Operational Instruction Ref. OI.S3i.2021.01 Sustainable Investments in Infrastructure and Innovation - Asset Valuation

Authority:

This Operational Instruction (OI) is promulgated by the Chief Executive, Sustainable Investments in Infrastructure and Innovation (S3i), on the basis of a delegation of authority from the Executive Director and under OD.FG.2018.01: Finance and Asset Management.

Purpose:

The purpose of this OI is to provide instructions regarding the Valuation of UNOPS S3i assets.

Effective Date:

This OI shall become effective **immediately.**

Promulgation Date:

23 Nov 2021

[signature redacted]

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Chief Executive, S3i

1. Introduction

1.1 This OI provides instructions regarding the process of valuing the invested Assets under S3i portfolio. Values determined under this OI shall be used for S3i Office's reporting and in UNOPS corporate financial statements.

2.1 This OI also provides instruction regarding the roles of the internal and external parties in conducting S3i asset valuation.

2. Definitions

2.1 Asset(s): refers to the resource(s) controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

2.2 Cash Flows: refers to the inflows and outflows of cash and cash equivalents.

2.3 Fair Value: refers to the price at which an Asset (or liability) would change hands if neither buyer nor seller were under compulsion to buy/sell and both were informed about material underlying facts.

2.7 Fund Manager: refers to the person responsible for implementing a Fund's investing strategy and managing its portfolio trading activities. The Fund Manager is also responsible for providing reporting data to the Fund's investors.

2.8 Fund or Private Capital Fund: refers to any designated pool of investment capital targeted at all types and stages of private capital investment from start-up to large buyout and including infrastructure and private credit investment. It includes those pools held by corporate entities, limited partnerships, and other investment vehicles. Institutional and retail investors provide the capital, which can be used, inter alia, to fund new technology, make acquisitions, expand working capital, and to bolster and solidify a balance sheet.

2.9 Fund of Funds: refers to an Investment vehicle where a fund invests in a portfolio composed of shares of other funds rather than investing directly in stocks, bonds, or other securities.

2.10 Hybrid or Mezzanine Investments: refers to a hybrid of equity and debt, and draws characteristics from both types of capital. Hybrid or Mezzanine investments include, but not limited to, compulsory convertible debentures (CCD), defined as a type of Loan (which generates an interest payment) that can be converted into the stock of the company after a stipulated time period at the option of the holder or the issuer in special circumstances.

2.11 Impairment: refers to a loss in the future economic benefits or service potential of an Asset, over and above the systematic recognition of the loss of the Asset's future economic benefits or service potential through depreciation.

2.12 Investee Company: refers to a special purpose vehicle (SPV) - a separate legal entity created by an organization with the purpose of facilitating the parent company's financial arrangements or acquisition and/or financing of a project within S3i mandated sectors (renewable energy, affordable housing and health infrastructure sectors) or an intermediate holding or an operating company in which UNOPS S3i invests.

2.13 Investment: refers to an Asset or item acquired with the goal of generating income or appreciation. For the purpose of this OI, Investments may include Assets held by S3i, represented through ownership in the form of shares, debt or both (hybrid security).

2.14 Level 1, 2 and 3 Assets: Level 1 Asset refers to quoted prices in active markets for identical assets or liabilities. Level 2 Asset refers to inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as price) or indirectly (i.e., derived from prices). Level 3 Asset refers to inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2.15 Loan(s): refers to a sum of money that an individual or company borrows from a lender. It can be classified into three main categories, namely, unsecured and secured, conventional, and open-end and closed-end Loans. Please note that equity enhancements such as warrants are not included in this type of security.

2.16 Measurement Date: refers to the date for which the Valuation is being prepared, which often equates to the reporting date.

2.17 Obligor: refers to a person who owes a legal obligation to another person. In the context of financing arrangements, an obligor is usually a debtor (for example, a borrower) or someone who has given security or a guarantee for the payment of a debt or the performance of an obligation.

