



# **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
- 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. It is likely to be dependent on continuing cycles of capital raising.

## 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.

### **Business outputs to create the Integrated Plan**

<b>Task</b>	<b>Owner</b>	<b>Function</b>	<b>Output</b>
Strategy	Board / MD	Strategic planning	Strategic plan CSFs and KPIs
Strategic asset allocation	Board / MD / Investment Committee	Asset management	Investment risk appetite Investment portfolio Balance sheet utilisation
Business operation	MD / COO	Investment operations Investment Committee	Business plan Investment and divestment
Capital management	CFO /GFC	Capital management	Balance sheet structure Profit, ROFE and EVA Dividends Capital Management Plan Budget Cash flow forecast
Risk	Audit & Risk	Risk management	Risk Framework

management	Committee / CFO / General Counsel		Risk Policy Risk Appetite Statement Risk Register
<b>Task</b>	<b>Owner</b>	<b>Function</b>	<b>Output</b>
Reserving and buffers	Board / Audit & Risk Committee/ CFO	Capital and liquidity management	Investment loss ratios Experience analysis Scenario analysis Budget Capital Management Plan <i>(includes Investment Committee investable allocation)</i>
Performance analysis	CFO	Portfolio and PVL analysis	Management reporting
Financial reporting	CFO	Financial reporting	Financial statements Exchange 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
- 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, with particular focus on Investment Committee activities and their influence on PVL business outcomes.

**C. PVL Budget**

PVL’s Operating and Capital Budget processes are growing in sophistication in response to the changed business model. They will include:

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

Budget reports will compare budget to past-year achieved. Ongoing management reporting will include month actual 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
4. liquidity management under CRISIS CONDITIONS

##### 1. Minimum Liquidity and Liquid Asset Holdings

Post IPO, 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:

	<b>Financial Assets</b> (non-investee company related only)	
<b>A1</b>	Cash	At least 30%
<b>A2</b>	Investments in term deposits <= 180 days	At least 30% until financial assets fall to below \$5 million
<b>B1*</b>	Investments in bank listed hybrids (<= 2 years to maturity)	Maximum of 20% but reducing to nil when financial assets fall to below \$5 million
<b>B2*</b>	Investments in (non-investee company designated) NZA corporations listed debt securities (<=2 years to maturity)	Maximum of 20% but reducing to nil when financial assets fall to below \$5 million

### Tainting - IAS 39 - Financial Instruments

Particular care will be taken to ensure that any B1 or B2 instruments purchased will be able to be held-to-maturity, so as to avoid tainting of held to maturity portfolios.

Discrete pools of B1 or B2 financial assets will be created to be designated as Trading Assets (available for sale). These assets will be liquidated prior to any held-to-maturity assets with the aim of preserving the accounting integrity of the held-to-maturity portfolios (and thereby enabling their continuing carrying values and isolation from fair value accounting).

It is anticipated that financial instruments designated as “available-for-sale” will comprise 50% of the B1 and B2 financial asset portfolio.

### 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, no more than 30% of any category of the liquid asset pool can be invested with 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 B1 and B2 portfolio.

Ratings

All B1 and B2 portfolio investments must have an S + P (or equivalent) credit rating of A or higher.

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

**2. Reporting**

Reporting requirements are as follows:

<b>Report **</b>	<b>Reviewed by</b>	<b>Frequency</b>
Weekly cash forecast (for one month)	CFO	Weekly
Monthly cash forecast rolling for 1 year *	CFO	Monthly
Monthly cash forecast rolling for 3 years *	CFO	Quarterly
Monthly cash forecast rolling for 3 years *	MD and CFO Risk Committee	Quarterly
Investment Funds Availability Report	MD and COO Investment Committee	Monthly or Quarterly***

*\* to be included in Budget pack annually*

*\*\* all reports are to include key assumptions table*

*\*\*\* to be considered*

## Scenario Analysis

All cash forecasts will be developed with scenario analysis.

Scenarios will be constructed for the following business conditions:

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 as a part of the Due Diligence process for IPO.

- Corporate Borrowings

Benchmarks for corporate borrowing committed and uncommitted facilities will be determined following the roll-up of co-investor interests. Once PVL’s net assets approach \$20 million, conversations will begin with potential financiers. It is anticipated that post IPO, the following finance lines will be established:

- uncommitted revolving debt facilities totalling \$5 million (from at least 2 Banks)
- committed revolving debt facilities totalling \$10 million ( from at least 2 Banks)\*

*\*fixed and floating charge over the assets and undertakings of PVL to be considered.  
Potential for margin lending facility against listed shares to be considered.*

Detailed reporting against equity and borrowing benchmarks will be put in place prior to the proposed IPO.

### **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 Crisis Conditions**

Under crisis conditions, the following Capital and Working Capital Management activities will occur:

#### Formation of the Liquidity Crisis Committee (LCC)

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

- Chief Financial Officer (Chairman and Secretary of the Committee)
- Managing Director (MD)
- Chief Operating Officer
- Group Financial Controller
- Chairman of the Audit Committee

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

The LCC 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 the CFO.

The Investment Committee will be requested to consider the following:

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



The CFO will integrate this information into cashflow reporting scenario analysis for report to the LCC and ultimately the Board.

#### Chairman Briefings

The Chairman will be briefed on all LCC meeting outcomes and deliberations.

#### Board Reporting

The Board will receive at least weekly reports during any period in which the LCC has been formed and crisis conditions declared.

#### End of Crisis

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

The MD will then communicate the resolution to the Chairman 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**

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