as well as through PTG's Australian Fixed Interest Index Common Fund. The circumstances of each account are reviewed regularly and investment strategies established according to individual risk profiles, objectives, income needs and relevant legislation.

These funds are not invested in Australian or International Equities and are not at risk of unethical investment.

These funds are invested in a range of securities, including bank bills and financial institution deposits managed internally as well as through PTG's Australian Fixed Interest Index Common Fund

Ethical Investment

Ethical investment is also known as sustainable investment and socially responsible investment. The term describes an investment process that incorporates environmental and social factors when selecting investments, in addition to the objective of achieving a competitive financial return. Investments made in accordance with ethical investment principles are often called 'responsible investments'.

Responsible investments are considered those made in areas such as healthcare or clean energy, avoiding ties to industries such as coal, weapons, gambling, tobacco, weapons or oil.

Research shows that ethical Australian share funds have actually outperformed their equivalent mainstream funds over the past 10 years.

Whilst PTG investments are generally made in accordance with ethical investment principles through external fund managers, the investment of client moneys (eg under Enduring Power of Attorney) is made in a manner as directed by the client.



SUPERANNUATION

PTG is the trustee of a significant amount of funds derived from the settlement of personal injuries/compensations actions. PTG invests the substantial bulk of trust funds awarded to its care in a single superannuation fund. The fund was selected by Australian Public Trustees following an independent evaluation and recommendation.

Investment of these funds into superannuation provides a favourable tax environment. Superannuation and taxation legislation specifically extends those benefits to personal injury settlement funds where the injured person is permanently unable to work.

The taxation legislation requires that settlement funds of this kind, to be contributed to a superannuation fund, must be made within 90 days of the receipt of the compensation payment in order that the tax benefits apply.

A superannuation fund enjoys a much lower tax rate for income and capital gains. When, and if, the superannuation fund is converted to an allocated pension, no income tax applies. The superannuation and taxation legislation has specific provisions relating to personal injury compensation payments. The effect of those provisions is that in cases where a person is permanently incapacitated, there is no cap on the

contributions to superannuation that may be made, and monies in the superannuation fund are not preserved. Consequently, there is no need to wait to attain a minimum age before withdrawing monies from the superannuation fund.

Superannuation and taxation legislation specifically extends those benefits to personal injury settlement funds where the injured person is permanently unable to work



GreaterGood

GreaterGood (The Capital Region Community Foundation) was established by PTG in 2003. It is a Public Ancillary Fund established and administered under guidelines issued by the Australian Taxation Office. GreaterGood is also registered by the Australian Charities and Not for Profits Commission.

GreaterGood is a perpetual charitable foundation, making it possible for people in the community to establish their own charitable funds in a low-cost, tax-effective manner. Under GreaterGood, people can name their own charitable fund, recommend the deductible charities to benefit, receive an immediate tax deduction and see their charitable causes benefit from the income generated perpetually.

Investment for persons under Financial Management Orders

When PTG becomes the financial manager for a person under order of the ACT Civil and Administrative Tribunal (ACAT), it is not uncommon for that person's financial affairs to include one or many various investment products such as superannuation, shares, term deposits, investment properties and so on.

Once the order is received, PTG becomes immediately responsible for the management of those investment products. When referencing the legislation in respect to investment, PTG refers to s.4 of the *Guardianship and Management of Property Act 1991*. Here it is clear that PTG must take into account the person's wishes with regard to their portfolio, provided

that doing so would be considered to be in their best interest or at the very least not seen as detrimental. Generally PTG aims to have minimal disruption to the way a person has managed their finances during their lifetime.

PTG will continue established relationships with the person's accountant for their Self-Managed Superannuation Fund, their share broker and their financial planner and so on.

When the task of obtaining a person's wishes is difficult s.74 of the Act references to the same investment criteria known as the 'Prudent Person Investment Rule' in the *Trustee Act 1925*. Here the manager would ensure there are no hazardous or speculative investments in place and consider many aspects including income, growth, taxation, liquidity, costs and likelihood of loss. Any changes or strategies are then developed with the aid of the person's primary carer.

Philanthropy through Investment...

Like many charitable foundations, GreaterGood preserves and invests amounts settled as capital to produce a permanent income for the benefit and support of recommended charitable causes. PTG invests donations through common funds and distributions of income are made annually to recommended charitable beneficiaries.

GreaterGood has in the order of \$20M in accumulated capital, in 82 individual funds which generated approximately \$7.5M in distribution to a variety of charities since 2003.



Frequently asked questions.

Q. What is an investment style?

A. A framework that guides the way fund managers evaluate and select the investments they make. It is like a set of principles based on the fund manager's beliefs about investment markets. Broadly, fund managers can be divided into index and active investment styles.

Index managers aim to match the performance of a market index by investing in all or a representative sample of the securities in the index. Active fund managers will usually try to outperform the market index by choosing a selection of stocks they believe will outperform the benchmark

index. The three most common active investment styles are 'growth', 'value' and 'style-neutral' (also known as core).

