

# RUSSELL INVESTMENT MANAGEMENT LTD

ABN 53 068 338 974, AFS Licence Number 247185

## UNIT PRICING DISCRETIONS POLICY

Date: 30 April 2007

### 1. Purpose

Russell Investment Management Ltd (“RIM”) is the Responsible Entity (“RE”) of the Russell registered managed investment schemes (referred to collectively as “Funds” or individually as “Fund”).

Constitutions of the Funds permit RIM to exercise discretions in determining a factor that impacts on the formula for calculating entry price or exit price for the Funds.

This policy sets out the manner in which RIM will exercise its discretionary powers under the constitutions in the calculation of unit prices of the Funds, so as to comply with the legal requirements below.

This policy is available upon request and at no charge, to any Fund member or person who has been or should have been given a copy of the product disclosure statement of the Fund.

### 2. Legal Requirement

Paragraph 601GA(1)(a) of the *Corporations Act 2001* (the **Act**) requires the constitution of a registered managed investment scheme to make adequate provision for the consideration to acquire an interest in the scheme (**issue or entry price**). Subsection 601GA(4) of the Act provides that, if members have a right to withdraw from the scheme, the constitution must specify that right and set out adequate procedures for dealing with withdrawal requests, including the amount to be paid to the member on withdrawal from the scheme (**withdrawal amount**).

The Australian Securities and Investments Commission (“ASIC”) permits an RE to exercise discretion to determine one or more matters which impacts on the calculation of unit price, where the fund’s constitution provides for the exercise of that discretion and provided the RE meets certain conditions. ASIC sets out these conditions in ASIC Class

Order 05/26 “Constitutional provisions about the consideration to acquire interests”, as varied by ASIC Class Order 05/1236”.

### **3. Application**

This policy applies to all registered managed investment schemes operated by RIM. RIM will ensure that its exercise of RE unit pricing discretions is in accordance with its documented policies, as far as practicable.

### **4. Outsourcing**

RIM engages an independent fund administrator, State Street Australia Limited, to calculate fund valuations and unit prices in accordance with agreed methodologies instructed by RIM (which are in accordance with this policy). Notwithstanding this arrangement, RIM is still the party exercising discretions permitted by the Funds’ constitutions and is responsible for preparing this policy. RIM does not outsource its responsibility for ensuring that unit prices are properly calculated.

### **5. Departure from Policy**

If RIM exercises its unit pricing discretions in a way which departs from this policy; or where there is no documented policy current at the time when the discretion was exercised, RIM will document the following in accordance with ASIC Class Order 05/26:

- date the discretion was exercised;
- who exercised the discretion;
- how the discretion was exercised;
- 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 or unit prices calculated in accordance with ordinary commercial practice, an explanation why it was impracticable to do so.

### **6. Record Retention**

In accordance with the ASIC Class Order 05/26, RIM will retain appropriate documentation for seven (7) years of the following, after they cease to be current:

- this policy and any revisions to it from time to time

- documentation of exercise of unit pricing discretions which are not in accordance with or which are not covered by this policy, including all the matters described above under Section 5 “Departure from Policy”

## 7. Unit Price Discretions

The entry price (also known as application or issue price) is the price used to process applications for units in a Fund. The exit price (also known as withdrawal or redemption price) is the price used to process withdrawals from a Fund. The constitutions of the Funds describe the formula to be used in calculating the entry or exit price, other than the “initial issue price” of \$1 per unit.

The NAV of each Fund is calculated in accordance with its constitution and offer document. In general terms, if a Fund has more than one unit class, there will be a unit price for each class. The unit price of a class of units is calculated by dividing the current net asset value (“NAV”) of that class in a Fund by the total number of units on issue in the class as at the open of business on that business day. The NAV of each class is the portion of NAV of the Fund attributable to that class calculated based on size of that class as at open of business on that business day.

The entry price is the unit price plus the buy spread (if applicable). The exit price is the unit price less the sell spread (if applicable). See section 7C below regarding buy/sell spreads.

The constitutions of the Funds allow RIM to exercise discretions to determine the following factors which impact on the entry or exit prices.

### 7A. Valuation of Assets and Liabilities

In calculating NAV of a Fund, it is necessary to determine the market value of the Fund’s investments.

