

Valuation Policy

How we provide reliability and accuracy to underlying asset valuation

Applies to:

Entity(s):	QSuper Group
Division(s):	Corporate Advisory and Governance
Business Unit(s):	Investment Operations, Finance
Owner:	Chief Financial Officer
Author:	Investment Accounting Manager, Senior Manager Unit Pricing
Approval:	QSuper Board
Active Date:	30 August 2017

Why do we have this Policy?

Member account balances are based on the daily unit prices of the Investment Option in which their superannuation funds are invested. This policy documents the key principles, methodologies and guidelines we adopt to ensure we use the most reliable and accurate underlying asset values for the benefit of our members and regulatory reporting. It also details the various roles that have responsibility for asset valuation and the nature of those responsibilities.

Key Principles

To ensure the reliability and accuracy of underlying asset valuation we will:

- use key valuation principles;
- apply the valuation assurance framework;
- maintain roles and responsibilities; and
- apply specific valuation methodologies.

Key Controls

1. The Custodian maintains thresholds for valuation movements which when triggered will require further investigation with the relevant manager;
2. Manager reporting records are maintained outside the Custodian records to assess performance of the Managers;
3. Audited financial statements are reviewed to confirm unqualified audit opinion has been provided, and that accounting policies are appropriate;
4. Internal Controls reports of Managers are reviewed to determine that they have maintained appropriate processes and controls;
5. The Valuation Policy of the Manager is reviewed to confirm it is consistent with this Policy;
6. A register of external valuers and auditors that are required is maintained; and
7. Custodian reports are reviewed validating that data has been processed in accordance with their policies.

Contents

1.	Scope	3
2.	Approach to asset valuation	3
2.1.	Key valuation principles	3
2.2.	Valuation assurance framework.....	4
2.2.1.	Manager selection and due diligence.....	4
2.2.2.	Valuation data	4
2.2.3.	Monitoring	4
2.2.4.	Review	5
2.3.	Roles and responsibilities.....	5
2.3.1.	Custodian.....	5
2.3.2.	Valuation Review Panel.....	5
2.3.3.	Audit & Risk Committee.....	5
2.3.4.	QSuper Board	5
3.	Specific valuation methodologies	6
3.1.	Asset class valuation methodologies & process	6
3.2.	Valuation data hierarchy	7
4.	Valuation validation.....	7
4.1.	By the custodian	7
4.2.	By Corporate Advisory & Governance division	7
4.3.	Valuation Review Panel.....	7
5.	Valuation – exceptional circumstances	7
6.	External auditor and valuer	9
7.	Risk management.....	9
8.	Reporting.....	9
9.	Policy Approval	10
10.	Definitions.....	10
	Document History	11
Appendix 1	Investment valuation terms	12
Appendix 2	Valuation Assurance Framework diagram	13
Appendix 3	VRP representatives and responsibilities	14

1. Scope

This Policy applies to the State Public Sector Superannuation Scheme ('QSuper'/'Fund'). Additionally, relevant sections of this Policy apply to all QSuper Group associated entities (whether corporate or trust), to achieve a consistent and reliable approach to underlying asset valuation.

This Policy should be read in conjunction with the Unit Pricing Policy to ensure application of the valuation principles to unit prices and assets. This will maintain accurate, consistent, transparent and equitable outcomes for members.

The documentation and implementation of operational practices and procedures will be conducted by QSuper, in accordance with this Policy and APRA prudential regulatory guide SPG531 – Valuation & APRA Unit Pricing – Guide to good practice.

The Policy is fit for purpose, having regard to current investment arrangements. Should there be material change to these arrangements, this policy will be reviewed accordingly.

2. Approach to asset valuation

2.1. Key valuation principles

Member account balances are based on the daily unit prices of the Investment Option in which their superannuation funds are invested. To ensure balances are valued accurately our key valuation principles are:

