

Managed Portfolio Liquidity Risk Management Statement:

Purpose:

The Managed Portfolios Liquidity Risk Management Statement is to outline the processes and controls in place to manage the scheme liquidity to ensure that:

- redemption provisions contained in the Disclosure Document are appropriate;
- the managed portfolio and scheme has sufficient liquidity in place to meet net investor outflows and scheme liabilities;
- the *Managed Portfolio* meets its statutory and constituent liquidity obligations; and
- there is an assessment of stressed scenarios relevant to the portfolio of assets.

Managed Portfolios Liquidity Investment Risk Management Measures

a. Investment process

(Please outline your processes to consider Managed Portfolios liquidity when constructing the portfolio/making investment decisions)

Processes to consider when analysing liquidity in Managed Portfolios/investments includes Liquidity Risk, Sources of Liquidity Risk, Asset Distributions, Liquidity Profiling. Once the framework has been analysed and assessed, thorough Liquidity Stress Testing is prepared leveraging capability we have built over the last 20 years providing liquidity stress testing for APRA regulated Superannuation Fund investment strategies. An overview of the processes are outlined below.

Liquidity Risk

Liquidity Risk is defined as “...the risk that financial obligations cannot be met as and when they fall due – either at all or only by incurring significant expected costs”.

Adequate liquidity is required to support a range of obligations, including:

- Investor related obligations, including the ability to process applications, redemptions and investment switches in accordance with timeframes provided for within the disclosure documents and to reinvest any distributions received according to investment instructions.
 - Obligations to other stakeholders, including the ATO for payment of taxes due and service providers for payment as required under the various contractual arrangements, including the payment of insurance premiums to secure benefits for members.
- Recognising the portability rules, an asset is considered illiquid if it cannot be converted to cash within a 30-day period. Liquidity can be categorised in four ways, as follows:
- Very liquid: Redeemable within a period of 7 business days or less
 - Liquid: Redeemable within a period of 30 days or less
 - Moderately illiquid: Redeemable within a period of 3 months
 - Illiquid: Redeemable after 6 months or more.

Sources of Liquidity Risk

As outlined in Table 1 below, the two key sources of liquidity risks are Market Illiquidity Risk and Funding Illiquidity Risk.

Table 1: Sources of Liquidity Risks

Liquidity Risk	Description	Key Drivers
Market Illiquidity Risk	The risk that investments will not be able to realise fair market value when selling down investments in a timely enough manner to meet associated obligations.	- Liquidity Profile of underlying investments - Market conditions at the time that sell down instructions are to be executed
Funding Illiquidity Risk	The risk that investments will not be able to meet payment obligations to members, service providers and as provided law as they fall due, in a cost efficient and timely manner.	Payment obligations of the Fund, arising from member-initiated requests, contractual arrangements with service providers and regulatory requirements.

Asset Liquidation Plan

Establishing a plan for the orderly, prioritised sell down of assets to meet liquidity requirements. By having such a forward plan which prioritises the sale of investments to enable the fund to meet its liquidity needs, the management will seek to mitigate the requirement for a ‘fire-sale’ of assets at less than optimum prices. A register of priority of sale plan for illiquid assets is maintained and attached as an Appendix A.

Asset Distributions

Distributions of income and capital from underlying assets can provide a source of liquidity. Decisions of the timing and amount of the distributions are made by the underlying investment managers.

Liquidity Profiling

Key factors that influence liquidity levels in an investment relate to:

- The type of investment, e.g. equity, bond, property;
- The structure of the investment, e.g. direct holding or units in managed funds;

The marketability of the asset or whether the assets are traded in liquid or private markets. The liquidity of the underlying investment options is subject to formal review - conducted on at least an annual basis, in line with APRA’s SPS 530 Investment Governance Framework.

Liquidity Stress Testing Program

The liquidity stress testing program ensures that there is sufficient liquidity within the Managed Portfolio/investment options in the event of an adverse liquidity event.

An adverse liquidity event is defined as any event that leads to a liquidity shortfall that is unlikely to be remedied within 30 days. To ascertain the expected quantum of liquid assets required to prevent an adverse liquidity event, analysis has been conducted based on:

- Historical net cash flows across the member investment options,
- Liquidity positioning of the investment options based on most recent holdings, and
- Hypothetical cash outflows of 10% across the investment options with expected investment returns incorporated and simulated within the liquidity stress testing models.

Stress testing is performed at three distinct levels:

➤ Analysis 1 – Cash Flow Stress Testing – Historical Analysis.

Scenario analysis is undertaken on historical net cash flows to ascertain the optimum amount of liquid assets required to meet cash flow requirements. Implications of the cash flow stress testing may include a re-assessment of the investment strategy, including strategic asset allocation and/or investment objectives.

