

Investment Management Strategy

Background

In accordance with the Aged Care Legislation, Estia Health is permitted to apply RADs for investment in financial investment products. If RAD funds are invested in financial investment products, then in accordance with Act, a documented Investment Management Strategy must be maintained and adhered to.

Whilst Estia Health does not expect to have surplus RAD funds to invest in financial investment products this Investment Management Strategy covers the situation should it arise in relation to funds invested up to \$10m. In the event of surplus funds in excess of \$10m being available then this Investment Management Strategy will be revised and approved by the Board before funds in excess of \$10 million are invested in financial investment products.

Estia Health's Investment Objectives

Investments are placed in a manner that seeks to:

- a) minimise investment risks
- b) ensures funds are readily accessible to meet RAD refunds or capital investment demands,
- c) generates a return consistent with objectives a) and b)

Investment Strategy and Approved Investments

Given the expected short-term availability of surplus funds of up to \$10m for investment in financial products, the investment strategy is to invest solely in Term Deposits of up to 3 months duration with either Westpac, ANZ Bank, CBA, or NAB, so long as the bank retains AAA Status.

Delegation of Authority

Estia Health has delegated authority for investing funds to the Chief Financial Officer (CFO). The CFO is required to disclose any conflict of interest to the Chair of the Audit Committee.

Investing

The CFO must comply with the legislative framework and make investments and withdrawals in accordance with Estia Health's Investment Management Strategy.

The CFO must obtain a minimum of three investment quotations, trading on similar terms, for all investment decisions and must ensure that Estia Health's legal title or right to the investment funds has been confirmed in writing and received on the same day the investment is placed.

Reporting

The CFO is responsible for ensuring accounting records of investment transactions are current and there is a review of monthly reconciliation of investment balances.

The Monthly Board Finance Report will include a report detailing the investment portfolio with a certification that the investments have been made in accordance with the Act, the Regulations and this Investment Management Strategy.

Investment Management Strategy

The Investment Management Strategy is monitored on an ongoing basis by the CFO. The Investment Management Strategy will be reviewed annually and on an as needs basis to ensure that it meets the requirements of the Liquidity Standard (Legislative reference – s 23.37(2), User Rights Principles 1997).

Liquidity Management Strategy

Overview

Estia Health has adopted a conservative Liquidity Management Strategy ("LMS") to ensure that it has sufficient, readily available funds to refund accommodation bond balances or refundable accommodation deposits (RADs) as they fall due. The legislation requires a stated amount to be documented in the LMS and reviewed annually.

Liquidity is monitored on an ongoing basis to ensure that sufficient funds are available to meet all financial obligations, including RADs, and a full review of the LMS is undertaken no less frequently than on an annual basis in accordance with the legislation.

To ensure that funds are readily available when required, the minimum level of funds chosen by the Estia Health group are to be held in cash (placed on deposit but readily available) or met by lines of credit from a bank or financial institution.

Where the estimated net movement on funds due to bond/RAD deposits/repayments in the upcoming 12 months is:

- a net inflow, then the Liquidity Reserve Amount will be 5% of total bond/RAD balance reported in the most recent Financial Statements, either Annual or Interim.
- a net outflow, then the Liquidity Reserve Amount will be the greater of either:
 - a) the amount of the projected net outflow for the next 12 months multiplied by 115%, or
 - b) 5% of total bond/RAD balance reported in the most recent Financial Statements, either Annual or Interim.

Determining the minimum level of liquidity

In determining the level of liquidity to be held by Estia Health and whether or not the LMS requires amendment the following factors are considered:

- cash requirements for operating and capital expenditure;
- the historical pattern of accommodation bond /RAD balance refunds (shown by the prior 12 month period);
- forecast accommodation bond / RAD refunds in the next 12 month period
- characteristics of the residents in their care, such as Aged Care Funding Instrument (ACFI) categories, ages, genders and length of time spent in care, which can affect the timing of accommodation bond balance / RAD refunds;
- the average value of accommodation bond balances / RADs held;
- the average time taken to replace departing residents;
- the expected number and amount of RADs that will be paid by new residents; and
- the time taken for new residents to make RAD payments.

Continual Review of Available Funds LMS

Estia Health will monitor its ability to ensure that sufficient funds are available to meet bond/RAD repayments on a monthly basis or as needed in the event there is any material change in circumstances such as those set out below:

- whether changes in services provided or the profile of residents;
- whether parameters or assumptions such as the size of refundable deposits and accommodation bonds received from new residents should be adjusted;
- the total RAD / accommodation bond liability increases by 10% from the amount at the prior review period;
- the acquisition or divestment of residential services;
- a significant change in the allocated places within a residential service;
- a significant change in the size of refundable deposits and accommodation bonds received; and
- changes in legislative requirements; and changes in the corporate structure of the approved provider.

Minimum Liquidity Reserve Amount

After assessment of all relevant factors, for the period from 1st January 2019 to 31st December 2019, including the draft FY20 Budget, Estia Health projects to receive net inflows of RAD/Bonds. The Minimum Liquidity Management Reserve is therefore \$39.865m being 5% of the Bond/RAD balance at 31 December 2019 of \$797.3m.

This amount will be maintained in readily available funds from undrawn bank facilities.