

Breakout Session 1: The focus on unlisted asset valuations continues to grow

2024 Frontier Advisors Annual Conference

Chair:



Tom Frederick

Principal Consultant,
Frontier Advisors

Presenters:



Sarah Cornelius

Head of Investment
Governance,
Frontier Advisors



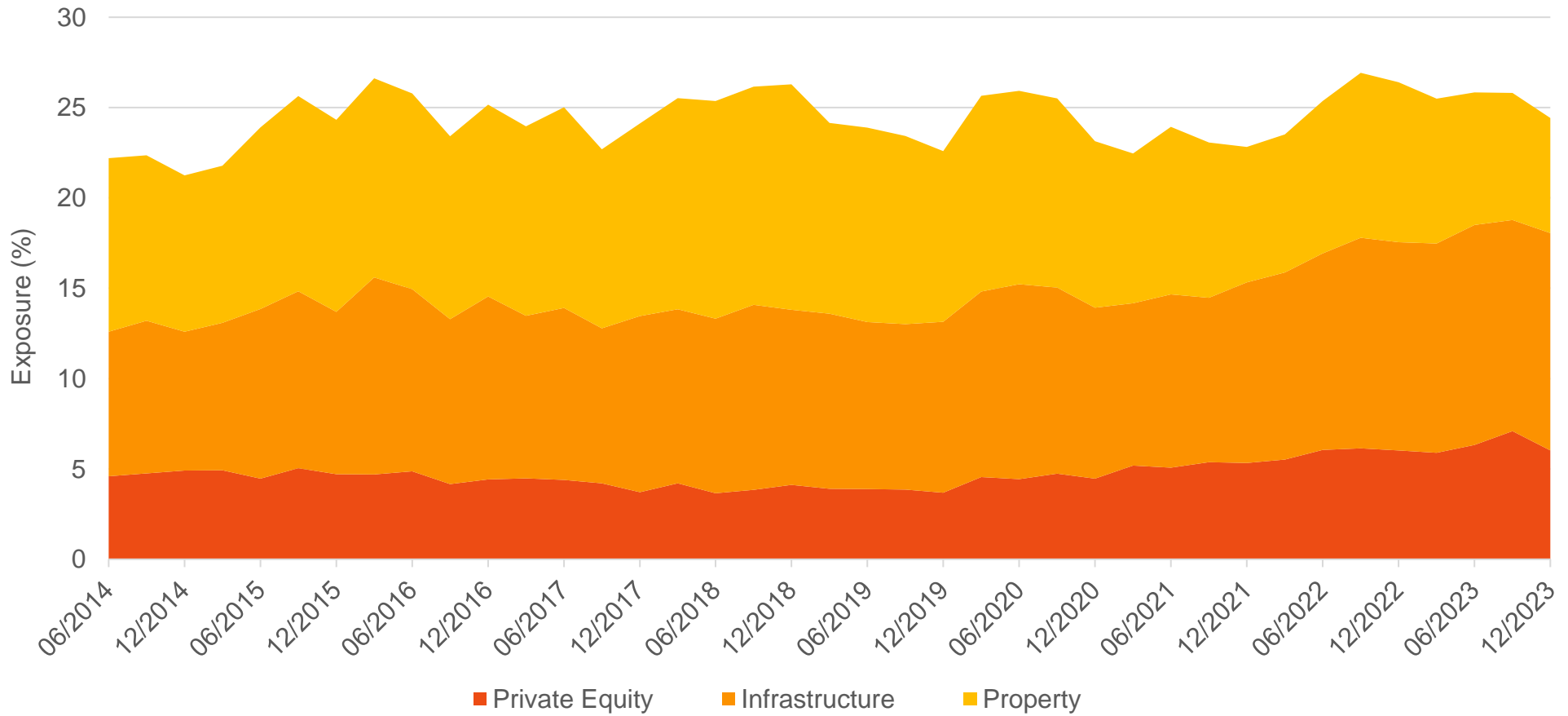
Helen Lagis

Principal – Valuations,
AustralianSuper

Investor exposures to unlisted asset classes



Super fund exposure to unlisted asset classes over time

