Valuations Policy – Super

Last revised December 2023

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1. Introduction

The Hostplus Superannuation Fund (the Fund) is a superannuation entity that seeks to invest in a broad range of well-structured and cost-effective investment options to meet the investment needs of its significant and diverse membership base. In 2014, the Fund's Trustee created the Pooled Superannuation Trust (PST) as a mechanism to better meet these needs, with that alignment being enabled by the Fund's Trustee being in common with the PST's Trustee.

It is acknowledged by the Trustee that valuations are a critical input into the unit prices that are received by the Fund's members. But as the Fund hold units in the PST, it does not have direct exposure to the underlying managers and assets within the PST. Accordingly, the primary responsibility for the valuations that underpin these unit prices is that of the PST Trustee, and is governed by the Valuations Policy – PST, to which the Trustee is privy, as the Trustee of the Fund and the Trustee of the PST are trustees in common.

It is therefore important that the Fund be assured that the Valuations Policy – PST is not only applied, but that it is consistent with the valuation principles of this policy. However, it is not necessary that the Fund will always be invested in the PST and therefore this policy contains a comprehensive framework that would apply to individual managers and assets in such an instance, even if that means that the bulk of this framework would remain dormant given the choice to invest only in the PST.

Accordingly, this policy covers the valuation of any investments held by the Fund, with an emphasis on unlisted investments (which includes units in the PST). Unlisted assets are different to listed assets as they do not trade through exchanges or central clearing agents. Accordingly, they may not have readily available market values. The Trustee recognises that unlisted investments have additional valuation risks compared to listed assets due to factors such as a lack of liquidity, multiple management layers, complex investment structures and a lack of transaction data. In short, the trustee recognises that valuation risks are predominantly concentrated in its exposure to unlisted securities, where objective and observable valuations are less readily available.

Ultimately the Trustee seeks to adopt market best practice and to value all assets on a Net Market Value (NMV) basis. According to the Australian Accounting Standards 25.10 (AAS 25.10) this comprises "*the amount which could be expected to be received from the disposal of an asset in an orderly market after deducting costs expected to be incurred in realising the proceeds of such a disposal*".

1.1. **ChoicePlus**

Not all of the Fund's assets are invested in the PST, as a small proportion are managed separately via the Choiceplus platform, whereby they are invested in listed shares (including Exchange Traded Funds (ETFs) and Listed Investment Companies (LICs)) and Term Deposits held at banks.

2. Objective

The objective of this policy is to ensure that investments are fairly valued and fairly reported, to ensure equity among members. Accurate valuations also enable the Trustee to confidently produce financial statements that represent a true and fair view of the NMV of the assets, and hence fulfil the Trustee's regulatory requirements.

This policy provides the framework for the Trustee's investment valuation process, which is central to the Trustee's investment strategy and operations and is a key component to the Trustee's unit pricing process and financial statements. This policy also provides the guidelines for trigger events and circumstances warranting *ad hoc* re-valuations of unlisted assets. Noting that accurate and timely asset valuations are extremely important in ensuring that equity is maintained across members.

3. Process Summary

A summary of the Trustee's overall process is provided below:

- All valuations are currently performed external to the Trustee (the trustee does not value any assets, financial instruments, and or investment products).
- Our standard approach is to value investments in accordance with approved accounting standard AASB 1056 Superannuation Entities, which requires the Fund's investments to be valued at fair value.
- Fair value of investments without any deduction for disposal costs, will be applied to unit prices. This ensures that a consistent investment valuation approach is applied for all unit price calculations and within financial statements.
- The Trustee acknowledges that it is responsible for understanding the basis of the valuation of all assets held by the Fund and that valuation principles do vary across differing asset classes and investment structures.
- Valuations are sought at the frequencies considered most appropriate, and which represent best practice, for the particular characteristics of the assets. For listed assets this is daily, whilst for unlisted assets this could be daily, weekly, monthly, quarterly or at most, annually.
- Valuations are outsourced to the entities best-placed and best-qualified to ensure appropriateness and accuracy, being the Custodian (listed assets, inclusive of those on the ChoicePlus platform), the Investment Managers/Responsible Entities (pooled/unlisted assets), and external valuers for direct unlisted investments.
- Every entity has an individual valuation policy that is applied to valuation of these assets, with these policies being inclusive of factors such as the frequency of application, the valuation methodologies applied and the need for independent assessment.
- These valuation policies are continually reviewed by Investment Operations and the Asset Consultant to ensure consistency with the Trustee's valuation policy, and the requirements for their ongoing application by these entities are embedded in their service level agreements;
- Independent annual audits are performed on the application of these entities' valuation policies throughout the year, with the results of these audits monitored by Investment Operations;
- The Fund's external auditor provides an opinion on the fairness and reasonableness of the Fund's annual financial statements. In forming its opinion, the auditor reviews the Fund's valuation methodologies and processes.
- The Fund's internal auditor has access to the Fund's investment policies and processes and may test the accuracy and continued appropriateness of the valuation processes.
- If either the external or internal auditor identifies a material issue with any investment valuation or the methodology used, the Fund will work with the auditor to understand the nature and materiality of the finding. If the finding cannot be resolved it will be escalated to the SIG.
- Any valuation adopted by the Fund should be in accordance with this Policy and is to be consistently applied to unit prices and the financial statements.

