INVESTMENT VALUATION STANDARD

Trustee: AustralianSuper Pty Ltd

Standard owner: Director, Investment Finance and Legal

Next review date: Sept 2020

ABN: 94 006 457 987

Date: September 2019

Version 3.4

This is the Investment Valuation Standard of AustralianSuper Pty Ltd, the Trustee of AustralianSuper. This Standard was approved by the Director, Investment Finance and Legal on 2 September 2019

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Revision history

The table below sets out the history of this document.

Version	Approved by/reasons for amendment	Date approved
1.0	ORG approved updates	September 2015
2.0	ORG approved updates	August 2016
3.0	ORG approved updates	Feb 2018
3.1	P Curtis approved	July 2018
3.2	Changes as endorsed by VOG and ORG	October 2018
3.3	Changes as a result of recommendations by APRA	April 2019
3.4	Updated to include the change of owner from Head of Investment Operations to Director, Investment Finance and Legal and references to Head of Investment Operations changed to Group Executive, Finance & Operations from the recent restructuring	September 2019

1. Introduction

The purpose of this document is to set out the Investment Valuation Standard (the Standard) adopted by AustralianSuper Pty Ltd, (the Trustee), the Trustee of AustralianSuper (the Fund) in relation to the valuation of the Fund's investment assets[1].

The Standard aligns with the AustralianSuper Investment Governance Framework.

The Standard supports compliance with APRA Prudential Guideline SPG 531 – Valuation.

The Standard is supported by Investment business unit procedure documents that articulate key aspects and procedural steps for the valuation of the Fund's investment assets.

Portfolio Risk will be responsible for maintaining the currency of this document. Portfolio Risk will work closely with Investment department and Fund Stakeholder to review and update the Standard.

2. Purpose and Objectives

The objective of the Standard is to articulate the investment valuation framework (the framework) that is applied for the valuation of the Fund's investment assets. The framework will adopt the key valuation principles and independence protocols that are documented within the Standard and apply the principles in a manner that is appropriate for the Fund's size and the types of assets it invests in. It seeks to ensure that investment assets are valued on an equitable and consistent basis.

The key principles associated with the valuation of investment assets held by the Fund are to:

- Ensure equity across members over time as they enter and leave the Fund through the implementation of consistent valuation processes;
- Ensure independent valuation of investment assets;
- Effectively manage the risk of incorrect values; and
- Ensure valuation methodologies comply with generally accepted accounting principles

This Standard articulates the:

- Governance and controls that apply within the framework;
- Asset methodologies that are applied consistently and effectively for each asset (and sub asset class);
- Roles and Responsibilities of the Investment Departments business units; and
- Management and oversight of Valuation Risk.

The Standard covers only valuation for the Funds investment portfolio and does not extend to the specifics of unit pricing or financial reporting, although both leverage this framework in their production.

[1] For the purpose of this document, Investment assets do not include related party holdings contained in the strategic sector (i.e. holdings in Members Equity Bank Limited and ISH Pty Ltd

3. Valuation Risk

Valuation risk "is the risk that the values of assets held by the Fund are incorrectly valued or misstated that may give rise to errors in crediting rates, Fund investment option performance calculations and the disclosure of investment asset valuations in the financial statements."

Valuation risk also includes specific asset class valuation risks.

In respect of investment asset valuations there is the risk that:

- Data supporting the valuation may be incorrect;
- The timing of the valuation data may be out of date;
- The analysis of the valuation data may be incorrect; and
- Custodian systems used to process the valuation data may be inconsistent, faulty or unstable.

4. Investment Valuation Governance

The Investment Committee is responsible for the oversight of the valuation process and it has delegated the management of the process to the Chief Investment Officer (CIO).

Day to day management of the framework will be undertaken by the Director of Investment Finance and Legal whose key functions are to:

- Ensure investment valuation arrangements are completed for all Fund investment assets in accordance with approved frequency timeframes;
- Ensure all investment valuations for Fund investment assets are recorded by the Custodian on a timely basis for member crediting rates and investment option performance. This includes monitoring stale pricing reporting and any valuation breaches/incidents; and
- Oversee and monitor the Custodian's asset valuation practices including the annual certification of the appropriateness of the Custodian Valuation Policy to the CIO.

The integrity and appropriateness of the framework is monitored by the Valuation Oversight Group (VOG) which provides support and recommendations to the Director, Investment Finance & Legal in respect of the review of the following matters:

- Amendments to this Standard (refer Section 8);
- Monitoring the valuation process of investments and noting the valuation of direct investments in accordance with the Standard;
- Remediating any breaches of the Standard; and
- Assessments of the effectiveness of the framework.

