Valuation Policy

First State Superannuation Scheme:

Accumulation (**Accumulation Division**)

Defined Benefit (**DB Division**)

StatePlus Retirement Scheme (**SPR Fund**)

StatePlus Fixed Term Pension Plan (**SPFTP Plan**)

StatePlus Investment Fund (SPI Fund)

collectively **“the Funds”**

Contents

Revision History

Version	Reasons for amendment	Date approved	Approving Committee/Board
November 2015	Original	19 November 2015	Investment Committee/ Board
August 2016	Annual review – incorporates accounting standard change from AAS 25 to AASB 1056	3 August 2016	Investment Committee
February 2017	Amend membership of VWG to include Manager – Investment Operations	8 February 2017	Investment Committee
November 2017	Include reference to the impact of counterparty/Fund credit risk on the valuation of OTC derivative contracts; include treatment of construction assets; include credit valuation methodology.	22 November 2017	Investment Committee
April 2018	Change name from Valuation Working Group to Valuation Committee; inclusion of all StatePlus funds.	4 April 2018	Investment Committee

1 Introduction

This Valuation Policy (the **Policy**) establishes the methodology for valuing all investments of:

1. First State Super Trustee Corporation (**FTC**); and
2. State Super Financial Services Australia Limited, trading as StatePlus (**StatePlus**),

including all investments that are managed by FTC, or externally managed on behalf of FTC and StatePlus.

Although StatePlus has no requirement to maintain a valuation policy under its Australian Financial Services Licence (**AFSL**), as responsible fiduciaries, the FTC Board of Trustees (**the Trustee** or **the Board**) and the StatePlus Board of Directors (**Directors**) need to have appropriate arrangements and processes to ensure that investment values are measured reliably and risks associated with investment measurement and monitoring are adequately managed for the Funds. As a result, they need to consider and address valuation risk prior to investing and on an ongoing basis.

1.1 Purpose

The purpose of this Policy is to establish the approach taken to measure the fair value of all investments held by the Funds so that valuation risk can be adequately managed and thereby:

- ensure equitable value attribution to members entering, continuing or exiting the Funds at different times by delivering the foundation of the Unit Pricing Policy;
- ensure any calculations based on the Funds' valuations (for example, administration fees) are correct; and
- produce financial statements that represent a true and fair view of the Funds' financial positions.

1.2 Governing Legislation and Regulatory Requirements

This Policy has been written taking into account the following regulatory requirements and guidance:

- The SIS Act s.52(6)(iv) and 'SPS 530 - Investment Governance' requires RSE licensees to consider the availability of reliable asset valuation information when formulating, implementing and reviewing an investment strategy. 'SPG 531 – Valuation' also provides guidance on investment risk management assessment and measurement tools that might be relevant when developing RSE licensees' valuation governance arrangements for the valuation of investments (e.g. establishing valuation policies and procedures, and adopting valuation methodologies), with a specific focus on unlisted investments.

- ASFA's best practice paper No. 34 (July 2009) – 'Trustee Guidance - Valuation and Liquidity of Unlisted Investments' including APRA's letter 'Valuation of Unlisted Assets – general principles for trustees'.

- AASB 1056 – Superannuation Entities, which replaced AAS 25[1] from 1 July 2016. The Funds' valuation practices are consistent with AASB 1056 as required for regulated superannuation funds. Under AASB 1056, FTC is required to hold its assets at 'fair value', which is defined as the price that would be received when disposing of an asset in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions, regardless of whether that price is directly observable or estimated using another valuation technique. Notably:

    - The price used to measure the fair value of the asset or liability does not need to be adjusted for transaction costs. Rather, transaction costs are to be accounted for in accordance with other Australian Accounting Standards. (AASB 13 – *Fair Value Measurement*[2]).

    - Fair value changes are recognised in the income statement. AASB 9 *Financial Instruments*, which requires some financial assets to be measured at amortised cost or fair value through other comprehensive income, does not apply.

1.3 Delegations, Responsibilities and Accountability

This Policy applies to all FTC Board members, all First State Super Executive Managers, all First State Super Investment team members and all officers of the Funds and their appointed agents operating under the delegated authority of the FTC Board.

