



Schroder Investment Management Australia Limited

Unit Pricing Discretions Policy

April 2007

Introduction

This document has been prepared by Schroders and sets out the methodologies applied by Schroders in relation to the calculation of unit prices for the Schemes.

Schroders may be required to exercise discretion in the calculation of Scheme unit prices. This document sets out the circumstances in which discretion is exercised and aims to ensure that:

- Scheme unit prices are calculated fairly and equitably;
- The process of calculating Scheme 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.

Schroders notes that the exercise of any discretion is subject to the general duties of a Responsible Entity under section 601FC of the Corporations Act, to exercise its powers and carry on its duties in the best interests of the unit holders and to exercise the discretions with a reasonable degree of care and diligence.

Unit Pricing Valuation and Methodology

The basis for determining the unit price of a Scheme is set out in each Scheme's Constitution, which sets out the parameters for calculating the NAV price, the application price and redemption price of Scheme units.

The NAV price of a Scheme is the Net Asset Value of the Scheme divided by the total number of units on issue, as represented by the following formula:

NAV Price

$$\frac{\text{Net Asset Value (NAV)}}{\text{Number of Units on Issue}}$$

The application price is the Net Asset Value of the Scheme plus the transaction costs divided by the total number of units on issue, as represented by the following formula:

Application Price

$$\frac{\text{Net Asset Value (NAV) + Transaction Costs}}{\text{Number of Units on Issue}}$$

This is the price used by Schroders to calculate the number of units to be allocated in respect of an application, unless Schroders waives or reduces the buy/sell spread (refer section 5 below).

The redemption price is the Net Asset Value of the Scheme less the transaction costs divided by the total number of units on issue, as represented by the following formula:

Redemption Price

$$\frac{\text{Net Asset Value (NAV) - Transaction Costs}}{\text{Number of Units on Issue}}$$

This is the price used by Schroders to calculate the dollar value or the number of units to be cancelled in respect of a redemption, unless Schroders waives or reduces the buy/sell spread (refer section 5 below).

The calculation of Scheme unit prices will require Schroders to exercise its discretion in respect of the following areas:

- Frequency of Scheme unit pricing
- Cut off time for applications and redemptions
- Suspension of Scheme unit pricing
- Scheme unit pricing methodology - forward pricing/ historic pricing
- Allowance for transaction costs
- Accruals for assets and liabilities
- Allocation of assets, liabilities, income and expenses in Schemes with multiple classes
- Asset valuation
- Rounding

This document sets out a summary of the policies applied by Schroders in relation to the exercise of the discretion.

1. Frequency of Pricing

Schroders normally calculates a NAV price, application price and redemption price once on each Transaction Day as disclosed in the PDS, except where the unit price is suspended (this is discussed separately below).

It should be noted that under each Scheme's Constitution, Schroders may calculate the Net Asset Value of a Scheme (and hence the Scheme's unit price) more than once on a Transaction Day. Circumstances where Schroders may calculate a Scheme's unit price more than once on a Transaction Day, include where an ex-distribution price is calculated on a distribution entitlement date.

2. *Cut of time for Applications and Redemptions*

The cut off time for Schemes which Schroders has issued a PDS is set out in the PDS and is generally 3.00 pm on a Transaction Day. Schroders will normally process application and withdrawal requests accepted by Schroders for these Schemes, if received prior to the cut off time, using the next calculated price.

Application and redemption requests received after the cut off time on a Transaction Day are normally treated as being received before the cut off time on the next Transaction Day.

3. *Suspension of Unit Pricing*

Each Scheme's Constitution and the Corporations Act enable Schroders to suspend the calculation of Scheme unit prices in certain circumstances. These include circumstances where Schroders determines that the value of a Scheme's assets or liabilities can not be reasonably calculated due to internal conditions such as failure of systems or external conditions where markets are closed or have been subject to significant market movements.

If these circumstances prevail Schroders may exercise its discretion to suspend the processing of instructions received during this period, to ensure unit holders are not unreasonably impacted. Scheme unit pricing will recommence once Schroders is satisfied that the conditions causing suspension have been resolved. Application and redemption requests received during the suspension period will be processed as soon as practicable after recommencement of Scheme unit pricing.

Schroders considers it is reasonable and necessary to have the ability to suspend unit pricing for the proper management of the operations of a Scheme.

4. *Pricing Methodology - Forward Pricing/Historic Pricing*

Schroders applies a forward pricing methodology to process applications and redemptions in respect of all Schemes except for the Schroder Enhanced Cash Management Fund. Forward pricing occurs when transactions are processed using unit prices determined after instructions have been received.

The only Scheme which adopts historic pricing is the Schroder Enhanced Cash Management Fund. Schroders considers it reasonable to adopt a historic pricing methodology as this is predominantly a short-term cash fund which is not subject to any material market movements. In any event, this Scheme is not generally offered to the public.

5. *Allowance for Transaction Costs*

Transaction costs associated with the acquisition and disposal of investments in a Scheme are referred to in the Constitutions as acquisition costs, disposal expenses or simply as transaction costs. Generally, these are the costs associated with acquiring and selling assets including brokerage, settlement and clearing of the

assets, stamp duty and other government taxes associated with the purchase or disposal of a security. These costs are commonly referred to as the buy/sell spread.

The buy/sell spread is a pre-determined estimate of the transaction costs, which is set having regard to the transaction costs associated with transacting the types of assets in which a Scheme invests. The amount of the spread is determined based on Schroders' experience of the costs involved in investing in the assets and an assessment of the actual costs that each Scheme has incurred.

The buy/sell spread is reviewed annually or more frequently as circumstances require to ensure that the spread remains appropriate.

