

# The Public Trustee of Queensland



## Unit Pricing Policy

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**Version History**

<b>Version</b>	<b>Nature of Change</b>	<b>Person Making the Change</b>	<b>Date</b>
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May 2012	Amended - Clayton Utz Changes	David Costello	May 2012
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**Executive Management Group Review and Acceptance**

<b>Name</b>	<b>Title</b>	<b>Signature</b>	<b>Date</b>
Peter Carne	The Public Trustee of Queensland	File copy signed	
Tim Murphy	Executive Director, Investment Services & CFO	File copy signed	

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## 1 Purpose

The purpose of this policy is to document the principles, framework and matters to be taken into consideration when striking prices for the Public Trustee of Queensland Growth Trust (ABN 95 792 610 481) ("Fund"). This policy may change from time to time at the discretion of The Public Trustee of Queensland.

## 2 Distribution

This policy will be made available to the following parties:

- The Public Trustee of Queensland staff - intranet
- The Administrator – BDO (QLD) Pty Ltd ("BDO")
- The Investment Manager – QIC Ltd ("QIC")
- Clients (internal and external) of the Fund – upon request and internet
- Queensland Audit Office ("QAO") – upon request

**Updates** – *This policy may be updated periodically. The policy will be reviewed on an annual basis to ensure that it remains relevant, current and compliant with all applicable laws, standards and guidance notes.*

## 3 Related Documents

This policy should be read in conjunction with:

- *Public Trustee Act 1978*
- Trust Deed Poll dated 10 July 1996
- Supplemental Deed of Variation 24 April 2013
- Supplemental Trust Deed Poll 25 June 2015
- Product Information Statement dated 24 August 2015
- ASIC and APRA Regulatory Guide 94 - "Unit Pricing Guide to Good Practice"
- FSC Standard No. 8. - Scheme Pricing
- FSC Standard No. 9.- Valuation of Scheme Assets and Liabilities
- FSC (IFSA) Standard No. 17 - Incorrect Pricing of Scheme Units – Correction and Compensation

*Please note that Investment and Financial Services Association (IFSA) has been replaced by the Financial Services Council however IFSA Standard No. 17 is yet to be re-issued under the new banner.*

## 4 Discretion to deviate from Unit Pricing Policy

The Public Trustee of Queensland reserves the right to deviate from the Unit Pricing policy where it is considered reasonable and it protects the equitable treatment of unitholders.

Deviations require the approval of Director Investment & Taxation Services and will be communicated to the administrator and unitholders per this policy.

## 5 Principles

The following principles are to be taken into consideration:

### 5.1 Unit Pricing Guide to Good Practice

The Fund is not subject to oversight by the Australian Securities and Investments Commission (ASIC) nor is the Fund subject to oversight by the Financial Services Council (FSC). The Public Trustee of Queensland has opted to ensure best practice is adopted with respect to unit pricing by voluntarily adopting the recommendations of the joint ASIC and APRA Regulatory Guide 94 - "Unit Pricing Guide to Good Practice", where it is sensible to do so.

### 5.2 Use of Discretion

The Public Trustee of Queensland will exercise appropriate discretion in the calculation of unit prices where it is considered prudent to do so.

### 5.3 Outsourcing Arrangements

The Public Trustee of Queensland has outsourced the functional calculation of unit prices to BDO but retains primary responsibility and accountability to our clients for the accuracy of the prices struck.

### 5.4 Equitable Treatment of Clients

The Public Trustee of Queensland will ensure that all clients are treated equitably at all times with respect to the unit prices struck and transactions made against those prices. In this context "Equitably" means that no unitholder will be disadvantaged more than another unitholder and does allow for the possibility that some unitholders may be advantaged more than others in certain circumstances. Equitably does not mean equally.

### 5.5 Fair Value of Assets and Liabilities

Asset valuation methodologies are developed in accordance with FSC Standard No.9 - Valuation of Scheme Assets and Liabilities and generally accepted accounting principles.

The Fund invests in wholesale trusts (QIC Funds) operated by an external fund manager (QIC). The daily valuation of holdings in QIC Funds is reliant on the timely provision of unit prices from QIC.

### 5.6 Recognition / De-recognition

The Fund recognises financial assets and financial liabilities on the date they become party to the contractual agreement (trade date) and recognise changes in fair value of the financial assets and financial liabilities from this date.

Investments are derecognised when the right to receive cashflows from the investments has expired or the Fund has transferred substantially all risks and rewards of ownership.

### 5.7 Credit Risk for Cash and Cash Equivalents

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of A (as determined by Standard and Poor's) or higher.

The investment team of The Public Trustee of Queensland will monitor the Funds' credit position on a daily basis.

## 5.8 Fees and Expenses

All expenses of the Fund are recognised on an accruals basis. Accruals for fees are made daily and reflected in the unit prices of the Fund when calculated. Accruals for expenses are made daily for the purposes of covering expected expenses of the Fund and reflected in the unit price of the Fund when calculated.

## 6 Methodology

The Fund adopted Forward Pricing methodology effective from 6 May 2013.