1. the daily unit price of each Investment Option is determined by reference to the "Net Asset Value" of the Investment Option on any given day;
2. the "Net Asset Value" is the gross market value of assets calculated in AUD at a given Valuation Point less liabilities (i.e. fees and taxes);
3. the Valuation Point for unit prices is the close price at the close of business in global markets on the day being valued i.e. not close of business of Australian Markets;
4. in determining the gross market value of assets, assets traded on an exchange or through a central clearing agent are valued at the quoted closing price on the day and where necessary, are translated into AUD using 4pm London close price;
5. assets that do not have a ready or liquid market (such as unlisted investments) are valued in accordance with valuations provided by QSuper Group Investment Managers ('Manager'). However, those valuations are in turn supported by external valuations and subject to audit verification;
6. changes in the movement of asset values are also recorded in the balance sheet of the Fund on a monthly basis and the financial statements are audited annually;
7. QSuper Group has developed a Valuation Assurance Framework ('the Framework') to ensure the Valuation policy is applied consistently and accurately;
8. the QSuper Group has constituted a Valuation Review Panel (VRP) consisting of personnel across relevant parts of the business. The Panel's role is to monitor compliance with this Policy; and
9. the VRP reports periodically to the Audit & Risk Committee (ARC) on the appropriateness of asset values and application of the Policy.

Investment Valuation Terms are outlined in Appendix 1.

2.2. Valuation assurance framework

A strong governance process must be in place to value the investment assets held by the Fund. The valuation assurance framework provides the structure for the QSuper Group to support of this process. A diagram depicting the current valuation assurance framework is set out in Appendix 2. The following are the major components of the framework.

2.2.1. Manager selection and due diligence

The Board approved External Manager Due Diligence Process is used by the Funds Management Team to identify and select preferred Managers.

As part of the manager appointment process, a Deal Team run by Funds Management involving representatives from the Corporate Advisory & Governance Division (CA&G) ensures Policy and reporting requirements for QSuper are clearly documented in the manager agreements. The Manager's valuation policy is reviewed to ensure it is in accordance with the QSuper Valuation Policy. The Manager's most recent internal control report is also reviewed.

During the due diligence process and on an annual basis, external manager valuation policies are reviewed for consistency with this Policy.

2.2.2. Valuation data

QSuper's custodian maintains the book of records for the investment assets. The custodian uses agreed price sources and methodologies for the valuation of listed and over-the-counter (OTC) investments.

The custodian has appropriate processes to validate and assess valuations when received from managers and market data. Valuations are included in the calculation of the net asset value when they are received. These are updated by the custodian and remain current until a subsequent valuation is received, ensuring that the latest available valuations are used in the unit prices.

External validation of valuations is either through quoted indexes or, if not listed, the use of independent valuers and auditors.

2.2.3. Monitoring

Relevant staff in the CA&G division monitor valuation movements.

An audit and review of individual manager operational policies and procedures is conducted by CA&G annually. Outcomes are reported in Archer and to the Valuation Review Panel. This process meets the Investment Management Agreement (IMA) reporting requirements. The reporting requirement includes the year end audited financial statements, and internal controls reports.

Changes to a manager's valuation policy are reviewed to ensure that these remain consistent with this policy. Any material changes that diverge from this policy are reported to the VRP.

As part of the unit pricing validation process Investment Operations reviews how unlisted valuations have been updated in the accounting book of records which feeds into the unit prices.

Investment Operations monitor the custodian by regular due diligence visits, reviewing service level agreements and weekly telephone calls.

2.2.4. Review

Manager reporting is reviewed each year as part of the Fund's financial statements preparation and external audit engagement. The review provides analysis of asset movements included in the asset valuation summary that is considered by the VRP, provided to the external auditors and reported to the Audit and Risk Committee and QSuper Board.

2.3. Roles and responsibilities

2.3.1. Custodian

As noted above, the appointed custodian is responsible for maintaining the investment records and updating the valuations of investments. This applies to investments both custodially and non-custodially held.

2.3.2. Valuation Review Panel

The VRP consists of management representatives from each area of the CA&G Division and Funds Management of QSuper Limited (QSL). The VRP provides assistance to the ARC to fulfil its responsibility to consider the risk and compliance of investment governance. The VRP Charter details their duties including monitoring the implementation of this policy and ensuring that management has appropriate procedures in place.

The VRP reviews movements in valuations over the financial year as part of the annual financial statements preparation. This review includes analysis of the underlying drivers of valuation movements and considers if the movement is reasonable. The annual financial statements are subject to the scrutiny of the external auditor.

VRP Representatives and responsibilities are outlined in Appendix 3.

2.3.3. Audit & Risk Committee

The ARC provides assistance to the Boards of the QSuper Group in discharging their corporate governance and oversight responsibilities in relation to financial reporting, internal controls, risk management, anti-money laundering, licensing and other legal and regulatory issues, investment governance, compliance, corporate insurance and internal and external audit functions.