4. Asset Categories

In valuing the Fund's investments and financial exposures, there are four broad categories of assets which in turn shape the Trustee's approach to determining NMV for an investment. A table showing this broad classification process is detailed below:

Categories	Listed, well traded assets	Unlisted, thinly traded assets
Discrete/Direct	1	3
Pools	2	4

4.1. Category 1: Directly held listed and well-traded assets

These assets are traded on regulated exchanges or recognised listed exchanges such as the Australian Stock Exchange (ASX). They include listed equities, corporate bonds, short-term money market securities, deposits and foreign exchange contracts. Category 1 investments will be valued at the last available closing listed price (if the trading of any securities is suspended, the Custodian will price such securities using the last transacted price available, unless otherwise notified by Investment Operations). On a daily basis, listed securities that have an unchanged price greater than 1+ days will be sent directly to a pricing vendor for verification if a second source is not available. The Custodian is primarily responsible for providing the Fund with prices for listed securities in accordance with their Valuation Policy (which is reviewed by both Investment Operations and the Asset Consultant to ensure consistency with this Policy).

4.2. Category 2: Indirectly held listed and well-traded assets

These assets include unlisted trusts (pools) and other partnerships that hold Category 1 assets. For these assets, the Investment Managers/Responsible Entities generally quote a redemption value which is based on the NMV of the underlying traded assets. A redemption price is inclusive of a sell spread which ensures that other investors do not pay the transaction costs associated with a particular investor redeeming. The Investment Manager and/or Responsible Entity is responsible for providing the Fund's Custodian with the redemption price for the units held and these unit prices are usually provided either daily or monthly.

Some of the units held by the Fund in the PST would classify under this Category (e.g. the Cash option or the Australian Shares option).

4.3. Category 3: Directly held unlisted assets

This includes direct investments in alternatives, credit, property, infrastructure and private equity. These investments also include thinly traded corporate debt securities that are not traded through regulated exchanges or recognised brokerage markets (and, therefore, do not fall into the Category 1 definition). Since there is no quoted trading or redemption value for most these assets, independent valuations are regularly undertaken. Independent valuers are engaged on an asset by asset basis by either the Directors of the investee company, by the Investment Manager/Joint Venture partner or by the Trustee. These valuations are usually undertaken quarterly or bi-annually to ensure equity amongst Super Fund members, and they are completed by an independent valuer that is approved by the trustee.

4.4. Category 4: Indirectly held unlisted assets

These assets include unlisted trusts (pools) and other partnerships that hold Category 3 assets. In respect of these investments, NMV should be established by using a recognised valuation methodology, such as a discounted cash flow model. The valuation standards should follow industry guidelines (such as the rules set out in the *International Private Equity and Venture Capital (IPEV) Guidelines*) and/or accounting standards.

The valuation of these pools or directly held securities is to be undertaken on this basis by the Investment Manager/Responsible Entity and advised as a unit or security price to the Custodian. The valuations provided by the Investment Managers should also be in accordance with their valuation policy, which itself should be consistent with this policy. Furthermore, the underlying unlisted securities are expected to be valued by the Investment Manager at least semi-annually and preferably quarterly, considering the relative size of the underlying asset.

5. The Role of Management

Investment Operations is responsible for the setting and the oversight of the valuation process generally. The roles of the Trustee, SIG, Investment Operations team, Investment Strategy and Investment Risk team are outlined below.

