Cbus Policy

Asset Valuation Policy Summary

1. Purpose and Objectives of the Policy

The Asset Valuation Policy supports the Investment Policy Statement and sets out the principles, policies and guidelines for valuing Fund assets.

Accurate and timely asset valuations are important in ensuring new, continuing and exiting members are treated fairly. Therefore, the principal objective of this Policy is to ensure that reliable and timely valuation information is available so that members can be allocated an appropriate and equitable share of Fund's return on investments. A secondary objective of the Policy is to ensure that Cbus can produce financial statements that represent a true and fair view of Cbus.

2. Responsibilities and Accountability

Cbus' Trustee is at all times responsible for Cbus' investments, including formulating, reviewing regularly and giving effect to an investment strategy that has regard to, amongst other things, whether reliable valuation information is available in relation to the investments.

The Trustee is responsible for setting Cbus' valuation policy and procedures, and has delegated responsibility to the Investment Committee for overseeing its implementation.

3. Valuation Risk

Valuation risk is the risk that the values of Fund assets are misstated, giving rise to inequity across the membership and/or incorrect financial statements. The main forms of valuation risk that the Trustee seeks to manage are:

- Cross subsidisation between transacting and non-transacting members;
- Valuation arbitrage opportunities;
- Miscalculated crediting rates; and
- Misstated financial statements.

The overarching aim of the Policy is to ensure members are treated fairly by ensuring the timely availability of accurate valuations of assets, noting that for some asset classes there will be a trade-off between accuracy and the cost of conducting valuations.

4. Member Equity

To ensure equity between cohorts of members, Cbus ensures that the majority of its holdings are valued at least as frequently as the crediting rate process. Where assets are valued less frequently, the Trustee makes a case by case assessment on the required frequency of valuations based on the potential impact of the valuation on the investment options and the cost of the valuation process.

To minimise the risk of arbitrage the Trustee ensures frequent valuation of assets and also that the valuations are spread across the year so the impact on members' entitlements is staggered over time.

5. Valuation Principles

Cbus' general approach to valuations includes valuing assets in accordance with accounting standards and best practice principles, which currently is to value assets at *net market value.*

Net Market Value is defined as the amount that could be expected to be received from the disposal of an asset in an orderly market after deducting costs expected to be incurred in realising the proceeds of such a disposal.

Cbus acknowledges that it is responsible for understanding the basis of the valuation of all assets held by Cbus and that valuation principles vary across different asset classes and investment structures.

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Cbus' Trustee: United Super Pty Ltd
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The valuation process is straight forward for listed securities, where Cbus' custodian typically provides the last price as at the end of the trading day for the principal market in which the securities are listed. For investment trusts of listed securities, the investment manager provides redemption values for the units held based on the valuations of the underlying securities.

Cbus' exposure to unlisted securities is where the majority of the valuation risk is concentrated. A summary of the approach to the valuation of these unlisted assets is set out on the following pages.

6. Pooled Investment Vehicles of Unlisted Securities

This category of investments typically includes holdings in pooled funds in which the underlying assets are private assets that are not listed on exchanges (such as high yield debt, property, infrastructure and private equity). Cbus does not hold the securities directly but rather holds units in the pooled vehicles. In addition, and particularly for private equity investments, Cbus may have investments in Fund of Fund arrangements, where there is an additional pooled fund layer between Cbus and the underlying securities.

The investment manager or responsible entity is responsible for providing Cbus with a valuation for the units held. The unit valuation is based on the valuations of the underlying securities, which the manager values in accordance with its own valuation policies, which typically follow accepted accounting standards and/or industry guidelines.

The due diligence of all new pooled vehicles includes an assessment of the valuation policies and methodologies to ensure they are appropriate for the investment and consistent with Cbus' valuation principles. In addition to the initial due diligence, Cbus, assisted by its asset consultant, regularly and at least annually, receives and reviews valuation policies for each manager of unlisted investments.

The managers of unlisted assets typically appoint an independent valuer to value the underlying assets at least once a year. The independent valuations are supplemented in the interim periods by more regular manager valuations. The manager/valuer is responsible for choosing the methodology used to value the assets and the unlisted fund asset valuations are audited annually.

The Trustee acknowledges that in some asset classes, and for private equity in particular, independent valuations are not normally conducted. In such cases, the Trustee expects the manager valuations to be audited by the pooled fund's external auditor each year and that the reward structures between Cbus and the investment manager are aligned.

Cbus expects the frequency of valuations (both unit valuations and the underlying assets) to reflect market conditions, with flexibility for more frequent valuations in times of heightened market uncertainty.

7. Unlisted Securities

This category typically includes direct ownership and co-investments in assets that are not actively traded through recognised exchanges, such as: private equity, property, infrastructure, high yield debt and thinly traded corporate debt. There are no observable markets to provide regular objective pricing for unlisted securities, therefore, Cbus uses single purpose valuations for establishing valuations.

The majority of the directly held investments are valued at least annually by an independent professionally designated, certified, or licenced valuer/appraiser. Where the direct investments are managed by an external investment manager, the manager may also provide manager valuations throughout the year.

Where independent valuers are used, appointed by Cbus or the investee company, they are typically rotated after three valuations. The level of influence Cbus is able to exert over the selection of a valuer for an investment varies depending on the ownership structure of the asset.

Valuers use a variety of techniques and checks to arrive at a valuation for an asset. In doing so they are expected to follow international and local best practice valuation methodologies for the asset class in which they are practicing, including those issued by accounting standard boards and respected professional bodies. These methods may include considerations such as earnings multiples of comparable publicly traded companies, discounted cash flows (DCF), recent third party transactions, and other factors that influence the value of an investment.

Wherever possible Cbus aims to ensure valuations are appropriately staggered to reduce the risk of concentration of valuations at any one point throughout the year.

Cbus may conduct more frequent valuations in times of heightened market volatility or uncertainty and/or if it has reason to believe that prices may have moved significantly since the last valuation.

The Trustee may, from time to time, determine that it is in members' best interests to delay, bring forward, or seek additional valuations outside the normal valuation cycle.

The likely trigger events for such events include but are not limited to:

- Change in ownership of an asset;
- Unusual or unexpected values achieved on the actual sales of comparable assets;
- Significant change in the value of similar assets in listed markets;
- Major change in the outlook for the asset (i.e. loss of material contract);
- A re-estimation of the key assumptions used in the valuation model, i.e. macro-economic factors or sale estimations.
- Changes to the regulatory environment affecting an asset; or
- Changes to the debt structure or loan covenants of an asset.