

Pricing Policy

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Pricing Policy

1. Background

The financial statements of the New Zealand Anglican Church Pension Board (NZACPB) are prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for public benefit entities. Investments included in this policy are measured at fair value in accordance with NZ IFRS.

NZ IFRS defines fair value as an estimate of the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

The New Zealand Anglican Church Pension Board (NZACPB) is investment manager and trustee of the New Zealand Anglican Church Pension Board Investment Trust (the Trust) which holds investments referred to in this policy.

2. Objective

The objective of this policy is to establish the approach taken to measure the fair value of all investments held collectively in the Trust. This does not include forestry and forestry land, or real property. A separate policy applies to these asset classes.

Fair value, as defined in NZ GAAP, provides NZACPB with a defined basis of valuation. This basis ensures consistency and the use of best industry practices of the hierarchy prescribed in the NZ IFRS helps define what level of reliability a valuation can be seen to hold and provides guidance on levels of review.

3. Valuation principles

This policy approaches valuation with reference to two key aspects:

- The valuation methodology to be used (and application of the fair value hierarchy to the methods applicable); and
- The frequency with which valuations are undertaken.

(Note: The application of the accounting hierarchy is important as the lower down the hierarchy an asset is deemed to be, the more information and examination is required in the valuation process. The hierarchy can be seen as a proxy for confidence in valuation).

4. Valuation methodology categories

The Trust has a broad range of investments. Some of these investments may be valued by reference to alternative sources. For many categories of investments, industry standard methodologies are already in place for the determination of fair value. NZACPB has adopted these methodologies as being best practice.

The methodologies have been set out below and a Management consider to be the best practice valuation policies. The valuation methodologies outlined are applied to all of

investments to determine fair value, and utilise the highest level of inputs available from the accounting hierarchy.

With these valuations, a risk-based approach is adopted to ensure that investments are being valued appropriately. The valuation methodologies are also reviewed periodically to ensure best practice continues. Any departure from the valuation approaches outlined will be reviewed by NZACPB prior to being utilised in the normal valuation routine. This review will examine the relevance of the changed method with reference to industry practice and with the view that changing would not result in a material change to the valuation produced. Further reference will be given to the quality and reliability of external sources as utilised.

NZACPB's valuation methodologies, grouped by specific investment categories, are at APPENDIX 1.

5. Hierarchy of fair value

Fair value is an estimate of the price that would be received to sell an asset. This can be obtained through a variety of approaches which may utilise information from various sources. The reliability or quality of this information as inputs into the process of estimating fair value has been categorised into a hierarchy under NZ IFRS (specifically in NZ IFRS 13 – Fair Value Measurement).

This hierarchy of inputs, in descending order, is set out below. The inputs used in estimating the fair value of the Fund's investments will be of the highest level from the hierarchy as possible.

Level 1:

Quoted prices in active markets for identical assets or liabilities (high reliability and good specific information). The best evidence of fair value comes from quoted prices in active markets – a market is considered active if transactions occur at a frequency and in such volume to provide pricing information on an ongoing basis. Such a market may be a recognised stock exchange.

Level 2:

Other market-observable inputs (i.e. other than quoted prices) that are observable either directly or indirectly (medium reliability and good information). Other market-observable inputs include but are not limited to: interest rates; credit spreads; and pricing for comparable investments trading in active markets.

Level 3:

Non-market-observable inputs (lower reliability and requires use of general or alternative information). Non-market-observable inputs represent the least independent and reliable approach in determining fair value due to their subjectivity. Their use will be minimised as much as possible.

6. Independent third party valuers

Where an independent valuation is required, an external valuer is engaged. Prior to engagement, the valuer must be assessed for suitability in a number of areas including, but not limited to: relevant qualifications; experience; capacity to undertake the work; reputation; and independence. Independent valuations are prepared in line with the relevant accounting standards and relevant legislation.

7. Frequency of valuations

All fair values are updated as frequently as required and as practicable, allowing for any restrictions in the availability of data and any other constraints.

Any departure from the valuation frequencies outlined in APPENDIX 1 is reviewed by NZACPB, prior to being utilised in the normal valuation routine.

Any evidence of impairment in fair value is raised with NZACPB internally. NZACPB's Investment Committee or an external expert may also be engaged in this process as required. The fair value is updated as soon as a value can be reasonably determined.

8. Consistency of valuations

The valuation methodology is applied consistently across all portfolios and investments with similar characteristics wherever possible. The valuation approach is also applied consistently between financial periods. A change in the valuation approach is only made if it results in a value measurement that is equally or more representative of fair value. This might be the case if, for example, new information becomes available, or information previously used in the valuation process is deemed no longer relevant. Any change must be documented and approved as required.