5.1. **Trustee Board**

The Trustee is responsible for approving the Valuations Policy and has ultimate responsibility for all valuations, including veto rights over valuations where it deems them unacceptable. The Trustee reviews the investment performance of all investments, with ongoing oversight of the latest monthly performance at each Board meeting throughout the year. The Trustee also conducts an annual review of the performance of all assets within each asset class. The Trustee also reviews the Year End Process outcome on an annual basis.

5.2. **Special Investment Group of the trustee (SIG)**

The SIG is established by the Board at its discretion and may be discontinued by the Board at any time. In accordance with its terms of reference the SIG can be responsible for considering, reviewing and approving recommendations in relation to Valuations (noting that the SIG must advise the board of any decisions). Furthermore, the SIG will be responsible for reviewing the annual valuation plan to ensure that they have oversight of the valuation processes that are being followed by both the Investment Operations and Investment Strategy Teams. The SIG is a formal committee of the PST and SF Board and consists of Host-Plus Pty Limited Directors.

5.3. **Investment Operations team**

The Investment Operations department will be responsible for:

- Conducting initial due diligence on Investment Managers' valuation policies;
- Monitoring changes to Investment Managers' valuation policies;
- Monitoring Investment Managers' compliance with their valuation policies;
- Ensuring that assets are valued within pre-determined timeframes;
- Conducting the year end process, including back value testing;
- In consultation with the Investment Strategy department, determining whether an interim valuation review of an asset is required following a trigger event;
- Appointing an independent valuer, when required;

- The Head of Investment Operations and Implementation is responsible for ensuring that all deviations from compliance with this policy are reported in a timely manner to the Chief Executive Officer; and
- The Head of Investment Operations and Implementation needs to ensure that the valuation policy is reviewed on an annual basis.

5.4. Investment Strategy team

With independent oversight and challenge by the Investment Operations department, the Investment Strategy department will be responsible for:

- Identifying whether a trigger event provides sufficient grounds for determining an interim valuation and advising the Investment Operations department;
- Assisting the Investment Operations department in the implementation of the Valuations Policy approved by the Trustee Board;
- Providing guidance to the Board and Investment Operations department, when required.

5.5 Investment Risk team

- Constructively review and challenge the design and operational implementation of the valuation process;
- Assess the design and operating effectiveness of valuation controls;
- Assess any breaches and incidents that may occur.

6. The Role of Investment Managers/Responsible Entities

6.1. Category 1

All listed and equity-like (i.e. well traded) securities held in the Fund's name by the Custodian, such as via discrete mandates, are priced independently as per the Custodian's Valuation Policy. This is inclusive of both the listed securities and the term deposits held on the ChoicePlus platform, each of which are priced independently as per the Custodian's Valuation Policy. On a monthly basis Investment Managers are obligated to undertake a full reconciliation between their accounting records and the records of our Custodian to identify any variances.

6.2. Category 2

The Investment Manager/Responsible Entity/PST must conduct and report unit prices to the Custodian and must adhere to an approved valuation policy. Typically, these investments will employ a custodian who will employ similar processes as our Custodian performs for Category 1 assets.

6.3. Category 3

In most instances the Trustee is reliant on the Directors of the investee company to engage independent valuers for these assets and failing that by the Investment Manager/Joint Venture partner or failing that by the Trustee via its Investment Operations and Investment Strategy Teams.

Some Category 3 investments allow for an optional discount for a minority shareholding. It is at the Trustees' discretion as to whether it deems it appropriate to apply these, though the Trustee's current default position is to not apply a discount.

6.4. **Category 4**

The Investment Manager/Responsible Entity/PST must conduct and report asset valuations and/or unit prices at the aggregate (i.e. pool or trust) level to the Custodian and to Investment Operations. To ensure that the Investment Manager and/or Responsible Entity are utilising appropriate valuation techniques their valuation polices are reviewed by Investment Operations and our Asset Consultant. Investment Operations also receives a confirmation that the Investment Manager/Responsible Entity has adhered to their valuation policy throughout the financial year.

7. The Role of the Custodian

The Custodian plays a primary role in the valuation process as it is both primarily responsible for the valuations of all listed assets and term deposits on the ChoicePlus platform, but it is also responsible for the collection, collation and aggregation of the valuations arising from all Investment Managers/Responsible Entities and direct investments.

