Cbus Policy

Investment Governance Framework Policy Summary

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Cbus' Trustee: United Super Pty Ltd
ABN 46 006 261 623 AFSL 233792
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MySuper authorisation
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1. Purpose and objectives of the Policy

This policy summarises the key elements of the Trustee's Investment Governance Framework (Framework). The Framework is the totality of the systems, structures, policies, processes and people employed to address the Trustee's investment responsibilities.

The Trustee believes that sound investment governance practices leads to better investment outcomes through improved risk adjusted investment performance over the medium to long term.

The Trustee aims to apply best practice techniques and structures to manage the Fund's investments, including focusing on investment risk management and long-term outcomes for members.

2. Application

This policy applies to all Trustee Directors, all Cbus Group Executives, all members of the Fund's investment team, all officers of the Fund and its appointed agents, operating under the delegated authority of the Board.

3. Accountability

The Trustee is at all times responsible for the Fund's investments, including establishing an investment governance framework that is appropriate for the size and complexity of the Fund.

4. Key Legislative obligations and Trustee Powers

The Trust Deed provides the Trustee with broad authority to invest the Fund's assets.

In designing the Framework, the Trustee has expressly considered the key legislative and regulatory requirements in relation to the Fund's investments as set out in RSE licensee law and Prudential Standards.

5. Investment Philosophy and Beliefs

While acknowledging the importance of preserving capital, the Trustee also recognises that to meet its long-term investment objectives the Fund must accept some forms of investment risk.

The Trustee has established a set of:

- fundamental investment beliefs, and
- guiding principles.

The Trustee believes:

1. Asset allocation is the major determinant of investment performance;
2. A long-term investment horizon increases the likelihood of meeting the investment objectives;
3. There is a close relationship between risk and return of investments. Achieving returns above the risk-free rate requires accepting some risk, within the Trustee's Risk Appetite;
4. Equity risk premium is the principal source of return, and risk, above the risk-free rate;

5. Sources of risk and return change over time. Diversification on multiple levels (risk factors, asset classes, managers and individual investments) is a key component of managing investment risk;
6. Investment cycles exist and an emphasis on valuation and mean reversion can deliver excess returns over the long-term;
7. Sound investment governance practices leads to better investment outcomes;
8. The Trustee can improve long-term returns through active involvement in Environmental, Social and Governance (ESG) issues;
9. Additional returns can be achieved through exposure to illiquid assets over the long term, i.e. the Trustee believes in the existence of an illiquidity premium;
10. The Fund has a competitive advantage in the property sector through Cbus Property, particularly in relation to development property;
11. Markets are broadly efficient over the long-term but can exhibit periods where prices may not reflect fundamental values. This is more evident in some markets than others and in such markets the Trustee believes active management can add value, net of expenses; and
12. Currency risk, introduced as a result of investing overseas, should be considered and treated separately to the underlying assets' risk and return characteristics.

Cbus' guiding principles are:

1. Achieving an attractive real return over the long-term is the dominant objective for the majority of Fund members. Failing to meet the investment objectives is the ultimate measure of risk. A key element of the principle of achieving an attractive real return is to have a focus on suitable downside protection, with the aim of ensuring that diversified investment options recover from market downturns within acceptable timeframes.
2. Determining the long term strategic asset allocation for investment options is the first order decision and the key determinant of investment outcomes. The Trustee is willing to adopt asset allocations that are different to that of its peers to achieve its investment objectives.
3. The Trustee can increase the likelihood of achieving its objectives by adjusting the asset allocations over the medium term, reflecting the outlook for each asset class from a risk and return perspective, and considering the Fund's liquidity profile.
4. Investment risk must be managed from a multi-dimensional perspective.
5. An investment strategy should only proceed if there is a high level of confidence that it will fulfil its role in the portfolio and that the net returns are likely to compensate for the level of risk over the medium term.
6. Appropriately detailed due diligence, aligned to the complexity of the investment, is a critical aspect of the investment process.
7. To ensure a deep understanding and knowledge of the Fund's investments, transparent designs and structures are preferred over complex arrangements.
8. History can provide a useful starting point for analysis, but does not on its own provide an accurate prediction of future outcomes and detailed forward-looking analysis is required.
9. Allocations to individual strategies should balance the need to make a meaningful contribution to the return profile and the need for adequate diversification of risk.
10. All else being the same, individual investment mandates are preferred to investment in pooled vehicles. Though, for certain asset classes, particularly in private markets, collective investment vehicles can provide significant benefits.
11. The Fund aims to develop strong relationships and collaborate with other superannuation funds, asset owners and investment managers, with the purpose of enhancing investment outcomes and access to opportunities.
12. The Fund's strong cash flow position allows it to invest in illiquid assets. That said, liquidity risk needs to be managed carefully to ensure that it does not adversely impact the Fund.

6. Investment Governance Framework Components

a. Structures

To manage the Fund efficiently the Trustee has established and delegated certain decision making authority to the Board Investment Committee, and the Investment team.

The Trustee appoints:

- Asset Consultants to provide specialist investment advice to the Fund.
- A principal custodian to administer the Fund assets.

As well as internally managed investment portfolios, the Trustee delegates the investment management of Fund's assets to professional investment management organisations.

b. People

The Trustee is fully committed to ensuring that those charged with investment decision making responsibilities are appropriately trained for making those decisions and have access to the appropriate support and information.

The Fund's Investment Team is constructed to collectively have the skills and experiences required to manage the Fund's investments, commensurate to the complexity of the investment strategy.

c. Policies and Processes

The Trustee had developed a suite of investment policy documents as part of the Investment Governance Framework. The versions available on the website are generally summarised versions.

d. Systems

The Trustee ensures that the Fund has the tools and systems it needs to provide accurate and timely data and supporting analysis.

