

## DDH Graham Limited Unit Pricing Discretions Policy

1 July 2007

### ■ Introduction

This document has been prepared by DDH Graham Limited (DDH) and sets out the methodologies applied by DDH in relation to the calculation of unit prices for the Schemes.

DDH may be required to exercise discretion in the calculation of Scheme unit prices. This document sets out the circumstances in which discretion is exercised and aims to ensure that:

- Scheme unit prices are calculated fairly and equitably;
- The process of calculating Scheme 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.

DDH notes that the exercise of any discretion is subject to the general duties of a Responsible Entity under section 601FC of the Corporations Act, to exercise its powers and carry on its duties in the best interests of the unit holders and to exercise the discretions with a reasonable degree of care and diligence.

### ■ Unit Pricing Valuation and Methodology

The basis for determining the unit price of a Scheme is set out in each Scheme's Constitution, which sets out the parameters for calculating the NAV price, the application price and redemption price of Scheme units.

The NAV price of a Scheme is the Net Asset Value of the Scheme divided by the total number of units on issue, as represented by the following formula:

#### *NAV Price*

$$\frac{\text{Net Asset Value (NAV)}}{\text{Number of Units on Issue}}$$

The application price is the Net Asset Value of the Scheme plus the transaction costs divided by the total number of units on issue, as represented by the following formula:

#### *Application Price*

$$\frac{\text{Net Asset Value (NAV) + Transaction Costs}}{\text{Number of Units on Issue}}$$

This is the price used by DDH to calculate the number of units to be issued in respect of an application, unless DDH waives or reduces the buy/sell spread (refer section 5 below).

The redemption price is the Net Asset Value of the Scheme less the transaction costs divided by the total number of units on issue, as represented by the following formula:

## *Redemption Price*

### Net Asset Value (NAV) - Transaction Costs Number of Units on Issue

This is the price used by DDH to calculate the dollar value or the number of units to be cancelled in respect of a redemption, unless DDH waives or reduces the buy/sell spread (refer section 5 below).

The calculation of Scheme unit prices will require DDH to exercise its discretion in respect of the following areas:

- Frequency of Scheme unit pricing
- Cut off time for applications and redemptions
- Suspension of Scheme unit pricing
- Scheme unit pricing methodology - forward pricing/ historic pricing
- Allowance for transaction costs
- Accruals for assets and liabilities
- Asset valuation
- Distributions
- Rounding

This document sets out a summary of the policies applied by DDH in relation to the exercise of the discretion.

## **1. Frequency of Pricing**

DDH normally calculates a NAV price, application price and redemption price once on each Transaction Day as disclosed in the PDS, except where the unit price is suspended (this is discussed separately below).

It should be noted that under each Scheme's Constitution, DDH may calculate the Net Asset Value of a Scheme (and hence the Scheme's unit price) more than once on a Transaction Day. Circumstances where DDH may calculate a Scheme's unit price more than once on a Transaction Day, include where an ex-distribution price is calculated on a distribution entitlement date.

## **2. Cut of time for Applications and Redemptions**

The cut off time for Schemes which DDH has issued a PDS is set out in the PDS and is generally 12.00 pm on a Transaction Day. DDH will normally process application and withdrawal requests accepted by DDH for these Schemes, if received prior to the cut off time, using the next calculated price.

Application and redemption requests received after the cut off time on a Transaction Day are normally treated as being received before the cut off time on the next Transaction Day.

### 3. Suspension of Unit Pricing

Each Scheme's Constitution and the Corporations Act enable DDH to suspend the calculation of Scheme unit prices in certain circumstances. These include circumstances where DDH determines that the value of a Scheme's assets or liabilities can not be reasonably calculated due to internal conditions such as failure of systems or external conditions where markets are closed or have been subject to significant market movements.

If these circumstances prevail DDH may exercise its discretion to suspend the processing of instructions received during this period, to ensure unit holders are not unreasonably impacted. Scheme unit pricing will recommence once DDH is satisfied that the conditions causing suspension have been resolved. Application and redemption requests received during the suspension period will be processed as soon as practicable after recommencement of Scheme unit pricing.

