



Frontier Advisors Investment Governance

Governing unlisted investment valuations

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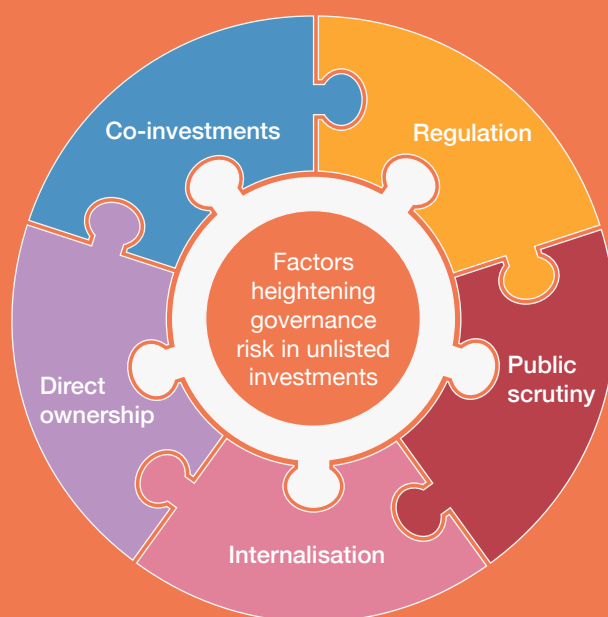
The valuation challenge

Having a process to maintain reliable unlisted valuations is a key fiduciary responsibility

Both the SIS Act and Prudential Standard SPS 530 require trustees to “develop, maintain and implement an effective valuation governance framework”.

Superannuation fund trustees also have an obligation to treat all members equitably, so having reliable valuation processes and information are critical in achieving this aim.

Trustees need to pay particular attention to unlisted investments held both by their fund managers and directly or via co-investment structures. There are a series of significant governance risks to manage across a range of complex variables and responsibilities.



Frontier Advisors offers a range of services to assist RSE licensees address the regulatory risk in this area. Key services include:



Independently reviewing valuation frameworks to provide advice and assurance.



Identifying and mitigating related risks, both structural and procedural.



Recommending adjustments and upgrades to procedures.



Facilitating ongoing oversight of governance policy and systems.

Our Investment Governance and research teams specialise in helping institutional investors effectively manage investments in private markets. We provide bespoke advice to assist clients in meeting their valuation governance obligations and achieving leading-practice policy and processes.

Valuation risks with unlisted investments

Inaccurate valuations create risks for fund members, the executive and ultimately the Board

Valuation risks are naturally greater for unlisted investments as these assets are not traded through exchanges or central clearing agents and therefore have no readily available definitive prices. Unlisted asset valuations are complex and require more stringent, often additional governance systems for a variety of reasons, including the:



Valuation methodology and quantitative complexity involved around interpreting valuation drivers and adjustment factors.



Myriad of ownership and tax-effective holding structures used across an array of third parties.



Challenges in unravelling layered asset exposures through pooled vehicles, third-party funding and management structures.



High profile nature of many infrastructure, property and private equity assets can attract scrutiny from the media, the regulator and members.

When the values of investments are not accurately calculated on a regular basis, unit pricing of fund options can be adversely impacted, potentially causing inequities across a fund's membership. Additionally, any question marks over valuations can very publicly impact your fund's reputation. Organisational governance frameworks require careful design and structuring to mitigate potential or perceived conflicts between investment and operational teams, and fund executives and directors, around the monitoring, review and any out-of-cycle adjustment to valuations and portfolios.

An independent review of structures and systems can provide assurance to both the board and management that their valuation framework is designed to be effective in both business as usual and volatile market conditions, to avoid structural and operating conflicts and to mitigate broader valuation risks and potential direct impacts on the interests of fund members.

Impact on reputation, on members and on performance

- Cross-subsidisation between transacting and non-transacting members – member equity issue.
- Valuation arbitrage exposure through switching – member equity and reputation risk issues.
- Overstated performance – can adversely impact investment management and portfolio allocation decisions plus skew performance.

Our tailored valuation services

At Frontier, we offer a range of specialist services which can be completed separately or combined. We take a bespoke approach through a tailored scope of services before any engagement to ensure your objectives will be met on a fit for purpose basis.



Valuation governance framework review

Review your organisational structures and governance systems and procedures, particularly with respect to the management of unlisted investments. Ensure latest regulatory requirements are met; assess against leading practice; and ensure suitability for your portfolio scale. Provide recommendations to improve all elements of the framework and mitigate risks including out-of-cycle valuation risks and member equity risks.