➤ Analysis 2 – Stress Testing of Asset Class and Investment Strategy Liquidity based on current asset allocation.

Liquidity expectations of each of the asset classes and the investment strategy under normal market conditions is identified and compared against a series of downside experiences of extreme market conditions.

➤ Analysis 3 – Forecast Liquidity Stress Testing – Market Conditions and Cash Flow.

Forward-looking liquidity stress testing and analysis is conducted incorporating forecast market returns and current funds under management.

Position limits

(Where relevant please outline where position limits or minimum holdings in cash/cash equivalents or other short term money market instruments are used to manage Managed Portfolio liquidity)

Atchison requires a minimum cash holding ranging from 1% to 15% to be held in members accounts to ensure there are sufficient liquid funds in place to meet scheme liabilities (fees and expenses). This is dependent on the type of SMA and the associated risk profile of the client. This also doesn't factor in short duration, Australian Equities and International Equities.

Please see below a breakdown of both our Active and Dynamic ETF SMA Portfolio's broken down by risk profile and asset class.

ACTIVE	Conservative	Moderate	Balanced	Balanced Growth	Growth	Aggressive
Australian Shares	8.0	16.0	23.0	30.0	35.0	42.0
International Shares	7.0	15.0	20.0	25.0	32.0	40.0
Real Assets	2.0	3.0	4.0	5.0	6.0	2.0
Alternatives	3.0	6.0	8.0	10.0	12.0	15.0
Long Duration	40.0	30.0	22.5	12.5	7.0	0.0
Short Duration	22.0	18.0	13.5	10.0	5.0	0.0
Cash	18.0	12.0	9.0	7.5	3.0	1.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
Listed Equities	15.0	31.0	43.0	55.0	67.0	82.0
Real & Alternatives	5.0	9.0	12.0	15.0	18.0	17.0
Defensive	80.0	60.0	45.0	30.0	15.0	1.0
Growth	20.0	40.0	55.0	70.0	85.0	99.0

DYNAMIC ETF	Conservative	Moderate	Balanced	Balanced Growth	Growth	Aggressive
Australian Shares	10.0	20.0	28.0	35.0	42.0	50.0
International Shares	8.0	17.0	23.0	30.0	37.0	47.0
Real Assets	2.0	3.0	4.0	5.0	6.0	2.0
Alternatives						
Long Duration	40.0	30.0	22.5	12.5	7.0	0.0
Short Duration	22.0	18.0	13.5	10.0	5.0	0.0
Cash	18.0	12.0	9.0	7.5	3.0	1.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
Listed Equities	18.0	37.0	51.0	65.0	79.0	97.0
Real & Alternatives	2.0	3.0	4.0	5.0	6.0	2.0
Defensive	80.0	60.0	45.0	30.0	15.0	1.0
Growth	20.0	40.0	55.0	70.0	85.0	99.0

b. Post investment

(Please outline your controls in place to monitor the Managed Portfolio liquidity and frequency the review is undertaken. This should describe any daily, monthly, quarterly and annual reviews conducted to assess the portfolio in normal and abnormal market conditions. In terms of assessing the Managed Portfolio liquidity in abnormal conditions you should outline how stressed scenarios are determined, types of scenarios tested and how such results are reviewed and used. Under the RG there is an expectation that stress testing is conducted at least annually and that there is a review of the scenarios to ensure the scenarios tested remain appropriate. If stress testing is not undertaken then under the RG you are required to explain why not and how often you review the basis for not conducting stress testing to assess this remains appropriate).

As outlined in question one, the process for monitoring Managed Portfolio Liquidity includes assessment and analysis of Liquidity Risk, Sources of Liquidity Risk, Asset Distributions, Liquidity Profiling. Once the framework has been analysed and assessed, thorough Liquidity Stress Testing is conducted annually in normal/abnormal market conditions (as outlined below):

Stress Testing

Extensive scenario testing of investment returns, the frequency and depth of drawdowns, and investment objective based on the SAA has been conducted for Atchison.

- 20-year historical analysis has incorporated actual asset class returns generated for each annual period to 31 March 2023.
- Forecast analysis has utilised randomly generated returns to generate large number of possible scenarios, each simulating asset class performance over periods in alignment with the options' specific investment objectives Cholesky modelling has been employed to forecast a set of randomly correlated asset class returns in collaboration with the Asset Consultant asset class return and volatility forecast and the Monte Carlo Simulation modelling to test large number of investment return simulations. A brief overview of the Cholesky decomposition and Monte Carlo Simulation follows.

Cholesky Modelling

Cholesky modelling generates a series of randomly correlated returns on basis of historical asset class returns. The underlying assumption is that correlation of future returns will be similar to historical correlations.

Below is a brief overview of the steps involved in Cholesky modelling.

