

IOOF Investment Management Ltd
Unit Pricing Discretions Policy



May 2007

AFS Licence Number: 230524

ABN: 53 006 695 021



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DOCUMENT RELEASE INFORMATION

FILE DETAILS

File Name	R:\Finance\FBENEFND\Investment Products\General Information\Procedures\Unit Pricing Policy\Discretions Policy
Description	Unit Pricing Discretions
Original Author(s)	Steven Sorraghan
Creation Date	April 2007
Current Revision Author(s)	
Last Printed	

REVISION HISTORY

Version	Revision Date	Author(s)	Revision Notes

RELEASE CONTROL

Dist. No.	Release Date	Approved By	Release Notes
1	30 April 2007	Legal Counsel/Group Compliance/Manager – Investment & Accounting Services	To be provided to the IOOF Investment Management Ltd Board
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1. OVERVIEW

1.1 PURPOSE

To ensure that where unit pricing discretions exist in the constitutions of registered Managed Investment Schemes where IOOF Investment Management Ltd (IIML) is the Responsible Entity, IIML has put in place policies to ensure that the unit price calculated is “independently verifiable”.

1.2 SCOPE

This Policy is applicable to all staff – permanent, contract or temporary employed by IOOF. ‘IOOF’, ‘We’, ‘Us’ or ‘Ours’ refers to IOOF Holdings Limited and its subsidiaries.

This Policy is relevant for registered Managed Investment Schemes where IIML is the Responsible Entity.

2. ROLES AND RESPONSIBILITIES

The Investment and Accounting Services Department of IOOF Investment Management Ltd (IIML) is responsible for the preparation and update of this policy.

3. RESOURCES

The Business Unit (BU) managers are responsible for ensuring that there are adequate resources (human and technical) as well as BU procedures to ensure compliance with this Policy.



4. POLICY

4.1 Discretion relating to Estimation of Transaction Costs

Transaction costs are associated with buying and selling investments within a portfolio, notably brokerage costs and stamp duties. These costs are included in the buy/sell spread applied to the Net Asset Value (NAV or Mid) unit price to calculate the Entry and Exit prices used to finalise unitholder transactions.

The spreads which are to be applied are disclosed as a percentage in the relevant Product Disclosure Statement (PDS) and are reviewed at least annually or on the roll-over of the relevant PDS.

Where the products have direct exposure to the market, the Investment Professional responsible for the management of the fund reviews the spread to ensure it is reflective of the cost of transacting in their market. For funds that gain exposure via other unlisted unit trusts, the spread is generally calculated as a weighted average of the spreads disclosed on the underlying funds, with an adjustment to take into consideration market forces.

Where consideration for a unitholder transaction is via in-specie transfer of assets, no spread is applied to the Entry or Exit prices as no transaction costs are incurred.

This discretion is exercised whenever a unit price is struck. The exercise of the discretion in this way is necessary to ensure that all investors are treated equally with regard to the transaction costs they specifically incur, and that the spreads charged are generally equivalent to the costs incurred by the portfolio.

4.2 Discretion relating to determination of Management Costs

Management Costs are the fees and costs for managing your investment, and are incorporated into the daily unit price of each Trust. The Trust Constitutions allow management costs to be charged up to a maximum percentage.

The PDS of the relevant Trust will detail these maximums and the actual management costs to be charged in the current PDS. These amounts cannot be increased by IIML without providing 30 days prior notice to unitholders.



The amounts stated in the PDS have been selected based on an analysis of market forces and to ensure that IIML receives an appropriate return on investment.

4.3 Discretion relating to determination of other Fees & Costs

Other Fees & Costs are the fees incurred when contributions to an investment, withdrawals from an investment or switches between investments are made by investors. They are charged directly to investors' accounts, rather than included in the unit price. The Trust Constitutions allow these fees & costs to be charged up to a maximum percentage.

The PDS of the relevant Trust will detail these maximums and the actual fees & costs to be charged in the current PDS. These amounts cannot be increased by IIML without providing 30 days prior notice to unitholders.

The amounts stated in the PDS have been selected in order to cover the cost of the commission paid to financial advisers for recommending the product. These commissions are driven by market forces and can be negotiated with the financial adviser.

