

## Investment policy

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### Purpose

The purpose of the Investment policy is to provide instruction for the investment management function of Ahpra.

### Scope

This policy set out Ahpra's objectives, strategy and risk assessment approach for management of National Scheme investments.

This policy applies to all Ahpra staff (including contractors and consultants) discharging responsibilities under the *Australian Health Practitioner Regulation National Law (2009)* ('the National Law').

### Policy

#### 1. Principles

- 1.1 Investment of practitioner funds by Ahpra is to be conducted with consideration given to the following interests of the National Scheme as administered by Ahpra:
- All applicable legislation, regulatory requirements and accounting standards.
  - Principles of best value, economy and efficiency.
  - Principles of equity.
  - Lawful decisions that will stand up to public scrutiny.
  - Corporate and strategic objectives of the National Scheme.
  - the financial profile and liquidity requirements of Ahpra's operations.
  - Scheme policies and procedures for Code of conduct and Conflicts of interest.
  - Reasonable expectations (express and implied) of key stakeholders.
  - Specified limits and requirements associated with relevant sub-delegations.
  - Responsible investment to mitigate environmental, social and governance (ESG) risks.
  - The National Scheme risk appetite statement

#### 2. Governance

- 2.1 AManC is responsible for the investment Policy and for deciding what types of investments it considers appropriate to invest in.
- 2.2 The Finance Audit and Risk Management Committee (FARMC) is responsible for reviewing and recommending changes to the Investment Policy, objectives and strategy for AManC for approval.
- 2.3 Ahpra is to consult with National Boards on the investment strategy.
- 2.4 Ahpra holds equity on behalf of each Board in accordance with Health Professions Agreements. Equity targets are reviewed annually and reported quarterly.

#### 3. Investment objectives

- 3.1 Ahpra will invest money in a way considered most appropriate in all the circumstances.
- 3.2 The investment objectives are to:
- ensure the Scheme's target equity holdings are preserved
  - ensure that cashflow and liquidity requirements are met
  - manage investment risks in accordance with risk appetite, and
  - achieve benchmark returns on pools of funds invested

## 4. Investment strategy

- 4.1 To achieve the investment objective, the investment strategy is divided into two portfolios:
- Working capital – (short to medium term) to support working capital and cashflow forecast requirements over three-year horizon, and investing capital in excess of market cap to preserve Ahpra’s target equity, and
  - Investing capital - (long term) to support financial sustainability of the Scheme, comprising investment in a managed investment schemes capped to ensure Ahpra’s target equity is preserved.
- 4.2 The value of the market cap on exposure to loss in negative years is set each year at not more than 50% of surplus equity.
- 4.3 The overall allocation of financial assets will be undertaken in accordance with the strategic asset allocation.

### Working capital

- 4.4 Working capital requirements will be managed with:
- cash deposits with appropriately rated Australian-owned deposit taking institutions for banking operations with immediate liquidity requirements.
  - fixed term deposits with appropriately rated Australian-owned deposit taking institutions or Government pooling agency (eg TCV) invested between 1 month and 3 years to earn a fixed rate of interest. The maturity of Term deposits will be timed to meet seasonal cashflow requirements.

### Strategic asset allocation

Asset class	Strategic benchmark (%)	Range (%)
Cash at call deposits	10	5 - 25
Term deposits	90	75 - 95
TOTAL	100	

### Benchmark returns comprise:

- the Reserve Bank Australia (RBA) cash rate for the cash component - being the weighted average interest rate on unsecured overnight loans between banks, and
- Bank bill swap rates (BBSW) for the fixed interest component - being the floating rate for bonds and other securities.

### Maximum investment exposure for cash deposits

- To mitigate concentration risk, fixed term deposits are to be a diverse portfolio across providers. One provider can be allocated no more than 40% of investment funds.
- Australian-owned deposit taking institutions must be rated by S&P Global (Standard & Poor’s) or Moody’s. with a minimum long-term rating AA- (S&P) or Aa3 (Moody’s).