As part of its custodial service, the Custodian reports the value of listed and well-traded investments which it holds on behalf of the Fund. The valuation policies and practices of the Custodian are set out in its Valuation and Pricing Policy and by this reference are incorporated into the Trustee's policies and practices. Therefore, it is critical that the Custodian applies and adheres to its Valuation and Pricing Policy. This Policy is therefore reviewed by Investment Operations and the Asset Consultant and monitored for changes which might trigger further review.

The Trustee applies high importance on the Custodian's role in the valuations process and by extension, high reliance on its Valuation and Pricing Policy. The Custodian's Valuation and Pricing Policy details the methodology it applies for conducting valuations. Further, the policy also outlines the treatment of asset valuations when valuations are received from Investment Managers/Responsible Entities and from the Trustee.

For those assets where the Custodian does not occupy the primary valuations role, the Custodian collects all asset valuations. Using these valuations as a basis the Custodian calculates the performance of all investments and provides these valuations and performance reports to the Trustee, Investment Operations, Investment Strategy and the Asset Consultant. The Custodian also monitors these performance and valuation movements against pre-determined tolerance levels and reports any breaches to the Investment Operations team.

8. The Role of the Asset Consultant

The Asset Consultant collects and reviews Investment Managers' valuation policies and assesses these policies against acceptable market standards and against the Trustee's Valuations Policy. The Asset Consultant reviews such items as the source of valuations, reliability, transparency, independence, timeliness, frequency of valuations and the robustness and limitations of the valuation methodology. The Asset Consultant will assess and discuss investment performance with the Investment Strategy and Investment Operations teams as required. The Asset Consultant is also required to provide reports on the relevant performance of all of the Fund's assets to the Trustee on a quarterly basis.

The Asset Consultant will collect and review the Custodian's valuation policy and assess it against its expectations and against the Trustee's Valuation Policy. The Asset Consultant will also review any changes that are made to the Custodian's policy throughout its term as Custodian, once notified of such changes by the Custodian or the Trustee.

9. The Role of the External Auditor

Our external auditor provides an opinion on the fairness and reasonableness of the Fund's annual financial statements. In forming its opinion, the auditor is likely to test and review the Fund's valuation methodologies and processes.

If the external auditor identifies a material issue with any investment valuations or the methodologies used, the Fund will work with the auditor, the Investment Manager or the valuer to understand the nature and materiality of the finding. If the finding cannot be resolved the matter will be escalated to the SIG and then to the Board.

10. The Role of the Internal Audit

On an annual basis an internal audit is conducted to review Hostplus' internal investment procedures, which encompasses valuations. The primary goal is to evaluate the operational effectiveness of key controls associated with investment operations processes.

The trustee may engage the internal audit on an as-needed basis to conduct a review of the valuation governance framework, ensuring its alignment with regulatory requirements.

11. The Role of the Independent Valuer

Category 3 and 4 assets are typically valued by an independent professionally designated, certified, or licenced valuer/appraiser. Independent valuers use a variety of methodologies to arrive at a valuation for an asset. Independent valuers will typically follow international and local best practice valuation methodologies for the asset class in which they are practicing, including those issued by accounting standard boards and respected professional bodies such as the International Private Equity and Venture Capital Valuation Guidelines (IPEVCVG) and AASB1056. These methods may include considerations such as earnings multiples of comparable publicly traded companies, discounted cash flows (DCF), recent third-party transactions, and other factors that influence the value of an investment.

12. Hierarchy of valuation responsibilities

The Trustee applies a hierarchy of valuation responsibilities in order of preferred source of valuations:

Option 1 – Custodian valuations

Option 2 – Investment Manager/Responsible Entity valuations

Option 3 – Corporate/Trustee valuations

If the first option is not appropriate for the investment the second option will apply, if the second option is inappropriate then the third option will apply.

12.1. Option 1 – Custodian valuations

The Custodian values Category 1 assets based on prices procured from an independent external provider that provides real time market data, such as Bloomberg or equivalent. Market data is publicly available and likely consistently applied across other asset owners. Market data is repriced at a high frequency, avoiding lengthy lags in valuations. Market data can also be subject to higher volatility as the market may overreact in the short term. The ChoicePlus platform is valued in this manner.

By utilising an external provider (being the Custodian), the duty for valuing assets is separated from the Investment Manager; therefore, the valuation is truly independent of the Investment Manager, avoiding any potential conflicts of interest or opportunities for the valuation to be influenced by the Investment Manager. In addition, monthly reconciliations are undertaken between Custodian and Investment Manager to ensure that there are no unacceptable variances.

