

valuation

fact sheet for the purposes of calculating crediting rates



This fact sheet provides details on the average frequency of Prime Super's target return portfolio valuations for the purposes of calculating crediting rates.

Prime Super undertakes regular valuations of the assets in the target return portfolio to ensure the valuations are an accurate reflection of the fair market value of its investments. The valuation frequency of the target return portfolio represents a trade off that aims to ensure member equity, without placing undue costs on members.

Based on Prime Super's valuation practices, target return assets are expected on average to be revalued around every 3 months. Table 1 details the frequency of revaluations for the target return assets.

TABLE 1: TARGET RETURN ASSET REVALUATION FREQUENCY

Asset Class	Revaluation Frequency Range
Property	Monthly – At Realisation
Private Equity	Monthly – Annually
Credit Opportunities	Monthly – Annually
Infrastructure	Quarterly – Bi Annually

The relatively high frequency of the asset revaluations reflects Prime Super's policy of obtaining periodic independent valuations and more frequent valuation updates. For unlisted direct investments, the valuation updates (typically quarterly or bi-annually) are generally conducted by the independent valuer in the form of a roll forward of the annual valuation model. The valuation updates incorporate any changes to the valuation parameters to account for material information available since the previous valuation. For Prime Super's investments in pooled funds, valuation updates are based on independent valuations regularly conducted on the underlying assets within the funds.

The policy of obtaining frequent independent valuation updates ensures that the valuations of Prime Super's target return portfolio assets can incorporate information on material changes on a timely basis. This ensures the valuations are an

accurate reflection of the fair market value of each investment. In economic and market circumstances such as those now being experienced, and where particular movement in those circumstances is anticipated to have a material impact on an asset's value, Prime Super has brought forward a number of valuations of its unlisted assets. This is to ensure that material valuation movement is reflected in Prime Super's crediting rates to members where possible.

The valuation of Prime Super's unlisted direct investments generally require assessment of their specific cash flows and investment terms, with the valuation typically based on risk adjusted discount rates and comparable transaction parameters. These valuations are conducted by independent valuers. The independent valuers are engaged by Prime Super or the investee company on an asset by asset basis. Prime Super has in place valuation agreements with the top tier accounting firms to undertake regular valuations of the unlisted direct assets where Prime Super is able to determine the timing and commissioning of the valuation. The key advantage of this valuation framework is to secure smoother returns throughout the year due to variation in timing of annual and update valuations in the asset pool. In addition, and where appropriate, Prime Super aims to ensure that the annual valuations and updates are spread across the year thereby avoiding a concentration of annual valuations in June each year.

The valuers are obliged to follow the Australian Accounting Standard 25 (AAS25) "Financial Reporting by Superannuation Plans" in conducting the valuations of the Fund's direct infrastructure assets.

Importantly, determination of the appropriate method for performing the valuation rests with the independent valuer, although for direct unlisted assets the Discounted Cash Flow (DCF) method is typically considered the most appropriate, particularly for direct infrastructure assets. After careful review of the forecast cash flows and

compilation of the appropriate discount rate to determine a valuation, each independent valuer spends considerable time analysing comparable companies and comparable transactions to cross check their (DCF based) valuations. This market comparable approach is an important high level cross check adopted by the independent valuers to confirm that the results implied by the DCF approach are reasonable, particularly in changing market conditions. The independent valuer's method therefore ensures the valuations remain relevant and appropriate in the context of market conditions.

For pooled funds, such as for core property funds, updated manager valuations are typically obtained on a monthly basis. The expected frequency of underlying property asset revaluations (using a look through approach) has been used for this analysis. Prime Super also holds investments in pooled development property funds which are only revalued at the time of divestment, with the underlying assets held at the lower of cost and net realisable value during the interim period. For this analysis, the revaluation frequency for those investments is assumed to be the same as the asset holding period, which is around five years.



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