Retail Employees Superannuation Trust

Unlisted Assets Valuation Policy

Policy Owner: General Manager, Investments

VERSION	Approval Date	Approved By
6	13 June 2018	Investment Committee
5	February 2016	Board
4	November 2014	Board
3	August 2013	Board
2	August 2011	Board
1	June 2009	Board

1. Overview

Rest currently invests in a combination of directly held unlisted assets and unlisted funds within the following asset classes:

	Type of unlisted asset	
Asset Class	**Directly held unlisted assets**	**Unlisted funds**
Property	✓	✓
Infrastructure	✓	✓
Growth Alternatives (Credit)	✓	✓
Defensive Alternatives		✓
Bonds		✓
Private Equity	✓	✓

Valuation risk for unlisted assets is explicitly recognised as a component of Rest's investment governance risk in Rest's *Risk Management Strategy* (September 2017). Rest confirms in its *Risk Appetite Statement* (September 2017) that it has a Low / Medium risk tolerance for investment governance risk.

This policy sets out Rest's requirements that its unlisted investments are valued in a manner that:

- accords with accounting standards, applicable industry standards, regulations and statutory requirements; and
- are timely and reliable so as to maintain equity between members.

Valuation matters are also dealt with in Rest's Unit Pricing Policy and Tax Provision for Unit Pricing Policy.

2. Valuation requirements for unlisted investments

The SIS Act requires Rest to have regard to the availability of reliable valuation information in relation to the implementation and review of investment strategy.[1] Reliable valuation information is also important in the context of Rest's statutory duties to act fairly in dealing between, and within, classes of beneficiaries,[2] as it enables the equitable distribution of investment earnings to beneficiaries.

In view of these statutory requirements, APRA expects Rest to develop policies and procedures to identify and manage the valuation risks associated with investments – particularly in unlisted investments where valuation risk is generally considered to be higher.[3]

Under *Australian Accounting Standard 1056 – Superannuation Entities*, Rest's assets and liabilities are required to be measured at 'fair value through profit or loss' as at the reporting date. 'Fair value' is defined in *Australian Accounting Standard 13 – Fair Value Measurement* as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.[4]

[1] *Superannuation Industry (Supervision) Act 1993*, section 52(6)(iv)
[2] *Superannuation Industry (Supervision) Act 1993*, sections 52(2)(e) and (f)
[3] *Prudential Practice Guide SPG 531 Valuation*, paras [2]-[3].
[4] AASB 13, paras [2] and [3].

Accordingly, Rest's general approach to the valuation of unlisted assets is to ensure they are valued at least annually by independent professional valuers at net market value in accordance with accounting standards and best practice principles and valuation methodologies for that asset class. Net market values are reflected, without any smoothing, in Rest's financial statements and immediately in unit prices.

3. Roles and responsibilities in relation to valuations of unlisted investments

3.1 Ultimate responsibility

Ultimate responsibility for the valuation policies of the Fund remains with the Rest Board. The Rest Board has delegated key valuation oversight and review responsibilities to the Investment Committee. The delineation of those roles and responsibilities are contained in the Investment Committee Charter and related documents. Rest and SIM management together with Rest Investment Adviser assist the Rest Board and Investment Committee in performing that function as set out below.

3.2 Consideration as part of investment strategy

The Rest Investment Committee and Board will assess whether asset valuation is ascertainable or otherwise problematic when considering investment strategy in relation to each asset class that may invest in unlisted assets.

Rest's Investment Adviser will provide advice about the appropriate approach to valuation of the relevant asset class as part of the consideration of the investment strategy.

3.3 Due diligence process in respect of valuations

Rest, as part of its due diligence in relation to a particular investment, will ensure that the due diligence team assesses the valuation policy and practices of the investment and/or its manager prior to the investment being made. The due diligence team will comprise employees of Rest, Rest's wholly owned investment manager (SIM) and/or Rest's Investment Adviser.

In particular, the due diligence team will assess the:

(a) content of the valuation policy and/or procedures. The due diligence team should ensure that the investment's valuation policy and procedures are consistent with, and contribute to Rest complying with, this policy and the principles laid down by applicable accounting standards, applicable industry standards and regulatory and statutory requirements. The due diligence team should assess the valuation risk in relation to the adopted valuation methodology and assumptions in the context of the underlying investments.