4.4 Discretion relating to Rounding of the Unit Price

As per the IOOF Unit Pricing Policy and Guidelines, unit prices are rounded to 4 decimal places, up or down (not truncated). Any rounding adjustment as a result of this carries forward to the following days' net asset value.

This discretion is exercised whenever a unit price is struck. The rounding process is built into the unit pricing system to ensure consistency and equity between investors.

4.5 Discretion relating to Acceptance of Instructions

Acceptance of instructions relates to the cut-off time up to which IIML will accept valid application, withdrawal or switch requests, and will process those requests using the unit price applying to the close of business that day. IIML will generally process these requests using the unit price applying to the following business day if they are received after the cut-off time.

The PDS of the relevant Trust will detail the cut-off times applicable to that Trust.



This discretion is exercised each business day. The cut-off times quoted in the PDS are designed so that application monies can be invested, and proceeds to cover withdrawal or switch requests can be generated in the market on the day the transactions are requested, and therefore match with the valuations used to calculate the unit price for that day. This minimises the opportunities for arbitrage.

4.6 Discretion relating to Selection of a Valuation Method

For further details of the valuation methods adopted please refer to the IOOF Asset Valuation Policy at Appendix 1.

For the AM Property Plus, whose assets are direct property, the valuation of the properties is conducted annually on a rolling basis throughout the year. These valuations are undertaken by licensed real estate valuers, independent from IIML. The unit price of the AM Property Plus is updated in full whenever a new valuation is undertaken. This remains the value used in the unit price until the same property is valued again the following year.

This asset valuation methodology has been developed in accordance with IFSA Standard No. 9.00, Valuation of Scheme Assets and Liabilities.

4.7 Discretion relating to Selection of Valuation Point

Valuation point means the point in time at which a cut-off is made to value the scheme's assets and liabilities. This becomes the valuation used to calculate unit prices for that business day.

Where assets and liabilities are traded on a properly regulated market or have values that are market linked and available daily, including unlisted unit trusts, the valuation point used is the close of business of each Melbourne business day. For assets and liabilities that are valued less frequently, such as unlisted unit trusts that are priced monthly or direct property, the valuation point used is the last available valuation received.

This valuation point methodology has been developed in accordance with IFSA Standard No. 9.00, Valuation of Scheme Assets and Liabilities.



4.8 Discretion relating to Distributions

Generally, all distributable income earned by a scheme in a financial year is to be paid out to investors of the scheme during that financial year. At distribution periods other than 30 June, some income (generally capital gains) may be retained in the scheme and not paid out as a distribution. This income will be held over until the 30 June distribution, however the value of this income will be reflected in the unit price.

Where the scheme has a direct exposure to the market, the Investment Professional responsible for the management of the scheme will liaise with the Fund Accounting Team to determine the appropriate amount of income to be retained in the scheme, taking portfolio position and expected market conditions into account. For schemes that gain exposure via other unlisted unit trusts, generally any capital gains realised on the sale of underlying units will be retained. Capital gains that have been distributed as income from the underlying trusts will generally be paid out in the current distribution period.

This discretion is exercised whenever a distribution is paid. This will include all distribution periods other than 30 June, and will include any special distributions that may be necessary. The reason for this policy is to guard against an over distribution of income in the financial year. For example, if all capital gains were paid out at 31 December, then a market downturn occurred and capital losses were generated in the second half of the year, the scheme will be in a position of having overpaid capital gains in its distributions for the financial year.



5. COMPLIANCE MONITORING AND REPORTING

Group Compliance monitor and test compliance with the Unit Pricing Policies and Guidelines, of which this policy will form part. This is done through regular certifications of compliance through Lawlex and ad hoc on site testing to ensure controls are in place at BU level. Compliance with this policy is also tested through random auditing or targeted reviews conducted by Group Compliance and/or Internal Audit.

5.1 CONSEQUENCES OF NON-COMPLIANCE

Failure to comply with this Policy may expose the Group to compliance breaches, client complaints or unwanted attention from the regulators or courts.