Other than for the Russell Australian Opportunities Fund, the constitution of which sets out how market value of that Fund’s investments are determined (see table below), RIM determines the market value of a Fund’s investments.

Extract from constitution of Russell Australian Opportunities Fund:

Cash	Cost Base plus interest earned
Shares or unit trusts	Last sale price on the Australian Stock Exchange. If this is unavailable, default to last bid price on the Australian Stock Exchange.
SPI futures contracts	Last sale price from the Sydney Futures Exchange

The investment valuation methods used by RIM are required by the Funds' constitutions to be approved by the Funds' Compliance Committee and are set out in our Securities Valuation Policy. It is RIM's practice to comply with IFSA standard No. 9.00 Valuation of Scheme Assets and Liabilities when valuing assets and liabilities of the Funds, as summarized in the following 6 paragraphs:

- i. Where assets and liabilities are traded on a properly regulated market (such as a recognized stock exchange), valuations are based on the Market Price (being the last sale price immediately prior to the Valuation Point or the current price available at the Valuation Point from a market maker. The Valuation Point is the point in time at which a cut-off is made to value the Fund's assets and liabilities.
- ii. On rare occasions when the Market Price is considered unreliable or if no Market Price is available, the valuation of Fund assets and liabilities may be determined in good faith by RIM, in accordance with documented fair value procedures, and results appropriately documented.
- iii. Where assets and liabilities do not have properly regulated markets, RIM will (unless it is inappropriate), obtain a valuation from a reputable, independent third party (eg professional valuer or tax agent) or calculate it in good faith based on sound and justifiable policies.
- iv. If a Fund invests in another unlisted managed fund, the unit price most recently advised by the operator of that fund will be used to value the asset. Where prices from the fund operator are not available, there are a number of ways which may be used depending on the circumstances. RIM may delay the calculation of unit prices until underlying fund unit prices are received.
- v. Valuations of assets and liabilities are objective and independently verifiable. The valuation will include all assets and liabilities of the Fund at the Valuation Point. Fund assets are valued assuming a "going concern" basis unless this assumption is inappropriate.
- vi. Where, at the Valuation Point, the valuation of assets and liabilities cannot be determined, and to process transactions gives rise to the risk of prejudicing investors, RIM will suspend calculating unit prices and processing transactions until the said values can be determined.

For the purpose of calculating net asset value of a Fund, liabilities of the Fund include all accrued fees payable, borrowings, contingent liabilities and any provision which RIM reasonably decides should be taken into account in determining the liabilities of the Fund.

For unit price calculation purposes, liabilities do not include unitholders' funds (e.g. Unit Holders capital, undistributed profits, capital reserves) even though the Australian equivalents of International Financial Reporting Standards ("AIFRS") require unitholders' funds to be characterised as a liability in the financial statements of the Fund.

Accruals for fees are made daily and reflected in the unit prices of the Funds when calculated. Accruals for expenses are made daily for the purposes of covering expected expenses of the Funds and reflected in the unit prices of the Funds when calculated. Accruals for performance fees are made according to the frequency that the Funds are priced and reflected in the unit prices of the Funds when calculated. All fees and expense accruals are made in accordance with the methodology and any limitations in the offer documents of the Funds.

Expenses which are incurred specifically for a certain Fund or unit class will be accrued to that Fund or unit class. General expenses which are incurred across multiple Funds or unit classes are allocated consistently and fairly across the relevant Funds or unit classes based on assets under management.

The Funds' unit prices do not reflect tax credits collected by the Funds or tax liabilities of assets of the Funds as these are simply passed on to unitholders.

### **Reasonableness of the Policy**

RIM believes the above policy for valuation of assets and liabilities is reasonable because:

- it is in accordance with IFSA Standard No. 9.00 Valuation of Scheme Assets and Liabilities which is the standard for ordinary commercial practice in the funds management industry; and
- it is in accordance with the constitutions and the offering documents of the Funds.
- AIFRS is for the purpose of general purpose financial reporting (preparation of financial statements) rather than providing an equitable method of valuations for unit pricing calculation purposes.

### **7B Frequency of unit pricing**

The Funds' constitutions provide that RIM may, at any time, ascertain the unit price of the Funds, but must do so at least once every month. Generally, valuation of scheme assets and liabilities occur as frequently as transactions in a Fund may occur, which is a predetermined regular basis disclosed in the offer document of the Fund. The offer documents provide that for the majority of our Funds, unit price is calculated daily.

