Unlisted and Suspended Securities Policy

Issued by Fisher Funds Management Limited | 24 February 2018

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1. Purpose

The aim of this policy is to:

- establish a process for identifying securities that are not traded in an active market at any time;
- provide a framework for evaluating price in the absence of an active market; and
- describe the process for changing prices of securities that are unlisted or suspended.

2. Background

The Net Asset Value (NAV) of a fund is used to price units. Where an active market exists for a security, the last sale price is used by our administrator, Trustees Executors Ltd (TEL), to calculate the NAVs. Where the last sale price falls outside of the bid/ask spread for the valuation of a particular stock, the bid price will be used.

There may be occasions when company share prices are either stale or not a true and fair reflection of the market value of the security, for example when developments which affect the liquidity of the security or a significant event has occurred and there has been no trading to capture the new information. This creates a challenge for unit trusts because:

a. calculated NAVs are integral in the unit pricing process and all assets must be fairly valued to ensure investors are treated equitably;
b. financial accounts must be a true and fair representation of the state of the entity; and
c. at year end, directors must certify that there is a reasonable basis for determining that the assets are valued fairly.

3. Policy

Where unlisted securities are held, price information will be sourced from the security's most recent transaction history. If there have been no recent transactions, we will make an assessment of value based on available information from the relevant company.

4. Identifying unlisted and suspended securities

A list of unlisted and suspended securities will be maintained by the Chief Investment Officer (CIO) and updated monthly. On a monthly basis TEL provides a list of suspended or illiquid securities together with any with stale prices which is reviewed by the Finance Manager.

Portfolio managers must promptly notify the Chief Financial Officer (CFO), the Product Compliance Manager, the Finance Manager and the CIO of any unusual developments that affect the NAV calculations as soon as they occur so that the effect on unit prices or tax implications can be assessed and recorded in the Incidents and Breaches Register if material.

5. Frequency of valuation

The value of securities that are suspended, illiquid (including securities that are valued at zero) or have a stale price should be reassessed monthly by the relevant Portfolio Manager and reviewed by the CIO.

Where new information is available that is likely to impact the value of the relevant security, an assessment should be made immediately.

Valuation changes that are due to capital contributions or distributions will be made automatically by TEL.

6. Listed securities that are in a trading halt, suspended or delisted

From time to time, trading in listed securities may be suspended. Not all suspensions are associated with a decline in the price when trading resumes. Factors such as the nature of the event and the performance of the broader market while the suspension is in force are likely factors. However, any suspension will prevent a market price being obtained for the security.
The longer a suspension is in place the more likely there will be a lower price upon resumption of trading though this will depend on the specific circumstances of each portfolio security.

On some exchanges a prolonged suspension may lead to delisting which reduces the chances of getting value from the investment.

7. Approaches used elsewhere in the Industry

Suspended securities are usually valued at the suspended market price per share or valued by the manager using available information to arrive at an estimated value. Delisted securities (where an exchange has instigated the removal of the security from the exchange) are typically valued at nil. Securities that have been delisted at the instigation of the listing company are treated as unlisted securities.

8. Valuation of unlisted securities

Despite not being on a registered exchange, unlisted securities may be traded off market and sometimes the relevant company will have information regarding the price of a particular transaction. If the most recent transaction is between a willing buyer and a willing seller, the last sale price should be used (or a bid price, if available) unless there is very strong evidence that another price is more appropriate.

However, unlisted securities often do not trade, or trade infrequently on the secondary market. In such cases an alternative valuation method may be used, for example cost or the NAV of the security, whatever is a reasonable assessment of the true value of the security.

9. Priority of different valuation methods

Where there are different approaches available for valuation the following priority should apply:

1. Recent arm’s length transactions prices;
2. Valuations derived from an independent appraisal process;
3. Manager valuations; and
4. Valuations provided by the issuer themselves.

10. Valuation of suspended securities or those that are in a trading halt

The following framework should be used as a guide when considering the price to be used for suspended securities as each situation is likely to be unique.

Period suspended	Starting Presumption	Valuation Approach (conducted at least monthly)
< 1 month	Last market price	The last market price continues to be used unless there is sufficient information for the manager to make a new valuation.
1 to 6 months	Consider reasons to depart from last market price. As time goes on more likely to require impairment.	The manager will value using any, even very limited, information available having particular regard to: a. the reasons for the suspension b. news flow since the suspension c. broader market movement since the suspension d. any off market transactions e. whether any other institutions hold the stock and whether they have impaired its value since suspension f. how the price of any other stocks in similar circumstances have changed when they relisted g. our own internal valuation models (though this may need to be discounted if any of the inputs are certain as a result of the suspension). The valuation will be reviewed as new information becomes available.
6 to 12 months	Impairment highly likely. Consider reasons why it should not be valued at nil.	The manager will carry out a valuation on a similar basis to that above. The manager will give particular regard to whether a nil value is appropriate given the length of the suspension. Valuation will be reviewed as new information becomes available.
> 12 months	Value at nil unless clear evidence to the contrary.	A nil valuation will be used unless there is clear evidence that a greater price is appropriate using the valuation considerations above. Caution should be taken if relying on any information that is out of date because of the suspension.