



## **Pricing Discretions Policy**

AUSTRALIAN ETHICAL INVESTMENT LIMITED AND  
AUSTRALIAN ETHICAL SUPERANNUATION PTY LIMITED

## 1. Purpose of this Policy

This Unit Pricing Discretions Policy (**Policy**) details the considerations used in reaching decisions regarding the discretions used by Australian Ethical Investment Limited (**AEI**), as the Responsible Entity for the Australian Ethical Managed Investment Schemes (**Managed Funds**), and Australian Ethical Superannuation Pty Limited (**AES**), as the Trustee of the Australian Ethical Retail Superannuation Fund (**Super Fund**) (together **the Group**), in calculating unit prices for the Managed Funds and the Super Fund's investment options.

This Policy also provides guidance on how the Group exercises the discretions permitted under the Constitution of each Managed Fund and the Super Fund to determine the application price and the withdrawal price.

This Policy seeks to ensure that:

- a. Issue prices and withdrawal prices are calculated and applied consistently and equitably.
- b. The formula or method used is reviewed at appropriate periods.
- c. The Group satisfies its regulatory obligations in relation to unit pricing discretions.

The Group notes that the exercise of any discretion is subject to the general duties:

- a. For AEI – of a Responsible Entity under section 601FC of the *Corporations Act 2001*, to exercise its powers and carry on its duties in the best interests of investors and to exercise the discretions with a reasonable degree of care and diligence.
- b. For AES – of a Registrable Superannuation Entity under section 52(2) of the *Superannuation Industry (Supervision) Act 1993*, to perform the trustee's duties and exercise the trustee's powers in the best interests of beneficiaries.

## 2. Formulation of this Policy

This Policy has been formulated in line with ordinary commercial practice and industry standards, including the *Joint APRA/ASIC Unit Pricing Guide to Good Practice (August 2008)* which assists providers such as the Group to understand and comply with relevant unit pricing obligations and *ASIC Corporations (Managed Investment Product Considerations) Instrument 2015/847* which requires the documentation of the exercise of pricing discretions.

## 3. Application of this Policy

The Group applies this Policy to the Managed Funds and the Super Fund's investment options as listed below:

### **Australian Ethical Managed Investment Funds**

- Fixed Interest Fund
- Balanced Fund
- Australian Shares Fund
- Diversified Shares Fund
- International Shares Fund

- Cash Fund
- Advocacy Fund
- Emerging Companies Fund
- Property Trust (closed)

### **Superannuation Fund Investment Options**

- Balanced Accumulation (MySuper Product)
- Conservative Accumulation
- Advocacy Accumulation
- Smaller Companies Accumulation
- Defensive Accumulation
- Growth Accumulation
- International Shares Accumulation

### **Pension Fund Investment Options**

- Balanced Pension
- Conservative Pension
- Smaller Companies Pension
- Defensive Pension
- Growth Pension
- International Shares Pension

## **4. Outsourcing Considerations**

The discretions permitted under the Constitution of each Managed Fund are exercised by AEI. The functional elements of the unit pricing process for the Super Fund's investment options are exercised by National Asset Servicing (**NAS**), the specialist business unit within the National Australian Bank that provides custody and administration services.

The Group remains responsible to both Managed Fund investors and Super Fund members regarding the calculation of unit prices.

## **5. What Are Unit Pricing Discretions?**

For those units prices that are quoted on a financial market, the issue and withdrawal prices are based on the market price of the units on the market. Where the Managed Fund's or Super Fund's Constitution allows for a discount from that price by or up to an amount specified in the Constitution, the discretion will be exercised in accordance with the Constitution.

The Constitutions for each of the Managed Funds that are not quoted on a financial market generally provide that the formula to be applied in determining the issue price and the withdrawal price of a unit is based on the value of the Managed Fund's assets less liabilities (being the **Net Asset Value**), at a valuation time, adjusted by an allowance for transaction costs and divided by the total number of units on issue.

### Issue Price

Net Asset Value (**NAV**) + Transaction Costs

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Number of Units on Issue

### Withdrawal Price

Net Asset Value (**NAV**) - Transaction Costs

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Number of Units on Issue

The number of units on issue is a known amount which does not involve any discretion being exercised by the Group. Each of the remaining elements identified in the formula to determine an issue price and withdrawal price may require the Group to exercise its discretion.

Unit prices are reviewed prior to release. In addition, reasonableness checks are performed comparing portfolio returns against benchmarks to assist in ascertaining any unit pricing irregularities prior to release. Where a Managed Fund or a Super Fund investment option's performance versus its benchmark is outside a set tolerance, it is escalated to the Fund Accounting Manager and subjected to further internal review.

