

# Chairman's Address

## Review of 2008-09

- Second consecutive year of exceptionally volatile market conditions
- Introduction of Commonwealth guarantee facility to assist borrowers
- No outstanding derivative positions
- Return on cash balances of 6.71 per cent
- Tender for registry services awarded to Link Market Services

## Outlook for 2009-10

- Improving economic conditions
- Initiation of a new major bond issue in 2014
- Upgrade of the treasury management system
- Borrowing program of \$572 million



There is little doubt that 2008-09 has been an exceptional year, set against an environment with heightened volatility, dislocation in market systems, an undesirably high level of uncertainty and dramatic government intervention to support the financial system. The Corporation has successfully weathered these conditions and generally met its borrowing, lending and investing targets and benchmarks throughout this period.

The weak economic signals towards the end of the previous financial year indicated that this would be a difficult year. Consequently, following consultation with the Corporation's Advisory Board and Treasury, a cautious approach was taken, with action taken to reduce the borrowing program, maintain higher levels of cash balances and to pre-fund loans. This approach has been complemented by a risk management framework which has been refined over recent years, with the aim of rationalising and minimising exposures across all the Corporation's activities. As a result, the Corporation has had no outstanding derivative exposure since October 2008.

The Corporation raised \$295 million during the year, down from an initial borrowing requirement of \$394 million. These funds were raised solely from domestic issuance activity at a weighted average cost of 5.96 per cent. Most of these funds were raised early in the financial year from the introduction of a new major bonds series maturing in 2013. This proved timely, as it preceded the Commonwealth's mid-October announcement to provide a support package for Australian financial institutions (Approved Deposit-taking

Institutions or ADIs) to assist them in raising capital and refinancing existing funding. This support package allowed financial institutions to purchase the right to apply a Commonwealth guarantee to their wholesale funding requirements.

A consequence of the support package was a distortion of the normal financial market pricing relativities between government bonds and securities issued by other financial institutions. The semi-government bond sector was particularly adversely affected, which was recognised by the Commonwealth in March 2009 when it agreed to extend a similar guarantee to the borrowings of states and territories. This facility has subsequently been put in place for commencement in the 2009-10 financial year.

The Corporation has chosen to retain the opportunity to apply this facility to its new borrowings. However, at the time of writing, the Corporation has not undertaken to issue bonds with a Commonwealth guarantee. This action reflects the improvement in issuing conditions since March 2009 and is supported by greater demand from investors and the moderate funding requirement in 2009-10 of \$572 million.

The 2009-10 borrowing requirement is composed of \$376 million of refinancing and \$196 million of new money. The Corporation anticipates raising these funds primarily from additions to existing bond series and the commencement of a new bond series maturing in 2014. As in recent years, the focus of borrowing activity will be on domestic issuance but the Corporation will also consider other offshore opportunities if they are appropriate.

The Corporation's investment and cash management activities have adjusted to the challenging environment, with a higher level of liquidity maintained throughout the period. The Corporation achieved a return of 6.71 per cent on the Government's investment portfolio of surplus cash balances. This was slightly less than the benchmark return of 6.73 per cent but is considered to be a satisfactory result, given the environment.

The investment portfolio represents about 65 per cent of total funds under management. Its weighting towards high quality short-term investments has helped to counter the negative returns on longer term investments,

which are held to partially meet superannuation related liabilities.

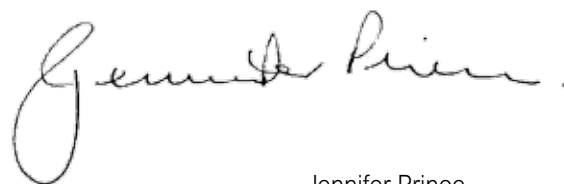
The long-term investments held in the Conditions of Service Reserve returned -14.46 per cent, which was an underperformance of 1.14 per cent relative to benchmark and was due to its growth style asset allocation. While disappointing, the fund has still managed to out-perform its benchmark over a 3, 5 and 7 year timeframe, which more closely reflects the investment term for these funds.

Locally, the Territory economy has weathered the global financial crisis and economic downturn relatively well. In June 2009, the trend unemployment rate was 3.9 per cent, unchanged since March 2009, with resident employment estimated to increase by 1.5 per cent in 2009-10. Access Economics June quarter 2009 Business Outlook forecasts average annual Territory gross state product (GSP) growth of 2.2 per cent for the five years to 2012-13.

The economic environment in 2009-10 is still likely to be challenging, with elevated levels of volatility, although probably not to the same extent as experienced in 2008-09.

Administratively, during the year the Corporation was engaged with the tender of its registry service contract, which was awarded to Link Market Services, a review of its treasury management system and the implementation of the Commonwealth guarantee arrangements. These requirements, in addition to normal duties and the unusual market and economic conditions, have tested the Corporation but have been dealt with appropriately and successfully.

In conclusion, I wish to express my thanks to the Board and staff for their diligence and professionalism during this challenging year.



Jennifer Prince  
Under Treasurer and Chairman  
30 September 2009