Forward pricing refers to the practice of basing investments and withdrawals to and from the Fund, on prices calculated with respect to the next official QIC Fund valuation.

Therefore, the applying unitholder does not share in the earnings on that day since the application is processed using the price calculated at the end of the day.

## 7 Calculation

### 7.1 Frequency

Soft Close Prices are struck for the Fund on all Queensland business days. These prices are calculated using soft close valuations and are used for daily transactions.

*'Soft Valuations' means valuations that are based on accurate estimates of market prices and accounting values at a particular point in time.*

Hard close prices (for the Fund) are struck on a monthly basis using month end hard close valuations. The prices are usually struck a few days after month end and are used for performance calculations

*'Hard Valuations' means valuations that are based on actual final market prices and accounting values at a particular point in time.*

### 7.2 Rounding of Unit Pricing

The unit prices calculated for the Fund will be rounded to the sixth decimal place of a dollar - (\$0.000000).

### 7.3 Rounding of Units

The units issued for the Fund will be rounded to the fourth decimal place of a unit.

#### 7.4 Capital Value (Net Asset Value) (NAV)

The formula for the calculation of Net Asset Value of the Fund is set out in the Trust Deed Poll, but can be summarised as:

$$\text{Capital Value} = \text{Gross Asset Value} - \text{Total Liabilities}$$

Where:

**Gross Asset Value** is the sum of the value of all assets plus any amounts which, in the opinion of The Public Trustee of Queensland, should be included for the purpose of making a fair and reasonable determination of the value of the Fund.

In particular:

- **Unlisted Unit Trusts** - investments in the QIC Funds are valued by the Public Trustee of Queensland at market value based on the mid (NAV) price at balance date.
- **Receivables** - The carrying amounts of receivables are assumed to approximate their fair values due to their short-term nature.

**Total Liabilities** are all liabilities of the Fund as recorded on an accruals basis in accordance with generally accepted accounting principles.

Under current legislation, the Fund is not subject to income tax as unitholders are presently entitled to the income of the Fund and therefore no provisions are made in the calculation of unit prices.

#### 7.5 Application / Buy Price

The application price of a unit in the Fund is determined under the Trust Deed Poll but can be summarised as follows:

$$\text{Application Price} = \frac{\text{Capital Value} + \text{Transaction Costs (TC)}}{\text{Total Units (TU)}}$$

Practically, the above equation can be further expanded as follows:

$$\begin{aligned} \text{Application price per unit} &= \frac{NAV + NAV * TC\%}{TU} \\ &= \frac{NAV}{TU} + \frac{NAV * TC\%}{TU} \\ &= NAV_{per-unit} (1 + TC_{per-unit} \%) \end{aligned}$$

#### 7.6 Redemption / Sell Price

The redemption price of a unit in the Fund is determined under the Trust Deed Poll but can be summarised as follows:

$$\text{Redemption Price} = \frac{\text{Capital Value} - \text{Transaction Costs}}{\text{Total Units}}$$



Practically, the above equation can be further expanded as follows:

$$\begin{aligned} \text{Redemption price per unit} &= \frac{NAV - NAV * TC\%}{TU} \\ &= \frac{NAV}{TU} - \frac{NAV * TC\%}{TU} \\ &= NAV_{per-unit} (1 - TC_{per-unit} \%) \end{aligned}$$

## 7.7 Rounding of Units

The units issued for the Fund will be rounded to the fourth decimal place of a unit.

## 7.8 Changes to calculation methodology

Any changes to the above mentioned calculation methodology will be raised and discussed with BDO prior to implementation. Following approval by the Public Trustee of Queensland, Investment Services will provide BDO with written correspondence identifying the change to the methodology and the reason for this change. A date for implementation of the revised methodology will need to be agreed between both parties.

# 8 Fees and Charges

## 8.1 Included in the Unit Price

The following fees and charges are accrued within the Fund and are therefore included in the unit price struck for the Fund:

- Any fees incorporated in the prices of underlying investments. For example, investments in QIC Funds will be valued by the Public Trustee of Queensland at a mid price that will incorporate any fees payable by the relevant QIC Fund.
- Trustee Fees payable to The Public Trustee of Queensland in the role of Trustee and manager of the Fund as prescribed in the *Public Trustee Act 1978*. These are accrued on a daily basis in the unit price.

## 8.2 Excluded from the Unit Price

The following fees and charges are excluded from the Fund and are paid directly by The Public Trustee of Queensland:

- Registry and accounting fees paid to BDO
- Investment Management fees paid to QIC
- Audit fees paid to QAO
- Consultant fees paid from time to time in relation to the Fund

There are no entry, exit, transfer or switching fees. All transactional costs are incorporated within the buy-sell spread.

## 8.3 Disclosure

The total cost to the unitholder will be reported as the Indirect Cost Ratio ('ICR') and will be disclosed within the Product Profile for the Fund.

The ICR for the Fund is the ratio of the Fund management costs, that are not deducted directly from an investors account, to the Funds' total average net assets.