The Group observes Financial Services Council (**FSC**) standards and industry best practice guidelines for determining the threshold of materiality applied to unit pricing errors and in assessing whether any compensation may be required. The materiality threshold used for such an assessment will be no greater than 0.30% of the price of a unit.

## 6. What Type of Discretions is Exercised?

The Group has identified the following discretions that are likely to be exercised:

- a. Determining the Net Asset Value
- b. Estimating an allowance for transaction costs
- c. Determining the frequency of unit pricing
- d. Management and performance fees
- e. Unit rounding
- f. Determining the cut off time for a transaction
- g. Forward and historic pricing
- h. Distribution reinvestment plans (DRP)
- i. Entry and exit fees applicable to a transaction
- j. Backdating
- k. Suspension of unit pricing
- l. Error rectification

Each of these discretions are outlined in detail in the sections below.

## 7. Specific Areas of Discretion

### 7.1 Determining the Net Asset Value

Under each Managed Fund's Constitution, and the Trust Deed of the Super Fund, the Net Asset Value (**NAV**) may be determined at any time (which may be more than once a day) and may determine the valuation methods and policies for each category of assets.

The Group's valuation methodologies have been developed in accordance with relevant industry standards, including the *Financial Services Council Standard 9 – Valuation of Scheme Assets and Liabilities (1 July 2007)*. The valuation methods and policies may change from time to time.

The NAV for a given business day is generally determined by valuing all of the assets of a Managed Fund or a Super Fund investment option and subtracting the value of liabilities of the Managed Fund or Super Fund investment option at a valuation point associated with the relevant cut off time.

#### Valuation Methodologies

The Group is responsible for ensuring all asset valuations are determined in accordance with the Constitution, Product Disclosure Statement or other disclosure documents of each Managed Fund or the Super Fund.

Accruals for assets and liabilities are provided for within the NAV where they have a known value or a value that can be reasonably estimated.

Under each Managed Fund's Constitution, and the Trust Deed of the Super Fund, liabilities are generally defined as all present liabilities of the Managed Fund or Super Fund investment option, including any provisions which the Group decides should be taken into account in determining the liabilities of the Managed Fund or Super Fund investment option.

Liabilities generally include management fees, performance fees and other expenses, and will be accrued where they have a known value or can be reasonably estimated. Certain liabilities of a Managed Fund or Super Fund investment option may be incapable of being given a value; therefore the Group will exercise discretion in assigning a value to them for the purpose of determining the NAV.

Asset accruals, such as income receivable for dividends, rent and interest, may also be subject to estimation based on latest information available.

The Group exercises its discretion concerning accruals and liabilities in accordance with the relevant accounting standards and generally accepting accounting principles.

#### Allocation of Assets, Liabilities, Revenue and Expenses between Classes

In Managed Funds where there is more than one class of units offered to unitholders, the allocation of the Managed Funds' assets, liabilities, revenue and expenses for each class is generally calculated based on the proportion of the NAV of the Managed Fund to which the class relates.

Where a particular expense (for example management fees or performance fees) is exclusive to a particular class, the Group will usually determine the expense applicable to each class of units independently.

## 7.2 Estimating an Allowance for Transaction Costs

The Constitutions of each Managed Funds and the Super Fund's Trust Deed provides that the issue and withdrawal prices of a unit may be adjusted by a transaction cost allowance (commonly referred to as a buy/sell spread), that is, an allowance for the costs of acquiring assets (in the case of issuing units) and disposing assets (in the case of redeeming units). The Group may, in connection with any particular application or request for withdrawal of units, deem these costs to be a lesser sum or zero.

The Group's method is to apply a transaction cost to ensure, as far as practicable, that any transaction cost incurred as a result of an investor entering or leaving a Managed Fund, or a member entering or leaving a Super Fund investment option, is borne by that investor or member, and not the other investors or members of the Managed Fund or Super Fund investment option.

The buy/sell spread (which is a pre-determined estimate) is set according to the transaction costs associated with transacting the types of assets in which the Managed Fund or Super Fund investment option invests. The quantum of the spread will be influenced by the Group's experience of the costs involving in trading these assets or the costs that the Managed Fund or Super Fund has actually paid, and will be reviewed annually or more frequently when circumstances require to ensure that they remain appropriate.