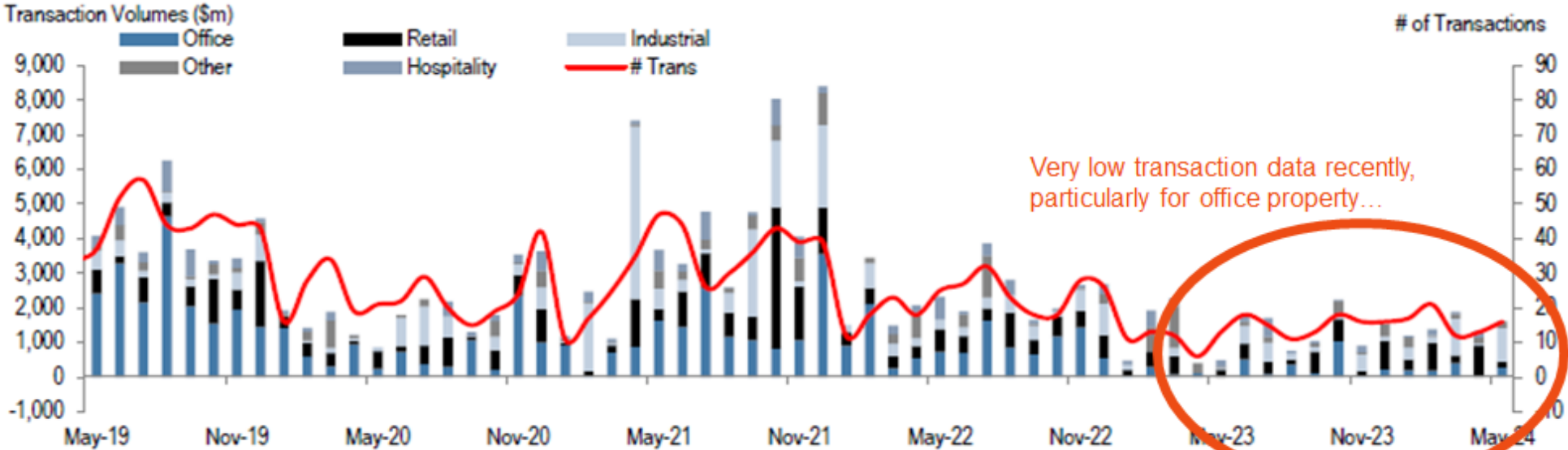


Source: Actual exposures as reported by SuperRatings



Market dynamics – Australian unlisted property

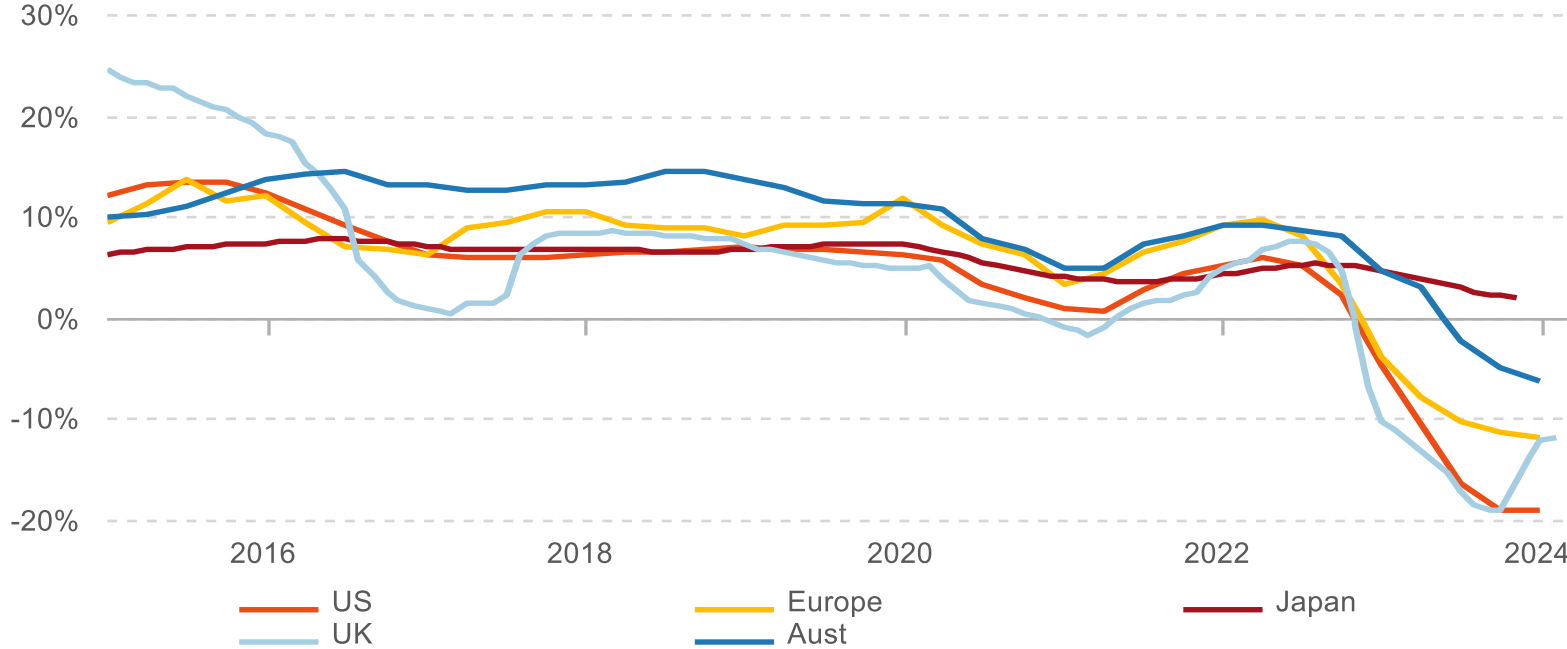
Australian property transaction activity (\$ millions)



Source: Australian press reports, Knight Frank, JLL, Colliers International, CBRE, J.P. Morgan.

Market dynamics – Australian unlisted property

Unlisted office property – one-year rolling performance (% p.a.)

