



Perpetual 

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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'. This class order allows 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 order are met. This includes the documentation of Perpetual's policy on the discretions permitted under the constitution of each Fund.

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 Dexia Investor Services Trust (ABN 75 116 809 824), 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
- Selecting a valuation method
- Determining entry, exit or switching fees
- Determining the total net asset value of the Fund
- Allocating assets, liabilities, revenue and expenses between classes of units
- Rounding unit prices
- Determining a time at which unit prices are calculated
- Determining a time at which assets and liabilities are valued.

Are our discretions reasonable?

Unless otherwise specified, the 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 Investment and Financial Services Association (IFSA) and the Australian Securities and Investments Commission (ASIC) and Australian Prudential Regulation Authority (APRA) Unit Pricing Guide to Good Practice. Perpetual accordingly believes it would be reasonable to exercise each discretion under this policy.

What records will we keep?

In accordance with ASIC Class Order [CO 05/26], Perpetual will retain this policy for seven years after this policy ceases to be current. Perpetual will also retain documentation of circumstances where the exercise of discretions are not covered by this policy or involves a departure from this policy.

What if a discretion is not in this 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 this 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 why it was impracticable to do so.

Will this policy be regularly updated?

This policy may be updated from time to time.

The most current policy and any additional document that sets out the discretions not covered in the policy are available from 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 cost is incurred because there is no trading of underlying assets (as a result of the member transferring to a similar Perpetual product) Perpetual may waive the buy/sell spread.

The estimated transaction costs relevant to each Fund are listed in the Product Disclosure Statement (PDS), the Information Memorandum of the Fund, or from our website at www.perpetual.com.au.

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

- 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.

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 asset of a Fund is an external fund, the total buy/sell spreads will be equal to the total buy/sell spread of the underlying 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 the asset of a Fund is 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. This approach is reviewed on an annual basis.

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. Where this is the case, this approach is disclosed in the PDS or Information Memorandum.

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 the 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.

The net asset value of each Fund is calculated by deducting the value of the liabilities from the gross assets. Investments within each Fund are generally valued at their market value consistent with IFSA standards. The assets of a fund include all investment assets, capital, income, property and rights of the fund.

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 security is traded on a regulated market.

The table below shows the valuation methodology to apply to major security classes.

Security classes	Valuation methodology
Australian equities	Last price at close of relevant market
International equities	Last price at close of relevant market
Australian fixed interest	Bonds: Yield as quoted by various local brokers FRNs: Average last price sourced from 10 brokers. Discounts: Yield
International fixed interest	Market-specific (as supplied via price feed)
Interest rates	London Interbank Offered Rate/Bank Bill Swap (LIBOR/BBSW)
Foreign exchange rates	WM Reuters 4pm London Exchange Rate
Derivatives	Last price at close, except for: Options: use Bid price if higher than Last, or use Ask price if lower than Last
Swaps	Valuation by model using liquid interest rates and swap rates from Bloomberg
Unlisted stocks	Last price if available
Unlisted unit trusts	Last price (mid or exit as appropriate) from Fund manager
Mortgages	Last price if available

- Where a security price is not available from an independent source, or is not traded on a properly regulated market, the valuation of that security is determined in good faith in accordance with industry standards referred to in section 10 of IFSA Standard No. 9.00, considering all relevant factors which may affect the security price.
- 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.
- A number of Funds aim to maintain stable capital value and provide regular income. These Funds have classified their underlying fixed income investments on a held-to-maturity basis. These held-to-maturity investments are fixed income investments that the Fund has the ability and the intent to hold

until maturity. These investments will be valued at amortised cost less impairment losses, if any. Any discounts or premiums to the face value of these investments will be amortised on a standard straight line basis over the remaining life of each of the investments. The coupon will be accrued on a daily basis. All of the Funds' other underlying investments will be valued using appropriate valuation methodologies as outlined above. When we cannot value the Funds appropriately using these methods we may use a different valuation method.

The liabilities of a Fund include all borrowings, contingent liabilities, accrued fees payable, and any other relevant liabilities of the Fund. Other assets and liabilities in a Fund, which may include tax, fees and rebates, are valued in good faith in accordance with industry standards (refer section 10 of IFSA Standard No. 9.00). 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.

- An estimate of performance fees will be accrued on a daily basis. Each Fund listed in the following table has a performance fee methodology which is outlined in the Fund's PDS or information memorandum.

Fund name
Perpetual's Select Investment Funds – Australian Share Fund
Perpetual's Wholesale SHARE-PLUS Fund
Perpetual's QI Long Short Fund
Perpetual's Fund QI Market Neutral Fund
Perpetual Retail Defensive Alternatives Fund
Perpetual Retail Growth Alternatives Fund

- Tax liabilities of assets 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.
- 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

Under each Fund's constitution, where there is no market value or we reasonably believe the value obtained is not the fair market value of the asset, Perpetual may exercise its discretion by choosing an alternative method of valuation (ie the secondary pricing source) listed below.