Where appropriate, the Trustee will utilise internal and external audit to advise on specific matters arising through the operation of the framework.

The CIO provides the Investment Committee with an annual certification of the integrity of the Investment Valuation Framework.

5. Valuation Independence Principles

The Trustee applies the principle of independence to the valuation process in the following manner:

- Fund investment assets are valued in accordance with approved accounting standards AASB 1056 'Superannuation Entities' (AASB 1056) which requires that assets, including debt and Separate Legal Entities (**SLEs)** shall be measured at fair value in accordance with AASB 13 at each reporting date;
- The day to day management of the Investment Valuation Framework is undertaken by the Finance and Operations team which is independent of the investment management functions in the Fund;
- The pricing policies and assurance reporting of the Custodian in the form of an external audited internal control review (e.g. GS007) are reviewed annually;
- For each asset class, there is appropriate segregation of duties between those involved in the asset management process and those involved in approving the adoption of a valuation. Where independence is not met, the potential for conflict of interest is identified, reported to the CIO and appropriately mitigated;
- The valuation policies of third party managed special purpose vehicles are assessed as part of the pre-investment due diligence; and
- Directly held assets are valued by independent and appropriately qualified professionals using generally accepted valuation techniques. Valuers are required to confirm that they are free from a conflict of interest with each valuation report they present.

6. Asset Valuation Methodologies

The Trustee invests in a broad range of investment assets that require various methods of valuations to ensure the valuation data is sourced on an accurate and timely basis.

The Trustee has implemented asset valuation methodologies that are appropriate for the assets in which it is invested (refer Attachment 1). The assessment of the appropriateness of the asset methodologies has included a review of the reliability and consistency of the sources of investment valuations.

The Trustee's approach to utilising asset valuation methodologies and data sources takes into consideration the following attributes:

- Characteristics of the asset type including asset size, nature and domicile;
- The reliability, consistency and timeliness of access to market data that appropriately reflects the market environment in which the assets trades;
- Timing and frequency of the availability of valuation data; and
- Level of activity in the same or similar assets within the respective asset market.

The Trustee does not currently use in house valuation models in respect of valuing Fund investment assets. The use of in house models for valuation would be subject to prior approval of Group Executive, Finance & Operations and CIO.

For the purposes of the framework, investment assets can be categorised as tradable assets or non- tradable assets.

6.1 Tradable Assets

Tradable assets are assets (often in the form of securitised holdings) that are bought and sold through formal securities exchanges (e.g. Australian Stock Exchange) or central clearing agent's platforms. Tradable Assets will also include financial institutions where the price at which the asset is tradable is based on a market reference price or rate.

Valuation data is accessible through independent third party pricing vendors that source this information directly from the securities exchange, third party central clearing agent or referable market data. Tradable assets are usually subject to daily valuation and include listed equities, fixed interest securities, currency, and exchange traded derivatives (e.g. futures, options and forward foreign exchange contracts).

Tradable assets are valued through the pricing and valuation sources of the Custodian.

The Trustee maintains controls over the accuracy and appropriateness of the Custodian pricing services which include maintaining a comprehensive oversight and assessment program on the effectiveness of the custodian's services including formal quarterly operational and service level review meetings and onsite inspections of the Custodian's operations in Australia and overseas and receipt and review of the annual GS007 or equivalent externally audited internal controls review of the Custodians operations.

The approved securities log represents those security types that have been approved and are able to be used by the Asset Class teams. Prior to inclusion in the approved securities log, the new security types must be approved for use by Director of Portfolio Operations and Reporting and confirmed by the Custodian that they can appropriately value and administer the asset.

In considering the use of new security types, the Trustee will have regard for the capability of the Custodian to readily access appropriate asset valuations referable to quoted market sources or independent objective market based inputs on a timely basis.

Portfolio Risk will monitor that all tradable assets (as new mandates are on-boarded or existing mandates access new security types) are in the approved securities log.

6.2 Non-Tradable or Illiquid Assets

Non-tradable assets can be either held directly (i.e. direct ownership or through a fully owned Internal SLE) or through an interest in an SLE (e.g. unit trust, company, limited liability partnership).