### Investing capital

- 4.5 Investing capital will be managed:
- To utilise the portfolio of surplus funds that is not required to meet the short or medium term cashflow needs of the National Scheme.
  - Investing capital requirements will be managed with managed investment schemes with Fund management agencies
  - The value of investing funds allocated to this pool is subject to a market cap to limit exposure to loss, with balance of funds above the cap retained in the short- and medium-term investment pool and invested in fixed term deposits. The value of the market cap on exposure to loss in negative years is set each year at not more than 50% of surplus equity.

## Strategic asset allocation

Asset class	Strategic benchmark (%)	Range %
Cash	40	20-70
Australian bonds	18	10-40
Australian credit	10	0-20
Australian equities	10	0-20
International equities	10	0-20
US bonds	8	0-20
Emerging market debt	4	0-10
TOTAL	100	

### Benchmark returns

- Investments are to maintain a return objective of better than CPI over a rolling three-year period and limit the likelihood of a negative return to no more than one in every four years, with an average loss in negative years not exceeding 5%.

## 5. Roles and responsibilities

### 5.1 Chief Executive Officer

Responsibility for the management and control of investments managed by Ahpra resides with the Chief Executive Officer (CEO) and involves recommendation and advice from the following parties:

- AManC (with recommendation of FARMC)
- Chief Financial Officer (CFO) - on behalf of the CEO, and
- Manager Financial Accounting (for recommendation by Deputy CFO).

### 5.2 Agency Management Committee

AManC (with recommendation of FARMC) is responsible for overseeing the management of the investments. The specific roles and responsibilities of AManC with respect to investment management are to:

- ensure that Ahpra has an Investment Policy which is being complied with
- set the investment objectives for Ahpra
- approve the investment strategy
- approve the use of any financial arrangements to manage investment related financial risks
- approve any delegations of responsibility within the investment management function
- receive and consider investment reports prepared by funds, management and any external advisors, and
- review the Investment policy at least annually.

### 5.3 Chief Financial Officer

The CFO is responsible for overseeing (on behalf of the CEO) the management of the investment function in accordance with this Investment Policy and related legislation. Specific responsibilities of the CFO are to:

- present the investment strategy and Policy to FARMC for review annually
- recommend amendments to the Investment Policy for approval
- take responsibility for the operation of the investment management function
- liaise with Bank(s) and funds management agencies concerning the execution of the investment strategy and enter into any financial arrangements within limits prescribed by this Investment Policy, and
- provide investment reports to FARMC on a quarterly basis setting out, at minimum, the value of the portfolio, investment performance against target benchmarks, schedule of investments and any incidents of non-compliance.

## 5.4 Manager Financial Accounting

The Manager Financial Accounting will operate and administer the investment function including forecasting, correspondence, accounting and reporting duties on behalf of the CFO. Specific responsibilities of the Manager Financial Accounting are to:

- implement the financial risk management strategy of the investment function.
- prepare investment reports for consideration by the CFO, FARMC and AManC
- seek endorsement of the Director Financial Control & Procurement and a recommendation from the Deputy CFO to the CFO for authorising transactions within limits and delegations.

## 6. Authorised investments

6.1 Approved Ahpra investments are limited to:

- Cash and term deposits with Australian-owned deposit taking institutions rated AA- or better with S&P Global (Standard and Poor's) or Aa3 Moody's
- Financial products including managed investment schemes that have an investment profile that is consistent with the SAA set out in the policy and endorsed by FARMC and approved by AManC

S&P Global	Moody's	Grade/Capacity to meet financial commitments	Maximum exposure
AAA	Aaa	Highest quality, lowest risk, extremely strong	Unlimited
AA+	Aa1	Very high quality, very low risk, very strong	\$250 million
AA	Aa2	Very high quality, very low risk, very strong	\$250 million
AA-	Aa3	Very high quality, very low risk, very strong	\$200 million

## 7. Rebalancing

- 7.1 There will be a need to rebalance the allocation of funds to ensure compliance with this policy as investment balances fluctuate.
- 7.2 In order to avoid break costs on fixed term deposits and other negative impacts of transferring funds between fixed term deposits, cash deposits and managed investment funds, rebalancing will be completed by way of maturing fixed term deposits when required to increase funds invested in cash or investing capital.
- 7.3 If rebalancing is required to decrease funds invested in investing capital, this will be by way of redemption of units in managed investment schemes.