12.2. **Option 2 – Manager/Responsible Entity valuations**

The Investment Manager applies its own valuation policy to conduct valuations, and the valuations are then supplied to the Custodian. For Category 2 assets the Investment Manager will typically utilise an independent external provider that provides real time market data, such as Bloomberg or equivalent.

For Category 3 & 4 assets however, as unlisted assets are not priced by the market, in most instances the Investment Manager will instruct an independent valuer, who will provide a valuation range, as opposed to a specific figure, and in this case the Investment Manager is then responsible for selecting the final figure (noting that the Investment Manager will likely select the mid-point). The use of an independent valuer is the Trustee's preferred approach for this scenario, as it minimises conflicts of interest.

Some Venture Capital and even Private Equity valuations may provide exceptions however, for reasons of complexity, scale and cost. The accepted standard here is to value these investments either at the entry price (i.e. to keep them at "book") or at the last transaction price (even when not participating).

The frequency of conducting valuations is determined by each Investment Manager, having regard to increased costs for an increased frequency of pricing, but balanced against the need to avoid sudden price spikes/troughs. Unlisted assets are therefore valued quarterly, bi-annually or annually, depending on the characteristics of the asset. The valuation cycle of individual assets within a fund is typically staggered to ensure a degree of ongoing currency across the portfolio, which can also serve to reduce the severity of valuation spikes at the fund level.

The Trustee is reliant of the Investment Manager adhering to their valuation policy and acting in the best interest of the Trustee. Accordingly, as a check and balance, on an annual basis the Investment Operations Team polls all Investment Managers to ensure that they have adhered to their valuation policy throughout the year, to confirm that this adherence has been audited and to ensure that there have been no material changes to their valuation policy.

The Trustee acknowledges that in some asset classes, and for private equity in particular, independent valuations are not normally conducted. In such cases, the Trustee expects the manager valuations to be audited by the pooled fund's external auditor each year. Unlisted assets are typically valued using Discounted Cash Flow ('DCF') models combined with an assessment of actual sales of comparable assets (where available) and price indicators from listed markets.

The Fund's investments in the PST would qualify under this Option. In that instance the valuations, which support the unit price calculations, are derived as per the *Valuation Policy – PST*.

12.3. **Option 3 – Corporate/Trustee valuations**

This typically occurs for Category 3 assets where the Trustee owns a direct share or invests via a Joint Venture in an unlisted company, and where no Investment Manager is involved. In such instances the Trustee has a preference for the Directors of the underlying company to initiate an independent valuation of that company on at least an annual basis, though if not possible the Trustee will instruct an independent valuer to do so.

The Trustee has full control (and flexibility) over the selection of the valuer, the frequency, and the timing of valuations. Investment Operations will obtain the independent valuation and present the output to the Trustee before the valuation is finalised. If the Trustee or Investment Operations have concerns over the appropriateness of the draft valuation, or the inputs used to achieve the valuation, the Trustee has the option to query the valuer's assumptions, prior to finalisation.

The Trustee has the greatest control over the asset valuations process with this approach as it is only subject to its own policy.

13. The Trustee's minimum standards for conducting valuations

As set out below, the Trustee requires minimum standards for any party conducting valuations. These minimum standards must be evident in both the Custodian's and the Investment Managers' valuation policies. Where valuations are conducted by the Trustee, these standards also apply. All the below factors must be considered whilst taking into consideration the specific nature and characteristics of the investment.

13.1. Frequency of conducting valuations

SPG 530 – notes that assets should be valued at least quarterly, and where valuations are conducted less frequently, the Trustee would demonstrate it has determined that the valuation frequency is appropriate. The Trustee accepts these objectives and is committed to regular valuations of the Fund's assets. However, the Trustee also acknowledges that the timing of valuations is generally governed by the ownership structure of the asset, in which it may have only limited influence. The trustee recognises that assets must be valued at least annually (noting that valuations on an annual basis should be rare and should only occur as a last recourse).

Where the Trustee is able to exercise a material influence over the timing of the valuation process, it will do so. The Trustee will have regard to not only the individual characteristics of the asset but also the asset's role in the portfolio and the cost of the valuation.