Non-tradable assets cover a broad range of asset types and arrangements and include the following investment asset arrangements:

- SLEs where the underlying assets in the SLE are tradable securities (e.g. equities and fixed interest securities);
- private equity asset structures;
- fund of fund structures;
- over the counter (OTC) derivatives; and
- loans

The Trustee recognises that non-tradable asset valuations have a higher valuation risk than tradable securities for the following reasons:

- the nature of the non-tradable asset being valued;
- the relative illiquidity of non-tradable asset type;
- the reduced frequency at which those assets are valued; and
- the reliance on the SLE valuations from the SLE managers and the inability to readily and independently validate the valuations of the underlying SLE assets.

As a result, the Trustee has established specific controls over the non-tradable asset valuations processes to address the higher valuation risks.

6.2.1 Direct Non-Tradable Assets

A direct non-tradable asset is an asset where the Fund holds direct ownership of all, or part of an asset. Part ownership of a direct non-tradable asset is undertaken in conjunction with other investors in a co-investment arrangement. Ownership may be via direct holding of the asset or through an SLE.

The direct non-tradable asset valuation framework is documented at Attachment 2 with further consideration of out-of-cycle valuations included in Attachment 3.

6.2.2 Loans

The Trustee invests in Syndicated and Bi-lateral loans. Valuations are dependent on the liquidity of secondary market and the type of loan. The valuation framework is documented at Attachment 2 and the principles which guide the appropriate frequency and valuation methodology to be adopted are consistent with other non-tradeable / illiquid assets.

6.2.3 Interests in External/Third Party Separate Legal Entity

The Trustee may invest in an external SLE to access an investment strategy or assets where the SLE and its underlying assets are managed and administered by an external manager. As an SLE investor, the Trustee holds an interest (e.g. in the form of units or shares) in the SLE. The pricing methodology and frequency of valuation of the SLE interests is subject to the terms of the constituent documents that govern the SLE.

Where the Fund performs pre acquisition due diligence on a potential SLE investment the valuation methodology of the Fund's SLE interest is assessed. The Fund's due diligence review assesses whether the SLE valuation of these interests' are appropriate and are consistent with the Trustee's valuation principles.

Portfolio Operations and Reporting will monitor the timeliness and completeness of pricing submissions by the third party SLE to the Custodian.

Portfolio Risk will monitor, where appropriate, the SLE managers continued compliance with their stated investment valuation methodologies and report exceptions to the VOG.

6.2.4 OTC Derivatives

The Trustee may utilise OTC derivatives where the terms and conditions of the OTC derivatives is governed by industry standard agreements (e.g. ISDA Agreements) negotiated between the Trustee and the counterparty. The Trustee may appoint external managers who within their approved investment mandate may utilise OTC derivatives where the terms of the OTC derivatives are referable to an ISDA agreement between the Trustee and the counterparty or, in exceptional circumstances, the external manager and the counterparty.

The valuation of OTC derivatives is undertaken by the Custodian through their Global Derivative Service (GDS) where the Custodian values each series of cash flows or derivative attributes that are exchanged through the OTC arrangement including collateral. GDS use the fair value hierarchy table below to value OTCs.

Fair value hierarchy	Type
L1	Quoted prices (unadjusted) in active markets for identical assets or liabilities
L2	Inputs that are observable for the asset, either directly (as prices) or indirectly (derived from prices)
L3	Inputs for the asset that are not based on observable market data (unobservable inputs)

7. Custodian Assurance and Oversight

The Custodian provides the following key services on behalf of the Trustee in respect of the framework:

- Maintenance and implementation of the Custodian valuation policy in accordance with regulatory requirements and industry best practice standards;
- Sourcing and pricing of tradable assets from third party pricing vendors or by reference to central clearing agencies in accordance with agreed frequency arrangements;
- Receives instruction from the Fund which reflects the independent valuations in respect of the Trustee's direct non-tradable assets;
- Receive and source pricing of Trustee interests in third party SLEs from third party sources and where required, SLE managers;
- Valuation of OTC derivatives based on accessing relevant market data; and
- Maintaining the currency and timeliness of valuations across the Trustee's Investment Assets.

The Senior Manager – Portfolio Operations and Reporting is responsible for the management of the effectiveness of the services provided by the Custodian and has the following controls over the assurance of the Custodian's services:

- All Custodian services provided are subject to a Master Custodial Agreement (MCA) prepared in accordance with requirements of APRA Prudential Standard SPS 231. Any changes to the Custodian's obligations are subject to a formal process of consideration and review of MCA for agreement amendments;
- A multi-tiered service provider oversight program addresses strategic and daily business issues which involves key Trustee business stakeholders. The oversight program is supported by regular onsite visits of the Custodians operations, service scorecard and performance metrics that are reviewed quarterly with the Custodian;
- Across all its services to the Trustee, the Custodian is required to provide annual externally audited internal control reviews (e.g. GS 007 or SSAE 16 Type 2 reports) where such reports are investigated with the Custodian for documented exceptions and confirmation that appropriate remedial action has been implemented;
- Annual review of the Custodian's valuation policy for appropriateness and a quarterly update from the Custodian of proposed changes to the policy through the quarterly service review process;
- The annual audit of the Fund's financial statement includes a review of the Custodian valuations; and
- Monitoring unchanged pricing reports and ensure follow up and resolution of the disposition of the impacted securities.