2.18 Pricing: refers to the process for pricing Investments (Assets and liabilities).

2.19 Private Equity Fund: refers to a pool of capital that invests principally in the equity of private companies, or engages in buyouts of public companies, in order to achieve the delisting of public equity.

2.20 Equity Investment: refers to an Investment held by S3i in an Investee Company.

2.21 Third Party Valuation Firm: refers to the Valuation firm with a national or international established reputation for the Valuation of Investments, recruited by S3i Office.

2.22 Valuation: refers to the process of estimating an Asset (or liability)'s value based on either variables perceived to be related to future Investment returns or comparisons with closely similar Assets.

2.23 Valuation Period: refers to the period covered by the Valuation, i.e. from 1 January to 31 December of any given year, unless requested otherwise by the Chief Executive, S3i, is subject to approval by the Executive Director.

2.24 Valuation Report: refers to the Valuation report to be provided by the Third Party Valuation Firm for the Valuation Period.

3. Principles

- All S3i Investments shall be valued in full compliance with accounting standards IPSAS.
- Valuation principles shall be consistently applied to all S3i Investments, implying that the same products and/or instruments shall be priced according to the same principles.
- The Valuation exercise shall be conducted by a Third Party Valuation Firm for the Valuation Period.

- Valuation documentation shall be properly filed as evidence to support the Pricing and Valuation of S3i Investments.
- The result from the Valuation exercise shall include financial impact assessment and Impairment review done for the period.

4. Stakeholders responsibilities in the Valuation process

S3i Office

4.1 The S3i Office shall be responsible to:

- Ensure up-to-date project and portfolio monitoring as primary information source for Investment performance and Valuation.
- Contract a Third Party Valuation Firm in accordance with UNOPS procurement process.
- Request the Third Party Valuation Firm to prepare the Valuation Report for the Valuation Period and for Level 1, 2, and 3 Assets.
- Provide the Third Party Valuation Firm with required documentation and information required for the Valuation process.
- Review and provide feedback on the draft report submitted by the Third Party Valuation Firm.

Finance Group

4.2 The Finance Group shall be responsible to:

- Review and provide feedback on the draft Valuation Report submitted by the Third Party Valuation Firm.
- Receive the final Valuation Report in the context of the preparation of the Corporate Financial Statements
- Make recommendations for any valuation adjustments to the Chief Financial Officer and Director of Administration, who shall record the reasons in writing for any deviation from the Valuation report

Third Party Valuation Firm

4.3 The Third Party Valuation Firm shall be responsible to:

- Carry out the Valuation of Assets for the Valuation Period.
- Ensure the consistency of the Valuation methodology used for the Valuation Report at each Measurement Date.
- Choose the appropriateness of Valuation judgments consistent with accounting standards (IPSAS).
- Document the procedures and methodologies to be used to determine the Valuation of each Investment.
- Document the inputs and assumptions included in the Valuation analysis and the rationale supporting the conclusion of value.
- Upon selection of the appropriate Valuation techniques, ensure that the techniques are consistently applied (from Measurement Date to Measurement Date).

- If any change in the Valuation technique(s) is deemed appropriate, document the basis for any such changes including, but not limited to, the nature and rationale for the change.
- Ensure the quality and reliability of the data used for the selected Valuation techniques.
- Assess the credit Impairment of financial Assets including sufficient collection of data, reflection and documentations of any events that will have detrimental impact on the estimated future Cash Flows of financial Assets.
- Assess and document if the credit risk of S3i Investments has increased significantly since the initial recognition of Investments.
- Assess and elaborate on any significant financial difficulty(ies) with the Obligor.
- Assess any breach of contract including any default or delinquency in interest or principal payments during the Valuation Period.
- Assess and elaborate if any economic or legal reasons relating to the Obligor's financial difficulty. Assess the probability that the Obligor will enter bankruptcy or other financial reorganization.
- Assess and elaborate if there has been a disappearance of an active market for that financial Asset because of financial difficulties and if Assets have shifted between Level 1-3 classification.
- Assess and elaborate if there has been observable data indicating that there is a measurable decrease in the estimated future payments since the initial Investment.
- Assess and elaborate on if there are national or local economic conditions that correlate with defaults on the Investments.
- Assess and elaborate if the current market conditions will affect the Investments in any form i.e. any impact of Covid 19 pandemic on recoverability of Loans.
- Ensure that the outcome of assessments are submitted in a formal report, including detailed elaborations on financial impact, including amount of Impairments to be recognized for each Loan for the accounting period.
- Submit its interim Valuation Report to UNOPS by 20th December of any given year at the latest, including quantification of any impact noted.
- Submit its final Valuation Report by the end of January following the financial year.

