Putting your reserves to work:

An investment case study for Senior Living organisations

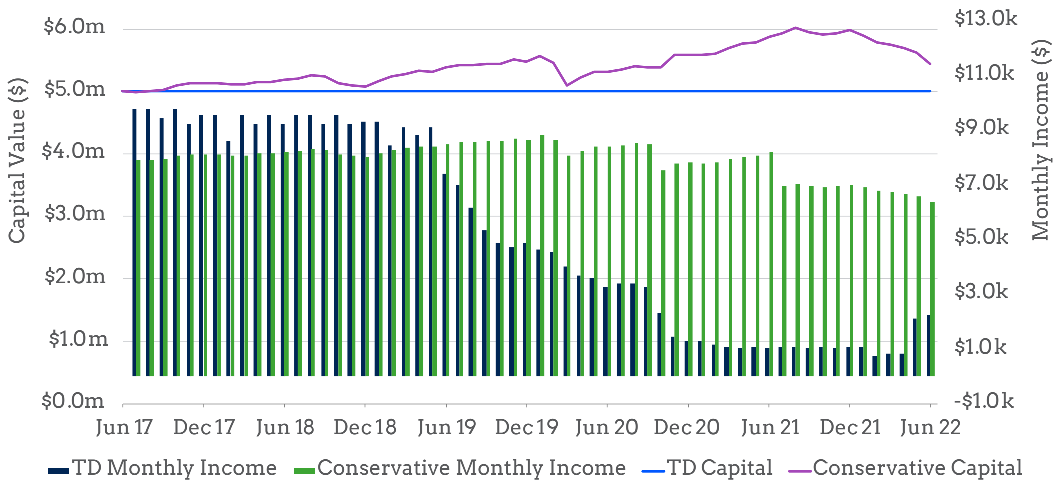
Here we look at two hypothetical senior living organisations who both had balance sheet reserves of $5M five years ago. One decided to invest in term deposits and the other utilised an investment portfolio. The organisation that chose the investment portfolio took a conservative approach with a 60% allocation in more defensive assets such as bonds and a 40% allocation in more growth targeting assets such as company shares.

Over that period, we've had several global events that have impacted markets including trade wars with China, a contentious US presidential election, COVID-19 lockdowns, Russia's invasion of Ukraine as well as soaring inflation. So how did they go?

As you would expect, the term deposit investor maintained their initial investment of $5M. They also received $315K of income, an average of $63K a year; however, this was not evenly distributed. Back in 2017, the Australian interest rate was set at 1.5% which meant the income from term deposits was higher. For the first financial year this investor received $113K; however, as interest rates fell, this dropped, hitting a low of $22K in 20/21. Interest rates are now back on the rise which means income is too but it's still not at the level of investment markets or inflation.

The conservative investor in comparison did much better, earning an extra $162K of income as well as $459K in capital growth. As you can see from the chart, the income has been smoother over that period, and this is because of the diversification across different income generating investments.

However, the value of the capital did fluctuate, and this is a common characteristic. It is therefore critical your board gets comfortable with the idea of some capital losses over shorter time periods prior to investing. This will help protect you from crystalising losses unnecessarily in the future.



Source: Perpetual Private

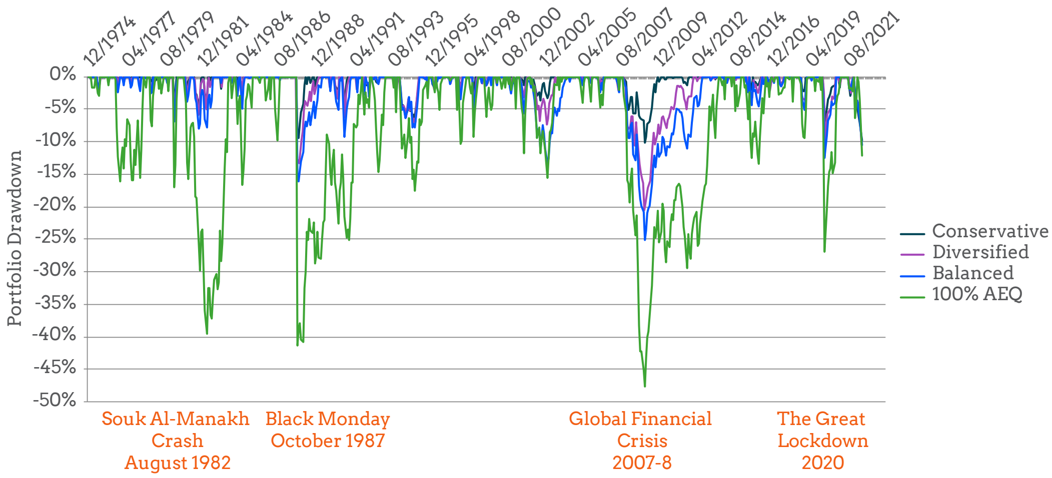
	Capital Growth	Income	Total Return
Term Deposits	$ –	$ 314,798	$ 314,798
Conservative	$458,552	$477,185	$ 935,738
Difference	$458,552	$ 162,387	$ 620,940

Perpetual Model Portfolio Performance after ongoing management and performance fees. Past performance is not an indicator of future performance. Term Deposits = Special Time Deposit Rate, Banks, Average, Percent – Australia, Factset

It is also important to note that not all investments are equal. The blend of assets can be changed to meet your board's risk tolerance. The chart below shows how a few example investment portfolios faired during periods of market downturn (note: it does not consider periods where markets were doing well). The green line shows the Australian stock market through the S&P ASX 300 index, the bright blue line is a portfolio with 72% in growth assets, the purple line has 60% in growth assets and the dark blue line is the conservative portfolio used in the case study above which has 40% in growth assets.

As you can see, each portfolio had a very different experience during key market events with the Australian equity market seeing the biggest losses. If we take the Global Financial Crisis as an example, Australian equities had a peak to trough loss of almost 50%. In comparison, the conservative portfolio only fell by 10%.

It is important to note that whilst equities are more volatile, they also have much higher expected returns over the longer term. They therefore have an important role to play in most investor portfolios and its why the longer you intend to invest for, the higher allocation you can look to include. It is then a question of whether that level of risk over the shorter term is tolerable.



Portfolios are existing Perpetual Models with Perpetual Private Managed Funds. Performance is after ongoing management and performance fees. Australian Shares = S&P ASX 300. Managed Funds performance are after ongoing management and performance fees. Past performance is not an indicator of future performance No allowance has been made for entry or exit fees, management fee rebates or any applicable tax. Returns assume reinvestment of distributions. Direct Equities performance is before brokerage and tax.

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 focus on what you do best.

More information

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