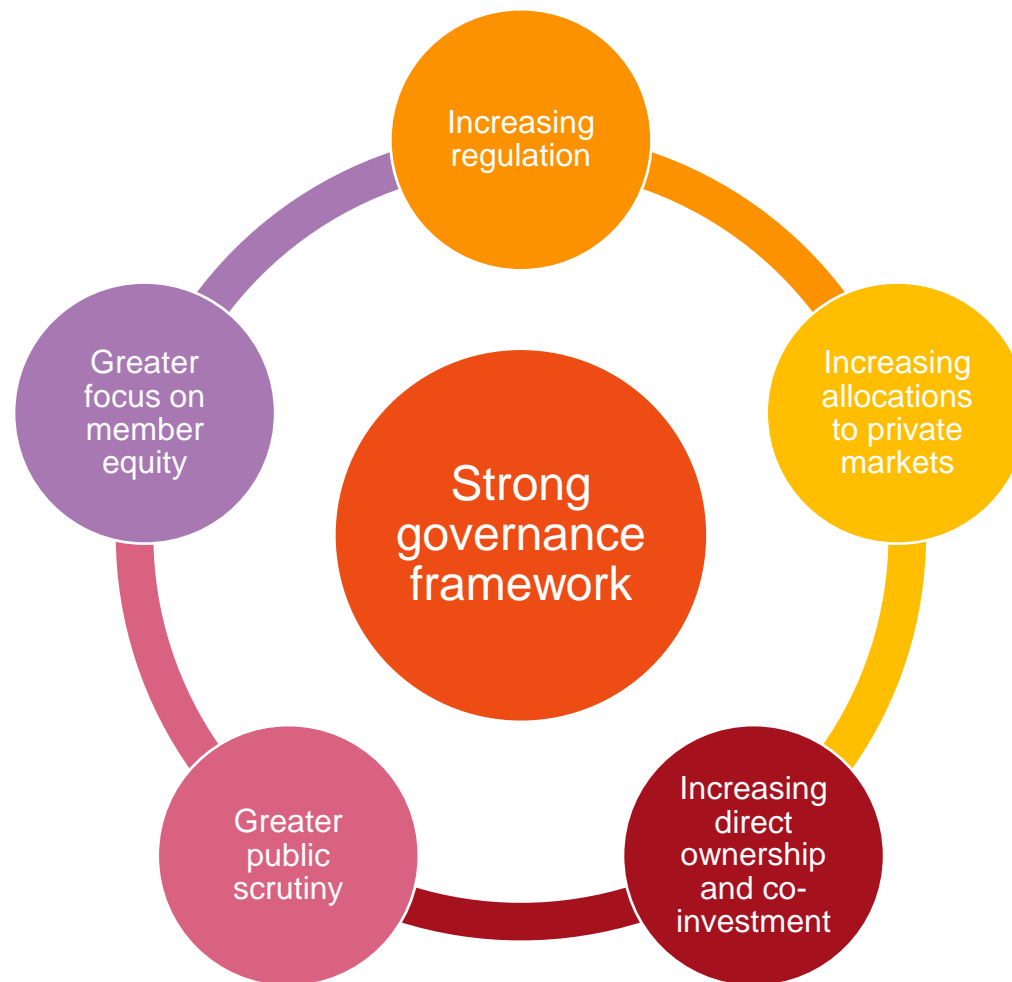


Source: LSEG Datastream



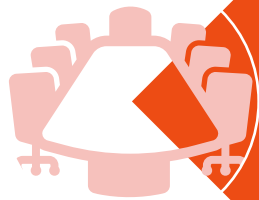
Why is there a greater focus on valuations?

And why a strong governance framework sits at the core



Observations – what has evolved?

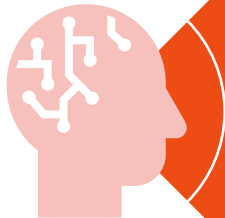
Areas of focus and uplift



The use of Valuation Committees and Board oversight



Out of cycle / interim valuations (and triggers)



Ability to challenge valuations (and access to expertise)