The FTC Board has established an Investment Committee which oversees the Funds' Valuation Policy via the Valuation Committee (**VC**). Details of these delegations are set out in the relevant committee charters and the *Consolidated Board Delegations Manual*.

The VC may allocate specific responsibilities to senior members of the Investment and Finance teams in order to ensure the processes described in this Policy are conducted effectively. Those responsibilities, and the person, or team responsible for them, are outlined in Schedule A.

StatePlus has delegated responsibility for management of valuation matters to FTC.

1.4 Review

This Policy will be reviewed annually, and more frequently if deemed appropriate.

---

[1] AAS 25 was the Australian Accounting Board Standard for Financial Reporting by Superannuation Plans, applicable from 30 June 1993.

[2] AASB 13 is the Australian Accounting Standards Board standard for Fair Value Measurement and Disclosure, applicable from 1 January 2013.

Internal audit periodically reviews the FTC control environment supporting the valuation process and adherence to the Valuation Policy. They assess the availability and reliability of the information or evidence used in the valuation process.

As part of the overall annual audit, the Funds' external auditors review the Custodian's internal control report. They perform their own tests on assets to obtain sufficient comfort, at an appropriate materiality level, on the existence and valuation of assets. The external auditor also reviews independent valuations on a selective basis as part of its consideration of the valuation of assets.

2 Valuation Approach

This Policy separates the approach to valuation into two key parts:

- the method of valuation to be used (an application of the fair value hierarchy to that method) including who conducts the valuation; and
- the frequency with which valuations are conducted.

Sections 3-5 below and Schedule B outline the method of valuation. Section 6 and Schedule C outline the frequency of those valuations.

3 Valuation Methodology Categories

The Funds comprise a broad range of investments, often with multiple sources of evidence available for the determination of fair value.

For many categories of investments, industry-standard approaches or methodologies exist for the determination of fair value. These have been set out in Schedule B.

The valuation methodologies outlined in Schedule B will be applied to all of the Funds' investments in determining fair value, and will use the highest level of inputs available from the hierarchy as outlined in Section 4.

With all valuations, a risk-based approach should be adopted to ensure that investments are being valued appropriately.

The VC is an internal committee that reviews and recommends methodologies, practices and policies relating to the valuation of the Funds' assets; decides on the appropriate valuation of the Funds' assets; and reports to the Investment Committee. Any material departure from the valuation methodologies outlined in Schedule B will be reviewed by the VC and approved by the Investment Committee prior to its implementation.

4 Hierarchy of Fair Value

As outlined above, fair value is an estimate of the price that would be received on the selling of an asset in an orderly transaction between market participants. This estimate can be obtained through a variety of approaches which may draw on information from various sources. The reliability or quality of this information, as inputs into the process of estimating fair value, has been categorised into a hierarchy under AASB 13: *Fair Value Measurement*.

This hierarchy of inputs, in descending order, is set out below. The inputs used in estimating the fair value of the Funds' investments will be from the highest possible level of hierarchy.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3. These are based on the degree to which the inputs to the fair value measurement are observable, and the significance of the inputs to the fair value measurement in their entirety. The hierarchies are described as follows:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The best evidence of fair value comes from quoted prices in active markets i.e. where transactions occur at a frequency and in such volume to provide pricing information on an ongoing basis.

Other market-observable inputs include, but are not limited to: interest rates, implied volatilities, credit spreads and pricing for comparable investments trading in active markets.

Unobservable inputs represent the least reliable information in determining fair value due to their subjectivity. Their use will be limited to assets where reliable market information is not available.

5 Independent Third-Party Valuers

The Trustee may engage an independent valuer to value (i) its unlisted direct investments and (ii) externally managed unlisted investments, pooled investments or OTC derivatives where the relevant investment management agreement permits. Where the internal Portfolio Manager has knowledge that would make them question a valuation received from an investment manager, their starting point to resolving this difference of opinion will be with the investment manager themselves. If the difference of opinions about value is not resolved and the variance is significant, then the Portfolio Manager should refer the matter to the VC, which may obtain an independent valuation.

A panel of pre-qualified valuers may be established by the VC.

Prior to engagement, the valuer must be assessed for suitability in a number of areas including, but not limited to: relevant qualifications, experience, capacity to undertake the work, reputation and independence from FTC.

