



Unit Pricing Policy

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Overview

Introduction

Perpetual Investment Management Limited (Perpetual) is the responsible entity of registered managed investment schemes (Funds). This document provides guidance on how Perpetual will exercise the discretions permitted under the constitution of each Fund to determine the issue price and withdrawal price (the policy).

Policy scope

This policy is designed to meet the requirements of:

- ASIC Class Order CO 05/26 'Constitutional provisions about the consideration to acquire interests' as amended for a Fund that became a registered scheme before 1 October 2013; and
- ASIC Class Order CO 13/657 'Discretions affecting the amount of consideration to acquire interests and withdrawal amounts' for a Fund that became a registered scheme after 30 September 2013

The class orders allow Perpetual to decide a matter that affects the method or formula used to calculate the unit price of Perpetual's Funds (the discretion) where the conditions under the class orders are met. This includes the documentation of Perpetual's policy on the discretions permitted under the constitution of each Fund.

The policy sets out the circumstances in which the responsible entity's discretion is exercised and aims to ensure that:

- Unit prices are calculated fairly and equitably;
- The process of calculating unit prices is transparent and consistently applied; and
- The methodologies adopted are reviewed at appropriate intervals and revised as necessary to meet commercial and regulatory requirements.

The exercise of any discretion is subject to the general duties of a responsible entity under Section 601FC of the Corporations Act, to act in the best interests of unitholders and to exercise a degree of care and diligence that a reasonable person would exercise in that position.

Outsourcing arrangements

The discretions permitted under the constitution of each Fund are exercised by Perpetual.

Although the functional elements of the unit pricing process, for most funds, are carried out by a third party, RBC Investor Services Trust (ABN 75 116 809 824) (RBC), Perpetual does not outsource its responsibility to unitholders regarding the calculation of unit prices. The ultimate responsibility for ensuring that unit prices are determined appropriately lies with Perpetual.

Unit pricing

How do we calculate our unit prices?

Each Fund's constitution sets out the method that Perpetual uses to calculate the issue price and withdrawal price of the Fund. This is generally expressed as follows:

Issue price	$\frac{\text{Net asset value} + \text{Transaction costs}}{\text{Units on issue}}$
Withdrawal price	$\frac{\text{Net asset value} - \text{Transaction costs}}{\text{Units on issue}}$

What type of discretions do we exercise?

In accordance with the above formula, Perpetual has identified the following discretions that it is likely to exercise in calculating the issue and withdrawal price of each Fund:

- Estimating an allowance for transactions costs;
- Determining entry, exit or switching fees;
- Determining the total net asset value of the Fund;
- Selecting a valuation method;
- Allocating assets, liabilities, revenue and expenses between classes of units;
- Rounding unit prices;
- Determining a time at which assets and liabilities are valued; and
- Determining a time at which unit prices are calculated.

Are our discretions reasonable?

Unless otherwise specified, a policy underpinning each discretion has been developed in accordance with industry standards, some of which are outlined in relevant standards and guidance notes issued by the Financial Services Council (FSC) and the Australian Securities and Investments Commission (ASIC) and Australian Prudential Regulation Authority (APRA) Unit Pricing Guide to Good Practice. Perpetual accordingly believes it is reasonable to exercise each discretion under the policy.

What records will we keep?

In accordance with the class orders, Perpetual will retain the policy for seven years after the policy ceases to be current. Perpetual will also retain documentation of circumstances where the exercise of discretions are not covered by the policy or involves a departure from the policy.

What if a discretion is not in the policy?

If Perpetual exercises a discretion for which there is no documented policy current at the time or in a way that involves a departure from the policy, Perpetual will prepare a document that sets out the following:

- The date on which the discretion was exercised;
- If the discretion was exercised by a person/entity nominated by Perpetual (nominee), the identity of the nominee;
- How the discretion was exercised;
- An explanation as to why it was reasonable to exercise the discretion the way it was exercised; and
- If the discretion was exercised in a way that was not consistent with the Fund property being valued in accordance with ordinary commercial practice, an explanation as to why it was impracticable to do so.

Will the policy be regularly updated?

The policy may be updated from time to time.

The policy is generally reviewed on an annual basis to ensure that it remains relevant, current and compliant with all applicable laws, standards and guidance notes.

The most current version of the policy can be found on our website at www.perpetual.com.au. Alternatively, you may request a copy at no charge by contacting us on 1800 022 033.

Our discretions – the policy

Estimating an allowance for transaction costs

Estimated transaction costs are allocated when an investor buys or sells units in a Fund by incorporating a buy/sell spread in the relevant entry and/or exit unit price. A buy/sell spread is a cost charged to enter (buy units) or exit (sell units) a Fund. This aims to ensure that other members do not pay the transaction costs associated with a particular investor buying or selling units in a Fund. In circumstances where no transaction costs are incurred because there is no trading of underlying assets (for example where an application or withdrawal request is funded by an in-specie transfer of assets) Perpetual may waive or reduce the buy/sell spread. Similarly, a buy spread is not charged on distribution reinvestments by unitholders into a Fund as no

transaction costs are incurred.