Q. What is asset allocation?

A. Asset allocation is the proportion of your portfolio you allocate to each asset class. Research has shown that asset allocation contributes more than stock selection to long term portfolio performance, so it is an important decision to get right. Some investors prefer to leave the asset allocation up to the fund manager. They invest in a diversified fund where it is decided for them. Others prefer to choose the investment mix for themselves. There

is no right or wrong way providing your asset allocation is designed with your investment objectives, timeframe and risk/return profile in mind.

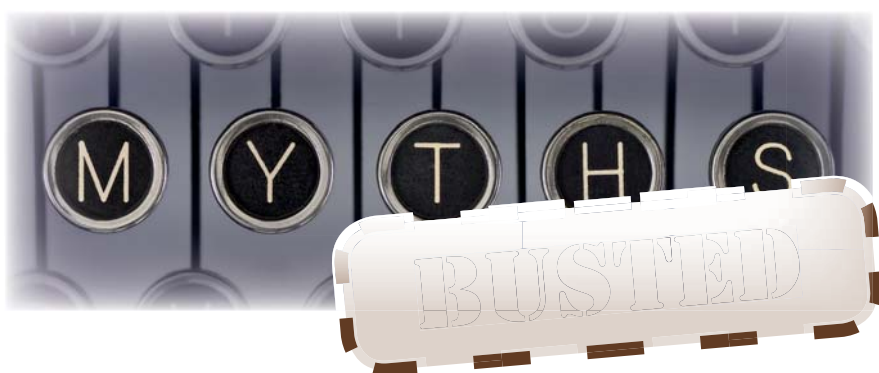
Q. What is indexing?

A. Indexing is a way of gaining exposure to an investment market. Most investment markets have indexes that measure their value over time. Indexes cover almost every industry sector and asset class, including Australian and international shares, property, bonds and cash. Index funds invest in all or most of the securities in the index.

Asset allocation is the proportion of your portfolio you allocate to each asset class. Research has shown that asset allocation contributes more than stock selection to long term portfolio performance, so it is an important decision to get right.

COMMON PITFALLS WITH INVESTMENT OR FUNDS MANAGEMENT

- Failure to develop a plan
- Investing without advice or research
- Taking unnecessary risk
- Too short an investment time horizon
- Considering performance above risk



MYTH - *Investment is only for the wealthy*

BUSTED! - False....Investors come in all shapes and forms and are not all wealthy. People on average incomes and first home buyers are finding that they are able to save and purchase an investment property.

MYTH - *Property always goes up in value*

BUSTED! - False...be cautious when purchasing an investment property and be prepared if the market does slump and property values drop. Past performance is not necessarily an indication of future performance.

MYTH - *Shares are risky*

BUSTED! - True....however investing in anything means you are risking capital, so to that extent, stocks are risky. Investing in shares as an asset class implies you are accepting the risk in the belief that the economy will expand.

Case-studies – Lessons learnt

This case study represents an actual client who was severely impacted by the Global Financial Crisis (GFC) in 2008 and how PTG continued to operate an optimistic long term strategy despite the emotional strain in the short term.

In December 2007, PTG received approximately \$550,000.00 on behalf of a child beneficiary who had received an injury settlement. Our role was to advance funds for medical requirements and to protect the remaining trust until the child becomes legally entitled at the age of eighteen (an 11-year investment).

Upon completion of an expense plan with the family, the bulk of the trust was invested in a long-term growth portfolio of 70% shares and listed property and 30% in defensive investments. Tragically within a couple of months

the Global Financial Crisis (GFC) of 2008 began and the portfolio immediately received significant capital losses. By March 2009 the investment had dropped to its lowest point of 63.9% of its original value.

During this time the family had understandably become stressed over these losses as the investment was to be put towards a house purchase for the son later in life. Frequently the family would request that the investment be closed to stop any further losses.

PTG however indicated that concreting these losses would be disastrous and would remove any chance of regaining value when (not if) the market would recover. PTG regularly demonstrated that the portfolio was diversified across many markets including fixed interest which alleviated some of the pain, and that the portfolio was always constructed with 11 years of volatile investment in mind.

With regular contact, PTG regained confidence with the family and the portfolio has since recovered to 149.7% of its original value

With regular contact, PTG regained confidence with the family and the portfolio has since recovered to 149.7% of its original value.

The GFC taught us many lessons on the emotional impact of placing money at risk. PTG continues to operate in line with the legislation and in collaboration with professional investment advisors and the Public Trustee and Guardian Investment Board and continues to prioritise long term strategies over short term market events.

OUR CUSTOMERS SAID. . .

“Excellent job. Very pleased with our decision to use the services of PTG”

“A first class and very informative presentation given”

“You did a great job. Sorry I hassled you...I have never dealt with Wills before”

“PTG opened my eyes to the pitfalls of not making a Will

“Very efficient and fast service. Very helpful”

“I’m extremely happy with what you have done for me”

“Have recommended PTG to a work mate who was looking for some assistance”

“X was excellent in her dealings with my family”

“I would like to thank X for her willingness to keep myself and sister fully informed of the whole process with the estate...cannot speak highly enough of her”

FACT SHEETS



Our Fact Sheets can be found under “Publications and Forms” on our website at www.publictrustee.act.gov.au. You'll find comprehensive information about a range of issues and services.

Our top four Fact Sheets have been translated into five different languages.

CONTACTING US

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