

Portfolio Valuation Business Procedure Statement

BUSINESS PROCEDURE OWNER:
Finance Operations, Wealth Australia

BUSINESS PROCEDURE LEVEL:
Level 3



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Wealth Australia**VERSION CONTROL**

Date	Author	Version	Changes
March 2013		1.5	Approved by OnePath Life, Custodians & FM Boards
June 2013	Abe Al Hindi	1.5.1	Reflection of minor business terminology changes
Aug/Sep 2013		1.5.1	Approved by OnePath Life, Custodians & FM Boards
June 2014	Abe Al Hindi	1.5.2	Annual review
Sep 2014		1.5.2	Approved by Head of Risk & Compliance
July 2015	Abe Al Hindi	1.5.3	Annual review
Nov 2015		1.5.3	Approved by Head of Risk & Compliance
May 2016	Abe Al Hindi	1.6	Annual review
Oct 2016		1.6	Approved by OnePath Life, Custodians & FM Boards
May 2017	Abe Al Hindi	1.7	Annual review
Oct 2017		1.7	Approved by Head of Risk & Compliance under delegation and is effective from this date
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Mar 2019	Abe Al Hindi	1.9	Review to capture any changes related to the successor fund transfer (SFT) and Zurich completion
April 2019		1.9	Approved by Head of Risk & Compliance under delegation and is effective from this date
June 2019	Abe Al Hindi	2.0	Annual review
Oct 2019		2.0	Approved by the OnePath Custodians Board

REVIEW AND SIGN-OFF

This Business Procedure has been reviewed and endorsed by the following persons:

Name	Position / Title
Geoff Allanson	Head of Finance Operations, Wealth Australia
Scarlett Aston	Manager of Unit Pricing
Srihari Venkat	Manager of Investment Control
Caroline James	Head of Assurance & Compliance, Pensions & Investments
Lachlan Dundas	Senior Risk Manager, Wealth Risk
Paul Han	Senior Manager Tax, Wealth Enablement Function
Paul Pyanic	Senior Lawyer, ANZ Wealth Legal

DOCUMENT OWNERSHIP

The document owner, Head of Finance Operations (or nominated representative), has responsibility for:

1. Maintaining / updating this Business Procedure Statement.
2. Supporting the business in developing processes and procedures if required, as part of implementing this Business Procedure Statement.

DOCUMENT REVIEW TIMETABLE

This document will be reviewed and updated annually or earlier when required.

Updates to this Business Procedure will follow requests from the business, as a result of legal, statutory or industry changes, or in response to changes in Wealth Australia strategy.

LEGAL ENTITIES AND DEFINITIONS

This Business Procedure Statement applies to the following legal entities:

- a) OnePath Funds Management Limited;
- b) OnePath Custodians Pty Limited;
- c) Oasis Asset Management Limited (OAM) in its capacity as an administrator of the OnePath part of Retirement Portfolio Services (RPS) and its Trustee OnePath Custodians Pty Limited in accordance with OPC Board approved administration agreement; and
- d) Oasis Asset Management Limited (OAM) in its capacity as an administrator for OnePath Life Limited.

1. Introduction

Unit prices across all unitised products are calculated each business day. Accordingly, net asset values used as inputs into the unit price are typically sourced each business day.

JPMorgan Chase Bank, N.A. [Sydney Branch] (JP Morgan) is contracted to provide Wealth Australia with daily asset valuations for investment pools for input into the unit pricing process. JP Morgan is contractually obligated to apply controls to ensure that the values provided to Wealth Australia are accurate. Exceptions to this are monitored by the Investment Valuation Forum (IVF).

The valuation for retail and wholesale products that cross invest into the investment pools is sourced from an internal Wealth Australia investment system (Hiportfolio).

This Business Procedure Statement provides guidance with regard to the valuation of the portfolio of assets held by the schemes/funds managed by companies within Wealth Australia.