5. Valuation processes and controls

Type of Assets

5.1 S3i portfolio may comprise of, but is not limited to, the below Assets subject to the Valuation process outlined in this OI:

- Loans.
- Fund or Private Equity Fund.
- Fund of Funds.
- Equity Investments.
- Hybrid or Mezzanine Investments.

Valuation information sources for each instrument type

5.2 The Valuation information sources for each instrument may vary depending on each Asset class and may include, but not limited to, the following:

Type of Asset	Information Source
Loans	Information related to interest and principal paid during the period value and information related to the terms and conditions of the Loan included in the financing document (origination date, fixed interest rate or spread, base rate, maturity, payment frequency, etc.) to be provided by the S3i Investment Operations and Management Support Services Units. The information and Obligor credit data (Loan-to-value (LTV)), debt service coverage ratio (DSCR; defined as monthly income/monthly debt service), and originator's risk analysis to be provided by S3i Legal, Compliance and Risk Unit.
Fund of Funds	Information related to the Fund of Funds to be provided by Fund Managers of the fund in which UNOPS S3i invested. Please note that Fund Managers must conduct a Valuation of the pool of Assets within the Fund through a Third Party Valuation Firm. The Valuation methodology applied should be at the Fair Value which includes the calculation of the Net Asset Value of the Fund (equivalent to the summation of the estimated Fair Value of underlying Investments as if realised on the Measurement Date) and adjusted to any incentive payments made to the Fund Manager.
Private Equity Fund	Information to be provided by the Fund Manager of the Private Equity Fund. A Valuation of Assets shall be conducted annually through a Third Party Valuation Firm.
Equity Investments	Information to be provided by management of the Investee Company in coordination with S3i Investment Operations and Management Support Services Units. This information includes the following, but not limited to: financial projections, the Investee Company's financial position and results of operations, and information provided through interviews of the management of the Investee Company. The Third Party Valuation Firm may consider additional information such as: the status of the economy and the position of the Investee Company relative to the industry and internal and external factors, which influence the value of the Investee Company. The Fair Value method applied may vary depending on the type of information available at the time of the Measurement Date. Information to be provided by the Investee Company, in coordination with the S3i Investment Operations Unit.
Hybrid or Mezzanine Investments	Information related to the Investments will be provided by the Fund Manager or the Investee Company.

5.3 The Valuation information sources may also include information related to materially adverse changes in legal factors that have changed the Asset's value, but not limited to, changes in market

conditions, business interruption, consumer demand or damage to its physical condition. This information may help the Third Party Valuation Firm to calculate Impairment of Asset(s).

Timeline/Frequency

5.4 The asset valuation shall be conducted annually and cover the Valuation Period. In the event of any potential risks that could negatively affect the Asset value, the Valuation exercise may be conducted differently at the request of the Chief Executive, S3i.

Monitoring and Reporting

5.5 The result of the Valuation Report shall be endorsed by both the Chief Executive, S3i, and the Chief Financial Officer and Director of Administration.

6. Exceptions

6.1 The Valuation exercise shall strictly follow this OI. In case any exception to this OI is required, a request for exception shall be escalated to the Chief Executive, S3i. Any exception to this OI shall be granted by the Chief Executive, S3i, in consultation with the Chief Financial Officer and Director of Administration, as need be.