Investing

Getting Started for Senior Living Providers

Starting the process of moving money from cash or term deposits into an investment portfolio can be daunting, particularly during a time when there is a lot of market uncertainty. But with costs continuing to rise, leading to increased pressures on revenue, action now could make a meaningful difference over the longer term.

Investing does come with risk – but so do most business decisions. As with any decision, the key is to balance that risk with the potential reward alongside the risk appetite of your board.

At Perpetual Private we want to help make this process as simple as possible and provide you and your board directors with confidence that the decision you're making is the right one.

To help with this, we have been speaking to senior living organisations across Australia to find out how they started their journey into investing so we can more effectively help you with yours.

In this paper, we have created a guide for you to work through at your own pace that aims to help you decide if investing is going to be right for you and if so, how to go about doing it.

1. Firstly, you need to establish what capital you have available for investment – if any.

a. Are there reserves on your balance sheet not required for working capital? If so, do you have any other plans for those reserves over the next few years?

b. Do you have RADs that you are not using for capital expenditure?

If the answer to either of these questions is yes, investment may be an option for your organisation.

Myth: Residential Accommodation Deposits (RADs) must be invested in cash or term deposits.

This is not true.

- Investing in financial products is a permissible use under section 52N-1 of the Aged Care Act.
- It is also the responsibility of the approved provider to determine the appropriate form in which their levels of liquidity will be maintained which could include more liquid investments.

2. Get initial board buy in early.

It is important to take your board on this journey with you. Providers we have spoken to have said it had taken them up to two years to get their boards comfortable with the prospect of investing. A good way to have this discussion is to structure it around risk and reward. What would the extra income mean for your organisation? What would be the consequences of negative returns on these assets? You can find an example of the amount you might expect from investing in different ways in our recent case study. This will also set you up well for the next step.

! Remember you do not need to invest all the assets you have available in one go. If it's going to provide assurance, start with a smaller amount and see how that goes before increasing your investment.

3. Document an Investment Management Strategy (IMS).

Whilst this is only a requirement for those providers looking to invest their RADs, we believe it is an important governance document for any senior living provider. A good IMS serves as a strategic guide for your adviser and/or investment manager to ensure your assets are invested in an appropriate way and provides a framework for your investment committee or board to monitor and oversee your investments. If you choose to appoint an investment adviser, you should expect them to facilitate and document this process for you.

Important elements of an IMS include:

a. Time horizon – how long will you be investing for?

b. Return expectation – for senior living providers this would usually be an absolute number such as 4%, inflation linked (to ensure buying power is maintained) such as CPI +2% or connected to the Maximum Permissible Interest Rate (MPIR).

c. Risk tolerance – In a bad year, how much would you be willing to lose? 5%? 10%? How would you communicate this loss to your stakeholders? Market losses do occur as part of a normal economic cycle but if you are able to stay invested, they do come back. The more growth assets you have, the longer this might take and so your investment time frame is an important consideration here.

d. Income requirements – do you want income reinvested or do you want to receive regular income from your portfolio? If so, do you have a view on how much?

e. Restrictions – is there anything you don't want to invest in? This might include specific business activities like tobacco and weapon manufacturers, or types of assets such as those that take more than 3 months to sell.

f. Governance – How are you going to monitor your investments? Who is responsible for the regular oversight of your investments and how will this be reported to the board?

4. Appoint a fund manager(s).

Once your IMS has been approved by your board, the next step is to appoint a fund manager(s). Key considerations here include diversification as well as alignment to your IMS – you want to make sure you're not putting all your eggs in one basket.

There are a lot of fund managers to pick from here and it can be difficult to identify which mix is going to work best for your organisation. An investment adviser can help you with this process.

5. Ongoing governance.

Once your investments have been implemented, it is important to regularly monitor performance and returns. If you're not sure about something, don't be afraid to ask. Your adviser or fund manager should be held accountable. If for any reason your circumstances change, revisit your IMS. Is it still appropriate? Regardless of circumstance, you should look to review this document at least every 3 years.

At Perpetual Private our expert advisers can help you ensure the assets on your balance sheet are put to work in a way that is suitable for your organisation. We specialise in investment governance and management for senior living organisations and have been earning the trust of our clients for more than 130 years. We pride ourselves on our long-standing client relationships and will always strive to provide you with reassurance that your assets are in safe hands so that you can concentrate on what you do best.

More information

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