If independent valuers are engaged directly, they will:

- be assessed by the lead Portfolio Managers and presented for review to the VC prior to engagement;
- be assessed for rotation, at a minimum, every three years; and
- prepare independent valuations in line with the relevant accounting standards and legislation.

6 Frequency of Valuations

All fair values will be updated as frequently as reasonably practical, allowing for any restrictions in the availability of data and any other constraints (for example, the engagement of independent third-party valuers can only be practically carried out periodically due to the expense and complexity of the work involved). A risk-based approach will be applied in determining how often an investment is revalued (i.e. more stable/less risky investments may require less frequent revaluation than more volatile/riskier investments). Investment capital flows (such as the provision of funding to an investment or the return of capital) will be reflected in the fair value of an investment immediately upon occurrence in the Custodian's accounting systems until the next required valuation is provided by the investment manager. The minimum frequency of valuation for the Funds' main categories of investments is provided in Schedule C. Any material departure from the frequencies outlined will be reviewed by the VC and approved by the Investment Committee prior to its implementation.

Regardless of the valuation approach, any evidence of a material change in the fair value of an investment will be investigated immediately and, if required, the fair value will be updated as soon as a value can be reasonably determined. Evidence of a material change that may have occurred includes, but is not limited to: financial difficulty of the investee, the disappearance of an active market, obsolescence or damage to an asset as a result of environmental events, firm offers to buy an asset or sale of a parcel.

A review of the fair value of any investment can be reasonably requested by the VC or Investment Committee at any time throughout the financial year. If such a request is made, the valuation approach outlined in this Policy will be followed and any change to the fair value of the investment will be made as soon as it can be robustly determined.

Financial statements will reflect the hard-close unit price adjusted for any estimate of disposal costs (in accordance with AASB 1056). However, where valuations are received post the hard-close being struck, the combined impact of any difference from the hard-close price will be assessed by the Finance team for materiality, and the financial statements only adjusted where the change is greater than 5% of the aggregate amount of 'Changes in fair value of investments' in the Income Statement.

7 Consistency of Application

This valuation methodology will be applied consistently across all investments with similar characteristics wherever possible.

A change in the valuation approach will only be made if it results in a value measurement that is equally or more representative of fair value. This might be the case if, for example, new information becomes available, or information previously used in the valuation process is no longer relevant. Changing the valuation approach must be balanced by taking into account the cost of establishing the new valuation

8 Reporting and Approvals

Schedule D outlines the matters that must be reported to the Investment Committee, which includes:

- any material change in applicable Financial Reporting Standards that affect the valuation of the Funds' investments; and

- any breach of this Policy.

As outlined in Schedule D, any material change to this Policy must be recommended to the Investment Committee for approval.

In addition, asset valuations will be reviewed by:

- the Direct Asset Committee (for direct assets only[3]), as part of their performance monitoring;
- SPV Board(s) (for internally managed SPVs only) as part of their accounting reviews; and
- the Audit Committee, as part of signing the annual financial statements.

Where there is a divergence of views regarding a valuation at the Direct Assets Committee, SPV Board(s) or the Audit Committee, the Valuation Committee will liaise with the relevant committee to resolve the matter. The Audit Committee will act as final arbiter.

[3] Direct assets are defined as an investment for which the due diligence, as well as either the asset management or governance responsibility, primarily sits with FSS. For clarity, direct assets exclude:

- Investments (including co-investments) that are primarily managed externally by an investment manager; and
- Internally managed portfolios governed by Internally Managed Portfolio Guidelines.