Key principles underpinning strong valuation governance



Fit for purpose



Appropriate skills and independence



Appropriate oversight

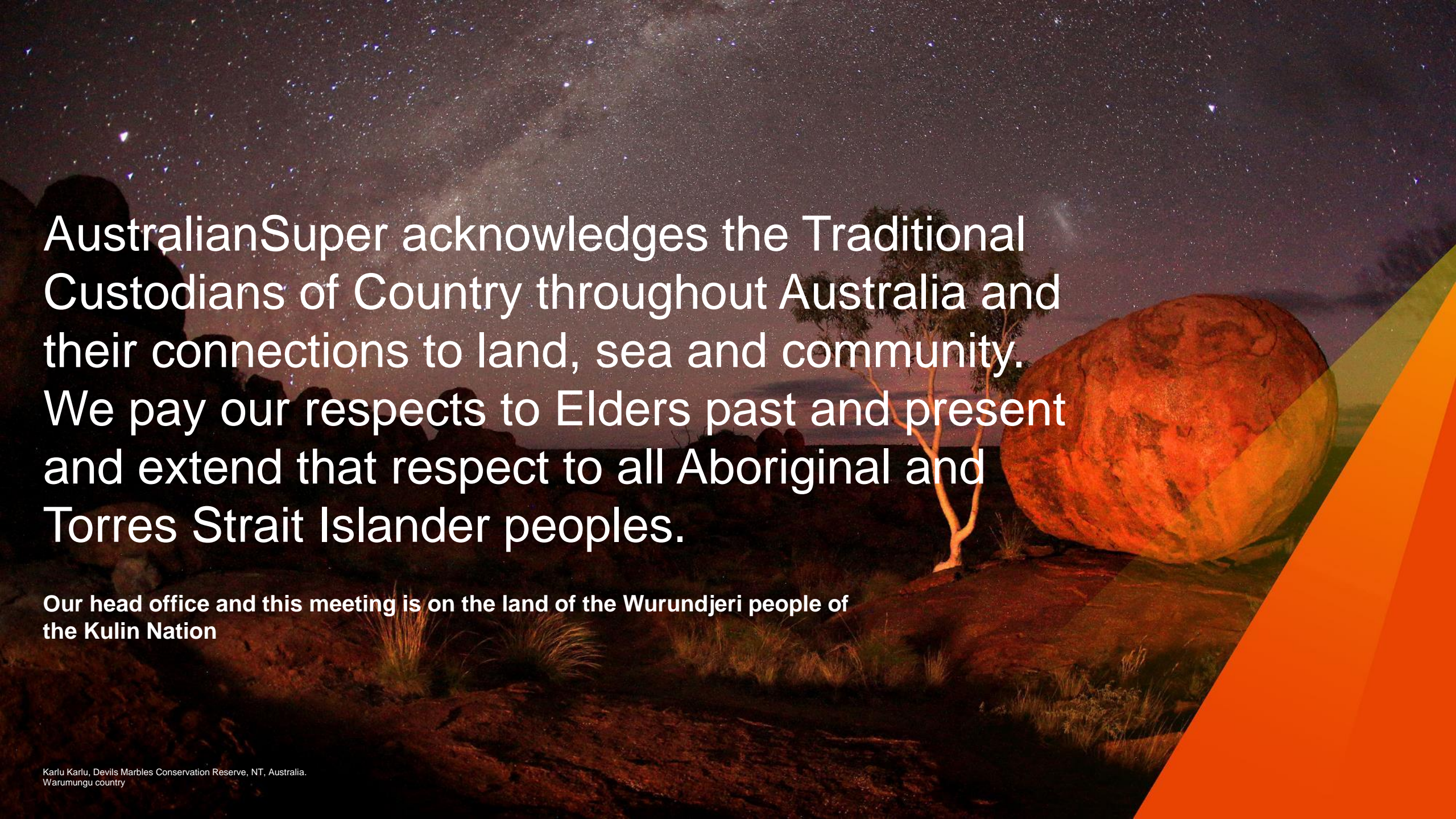


Assess, monitor and challenge valuations

Unlisted asset valuations under the spotlight

Helen Lagis – Principal, Valuation & Pricing

19 June 2024



AustralianSuper acknowledges the Traditional Custodians of Country throughout Australia and their connections to land, sea and community. We pay our respects to Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples.

Our head office and this meeting is on the land of the Wurundjeri people of the Kulin Nation



FINANCIAL REVIEW

APRA to get tough on super funds' unlisted asset valuations

Hannah Woolton and Paul Smith

The prudential watchdog says it will tighten the screws later this year on how superannuation funds value their mammoth unlisted asset portfolios.

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Issue: 240104 THE WORLD'S BEST SELLING NATIONAL NEWSPAPER

Devalue private assets, regulators tell super funds

The watchdogs say funds must proactively and transparently account for falls in unlisted asset prices

FINANCIAL REVIEW

Why APRA will struggle with valuations of unlisted assets

Exclusive

APRA will face a battle forcing super funds to change the questionable assumptions underpinning their valuations



The Sydney Morning Herald

INDEPENDENT. ALWAYS.

THE GUIDE

Arrested Development's dismal demise LIFTOUT INSIDE

DOGS BROUGHT TO EEL SPORT

UniSuper doubles frequency of unlisted asset revaluations

Alexandra Smith

Other funds such as Aware Super and the Australian Retirement Trust are also reducing their exposure to unlisted assets as share prices fall

THE AUSTRALIAN

WWW.THEAUSTRALIAN.COM.AU FOR THE INFORMED AUSTRALIAN NEWSPAPER OF AUSTRALIA

Worldwide: Trumps' trouble with WikiLeaks

Highly rated (7/10) A simple way to help unis

THE NEW DENIM High waisted and backless

GOOGLE HOME

APRA calls for more consolidation in super industry, flags unlisted asset changes

The head of the prudential watchdog says the super industry needs to consolidate and improve its handling of unlisted assets

THE AUSTRALIAN

Business, Finance, Politics, Economics, Sports, Weather

APRA's new governance guidance tackle super industry valuation conundrum

Australia's super watchdog has released new governance guidance for the \$3 trillion industry in an attempt to address concerns over its approach to valuing unlisted assets

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THE AUSTRALIAN

Business, Finance, Politics, Economics, Sports, Weather

APRA calls on super funds to improve unlisted asset valuations after Canva plunge

By Cameron England

The drop in the value of tech stocks has prompted APRA to call on super funds to improve their unlisted asset valuations