In certain Managed Funds or Super Fund investment options, the buy/sell spread may be set to zero where the varying nature and costs of a transaction for a particular underlying asset make it impractical to set a standard spread. In these instances, transactions costs incurred by the Group are borne by the Managed Fund or Super Fund investment option in line with standard market practice for the relevant asset classes.

The Group has discretion to determine whether a transaction cost allowance should apply and the basis of calculating the allowance. The Group considers that its transaction cost methodology is reasonable as it aims to ensure equity between investors or members by applying standard processes consistently to all investors or members. Any profit or loss arising from the application of the Group's transaction cost methodology will be benefited or borne by the relevant Managed Fund or Super Fund investment option.

The Group has the discretion to allow for a spread to be waived or reduced in circumstances where an application and/or a withdrawal request does not require assets to be bought or sold, hence no transaction costs are incurred. Examples of such circumstances include:

- a. An in specie asset transfer – the buy/sell spread may be waived or reduced if an application or withdrawal request is funding (or partially funded in the case of reducing the spread) by an in specie transfer of assets into or out of a Managed Fund or Super Fund investment option.
- b. A simultaneous purchase and redemption of units of equivalent value by different investors.

In both these instances, there is no need to buy or sell assets in the market, and hence no transaction costs will be incurred. If however, the Managed Fund or Super Fund investment option incurs costs on the transfer of assets, these will be passed on to the transacting investor.

In such instances, the Group will fully investigate the circumstances involved prior to recommending approval or rejection of amending the standard spread. Approval will only be given when it can be shown that no other investor or member will be disadvantaged by approving the request.

### 7.3 Determining the Frequency of Unit Pricing

Under each Managed Fund's Constitution and the Trust Deed of the Super Fund, the Group has discretion to calculate net asset values (and issue or withdrawal prices) at any time, including more than once a day.

The Group generally calculates issue and withdrawal prices once each Sydney business day.

Certain Managed Funds or Super Fund investment options may be priced less frequently, for example on a weekly or monthly basis. In these circumstances, the Group considers this reasonable as the assets of these Managed Funds or Super Fund investment options are not normally expected to show significant movement within these timeframes. Prices are determined at least as frequently as the Managed Fund or Super Fund investment option's interests are transacted.

The Group reserves the right to price more frequently where it deems it necessary to do so. The Group considers each of these methods is in accordance with standard market practice.

### 7.4 Management, Administration and Performance Fees

When management fees, administration fees and/or performance fees are allowed for in the unit price (i.e. the fee is deducted from the Fund's NAV), the fee must be within the range specified in the Fund's Constitution.

Management fees allowed for in the unit price are accrued and are paid from the Fund as frequently as specified in the Fund's Constitution.

A performance fee is only calculated and accrued within a unit price when:

- During or at the end of the relevant performance period, the performance of the Fund has exceeded the agreed performance hurdle set out in the Fund's Constitution;
- It is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the obligation; and
- Where applicable, any underperformance for any previous performance period has been recovered by the performance in the current period.

### 7.5 Unit Rounding

The issue price and the withdrawal price of the units in a Managed Fund or a Super Fund investment option may be rounded as the Group determines, up to a maximum of 1%.

The Group's policy is to round all unit issue and withdrawal prices to 4 decimal places, with any excess being directed to the Managed Fund or Super Fund investment option. Where rounding has resulted in fractions of units that are not allocated to investors or members, any excess will remain in the Managed Fund or the Super Fund investment option.

The Group considers that this is reasonable as any rounding is within an acceptable range in accordance with ordinary commercial practice and any excess remains in the relevant Managed Fund or Super Fund investment option at all times.

### Units Issued or Transferred

Where any calculation performed under a Managed Fund's Constitution or the Trust Deed of the Super Fund, or the terms of a withdrawal offer, results in the issue or redemption of a fraction of one unit, that fraction may be rounded up or down to such a number of decimal places as the Group determines.

Where a fraction of one unit is calculated, the Group's policy is to round the unit issue to the nearest whole number unit.

Where an instruction is received requesting a number of units to be redeemed or transferred, the Group's policy is to round the number of units down to the nearest whole number unit.

## 8. Applications and Withdrawals

### 8.1 Determining the Cut Off Time for a Transaction

The Group determines a cut off time for each Managed Fund and Super Fund investment option at which issue prices and withdrawal prices will be determined in relation to the receipt of applications and withdrawal requests, and this time is usually specified in a PDS or other disclosure document.

The cut off time is generally 3pm Sydney time, although the Group may determine an alternative time for a particular Managed Fund or Super Fund investment option where considered appropriate by the Group to do so.

Applications and redemptions received before the cut off time will be priced in accordance with the relevant Constitution and offer documentation.