The buy/sell spreads relevant to each Fund are disclosed in the Product Disclosure Statement (PDS) or the Information Memorandum of the Fund (or incorporated by reference within), and in most cases are available on our website at www.perpetual.com.au.

The decision to introduce or amend buy/sell spreads is considered at each annual review of buy/sell spreads across Perpetual's Funds. The following factors are considered when determining the buy/sell spread as part of the review:

- Brokerage costs;
- Government charges (such as stamp duty); and
- Other costs directly associated with the acquisition or disposal of assets of the kind held within the relevant Fund, such as settlement, valuation, legal or clearing costs.

The approach taken in the review will vary depending on the nature of the assets held by the Fund. That is, whether the asset is held directly by the Fund, involve funds managed by external fund managers, involve funds operated by Perpetual or involve a number of different asset classes. This is discussed further below.

Directly held assets

Where direct assets of a single asset class are held, transaction cost estimates are based on recent trading experience of relevant assets of the Fund. This involves Perpetual obtaining the following for a recent 12-month period:

- The total gross value of asset purchases over the period; and
- The total transaction costs relating to asset purchases over the period.

The estimated buy spread is calculated as the total transaction costs over the period, divided by the total gross value of asset purchases over the period. This calculation is then repeated for asset disposals, and transaction costs relating to asset disposals, in order to determine an estimated sell spread.

If a Fund holds infrequently traded assets (eg direct property or infrastructure), a 12 month period may not be sufficient to obtain a realistic estimate of transaction costs. In this case, alternatives will include:

- Use of a longer history of transactions to determine the estimate; or
- Reference to a relevant expert to assess the level of transaction costs that may be expected when trading that asset class.

For new Funds, as there is no trading history to assess transaction costs, reference may be made to Perpetual Funds that hold similar types of assets to estimate the buy/sell spread, or to a relevant expert (such as the asset manager for the new Fund).

External fund managers

Where the assets of a Fund include an external fund, the total buy/sell spreads will be dependant on the total buy/sell spread of the underlying external fund. As part of the annual review, all buy/sell spreads will be confirmed with the external fund manager, either by direct contact with the manager or by reference to the latest PDS issued by the manager.

Internal inter-funding

Where a Fund is fully invested in another fund operated by Perpetual, the total buy/sell spreads will be equal to the total buy/sell spread of the underlying fund.

Diversified Funds

Where a Fund invests in a number of different asset classes, whether the assets are held directly or by internal/external funds, the estimated buy/sell spread will be the weighted average of the buy/sell spreads calculated for each asset class, using the strategic asset allocation of the Fund as the appropriate weighting.

Offsetting

When estimating acquisition or disposal costs, no allowance will be made for the possible offsetting of application and withdrawal cash flows within a Fund. This approach has been adopted as the offsetting of transactions cannot be predicted, and overestimation of the level of offset would result in a disadvantage to existing members in the Fund when transaction costs are incurred. Where actual transaction costs vary from the allowance within the application and withdrawal price, the impact will be borne by the overall Fund.

Perpetual may also exercise a discretion where rather than having a separate buy and sell spread, the allowance for both buying and selling costs are allowed for in the buy spread, with a sell-spread of zero. This occurs most commonly where the primary investments of a Fund are other funds.

Determining entry, exit or switching fees

Each Fund's constitution sets out the maximum entry and exit fees and in some circumstances it also states that the responsible entity is entitled to charge a switching fee.

The applicable entry, exit and switching fees are disclosed in the relevant Fund's PDS or Information Memorandum.

Perpetual exercises its discretion to charge a fee up to the maximums stated in each Fund's constitution. It is not possible to describe a precise methodology on how the entry, exit and switching fees are determined, however, the amount of entry, exit or switching fees charged depends on market practice and competition.

Valuation**Determining the total net asset value of a Fund**

Under each Fund's constitution, the total net asset value is calculated as the value of the assets less the liabilities excluding the application amount in respect of applications that have not been accepted by the responsible entity. Perpetual has discretion to determine how the assets are valued including the valuation methodology and the timing of the valuation. Asset valuation methodologies are developed in accordance with FSC Standard No. 9 Valuation of Scheme Assets and Liabilities.

The net asset value of each Fund is calculated by deducting the value of the liabilities from the gross assets. The assets of a fund include all investment assets, capital, income, property and rights of the Fund.

The liabilities of a Fund include all borrowings, contingent liabilities, accrued fees payable, provisions and any other relevant liabilities of the Fund. Other assets and liabilities in a Fund, which may include tax, provisions, fees and rebates, are valued in good faith in accordance with

industry standards. In particular:

- Fees and rebates will be accrued on a daily basis;
- Expenses will be accrued daily using a reasonable estimate of annual expenses, with reconciliations and wash-ups against actual expenses occurring at least annually;
- Where performance fees are charged they will be accrued on a daily basis. The performance fee methodology is outlined in the Fund's PDS or Information Memorandum;
- Provisions may be made against possible future realisation of loss on mortgage assets. Provisions are made by applying a methodology which is independently verifiable and consistent with commercial practice. Where we consider it appropriate we will consult with the Fund's auditor or an approved valuer;
- Tax liabilities are calculated in accordance with relevant taxation laws. As tax is paid in the hands of the member, a tax provision is not included in the unit price for the Fund; and
- The unit price of the Fund does not take into account tax credits collected by the Funds. Tax credits will be distributed to members at each distribution period.