State news

Elections

City news

Industry





AustralianSuper **Key Metrics**

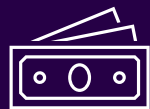
At 30-June-23



Members

3.2m

+321k/+11%



**Net
Cashflows**

22.8b

(15.1b)/(40)%



**Member
Assets**

300.4b

+41b/+16%



**Colleagues
(FTE)**

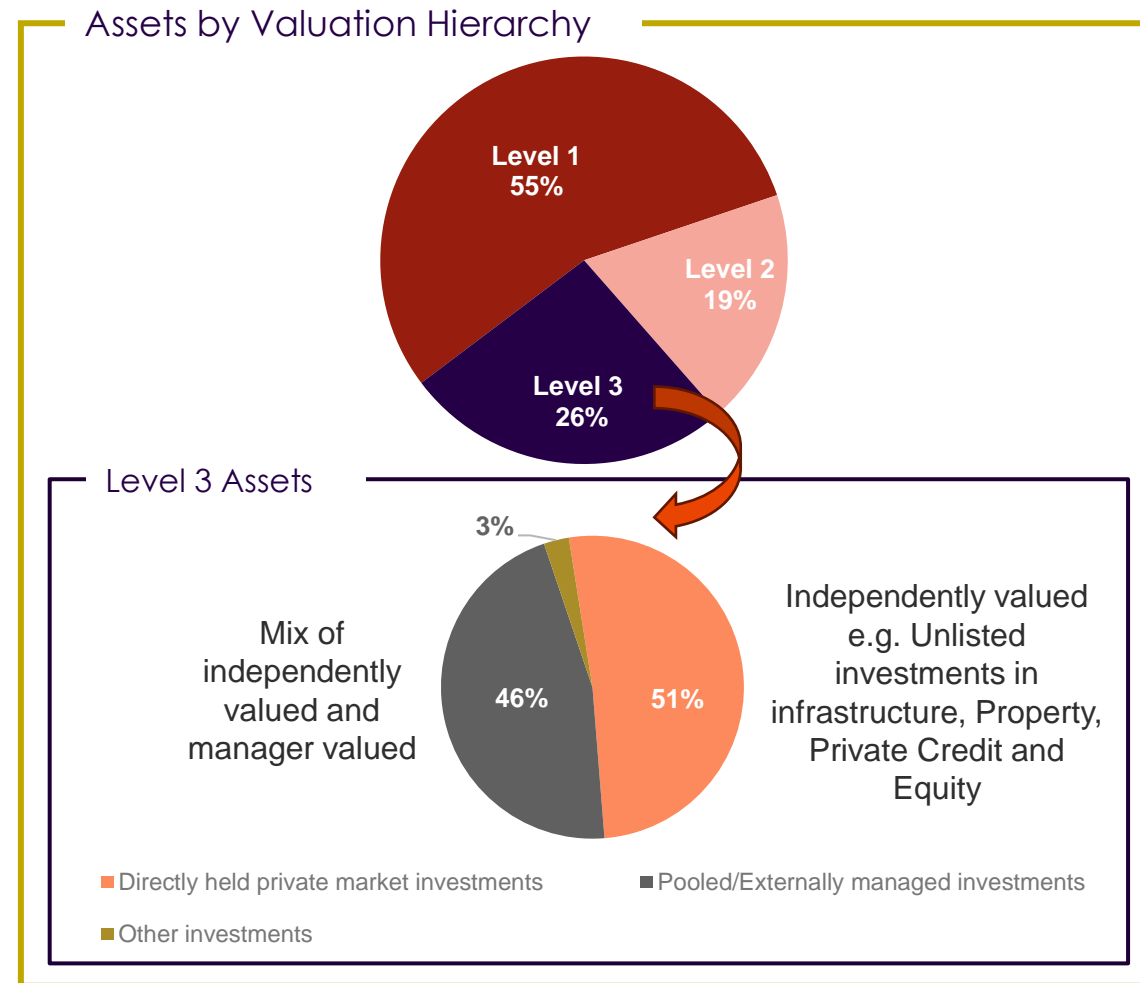
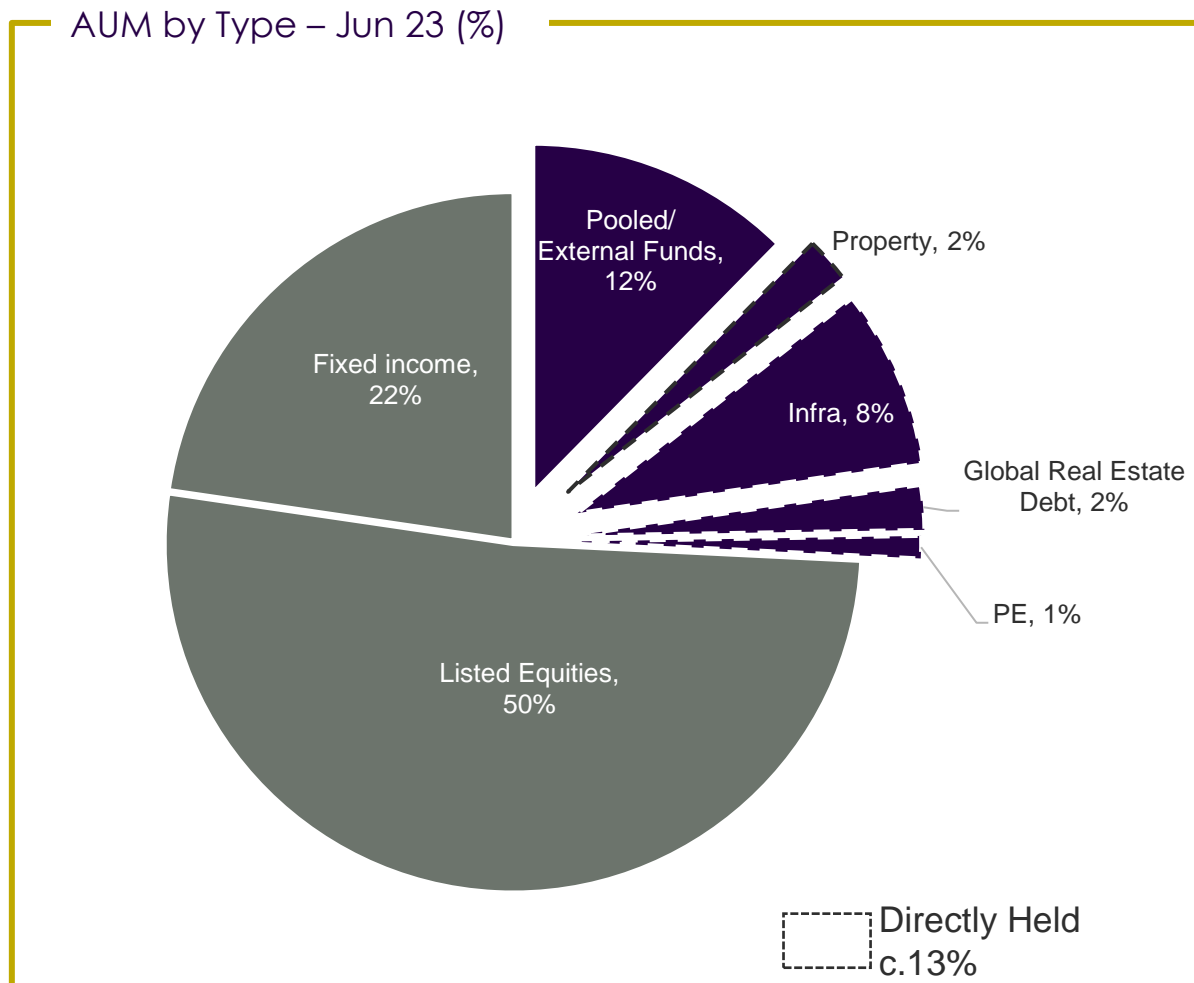
1,395