Schroders applies a buy/sell spread to the calculation of a Scheme's application price and redemption price to ensure, as far as practicable, that any transaction costs incurred as a result of an investor leaving or entering the Scheme is borne by that unit holder, and not by other unit holders. The buy/sell spread is retained within a Scheme and no part of the buy/sell spread is paid to Schroders as a fee.

In some circumstances, Schroders may waive or reduce the buy/sell spread where there are no transaction costs or reduced transaction costs associated with the purchase or sale of assets.

Some examples of circumstances where Schroders may waive or reduce the buy/sell spread include:

- Transfer of Scheme interests between Scheme unit holders
- In-species transfer of assets into and out of the Schemes
- Re-investment of distributions by unit holders into Schemes
- Switching between Schemes which invest within the same asset class
- Investing into unlisted securities or unit trusts which do not charge a buy/sell spread

Where applicable, Schroders will review a transaction to determine whether it is appropriate to waive or reduce the buy/sell spread.

6. *Accruals for Assets and Liabilities*

Accruals for assets and liabilities other than immaterial amounts are provided for within the Net Asset Value of a Scheme where they have a known value or a value that can be reasonably estimated.

Liabilities generally include both management fees and other expenses. Management fee is the fee for Schroders' services in overseeing the operations and management of a Scheme. Other expenses include the expenses which may be incurred by Schroders, such as audit costs, postage and the preparation of tax returns.

Each of these expenses are accrued on a daily basis in the unit price. Schroders reviews these accruals on a regular basis to ensure that the amounts accrued are consistent with actual expenditure.

Immaterial or non-recurring or unexpected expenditure are not accrued in the Net Asset Value of a Scheme. These expenses are paid and deducted from the Net Asset Value as soon as practicable after receipt of the invoice.

Asset accruals, such as income receivable for dividends, trust distributions and interest may also be subject to estimation based on latest available information.

Schroders exercises its discretion concerning accruals for assets and liabilities in accordance with the relevant accounting standards and generally accepted accounting principles.

7. Allocation of Assets, Liabilities, Income and Expenses in Schemes with Multiple Classes

In Schemes where there is more than one class of units offered to unit holders, the allocation of the assets, liabilities, revenue and expenses for each class is generally calculated based on the proportion of the Net Asset Value of the Scheme to which the class relates.

Where a particular expense (for example management fees) is exclusive to a particular class, Schroders will usually determine the expense applicable to each class of units independently.

8. Asset valuation

The valuation of Scheme assets is governed by the Constitution, which allows Schroders to determine the value of a Scheme's assets.

The following represents a summary of the Schroders valuation policy in relation to a Scheme's assets:

Exchange Traded Assets

Valuations of assets that are actively traded on a recognised securities exchange are generally determined by reference to the latest available market price, normally represented by the official closing price. Valuations of assets that are infrequently traded on a recognised securities exchange may be determined by reference to the latest available market information where no market price is available.

The market prices are sourced by Schroders' appointed custodian and administrator from independent third party information providers.

Non-exchange Traded Assets

Where assets held by a Scheme are not traded on a recognised securities exchange, values are generally determined by reference to periodic third party valuation. This ensures that the asset value is independent and verifiable.

Whilst the custodian and administrator values the Scheme assets, Schroders retains the responsibility for ensuring that all asset valuations are determined in accordance with the Constitution, PDS and legislative requirements.

9. Rounding

Schroders rounds a Scheme's price to 4 decimal places except for the Schroder Enhanced Cash Management Fund which is rounded to 5 decimal places. A unit holder's entitlement to units in a Scheme is also round to 4 decimal places.

The impact to unit holders due to rounding should be negligible, if any. Where rounding results in any excess funds or fractions of units not being allocated to a unit holder, the amount of any excess is applied to a Scheme.

10. Exercise of discretion

Schroders has formulated this document in line with ordinary commercial practice and therefore considers that it is reasonable to exercise the discretions as documented.

Where Schroders exercises a discretion in a manner which involves a departure from this document, a record of the event will be made which includes the following details:

- The date the discretion was exercised and the Scheme(s) involved;
- Who exercised the discretion;
- A description of how the discretion was exercised;
- An explanation as to why it was reasonable to exercise the discretion the way it was exercised; and
- If discretion was not exercised in accordance with ordinary commercial practice, an explanation as to why it was not practical to do so.

11. Record keeping

Schroders will retain all records concerning documented policy in relation to the exercise of discretion and records of the discretions exercised under section 10 above for seven years after they cease to be current.

12. *Policy disclosure*

Schroders will provide a copy of this document upon request and at no charge to any unit holder of a Scheme and will ensure that a current copy is available to unit holders on Schroders' website.

13. *Compliance with this Policy*

It is expected that all Schroders staff will comply with the requirements of this document.

14. *Review and Compliance with this Policy*

This document will be reviewed at least annually to ensure that it remains relevant, current and compliant with all applicable laws.



Glossary

Business Day	means any day excluding a Saturday or Sunday on which banks are open for business in Sydney.
Constitution	means the constitution of each Scheme as amended or replaced from time to time.
Corporations Act	means the Corporations Act 2001 (Cth) as amended from time to time.
NAV or Net Asset Value	means the total assets minus the total liabilities of a Scheme, units or portfolio in question, as determined in accordance with the Constitution
PDS	means the current product disclosure statement of each Scheme.
Responsible Entity	has the meaning defined in the Corporations Act.
Scheme	means a managed investment scheme registered under the Corporations Act, for which Schroders acts as the Responsible Entity.
Schroders	means Schroders Investment Management Australia Limited (ABN 22 000 443 274) in its capacity as Responsible Entity for a Scheme.
Transaction Day	means a Business Day on which Schroders accepts applications and redemptions as disclosed in the PDS.