8. Review of the Standard

Upon a material change in the Fund's business or structure the Standard will be reviewed by Portfolio Operations and Reporting, Investment Finance and Legal, VOG, and Portfolio Risk and approved by the Director, Investment Finance & Legal.

9. Definitions

Central Clearing Agent – is a centralised platform or arrangement for the exchange of investment securities whereby the agent provided trade values on a regular basis in respect of the traded securities.

Exchange Traded Derivatives - are standardised derivative contracts such as futures and options that are traded on a regulated futures exchange. Contracts require payment of an initial margin settled through a clearing house.

Investment Assets – are the assets delegated to be managed by the Investment department by the Investment Committee. The investment assets include assets that are managed internally by the Investment department and those that are managed externally by external managers on behalf of the Trust. The Investment assets exclude those assets utilised within the Trustee's operations (e.g. computers).

Loans – the act of giving money to a another party in exchange for future repayment of the principal amount along with interest or other finance charges over the period of the loan. Loans include bilateral loans (a single lender and single borrower) and syndicated loans (involving a group of lenders working together to provide funds to a single borrower).

New Security Types – those whose attributes are not in the Approved Securities Log.

Risk Oversight Group (ROG) - is the Investment Department investment and operational risk oversight body that consists of key senior Investment Department executive with functional responsibilities across investments, operations and risk.

Over the Counter (OTC) Derivatives – are derivatives that are not exchanged traded and subject to specific agreement terms negotiated between the Trustee and the counterparty.

Separate Legal Entity (SLE) - is a collective investment vehicle in which one or more investors invest and the assets are held within the SLE structure. SLEs include unit trusts, companies and limited liability partnerships. AustralianSuper will utilise Internal SLEs in respect of investments in direct unlisted assets where appropriate. In addition, the Trustee may invest in External/Third party SLEs where it is one of a number of investors in the SLE structure.

Stale Pricing – Stale Pricing of listed securities is defined as a price that has not changed for a period longer than that reasonably expected for that security. This may arise from illiquid markets or the security has been suspended or delisted on the markets that it invests.

Attachment 1: Valuation Approach for Investment Assets (by Asset Type)

Asset / Category	Value Description	Frequency	Valuation Source
Equities	All exchange listed equities will be priced using the official market close on primary exchange. If there is no trading activity for a security but there is active bid/ask activity, the mid- price will be applied with the exception of Australian and New Zealand equities which will use the traded last price.	Daily	The custodian uses various pricing vendors, refer to JPM Global Fund Services Pricing Policy (GFSPP) document. Note: Suspended or delisted securities are priced by the custodian at the last traded price. Suspended securities will be notified to us prior to next valuation or as soon as JPM is aware. JPM will continue to monitor and update us on any changes. AustralianSuper has the option to adopt client direct pricing to be applied (ie priced at zero or another value). This requires JPM to transfer of the security to an “in house” security identifier.
	Pre IPO investments (equity, convertible notes) – valued at cost until there is an observable price (i.e. a subsequent capital raising or a clear reason to impair the asset).	Ad hoc	Cost.
Fixed Interest Securities	The custodian will source capital prices, capital average prices, market average prices and yield average prices from various broker sources.	Daily	The custodian uses various pricing vendors, refer to JPM GFSPP document. Note: Suspended or delisted securities are priced by the custodian at the last trade price. Suspended securities will be notified to AustralianSuper prior to next valuation or as soon as JPM is aware. JPM will continue to monitor and update AustralianSuper on any changes. AustralianSuper has the option to adopt client direct pricing to be applied (ie priced at zero or another value). This requires JPM to transfer of the security to an “in house” security identifier.
Exchange Traded Derivatives	Marked to market valuation to calculate the profit or loss on the position.	Daily	The custodian uses current prices available from relevant exchanges.