Schedule A: Responsibilities

Senior Manager - Portfolio Administration will:	• Ensure this Policy is kept current and relevant to the activities being undertaken (including Schedules A – D). • Recommend material changes to the schedules of this Policy to the Investment Committee for approval.
Chair of the Valuation Committee will:	• Ensure the VC reviews the methodologies, practices and policies relating to the valuation of investments held by the Funds and reports the findings bi-annually (or as required) to the Investment Committee. • Refer to the Charter of the VC.
Custodian will:	• Act as valuation agent for the provision of financial reporting. • Provide their valuation and pricing policy (for review by the VC). • Apply agreed escalation processes to resolve price discrepancies or missing prices. • Ensure the application of the agreed valuation policy to provide the required valuations as per the service level agreement. • Ensure the internal controls over valuations are specifically reviewed on an annual basis by the Custodian's external auditors as part of the review of the Custodian's internal controls.
External Investment Managers will:	• Ensure they have best practice valuation policies and procedures that are consistent with FTC's Valuation Policy and support the delivery of accurate and timely prices to the Custodian – particularly for unlisted assets. • Provide valuation policies for review by FTC to support ongoing monitoring requirements. • Work with FTC and the Custodian to resolve material pricing differences in the event of queries or issues relating to delivery or accuracy of pricing. • Complete our annual disclosure reporting requirements that form part of our Operational Due Diligence monitoring program, including the provision of the GS007 or equivalent report.
First State Super Portfolio Managers will:	• Present to the VC for review any valuation for which they are responsible as required. This includes conducting a review of valuations received from external sources (managers, external independent valuers) including challenging valuations/assumptions & seeking potential adjustments/corrections where necessary and otherwise opining on valuations received. • Prepare and review internal models/valuations where appropriate and required in line with this Policy, including obtaining the latest possible market data to assist with objective comparable pricing. • Advise the Investment Operation and Finance teams of any changes in the investment environment or in the investments themselves which may impact fair value. • Act as the primary point of contact and liaison with external valuers. • If they become aware of any changes to an investment manager's valuation policy, inform the Due Diligence Specialist and VC.

Operational Due Diligence Specialists/Investment Risk will:	• Review external investment managers' valuation policies and processes as part of the pre-appointment operational due diligence review to ensure their valuation policies are in line with this Policy and are appropriate for the investments under consideration. • Monitor updates to external investment managers' valuation policies and procedures as part of the annual disclosure reporting to ensure continued compliance with this Policy.

Schedule B: Valuation Methodology Categories

The table below outlines the valuation methodologies used for the main categories of products/assets in which the Funds invest.

For several investment categories, there is more than one possible valuation methodology. The methodology to be adopted is further clarified in the text below the table.

Investment Category	Prices sourced by Custodian	Counterparty-provided pricing	Valuation provided by Manager/ Administrator	Third-party valuation obtained	Third-party validation of FTC model/ valuation	Cost or Recent Transaction
Listed or exchange-traded instruments	x					
OTC derivatives	x	x				
Pooled Investments	x		x			
Externally Managed Unlisted Investments			x	X (extraordinary circumstances only)		
Direct Unlisted Investments				x	x	x

Listed or exchange-traded instruments

Listed or exchange-traded instruments have an observable/quoted market price and are traded on regulated exchanges or via centralised clearing agents. They typically include equities, certain fixed income instruments, listed trusts/companies, futures and options. This category also includes pooled investments where the underlying assets are all listed or exchange-traded instruments.

For these instruments, fair value is obtained by our Custodian and will be determined by reference to quoted prices i.e. "Level 1" inputs as outlined in the hierarchy in Section 4. At the close of business each day in the relevant marketplace, the Custodian receives daily exchange-traded security prices from independent data vendors (e.g. IDC, Bloomberg and Reuters) and values each security according to their security pricing policy.

In the event that no updated valuation is available when it falls due, the latest available price will be used as the best estimate of an updated price valuation. However, where an asset on an exchange or an exchange itself experiences a force majeure or material market event such that the exchange is closed or the asset is suspended, and the flow on impact to the unit price may be greater than 2 basis points, then the VC will be convened to opine on the prevailing price.

OTC Derivatives

Over-the-counter (**OTC**) derivative instruments are financial products whose value is derived from an underlying instrument. OTC derivative instruments are not listed on an exchange; rather they are typically an off-market transaction between two contracting parties. OTCs can include bespoke arrangements but typically take the form of either interest rate swaps, credit default swaps, total return swaps, OTC options and FX forward contracts.

Fair value, where possible, will be obtained for OTC derivatives by our Custodian either from independent, industry-recognised, pricing sources (e.g. Markit) or via a manual pricing process using "Level 2" and/or "Level 3" inputs as outlined in the hierarchy in Section 4.

If neither option is available and all other viable options have been exhausted, pricing will be obtained on an exceptions basis from the counterparty to the trade and reviewed before being applied. The VC will review and, if acceptable, recommend for approval all instances where counterparty-provided pricing is used. The lead Portfolio Manager will conduct due diligence on counterparty pricing in sufficient detail for them to gain comfort with the valuation, and, when relevant, against comparative trades with other counterparties, and present their findings to the VC for consideration.