## 8. Investment risks

- 8.1 To achieve the investment objectives of this Policy the AManC acknowledges that risks are being taken in order to achieve investment returns above the risk-free rate of return.
- 8.2 Risks to achieving the investment objectives and the respective controls to mitigate losses are as follows:

Risk	Control
<b>Liquidity risk</b>	Liquidity risk is the risk that Ahpra cannot satisfy its day to day cash flow commitments when they fall due. The risk is managed by undertaking detailed cashflow forecasting and investing a high proportion of funds in highly liquid asset classes.
<b>Inflation risk</b>	Inflation risk is the risk that investment performance fails to match long-term inflation. This risk is managed by maintaining a strategic allocation toward long-term growth assets.

Risk	Control
<b>Interest rate risk</b>	Interest rate risk is the risk of investment losses due to change in interest rates. An increase will reduce the value of a bond or other fixed-rate investment. This risk is managed by diversification of term deposit maturity and maintaining allocation in long-term growth assets (e.g. VFMC Capital Stable fund).
<b>Market risk</b>	<p>Market risk is the financial risk associated with macro-economic factors impacting upon portfolio performance. The fund management agency is responsible for managing market risk on behalf of Ahpra through investing in a balanced portfolio of financial assets.</p> <p>Ahpra will cap its exposure to investments where the reported investment principal value at 30 June each year could change through required financial market revaluations<sup>1</sup> to ensure the Scheme's minimum equity holdings are preserved.</p> <p>The value of the cap on exposure to loss in negative return years will be set each year at not more than 50% of surplus equity holding based on the risk and return characteristics and sensitivity of the financial assets and Fund objectives.</p> <div style="border: 1px solid black; padding: 5px;"> <p><b>Formula:</b> <math>(\text{Scheme equity} - \text{Target equity})/2</math>  Maximum investment = Average loss of fund in negative return years (%)</p> <p>Example</p> <ul style="list-style-type: none"> <li>• Scheme equity for all Boards total is \$75m</li> <li>• Target equity for all Boards totals \$55m</li> <li>• Funds average annual loss in negative return years is 5%</li> </ul> <p><math>((\\$75\text{m} - \\$55\text{m})/2)</math>  0.05 = Maximum investment principal of \$200m</p> </div>
<b>Selection risk</b>	Selection risk is the risk associated with poor portfolio performance due to poor asset selection. The fund management agency is charged with managing selection risk on behalf of externally managed investments.
<b>Concentration risk</b>	Concentration risk is the risk of inadequate portfolio diversification and disproportionate exposure to a specific financial risk or adverse economic event. Concentration risk is managed by maintaining a diverse investment portfolio, including a balanced growth component allocated between growth and defensive assets. Ahpra manages concentration risk by diversifying the investment portfolio as set out in the asset allocation of this policy and investing in financial products that do not have high concentration risk.
<b>Environmental, social and governance risks</b>	<p>ESG risks will be managed by investing with fund management agencies that have adopted an adequate approach to applying ESG in its investment process including:</p> <ul style="list-style-type: none"> <li>• Stewardship – exercising votes at company meetings on material ESG issues</li> <li>• ESG integration – considering material ESG issues in the selection management and monitoring of investments</li> <li>• Socially responsible investing through the exclusions of unacceptable products or business practices such as tobacco manufacturers and cluster munitions</li> <li>• ESG disclosure – encouraging the development of ESG-related standards for use by investee companies and disclosure of ESG activities.</li> </ul>
<b>Credit risk</b>	Risk of counterparty failure. This risk is managed by Ahpra investing in Australian-owned deposit taking institutions rated AA- or better with S&P Global (Standard and Poor's) or Aa3 Moody's and appointing a government owned reputable fund management agency
<b>Currency risk</b>	Ahpra only invest Australian dollars in cash and fixed deposits and only invests in a managed investment fund in which units are held in Australian dollars
<b>Investment performance risk</b>	Risk that investments do not generate sufficient income to meet budget and shortfall depletes equity. This risk is managed by adoption of a conservative investment strategy, which includes holding fixed interest investments to maturity and investment in a readily redeemable unitised managed investment scheme, as well as quarterly review and reporting of investment performance to FARMC and AManC

<sup>1</sup> in accordance with [AASB 9 Financial Instruments](#) 5.4 Fair value measurement

## 9. Review of strategic asset allocation

- 9.1 Fixed term deposits are to be assessed each time a term deposit is placed to ensure all components of an asset allocation are still within limits
- 9.2 For externally managed funds held with fund management agencies the strategic asset allocations will be reviewed, at a minimum annually or at any time the fund management agency notifies of a change within their asset classes.
- 9.3 All annual reviews or any changes within the managed investment scheme asset allocation will be brought to the next FARMC meeting.
- 9.4 Annual reviews must assess investment performance and if money has been invested in the way most appropriate in the circumstances.