+134/+10%

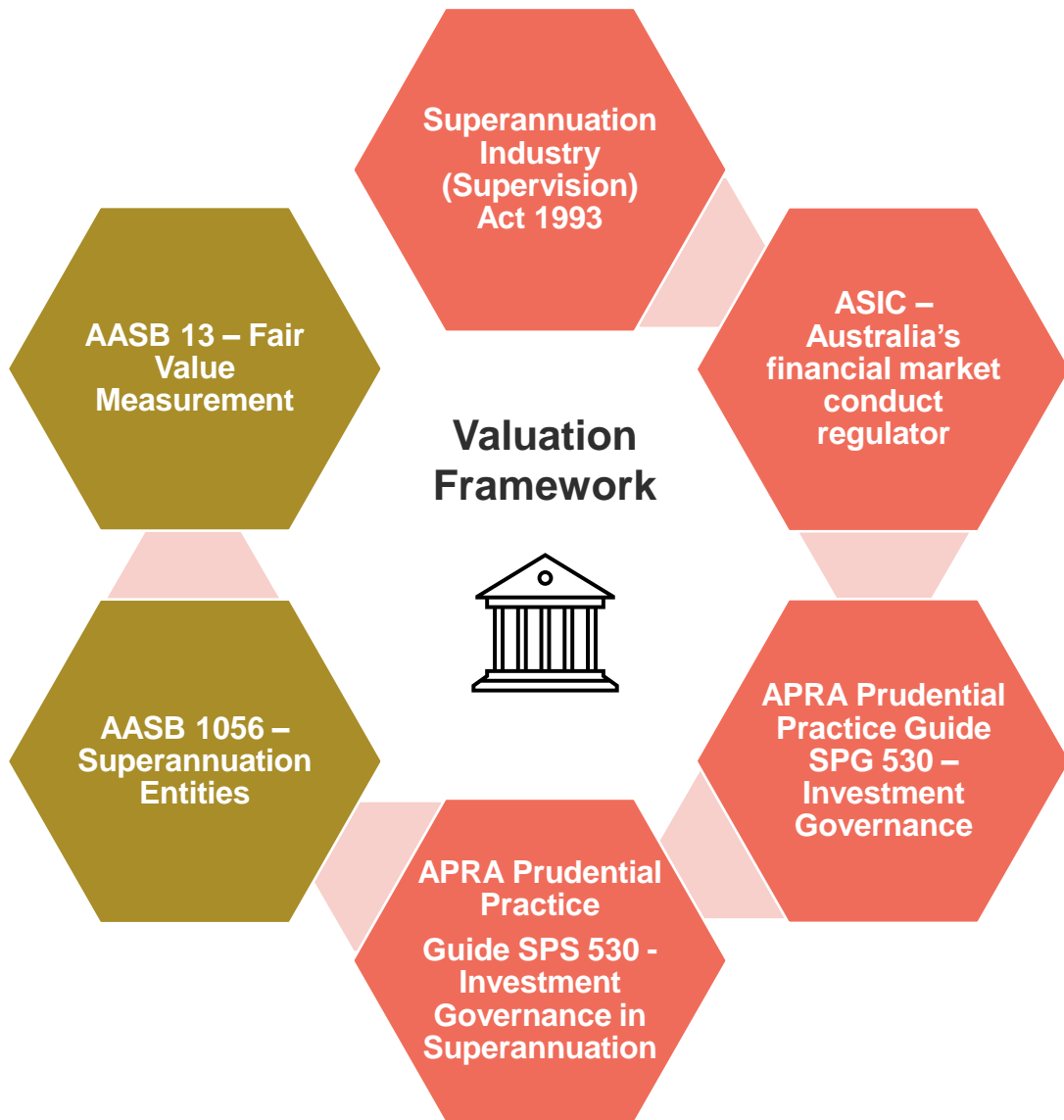


Valuation Team's Focus

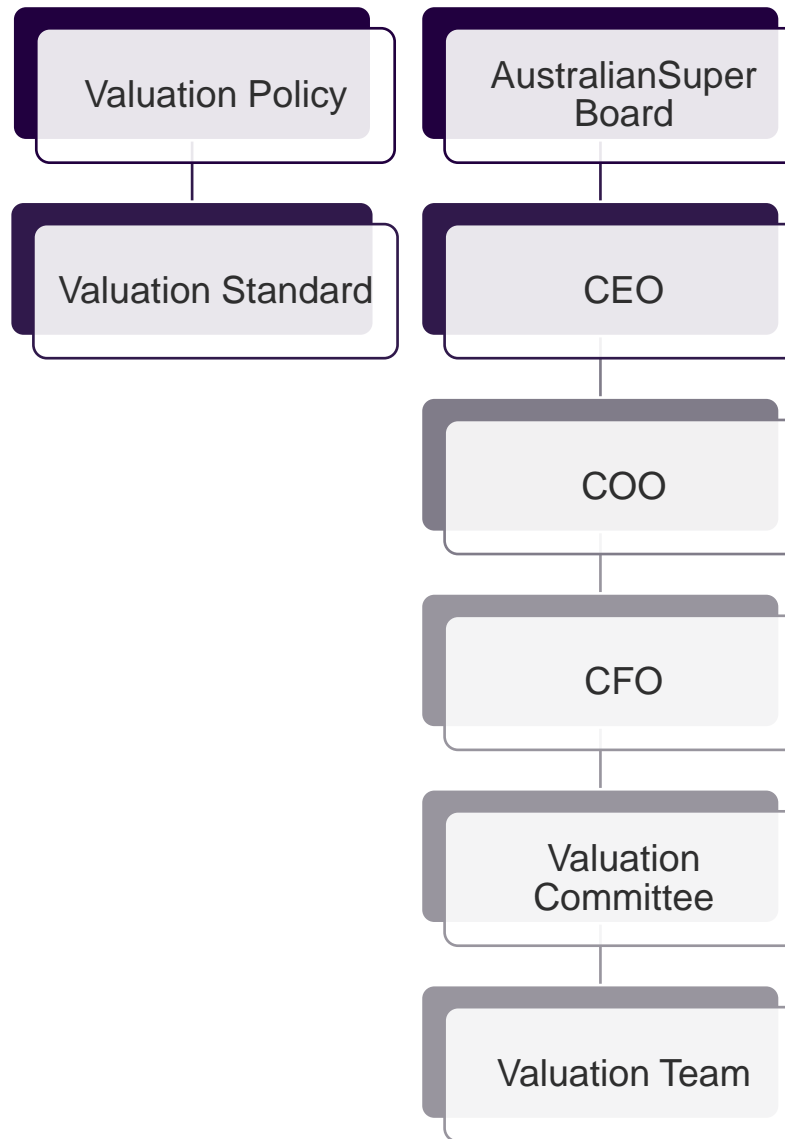
Primarily focussed on the valuation of Level 3 assets ... directly held and pooled/external funds



AustralianSuper Valuation Governance