The impact of counterparty credit risk on the valuation of OTC derivative contracts is generally not reflected in the market value of the security, although is required under IFRS 13 and current Australian Accounting Standards (AASB139/AASB13). In order to manage the impact of this risk on the valuation of the Funds, most OTC derivatives are collateralised daily, as a required by CPS 226.

Pooled Investments (e.g. co-mingled unit trusts/ partnerships or Special Purpose Vehicles (SPVs))

Pooled investments include investments in hedge funds, private equity funds, SPVs and other collective investment vehicles that comprise some or all unlisted assets. Rather than holding the investment directly, FTC/StatePlus has an interest in the relevant investment vehicle which typically reflects a minority pro-rata share of the underlying investments. The holding could be in the form of units in a unit trust, or an interest in a limited partnership.

Pooled investments are valued based on the last price per unit (or other appropriate measure such as a capital account statement) of the investment as provided by the investment manager to the Custodian. This price/value will be based on the fair value of the underlying net assets of the vehicle. The fair value of the underlying net assets can be determined using a variety of methods including reference to quoted prices, independent valuation agents, valuation models based on the price of recent investments, earnings multiples, or discounted cashflows. The inputs used in determining fair value would therefore be classified as either “Level 1”, “Level 2” and/or “Level 3” inputs as outlined in the hierarchy in Section 4. These prices are typically supported by an annual independent audit of the pooled investment’s valuation processes and financial statements.

Externally Managed Unlisted Investments

Externally managed unlisted investments comprise investments that are externally managed on behalf of the Funds, are not listed on an exchange and are not pooled investments. They include single investor unit trusts/SPVs and those where FTC/StatePlus has a majority or controlling ownership. FTC and StatePlus generally hold externally managed unlisted investments such as private equity, credit, real assets, property and infrastructure in unit trusts or SPVs.

Managers must ensure that their standards, systems and procedures for keeping their books of account and transaction records at all times comply with generally accepted accounting practice. As noted below, the inputs used in determining fair value would therefore be classified as either “Level 2” and/or “Level 3” inputs as outlined in the hierarchy Section 4.

Size of Investment	Valuation Approach
=/>0.5% of NAV	Third party valuation obtained
0.01%-<0.5% of NAV	A variety of objective methods
<0.01%	Booked at cost

For individual investments, or multiple investments in the same underlying business or assets, with a cost or latest available valuation of greater than or equal to 0.5% of the Funds’ net asset value (NAV), fair value will be determined by independent third-party valuation as arranged by the investment manager.

For individual investments, or multiple investments in the same underlying business or assets, with a cost or latest available valuation of greater than or equal to 0.01% and less than 0.5% of the Funds’ NAV, the fair value will be provided by the investment manager and can be determined using a variety of objective methods including independent valuation, valuation models based on the price of recent investments (either directly in the relevant asset or comparable assets), earnings multiples, or discounted cash flows. Where the relevant investment management agreement permits, the valuation methodology will also be validated (see Direct Unlisted Investments section below).

For individual investments, or multiple investments in the same underlying business or assets, that comprise less than 0.01% of the Funds' NAV, the value may be booked at cost and will be subject to periodic review for reasonableness and testing for impairment.

Direct Unlisted Investments

Direct unlisted investments include investments which are not listed on any exchange and are not externally managed on behalf of the Funds. It may include related party assets.

For unlisted investments that are not held within a pooled investment structure (i.e. held directly), the fair value must be estimated by FTC, either directly or via an external party. Cost, or the price observed from a recent transaction of an investment (e.g. a sale of a co-investor's equity interest), can be the best estimate of fair value, provided:

a) the relevant transaction occurred sufficiently close to the measurement date (within no more than 1 year), and such a transaction is not reasonably considered to be an outlier (and thereby unrepresentative of where subsequent transactions may be valued); and

b) there has been no evidence of any subsequent significant change in value (such as a change in the immediate investment environment or in the investment itself) as assessed by the VC.

In the context of the hierarchy outlined in Section 4, this would constitute a "market-observable input" to a valuation ("Level 2").