Assets will typically be valued more frequently than annually with the factors that will influence the frequency being:

- The permitted frequency of member transactions;
- The frequency of unit pricing updates;
- The type of asset and its investment horizon;
- Access to, and sources of, valuation information;
- The frequency of comparable transactions and availability of transaction data;
- Anticipated volatility;
- The cost of obtaining a valuation; and
- The prevailing market and economic environment (for example, greater market volatility may result in the need for more frequent valuations).

Under this framework listed equities would be valued daily, whilst valuations for even property and infrastructure assets would be conducted more frequently than annually (i.e. typically quarterly or semi-annually).

13.2. Timing of valuations

The valuation program for assets within collective investments such as pools may be spread over the year to reduce the likelihood of material spikes in the fund's unit prices that could otherwise result from a concentration of annual valuations. This valuation dispersion is a technique utilised to smooth valuation movements, and in turn, smooth unit prices to ensure that members are treated equitably, in that members that are incoming or outgoing aren't adversely impacted by sharp spikes or falls in unit prices.

13.3. Independent valuations

All assets should be subject to independent valuation. Where this does not occur, the Trustee, Investment Strategy or Investment Operations reserve the right to challenge the valuations and engage an independent valuer if it believes this is justified.

13.4. Selection of external valuer

The level of influence that the Trustee can exert over the selection of a valuer for an investment varies depending on the ownership structure of the asset. Where the services of an external valuer are engaged the valuer should be reputable, and the determination should be based upon the valuer's methodology, resourcing, qualifications, areas of specialisation and experience.

13.5. Rotation of external valuer

Where feasible, valuers will be rotated so that the same party is not used to value a particular asset over a period greater than three years in most circumstances.

13.6. Methodology

The methodology applied to the valuation will be largely determined by the characteristics of the asset.

Common methodologies for listed assets include:

- "Fair value" - quoted market price being the current closing bid price accessed from a reputable source such as Bloomberg.

Common methodologies for unlisted assets include:

- Discounted cash flow (DCF) method;
- Precedent transaction analysis; and
- Comparable transaction analysis.

Where possible, the Trustees preference is for valuers of unlisted assets to confirm a draft valuation utilising a second valuation method prior to finalising the valuation. For example; utilising the DCF method and subsequently running the comparable sales approach to confirm the appropriateness of the figure.

It is acknowledged the valuation methodologies are used for different asset classes, which may include:

- Listed investments: based on available market prices from exchanges.
- Fixed income: based on available market data.
- Unlisted infrastructure and assets: based on valuations of underlying securities, using DCF and/or capitalised earnings methodologies.
- Direct investments in private companies: based on input from private equity managers, combined with other available information.
- Indirect unlisted assets: valuation by external managers in line with their own policies, compared to internal policies.
- Senior and junior mortgage loans: based on comparable market prices.
- Real estate: based on fair value of land, building, furniture, fixtures, and equipment.

For unlisted asset classes, the selected asset value is generally the midpoint of the valuation range provided by independent valuers. However, in certain cases where there are reasonable grounds to believe the valuations are overly conservative or optimistic, an alternative range within the provided range may be adopted.

13.7. Conflicts of interest

Any conflicts of interest must be identified, and appropriate steps taken to assess and address the conflict(s) prior to conducting valuations. As mentioned previously, the use of an independent third-party source of valuations or independent valuer are the Trustee's preferences, as it separates both the Trustee and the Investment Manager from the valuation.

The Trustee always reserves the right to conduct its own valuation, via the appointment of an external valuer, in such instances.

14. Assessing valuations

The Trustee approaches assessment of valuations and validation techniques through many different lenses throughout the year, to ensure the reliability of the valuation adopted. This includes back-testing to identify any significant bias in the valuation procedures and evaluate the reasonableness of using valuations provided by external managers/valuers. The different methods include:

- Ongoing monitoring of performance (and hence valuations) is conducted by Investment Operations, Investment Strategy, the Asset Consultant and the Custodian, utilising performance data distributed by the Custodian;
- Performance data can be assessed against previous data, knowledge of the current market, and known changes in the asset that would impact valuation;
- The Custodian applies absolute tolerance checks to identify any significant spikes (up or down) in valuations. If these are detected, they are notified to Investment Operations for review;
- Quarterly performance reports are prepared by the Asset Consultant utilising the Custodian's and the Manager's performance data as appropriate and is presented to the Trustee for review;

  Valuation polices are reviewed to ensure that our managers are following international and/or local best practice valuation methodologies. Any exception reports made to the Board and/or SIG will detail the specific nature of the deviation and the related impact on the Fund.

