



FIL Responsible Entity (Australia) Limited

FIL Investment Management (Australia)  
Limited

# **Unit Pricing Discretions Policy**

July 2020

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# 1. Overview

## *Introduction*

FIL Responsible Entity (Australia) Ltd (**Responsible Entity**) is the responsible entity of Fidelity registered managed investment schemes (**Funds**) domiciled in Australia.

This policy is designed to meet the requirements of ASIC Class Order 05/26 'Constitutional provisions about the consideration to acquire interests' as amended (**Class Order 05/26**). Class Order 05/26 allows the Responsible Entity to decide a matter that affects the method used to calculate the unit price of the Funds where the conditions under Class Order 05/26 are met.

The Head of Operations has ultimate ownership of this Policy and may vary this Policy with the approval of the Responsible Entity Business and Risk Compliance Committee.

This policy sets out the circumstances in which the Responsible Entity will exercise discretions permitted under the constitution of each Fund 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 discretion is subject to the general duties of a responsible entity under Section 601FC of the *Corporations Act 2001*, 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*

Discretions permitted under the constitution of each Fund are exercised by the Responsible Entity.

The functional elements of the unit pricing process have been outsourced to an external service provider, JPMorganChase Bank, N.A (**JPM**). However, the ultimate responsibility for ensuring that unit prices are determined appropriately lies with the Responsible Entity.

# 2. Unit Pricing

## *How do we calculate our unit prices?*

The method used to calculate the application price and redemption price of the Fund is set out in the Fund's constitution. This is generally expressed as follows:

### **Application Price**

$$\frac{\text{Current value} + \text{Transaction costs}}{\text{Units on issue}}$$

### **Redemption Price**

$$\frac{\text{Current value} - \text{Transaction costs}}{\text{Units on issue}}$$

### **3. Discretions**

The Responsible Entity has identified the following discretions that are likely to be exercised in calculating the application and redemption price of each Fund:

#### **3.1 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 application and/or redemption price. A buy/sell spread is a cost charged to enter (buy units) or exit (sell units) in 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.

The buy/sell spread relevant to each Fund is disclosed in the Product Disclosure Statement (PDS).

The following factors are considered when determining the buy/sell spread:

- 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.

In some circumstances, the Responsible Entity may waive or reduce the buy/sell spread where there are no transaction costs associated with the purchase or sale of assets. For example, no buy/sell spread will be charged on a transfer of Fund interests between Fund unitholders or re-investment of distributions by unitholders into the Fund.

#### **3.2 Determining entry, exit and switching fees**

Each Fund's constitution sets out the maximum entry and exit fees. Applicable entry exit and switching fees relevant to each Fund are disclosed in the PDS.

The Responsible Entity has discretion under each relevant Fund's constitution to charge a fee up to the maximum level and it will depend on market practice and competition.

#### **3.3 Determining management fees**

Each Fund's constitution sets out the maximum management costs. Applicable management fees and costs relevant to each Fund are disclosed in the PDS.

The Responsible Entity has discretion under each relevant Fund's constitution to charge a fee up to the maximum level and it will depend on market practice and competition.

#### **3.4 Determining the total current value of a Fund**

Under each Fund's constitution, the current value is calculated as the value of the gross assets less the liabilities. The assets of a Fund include all investment assets, capital, income, future income tax benefits, property and rights of the Fund. The liabilities of a Fund include all borrowings, contingent liabilities, accrued fees payable, and any other liabilities or provisions that the Responsible Entity believes should be made.

The Responsible Entity has discretion to determine how the assets are valued including the valuation methodology and the timing of the valuation.

### **3.5 Selecting a valuation method**

The Responsible Entity adheres to FSC Standard No. 9 'Valuation of Scheme Assets and Liabilities' (**FSC Standard No. 9**) and investment assets will be valued using the following guidelines, unless otherwise stated in the PDS or constitution.

Security prices are obtained, where possible, from widely used price feeds from independent security pricing services and are based on market price where the security is traded on a regulated market. Tolerance checks will be applied by JPM against a secondary source to check for errors in the price feed being used. Where certain tolerance checks performed on valuations appear unreasonable, alternative pricing sources may also be used.

Where a security price is not available from an independent source, or is not traded on a regulated market, the valuation of that security should be determined in good faith, considering all relevant factors which may affect the security price.