5.2 RELEVANT REFERENCES

Related IOOF policies: IOOF Unit Pricing Policies and Guidelines, IOOF Asset Valuation Policy.

Corporations Act Sections: 601GAB, 601GAC, 1013D(2b), ASIC Class Order CO 05/26.

IFSA standards: IFSA Standard No. 8.00 (Scheme Pricing),
IFSA Standard No. 9.00 (Valuation of Scheme Assets & Liabilities)
IFSA Standard No. 17.00 (Incorrect Pricing of Scheme Units – Correction and Compensation) (Effective 1/07/2007)

APRA & ASIC Unit Pricing Guide to Good Practice.

6. AMENDMENT AND APPROVAL

The Unit Pricing Policies and Guidelines shall be reviewed regularly. Any significant changes to the Policy shall require approval of the Governance Committee, acting on behalf of the IOOF Investment Management Ltd Board.



7. FURTHER INFORMATION

7.1 Record Keeping of Discretions Exercised

Record retention is an important aspect of the IIML's business operations. IIML has a systematic and consistent approach to the creation and management of authentic, reliable, retrievable and useable records to support business operations, activities and decisions. IIML is required to keep records, electronically and, in some cases, in hard copy.

Where discretions are exercised outside of this policy, a register will be kept recording the date, the discretion exercised and the reasons for its departure from this policy. IIML will also keep for seven years all previous versions of this policy.



8. Appendix 1

IOOF Asset Valuation Policy

Scope

The IOOF Asset Valuation Policy (December 2005), establishes a framework for the valuation of financial instruments that is consistent with current industry practices and regulatory requirements. This framework is critical to the efficient and effective discharge of duties with respect to the unit pricing and statutory reporting functions of the IOOF business. Currently, the Fund Accounting (Unit Pricing) and the Fund Statutory and Tax Reporting (Statutory Reporting) teams of IOOF's Investment and Accounting Services Department are responsible for these functions.

Fundamental to the unit pricing process is the ability to accurately measure the value of the underlying financial instruments of a Fund or Trust. This document establishes a framework for the valuation of financial instruments held within Managed Investment Schemes, Benefit Funds and Pooled Superannuation Trusts. Although not relevant to the underlying financial instruments held by IOOF's Superannuation Funds and Investor Directed Portfolio Service (IDPS) products, the Asset Valuation Policy can be taken as a guide as these Superannuation Funds and IDPS's invest predominantly in unlisted unit trusts which are valued at exit price.

The preparation of annual and interim financial statements is governed by various regulatory provisions such as the Corporations Act 2001 and relevant Australian Accounting Standards. The Asset Valuation Policies employed by IOOF on a financial reporting basis to 30 June 2005, were consistent with Australian Accounting Standards in force for that financial year and the framework contained in this document. Unless otherwise stated, the reader should assume that the valuation methodologies used for unit pricing and financial reporting are consistent.

Recently, the Australian Accounting Standards Board (AASB) introduced the Australian equivalents to International Financial Reporting Standards (AIFRS), which will apply to annual financial reporting periods beginning on or after 1 January 2005. It is envisaged that this document will be updated in the near future to incorporate divergences between the AIFRS and this Asset Valuation Policy.



General Overview of Pricing Policy

Our objective is to, accurately and independently price and value all securities held by IOOF. This objective is achieved by utilising market accepted practices where available and ensuring that all pricing meets both legislative requirements and client specific needs.

Validation of Pricing

IOOF undertakes to verify prices supplied by third parties using the following mechanisms.

Price Movement

Where prices have moved outside predetermined tolerance levels it is the policy of IOOF to investigate and verify the accuracy and validity of the price supplied by IOOF. These price movements are compared over time, against historical prices and corporate events. The method of verification is to confirm the price movement with a second price provider, where the first price is not supported a further process of investigation will occur, this may include sourcing information from a third provider (where possible) or via contact with providers/clients to determine the appropriate value.

Zero Price Movement

Where the price of a security has not changed over a particular time, as determined by the security's liquidity i.e. for an Australian Equity the expectation is that prices should change on a daily basis. Where the price has not moved a verification of this event is undertaken with alternate information providers.