The exceptions to daily pricing are:

- Russell Alternative Strategy - \$A Hedged which is valued as at the last business day of the month (an estimate price is released followed by the final price);
- Russell Australian Select Holdings Fund Class E which is valued as at the last business day of the month and as at the 5<sup>th</sup> business day of the month. Note that

for this product, the unit price may be calculated more frequently as determined by RIM.

The investment by the Russell Balanced Fund (“RBF”) and the Russell Growth Fund (“RGF”) in alternative strategies assets (currently a very small proportion of the RBF and RGF), is valued monthly as above. Therefore the daily unit prices for the RBF and RGF will reflect the last available valuation of that investment.

RIM adopts a Forward Pricing policy. This means that RIM requires investors to deliver their application and redemption notifications prior to calculation/publication of unit prices. In most cases application and redemption notifications are actually required before close of all relevant markets for the Funds. The exception is where RIM is invested in another externally managed fund where RIM may use the price last advised by the managed fund that Fund is invested because that is the most current price for valuing the holding.

The following is RIM’s policy for applying unit prices to applications and redemptions:

■ ***Funds other than Russell Alternative Strategy Fund - \$A Hedged and Russell Australian Select Holdings Fund Class E***

Valid applications/withdrawal requests received by the “cut-off time” (12.00 noon Sydney time) on a business day will receive the relevant application/withdrawal price for that day. Otherwise, they will be processed using the relevant price for the next business day after receipt of the trade request. Each business day is a pricing day for the Funds except for the following funds.

■ ***Russell Alternative Strategy Fund - \$A Hedged***

This fund is priced monthly. Valid applications received by the “cut off time” for a month will generally receive the entry price for the 1<sup>st</sup> business day of the following calendar month. If an application is received after the “cut off time”, we will generally process the application using the entry price for the 1<sup>st</sup> business day of the subsequent calendar month. The ‘cut off time’ for investments is 12.00 noon (Sydney time), 7 business days before the last day of the month.

If we receive a withdrawal request by the ‘cut off time’ for a month, we will generally process the request using the exit price for the 1<sup>st</sup> business day of the following calendar month. If the request is received after the ‘cut off time’, we will generally process it using the exit price for the 1<sup>st</sup> business day of the subsequent calendar month.

The ‘cut off time’ for withdrawals each month is 12.00 noon (Sydney time), 37 calendar days before the last day of the month.

■ ***Russell Australian Select Holdings Fund Class E***

This fund is open for trading monthly. Valid applications/withdrawal requests received by the 'cut off time' for a month (12.00 noon Sydney time on the 2nd business day of the month) will generally be processed using the entry/exit price for the 5th business day of the month. Applications/withdrawal requests received after the 'cut off time' will generally be processed using the entry/exit price for the 5th business day of the following calendar month.

**Suspension of Unit Price**

Where, at the Valuation Point, the valuation of assets and liabilities cannot be determined, and to process transactions gives rise to the risk of prejudicing investors, RIM will suspend valuations and processing transactions until the said values can be determined.

A suspension period will not exceed 30 days for the Funds (except for funds in the following paragraph). Transactions received during the period of suspension will be processed using the unit price applicable on the first pricing day after the lifting of the suspension.

In respect of Russell Australian Select Holdings Fund Class E, Russell Emerging Markets Fund and the Russell Alternative Strategies Fund - \$A Hedged, transaction requests received during the period of suspension will generally be processed using the price calculated as at the next pricing day after the cessation of the suspension. For these funds, RIM has discretion to determine the length of the suspension period.

**Reasonableness of the Policy**

Daily valuations and therefore daily pricing is necessary as the value of the Fund assets will change on a daily basis in accordance with market price movements. Exceptions are where the Fund assets are valued monthly (Russell Alternative Strategies Fund- \$A Hedged) or where the performance fees are calculated monthly (Russell Australian Select Holdings Fund Class E).

Forward pricing (unit prices being calculated in arrears) and application of transaction cut-off times are intended to protect existing investors from "arbitrage" opportunities (trades made to profit from known market movements). This approach aims to provide equitable outcomes to all investors.