The ARC considers the various reports presented by management and the VRP along with the internal and external auditors.

2.3.4. QSuper Board

The QSuper Board has a fiduciary duty to act in the best interest of members. The role of the Board is detailed in the Governance Policy and established in legislation. The Board's role includes determining and oversight of the risk management framework and investment strategy, appointment and management of material outsourced service providers and enabling delegations for management to administer the fund on a day-to-day basis in accordance with regulatory requirements.

Any material change in practice or divergence from industry best practice must be reported to the QSuper Board for consideration.

3. Specific valuation methodologies

3.1. Asset class valuation methodologies & process

The following table details asset class valuation methodologies:

Asset class	Valuation methodology
Listed and exchange traded assets	Apply the market value (i.e. the listed or observable market value of the asset as distributed by the relevant stock exchange at the valuation point).
Units in unlisted unit trusts	<p><i>Independent Valuation</i> – The units should be revalued, at least annually, to reflect any change in market value of the underlying assets of the trust, based on Independent Valuation. Audited financial statements can be used in place of an Independent Valuation.</p> <p><i>Buy-Sell Spreads</i> - units in underlying funds should be valued at the price (buy-price / sell-price / mid-price) determined to be the most equitable for members. This determination is to be made by Head of Investment Operations.</p>
Indirect real estate, infrastructure, private equity, incubator, managed fund investments, intellectual property, private equity and other indirect unlisted investments	<p><i>Independent Valuation</i> – At least annually (or audited financial statements in place of an independent valuation) where we have the contractual right to request this.</p> <p><i>Manager/Desktop Valuation</i> –</p> <ol style="list-style-type: none"> where underlying investments are unlisted, at least quarterly using industry standard methods. For less frequent valuations, prior approval must be obtained from the Chief Financial Officer. This approval must consider equity and be documented; or where underlying investments are listed – valuations should be marked to market daily.
Direct investments (real estate, infrastructure)	<p><i>Independent Valuation</i> – At least annually</p> <p><i>Manager/Desktop Valuation</i> – Quarterly where possible, or more frequently if required by Head of Investment Operations using industry standard methods.</p> <p>For less frequent valuations, prior approval must be obtained from the Chief Financial Officer. This approval must consider equity and be documented.</p>
OTC or other illiquid securities	<p><i>Independent Valuation</i> – Annually</p> <p>All other securities where no market value is readily available or observable (e.g. unlisted, illiquid and OTC assets) are to be valued using documented models with observable inputs provided by a reputable source. Because this is done by the appointed custodian or other agent they are required to supply these models for approval by the appropriate QSL management team as determined by the Head of Investment Operations.</p>

3.2. Valuation data hierarchy

Valuation data comes from a variety of sources. The custodian has a predetermined industry standard valuation hierarchy matrix which details these sources. The hierarchy applies to all listed and unlisted assets and excludes cash, short term deposits and margin accounts, and investments in service providers. CA&G reviews the hierarchy as part of the custodian appointment process to ensure sources are acceptable to QSuper.

If the custodian is unable to source a price for a security from the agreed primary or alternative source, it will be valued at cost unless otherwise determined by the Chief Financial Officer.

4. Valuation validation

4.1. By the custodian

Upon receipt of a manager's report, the custodian follows a documented process to validate and update the valuation in the investment records. The valuation is not processed until this activity has been completed.

- If a valuation change is appropriate based on the custodian's assessment, the valuation will be accepted and processed.
- If the valuation change from the previous period is outside agreed tolerance levels, the custodian will seek further information.
- If the custodian is unable to determine that the valuation change is appropriate, the Funds Management team will be contacted to follow up with the manager to obtain further information.

4.2. By Corporate Advisory & Governance division

CA&G performs a number of validation checks to support the valuation of assets. These include:

1. maintaining manager reporting records outside the custodian records to assess performance of the managers;
2. review of audited financial statements to confirm unqualified audit opinion has been provided, and that accounting policies are appropriate. This provides assurance that the assets are being externally reviewed, audited at least annually, and that the reported value has been determined to be "true and fair";
3. review of the Internal Controls Report of managers to determine that they have maintained appropriate processes and controls;
4. review the manager's Valuation Policy to confirm it is consistent with this policy;
5. maintain a register of external valuers and auditors that are required; and
6. review custodian reports validating that data has been processed in accordance with their policies.

