



# **Powerhouse Ventures Limited (PVL)**

## **Capital and Liquidity Management Policy**



## A. PURPOSE

The purpose of this policy is to provide for the orderly and efficient management of working capital, cash and near cash assets to ensure that PVL is able to:

- comfortably meet its own operating expenses;
- invest in existing portfolio companies and new investment opportunities as they arise and are recommended by the Investment Committee;
- avoid forced asset sale situations;
- avoid stressed negotiations for debt limits and pricing;
- take full advantage of favourable market conditions for equity capital raising; and
- avoid the need to raise capital under subdued market conditions

For PVL, “working capital management” includes “equity capital management” as this is the primary means for funding PVL operations during the “investment cycle” of balance sheet utilisation. PVL is unlikely to generate sufficient operational cashflow to fund its operational and investment activities in the short term. It is likely to be dependent on profits from asset sales and capital raising as required.

## B. INTEGRATED CAPITAL (AND WORKING CAPITAL) MANAGEMENT STRATEGY

As PVL is unlikely to be able to fund its operations to a significant degree through borrowings, reliance on equity capital markets will be at the heart of this Capital and Liquidity Management Policy. An integrated planning capability is required of PVL, to ensure the following routine finance tasks come together to establish a strategic view.

The following table shows the business outputs to create the Integrated Plan.

Task	Owner	Function	Output
Strategy	Board / Exec	Strategic planning	Strategic plan CSFs and KPIs
Strategic asset allocation	Board / Exec	Asset management	Investment risk appetite Investment portfolio Balance sheet utilisation
Business operation	Assets and Liabilities Committee	Investment operations	Business plan Portfolio construction Investment and liquidity events
Capital management	Assets and Liabilities Committee	Capital management	Balance sheet structure Profit, ROFE and EVA Dividends Capital Management Plan Budget Cash flow forecast



Task	Owner	Function	Output
Risk management	Assets and Liabilities Committee	Risk management	Risk Policy & Framework Risk Velocity Risk Appetite Statement Risk Register
Reserving and buffers	Assets and Liabilities Committee	Capital and liquidity management	Investment loss ratios Experience analysis Scenario analysis Budget Capital Management Plan (includes investable allocation)
Performance analysis	Assets and Liabilities Committee	Portfolio and PVL analysis	Management reporting
Financial reporting	CFO	Financial reporting	Financial statements ASX releases

The benefits associated with adoption of this integrated approach to capital (and liquidity) management include:

- alignment of strategy and risk (understand risk versus returns);
- well considered and strategic allocation of capital;
- increased stakeholder confidence;
- Management and Board collaboration;
- strategic analysis of new opportunities;
- “one version of the truth”;
- alignment of Management actions and rewards; and
- timely reporting.

Adoption of this integrated approach to capital and liquidity management and risk by PVL does not mean integration will be achieved. PVL’s Corporate Governance Framework includes regular assessment of Committee performance. It is expected that these processes will lead to iterative improvement and alignment over time.

### C. PVL BUDGET

PVL’s Operating and Capital Budget processes will include:

- detailed profit, cash-flow, balance sheet and capital management plan;
- KPI analysis and graphical presentation of critical measures; and
- discussion and analysis.



Budget reports will compare budget to past-year achieved. Ongoing management reporting will include actual month and year-to-date to budget and forecast information.

## D. TARGET LIQUIDITY LEVELS

This Policy sets the requirements for:

1. minimum liquidity and liquid asset holdings;
2. reporting;
3. liquidity management under NORMAL CIRCUMSTANCES; and
4. liquidity management under LOW LIQUIDITY CONDITIONS

### 1. Minimum Liquidity and Liquid Asset Holdings

PVL will maintain the following balance sheet asset construction, designed to *maximise financial return whilst preserving flexibility* and the ability to meet business critical objectives established in this Policy. The limits apply where cash balances exceed those required to prudently meet the ongoing operations of the business.

	<b>Financial Assets</b> (non-investee company related only)	
<b>A1</b>	Cash & Cash Equivalents <sup>1</sup>	> A minimum of budgeted 2 years' net cash burn from central operations
<b>A2</b>	Investments in term deposits >90 days	Any excess funds not required to fund ongoing operations or near-term investment commitments.
<b>B1</b>	Investments in ASX-listed securities (Level 1 assets)	Maintain set balance between: <ul style="list-style-type: none"> <li>• Tradeable v restricted securities</li> <li>• L1A, L1B and L1C assets</li> </ul>
<b>B2</b>	Investments in cash-like investments, redeemable within 30 days	Any excess funds not required to fund ongoing operations or near-term investment commitments.

<sup>1</sup> In accordance with AASB 107 Statement of Cash Flows, Cash & Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in capital value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of three months or less from the date of acquisition.

### Tainting - IFRS 9 - Financial Instruments

Particular care will be taken to ensure that any B1 or B2 instruments purchased will be able to be held-to-maturity or be able to be liquidated in an orderly manner, so as to avoid tainting of held to maturity portfolios (noting that in Australia in certain cases early redemption of term deposits is not permitted).

### Maturity



The CFO will ensure that wherever possible (whilst preserving scale efficiencies), staggered maturity/roll-over dates will be employed within the liquid asset portfolio.

### Counterparty Risk

To minimise counterparty risk where practicable, and allowing for efficiencies of scale, the Board / Exec shall periodically review the composition of the liquid asset pool with a view to minimizing exposure to any one institution.

### Market Liquidity Risk

Market Liquidity Risk is the risk that insufficient liquidity in the market for a security will limit the ability of the security to be sold, resulting in PVL suffering a financial loss.