For the purpose of this Business Procedure Statement, a "Delegate" means a person acting in the position of the person authorised by the relevant Board to make certain decisions on behalf of the Board where the authorised person is on leave. For example, a delegate of the Head of Finance Operations is the person that will be acting in this position while the Head of Finance Operations is on leave.

2. Purpose

The purpose of this document is to ensure compliance with the Level 2 Unit Pricing Policy and provide coherent and consistent direction with regard to the valuation of assets.

Action under this Business Procedure Statement will only be undertaken if the relevant constituent document for a scheme/fund provides the necessary power. Any such power will be exercised by the relevant trustee/responsible entity in accordance with their respective fiduciary obligations imposed at law.

3. Business Procedure Statement

When valuing a scheme/fund, the following principles must be applied:

- a. The valuation should include all assets and liabilities of a scheme/fund at the time that the scheme/fund is valued.
- b. Income receivable by a scheme/fund at the time that the scheme/fund is valued must be included in scheme assets on a basis that is consistent with the valuation of scheme/fund assets.

- c. Subject to the specific terms of the constitution/governing rules for a scheme/fund, the net asset value of a scheme/fund will be calculated by deducting the liabilities of the scheme/fund from the gross assets of the scheme/fund as at the valuation date.
- d. In determining the net asset value of a scheme/fund, the value of assets and liabilities should be determined by using market values unless the constituent documents for the scheme/fund provide otherwise.
- e. Scheme/fund assets and liabilities should be valued assuming a going concern basis of the scheme/fund unless this assumption is inappropriate.
- f. Where scheme/fund assets are traded on a properly regulated market (such as a recognised stock exchange), valuations are based on market* price. Where assets are unlisted (e.g. unlisted unit trusts), valuation is based on last sale/withdrawal unit price. On occasions where the market* price or the unlisted asset price is determined by the manager of Unit Pricing or a delegate to be inappropriate or unavailable in the circumstances described in Wealth Australia Unit Pricing Suspension & Indexation Business Procedure Statement or would not result in fair dealing between beneficiaries, the procedures set out in that Business Procedure will apply.
- g. Where there is no properly regulated market for the assets and liabilities or extraordinary circumstances exist where there is no readily observable and reliable price, unless it is inappropriate, a valuation from a reputable independent third party using assumptions that are fair and reasonable for the relevant market such as a professional valuer or third party valuation service should be obtained.
- h. Using values other than those provided by a third party should be approved by Investment Valuation Forum (IVF) and the Wealth Investment Governance Forum (WIGF).
- i. Where the market* price (or other valuation) of an asset or a liability of a scheme/fund is denominated in a currency of another country, the exchange rate that JP Morgan will use to convert the valuation to the base currency should be determined at the valuation point on the basis of either the last exchange rate at which a transaction in that currency took place or at the WM Reuters 4pm London Exchange Rates. The basis selected to be used must be consistently applied over time.
- j. The valuation of the assets and liabilities of a scheme/fund should be objective, unbiased and equitable not subject to undue influence and should be independently verifiable. The sources of the valuation of assets are set out in Appendix A. Alternative sources of data are also provided.
- k. Scheme/fund assets and liabilities must be valued at least as frequently as interests in the scheme/fund may be transacted, except where the practicalities of valuation are such that it is in the best interests of investors to initiate less frequent valuations (and subject to the constituent documents of the scheme/fund).
- l. Valuation of externally and internally managed unitised schemes/funds is based on the latest published withdrawal price or as per Wealth Australia Unit Pricing Suspension & Indexation Business Procedure Statement where applicable.
- m. If a scheme is declared illiquid and suspended, Wealth Australia will implement a process to deal with the suspension in accordance with the relevant constitution and governance policies for the scheme.
- n. Reclaims of withholding tax charged by a foreign jurisdiction will only be recognised as a receivable asset by a scheme/fund if:
 - The foreign jurisdiction of the investment has a Double Tax Agreement with Australia which allows a reduced withholding tax rate, and
 - The administrative process offered by the foreign jurisdiction of investment is operationally effective, that is, reclaim requests are honoured and paid by the foreign country.

