

## **1. Asset valuations**

### **1.1 Valuation Principles**

The Trustee endorses the following key valuation principles:

- (a) Daily pricing should reflect the best estimate of the true value for the underlying Fund investments for the relevant valuation date, inclusive of accrued income. A separate allowance for transaction costs is to be included in the calculation of the price to derive a mid-price (i.e. to adjust for legitimately estimated redemption costs);
- (b) To the extent possible, readily observable independent market based pricing is to be used;
- (c) Where actual valuations are not known or not reasonably attainable as at time of pricing, estimates may be used as follows:
  - Where prices for listed investments are not available on a given day at the relevant cut off time (“stale prices”), prices are to be set by reference to the movement of the most appropriate listed index (“indexing”) or by reference to the most up to date information available at the time of pricing (“soft pricing”). Where indexing and soft pricing are used, this is notified to the ESIFS Investments team for review and verification.
  - Given the nature of unlisted illiquid assets and the practicality and cost associated with the commissioning of an independent and/or frequent valuations, it is acknowledged that daily valuations for unlisted assets are not always practical, nor possible. The Trustee acknowledges that this is likely to result in the use of stale prices in the striking of unit prices until a more up-to-date value is obtained; and
  - The use of these prices is considered to be appropriate under normal economic conditions.
- (d) In periods of market dislocation, or where market conditions suggest that the carried value of an asset is not reflective of its realizable value, the Trustee or its authorised delegate may elect to adjust the value by reference to a reasonable market proxy, benchmark or manager peer-group; and
- (e) The Trustee expects Management will undertake a robust checking and validation of underlying Fund asset prices to ensure that, as far as possible, the calculated unit prices are materially correct, verifiable and reflective of current market inputs. This review and validation process is outlined more fully in the Fund’s Unit Pricing Methodology and Process.

### **1.2 Listed Assets**

Listed Assets are those investments, held either directly, or indirectly through external Investment Manager trusts/vehicles that have readily observable pricing. These assets are priced on deep, liquid, and well maintained markets (e.g. those assets whose prices are quoted on publicly listed markets).

The Trustee's policy for the valuation of these assets for a given business day are as follows:

- All directly held Listed Assets (such as those held in accordance with an Investment Management Agreement as discrete mandates and are directly under Custodian oversight) are valued by reference to publicly quoted prices (using the Custodian's agreed pricing methodology);
- All indirectly held assets (such as those held in unitised Fund structures), are valued by reference to the publicly quoted prices of the relevant Fund/Trust, which reflect the pricing of the underlying securities (after allowance for sell spreads if any); and
- For indirectly held assets, where there are stale prices, the Custodian will use a price that reflects a relevant benchmark index used by the relevant Investment Manager or the Trustee's benchmark of the asset class where the assets are held.

### 1.3 Unlisted Assets

- (a) Unlisted Assets are those investments, held either directly by the Fund or indirectly (such as through a Fund or Fund-of-Fund structures) which contain investments which have non-readily observable pricing structures, i.e. these are assets that are not traded on publicly listed markets;
- (b) The Trustee reviews the capabilities of each external investment manager prior to their appointment and on an ongoing basis, explicitly considering their approach to the provision of internal and external valuations and frequency thereof, to ensure that Investment Manager policies are aligned to Trustee, ASIC, APRA Policies, and guidance;
- (c) This is covered in both initial and ongoing due diligence processes and covers such items (as they pertain to this Policy) as Investment Manager Valuations Policy, frequency of valuations, use of external versus internal valuations, tenure of external valuer and frequency of review thereof, use of internal models to revalue assets between external valuation periods as well as the provision of audited financial reports and controls audits;
- (d) Where a listed market does not exist for particular assets, the Trustee requires details on the basis and frequency of valuation and assesses the adequacy of each Investment Manager's process in relation to the Fund's operational and regulatory requirements – such valuations can be termed "roll forward" or internal intra period valuations;
- (e) A register is maintained of the valuation policies of all Investment Managers of unlisted investments and this is updated on an annual basis to ensure currency of information;
- (f) On a quarterly and annual basis, Investment Manager reports are reviewed at a high level to assess changes to Investment Manager policies, valuation procedures, valuations and the drivers thereof. These are used as the input to discussion on performance and asset class performance with managers at periodic Investment Manager review meetings; and
- (g) On an annual basis, the ESIFS Investments team requests information from each Investment Manager in which the Fund invests through either a Pooled Investment, Trust or Partnership Vehicle. The information covers Valuation

Policy (and updates thereto), changes to valuer (and rationale thereof), methodology or frequency of valuation, use of models, assumptions underlying these, copies of audited accounts and controls audits and is used to ensure currency of information held on file. These also allow Management to review high level assumptions underlying valuations together with trends thereon.

#### 1.4 Valuation Policy Assessment(s)

- (a) The factors which the Trustee and Management deem as indicators of a reasonable valuation policy are:
- Desirable valuation policy characteristics for material Investment Managers or assets (greater than 2% of Fund assets or total funds under management) are generally required to update revaluations and pricing on at least a quarterly basis;
  - Audited end of year accounts for each manager/trust in which the Fund has a holding where the audit is conducted by a reputable external auditor;
  - Reasonable frequent pricing (taking into account the nature of the underlying assets, and the practicality and cost associated with the manager obtaining independent valuations);
  - Existence of a valuation policy which contains elements of:
    - Externally sourced market based pricing;
    - Frequency and manner of valuation of Fund Assets:
  - For Property - valuation quarterly of all assets within the Fund that have an individual value in excess of \$100 million, and annually for all others;
  - For Infrastructure – Half Yearly Valuations for major assets and internal roll forwards intra-period (after review of roll-forward methodologies);
  - Use of independent valuations;
  - Turnover of independent valuers at reasonable intervals; and
  - Capacity for the Investment Manager to override valuations provided by underlying managers where the manager deems that underlying valuations are not reasonable.
- (b) In addition, as part of the annual audit process, Management in conjunction with the External Auditor, have a process for assessing the material accuracy of Investment Manager valuations. This process involves selecting alternative/unlisted Investment Managers who manage greater than 2% of the Fund's under management and comparing the valuation statements with the Investment Manager's accounts to ensure that the audited end of year accounts of the Investment Managers reflect a net asset value consistent with the end of year valuation provided by the Investment Managers.

#### 1.5 Authority

Management (either on behalf of, or with the knowledge of the Fund Administrator) may request that the Custodian provide guidance or clarification in relation to asset

valuation methodology, cost factors, and/or tax factors to be applied to platform pricing in order to calculate unit prices.