Other assets and liabilities including tax, fees and rebates (where applicable) should be valued in good faith, using the principles discussed in FSC Standard No. 9. In particular:

- Expenses will be accrued daily using a reasonable estimate of annual expenses, with reconciliations and wash-ups against actual expenses occurring at least annually.
- A calculation of the management fee will be determined and accrued on a daily basis. The calculation methodology is outlined in the relevant Fund's PDS.
- Tax liabilities of assets are calculated in accordance with relevant taxation laws.
- 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.

### **3.6 Determining a time at which assets and liabilities are valued**

The Responsible Entity has discretion under each Fund's constitution to determine when the Fund's asset and liabilities are valued. The Responsible Entity has exercised its discretion to determine that the assets and liabilities will generally be valued each business day, as at close of business on the date of the pricing day.

### **3.7 Determining a time at which unit prices are calculated**

The Responsible Entity has discretion under the Fund's constitution to determine when unit prices are calculated. The Responsible Entity has exercised its discretion to determine that the assets and liabilities will generally be calculated each business day.

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.

The Responsible Entity 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.

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 the Responsible Entity determines that the value of a Fund's assets or liabilities cannot reliably be calculated and to process transactions would give rise to inequity between transacting and non-transacting unitholders. In such circumstances the Responsible Entity 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 the suspension is lifted.

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

### **3.8 Rounding unit prices**

The Responsible Entity has determined that the unit price of all Funds will be rounded to 4 decimal places.

### **3.9 Distributions**

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

The frequency of distributions is generally set out in the PDS. The Responsible Entity has discretion to vary this frequency, based on the amount and timing of taxable income and capital gains within the Fund and other factors such as anticipated cash flows and large applications into or redemptions from the Funds.

#### **3.9.2 Distributable income**

Distributable income is calculated in accordance with the constitution. The Responsible Entity has discretion to determine whether each Fund should distribute in a particular period and the amount of the interim distribution. In exercising this discretion, the Responsible Entity will have regard to anticipated cash flows in the Fund and any anticipated large deposits into or withdrawals from the Fund, in order to ensure that all unitholders are treated equally.

#### **3.9.3 Special distributions**

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

#### **3.9.4 Distribution Processing**

When a fund distributes, prices are unable to be accurately determined until such time as the distribution has been calculated. As a result, prices are delayed following the end of a distribution period. Any transaction that cannot be processed until the distribution is finalised and the catch-up prices are calculated can be backdated to ensure these transactions receive correct value.

### **3.10 Determining a Good Value**

There may be circumstances such as good value claims where transactions are required to be processed using a unit price for a previous pricing day. This is known as backdating where the unit price given to a transaction, is different to the unit price that must be used to process other transactions in the Fund on the same date. The policy is generally set as follows:

- All transactions that are to be backdated require:
  - Assessment of the basis point and dollar impact of the backdating of the transaction.
  - Where there is a negative dollar impact more than 1 basis point on the scheme, FREAL will ensure the scheme is compensated for the cost in backdating or process a good value claim for the client.

## 4. Records

Where the Responsible Entity exercises discretion consistent with this Policy, the Responsible Entity will retain a record of the result of the exercise of discretion.

Where the Responsible Entity exercises a discretion where there is no documented policy current at the time or in a way that involves a departure from a documented policy, the Responsible Entity will prepare a document that sets out the following:

- (a) the date on which the discretion is exercised;
- (b) if the discretion is exercised by an entity nominated by the Responsible Entity (nominee), the identify of the nominee;
- (c) how the discretion is exercised;
- (d) an explanation why it was reasonable to exercise the discretion the way it was exercised; and
- (e) if the discretion is exercised in a way that is not consistent with Fund property being valued in accordance with ordinary commercial practice, an explanation why it is impracticable to do so.

## 5. Policy update

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 on [www.fidelity.com.au](http://www.fidelity.com.au). Alternatively, you may request a copy at no charge by contacting us on 1800 119 270.

### Important Information

This document is issued by FIL Responsible Entity (Australia) Limited ABN 33 148 059 009, AFSL No. 409340 ("Fidelity Australia"). Fidelity Australia is a member of the FIL Limited group of companies commonly known as Fidelity International.

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