

# Liquidity Policy

New Zealand Fire Service Superannuation  
Scheme

**MARCH 2023**

# 1 Background

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Liquidity refers to the availability of Scheme assets to readily meet cash flow requirements, including member switches, benefit payments and expenses.

Members are able to make up to two investment option switches per year. Typically, switching activity increases at times of market downturns as members react by adopting more conservative investment strategies. This may necessitate selling underlying growth funds and buying underlying income funds at short notice.

Benefit payments are somewhat predictable. However, deferred members (who currently represent approximately 17% of total Scheme assets) have the right to immediately withdraw part or all of their monies. Further, subject to meeting certain criteria, active members are able to request payment of a portion of their monies as early access benefits at any time, although this facility is at the discretion of the Trustee. The likely upcoming introduction of additional member benefits, including a first home withdrawal facility, may also impact future cash flows.

The Scheme's expenses are highly predictable. In part, this reflects the fact that (with one minor exception) the payment of taxation is the responsibility of the Scheme's investment managers.

The Scheme's earning rates are calculated using the underlying funds' exit prices. As a result, "from" switches and withdrawals executed in times of market downturns reflect any increased market spreads in existence at the time. Therefore, in terms of any underlying fund transactions required, member equity is partially protected.

The Trustee considered introducing buy/sell spreads at the Scheme level but, in part in light of the above, has determined that the costs of implementing this would outweigh the benefits.

The Trustee also considered the option of suspending switches and withdrawals during times of significant market downturns, but has decided that this is not generally desirable. The Trustee acknowledges, however, that there may be periods where liquidity is severely restricted or simply not available. In such circumstances, specific action would be required.

## 2 Liquidity management

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The Trustee will ensure that liquidity is maintained at an appropriate level. In determining this, the Trustee will consider historical switching and redemption patterns, both in normal circumstances and in stressed liquidity environments. A key consideration will be the requirement to meet cash flow needs without adversely impacting on member equity.

In managing liquidity risk, the Trustee will:

- review the Scheme's liquidity requirements on a three-yearly basis,
- consider liquidity when setting and reviewing asset allocations,
- receive regular updates on the liquidity policies of the underlying funds that the Scheme invests into,
- be alert to changes in the prevailing transaction costs (buy/sell spreads) in investment markets, and
- maintain a Significant Illiquidity Action Plan for managing cashflows during periods of significant market illiquidity.

Further, with the objective of reducing "kneejerk" switching activity, the Trustee will stress to members the importance of investing for the long term. In September 2021 the Life Cycle option was introduced as the Scheme's default option. It is expected that increased use of this option over time should smooth out switching activity.

### **Significant Illiquidity Action Plan**

In managing cashflows during periods of significant market illiquidity, the Trustee will:

- where possible, avoid trading underlying funds where transactions costs are elevated,
- pro-rate switches and withdrawals based on size,
- suspend member switches and withdrawals if liquidity is simply not available in one or more asset classes.