4.3. Valuation Review Panel

The VRP reviews movements in valuations over the financial year as part of the annual financial statements preparation and is subject to scrutiny by QSuper Group's external auditor. This review includes analysis of the underlying drivers of valuation movements and considers if the movement is reasonable on known factors.

5. Valuation – exceptional circumstances

QSuper recognises that there will be circumstances where it is not appropriate to rely on the valuation of portfolio assets from established sources. This includes circumstances where objective evidence exists or a specific event may call into question an asset's valuation. The determination of whether a valuation may be unreliable, and the decision to substitute an alternative value for QSuper's purposes (including unit pricing) is at the discretion of the VRP. The determination of whether a valuation may be unreliable, and the decision to

substitute an alternative value for QSuper's purpose (including unit pricing) is at the discretion of the VRP (of which the Chief Financial Officer is the Chair).

In instances where the VRP may wish to review a valuation, the VRP may:

- (i) make a recommendation to the Manager to provide an updated valuation in accordance with the IMA;
- (ii) make a recommendation that the Head of Investment Operations engage appropriately qualified third party experts (Independent Experts) where appropriate to provide advice in respect of a specific valuation price or methodology, where a valuation received from a Manager is considered to be incorrect or inappropriate for the circumstances; or
- (iii) upon recommendation by the VRP, the Head of Investment Operations may request the custodian to use a specific valuation price or methodology, where the price that would otherwise be provided to the custodian by the existing source (e.g. investment manager) is considered to be incorrect or inappropriate for the circumstances.

In selecting Independent Experts, the following should be considered:

- Whether the Independent Expert will be able to obtain sufficient information in order to form a view of existing valuations;
- The Independent Expert's demonstrable independence from the investment manager and any issues of conflicts of interest;
- The ability of the Independent Expert to provide advice that is consistent with the relevant standard having regard to the intended use. For example, valuation information that is incorporated into a unit price must be consistent with the relevant applicable accounting standards;
- Regard is to be had as to whether the investment manager has also previously used the Independent Expert. Whilst the preference is to appoint an agent that has not been engaged to provide valuation advice in the preceding three years, the VRP may do so at its discretion.

Subject to its deliberations, the VRP may in its judgement resolve to adopt a revised estimate of fair-value based on the advice of an Independent Expert (including for the purpose of unit pricing). The ARC and IC will be informed if the VRP makes such a resolution.

Where an Independent Expert provides advice for an asset on an estimated fair-value range, the VRP will adopt the mid-point of the range as fair-value, except in circumstances where the VRP determines, or the relevant accounting standards require adoption of another value within the fair-value range.

6. External auditor and valuer

When audited financial statements or independent valuations are required, and where QSuper has the contractual right to do so, the following requirements will be included in existing and new IMAs or relevant manager agreements:

- a “Big 4” audit firm (or as agreed with QSuper) is to be the external auditor;
- external auditors are rotated at least every six years; and
- external valuers are rotated every three years.

There may be circumstances when a manager is unable to comply with one or all of the above requirements, for example geographic location or specialist skill. In these circumstances management will use discretion to resolve with the manager. Any exceptions will be documented with the VRP and reported to the ARC.

Rotation of the external auditor and valuer is monitored by Finance as part of the annual monitoring process.

7. Risk management

The controls in the table below are those identified from this policy and include some controls already embedded in the business.

Material Risk	Business Unit	Control(s)
6. Regulatory: QSuper fails to meet a fundamental regulatory, statutory or legislative requirement.	Finance	<ul style="list-style-type: none"> • Audited financial statements are reviewed to confirm unqualified audit opinion has been provided, and that accounting policies are appropriate.
8. Information Quality and Integrity: Significantly inaccurate data is held or processing of data is systemically inaccurate or untimely.	Finance & Investment Operations	<ul style="list-style-type: none"> • The Custodian maintains certain thresholds for valuation movements which when triggered will require further investigation with the relevant manager; • Manager reporting records are maintained outside the Custodian records to assess performance of the Managers; and • Custodian reports are reviewed validating that data has been processed in accordance with their policies.
10. Vendors & Outsourcing: Poor performance of vendors may constrain the Trustee's and Fund's ability to meet its obligation to members	Finance & Investment Operations	<ul style="list-style-type: none"> • The Valuation Policy of the Manager is reviewed to confirm it is consistent with this Policy; and • A register of external valuers and auditors that are required is maintained.
11. Financial Crime: Significant loss of assets/funds arising from fraud and/or theft.	Finance	<ul style="list-style-type: none"> • Internal Controls reports of Managers are reviewed to determine that they have maintained appropriate processes and controls;

8. Reporting

Outcomes of the manager compliance processes performed by QSL and the custodian are reported to the VRP every six months. These activities are managed and reported in Archer.