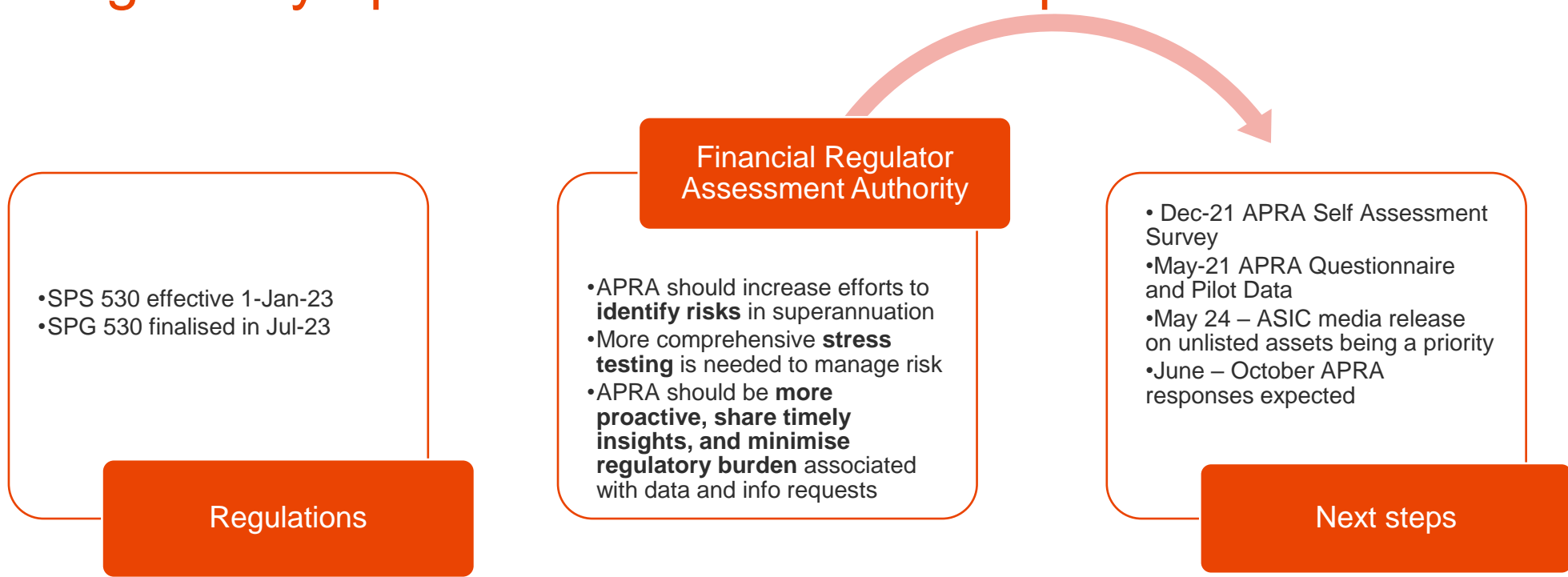
Governance Structure



Finance and Audit Committee & Crediting Rate Governance Committee

- CFO
- CRO
- Head of Asset Allocation
- Valuation Principal
- Independent Member
- Independent Advisor