- A matrix of historical correlation between asset classes has been calculated over a 20-year period to 31 March 2023.
- A large set of uncorrelated return scenarios are generated using the expected return and volatility of return profile of asset classes.
- The Cholesky decomposition technique transforms the set of uncorrelated returns into returns that are similarly correlated to the historical correlation matrix. The Cholesky decomposition is commonly used in conjunction with Monte Carlo simulation to run a large range of scenarios. Results of the scenarios are analysed from a statistical perspective.

Monte Carlo Simulation Analysis

Monte Carlo simulation is a widely used technique in scenario analysis. Analysis has been conducted by performing 1,000 iterations of randomly generated Cholesky decomposition correlated asset class returns series. The model subsequently generates a series of probable outputs, from which the average or mean, ranges and 95% confidence limit for a particular test can be observed. Monte Carlo simulation is a widely used mathematical technique that allows financial analysts and investment managers to account for variability in their process, thus enhancing quantitative analysis and decision-making processes.

Stress Test Scenario Determination

➤ Hard limit scenario:

50% market drawdown in liquid growth assets

Immediate 10% member redemptions

100% reduction in modelled net member inflows

Unlisted assets adjusted for current forecast peak commitment

➤ Soft limit scenario:

30% market drawdown in liquid growth assets

50% reduction in net member inflows for next 3 years (compared to last 3 year historical)

Unlisted assets adjusted for expected peak net drawdown over next 3 years

Oversight Measures

(Please outline oversight measures in place to also ensure the portfolio team are managing Managed Portfolio liquidity, for example, independent post mandate monitoring process, independent risk management team monitoring and reporting to management on portfolio risk metrics which include liquidity, involvement of an investment or Risk Committee which may have members independent of the portfolio manager/portfolio management team)

We have developed a portfolio management tool - that enables investment mandate rules to be specified and then tested on a daily basis against actual allocations. Our system flags where allocations are approaching limits and calculates required trades to rectify. Our system provides a dashboard of limits, deviations and how close mandate thresholds are - to preventatively rebalance portfolios well before any breaches are triggered. Stress testing of portfolios provides an understanding of the expected deviation in outcome under stressed market conditions. In addition, independent allocation reports will be generated from the platform CFS - and provided for

compliance reconciliation purposes of exposures reported. Where an actual mandate is breached, the breach will be reported and rectified, and analysis prepared of the causes of the breach of controls and mitigation steps to avoid similar events

Additionally, in managing liquidity risk the following matters may also be included:

- Cash flow projections and past cash flow will be prepared regularly to check the liquidity level needed.
- Whether there are appropriate early warning indicators of liquidity risk.

Normal vs Stressed Liquidity Conditions

- Most assets can be liquidated in 30 days under both normal and stressed liquidity conditions.
- These investment options are therefore deemed liquid.

Liquidity Profile

The tables below provide an extract of liquidity analysis specific to the SMA portfolio strategies, and indicate the estimated time to liquidate assets within each single asset class and each allocation under a normal and stressed economic environment.

7.1 Liquidity Profile

The tables below indicate the Asset Consultants expected time to liquidate assets within each single asset class and each allocation under a normal and stressed economic environment and the stacked bar charts display the liquidity profile of both the actual and strategic asset allocations under normal and stressed liquidity conditions. The licensee is required to be aware of the likely liquidity of different underlying investment strategies under stressed financial market conditions.

Table 61: Liquidity in days per asset class

Asset Classes	Normal Liquidity (Days)	Stressed Liquidity (Days)
Australian Equities	2.0	10.0
Australian Equities - Small Cap	5.0	180.0
International Equities - Unhedged	5.0	15.0
International Equities - Hedged	5.0	15.0
International Equities - Small Cap	5.0	180.0
AREITs	5.0	10.0
GREITs	5.0	15.0
Australian Direct Property	365.0	1825.0
Global Listed Infrastructure - hedged	5.0	10.0
Global Unlisted Infrastructure	365.0	1825.0
Alternatives - Growth Illiquid	366.0	1825.0
Australian Fixed Interest	5.0	15.0
International Fixed Interest	5.0	15.0
Inflation Linked Government Bonds	5.0	15.0
Floating High Yield Credit	10.0	180.0
Cash	1.0	1.0
Alternatives - Defensive	30.0	365.0

Table 51: Liquidity asset allocation for Atchison Atchison55

Liquidity	Current SAA Normal(%)	Current SAA Stressed(%)
Liquid assets (<= 30 days)	97.5	83.4
Illiquid assets (> 30 days)	2.5	16.6

Table 52: Liquidity asset allocation for Atchison Atchison70

Liquidity	Current SAA Normal(%)	Current SAA Stressed(%)
Liquid assets (<= 30 days)	96.9	81.8
Illiquid assets (> 30 days)	3.1	18.2