Foreign Exchange Rates and Spot/Forward Points	US and European close	Daily	The custodian uses various pricing vendors as the primary source to provide the last traded price for all exchange rates and forward points (refer to JPM GFSPP document).
OTC Derivatives	JPM source market data and apply it to internal audited valuation models	Daily	The custodian uses various pricing vendors (refer to JPM GFSPP document).
Unlisted Unit Trusts	Unit prices are calculated and provided to the custodian by the responsible entity of the trust. Unit prices are derived from the underlying value of the assets held within the unit trust. JPM use CUM Distribution policy at month end, distributions will be realised on effective date of distributions post price.	Dependent on pricing frequency of the ULT.	The custodian subscribes to the AUSMAQ "Pricestream" service and soft prices are sourced daily. Managers not providing prices to AUSMAQ provide statements to the custodian which is used to update the prices into the systems.
Property	The Trustee appoints an approved independent valuer for the valuation of the assets whereby full (annual) valuations and interim valuations (as applicable) are based on a combination of generally accepted market valuation methodologies dependent on the characteristics of the respective property and relevant property industry valuation standards. The generally accepted valuation methodologies are outlined in Attachment 2 below.	Refer Frequency in Attachment 2	Independent valuer selected from the Trustee Valuer Panel is the main driver of valuation regardless of whether the asset is held directly or via SLE. Refer Attachment 2.
Infrastructure	The Trustee appoints an approved independent valuer for the valuation of the assets whereby full (annual) valuations and interim valuations (as applicable) are based on a combination of generally accepted market valuation methodologies outlined in Attachment 2 below.	Refer Frequency in Attachment 2	Independent valuer selected from the Trustee Valuer Panel is the main driver of valuation regardless of whether the asset is held directly or via SLE. Refer Attachment 2.
Private Equity	The Custodian receives valuations from the general partner (GPs).	Generally monthly for Australian GPs and Quarterly for US GPs	Adjusted roll forward prices are calculated upon notification and receipt of income realisation. Prices are recalculated upon receipt of the latest available valuation from the manager.
Loans	Syndicated loans with sufficient liquidity will be marked to market.	Daily	JPMorgan vendor agreement with Markit to provide an independent valuation of the loan.

	Bi-lateral loans & illiquid syndicated loans are valued using an agreed valuation methodology with a specialist provider. Refer Attachment 2.	Refer frequency in Attachment 2	Refer Attachment 2.
Bank Accounts and Term Deposits	Daily cash balance plus interest accrual. Term deposits are valued at face value plus interest accrual.	Daily	Third party bank institutions.
Other unlisted investments (which aren't captured above)	Net Tangible assets per share as set out in audited accounts.	Typically annually	Audited accounts.

Attachment 2: Valuation of Direct Non-Tradable Assets

Overview

Direct non-tradable assets are typically large value property (e.g. office buildings), infrastructure (e.g. airports and major roadways) assets and illiquid loans.

Direct non-tradable assets are valued in accordance with agreed methodologies and annual frequency timetable.

Controls over the valuation of direct non-tradable assets: Valuers

- All valuers used by the Fund are drawn from the Trustees valuer panel.
- All valuers are subject to due diligence and independence verification by the Investment Finance and Legal Team prior to recommendation for inclusion on the Valuers panel.
- Valuers are rotated across assets at intervals of not more than 3 years, unless there is an asset specific reason to retain the same valuer, which is approved by the VOG.
- All appointment and terminations to the valuer panel are approved by the Group Executive, Finance & Operations.
- Valuers are appointed from the valuer panel to value particular assets by the Director, Investment Finance & Legal.
- All changes to the valuers panel are reviewed and noted by the VOG.
- Valuers are asked to nominate a value rather than a range.
- Where a valuer relies on a third party valuation model (provided by the company/asset manager) in respect of an Infrastructure asset then that model will be periodically independently audited prior to reliance being placed on the model. This needs to be: 1) included in the valuation instruction, and 2) noted in the valuation.

Other

- Instruction/engagement letters with valuers must specify a person from the Investment Finance and Legal team to be included on all correspondence between the valuer and the Fund.
- All valuation reports are reviewed by the relevant Asset Class Head (or delegated direct report) to ensure the asset valuation reflects investment conditions at the time (e.g. GDP growth expectations are not unrealistically high, appropriate discount rates, relevant business plans).
- In respect of Property valuations, the instructions are issued in a pre-agreed form which has been approved by Investment Finance and Legal and issued by Investment Finance and Legal.
- Portfolio Operations and Reporting maintains a direct investment control sheet over direct unlisted valuations to ensure currency and completeness of valuations.
- The integrity of the direct non-tradable asset valuation process will be monitored by the VOG.