Zero Prices

Any security returning a price of zero is verified against alternate providers to ensure that the zero value is legitimate. Where it is not clear IOOF will contact the clients affected and seek clarification of the price provided.

Stale Prices

Where a price has not moved for a period of more than five business days, IOOF will ensure these are singularly reviewed for accuracy and validity.

Systems

FT Interactive Data

Interactive Data is the principal provider of information for pricing. Where prices are not available, IOOF utilise other pricing sources and advise FT for inclusion at the earliest possible time.

Bloomberg LLP

Bloomberg is the primary source for Exchange Traded Securities. Bloomberg is also used as a secondary source for Fixed Interest securities. Where Bloomberg is not able to provide price other sources are referenced and Bloomberg is advised for inclusion at the earliest possible time.



IRESS Market Technology (IRESS)

IRESS is used to verify and supplement pricing for domestic equities, derivatives and OTC securities.

Internal Models

IOOF will use internal models for pricing and valuation where third party valuations are not available. These models are based on market practices relevant to the securities being priced. Where the use of an internal model is required IOOF will liaise with the clients to ensure understanding of the model. Currently, no internal models are being used for valuation.

Pricing Methodology by Security Type

Pricing is through the use of a service provider called FT Interactive. The provider downloads all prices for Bonds, Bills, Equities, Derivatives and FRN'S. Some FRN's are priced internally using spreadsheet models, OTC options and any long dated bills or NCD's with trade margins attached are priced from Bloomberg.

Equity Securities

Equity Securities – Domestic (Index Participant – ASX500)

Price is set as LAST irrespective of the type of position held (i.e. regardless of whether the position is long or short). Priced using FT Interactive. Where prices are not available, IOOF utilise other pricing sources and advise FT for inclusion at the earliest possible time.

Equity Securities – Domestic (Other)

Price is set as LAST irrespective of the type of position held (i.e. regardless of whether the position is long or short). Priced using FT Interactive. Where prices are not available, IOOF utilise other pricing sources and advise FT for inclusion at the earliest possible time.

Equity Securities – Unlisted

Price will be based on Cost until such time as the Equity Securities Lists.

Priced using FT Interactive. Where prices are not available, IOOF utilise other pricing sources and advise FT for inclusion at the earliest possible time.

Equity Securities – Convertible Notes

Price is set as LAST irrespective of the type of position held (i.e. regardless of whether the position is long or short). Priced using FT Interactive. Where prices are not available, IOOF utilise other pricing sources and advise FT for inclusion at the earliest possible time.



Equity Securities – Suspended

Price = Last traded prior to suspension. Priced using FT Interactive. Where prices are not available, IOOF utilise other pricing sources and advise FT for inclusion at the earliest possible time.

Equity Securities – De-listed

Price = Last traded prior to delisting (if company is in liquidation and no corporate actions are pending. This may be adjusted if the security has residual value or the delisting is voluntary and the company is an "going concern"). Priced using FT Interactive. Where prices are not available, IOOF utilise other pricing sources and advise FT for inclusion at the earliest possible time.

Other Securities – Rights Renounceable (Other)

Price = Last , Priced using FT Interactive. Where prices are not available, IOOF utilise other pricing sources and advise FT for inclusion at the earliest possible time.

Money Market

Discount Securities

Mid Yield is used for discounts.

Fixed Interest

Fixed Interest Securities – Domestic

Price is set as MID irrespective of the type of position held (i.e. regardless of whether the position is long or short). Priced using FT Interactive. Where prices are not available, IOOF utilise other pricing sources and advise FT for inclusion at the earliest possible time.

Fixed Interest Securities – Domestic FRNs, ABS, MBS, Callable Bonds

Price is set as MID irrespective of the type of position held (i.e. regardless of whether the position is long or short). For ABS & MBS the MID Price is adjusted for current principal values as represented by the Bond Factor. Priced using FT Interactive. Where prices are not available, IOOF utilise other pricing sources and advise FT for inclusion at the earliest possible time.

Other Securities – Deferred Delivery

Price as per stock to which they are converting to. Priced using FT Interactive. Where prices are not available, IOOF utilise other pricing sources and advise FT for inclusion at the earliest possible time.