14.1. Year End Process

The Trustee conducts a Year End Process annually, based on 30 June valuations and carried out by Investment Operations, involving:

- Collation of all valuation results (including methodologies) across all assets of the Fund, inclusive of the assets of the PST and within ChoicePlus;
- Confirmation from Investment Managers of adherence (or otherwise) to their valuations policy;
- Confirmation from Investment Managers of any changes (if any) to their valuation policies;
- Confirmation that the manager valuations are audited by an external auditor;
- Verification of the appropriateness of valuation techniques have been utilised;
- Backend Testing is completed to ensure that valuations reconcile back to the audited financial accounts; and
- Ensure that valuations are timely and accurate that ultimately which feed into unit prices.

15. Rejecting and requesting a reassessment of a valuation

If an unexpected and unexplainable movement in valuations is identified and is deemed to be material and worthy of further investigation:

- Where applicable, Investment Operations will request the Custodian to confirm the figure and will request an explanation for the movement;
- Where applicable, Investment Operations or Investment Strategy will request the Investment Manager to confirm the figure and will request an explanation for the movement and details of the inputs utilised to achieve the valuation;
- Investment Strategy, Investment Operations and the Asset Consultant will discuss and review the movement, and the explanations provided;
- If it is deemed that the valuation is not an accurate representation of the asset value, the Trustee may request another valuation to be performed by a different valuer to provide a second opinion;
- The Trustee may choose to accept the valuation it deems most representative of the asset.

16. Trigger Events, *Ad hoc* Revaluations and Disposals

The Trustee will apply the following trigger settings to determine whether an interim or *ad hoc* review of valuations is necessary:

- If the PST encounters a trigger event under the *Valuation Policy – PST*;
- If a Complete Review of the Investment Strategy has been initiated (as per the *Investment Strategy Policy – Super*);
- Following significant changes to the underlying asset or the asset's environment, that could be expected to materially impact both that asset's valuation (and also to materially impact the Fund's performance). Such significant changes could include, but are not limited to:

    - a significant breach of contract, such as default on interest or principal payments, breach of a banking covenant or default on another obligation;
    - high probability that an investee entity will enter bankruptcy or other financial reorganisation;
    - the disappearance of an active market or the identification of a new active market;
    - observable data indicating there is a measurable increase or decrease in the estimated future cash flows to be generated (e.g. change in EBITDA +/- 20%);
    - significant variation from a business plan or agreed milestones that will result in a material change in the estimated future cash flows;
    - significant changes that have taken place in the technological, economic or legal environment in which the asset is operated resulting in a positive or negative effect;
    - economic or physical damage to an asset, or the geographic region in which an asset is situated caused by an external event such as a geopolitical event, environmental incident, act of terrorism, pandemic or material cyber-attack;
    - a regulatory change which has a significant positive or negative impact on the asset's cash flow;
    - significant legal or regulatory action being taken against an asset; and/or
    - a market transaction on an asset being valued occurs outside the most recent valuation range;
    - Where there are reasonable rounds to believe that the assumptions underpinning the valuation are overly conservative or optimistic, or where independent valuer has

miscalculated the valuation, an alternative valuation may be adopted within the valuation range.
  - Unusual or unexpected values achieved on the actual sales of comparable assets;
  - Change in ownership of an asset; and/or
  - Significant change in government bond yields.

- While not exhaustive, the above changes could all be deemed trigger settings and lead to the review of a particular asset(s) valuation. This is particularly relevant for unlisted assets and for managing the risk and impact of large potential movements in their value;
- Following significant member switching activity across the investment options; and,
- At any point the Trustee deems it necessary, and especially where member equity considerations are highlighted.

Where the PST encounters a trigger event, the Trustee will work with the PST to ensure that the PST acts in accordance with the actions as prescribed in the *Valuation Policy – PST,* though the Trustee reserves the right to determine if any further action should be taken in respect of valuations or regarding access to investment options (e.g. gating, closure or the application of buy/sell spreads). The Trustee may seek guidance from Investment Strategy, Investment Operations, the Asset Consultant or independent experts, including investment managers and valuation agents, in such instances.