Frequency of Valuation

In determining the valuation frequency for a direct non-tradable asset, the Trustee will give consideration to the size and nature of the asset as well as the costs involved in obtaining a valuation. Valuation sources for such assets will be considered in the context of appropriateness and transparency.

The frequency of valuation of direct non-tradable assets is as follows:

Asset Size[2]	Frequency
Less than 10 bps	Annual
10-50 bps	6 Monthly
Over 50 bps	Quarterly

For assets valued more than once per year by a valuer, they will generally be instructed to provide a “Full” valuation annually and also when important information becomes available (for example the annual budgeting process at the underlying asset has just been completed or the key financial model updated).

For the other valuations throughout the year an “Update” valuation will be required. Update valuations consider the key variables driving the valuation of the asset without the detailed industry and market analysis that Full valuations contain.

For newly acquired assets, a valuation must occur within 12 months of purchase, after which the regime above will apply.

Attachment 3 considers the valuations outside of the normal frequency.

Valuation Methodologies

All unlisted assets are subject to at least an annual valuation. The annual valuations are spread over the financial year where possible in consideration of the underlying assets planning cycle and the Fund’s year end (30 June). The valuation methodology will be appropriate with regard to the characteristics of the asset and in line with generally accepted market approaches and relevant industry valuation standards.

Property valuations use defined property standards which the valuers are instructed to adhere to in all markets the Fund is operating in.

The Trustee adopts the following valuation techniques in respect of property and infrastructure assets and they will be applied dependent on the assessment of the relevant characteristics of the asset and applicable industry valuation standards:

- Income capitalisation
- Discounted cash flow
- Direct Sales Comparison
- Depreciated replacement cost
- Residual Valuation (i.e. Turner Method)
- Acquisition value (if within the first 12 months)
- Net Asset Value
- Earnings multiple (trading or transaction)
- Price of recent investment

[2] *Asset Size is measured as a percentage of the smallest Fund Investment Option in which the asset is held at the time the valuer was contracted.*

Valuation of Loans

AustralianSuper uses the following tiered methodology for the determination of loan valuations.

i. **Market-based prices**
The Master Custodian engages the services of pricing vendors who source market-based prices. Generally Syndicated Loans are able to be valued using this method. Using this method the price of the asset provided by vendor is updated daily after the security pricing process has been completed at the custodian.

ii. **Periodic valuation via specialist valuation agent**
Where a loan cannot be valued using market-based prices (as determined by Investment Finance and Legal with input from the relevant Asset Class Team) a specialist valuation agent will be engaged by the Fund to provide an independent fair value assessment on at least a quarterly basis.

iii. **Valuation of Loans to Property developers**
Loans to Property developers will be valued via manager valuation policy which is generally at cost less agreed impairments. No external valuations are considered necessary due to:
- the duration of the loans are usually two years or less; and
- lending criteria/sensitivity analysis showing no loss on such loans in event of 40% default and 40% drop in property value.

The valuation of each instrument in the portfolio will be provided to the Credit Group on an ongoing basis. Non market-sourced, periodic valuations provided by an external specialist valuation agent will also be provided to the VOG.

Valuation of investments in Property entities including SLEs valuations[3]

The Fund invests into real property assets via equity interests in a pooled vehicle such as a limited liability company or unit trust. Typically these investments are held via one of the Fund's wholly owned SLEs. These pooled vehicles hold the real property asset, and also typically have associated debt, other assets and liabilities such as cash, receivables, payables etc. (adjusted for any items already included in the property valuation).

In order to determine the fair value of the equity interest we must consider other assets and liabilities of the entity

Therefore in determining the valuation of the investment, the Asset Class team must take the independent asset valuation and add or subtract these other items to determine the investments fair value. These will typically be sourced from the audited or management financial statements of the enterprise and reviewed for reasonableness by the external asset manager and/or the internal asset class team. Note that this is distinct from directly held infrastructure assets, where it is market/industry practise for the independent valuer to provide enterprise valuations.

In determining the approach to value each such asset, consideration will be given to whether debt in the investment entity should be fair valued based on the nature and tenure of the debt. Historically debt has been included in this calculation at its face value for unit pricing purposes, but has been fair valued for SLE financial reporting. Typically these valuations exclude distribution income which will be received. As such income is accrued in the relevant portfolio at JPM based on estimates reviewed by the Asset Class teams. We apply such accruals to Property SLEs only (i.e. not Infrastructure SLEs). This is because the Property Option invests in the Property sector and is therefore more exposed to significant sector unit pricing/crediting rate movements.