In the absence of a recent transaction in the relevant investment providing a reliable estimate, the fair value of established unlisted direct investments will be determined as follows, based on cost or latest available valuation as a percentage of the Funds' NAV:

Size of Investment	Valuation Approach
=/>0.5% of NAV	Third party valuation obtained
0.1%-<0.5% of NAV	Third party validation of FTC model/valuation
0.01%-<0.1% of NAV	FTC internal valuation
<0.01%	Booked at cost

As noted below, the inputs used in determining fair value in these cases would therefore be classified as either "Level 2" and/or "Level 3" inputs as outlined in the hierarchy Section 4.

Third party valuations of investments, or multiple investments in the same underlying business or assets, with values of greater than or equal to 0.5% of the Funds NAV will be reviewed in detail by the lead Portfolio Manager and presented to the VC for review.

FTC will appoint an independent external valuer to work with FTC in determining an appropriate valuation methodology. Fair value can be determined using a variety of objective methods including valuation models based on the price of recent investments (either directly in the relevant asset or comparable assets), earnings multiples, or discounted cash flows. Information generally provided to the valuer will include the latest updated financial model, budget, audited financial statements and management accounts.

Wherever possible FTC aims to ensure valuations are staggered to reduce the risk of a concentration valuations at any one point throughout the year to minimise arbitrage opportunities and enhance member equity.

Third party validations of investments, or multiple investments in the same underlying business or assets, with values of greater than or equal to 0.1% and less than 0.5% of the Funds NAV will involve, at the least, an external independent review of the following aspects driven by the relevant Portfolio Manager: the mechanics of the valuation model, confirmation of the key variables, confirmation of the appropriateness of the valuation methodology chosen and a reasonableness-check of the output. A summary of the key variables and the output, along with the validation report from the third-party advisor, will be presented to the VC for review.

Internal valuations of investments, or multiple investments in the same underlying business or assets, with values of greater than or equal to 0.01% and less than 0.1% of the Funds NAV will be calculated using valuation models/valuations and methods maintained by the lead Portfolio Manager. The model/valuation will be reviewed by another member of the Investment team who is independent from the management of the relevant investment. In addition, a summary of the key variables and the output will be presented to the VC for review.

For individual investments or multiple investments in the same underlying business or assets that comprise less than 0.01% of the Funds NAV the value may be booked at cost and will be subject to periodic review for reasonableness and testing for impairment.

The valuation approach adopted is based on the last calculated value of the investment even if on the current period interim valuation the investment changes category. The change in valuation approach will apply at the next formally scheduled valuation unless the VC or Investment Committee request an out-of-sequence formal valuation.

Independent third-party valuations can also be obtained for any investment, irrespective of size, at the request of the lead Portfolio Manager and/or CIO, VC or Investment Committee, if it is felt that the internal valuation models/valuations are not adequate or if the Investment Committee or VC considers that FTC lacks the appropriate internal resource to develop and maintain the valuation models/valuations.

Schedule C: Frequency of Valuations

Listed or exchange-traded instruments

The fair value of listed or exchange-traded instruments with quoted market prices will be updated at least daily, including pooled investments where the underlying investments are listed or exchange-traded instruments, where available.

OTC Derivatives

The fair value of OTC derivative instruments will be updated as frequently as possible, allowing for restrictions in the availability of data. At the very least, fair values will be updated monthly.

Pooled Investments (co-mingled unit trusts or SPVs)

The fair value of pooled investments will be updated based on the most recent statement/unit price received from the manager:

- For unit trusts with underlying investments that are predominantly listed or exchange-traded instruments (i.e. fund-of-fund hedge funds), investment managers will typically provide unit prices daily.

- For vehicles with predominantly or solely unlisted underlying investments, statements will usually be received from the manager monthly or quarterly. The timeframes for manager reporting can vary considerably and, at measurement date, a valuation can be up to six months old. FTC will seek to obtain valuations at a frequency that has regard to the nature of the asset, the frequency of valuation reporting by the manager and the volatility of those values and key inputs.