The Group considers the exercise of discretion in determining cut off times reasonable as it allows sufficient time for processing applications and withdrawal requests and ensures an equitable process that treats all investors or members of the same class equally and investors or members of different classes fairly.

### 8.2 Forward and Historic Pricing

Unit prices for applications and withdrawals are determined on a forward pricing basis for all Managed Funds. Historic pricing is applied for the Super Fund to facilitate the timely payment of benefits to beneficiaries.

### 8.3 Distribution Reinvestment Plans (DRP)

In most cases the Governing Documents of each Managed Fund provide information about the Fund's DRP that may be in operation including details about the date of the election into the DRP, date of the income entitlement and the date that the reinvestment price is calculated.

AEI considers that each Managed Fund's reinvestment process does not materially disadvantage any particular investor.

## 8.4 Entry and Exit Fees That May Apply to a Transaction

Entry and exit fees are amounts deducted from the application money or the withdrawal amount, to reasonably reimburse the Group for the cost of administering entry and exit from a Managed or a Super Fund investment option.

Under the Constitution of each Managed Fund, and the Trust Deed of the Super Fund, an entry and exit fee of 5% may be deducted from the application money and withdrawal amount, although the Group may accept lower fees.

The Group generally waives this fee on both entry and exit, in circumstances where a fee is charged it will be disclosed in the relevant PDS or other disclosure document. Any change to these fees will be communicated to investors and members as required by the Corporations Act.

## 9. Backdating

Backdating occurs when a transaction is processed two or more business days after the Effective Date of the application or redemption request. AEI backdates transactions where necessary to ensure that the transacting investors receive value for the appropriate Effective Date consistent with obligations to the investor as outlined in the Constitution of the relevant Fund.

As the price may differ between the Effective Date and the processing date, the backdating of a transaction may have a positive or negative impact on the Fund. Impacts of backdating are not borne by the transacting investor but are borne by non-transacting investors. To ensure fair treatment of all unitholders, AEI will monitor the occurrence of all backdating and will assess whether compensation is required to be paid to the Fund.

## 10. Suspension of Unit Pricing

There may be circumstances where the Group determines that the value of a Managed Fund or Super Fund investment option's assets or liabilities cannot be reasonably calculated, such as during periods of market disruption or other significant events, and in these circumstances a unit price will not be determined.

The calculation of unit prices and transaction processing will resume when the risk to investor or member interests as a whole has abated or been mitigated to a level acceptable to the Group.

## 11. Error Rectification

Unit pricing errors or errors that have a unit pricing impact are rectified in accordance with AEI's Rectification Methodology. The Methodology has been drafted in accordance with the relevant standards and guidance notes issued by the FSC and ASIC/APRA:

- *Financial Services Council Standard No. 17: Incorrect Pricing of Scheme Units – Correction and Compensation (FSC Standard No. 17); and*
- *ASIC/APRA Unit Pricing: Guide to Good Practice (RG94).*

## 12. What If We Deviate From This Policy?

The Group is required to keep a record of the exercise of any discretion not covered by this Policy or which deviates from this Policy. The exercise of discretion that is not covered by, or deviates from this Policy will be documented in writing and retained for a period of 7 years. These documents (if any) recording the exercise of discretion will be available free of charge on request.

The Group considers the ability to depart from this Policy as reasonable as it safeguards the interests of Managed Fund investors and Super Fund members where conditions arise that have not been outlined in or contemplated by this Policy.

## 13. Record Keeping

The exercise of discretion in determining the unit prices will be documented in writing and retained for a period of 7 years. . Documents recording the Managed Funds' and Super Fund's financial information, independent valuations (if any) and information used in the exercise of discretion will also be retained.

## 14. Policy Disclosure

The current version of this Policy can be obtained online at [www.australianethical.com.au/](http://www.australianethical.com.au/) or by contacting the Group on 1800 021 227 or via email at [investors@australianethical.com.au](mailto:investors@australianethical.com.au).

On request, a copy of this Policy will be provided at no charge to any Managed Fund investor or Super Fund member or to any person who has received (or should have received) a PDS or other disclosure document where AEI acts as the Responsible Entity or AES acts as the Responsible Superannuation Entity.

## 15. Review of Policy

This Policy will be reviewed annually to ensure it remains relevant, current and compliant with all applicable laws, standards and guidance notes.

The Fund Accounting Manager has ultimate ownership of this Policy and may vary this Policy with the approval of the Board/s.

## 16. More Information

If you have any questions or would like further information on this Policy, please contact us:

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