17. Regular reporting to the Board

Individual investment performance is reported regularly to the Board by the Custodian via monthly reports, and by the Asset Consultant via the Quarterly Report and Asset Class Reviews. Furthermore, any material changes to valuation processes and procedures will be reported to the Board via the SIG at least annually.

18. Compliance

18.1. Initial due diligence on the Investment Manager

Prior to the appointment of any new Investment Manager, the Asset Consultant, Investment Strategy team and Investment Operations team collect the Investment Manager's valuation policy and review whether the policy meets the Trustee's minimum standards as outlined in section 13.

18.2. Ongoing monitoring of Investment Manager's valuation policies

The Trustee applies the below monitoring controls over all unlisted asset class managers in relation to valuations, regardless of the source of valuations, to minimise the risk of approved valuation policies and procedures not being adhered to.

On an annual basis, the Trustee writes to all its unlisted asset class investment managers towards the end of each financial year seeking letters of comfort stating adherence to their valuation policy. Specifically, the following information is requested:

- A concise statement of the valuation protocol adopted for the portfolio (i.e. how and when the portfolio and its underlying assets are valued);
- Confirmation of whether the valuation policy has changed since the previous year;
- The current year 30 June portfolio valuation as supplied to the Custodian;

- The actual date of communication of the current year 30 June portfolio valuation to the Custodian;
- The source of the current year 30 June portfolio valuation (i.e. independent valuer, Directors' valuation etc);
- Whether the portfolio valuation process has been audited;
- When the Investment Manager expects the audited 30 June accounts for the portfolio to be available;
- A statement to the effect that the portfolio's stated valuation protocol was adhered to during the financial year by the Investment Manager.

The Investment Manager is also instructed to provide a copy of any changes to the Investment Managers' valuation policies. The Asset Consultant, Investment Operations team and Investment Strategy team will determine whether the changes are acceptable and in line with its Valuation Policy.

The Investment Manager's application of its valuation policy is also required to be audited to ensure valuations are conducted as per the Investment Manager's valuation policy. The audit process will confirm to the Trustee the reliance on the valuations that are communicated to the Custodian.

18.3. Ongoing monitoring of the Custodian's valuation policy

On a yearly basis, the Trustee requires the Custodian to provide an attestation that it has adhered to its valuation policy. Further, the Trustee requires the Custodian to provide a copy of its valuation policy annually.

19. Treatment of exchange rates

All valuations denominated in currencies other than AUD, will be converted to AUD at the current exchange rate.

20. Policy Review

The Policy owner (The Head of Investment Operations and Implementation) or their delegate is required to ensure that this Policy is updated in accordance with any changes in legislative or regulatory requirements, operational practice or new issues identified. The Valuation Policy will be formally reviewed by the Policy owner annually with any recommended amendments provided to the Board for their approval.

21. Non-Material Changes

Non-material changes to this Policy may be made with the approval of the Policy Owner. These changes must be notified to the relevant approving Committee and documented in document control information, however, formal Committee approval is not required.

Non-material changes include:

- Minor wording, numbering or grammatical changes for clarity/syntax.
- Changes in role titles to reflect organisational changes.
- Changes to Committee names.
- Changes to Policy names.

22. Version Control

Date approved	Brief description of amendments made
September 2014	Initial development of the policy
November 2019	Substantial changes to processes
October 2021	Creation of a version specifically for the Fund and updates to triggers
April 2022	Enhanced clarification of process involving trigger events
April 2023	Changes to Roles and Responsibilities
December 2023	Updates made for SPS530

23. Appendix

The application of the Valuation Policy differs per asset type (listed versus unlisted) and per Investment Vehicle. The relevant Investment Vehicles are as follows:

- **Discrete mandates**: where the individual shares and securities (typically listed equities and highly traded bonds and foreign exchange) are directly held in the name of the Custodian on behalf of the Fund, such as within the ChoicePlus platform;
- **Pools**: typically, commingled funds across a variety of investors (e.g. the PST) but can also comprise "Funds of One" where the Fund comprises the sole owner of the vehicle. These intermediated structures can enable the Fund to hold assets that it would otherwise not be able to hold directly due to foreign laws, and also to enable leverage, which cannot be engaged in directly.
- **Co-investments**: directly held investments, typically shares in unlisted assets, that are also held separately by the same manager in a separate vehicle (such as a pool);
- **Direct investments**: unlisted assets held directly by the Fund (typically as shares, but also via joint ventures and similar structures).