7. Investment Strategy

The primary role of the Trustee is to prudently manage the Fund's investments, which, at its broadest level, involves developing an appropriate investment strategy, effective implementation of that strategy and
its monitoring and periodic review.

On an annual basis, the Trustee approves the Fund's Investment Objectives and Strategy Review, which documents among other things how the Fund's investment strategy meets MySuper product regulatory requirements.

Investment Objectives

The overall objective of the Fund is to maximise the retirement outcomes for members, which from an investment perspective is measured by long term net returns, on an after fees and taxes basis.

The Trustee has formulated both risk and return investment objectives for all investment options offered to members.

When setting the investment strategy for each investment option, the Trustee sets investment objectives that are aligned with the Fund's size, business mix and complexity and takes explicit consideration of, among other things, the trustee investment covenants as set out in section 52(6) of the Superannuation Industry (Supervision) Act 1993 (the SIS Act).

a. Range of Investments Options

The Trustee recognises that members have different financial circumstances and risk appetites. Therefore, the Fund offers members a range of investment options designed to allow members the flexibility to select an investment option, or combination of investment options, that best suits their particular objectives. The range of options available is reviewed regularly.

b. Setting the Investment Strategy and Risk Management

Once the investment objectives are set, the Trustee uses financial modelling to guide its determination of an appropriate investment strategy for each option. Risk budgeting is an important aspect of the investment strategy for each investment option, this ensures that risks are appropriately rewarded.

c. Stress Testing and Scenario Testing

Stress Testing and Scenario Testing are used to ensure investment options are designed to be resilient and can be expected to meet their objectives over a variety of market conditions.

d. Long Term Asset Allocations and Target Portfolios

Risk budgeting and stress testing processes are used to set the Long Term Strategic Asset Allocations (LTSAA) and the Target Portfolio for each investment option, and where appropriate, the ranges within which these exposures should be maintained.

The LTSAA represents the asset allocation expected the achieve the principal objective over the long term.

The Trustee incorporates its views of the medium-term investment environment and opportunities in the market to construct the Target Portfolio. The Target Portfolio is expected to have a higher probability of achieving the principal objective that the LTSAA, over the medium to long term.

e. Asset Class Structures and Sector Configurations

The Investment Committee formally reviews each asset class sector configuration each year (e.g. Shares, Property etc). In addition, the portfolios are subject to ongoing monitoring throughout the year by the Fund's Investment Team, supported by the Fund's Asset Consultant.

f. Rebalancing

Different asset classes will produce different returns over the same investment periods, resulting in actual allocations within investment options having the potential to shift away from the Target Portfolio.

The Trustee chooses to maintain all the Fund's investment options, other than the Growth (Cbus MySuper) option, at their Target Portfolio, by rebalancing each week. The Growth (Cbus MySuper) option is used to facilitate the rebalancing and, therefore, its actual asset allocation will reflect, among other things, the residual exposures, including any over or under weight to illiquid assets, of the Fund after the other investment options are rebalanced.

g. Liquidity

The Trustee believes that additional returns can be achieved through exposure to illiquid assets over the long term. Exposure to illiquid assets can also provide the Fund with diversification benefits and a reduction in volatility, due to different exposures to risk factors and the approval based valuations of unlisted assets. The Trustee recognises that the Fund needs to maintain a degree of liquidity in each investment option to meet its ongoing obligations to its members.

The Trustee's approach to managing liquidity risk is covered in more detail in the Liquidity Management Plan. A summarised version of this is available on the website.

h. Valuations

Accurate and timely asset valuations are important to ensure equity is maintained across new, continuing and existing members. The Trustee's approach to managing asset valuations is covered in more detail in the Asset Valuation Policy.

i. Use of Derivatives

Derivatives (such as futures, forwards and options etc), are financial assets or liabilities whose value depends on, or is derived from, other assets, liabilities or indices. Derivatives have an important role in the Fund's overall investment strategy and when used must be consistent within to overall objectives of the investment strategy. The Trustee's approach to managing derivatives are set out the Fund's Derivative Management Policy.

j. Costs and Fees

The main costs that may be incurred through investments include fees or changes associated with investment managers, investment advisors, custodians, transition managers, lawyers, tax advisors and the investment team.

When considering a potential investment, the Trustee examines the fees and costs associated with buying, holding and realising that investment. The Trustee accepts the costs associated with transacting unlisted assets are generally higher than listed markets. These costs are included in the overall cost benefit analysis and due diligence of those investments.

k. Taxation

The Trustee considers the impacts of taxation as an important factor when developing its investment strategies. The Trustee may seek specialist taxation advice, when deemed appropriate to do so.

l. Currency hedging

The Fund is exposed to currency risk as a result of investing in international assets. The Fund considers the currency risk of an investment separately to the investment characteristics of the underlying assets.

Further details of the Fund's current approach to managing currency risk are set out in the Currency Management Plan.

m. Performance Based Fees

On occasion, and for some asset classes in particular the Fund may enter into contracts where the reward structure consists of both a base fee and a performance related element. These arrangements are considered on a case by case basis with the due diligence covering the requirements set out in section 29VD of the SIS Act.

n. Responsible Investment

The Trustee believes that Environmental, Social and Governance (ESG) issues, including climate change are material investment matters and as such should be incorporated into investment processes.

Further details of how the Trustee implements ESG principles into its investment strategy are outlined in the Responsible Investment Policy.