Valuation of Property Funds Policy

Overview

This section of the Compliance Manual of Trilogy Funds Management Ltd (**Trilogy Funds**) is designed to:

- to provide valuation guidelines for the property funds of which Trilogy Funds is the responsible entity;
- to provide a guideline on the accounting treatment for valuation of property funds; and
- to provide a guideline on the valuation techniques for property funds.

Review History

The following Table sets out the history of modifications to this Valuation of Property Funds Policy of the Compliance Manual.

Version	Review Date	Owner	Reviewer	Comments	Approved
1.0	JUN 2017	Head of Property	Legal, Compliance & Risk Manager	Amendments were minor in nature	JUN 2017
2.0	JUN 2018	Head of Property	Legal, Compliance & Risk	Amendments were minor in nature	AUG 2018
3.0	MAY 2019	Head of Property	Legal, Compliance & Risk	Amendments were minor in nature	MAY 2019
4.0	DEC 2019	Head of Property	Governance & Risk	Document was reformatted and minor amendments	JUN 2020
5.0	FEB 2021	Head of Property	Governance & Risk	Document was reformatted and minor amendments	FEB 2021
6.0	APR 2021	Manager - Property Funds	Governance & Risk	Section 3(a) – Timing adjusted and Section 2 (m) added.	JUN 2021
7.0	JUN 2022	Manager – Property Funds	Compliance and Risk	Branding and formatting changes only.	JUN 2022
8.0	MAY 2023	Manager – Property Funds	Compliance and Risk	Change to timing	MAY 2023
9.0	AUG 2023	Manager – Property Funds	Compliance and Risk	Change to timing	AUG 2023

Table of Contents

1. Adoption and Review

1.1 Adoption

This is a section of the compliance manual of the Trilogy Funds Management Limited (**Trilogy Funds** or the **Responsible Entity**) and its associated entities where required, is in relation to the financial services it provides in connection with the operation of all property-based managed investment schemes (excluding mortgage schemes) of which it is the responsible entity, trustee or manager from time to time (each referred to as a "**Property Fund**").

1.2 Review

This section is to be reviewed by the Manager – Property Funds, or their assigned delegate, not less than every 12 months. A report of the review, together with the recommendations, if any, must be tabled at the next meeting of the Board held after the report is completed. A table of the history of the reviews and amendments to this section appears at the start of this section.

2. Valuation Rules – External Valuations

The Manager – Property Funds must ensure the following:

(a) all external valuations must be performed by panel valuers who have undergone an accreditation process prior to formal inclusion on the panel;

(b) the external valuer must be registered in the state or territory in which the property is situated;

(c) the external valuer must have a minimum of five years continuous experience in the valuation of property of a similar type;

(d) Trilogy Funds should instruct the external valuer;

(e) all reports should be addressed to Trilogy Funds Management Ltd in its capacity as Responsible Entity of the relevant Property Fund;

(f) the external valuer must be independent of the vendor and Trilogy Funds and have no pecuniary interest that could conflict with his role as the valuer;

(g) the external valuer must be instructed to prepare the valuation report in a format which clearly sets out the primary methodology used and a secondary check valuation methodology, in accordance with the instructions;

(h) all valuations must state a replacement value in the valuation for the purpose of Trilogy Funds determining the amount of insurance required;

(i) no one individual external valuer (as opposed to valuation firm) should conduct more than 3 successive valuation reports of the total valuation work undertaken for a specific Property Fund (this is not applicable for a single asset Property Fund);

(j) the valuation report should include a statement that the valuation complies with all relevant industry standards and codes and the Australian Property Institute definition of market value;

(k) valuations for development assets are on an 'as is' and an 'as if complete' basis while all other valuations are on an 'as is' basis;

(l) any conflicts of interest will be dealt with in accordance with Trilogy Funds' Conflicts of Interest Policy; and

(m) for syndicates that contain 6 of more properties, no one individual external valuer (as opposed to valuation firm) should have valued more than one third of the properties within the syndicate.

3. Timing – External Valuations

(a) Trilogy Funds must ensure that property assets are externally valued before they are purchased.

(b) Subject to paragraphs 3(c), Trilogy Funds must ensure that property assets are externally revalued at least once every 24 months.

(c) Trilogy Funds may, at its discretion, extend the revaluation timeframe stated in paragraph 3(b) by a period not exceeding 6 months in circumstances where:

  (i) the property asset is being held for sale; or

  (ii) lease negotiations are underway that Trilogy Funds reasonably believes may have a material impact on the outcome of the revaluation of the property asset.

(d) Property assets will be externally valued more frequently if required by the constitution of a Property Fund.