Externally Managed Unlisted Investments

The fair value of externally managed unlisted investments, as determined either by a third-party valuation or provided by the managers themselves, will be adopted as frequently as possible, in line with industry standards, and, at a minimum, annually. Reinsurance contracts, for example, can be modelled and priced daily, whilst other managed physical investments may only be priced bi-annually or annually due to the complexity and expense involved. FTC will seek to obtain valuations at a frequency that has regard to the nature of the asset, the frequency of valuation reporting by the manager and the volatility of those values and key inputs. If values are reported to FTC less frequently than quarterly, then in respect of the specific investment, the VC may either accept the reported values or authorise interim estimates based on a roll forward methodology, which are adjusted when statements are received.

The lead Portfolio Managers will provide bi-annual updates to the VC on the value of their externally managed unlisted investments. These updates will cover whether the Portfolio Managers are aware of factors specific to the investments which may significantly alter their value, including but not limited to:

- updated trading results from the investment;

- material changes in the key assumptions behind valuations (i.e. material changes to the debt structure or loan covenants);

- change in the ownership of the asset;
- material changes to the regulatory environment in which the asset operates; or
- major changes to the value of listed market equivalents.

If there is an indication of a significant change in value of the investment, a full valuation (in line with this Policy's requirements, based on the size of the valuation) will be requested from the investment manager and the results reviewed by the VC. Any change in the fair value will then be appropriately reflected in the Funds.

Direct Unlisted Investments

The fair value of direct unlisted investments, as determined by a third-party valuation, third-party validation of an FTC model/valuation, internal model/valuation or at cost, will be adopted at least annually. Interim values may be obtained between formal valuations based on a "roll forward" of the adopted valuation methodology. The interim valuation will incorporate any material changes (i.e. cash flows) and information about the underlying investments and financial market conditions since the previous formal valuation. The "roll-forward" estimate must be reset with the revised assumptions following the formal annual valuation.

The lead Portfolio Managers will provide bi-annual updates to the VC on their direct unlisted investments. These updates will cover whether the Portfolio Managers are aware of factors specific to the investments which may significantly alter their value, including but not limited to:

- updated trading results from the investment;
- material changes in the key assumptions behind valuations (ie. material changes to the debt structure or loan covenants);
- change in the ownership of the asset;
- material changes to the regulatory environment in which the asset operates; or
- sustained major changes to the value of listed market equivalents.

In the event there are indicators of a significant change in the value of an investment, a full valuation (internal or external, in line with this Policy's requirements for the size of the valuation) will be considered and reviewed by the VC and any change in the fair value will be appropriately reflected in the Funds.

Construction Projects

For *direct equity investments into infrastructure construction projects*, the following additional principles apply, unless approved otherwise:

- Discount rates should be progressively decreased throughout construction, depending on milestones reached/percentage completions and project-specific factors. In selecting the appropriate discount rate, macroeconomic market conditions should also be considered (e.g. if the project is on track but market equity risk premiums for similar assets have increased, then the discount rate should be increased). All other things being equal, the adjustment of the discount rate addresses the development risk reduction as the project nears completion.

- Valuations should not be based on the lowest operational phase brownfield discount rate on construction completion. Instead, a small premium should be left, and once it is qualitatively assessed that an operational steady-state is achieved, the discount rate should be dropped to the lowest potential brownfield discount rate. This will allow for any residual operational risk that may surface within the first year or so of operations.

- In the absence of internal independent experts outside the Investment team, the discount rate reduction should only be undertaken by an independent valuer.

- If there are issues with a construction project and equity could reasonably be impaired, the cashflows will be stress tested based on the probability of losses. In these circumstances, the discount rate should be maintained.

All other construction projects are valued at cost or as otherwise appropriate until completion.

Schedule D: Reporting and Approval Framework

Report/Approval	Frequency and to Whom	Minimum Information Required
Valuation Committee report on unlisted investment valuations	Reported bi-annually to the Investment Committee.	Summary of investment valuations reviewed with detail on directly held unlisted investments. In addition, asset valuations may be reviewed by: • the Direct Asset Committee (for direct assets only), as part of their performance monitoring; • SPV Board(s) (for internally managed SPVs only) as part of their accounting reviews; and • The Audit Committee, as part of signing the annual financial statements.
Material changes to this Policy	Approved annually (as well as ad hoc if required) by the Investment Committee.	Details and reason for change.
Breach of this Policy	Reported immediately to Investment Committee.	Details of breach and remedial action taken.