(b) timing of valuations. To provide for member equity, Rest prefers valuations to be made as regularly as possible having regard to the cost and complexity of the valuation undertaking:

(i) for funds held within the Bonds asset class, Rest's preference is for funds that are valued on a daily basis.

(ii) for unlisted funds where the underlying investments are listed or regularly priced in a liquid quoted market, Rest's preferred frequency of valuation is as often as is practicable (daily, or weekly if daily is impracticable).

(iii) for investments within the Growth Alternatives and Defensive Alternatives asset class, Rest prefers to hold investments which are revalued on at least a monthly basis.

(iv) for other unlisted investments, Rest prefers quarterly valuations. However, it is acknowledged that the complexity of some investments (in particular infrastructure investments) and consequent cost considerations make full quarterly valuations impractical. However, to the extent possible, valuations of such investments should be rolled forward each quarter in a manner consistent with the full annual valuation. All unlisted investments must be valued at least annually. In times of unusual market volatility, it may be appropriate to value assets more often.

The due diligence team should also consider the proposed timing of receipt of valuations to ensure that Rest avoids a concentrated impact on unit pricing on any one date and, to the extent possible, can incorporate financial year end valuations into unit prices for the relevant year.

(c) independence of valuations. The due diligence team should assess the extent of the independence of the asset's or its manager's valuations, having regard to the following:

(i) Rest's preference is for external, independent valuations. Rest considers independence to require rotation of the valuer at least every three years.

(ii) Where internal appraisals are utilised, the due diligence team should:

- assess whether those responsible for undertaking the valuation procedures are independent from those responsible for investment decision-making and/or whether any conflicts of interests are appropriately mitigated and managed; and
- consider whether independent review of the internal appraisals should nonetheless be regularly commissioned (e.g., at least every three years).

(iii) The role (if any) of the investment's external auditor in relation to valuation should also be assessed.

(d) Rest valuation related rights. To the extent possible, Rest should:

(i) secure rights to conduct (at its election) an independent valuation of the underlying investment;

(ii) require investment managers, at least annually, to notify Rest of:

- any changes to their asset valuation policies;
- any inconsistencies between their asset valuation policies and the asset values provided; and
- details of any audits of valuations, and the outcomes of such audit (and, if possible, audit opinions should be provided); and

(iii) require investment managers to notify it of any asset related matters that are material to valuation between regular valuations. These should include key performance drivers and valuation assumptions.

(e) appropriate monitoring of valuations. The Financial Services Council identifies a number of "triggers" which it considers should be monitored to prompt consideration of whether the asset values used for unit pricing are not significantly different to the current market value of those assets:[5]

- changes in discount rates;
- recent sales or similar assets currently for sale;
- significant revaluations of other similar assets within the portfolio;
- movement in an appropriate market index;
- changes in the asset profile, such as 'green' ratings for commercial properties etc;
- movements in the occupancy and rental yields for commercial buildings;
- changes in interest rates;
- changes to tax rules;
- changes in capitalisation rates; and
- revenue and expense drivers for the underlying business.

The due diligence team should assess the monitoring processes that Rest has, or proposes to have in place, to ensure that valuation risk in unlisted assets is minimised to the maximum extent possible.

3.4 Unit pricing

(a) For externally managed assets:

Unless the Rest Board or Investment Committee determines otherwise, Rest will take the latest valuation provided by the investment and/or its manager as the value for unit pricing purposes (or, if a range of values was provided, the mid-point of that range).

Unlisted asset valuations are generally provided directly to Rest's custodian from the relevant investment and/or investment manager. Subject to any specific direction from the Rest Board or Investment Committee, each change in reported valuation is fully incorporated at the next date at which the assets of the Fund are valued via Rest's Unit Pricing Policy.

(b) For internally managed assets:

SIM will provide the Rest Board or Investment Committee with the latest valuation information in accordance with the SIM Valuation Protocol, be it a value or range.