## 10. Compliance

- 10.1 Conflicts of interest must be avoided, and declarations are to be completed by Ahpra's vendor selection panel members in accordance with Ahpra's Procurement policy.
- 10.2 Compliance with this policy is subject to review as part of the internal quality assurance and internal audit programs.
- 10.3 Where a breach of compliance with this Policy occurs, a statement of non-compliance must be prepared by the Deputy CFO and provided to the Chief Financial Officer.
- 10.4 Staff non-compliance with all Ahpra policies and procedures will be managed in accordance with the Code of conduct.

## Related documents

- Procurement policy
- [Code of conduct](#)
- Gifts and hospitality
- Statement of non-compliance
- [Conflict of interest policy and procedure](#)
- [Risk appetite statement](#)

## Relevant legislation

- [Banking Act 1959](#).
- Health Practitioner Regulation National Law - s211
- AASB 9 Financial Instruments
- [Australian Prudential Regulation Authority Act 1998](#)

## Definitions

Term	Definition
<b>Australian-owned deposit taking institutions</b>	Institutions registered and with Authority to carry on banking business in accordance with the <i>Banking Act</i> 1959.
<b>Appropriately rated</b>	Australian-owned deposit taking institutions must be rated by S&P Global (Standard & Poor's) or Moody's. with a minimum long-term rating AA- (S&P) or Aa3 (Moody's) See Appendix 1 for further information
<b>Fund management agency</b>	An organisation that manages the investment of a portfolio of securities on behalf of individuals and organisations, subject to the directions of the investor. Fund managers offer pooled investment products and individual portfolios to a range of investors.

Term	Definition
<b>Managed investment scheme</b>	<p>Managed investment schemes are also known as 'managed funds', 'pooled investments' or 'collective investments'. The terms 'managed investment scheme' and 'scheme' are used interchangeably.</p> <p>Generally, in a managed investment scheme:</p> <ul style="list-style-type: none"> <li>multiple investors contribute money or money's worth and get an interest in the scheme. 'Interests' in a scheme are a type of financial product and are regulated by the Corporations Act</li> <li>money from the different investors is pooled together. Investors do not have day-to-day control over the operation of the scheme.</li> </ul> <p>Managed investment schemes cover a wide variety of arrangements and underlying assets. Some examples of managed investment schemes include:</p> <ul style="list-style-type: none"> <li>cash management trusts</li> <li>property schemes</li> <li>Australian equity (share) schemes</li> <li>international equity schemes.</li> </ul>

## Document control

<b>Approval authority</b>	Agency Management Committee
<b>Policy owner</b>	Chief Financial Officer
<b>Policy number</b>	TBC
<b>Date approved</b>	TBC
<b>Date commenced</b>	TBC
<b>Date last amended</b>	N/A
<b>Date for review</b>	Dec 2022
<b>Policy sponsor</b>	Chief Financial Officer
<b>Amendment history</b>	<p><i>Amended principles for consistency with Instrument of Delegations and consistency in corporate policy, and inclusion of Col and ESG principles</i></p> <p><i>Amended objectives and strategies to allow investment in marked to market assets</i></p> <p><i>Added investment risks and controls</i></p> <p><i>Amend SAA tables and edits in Appendix 1 to reflect policy changes, remove barriers to optimize investment allocation and improve clarity for the readers</i></p> <p><i>Amended for FARMC feedback and independent investment advice from Frontier</i></p> <ul style="list-style-type: none"> <li>Clarify the method of investment is via units in managed fund/s</li> <li>Simply the financial assets into working capital and investing capital</li> <li>Clarify the environmental, social and governance Risk controls</li> </ul>