3 *The specifics of the approach to value each individual investment held by an SLE is set out in the SLE Operating Manual, It is our policy to value external debt at the principal value (not discounted cash flow) in this process (consistent with the approach taken at acquisition).*

The Infrastructure sector is held by the pre-mixed options and hence the impact of any large income receipts or tax payments which have not been accrued, are immaterial to the crediting rate at the option level.

SLEs valuations

- Investment assets
- Cash balances
- Income accruals for Property Assets as outlined above
- Similarly, where an SLE must make tax payments, an accrual is made for the amount of the payment (to the extent it can be reliably estimated),
- SLE's may also have advanced loans to underlying enterprises or other SLE's.
- Income receivable/payable on such loans is also accrued.

Appointment and Assessment of Valuer

The management of the valuers panel and the appointment of valuers is undertaken by the Investment Finance and Legal team which is independent of the relevant asset class team.

(A) Initial Criteria for Inclusion on the Valuers panel

The Investment Finance and Legal team with input from respective asset class team will assess a valuer for inclusion on the Valuers panel based on the following minimum criteria:

i. Background and experience
   - Company / valuation practice.
   - Description of Industry / Asset class knowledge.
   - Description of valuation experience in the relevant markets as appropriate.
   - If applicable, experience with the particular asset.

ii. Team member background
   - Experience, skills and qualifications of the team that would be valuing each asset, including the signing partner, project manager, and the team's capabilities in the jurisdiction.

iii. Valuation Approach
   - The valuation company's proposed methodology and clearly state any differences from the Trustee's valuation standard.
   - To what extent does the valuation company check the reasonableness of management's projections and assumptions?
   - If management's projections or the underlying assumptions look overly optimistic, how does the valuation firm handle the situation?

iv. Deliverables
   - Outline the proposed reports and analysis that will be presented to the Fund as part of the engagement.
   - Willingness to tailor reports to meet specific formats preferred by the Fund.
   - Ability to deliver final reports in a timely manner.
   - Proposed work timetable including time to undertake the necessary components of work.

v. Details of fees charged

vi. Existence of any conflicts of interest

The Trustee may include additional assessment criteria dependent upon the nature, domicile and type of assets to be valued and consideration of existing information already known about the potential valuers. Appointment of valuers to the panel are approved by Group Executive, Finance & Operations.

(B) Ongoing assessment of a valuer on the Trustee valuers panel

The Trustee maintains criteria for the ongoing assessment of a valuer on the valuers panel as follows:

Primary Criteria	Primary Assessor	Yes/No
Are their valuations technically proficient? The staff competent in their understanding of valuation issues?	Relevant Asset Class Head or designated direct report	
Are they consistent in their approach?	Relevant Asset Class Head or designated direct report	
Are the valuations completed on time?	Relevant Asset Class Head or designated direct report	
Do they question key assumptions and model projections provided by the asset manager/company	Relevant Asset Class Head or designated direct report	
Have any conflicts of interest arisen?	Relevant Asset Class Head or designated direct report	
Have there been any changes at the firm that may impact their service delivery?	Relevant Asset Class Head or designated direct report	
Any other matters that should be noted for Valuations Oversight Group	Relevant Asset Class Head or designated direct report	

At the completion of each valuation, the above table is completed by the relevant asset class team which includes relevant criteria to measure the valuer against.

If any problems cannot be resolved, then the valuer will be removed from the valuer panel with the approval of the Group Executive, Finance & Operations.

Attachment 3: Out of Cycle Valuations

The Trustee recognises that business/market events can occur which may result in in the requirement for a valuation of one or more unlisted assets outside of the established frequency ranges (to the extent practicable).

The decision tree set out below outlines the circumstances in which an out of cycle valuation should be undertaken in response to a trigger event.