Unless the Rest Board or Investment Committee determines otherwise, Rest will take the latest valuation provided as the value for unit pricing purposes (or, if a range of values was provided, the mid-point of that range). The process for instructing Rest's custodian to adopt

[5] FSC Guidance Note No 26 'Asset Valuation and Unit Pricing for Infrequently Valued Assets" (December 2008; updated February 2010).

valuations of internally managed assets for incorporation into unit pricing is set out in the SIM Valuation Protocol.

(c) Unit pricing checks:

Rest's Unit Pricing Policy encompasses the process of undertaking reasonableness checks for movements in valuations prior to the release of unit prices.

3.5 Monitoring and assessment of valuations

Valuations of unlisted assets are monitored by the Rest Investment Committee through the following:

(a) Quarterly performance reports. Rest's Investment Adviser presents a quarterly performance report to the Investment Committee for review. The Report presents performance of various segments of investment markets, benchmarks and each of the Fund's investment portfolios.

(b) Notification of material valuation matters. Rest's Investment Committee will be informed of any material valuation matter raised by its investment managers between regular valuations. For example, SIM will notify the investment committee of any matter that SIM reasonably expects would have at least a 5% impact on valuation of Rest's investment (which would include any matter notified to SIM by the external valuer pursuant to the valuation engagement).

(c) Manager attestations and presentations. Under certain IMAs, Rest requires relevant managers to provide annual attestations as to any changes to investment and valuation policies and provide certain information in respect of valuation matters. In addition, Rest's Investment Committee receives regular presentations from current and prospective investment managers. This enables the committee to review specific performance of specific investments and reflect on valuations in the current investment market conditions.

(d) Information arising from valuation monitoring. Rest's Investment Committee may take into account any information that it considers relevant that assists in determining an appropriate valuation. Such information may:

(i) be identified from Rest's valuation "trigger" monitoring processes,
(ii) arise from Rest's periodic review of valuation matters (e.g., independent audits);
(iii) be presented by any of Rest's investment managers, Rest or SIM management, or Rest's Investment Adviser; or
(iv) come to the Investment Committee's attention from other sources (for example, listed company announcements).

(e) External auditors. Rest's auditors consider the fair value of Rest's assets as part of their annual audit process.

3.6 Review of asset valuations

The Rest Board or the Investment Committee may, but is not bound to, adopt a different valuation from the latest valuation (or mid-point thereof) provided by the investment and/or its manager if:

- it is provided with information that it considers could reasonably result in a material change to the valuation of a particular investment;[6] and

- information is available that it considers could reasonably be used as the basis for an alternate valuation or there is an alternate valuation that it considers more accurately reflects the value of the investment.

The Rest Board or Investment Committee will depart from the latest value (or mid-point) provided only if, following receipt of specific information from management and/or Rest's Investment Adviser, it considers it appropriate to do so. The reasons for any departure from the usual valuation approach will be set out in the minutes recording such decision.

The Rest Board or the Investment Committee is unlikely to exercise its discretion to adopt a different valuation in any of the following circumstances:

(i) a reasonable person will not expect the information to be acted on;

(ii) it would be a breach of law to use the information;

(iii) the information concerns an incomplete proposal and negotiation;

(iv) the information comprises matters of rumour, speculation, guesses or is insufficiently definite to warrant its use (acknowledging that valuation methodologies do use assumptions);

(v) the information is wholly generated internally by Rest or SIM; and

(vi) the information is a trade secret and its use would damage that trade secret.

3.7 Ongoing review of valuation policies and procedures

Throughout the investment period, each investment's valuation policies and procedures, and the independence of the valuations, should be assessed by Rest and SIM management and/or Rest's Investment Adviser to ensure they remain appropriate.

4. Policy review

The Policy owner is responsible for ensuring that this Policy is updated in accordance with any changes in operational practice or new issues identified. The Unlisted Assets Valuation Policy will be formally reviewed by the Policy owner every two years with any material amendments provided to the Investment Committee for approval.

[6] In paragraph 9.9 of Guidance Note 26, the FSC observes that the specific threshold adopted for revaluation of a portfolio should be considered having regard to the nature of the assets. The one example given is a revaluation where the affected assets imply current scheme pricing deviates from the suspected current market value of the relevant portfolio by more than 5%.