Valuation Policy

The VRP reports to the ARC half yearly, and at any other time that a material valuation issue is identified. A material valuation issue can include a significant valuation adjustment that impacts a member option unit price or other events in accordance with the QSuper Risk Matrix.

The VRP valuation summary is reported to the QSuper Board on an annual basis along with the Fund financial statements.

9. Policy Approval

Any changes to this Policy must first be proposed to the VRP, endorsed by the ARC and then submitted to the QSuper Board for approval.

10. Definitions

Name	Definition
Desktop Valuation	A valuation determined by the manager, using the manager's views and expertise of the asset or an industry accepted model i.e. discount cash flow.
Direct Investment	Refers to investments held by QSuper Group directly without involvement of an externally appointed Manager. This would occur where QSuper or a QSuper entity directly holds title to land, infrastructure, etc. without a manager's vehicle interposed.
Fair Value	As prescribed in the Australian Accounting Standards. AASB 13 Fair Value Measurement defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".
Independent Valuation	A written valuation determined by an expert and qualified valuer, who acts independently of the external manager.
Indirect Investment	Refers to investments other than Direct Investments
Investment assets	All investments assets with the exception of investments in service providers which are not held at the custodian.
Investment Management Agreement (IMA)	A contract, made in writing, between a trustee and an investment manager required under section 124 of the SIS legislation.
Service providers	These entities are QSuper Limited, QInvest Limited, QSuper Asset Management Pty Limited, One QSuper Pty Limited and QInsure Limited which are valued at net market value per applicable Australian Accounting Standards
Unit Price	Is equal to the net asset value of the underlying assets divided by the number of units issued. Unit prices move up and down each day in line with the movement in the value of the underlying assets. Investment earnings (positive or negative) are reflected in the movement of the unit price.

Document History

Revision history

Date revised	Reviewer	Revision
July 2017	Valuation Review Panel	Section 5

Version control

Version	Author	Action date	Review date
1	Corporate Advisory and Governance	23 March 2016	March 2019
1.1	Corporate Advisory and Governance	30 August 2017	August 2020

Approval history

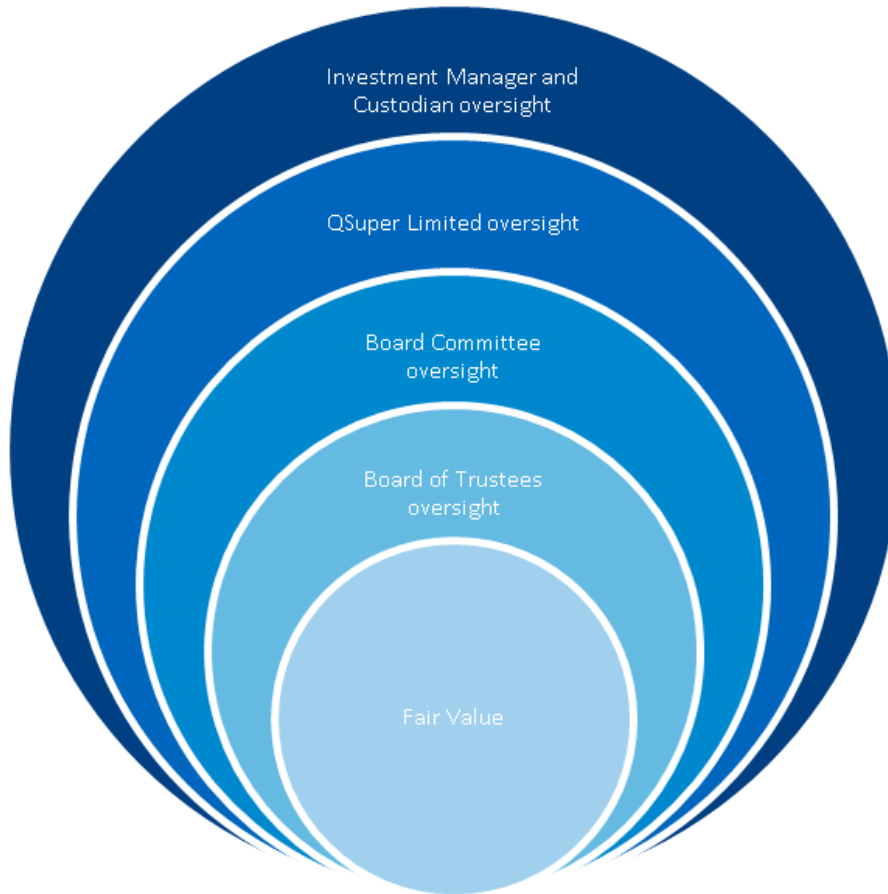
Version	Name of approver	Approval date
1	QSuper Board	23 March 2016
1.1	QSuper Board	30 August 2017