Trigger events

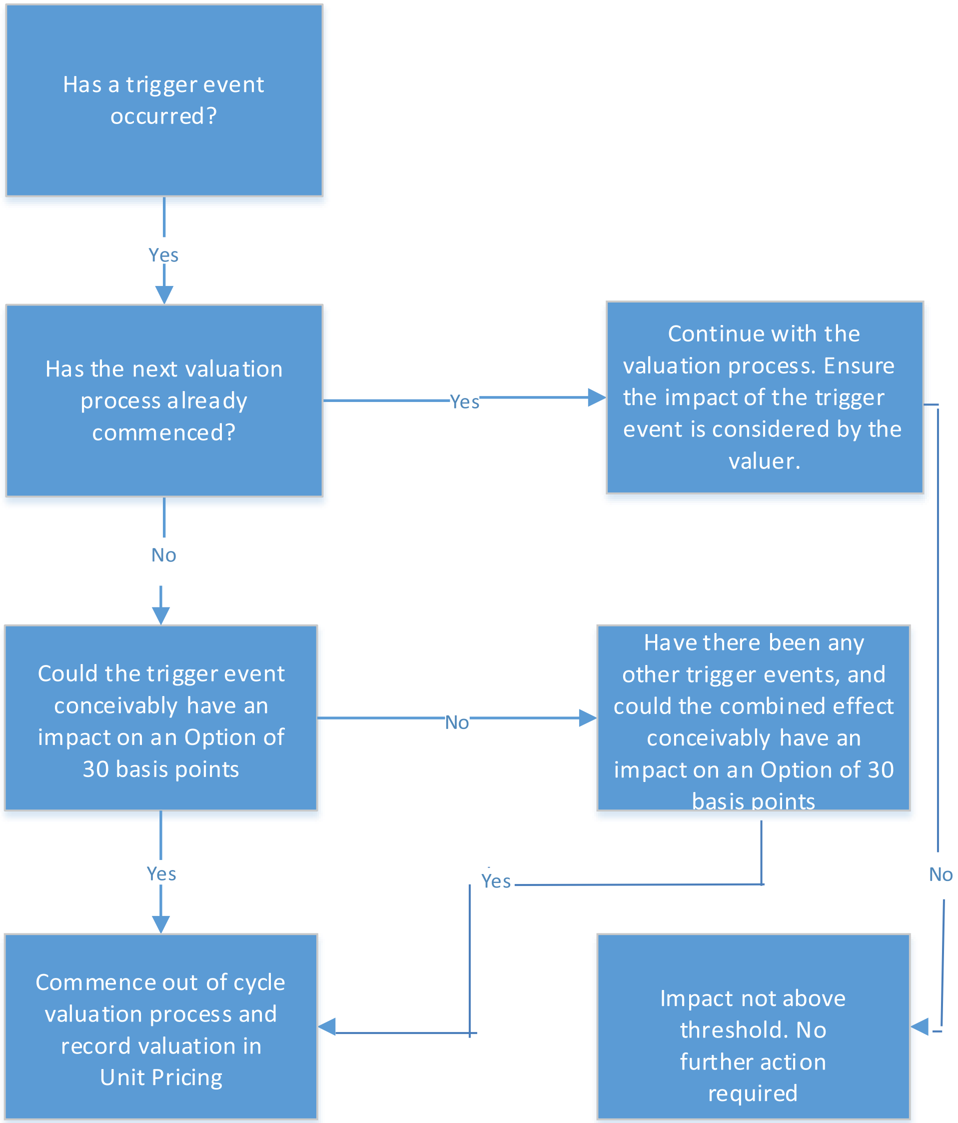
Such events may include but are not limited to:

- Damage to or destruction of a significant portion of a physical asset e.g. property, whether through a natural event or other circumstances (fire, malicious damage etc.)
- Significant change in operational conditions including breach of obligations, or changes in the regulatory environment for the underlying business
- Disposal, merger/acquisition or restructure activity of a particular asset
- The decision to freeze[4] the Property Option is a trigger event which necessitates the consideration of out of cycle valuations.

[4] *The Property option can now be frozen in certain circumstances, including a deterioration in Property markets subject to certain thresholds.*

Decision tree

Where a trigger event has occurred the following decision tree guides the process as to whether an out of cycle valuation should be undertaken.



The 30 basis point threshold has been set with reference to ASIC RG 94 Unit pricing: Guide to good practise. In practise the Property Option will be the option with the highest exposure to Direct Non-Tradeable Assets and therefore has the greatest potential to trigger the need for an out of cycle valuation for one or more assets, especially where a trigger event effects multiple assets or more than one trigger event impacts an asset or assets concurrently.

Notwithstanding the above, there may be times where the Asset Class team decides to commission an out of cycle valuation for asset management purposes, even where there impact could not conceivably be 30 basis points at the Option level. Where an out of cycle valuation is obtained, regardless of the reason, the new valuation should be recorded.

Monitoring and Control

It is incumbent upon the Asset Class team to advise Valuation where a trigger event has occurred, and will be asked to confirm to each VOG that no other trigger events have occurred.

Whether the trigger event could conceivably have a 30 basis points impact will be determined by reference to the Option with the greatest exposure to the asset or assets to which the trigger event relates. We will consider what percentage movement in the value of an asset or assets would be required in order to generate a 30 basis point movement in the Option with the highest exposure. If the Asset Class considers that the movement is conceivable based on the trigger event then an out cycle valuation should be commissioned.