Plenary
Funds Management

Valuation Policy

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2. Introduction

Executive Summary

This Valuation Policy (the "**Policy**") establishes principles for Plenary Funds Management Pty Ltd ("**PFM**"), investment manager of the Scheme, to determine the value of assets of managed investment schemes.

Purpose

To provide clear principles and guidance on how asset valuations are to be undertaken across managed investment schemes where PFM is the appointed investment manager. These principles consider the types of assets being valued, the frequency of valuations and the appropriate valuation methodologies. Asset valuations support the calculation of the managed investment scheme Net Asset Value ("**NAV**") and therefore the unit price.

Scope

This policy applies to all managed investment schemes where PFM is the appointed investment manager.

Definition

Term	Definition
Governing Documents	The governing documents of a scheme, including the constitution, investment management agreement, or other offer document.
PFM	means Plenary Funds Management Pty Ltd
Responsible Entity (RE)	Refers to any independent responsible entity or trustee appointed by PFM.
Scheme	Refers to a managed investment scheme.

3. Rationale

The intention of this Policy is to guide PFM's approach to valuing the assets of managed investment schemes on behalf of the RE. These asset valuations form the basis of the NAV of managed investment schemes and therefore the unit price. As such, it is imperative that these valuations are conducted appropriately having regard to the asset type, valuation frequency, valuation methodology and any other relevant matter.

4. Principles

When conducting asset valuations, they should adhere to the following principles:

- Valuations should be determined in a manner that is equitable and just;
- Valuations should be conducted using methodologies appropriate for the nature of the asset being valued;
- Valuations should be free from bias, influence, or conflicts of interest;
- Consideration should be given to the appropriateness of valuation processes and methodologies on an ongoing basis;
- Valuations should be conducted consistently where appropriate (i.e. where similar assets); and
- Valuations are independent, transparent, and verifiable.

Underscoring the above principles is the overriding obligations owed by the RE and PFM as investment manager to investors.

5. Background

Concept of Fair Value

Fair value is defined as "the price that would be received to sell an asset…in an orderly transaction between market participants at the measurement date".[1] The price should reflect current market conditions in the principal market for the asset, or in the absence of the principal market, the most advantageous market. The price should reflect the assumptions (and technique) that market participants would use to price the asset. The price need not be directly observable or capable of estimation using another valuation technique.

PFM utilises the fair value approach in order to determine appropriate valuations for those assets which do not have a readily available market price. These assets include unlisted real assets, such as infrastructure, as well as Over-the-Counter ("**OTC**") derivatives.

PFM may determine the fair value of an asset in accordance with this Policy where an external value is not available or there is otherwise reason to believe that the value provided is not reflective of market value.

Governance

Per the IVC Terms of Reference, the IVC is responsible for reviewing and approving asset valuations (excl. derivatives).

Valuations are also undertaken of OTC derivatives, provided they are not treated as embedded derivatives. Their valuation must be conducted in accordance with this policy, accounting standards and the *Corporations Act 2001* (Cth). Depending on whether the OTC derivative sits at the managed investment scheme or underlying asset level, the approach will vary, noting that the portfolio management team will oversee decisions in relation to the former and the Investee Board will make decisions regarding the latter. OTC derivative valuations do not require IVC approval, but will typically be audited as part of the relevant entities financial statements and may be subject to other Investee Board policies.

[1] Accounting Standard AASB 13 *Fair Value Measurement*.

6. Valuation of Non-Exchange Traded Direct Real Assets

Direct real assets include direct real estate and direct infrastructure investments. These assets are valued by qualified independent experts. These experts must adhere to law, regulatory guidelines, industry standards and market practice in conducting their valuations.

All non-exchange traded direct real assets should be valued as frequently as appropriate, having regard to the best interests of unitholders. Given the nature of such assets, PFM will have all assets valued at least semi-annually but it may be more frequent if required (e.g. to facilitate trading in the fund's units and/or if a material change in the asset's value has occurred).

Further detail is provided below in relation to the valuation of unlisted infrastructure investments specifically.

7. Valuation of Unlisted Infrastructure

General

All unlisted infrastructure assets are to be valued by qualified independent (external) experts. Where an independent expert is not used in preference to an internal valuation there must be an appropriate exception (which has been approved by the IVC). The IVC will only approve exceptions where there is insufficient materiality to justify an independent valuation and the governing documents of the managed investment schemes permit it.