DDH considers it is reasonable and necessary to have the ability to suspend unit pricing for the proper management of the operations of a Scheme.

### 4. Pricing Methodology - Forward Pricing/Historic Pricing

DDH applies a forward pricing methodology to process applications and redemptions in respect of all Schemes. Forward pricing occurs when transactions are processed using unit prices determined after instructions have been received.

### 5. Allowance for Transaction Costs

Transaction costs associated with the acquisition and disposal of investments in a Scheme are referred to in the Constitutions as acquisition costs, disposal expenses or simply as transaction costs. Generally, these are the costs associated with acquiring and selling assets including brokerage, settlement and clearing of the assets, stamp duty and other government taxes associated with the purchase or disposal of a security. These costs are commonly referred to as the buy/sell spread.

The buy/sell spread is a pre-determined estimate of the transaction costs, which is set having regard to the transaction costs associated with transacting the types of assets in which a Scheme invests. The amount of the spread is determined based on DDH' experience of the costs involved in investing in the assets and an assessment of the actual costs that each Scheme has incurred.

The buy/sell spread is reviewed annually or more frequently as circumstances require to ensure that the spread remains appropriate.

DDH applies a buy/sell spread to the calculation of a Scheme's application price and redemption price to ensure, as far as practicable, that any transaction costs incurred as a result of an investor leaving or entering the Scheme is borne by that unit holder, and not by other unit holders. The buy/sell spread is retained within a Scheme and no part of the buy/sell spread is paid to DDH as a fee.

In some circumstances, DDH may waive or reduce the buy/sell spread where there are no transaction costs or reduced transaction costs associated with the purchase or sale of assets.

Some examples of circumstances where DDH may waive or reduce the buy/sell spread include:

- Transfer of Scheme interests between Scheme unit holders
- In-species transfer of assets into and out of the Schemes
- Re-investment of distributions by unit holders into Schemes
- Switching between Schemes which invest within the same asset class
- Investing into unlisted securities or unit trusts which do not charge a buy/sell spread

Where applicable, DDH will review a transaction to determine whether it is appropriate to waive or reduce the buy/sell spread.

## 6. Accruals for Assets and Liabilities

Accruals for assets and liabilities other than immaterial amounts are provided for within the Net Asset Value of a Scheme where they have a known value or a value that can be reasonably estimated.

Liabilities generally include both management fees and other expenses. Management fee is the fee for DDH's services in overseeing the operations and management of a Scheme. Other expenses include the expenses which may be incurred by DDH, such as audit costs, postage and other professional services.

Each of these expenses are accrued on a daily basis in the unit price. DDH reviews these accruals on a regular basis to ensure that the amounts accrued are consistent with actual expenditure.

Immaterial or non-recurring or unexpected expenditure are not accrued in the Net Asset Value of a Scheme. These expenses are paid and deducted from the Net Asset Value as soon as practicable after receipt of the invoice.

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

DDH exercises its discretion concerning accruals for assets and liabilities in accordance with the relevant accounting standards and generally accepted accounting principles.

## 7. Asset valuation

The valuation of Scheme assets is governed by the Constitution, which allows DDH to determine the value of a Scheme's assets.

The following represents a summary of the DDH valuation policy in relation to a Scheme's assets:

### ***Exchange Traded Assets***

Valuations of assets that are actively traded on a recognised securities exchange are generally determined by reference to the latest available market price, normally represented by the official closing price. Valuations of assets that are infrequently traded on a recognised securities exchange may be determined by reference to the latest available market information where no market price is available. The market prices are sourced by DDH's appointed custodian and from independent third party information providers.

### ***Non-exchange Traded Assets***

Where assets held by a Scheme are not traded on a recognised securities exchange, values are generally determined by reference to periodic third party valuation. This ensures that the asset value is independent and verifiable.

Whilst the custodian values the Scheme assets, DDH retains the responsibility for ensuring that all asset valuations are determined in accordance with the Constitution, PDS and legislative requirements.

