

Regulator continues to focus on unlisted asset valuations

Institutional investors should continue to focus on their valuation governance frameworks as scrutiny, including from the prudential regulator, grows.

APRA has been focused on unlisted asset valuations following the COVID-19 pandemic and has recently released the results of a [survey of 45 super funds](#), which identified areas it observed as better practice and areas for improvement.

“It’s not the only driver, but regulation is one of the key drivers,” Sarah Cornelius, Head of Investment Governance, Frontier Advisors, said.

Other factors behind ongoing unlisted asset valuation scrutiny included funds’ higher unlisted asset allocations, as well as direct ownership and co-investments, few numbers of unlisted property transactions, more media attention, and a greater focus on member equity.

Cornelius said key areas of focus and uplift were:

- The use of valuation committees (where applicable) and board oversight – ensuring functional independence between those making the investment decisions and those making valuation decisions and ensuring independent views and input.
- Out of cycle and interim valuations – ensuring a clear policy and accountability framework. The triggers for which should be specific and measurable, but also flexible enough to allow for normal market fluctuations.
- The ability to challenge valuations (and access to expertise), which comes down to the composition of oversight bodies and having a formally documented process for how valuations are challenged.

Helen Lagis, Principal – Valuations, AustralianSuper, also said there were several key themes arising from APRA’s guidance.

“For me, it’s being mindful that any valuation oversight shouldn’t just be a routine acceptance of somebody’s view on value, whether it’s an external manager, or whether indeed, it’s an independent external valuer.”

Asset owners must also have well defined triggers for revaluations, which must then be performed quickly, and have good processes to manage conflicts of interest.

AustralianSuper is one of the biggest asset owners in the country with around 25 per cent of its \$330 billion portfolio allocated to unlisted assets. Lagis said the biggest game changer was creating a valuation team in 2021 – currently 13 staff – with deep expertise in valuations. The structure set up is not just a process alone but allows the Fund to own the valuation governance across all assets.

It is the Fund’s valuation committee which reviews and approves all unlisted valuations, this is a fundamental part of the valuation governance structure.

Lagis said some larger external managers already complied with APRA’s expectation for quarterly valuations while larger US private equity firms have started (quarterly internally and once a year externally). AustralianSuper has co-underwrite investments (an investment alongside a GP in a single company) where it conducts its own valuation rather than taking the GP’s valuation.

“For our co-invest and our funds, we take the GP mark, but we do agitate along the way. So, if I’ve got reason to believe that what’s being put forward is not fair value, we will agitate. Also, on our way into a transaction as part of the onboarding due diligence, it’s our opportunity to have a look at how good their valuations have been previously.”

Frontier believes timely and accurate valuations are a key part of ensuring good investment governance for all investors. There are several things that asset owners can consider to 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 and monitoring.
- The valuation policies of external managers.
- The valuation committee (where applicable) and its construct.
- The impact of the Financial Accountability Regime when it comes into force in 2025.

If you would like more information, or would simply like to discuss issues and best practice around unlisted valuations, please contact Paul Newfield at pnewfield@frontieradvisors.com.au.