Withholding tax reclaims will not be recognised for foreign jurisdictions where the requirements cannot be met by the scheme/fund, or the foreign jurisdiction does not accept/process reclaim requests.

As the administrative requirements that apply to reclaim withholding tax change frequently, tax reclaim entitlements will be reviewed on quarterly basis in consultation with Group Tax to assess the appropriateness of existing tax reclaims for unit pricing valuation purposes.

*market price as per the JP Morgan Securities & Portfolio Valuation Policy is the price provided by JP Morgan pricing vendors

4. Business Procedure Requirements

The applicable legislation/industry guidelines are:

- a. FSC Standard No. 9: Valuation of Scheme Assets and Liabilities
- b. Corporations Act 2001
- c. Superannuation Industry (Supervision) Act 1993
- d. Life Insurance Act 1995
- e. ASIC/APRA Unit Pricing: Good Practice Guide

In addition to the above, consideration must also be given to any obligations imposed under common law.

Furthermore, to the extent necessary, key stakeholders from legal, tax and risk & compliance will be consulted in relation to the application of this Business Procedure Statement.

5. Roles and Accountabilities

- a. JP Morgan to perform tolerance checks in accordance with JP Morgan Security Pricing & Valuation Policy prior to providing valuations to Wealth Australia. The checks are supplemented by daily email signoff received from JP Morgan. In addition, JP Morgan performs daily cash and asset reconciliations.
- b. Wealth Australia Finance Operations team to source the prices for internally priced securities as per appendix A. All prices are validated prior to being input into the Wealth Australia investment system (Hiportfolio).
- c. The unit pricing team performs daily security level market movement validation on all Wealth Australia Finance Operations unit prices prior to release. Specifically, cash schemes/funds have a one basis point deviation threshold; and all other schemes/funds have a five basis points deviation. Any issues are to be resolved prior to the unit price being released, or an adjustment made in accordance with Business Procedure Statement: Unit Pricing Adjustments.
- d. If an expert is required to value an asset, the decision to seek a professional valuation of an asset will lie with the Head of Finance Operations, Wealth Australia.
- e. Valuation errors are recorded in the Wealth Australia Finance Operation incident database and/or COR and managed as per the Wealth Australia Incident Management Business Procedure.
- f. 1st line risk teams are responsible for developing, implementing, maintaining and monitoring compliance and control frameworks across Wealth Australia to evaluate control structures, systems and processes. Any variations or non-compliance with this Business Procedure Statement must be reported to management and dealt with in accordance with the relevant policies and standards that relate to risk event (incident) management.
- g. The Incident Resolution & Reporting Manager from Finance Operations, Wealth Australia is responsible for ensuring that all relevant Finance Operations staff are familiar with this Business Procedure Statement within three months of any new staff commencing in their roles. Any updates to be circulated to staff within two weeks of approval.
- h. The IVF is established to monitor, manage and provide recommendations to the WIGF in relation to management of the valuation of investments. The IVF is responsible for monitoring infrequently priced securities and where appropriate, implementing processes to limit the occurrence of sudden significant increases or decreases in Net Asset Value.

6. Related Documents

The following are relevant to this Business Procedure Statement:

- a. JP Morgan Custody Agreement

- b. Service Level Agreement with JP Morgan.
- c. JP Morgan Security Pricing & Valuation Policy.
- d. Wealth Australia Unit Pricing Discretions Policy.
- e. Business Procedure Statement: Unit Pricing – Tax Treatment.
- f. Business Procedure Statement: Unit Pricing Suspension & Indexation.
- g. Business Procedure Statement: Unit Pricing Adjustments.
- h. Investment Valuation Forum Charter.

