PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

2013-14 AND 2014-15 FINANCIAL AND PERFORMANCE OUTCOMES – ENTITY-SPECIFIC QUESTIONNAIRE

TREASURY CORPORATION OF VICTORIA

For Official Use Only

Question 1

Please explain the impact of the variance between initial forecasts and the actuals of interest rates and exchange rate on the entity's investment strategy in 2013-14 and 2014-15.

Treasury Corporation of Victoria (TCV) does not forecast interest rates or exchange rates in determining our investment strategy. However, TCV does provide interest rate forecasts to our clients, from time to time, to assist them in determining the tactical timing of their funding activities.

TCV is responsible for managing the State's access to financial markets, ensuring the liquidity of the State, and providing clients with access to investment products and treasury management advice.

As part of our role in ensuring the liquidity of the State, TCV is required to hold a level of liquid investments to meet the States liquidity requirements. The level of liquid investments is determined according to policy endorsed by TCV's Prudential Supervisor and the Department of Treasury and Finance. These investments consist of securities issued by the Commonwealth of Australia, other semi government authorities and Australian banking institutions.

Our liquidity investments are funded via the issuance of TCV debt and TCV deposit liabilities. To reduce the interest rate risk of our investments, TCV seeks to invest our assets in alignment with the source of the liability funding. Therefore, TCV does not rely on interest rate forecasts to determine the investment strategy, but rather seeks to hedge and protect the value of the TCV balance sheet by closely matching investments with our liability maturities.

While the performance of these hedges is affected by the relative movement of interest rates, TCV does not forecast these changes.

In regards to foreign exposures, TCV does not invest in foreign currency investments or maintain unhedged exposures to foreign currencies. All foreign currency exposures are required to be managed once certainty in timing, amount and value are known.