## **8. Distributions**

### ***Frequency of distributions***

The frequency with which a DDH Scheme distributes income and realised capital gains in most circumstances is set out in the Scheme's PDS. However, DDH may exercise its discretion to vary this frequency, based on the amount and timing of taxable income and capital gains within the fund and other factors specific to the scheme, such as expected cash flows.

DDH calculates interim distributions based on estimated income in accordance with the Scheme's constitution. Capital gains and foreign exchange gains are not normally distributed until the June distribution. DDH may also exercise its discretion as to whether a Scheme should distribute in a particular period and the amount of the interim distribution. In exercising this discretion, DDH will have regard to anticipated cash flows in the Scheme and any anticipated large deposits into or withdrawals from the Scheme, in order to ensure as far as possible that all unit holders are treated fairly.

DDH believes that exercising its discretion in this way is reasonable because it ensures that the income of the Scheme is distributed fairly to unit holders and that the income and capital gains of the fund can be distributed in a way which does not impose an unfair tax burden on particular unit holders.

### ***Special distributions***

Where a large deposit is made into, or a large withdrawal is made from a DDH Scheme, DDH may assess the tax position of the Scheme to decide if a special distribution is required. A special distribution will be made if DDH considers that it is appropriate to distribute the Scheme's income before the deposit or withdrawal, to ensure that all unit holders in the Scheme are treated fairly for tax purposes, and that no group of unit holders/investors bears a disproportionate share of the tax on the Scheme's income or realised gains.

DDH believes that exercising its discretion in this way is reasonable because it ensures that the taxable income and gains of the Scheme are allocated to unit holders fairly, and are not unfairly borne by any group of unit holders.

## 9. Rounding

DDH rounds a Scheme's price to 4 decimal places. A unit holder's entitlement to units in a Scheme is also round to 4 decimal places. The impact to unit holders due to rounding should be negligible, if any. Where rounding results in any excess funds or fractions of units not being allocated to a unit holder, the amount of any excess is applied to a Scheme.

## 10. Exercise of discretion

DDH has formulated this document in line with ordinary commercial practice and therefore considers that it is reasonable to exercise the discretions as documented.

Where DDH exercises a discretion in a manner which involves a departure from this document, a record of the event will be made which includes the following details:

- The date the discretion was exercised and the Scheme(s) involved;
- Who exercised the discretion;
- A description of how the discretion was exercised;
- An explanation as to why it was reasonable to exercise the discretion the way it was exercised; and
- If discretion was not exercised in accordance with ordinary commercial practice, an explanation as to why it was not practical to do so.

## 11. Record keeping

DDH will retain all records concerning documented policy in relation to the exercise of discretion and records of the discretions exercised under section 10 above for seven years after they cease to be current.

## 12. Policy disclosure

DDH will provide a copy of this document upon request and at no charge to any unit holder of a Scheme and will ensure that a current copy is available to unit holders on DDH's website.

## 13. Compliance with this Policy

It is expected that all DDH staff will comply with the requirements of this document.

## 14. Review and Compliance with this Policy

This document will be reviewed at least annually to ensure that it remains relevant, current and compliant with all applicable laws.

## Glossary

***Business Day*** means any day excluding a Saturday or Sunday on which banks are open for business in Brisbane.

***Constitution*** means the constitution of each Scheme as amended or replaced from time to time.

***Corporations Act*** means the Corporations Act 2001 (Cth) as amended from time to time.

***NAV*** or ***Net Asset Value*** means the total assets minus the total liabilities of a Scheme, units or portfolio in question, as determined in accordance with the Constitution

***PDS*** means the current product disclosure statement of each Scheme.

***Responsible Entity*** has the meaning defined in the Corporations Act.

***Scheme*** means a managed investment scheme registered under the Corporations Act, for which DDH acts as the Responsible Entity.

***DDH*** means DDH Graham Limited (ABN 28 010639 219) in its capacity as Responsible Entity for a Scheme.

***Transaction Day*** means a Business Day on which DDH accepts applications and redemptions as disclosed in the PDS.