Appendix A

JP Morgan and Wealth Australia valuation matrix

Security Class	Valuation Source		Valuation Methodology	Valuation Source	Secondary Source	Valuation Methodology
	JPM	JPM Secondary source	JPM	Wealth Australia	Wealth Australia	Wealth Australia
Australian equities (including LPTs)	Reuters	Six Telekurs	Closing price*	NA	NA	NA
International equities	Reuters	Six Telekurs	Closing price*	NA	NA	NA
Australian fixed interest	IDC/ICE	Pricing Direct/Reuters/Bloomberg	Bonds – Price per 100 – Clean Priced Discounts – Yield Annuities – Price per 100 - Dirty Priced	NA	NA	NA
International fixed interest	IDC/ICE	Pricing Direct/Reuters/Bloomberg	Bonds – Price per 100 – Clean Priced (depending on the set-up. Some securities are set to price as dirty in the market). Discounts – Yield	NA	NA	NA
CDO/CLO	IDC/ICE	Pricing Direct/Reuters	Price per 100 – Clean	NA	NA	NA
Interest rates	Bloomberg		Libor, Euribor, BBSW, BKBM, Sibor, Hibor etc	NA	NA	NA
Foreign exchange rates	IDC/ICE		WM Reuters 4pm London Close	WM Reuters	NA	WM Reuters 4pm London Close
Derivatives	Reuters	Bloomberg	As per vendor methodology	Bloomberg	NA	Closing price
Over the Counter Options	Pricing Direct	Markit	As per vendor methodology	Bloomberg	NA	Bloomberg Calculator
Exchange Traded Options - AUD	Reuters	Bloomberg	Theoretical Pricing	Bloomberg	NA	Closing price
Exchange Traded Options – Non AUD	Reuters	Bloomberg	Closing/Settlement price	NA	NA	NA
Futures – AUD	Reuters	Bloomberg	Closing/Settlement price	Bloomberg	NA	Closing price

Security Class	Valuation Source		Valuation Methodology	Valuation Source	Secondary Source	Valuation Methodology
Futures – Non AUD	Reuters	Bloomberg	Closing/Settlement price	Bloomberg	NA	Closing price
Swaps			Category too general – separate section on specific swap types		NA	
Unlisted stocks	IDC/ICE	Bloomberg	Last price available	NA	NA	NA
Unlisted unit trusts	Ausmaq /Investment Manager		NAV price for daily unit pricing (if NAV is available) or per client election	Fund Managers	NA	Bid/Ask price
Mortgages	NA			Credit Forum	NA	NA
Other	NA			Hypermarcus Bonds are priced by Finance Actuarial	NA	Documented methodology maintained by Finance Actuarial
Asset Backed Securities (ABS/CMSB /RMBS/CMO)	IDC/ICE	Pricing Direct		NA	NA	NA
Mortgage Pass Through	IDC/ICE	Reuters		NA	NA	NA
Aircraft leases	NA			NA	NA	NA
Caps, floors & collars	Markit	Fund Manager	As per vendor methodology	NA	NA	NA
Swaptions	Pricing Direct	Markit	As per vendor methodology	NA	NA	NA
Private Equity	Fund Manager		Valuation statement	Valuation statement		
Credit default swaps (CDS)	Pricing Direct	Markit	As per vendor methodology	NA	NA	NA
Interest rate swaps (IRS)	Pricing Direct	Markit	As per vendor methodology	NA	NA	NA
Credit Default Index (CDI)	Pricing Direct	Markit	As per vendor methodology	NA	NA	NA
Cross Currency Swaps	Pricing Direct	Markit	As per vendor methodology	NA	NA	NA
Inflation Linked Swaps	Pricing Direct	Markit	As per vendor methodology	NA	NA	NA
Infrastructure	NA			NA	NA	NA
Life Policies	NA			NA	NA	NA

* In the event the closing price provided by JP Morgan changes due to after-hours market activities, ANZ will consider the price provided by JP Morgan as "closing" for valuation purposes.