Selecting a valuation method

Investment assets are valued using the following guidelines:

- Security prices are obtained, where possible, from independent security pricing services, and are based on market price where the asset is traded on a regulated market;
- Where there is no market value or we reasonably believe the value obtained is not the fair market value of the asset or where the security price is not available from an independent source or is not traded on a regulated market, the valuation of that asset is determined in good faith in accordance with industry standards, considering all relevant factors which may affect the security price;
- Where assets are infrequently traded the valuation of that asset is determined in accordance with FSC Standard No. 26 Asset Valuation for Infrequently Valued Assets;
- A number of Funds invest in funds operated by external fund managers. The daily valuation of holdings in funds operated by external managers for unit pricing purposes is reliant on the timely provision of unit prices from external managers. Inevitably, there will be occasions when some prices from external managers are not available in time for the calculation of Perpetual's unit prices. In cases where a current price is not available for an externally managed fund, there are a number of approaches that can be taken. The exact approach to be used may vary depending on administrative or system requirements, the length of time since the last available price, and other considerations. In these circumstances, Perpetual prefers to delay the calculation of prices until the information becomes available; and
- Mortgage assets are valued at outstanding principal less any provision for impairment.

The function of sourcing asset valuations on behalf of Perpetual has in most cases been outsourced to RBC. The asset valuation methodologies of RBC specify how assets under custody are valued and how security prices are sourced. Whilst RBC provides the asset valuations, Perpetual retains the responsibility to ensure that all asset valuations are determined in

accordance with each Fund's PDS or Information Memorandum, constitution and relevant legislation, standards and guidelines.

In order to ensure that assets are accurately and independently priced, RBC utilises a global Central Pricing System (CPS) to review and validate security prices. Where CPS is not utilised RBC has established contracts with data vendors for the provision of security pricing and market data. Where prices must be derived from market data, RBC uses software vendor supplied validation tools designed for this specific purpose. Tolerance checks are performed on all valuations.

Allocating assets, liabilities, revenue and expenses between classes of units

Where Perpetual has discretion under a Fund's constitution to issue different classes of units and to determine the rights, liabilities, obligations and restrictions which attach to each class, the respective PDS or Information Memorandum for the Fund will set out the strategy of the Fund which in turn is used to determine the allocation of assets, liabilities, revenue and expenses between classes.

Timing

Determining a time at which assets and liabilities are valued:

Perpetual has discretion under each Fund's constitution to determine when the Fund's assets and liabilities are valued. Perpetual has exercised its discretion to determine that the assets and liabilities will generally be valued each business day with the exception of some Funds which are valued monthly.

Determining a time at which unit prices are calculated:

Perpetual has discretion under each Fund's constitution to determine when unit prices are calculated.

Perpetual has exercised its discretion to determine that the unit price of each Fund will generally be calculated daily, with the exception of some Funds calculated monthly due to the nature of assets held by these funds.

Where the valuation and pricing frequency is other than daily i.e. the valuation and pricing frequency is monthly this is set out in each Fund's PDS or Information Memorandum.

Unit pricing can be carried out using forward pricing or historic pricing.

- Forward pricing is when applications to buy and sell units are processed using a price based on asset data effective after the applications have been received.
- Historic pricing is when applications to buy and sell units are processed using a price calculated prior to the receipt of applications.

Perpetual calculates unit prices by using forward pricing.

When using a forward pricing methodology, a cut-off time must be applied to determine which transactions will receive a particular unit price. Cut-off times are set out in each Fund's PDS or Information Memorandum. Cut-off times are applied to the time when the transaction is received and accepted by Perpetual.

Applications or withdrawal requests received before the cut off time on a business day will receive the relevant price for that day. Transaction requests received after the pricing cut-off time are

processed using the unit price calculated on the next pricing day following the day of receipt of the transaction request.

There may be circumstances, where Perpetual determines that the value of a Fund's assets or liabilities cannot reliably be calculated and to process transactions would give rise to inequities between transacting and non transacting unitholders. In such circumstances Perpetual may determine that it is in the interest of unitholders to suspend the calculation of unit prices.

Transactions received during the period of suspension will be processed using the unit price applicable on the first pricing day after lifting the suspension.

Unit prices may also be delayed during interim and year end distribution periods.

Rounding unit prices

Where Perpetual has a discretion under a Fund's constitution to round the unit prices calculated, the issue price and withdrawal price will be rounded up or down to the number of decimal places specified in the constitution or as determined by Perpetual in accordance with market practice. Where rounding has resulted in fractions of units that are not allocated to unitholders, any excess will remain in the relevant Fund at all times.

Disclaimer:

The policy has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.