Regulatory review

Reviewing the valuation policy framework against current and proposed regulatory requirements, specifically SPS/SPG 530. We will outline any gaps and advise what additional policies, processes and procedures are required to meet requirements and reach industry-leading practice.



Valuations Committee

Advise on establishing, or adjusting, your Valuations Committee including recommendations for the charter, board delegations and appropriate representation between directors, management and independents. Frontier can also sit as an independent adviser if required.



Investee company review

Examine the governance of unlisted investee companies through either direct or co-investment ownership structures. This includes the fund's policy, oversight and management of representation rights; voting decisions; and separation of confidential company information between the investee company board and your fund.



Internal team review

Assessment of the policy, investment and risk management frameworks governing your internal teams including appropriate performance benchmarks; asset class team appointment; monitoring, review and replacement protocols; remuneration principles; and structuring of governance bodies.



External valuation policy review

Review of your unlisted assets held through third parties, including pooled products and individual mandates. Frontier will examine the manager's valuation methodologies and processes along with the independence and frequency of valuations and then identify gaps to industry best-practice.



Training and workshops

We can run high level sessions covering current areas of attention in the regulatory landscape, through to in-depth sessions focussed on key unlisted asset classes/sectors, including direct ownership and co-investments. Sessions will cover key market factors; dynamics inherent in valuations; current or recent issues; and what challenges may arise.

Meet our team

Frontier Advisors has a long history of assisting our clients establish and maintain leading-practice investment governance frameworks.

We provide an independent lens and tailored, implementable advice to support clients meet their fiduciary and ever-changing (and increasing) regulatory obligations. Our team has specialist experience with a deep investment capability and understanding at the foundation of our work. Get in touch with your client team to learn more about our services and how we can help.

Sarah Cornelius | Senior Consultant



Sarah joined Frontier in 2010 and has been a member of Frontier's Investment Governance Team since January 2015. Sarah has experience providing governance advice to investment committees and boards, reviewing and preparing investment policies, as well as undertaking reviews of investment beliefs and internal investment capabilities across a range of institutional investors. She is also a member of Frontier's investment consulting team, providing consulting support to clients and involvement with investment and manager research. Sarah holds a Bachelor of Commerce (Commercial Law) and a Masters of Applied Finance.

Julie Wu | Associate



Julie joined Frontier Advisors as an Associate in early 2022 and is a member of both the Investment Governance and Consulting teams. Prior to joining Frontier, Julie worked in the Assurance department at EY providing audit services to a wide range of clients and industries including retail, manufacturing and not for profit. Prior to this, Julie worked in Singapore for a financial and commodity services firm. Julie holds a Bachelor of Commerce (Accounting and Finance) from the University of Melbourne.

Paul Newfield | Director of Research and Specialist Services



Paul is Director of Research and Specialist Services, having joined the firm in July 2019. Paul has a primary focus on driving innovation and client alignment in our research program and works closely with our Global Investment Research Alliance (GIRA) partners. Paul joins Frontier from Willis Towers Watson where he held the role of Senior Consultant for over eight years and was involved in a number of governance and strategy areas, including liability driven clients and retirement incomes. Prior to that, Paul spent twelve years at Mercer where he held a variety of senior roles in both Australia and New Zealand, including leading Mercer's retirement business in New Zealand and was Board Chair of their trustee company. Paul is a Fellow of the Institute of Actuaries and holds a CIMA certification as well as a Bachelor of Economic Science.

Manish Rastogi | Head of Real Assets



Manish is an infrastructure specialist with Frontier Advisors having joined the firm in August 2017. He provides infrastructure consulting and investment support to Frontier clients and also undertakes manager research. Prior to joining Frontier, Manish worked at IFM Investors as Vice President in the infrastructure investment team, based in Melbourne, undertaking direct investments and asset management with a specialisation in airports. Prior to IFM, Manish worked in M&A advisory with O'Sullivan Partners (now Lazard) in Sydney and with Lehman Brothers in its Telecoms & Media M&A team in London. Manish holds MBA qualifications from London Business School majoring in finance and a Bachelor of Engineering (Computer) with honours.

Jennifer Johnstone-Kaiser | Head of Property



Jennifer leads Frontier Advisors' property research program providing consulting and research for clients, both domestically and globally. Jennifer has held senior positions, in the US and across Asia Pacific, advising institutional investors on their global real estate portfolios. Her previous roles included Country Head of Savills Investment Management, Australia and Mercer's Head of Real Estate - Asia Pacific and Senior Consultant with consultancy firm Pinnacle Property Group. Jennifer is a Senior Fellow of Finsia and sits on several conference advisory panels. She holds a Master of Finance and Bachelor of Business, Property (Distinction).



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