(e) The Manager - Property Funds will maintain a register of valuations to ensure that property assets are valued in accordance with this policy.

(f) Trilogy Funds should ensure that property assets are externally valued within 2 months after the directors form a view that there is a likelihood that there has been a material change in the value of a property asset.

(g) At the discretion of the Property Investment Committee, external valuations may also be obtained when the following occurs:

  (i) a material change in the terms of the loan, including as to the amount, duration, or interest rate on renewal;

  (ii) a delay in any construction or development proposal;

  (iii) a material change in the nature of the building/property; or

  (iv) a material change in the tenancy profile of a building.

4. External Valuers

(a) Trilogy Funds should maintain a register of all external panel valuers.

(b) Valuation reports must be reviewed by the Manager – Property Funds (or another individual as selected by the Managing Director) to ensure that the valuer has complied with Trilogy Funds' letter of instruction and that there are no unsatisfactory features.

(c) Trilogy Funds should conduct due diligence and give consideration to each valuer with respect to experience, qualification, independence, registration and professional indemnity insurance.

(d) Each external valuer is subject to annual review. Amendments to the panel are recommended by the Manager – Property Funds to the Property Investment Committee with approval from the Board of Trilogy Funds.

5. Internal Valuations

Trilogy Funds may elect to undertake internal valuations in addition to external valuations if it deems it necessary, or if it is required to do so by the auditor of a Property Fund. When preparing internal valuations:

(a) the internal valuation will be prepared by the Manager – Property Funds, using the same valuation methodologies used in the most recent external valuation, but with updates to inputs to reflect current leasing and/or market changes; and

(b) the internal valuation will be submitted to the Property Investment Committee for review and approval.

6. Accounting Treatment

6.1 Fair Value Measurement

According to IFRS 13 – Fair Value Measurement, when measuring the fair value of the asset, the characteristics of the asset or liability shall be considered if market participants would take into account those characteristics when pricing the asset or liability at the measurement date.

6.2 Application – Non-Financial Assets

A non-financial asset is an asset with a physical value such as real estate, equipment, machinery or vehicles.

According to IFRS 13, the fair value measurement considers a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The highest and best use of a non-financial asset considers the use of the asset that is physically possible, legally permissible and financially feasible, as follows;

(i) a use that is physically possible considers the physical characteristics of the asset that market participants would take into account when pricing the asset. (e.g. the location or size of a property);

(ii) a use that is legally permissible considers any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (e.g. the zoning regulations applicable to a property); and

(iii) a use that is financially feasible considers whether a use of the asset that is physically possible and legally permissible generates adequate income or cashflows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.

7. Valuation Techniques

7.1 Valuation Techniques

An entity shall use valuation techniques that are appropriate in the circumstances and for which enough data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

To increase consistency and comparability in fair value measurements and related disclosures, this policy establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. These categories are as follows:

(a) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

(b) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

(c) Level 3 inputs are unobservable inputs for the asset or liability. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level inputs.

7.2 Discretions – Valuation Methods

Generally, Trilogy Funds will use the AIFRS to determine the value of assets and liabilities (including accruals and provisions for expenses and future allowances for expenses not yet incurred). However, Trilogy Funds may determine alternative valuation methods and policies, which may change from time to time, for each category of assets and liabilities.

The below alternative valuation methods and policies are currently applied by Trilogy Funds for the purpose of calculating a scheme's NAV (as applicable).

(a) Purchased assets are initially recorded at cost (excluding transaction charges).

(b) Securities listed on domestic securities exchange are valued at their independently determined market price and are marked to market daily. Where these securities are thinly traded, Trilogy Funds may exercise valuation discretion by comparing the securities initial cost against its average traded price over a period commensurate with the nature of the holding and then determine whether any permanent increase or diminution in value has occurred.

(c) Investments in unlisted securities are re-valued at least once a year by reference to the latest financial information provided by the scheme's fund manager. Trilogy Funds may consider independent valuation research from reputable independent experts from time to time as well as known changes to the value of underlying assets which have not yet been recognised in a scheme's financial statements. Where Trilogy Funds, acting in good faith, reasonably believes that the latest financial information provided by the scheme's fund manager does not accurately reflect the fair value of the unlisted security, the security will be valued according to AIFRS at its NAV based on its most recently published financial statements.

(d) Where the value of a liability is uncertain at the time of calculation, Trilogy Funds will value the liability in accordance with ordinary commercial practice and AIFRS. Trilogy Funds considers the above alternative valuation methods and policies to be reasonable for the purpose of calculating a scheme's NAV.