Instrument type	Primary pricing source	Secondary pricing source
Domestic equities (including LPTs)	IRESS (www.IRESS.com.au) is a domestic pricing provider for all Australian and New Zealand listed stocks	IDC received in electronic feed.
Domestic fixed income	IDC is a world-wide provider of primarily fixed interest and equities prices.	Bloomberg (BLMBG) is a world-wide provider of market information Received in electronic feed.
International equities	IDC	Bloomberg (BLMBG) received via manual extraction.
International equities – EUROPE (Held within domestic equity portfolio's)	IDC	Bloomberg (BLMBG) received via manual extraction.
International equities – United States (Held within domestic equity portfolio's)	Bloomberg	IDC is the secondary pricing source for the US shares, but this is not available until 11.30am which is too late to perform any secondary checks.
International fixed income	IDC	Bloomberg received via manual extraction.
Domestic futures	IDC	Bloomberg received in electronic feed
Domestic options – exchange traded options (ETO's)	IDC	Bloomberg received in electronic feed
Domestic options – company and warrants	IDC	Bloomberg received in electronic feed
International futures	IDC	Bloomberg received in electronic feed
International options	IDC	Bloomberg received in electronic feed
Domestic over the counter basket options with UBS	UBS	Not available
Foreign exchange	IDC	Bloomberg received in electronic feed
Rights	IRESS	IDC & Bloomberg received in electronic feed

Instrument type	Primary pricing source	Secondary pricing source
Interest rates	Bloomberg for LIBOR/BBSW The London Interbank Offered Rate is an average of the interest rates that major international banks charge each other to borrow US Dollars in the London money market BBSW Bank Bill Swap is a daily Australian reference interest rate	Not available
Caps, Floors & Collars	Perpetual	Not available
Swaptions	Perpetual	Not available
Credit default swaps (CDS)	Perpetual	Not available
Interest rate swaps (IRS)	Perpetual	Not available
Unlisted unit trusts	Individual Investment managers	Benchmark indices where available and confirmation with third party scheme managers
Suspended/ delisted shares	Last pricing source or client instruction if not available	IDC, IRESS & Bloomberg
Unlisted shares	Preferably from a market source such as IDC & Bloomberg, but if unavailable then the Investment Managers	Client if no independent source
Life policies	Perpetual via The Outlook Group	Not available
Capital guaranteed investment reserve	Perpetual	Not available
Mortgages	Perpetual	Not available
Perpetual's Structured Income Scheme	Perpetual	Not available
Infrastructure	Yearly re-valued from Perpetual's independent valuation board.	Not applicable

Where certain tolerance checks performed on valuations appear unreasonable, alternative pricing sources may also be used. Tolerance levels are allowable variances that might occur between the Fund and a benchmark. A few examples of benchmarks that are used in the Perpetual Funds are listed are:

- S&P/ASX 300 Industrial Accumulation Index
- S&P/ASX 300 Accumulation Index
- S&P/ASX Small Ordinary Accumulation Index
- S&P/ASX 300 Property Accumulation Index
- S&P/ASX 300 Property Index
- S&P/ASX 300 Accumulation Ex 50
- Morgan Stanley Capital International World Ex Australian
- UBS Bank Bill Index.

The benchmark adopted depends on the asset. It is usually linked to the asset class the Fund invests in and is detailed in the Fund's PDS or Information Memorandum.

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

With exception of the following Funds, Perpetual has a discretion under each Fund's constitution to issue different classes of units and to determine the rights, liabilities, obligations and restrictions which attach to each class:

- Perpetual's Wholesale Smaller Companies Fund
- Perpetual's Wholesale Industrial Fund
- Perpetual's Wholesale International Fund
- Perpetual's Wholesale Australian Fund
- Perpetual's Wholesale Balanced Growth Fund.

Where this occurs, 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 exception of the following Funds which are valued monthly.

Fund name
Perpetual's Protected Australian Share Fund - Class B (Retail)
Perpetual's Protected Australian Share Fund - Class A (Wholesale)

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, weekly or monthly as per the table below.

Product group	Pricing frequency
Select	Weekly (each Wednesday)
WealthFocus	Daily
Wholesale Funds	Daily
Protected Australian Share Fund	Monthly

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. The table below shows the cut-off time used for each product group. Cut-off times are applied to the time when the transaction is received and accepted by Perpetual.

Product group	Pricing cut-off (Sydney time)
Select	3pm each Wednesday
WealthFocus	3pm each pricing day
Wholesale Funds	3pm each pricing day
Protected Australian Share Fund	seven business days before the end of the month

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.

Perpetual may suspend the calculation of unit prices in certain circumstances, including:

- the closure of, or trading restriction on, a share market or foreign exchange market
- an emergency (including an emergency caused by a mechanical or electronic malfunction) exists as a result of which it is not reasonably practicable to acquire or dispose of Fund assets or to determine fairly unit prices
- any state of affairs exists as a result of which it is not reasonably practicable to acquire or dispose of Fund assets or to determine fairly unit prices or
- any moratorium declared by a government of any country with which a significant proportion of the Fund is invested exists.

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

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New South Wales

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Sydney NSW 2000

Queensland

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South Australia

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Experience. The difference.