Although RIM has put in place measures to limit any material pricing issues arising, RIM expects that from time to time it may be necessary to suspend unit prices until those issues are resolved. This is aimed at maintaining equity between transacting and remaining unitholders.

### 7C. Transaction costs (Buy/Sell Spreads)

The constitutions for the Funds provide that RIM may make an adjustment for transaction costs in the determination of entry and exit price. These are known as buy-sell spreads. The offer documents for the Funds set out the current buy-sell spreads for the Funds.

When an investor withdraws cash from a Fund, the Fund must sell underlying securities to raise the withdrawal proceeds. Similarly, when a person invests cash into a Fund, the Fund must buy underlying securities to invest the application monies.

In doing so the Fund incurs transaction costs. These costs include observable costs such as stamp duty and brokerage, as well as unobservable costs such as market impact.

Buy-sell spreads represent RIM's estimate of these transaction costs, and is set by reference to the transaction costs anticipated to be incurred by the fund in the medium to long term. Buy-sell spreads are designed to reduce the impact on existing members of a Fund against transaction costs which the Fund incurs when other members invest or withdraw. Where actual transaction costs vary from the buy/sell spread, the impact will be borne by the Fund.

The buy-sell spreads are set by RIM based on an analysis of the actual and estimated costs incurred when buy and selling units in a Fund, and by having regard to industry market practices. RIM reviews appropriateness of buy/sell spreads generally once every 2 years.

Generally, RIM will charge the full buy-sell spread on all applications and redemptions in the Funds other than reinvestment of rebates.

However for certain transactions, RIM may agree to reduce the buy-sell spread in accordance with the following policies, where the investor has made a request with adequate advance notice:

- RIM may permit in-specie applications. An in-specie application may not incur the same level of transaction costs, when compared to a cash application. As a result, RIM may reduce the buy spread. RIM will estimate what actual transaction costs if any will be incurred by the Fund in relation to the in-specie application and will pass these costs onto the investor either by charging a reduced spread or by directly charging the costs to the investor.
- RIM may permit in-specie withdrawals. An in-specie withdrawal may not incur the same level of transaction costs, when compared to a cash withdrawal. As a result, RIM may reduce the sell spread. RIM will estimate what actual transaction costs if any will be incurred by the Fund in relation to the in-specie withdrawal and will pass these costs onto the investor either by charging a reduced spread or by directly charging the costs to the investor.
- When two or more investors are applying and withdrawing offsetting amounts in the same Fund on the same trade date, a crossing may be facilitated. Effectively the offsetting application and withdrawal net each other out and the Fund does not

incur transaction costs because there is no trading of underlying assets. As a result, RIM may reduce the spreads to zero.

- In the case of a withdrawal from one fund and the investment of the proceeds into another fund, a switch occurs. RIM may reduce the buy-sell spread when an existing investor is switching between Funds on the same trade and settlement date, if the Funds meet certain conditions (eg, they are similar Funds, clone Funds or hedged/unhedged versions of the same Fund).

### **Reasonableness of the Policy**

In RIM's view, the above Transaction Cost/Buy-Sell Spread policy is reasonable on the following basis:

- Buy-sell spreads are a common feature of the Australian managed funds industry, and Russell policies are set with regard to normal commercial industry practices;
- Buy-sell spreads are designed to reduce the impact on existing investors of a Fund against transaction costs which the Fund incurs when other members invest or withdraw. Therefore they are in the interest of the Funds and investors.
- Buy-sell spreads are waived or reduced only where Russell considers that the Fund and remaining investors are not disadvantaged by the waiver or reduction.
- Allowance for transaction expenses is recommended in the ASIC Good Practice Guide as a means of retaining equity between investors transacting into/out of the Funds and investors remaining in the Funds.
- Russell's practice is consistent with the approach provided under IFSA Standards 8.00.

### **7D. Rounding of unit prices**

All unit prices are rounded to four (4) decimal places. A "4" or less in the next decimal place is rounded down, a "5" or greater in the next decimal place is rounded up.

### **Reasonableness of the Policy**

RIM believes the above policy for rounding is reasonable because it is consistent with the constitutions of the Funds (which state that rounding is to be not fewer than two (2) decimal places) and in accordance with ordinary commercial practice in the funds management industry.