Appendix 1 Investment valuation terms

Term	Valuation principle
Valuation point	The close price at the close of business in global markets (i.e. not the close of business of Australian markets) on the day being valued.
Assets and liabilities	Recognised in accordance with relevant accounting standards (including impairment of assets where objective evidence exists).
Gross assets	Include any cash balances for Fund or Investment Options. In the absence of any objective evidence of impairment to the contrary, unlisted assets may be held at acquisition cost for up to 12 months from acquisition.
Income receivable	Income receivable by the Fund is included on a basis consistent with the valuation of assets (e.g. include dividends as received when underlying unit prices go 'ex' dividend).
Fees and taxes	Fees and taxes are levied in accordance with the Unit Pricing Policy.
Going concern concept	The valuation should generally assume that the asset/ investment/ product is a going concern.
Foreign translation	Foreign assets are converted to Australian Dollars with FX rates determined using a consistent time cut-off at each valuation point.
Indexation	If an asset's valuation point is less frequent than an Investment Option valuation point, indexation of the last available price may occur. Separately, there may be circumstances where the delivery of an asset's valuation is delayed and the exclusion of the updated valuation from the unit price could have a material impact. In this instance, the last available unit price may be indexed to the current period. The determination to index an asset is to be made by Head of Investment Operations, on a case-by-case basis.

Appendix 2 Valuation Assurance Framework diagram

The framework consists of four levels of valuation oversight from the manager and custodian, QSuper staff, the Committee and the QSuper Board.



Appendix 3 VRP representatives and responsibilities

Representative	Responsibility
Finance	<ul style="list-style-type: none"> – prepares the Fund's financial statements in accordance with Australian Accounting Standards; – reviews the Investment Manager agreements and valuation policy as part of the Manager on-boarding process; – conducts an annual review of Investment Managers reporting, focusing on rotation of auditors and valuers, financial statements provided, reconciliations to data held by QSuper, and review of internal controls report; – prepare asset valuations summary based on Custodian data and provide analysis on movements in asset values; and – acts as secretary for the VRP.
Funds Management	<ul style="list-style-type: none"> – initial due diligence and manager selection in accordance with the External Manager Due Diligence Process; – manage the 'Deal Team' process; and – ongoing due diligence to reaffirm conviction in the manager to deliver the required objectives (includes a thorough understanding of the underlying portfolio assets, performance outcomes and drivers of those returns).
Investment Operations	<ul style="list-style-type: none"> – implement the Unit Pricing Policy; – reviews the Investment Manager Agreements (IMA's) and valuation policy as part of the Manager on-boarding process; – conducts annual desk top review of Investment Manager on-going due diligence reporting, focusing on compliance with reporting schedule, provision of up-to-date valuation policy documents; – monitors the Custodian to ensure that the assets of the Fund are valued correctly; and – monitors stale prices report
Legal & Secretariat	<ul style="list-style-type: none"> – ensure IMA's and other legal agreements are consistent with QSuper commercial and reporting requirements and adhere to all relevant regulatory and legislative requirements.
Group Risk & Compliance	<ul style="list-style-type: none"> – maintain the governance, risk and compliance system (Archer) controls and report any breaches to the ARC in accordance with the Risk Management Framework; and – assist Business Units with managing their risks and controls
Taxation Services	<ul style="list-style-type: none"> – ensures taxation impacts are appropriately reflected in asset values – optimises taxation outcomes in respect of the Fund's investments generally