Derivatives Securities

Derivatives Securities – FRA

Priced using FT Interactive. Where prices are not available, IOOF utilise other pricing sources and advise FT for inclusion at the earliest possible time.

Derivatives Securities – ETOs

Priced using FT Interactive. Where prices are not available, IOOF utilise other pricing sources and advise FT for inclusion at the earliest possible time.

Derivatives Securities – Interest Rate & Currency Swaps

Priced using Bloomberg Models, this model is based on a Discounted Cash flow approach. The model uses appropriate interest Curves for each currency involved. Priced using FT Interactive. Where prices are not available, IOOF utilise other pricing sources and advise FT for inclusion at the earliest possible time.

Derivatives Securities – Credit Default Swaps

Priced using FT Interactive. Where prices are not available, IOOF utilise other pricing sources and advise FT for inclusion at the earliest possible time.

Derivatives Securities – Options

Priced using FT Interactive. Where prices are not available, IOOF utilise other pricing sources and advise FT for inclusion at the earliest possible time.

Derivatives Securities – Unlisted Company Options

Priced using FT Interactive. Where prices are not available, IOOF utilise other pricing sources and advise FT for inclusion at the earliest possible time.

Derivatives Securities – Unlisted Warrants

Priced using FT Interactive. Where prices are not available, IOOF utilise other pricing sources and advise FT for inclusion at the earliest possible time.

Derivatives Securities – Futures (Domestic)

Priced using FT Interactive. Where prices are not available, IOOF utilise other pricing sources and advise FT for inclusion at the earliest possible time.



Derivatives Securities – Futures

Priced using FT Interactive. Where prices are not available, IOOF utilise other pricing sources and advise FT for inclusion at the earliest possible time.

Others

Trust Securities

Unlisted Unit Trust Securities

Price = Price supplied by issuer.

Method = Net Asset Value

Pooled Superannuation Trust Securities

Price = Price supplied by issuer

Method = Exit Price in respect of the AM PST's

Method = Net Asset Value in respect of the IOOF PST's

Cash Management

Cash Holdings

Priced using FT Interactive. Where prices are not available, IOOF utilise other pricing sources and advise FT for inclusion at the earliest possible time.



IOOF MIM Private Equity

Gresham Private Equity Fund 1 and 1a

Unaudited unit price is provided monthly by Gresham

Gresham Property Mezzanine Fund 1

Unaudited unit price is provided monthly by Gresham.

Gresham Property Mezzanine Fund 2

Unaudited unit price is provided monthly by Gresham.

Australasian Media and Communications Fund 2A and 2B

Unaudited unit price is provided monthly by AMCF2.

Ericsson-Deutsche Technology Fund

The unrealised value of the assets is provided by Ericsson-Deutsche on a quarterly basis

Origin Private Equity Fund

The unrealised value of the assets is provided by Origin on a quarterly basis.

Pantheon USA Fund IV

The unrealised value of the assets is provided by Pantheon on a quarterly basis.

Pantheon Europe Fund II

The unrealised value of the assets is provided by Pantheon on a quarterly basis.

Greenpark International Investors I

The unrealised value of the assets is provided by Greenpark on a quarterly basis.

Lombard

The unrealised value of the assets is provided by Lombard for each of the underlying investments on a quarterly basis.

Grenadier Development Capital Fund No.1

The unrealised value of the assets is provided by Grenadier on a quarterly basis.



Pareto Partners

Price is set as LAST .Price supplied by Issuer.



Glossary

ABS	Asset Backed Security
ETO	Exchange Traded Option
FRA	Forward Rate Agreement
FRN	Floating Rate Notes
Last day or a	The last price at which a transaction in a security took place on a certain particular time during a trading session.
Long position in which the	In relation to foreign exchange and share market trading, refers to a trader has bought more of a particular security than he or she has sold.
MBS	Mortgage Backed Security
MID	The average of the bid price and offer price of a security
MID Yield	MID expressed as a return on an investment.
NCD	Negotiable Certificate of Deposit
OTC	Over the Counter
Short position in which the	In relation to foreign exchange and share market trading, refers to a trader has sold more of a particular security than he or she has bought.