The ICR for the Fund is generally represented as:

$$\text{ICR} = \text{PT Base Management Fee} + \text{QIC Funds' Administration Expenses}$$

QIC may pay management fees to external managers who assist in the management of a portion of the underlying assets of the QIC Fund. QIC may also agree to pay additional fees for some investment managers for performance that exceeds specified targets. These are variable. The performance fees have been included in the ICR.

## 9 Transaction Costs (Buy/Sell Spreads)

The Public Trustee of Queensland may make an adjustment for transaction costs necessarily incurred in the calculation of the application and redemption price. These are known within the industry as a buy-sell spread.

When a unitholder redeems units, the Fund must sell underlying securities to raise the redemption proceeds. Similarly, when a unitholder applies for units, the Fund must buy underlying securities to invest the application monies. In doing so the Fund will necessarily incur transaction costs such as brokerage or buy-sell spreads in QIC's Funds.

The buy-sell spread of the Fund is The Public Trustee of Queensland's estimate of these transaction costs and is based upon an analysis of actual costs being incurred. The spread is reviewed on a quarterly basis for reasonableness and from time to time where specific transitional events occur.

The buy-sell spread of the Fund is designed to minimise the impact to existing unitholders within the Fund and remains within the Fund. They are not fees and do not pass to the Trustee or Administrator.

Buy side and sell side spread does not necessarily need to be symmetrical. For example, during the Global Financial Crisis the sell side spread was considerably larger than the buy side spread due to market liquidity constraints. The Public Trustee of Queensland retains responsibility for all spread calculations and will advise the Administrator in the event of any changes. As part of this process the Administrator will be required to provide evidence to The Public Trustee of Queensland that the revised spread has been correctly incorporated into the daily price.

The buy-sell spread of the Fund will be disclosed on the Product Profile for the Fund.

## 10 Significant Cash Flows

If the value of a transaction is greater than 5% of the overall Fund value, delays in completing the transaction may occur.

## 11 Tolerance Levels

There are two sets of tolerance levels which will apply in the administration of the Fund.

- **Daily Pricing Assurance** – at the point at which the prices are struck for the Fund; differences between the price to price performance and the QIC performance which exceed the tolerance level will be substantiated and authorised prior to the release of the prices.

**Error Threshold** – all errors will be considered on a case-by-case basis in light of prevailing circumstances, however, those errors in excess of this threshold (refer table below) at a Fund level will be automatically deemed to be compensatable and the error protocol will be adopted.

Fund	Pricing Assurance Tolerance	Error Threshold
Growth Trust	0.10%	0.30%

The thresholds listed above may be changed from time to time at the discretion of The Public Trustee of Queensland.

## 12 Error Protocol

In line with Industry Best Practice, The Public Trustee of Queensland will adhere to FSC (IFSA) Standard No. 17 when determining the appropriate treatment of errors that may occur from time to time.

The Public Trustee of Queensland considers that a unit pricing error has occurred if unit holders do not receive the correct number of units on application or the correct proceeds on redemption to which they are entitled.

In determining whether a compensatable error exists, The Public Trustee of Queensland will take into consideration the following:

- The materiality threshold at a Fund valuation level will be 0.30% (30 basis points); or
- The materiality at an individual valuation level will be 0.30% (30 basis points).
- Errors less than \$20 will not be compensated for exited unitholders.
- The Public Trustee of Queensland must not benefit in any way from an error.

Having determined that a compensatable error exists, the following process will be adopted:

- The error will be reported to the Director, Investment and Taxation Services.
- Independent experts will be asked to analyse and assist in the quantification of the error.
- Unitholders will be compensated in accordance with FSC (IFSA) Standard No. 17.00.
- Unitholders impacted will be advised (either by mail or via The Public Trustee of Queensland's website) of the nature of the error, how the error will be rectified and how the unitholders will be compensated for the error.
- Where the error rectification process requires the suspension of unit pricing the standard suspension of pricing processes will apply.

## 13 Fund Distributions

### 13.1 Frequency of distributions

The Fund will distribute quarterly within 15 business days of the end of each quarter ending 31 March, 30 June, 30 September and 31 December. However, The Public Trustee of Queensland 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 such as expected cash flows.

### 13.2 Special Distributions

Where a large deposit is made into, or a large withdrawal is made from the Fund, The Public Trustee of Queensland may assess the tax position of the Fund to decide if a special distribution is required. A special distribution will be made if the Trustee 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 or realised gains.

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

## 14 Communication

Unless specifically required by one of the related documents in section 3 of this policy or outlined below, the primary method of communication will be The Public Trustee of Queensland's website.

**Unit Prices** - will be published on The Public Trustee of Queensland's website daily when available.

**Suspensions** - will be notified to Trust Officers via email.

**Errors** – unitholders subject to compensation will be notified in writing in accordance with FSC (IFSA) standards.

**Buy/Sell Spread** – will be disclosed on the Product Profile for the Fund.

**Special Distributions** – unitholders will receive a distribution statement with appropriate disclosure. Trust Officers will be provided with details of the distribution sufficient to address unitholder queries.

**Departures from Unit Pricing Policy** – notification will be at the discretion of The Public Trustee of Queensland and will be dependent upon the nature of the departure.