Cbus Policy

Liquidity Policy

Note that this is a summary of the policy.

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Cbus' Trustee: United Super Pty Ltd
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Purpose and objectives of the policy

This document summarises the key elements of the United Super Pty Ltd (**the Trustee**) Liquidity Policy, (**the Policy**) for the Construction and Building Unions Superannuation Fund (**the Fund**).

The purpose of the Policy is to describe the Fund's understanding and definition of liquidity and liquidity risk in the context of the Fund, including setting out the principles and strategies the Fund considers when managing liquidity risk in both normal and stressed liquidity environments.

1. Definitions

APRA means the Australian Prudential Regulation Authority.

Asset means any item expected to provide future economic benefit.

Director has the same meaning as in the Corporations Act 2001.

Executive means the Executive Committee of the Fund.

Fund is the Construction and Building Unions Superannuation Fund.

IC is the Investment Committee.

Illiquid Investment is an investment that cannot be converted to cash within, or reasonably close to, 30 days or where conversion to cash over that period, by itself, would have significant adverse impact on its realisable value.

Liquidity Event occurs when the allocation to illiquid assets in the Growth (Cbus MySuper) option rises, or is reasonably expected to rise, above the Risk Appetite threshold.

Liquidity Risk for the Fund is the risk that the Fund is unable to meet its financial obligation to beneficiaries as they fall due, either at all or by selling assets at materially discounted prices.

LTSAA means the Long Term Strategic Asset Allocation.

Prudential Standard means a standard determined by APRA under subsection 34C(1) of the Superannuation Industry (Supervision) Act 1993.

RSE licensee means the Trustee

RSE licensee law means:

- The *Superannuation Industry (Supervision) Act 1993* and the *Superannuation Industry (Supervision) Regulations 1994*;
- Prudential standards;
- *Financial Sector (Collection of Data) Act 2001*;
- Financial Institutions *Supervisory Levies Collection Act 1998*; and
- Provisions of the *Corporations Act 2001.*
- Trustee is United Super Pty Ltd

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 Fund is at all times responsible for the Fund's investments, including establishing, reviewing and giving effect to an investment strategy for each investment option that has regard to the liquidity of the investments covered in the strategy and the expected future cash flow requirements.

4. Key legislation and regulatory requirements

In designing the approach for managing the Fund's liquidity risk, the Fund has expressly considered the key legislative requirements as set out in RSE licensee law and Prudential Standards, as amended from time to time.

5. Definition of an illiquid investment and liquidity risk

The liquidity of an investment is generally considered to be a measure of how quickly it can be converted to cash, without negatively impacting its value. Hence, the key factors that influence liquidity levels in an investment relate to its nature and characteristics, such as:

- The type of investment, e.g. equity, bond, property;
- The structure of the investment, e.g. direct holding, units in a trust, pooled superannuation trust;
- The marketability of the asset;
- Whether the asset trades on listed or private markets; and
- The size of the holding relative to normal trading volumes.

The Fund recognises that the liquidity of an investment is a not a discrete factor and can change significantly over time depending on market cycles and economic activity.

6. Liquidity profile

The Fund manages most of its investments via a pooled arrangement in which the underlying assets from each diversified option are invested collectively across the various asset classes. The allocation to these asset classes within each option is the main determinant of the overall risk and return characteristics, including an option's liquidity profile. The Fund first aims to understand the liquidity characteristics of each asset class before developing target exposures for the individual options.

7. Liquidity risk control framework

Aligned to RSE licensee law, the Fund identifies liquidity risk as a material risk. As such, the Fund's Risk Register sets out the control framework for managing liquidity risk. The Board sets the Liquidity Risk Appetite.

The Fund's approach to managing liquidity risk involves:

- Explicitly considering liquidity when setting and reviewing asset allocations for each option;
- Monitoring key indicators of changes in net cash flow and/or investment markets;
- Regularly testing liquidity in the Fund over a range of stressed scenarios; and
- Maintaining a Liquidity Action Plan for managing liquidity crisis events.

While the Fund has a Liquidity Action Plan to help guide its response to a Liquidity Event, the Fund's strong preference is to avoid a Liquidity Event by identifying and responding to lead indicators that liquidity risk is building before a crisis eventuates. The Fund has in place a comprehensive liquidity monitoring system, which is designed to identify such signs and allow the Fund to react before the liquidity crisis occurs.

Identifying potential risks in advance is an area of focus for the Fund. While it is not always possible, proactively avoiding risk is preferred to reacting after it materialises.

8. Liquidity stress testing

The Fund assesses liquidity under a range of plausible yet less favourable scenarios to ensure that the level of liquidity risk is unlikely to meaningfully deviate from general expectations. Such stress testing is useful in helping determine whether adjustments to the portfolio need to be made.

Every six months, the Fund conducts a liquidity review that includes stress testing the Growth (Cbus MySuper) option to ensure the level of liquidity risk remains within the Fund's tolerance levels. The stress testing involves assessing the impact on liquidity from a series of shocks, with each shock calibrated based on extreme movements in history.

While stress testing forms part of the Fund's six-monthly liquidity review, its frequency may be increased from time to time if deemed appropriate by the Fund.

9. Liquidity action plan

The Liquidity Action Plan (**the Plan**) outlines what action will be taken when a liquidity event occurs.

The Chief Investment Officer is responsible for reporting all Liquidity Events to the Investment Committee and the Investment Committee is responsible for understanding the causes that led to the Liquidity Event and formulating a response.

The Trustee can enact the Liquidity Action Plan at any time and must do so if the exposure to illiquid assets in the Growth option breaches the upper threshold. A breach of the limit represents the upper threshold of the Fund's risk appetite and requires immediate remedial action.

The strategy for managing a liquidity crisis cannot be overly prescriptive as the appropriate course of action will be dependent upon the circumstances that prevail at the time of the Liquidity Event. Reflecting this, the Liquidity Action Plan considers key high level responses that are likely to be relevant in most crisis situations. Generally, there will be five phases to any liquidity action plan:

- Identification and evaluation of a potential liquidity crisis;
- Liquidity crisis escalation procedures;
- Consideration of the implementation of contingency measures;
- Implementation of the response; and
- Increased monitoring and reporting.