PVL will be subject to market liquidity risk if investments are made in relatively illiquid securities. The objective of PVL's market liquidity risk management is to ensure that assets can be readily liquidated without incurring excessive cost, to enable asset allocation decisions to be implemented or to meet cash flow requirements.

### Interest rate risk

Interest rate risk is the risk that PVL could suffer either a capital loss or additional exposure to liquidity risk through adverse movements in interest rates. The objective of PVL's interest rate risk management is to ensure that PVL is not exposed to a level of interest rate risk, outside those limits anticipated through the structured approach envisaged in this Policy.

PVL will manage interest rate risk by ensuring tactical asset allocation that provides for the effective management of interest rate and associated liquidity risk. The approach to managing the investment of funds will ensure that there is adequate matching of the duration of assets with the likely cash needs of the business. PVL will monitor the effect upon yield and liquidity of probable movements in interest rates and manage its liquid asset holdings accordingly.

### Equity price risk

Equity price risk is the risk that PVL investments in equities will be exposed to movements that are not correlated to the general or targeted market. The objective of equity price risk management is to achieve a return equal to or better than the set performance benchmarks for that asset class. PVL will manage equity price risk by monitoring and management of its investments.

This risk is limited to the investment portfolio.

### Ratings

Any A1 or A2 investments must be with institutions that have a short term S&P (or equivalent) credit rating of A-2 or higher.

All B1 and B2 investments must have an S&P (or equivalent) credit rating of A or higher or be considered an investment grade investment product.

## **2. Reporting**



Reporting requirements are as follows:

<b>Report***</b>	<b>Reviewed by</b>	<b>Frequency</b>
Weekly cash forecast (for at least one month)**	CFO	Monthly
Weekly cash forecast (for at least one month)**	Board	Monthly
Monthly cash forecast rolling for 9 months	CFO	Monthly
Monthly cash forecast rolling for 9 months	Board	Monthly
Monthly cash forecast rolling for 2 years *	CFO and CEO Audit & Risk Committee	Annually
Investment Funds Availability Report	CEO and CIO	Monthly

\* *To be included in Budget pack annually*

\*\* *Under low liquidity conditions*

\*\*\* *When cashflow forecasts show cash balances falling below \$1.5m the CFO is to provide reports directly to the Board.*

### Scenario Analysis

Scenarios will be considered when developing cash forecasts.

Scenarios will be constructed for the following business conditions when a capital raise is planned within three months:

1. Normal capital market conditions
2. Distressed capital market conditions (price impact but capital still freely available)
3. Distressed capital market conditions (capital raising ability constrained)
4. Distressed capital market conditions (markets closed)

### Report Reliance

All standard reports will require source data on a “well considered estimate to highly accurate/precise” basis. It is the responsibility of the CFO to ensure the correct level of precision and materiality is applied to the various reports. Implying reporting precision can lead to unintended comfort levels within the business, when the weak link in the analysis is actually a global assumption rather than the second decimal point figure.

### Report Messages

All Capital Management and Liquidity reporting will be designed to ensure the key messages and critical periods are easily discerned, to ensure the focus of decision makers within PVL.

The construction of and proposed, recommended or required changes to liquid asset portfolios will be integrated with all Capital and Liquidity management reporting.



## Benchmark Reporting

- Equity Capital Raising - Benchmarks for equity raising quantities, pricing and timing will be determined by the Board
- Corporate Borrowings - No approved corporate borrowings / debt facilities are in place currently.

### **3. Liquidity Management under Normal Conditions**

Under normal capital and working capital operating conditions, the Delegations Policy will specify authorities and responsibilities for business operation.

### **4. Liquidity Management under Low Liquidity Conditions**

Under low liquidity conditions, the following Capital and Working Capital Management activities will occur.

#### Formation of the Liquidity Management Committee (LMC)

A special purpose Committee will immediately be formed, comprised of:

- Managing Director / Chief Executive Officer / Executive Chairman (CEO);
- Chief Investment Officer; and
- Chair of the Audit and Risk Committee.

All other Directors will be advised of LMC meeting arrangements and are entitled to attend all meetings.

The LMC will immediately review all relevant capital management and working capital reports, as well as financial asset held-to-maturity and available-for-sale designation portfolios. An immediate available-for-sale stance will be adopted for all future asset roll-overs and purchases.

Sale recommendations for all financial assets will be prepared by LMC.

The LMC will consider the following:

- exit profile and options for all investee company holdings; and
- deferral options for all future investments

The Finance Manager will integrate this information into cashflow reporting scenario analysis for report to the LMC and ultimately the Board.

#### Chair Briefings

The Chair will be briefed on all LMC meeting outcomes and deliberations.

## Board Reporting

The Board will receive reports twice monthly during any period in which the LMC has been formed and low liquidity conditions declared.

#### End of Low Liquidity Conditions



When low liquidity conditions ease, the CFO will provide the MD with a concise report detailing the improved situation and declaring the end of the low liquidity period. At this time, normal operation of capital and working capital management (including Investment Committee operation) will resume.

The MD / CEO will then communicate the resolution to the Chair and to the Board.

#### **E. Internal Audit**

The processes detailed in this Policy are of such importance to PVL that internal audit focus will be required to ensure the integrity of reports and processes. Improvement pathways are to be agreed and resourced.

#### **F. References**

Governance & Risk Management Framework  
Risk Appetite Statement  
Risk Management Process (and records)  
Strategic Plan  
Budget