Regulatory update cont'd and next steps



- SPS 530 effective 1-Jan-23
- SPG 530 finalised in Jul-23

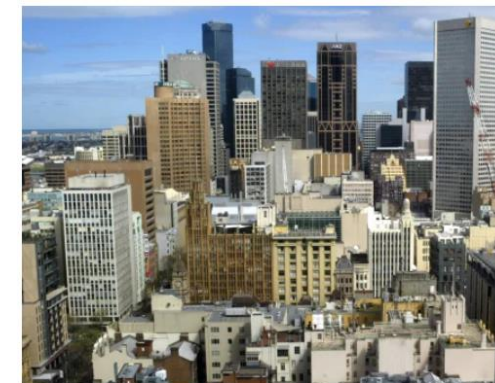
Regulations

Financial Regulator Assessment Authority

- APRA should increase efforts to **identify risks** in superannuation
- More comprehensive **stress testing** is needed to manage risk
- APRA should be **more proactive, share timely insights, and minimise regulatory burden** associated with data and info requests

- Dec-21 APRA Self Assessment Survey
- May-21 APRA Questionnaire and Pilot Data
- May 24 – ASIC media release on unlisted assets being a priority
- June – October APRA responses expected

Next steps



Office towers are not worth what they once were. Jessica Shapiro



APRA 'expects' quarterly unlisted asset valuations by big super

Super funds have been told to value the \$650 billion they hold in unlisted assets

APRA to get tough on super funds' unlisted asset valuations

A review led by Nicholas Moore found the watchdog had been asleep at the wheel on managing the risk of inflated valuations to members' savings.

Superannuation Data Transformation Project

- Industry workshops and pilot data to discuss design of periodic reporting for APRA to understand valuation risks of unlisted asset valuations

SPS 530 and SPG 530 – Investment Governance



Key messages influencing our framework

The Board is responsible for ensuring its governance of investments supports **effective investment decision making**.

Operational and structural independence between the persons responsible for investment decision-making and those responsible for undertaking the valuation of investments.

Where an RSE licensee cannot satisfy itself about the **quality of valuation** information on the valuation of each unlisted investment selected, APRA expects that an RSE licensee would consider whether the investment is appropriate for selection or, where already invested, should continue to be held.

APRA expects an RSE licensee would ensure that all valuations are received within a timeframe that supports active oversight and timely implementation of valuation changes.

RSE Licensee frameworks should have robust policies and processes, with an allocation of **adequate expertise and resources** to the valuation of investments.

RSE licensee should **undertake valuations on at least a quarterly basis**. Where an RSE licensee chooses to undertake valuations less frequently, APRA expects the RSE licensee would demonstrate how it has determined that the valuation frequency is appropriate.

APRA expects an RSE licensee to seek **regular independent valuations** across asset classes, either on a sample or rotational basis.

RSE licensees to demonstrate how potential conflicts of interest and other material risks arising from the **external manager providing its own valuation** are to be managed.

Increased valuation oversight of **externally managed investments**.

Valuations are supported by **appropriate judgements and assumptions**.

Investment governance frameworks would have established processes for the **monitoring and quantification** of equity impacts from events such as interim valuation of assets.

Effective Boards balance the need to provide **effective review and challenge** with appropriate delegation of authority.

Increased frequency of reporting and valuation oversight during times of **heightened market volatility**.

RSE licensees need to demonstrate how its due diligence processes assesses valuation methodology and for investment **managers quality and timeliness of valuations, stress testing** and liquidity arrangements.

Effective due diligence is critical, in both the context of direct investments and the selection of investment managers.

Triggers for more frequent valuations including market volatility

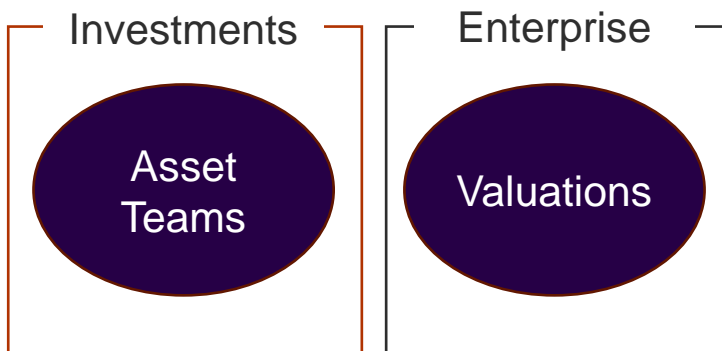
Boards can **delegate oversight of valuation processes** to a Board Committee or a Valuation Committee so long as persons on the committee have sufficient skills.



Our Journey ... Key Success Criteria

Independence

Separate Valuation Team from Investments... True independence



Oversight

*Independent Committee
CFO Chair and independent members*



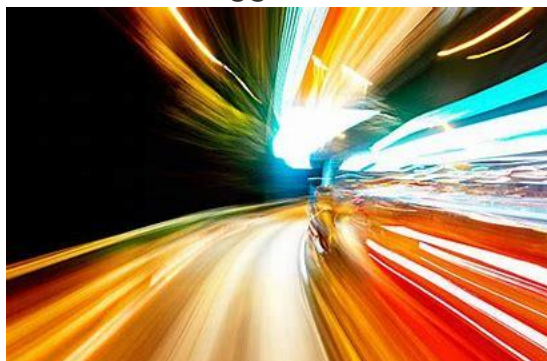
Policies/Standards

*Expand and Enhance...
Meet regulatory expectations*



Agility

*Proactive in stressed market and
asset trigger situations*



People

Right experience and competencies



Value-Add

From 'administrative' to 'insights'



Considerations for asset owners

What are some of the key things to consider to help ensure strong valuation governance?

- Receipt of regular market insights/data to gauge reasonableness.
- Valuations have some degree of independence in terms of governance/oversight.
- Frameworks for out-of-cycle valuation triggers, monitoring etc.
- The valuation policies of your external managers.
- The Valuation Committee (where applicable) and its construct.
- The impact of the Financial Accountability Regime when it comes into force in 2025.

Thank you for joining us.

2024 Frontier Advisors Annual Conference

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