9. Reporting

Management must report to the Investment Committee, on the following matters:

- Any material change in applicable Financial Reporting Standards that affect the valuation of NZACPB's investments;
- Any change in NZACPB valuation policies;
- Any departure from the valuation approaches outlined in this policy;
- Any disagreement with the fair value of an investment, determined through the relevant valuation approach outlined in this policy, which results in a material difference.

10. Legislative Compliance

At all times NZACPB must ensure that all relevant legislation is complied with.

Appendix 1

Asset class: **New Zealand Fixed Interest (excluding Floating Rate Notes and Perpetual Bonds)**
Location: New Zealand
Valuation frequency: Monthly
Valuation hierarchy: Level 1
Valuation methodology: Yield based
Valuation source: Primary: Yields as supplied by Thompson Reuters Eikon

Other influencers: Nil

Asset class: **New Zealand Fixed Interest – Floating Rate Notes**
Location: New Zealand
Valuation frequency: Monthly
Valuation hierarchy: Level 2
Valuation methodology: As supplied
Valuation source: Primary: Yields or values as supplied by Thompson Reuters Eikon
Other influencers: Nil

Asset class: **New Zealand Fixed Interest - Perpetual Bonds**
Location: New Zealand
Valuation frequency: Monthly
Valuation hierarchy: Level 1
Valuation methodology: Exchange traded
Valuation source: Yields or values as supplied by Thompson Reuters Eikon
Other influencers: Nil

Asset class: **New Zealand Mortgages**
Location: New Zealand
Valuation frequency: Monthly
Valuation hierarchy: Level 3
Valuation methodology: Yield based
Valuation source: Primary: Source mortgage documentation
Other influencers: Nil

Asset class: **Overseas Fixed Interest**
Location: Overseas (issued in any currency or country outside New Zealand)
Valuation frequency: Monthly
Valuation hierarchy: Level 1
Valuation methodology: As supplied
Valuation source: As supplied by external Fund Manager
Other influencers: Currently only invested via reputable Fund Managers into pre-approved Funds. Hedged at a Fund level.

Asset class: **New Zealand Cash - Call**
Location: New Zealand
Valuation frequency: Monthly
Valuation hierarchy: Level 1
Valuation methodology: Transaction based
Valuation source: Transactions and balances as supplied by a registered New Zealand Bank
Other influencers: Nil

Asset class: **New Zealand Cash - Deposit**
Location: New Zealand
Valuation frequency: Monthly
Valuation hierarchy: Level 1
Valuation methodology: Coupon rates are applied
Valuation source: Interest rates as set at the commencement of the contract with a registered New Zealand Bank
Other influencers: Nil

Asset class: **Overseas Cash - Call**
Location: Overseas (issued in any currency other than New Zealand dollars)
Valuation frequency: Monthly
Valuation hierarchy: Level 1
Valuation methodology: Primary: Transaction based
Secondary: Revalued to New Zealand dollars
Valuation source: Primary: Transactions and balances as supplied
Secondary: Thompson Reuters Eikon subscriber information feed
Other influencers: Nil

Asset class: **New Zealand Equities**
Location: New Zealand
Valuation frequency: Monthly
Valuation hierarchy: Level 1
Valuation methodology: Market based
Valuation source: Primary: Thompson Reuters Eikon subscriber information feed
Secondary: Yahoo Finance
Other influencers: Nil

Asset class: **Overseas Equities**
Location: Overseas (issued in any currency or country outside New Zealand)
Valuation frequency: Monthly
Valuation hierarchy: Level 1
Valuation methodology: Primary: Market based in local currencies
Secondary: Revalued to New Zealand dollars
Valuation source: Primary: Thompson Reuters Eikon subscriber information feed
Secondary: Yahoo Finance
Other influencers: Nil

Asset class: **Private Equity**
Location: New Zealand and Overseas
Valuation frequency: NZ: Quarterly; Overseas: Monthly
Valuation hierarchy: Level 3
Valuation methodology: As supplied
Valuation source: As supplied by external Manager
Other influencers: Periodicity of third party reporting may mean valuations reflect the previous quarter end reported values plus actual transactions in the current quarter

Asset class: **Currency hedging - direct**
Location: New Zealand
Valuation frequency: Monthly
Valuation hierarchy: Level 2
Valuation methodology: Revalued to New Zealand dollars
Valuation source: Thompson Reuters Eikon subscriber information feed
Other influencers: 1. Revalued based on the spot exchange rate (being the price paid to sell one currency for another for delivery on the earliest possible value date) adjusted by forward points.
2. Only includes "over the counter" derivative instruments

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