When an independent valuer presents a valuation, it is typically framed as a likely range. Where a valuation range is presented, the IVC must accept the midpoint of the valuation range as the asset's valuation. Deviation from the midpoint is only permissible where the Asset Manager can appropriately justify why a value other than midpoint should be accepted. Consideration is to be given to how this decision may give rise to a conflict of interest. Should any actual or potential conflicts arise they are to be noted by the IVC.

The Asset Manager is responsible for seeking approval for the valuation from the IVC. This requires the Asset Manager to analyse and present the key assumptions and value drivers, as well as demonstrate why the valuation methodology is appropriate.

Consideration is to be given to the rotation of an external valuer after a term of three years (or earlier if appropriate).

Frequency

Unlisted infrastructure assets are to be valued semi-annually, in June and December, or more frequently if required. Valuations will be undertaken outside of the semi-annual cycle where there is evidence to suggest that there has been a significant movement in the value of the underlying asset.

The Asset Manager of the given asset is responsible for commissioning and presenting the valuations to the IVC at each valuation.

Internal Valuations

Where there is insufficient materiality to justify an independent valuation and the governing documents of the managed investment schemes permit it, an internal valuation may be conducted and utilised. In order for an internal valuation to be approved, the IVC must be provided with a valuation memorandum detailing the key assumptions underpinning the valuation, the key calculations, and all other supporting material as required. Prior to approval and adoption, the IVC must be satisfied that the valuation reflects fair value.

Methodology

Both independent and internal valuers may exercise discretion in selecting a valuation methodology appropriate for a given investment. Common methodologies for unlisted infrastructure assets include, but are not limited to:

- Recent market / transaction price;
- Discounted cash flows;
- Earnings multiples; and
- Industry-specific valuation methodologies.

The IVC will consider the appropriateness of the valuation methodology as part of the process of reviewing and approving the valuation.

8. Valuation of OTC Derivatives

General

By definition, OTC derivatives are not exchange traded and therefore do not typically have standardised market pricing. The value of an OTC derivative is most commonly determined on the basis of fair value. This approach enables the valuation of bespoke derivative instruments. The valuation of an OTC derivative may be calculated by PFM as investment manager or by an external party (e.g. swap counterparty).

Depending on where the derivative instrument is placed (i.e. whether at the managed investment scheme level or asset level) will determine the level of oversight of the derivative valuation. Where the derivative is placed at the managed investment scheme level (e.g. at the fund or SMA level), there may be a requirement for audited financial accounts, in which case an appropriately qualified audit team comprised of specialist valuation / derivative experts will opine on whether the valuation assumed reflects fair value. Further oversight is also provided by the relevant RE boards whom sign off on the financial accounts. In the case of the asset level, this will typically have similar audit and financial account sign-off arrangements. In this scenario, financial account sign-off will be provided by the Investee Board.

OTC derivatives will not be valued separately where they are treated as embedded derivatives.

Frequency

The frequency of OTC derivative valuations depends upon the nature of the instrument itself and any overarching obligations in relation to the valuation frequency of managed investment schemes and other entities. For example, where there is a managed investment scheme which utilises monthly unit pricing and therefore calculates NAV on a monthly basis, there will be an updated fair value of the derivative instrument monthly. This may be achieved by tracking unrealised fair value movements (e.g. in the case of foreign exchange forwards) or whatever such methodology is most appropriate for the particular instrument. For entities which are not structured as managed investment schemes, the valuations tend to be dictated by the frequency which accounts are prepared or the frequency of debt repayments (e.g. in the case of interest rate swaps). In the case of the latter, the swap counterparty will typically provide an updated mark-to-market as part of the repayment process.

Internal Valuations

Internal valuations of OTC derivatives may be conducted provided there is the requisite level of expertise in valuing such instruments.

Methodology

OTC derivatives are valued on the basis of fair market value. The exact methodology used to calculate fair market value will depend on the nature of the instrument, but will typically be determined with reference to a market variable (e.g. foreign exchange rate).

9. Suspension

Valuations may be suspended where there is a concern that they cannot be reliably conducted without adversely impacting the interests of investors.

To the extent that the cause of the suspension subsides or is otherwise resolved, the valuation process will resume as normal.

10. Supporting Policies

This Policy is intended to operate alongside existing RE policies. To the extent that there is an inconsistency between this Policy and that of an RE, the RE's policy will prevail.

This Policy was developed with regard to:

- FSC Standard No. 9: Valuation of Scheme Assets and Liabilities
- FSC Guidance Note No.26: Asset Valuation and Unit Pricing for Infrequently Valued Assets
- International Private Equity and Venture Capital Valuation Guidelines

11. Review

The PFM Head of Funds Management, together with the IVC, is to review the appropriateness of this Policy at least annually.