Table 57: Liquidity asset allocation for Atchison Atchison55 ETF

Liquidity	Current SAA Normal(%)	Current SAA Stressed(%)
Liquid assets (<= 30 days)	98.8	92.0
Illiquid assets (> 30 days)	1.2	8.0

Table 58: Liquidity asset allocation for Atchison Atchison70 ETF

Liquidity	Current SAA Normal(%)	Current SAA Stressed(%)
Liquid assets (<= 30 days)	98.5	93.5
Illiquid assets (> 30 days)	1.5	6.5

An example of additional analysis prepared for each portfolio is included below:

Table 64: Liquidity in days for investment strategy

Portfolios	Normal Liquidity (Days)	Stressed Liquidity (Days)
Atchison Atchison55 Current SAA	14.6	91.7

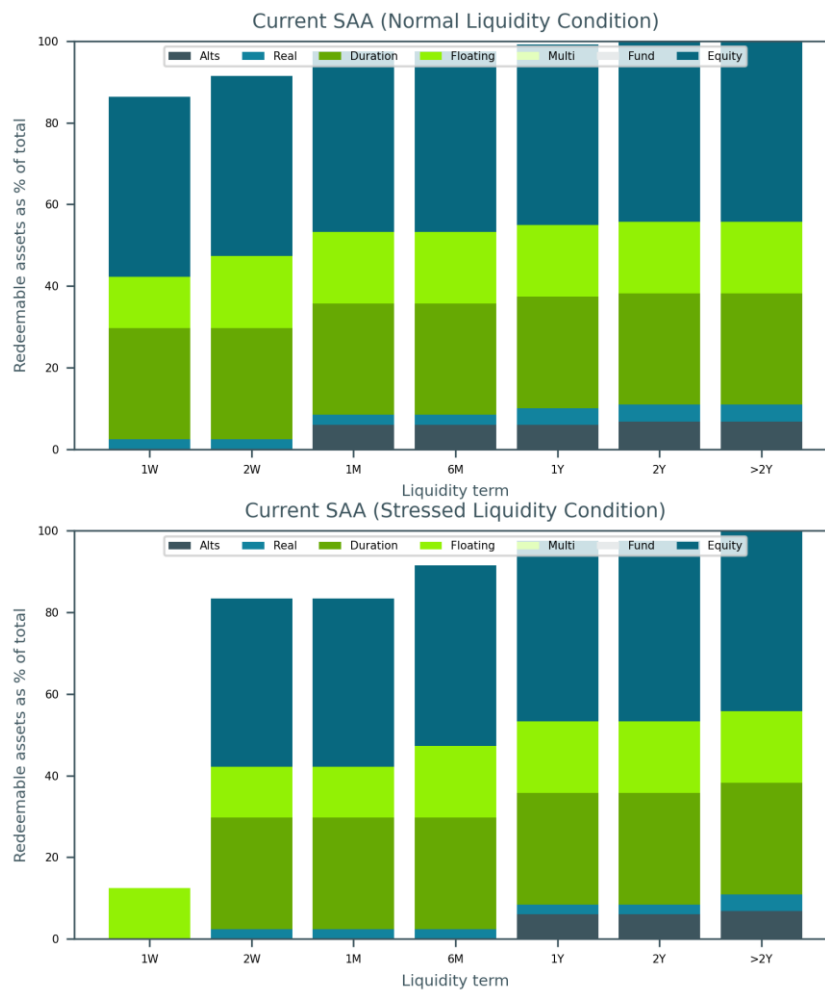
Under normal market conditions, on weighted average basis, the recommended strategy is invested 100% in assets with 14.6 days or less liquidity.

Under stressed market conditions, on weighted average basis, the recommended strategy is invested 100% in assets with 91.7 days or less liquidity.

Figure 3 below shows percentage of assets by asset class, that are liquid illustrated over various time horizons.

The expected time to liquidate 100% assets for the current SAA is within 2 years under normal market condition but over 2 years under stressed market condition.

Figure 3: Liquidity Profiles of Atchison Atchison55



Our full report can be provided on request.

Reporting to the Responsible Entity

The following is provided to the RE to confirm the Risk Management Practices:

- Certification on compliance with the **Managed Portfolio** Risk Management Statement on a quarterly basis.
- For each **Managed Portfolio**, a report to the RE is provided showing the liquidity of the portfolio in normal market conditions to demonstrate the underlying assets are sufficiently liquid to meet the average net outflows and liabilities of the **Managed Portfolio**. This report is required monthly or at such frequencies as agreed between the parties based on the redemption provisions and market events.
- Annual Report to the RE showing stress testing has been conducted on the **Managed Portfolio** (s).

➤ Agreed