



Unit Pricing Discretion Policy

Issue number 9 dated 8 May 2019
Issued by Perpetual Investment Management Limited
ABN 18 000 866 535 AFSL 234426

Contents

Policy overview

Introduction

Policy scope

Outsourcing arrangements

Updating the Policy

Records we keep

Unit pricing

How we calculate our unit prices

Types of discretions we exercise

Reasonableness of our discretions

Discretions not in the Policy

Further information about our discretions

1. Estimating an allowance for transaction costs
2. Determining entry, exit or switching fees
3. Determining the net asset value of a Fund
4. Selecting a valuation method
5. Allocating assets, liabilities, revenue and expenses between classes of units
6. Determining when assets and liabilities are valued
7. Determining when unit prices are calculated
8. Determining a cut-off time
9. Suspension of unit pricing
10. Backdating unit prices
11. Rounding of unit prices
12. Error rectification

Policy overview

Introduction

Perpetual Investment Management Limited (Perpetual) is the responsible entity of various 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

The Policy is designed to meet the requirements of:

- the ASIC Corporations (Managed investment product consideration) Instrument 2015/847 (**Instrument**) for a Fund that became a registered scheme before 1 October 2013; and
- ASIC Class Order [CO 13/655] 'Provisions about the amount of consideration to acquire interests and withdrawal amounts not covered by ASIC Corporations (Managed investment product consideration) Instrument 2015/847' and associated ASIC Class Order [CO 13/657] 'Discretions affecting the amount of consideration to acquire interests and withdrawal amounts' (**Class Orders**) for a Fund that became a registered scheme after 30 September 2013.

The Instrument and Class Orders allow Perpetual to decide a matter that affects the method or formula used to calculate the unit price of the Funds (the discretion) where the conditions under the Instrument or 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
- 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.

Updating the Policy

The Policy is generally reviewed on an annual basis and may be updated from time to time to ensure that it remains relevant, current and compliant with all applicable laws, standards and guidance notes.

The current version of the Policy at any time can be found on our website at www.perpetual.com.au. Alternatively, you may request a copy free of charge by contacting Perpetual on 1800 022 033.

Records we keep

In accordance with the Instrument and 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 and these will be available from us free of charge.

Unit pricing

How 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	$\frac{\text{Net asset value} - \text{transaction costs}}{\text{Units on issue}}$

Types of discretions we exercise

Perpetual has identified the following discretions that are likely to be exercised in calculating unit prices:

1. estimating an allowance for transaction costs
2. determining entry, exit or switching fees
3. determining the net asset value of a Fund
4. selecting a valuation method
5. allocating assets, liabilities, revenue and expenses between classes of units
6. determining when assets and liabilities are valued
7. determining when unit prices are calculated
8. determining a cut-off time
9. suspension of unit pricing
10. backdating unit prices
11. rounding of unit prices
12. error rectification

Reasonableness of our discretions

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 Joint ASIC and APRA 'Unit Pricing Guide to Good Practice'. Perpetual accordingly believes it is reasonable to exercise each discretion under the Policy.

Discretions 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
- 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.

Further information about our discretions

1. 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 (issue) and/or exit (withdrawal) unit price. A buy/sell spread is a cost charged to enter (buy units) or exit (sell units) a Fund. This process is intended to ensure that other unitholders do not pay the transaction costs associated with a particular investor buying or selling units in a Fund.

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

The spread is based on Perpetual's estimates of the average transaction costs incurred by the Fund. The estimated transaction costs are reviewed regularly. The approach taken in the review will vary depending on the nature of the assets held by the Fund. The following factors are considered when determining the buy/sell spread:

- brokerage costs
- government charges (such as stamp duty)
- 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
- buy/sell spreads of any underlying funds.

When estimating transaction 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 issue and withdrawal price, the impact will be borne by the 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.

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 underlying funds.

2. 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 IM. These fees are charged outside the Fund and do not affect the unit price of that Fund.

Perpetual exercises its discretion to charge a fee up to the maximum amounts 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.

Perpetual may also vary or waive entry or exit fees for specific investors where permitted under ASIC and other regulatory policy and legal requirements.

3. Determining the net asset value of a Fund

Under each Fund's constitution, the net asset value of a Fund 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 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'.

Assets include all investment assets, capital, income, property and rights of the Fund. Liabilities include borrowings, contingent liabilities, provisions and other relevant liabilities of the Fund.

Other assets and liabilities are provided for when they have a known value or a value that can be reliably estimated. Fees and rebates are accrued on a daily basis. In particular:

- when management fees are allowed for in the Fund's constitution, Perpetual will generally exercise its discretion to charge fees within the range specified in the constitution. The fees and costs details are set out in the Fund's PDS or IM.
- when performance fees are charged in a Fund, the performance fee methodology is outlined in the Fund's PDS or IM.

4. Selecting a valuation method

Investment assets are valued using the following guidelines:

- security prices are obtained, where possible, from independent security pricing services and these are based on market prices at the end of business day 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 traded infrequently, 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 valuation of investments in funds operated by external managers for unit pricing purposes is reliant on the timely provision of unit prices from external managers. When prices from external managers are not available in time for the calculation of Perpetual's unit prices, Perpetual prefers to delay the calculation of prices until the information becomes available. Perpetual may also consider other approaches depending on administrative or system requirements, the length of time since the last available price, and other considerations.

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 IM, 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 vendor-supplied software validation tools designed for this specific purpose. Tolerance checks are performed on all valuations.

5. 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 IM 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.

6. Determining when 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 generally determines that the assets and liabilities are valued on each business day, with the exception of some particular types of assets such as direct property, infrastructure and alternative assets.

7. Determining when unit prices are calculated

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

Perpetual generally determines that the unit price of each Fund is calculated daily, with the exception of some Funds which unit prices are calculated monthly due to the nature of assets held by these Funds. The unit pricing frequency for each Fund is set out in the PDS or IM.

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.

8. Determining a cut-off time

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

Applications or withdrawal requests (including switch requests) received before the cut-off time on a business day will receive the relevant price(s) for that day. Transaction requests received after the pricing cut-off time are processed using the unit price(s) calculated on the next pricing day following the day of receipt of the transaction request.

9. Suspension of unit pricing

There may be circumstances where Perpetual determines that the value of a Fund's assets or liabilities cannot be calculated reliably, 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 best interests 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.

10. Backdating unit prices

Backdating occurs when the unit price given to a transaction is different to the most current unit price. Backdating can occur as a result of extended processing turnaround times and processing errors.

Perpetual backdates transactions, where necessary, to ensure transacting investors receive appropriate value for the effective date of their application or withdrawal requests (including switch requests). As prices differ between the effective date and processing date, the backdating of transactions may have a positive or negative impact on the Fund. Impacts of backdating are borne by the Fund, thereby potentially impacting non-transacting investors. Perpetual monitors the backdating transactions daily and assesses whether compensation is required to be paid to the Fund.

11. Rounding of unit prices

Where Perpetual has discretion under a Fund's constitution to round the unit prices, the issue price and withdrawal price will be rounded to six decimal places. 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.

12. Error rectification

Perpetual has an established approach to unit pricing error rectifications which has been drafted in accordance with the relevant standards and guidance notes issued by the FSC, and Joint ASIC and APRA 'Unit Pricing Guide to Good Practice'.

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.