

PRODUCT UNIT PRICING AND REGISTRY POLICY

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Issued by Nikko Asset Management
New Zealand Limited

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A. Introduction

Background

Nikko Asset Management New Zealand Limited (“Nikko AM NZ”) is an investment scheme manager and issuer for a range of PIE designated unit investment funds (“the Funds”) either offered to the public or to wholesale investors. The Public Trust is the independent trustee and Supervisor for Nikko AM NZ’s operations. The Funds are governed by the Trust Deed between Nikko AM NZ and the Public Trust executed on 1 July 2016. Clause references throughout this policy are to the Trust Deed.

Purpose

The purpose of this policy is to set out:

- how Nikko AM NZ manages its unit pricing and registry maintenance and recording obligations,
- the manner in which Nikko AM NZ exercises its discretions authorised by the Trust Deed and separate Fund Establishment Deeds,
- how Nikko AM NZ supervises its delegation to a third party provider for delivery of registry services and unit pricing.

Trust Deed as governing document

The Trust Deed requires Nikko AM NZ:

- to determine an application procedure,
- to pay all application moneys to the Trustee,
- to record the name of every investor and their interest in a Fund on a register,
- ensure an audit of the register at intervals of not more than 12 months,
- to determine the net asset value of the Funds ,
- to determine an issue price and a redemption price.

B. Principle of equity

Establishing procedures and the process of determining unit prices must be equitable to all investors, i.e. both those investors joining or withdrawing from the Funds, and those investors requiring their interests to be maintained unaffected. The principle is for those individual investors requiring interaction with capital markets must bear the transaction cost associated with that interaction. Other unit holders will not bear these costs.

Nikko AM NZ has determined that “on market costs” to establish/disestablish market exposures are to be met directly by the Funds. To ameliorate inequity suffered by passive (non-transacting) investors, caused by actions of active investors, the manager has determined the following processes and policies to place the “costs of market engagement” on the active investor wherever possible.

The active investor’s contribution to the “on market costs” is retained within the Funds for the benefit of the passive (non-transacting) investors.

C. Equal interests, one class of units

Every unit confers an equal interest in the Fund to which it relates and is of equal value. There is only one class of unit for every Fund.

D. No specific interests allocated to unit holders

A unit does not confer any interest in any particular part of the Fund to which it relates or of any securities. No investor is entitled to require the transfer to itself of any of the investments. Investors are not entitled to interfere with or question the exercise or non-exercise by the manager or the trustee, of powers, authorities or discretions conferred upon them or either of them in the Trust Deed or in respect of the Funds.

E. Determining and applying application procedure

Nikko AM NZ has determined the following application procedure:

- Applicants will be subject to AML due diligence to satisfy Nikko AM NZ's obligations introduced by the Anti-Money Laundering and Countering Financing of Terrorism Act 2009.
- Nikko AM NZ retains the right to refuse applications at any time (refer clause 4.2 of the Trust Deed).

Prescribed investor rate

Applicants are required to select their required prescribed investor rate at commencement. The rate may be changed by the investor at a future date, with any required change to be instructed by the investor in writing. Any change in rate will apply at a date after the receipt of the instruction.

Distributions reinvestment as default

Applicants are required to instruct Nikko AM NZ if they require receipt of distributions from the Funds in cash. Unless Nikko AM NZ receives an instruction to the contrary, all distributions are re-invested back into the Fund making the distribution in exchange for additional units for the investor.

Application account independent from Nikko AM NZ

All application moneys for the Funds are to be credited into the Public Trust Application Account. This trust account is owned and controlled by the Public Trust. Day to day operation has been delegated by Public Trust to BNP Paribas Fund Services Australasia Pty Limited.

The trust account detail is attached in Appendix A.

F. Determining the net asset values of the Trusts

Forward pricing

The determination basis for unit pricing is "forward pricing" as this minimises the opportunities for investor arbitrage. This means that investor transactions are processed using the next issue (and redemption) price. At the time of notifying Nikko AM NZ of a transaction, the investor is unaware of the price at which their unit transaction will be processed. The unit price applied to the transaction will be the unit price issued the next business day.

Instructions for investor transactions are to be delivered to Nikko AM NZ by cut off time on any business day.

Applications for units only proceed once monetary value is confirmed in the Public Trust Application Account.

For the benefit of all investors, active investors are required to plan and communicate in advance of the expected value date for any large investor movements.

Valuation days

The net asset values, issue prices and redemption prices for the Funds will be calculated once per day on any day that is a business day in either Auckland or Wellington. No net asset values, issue prices or redemption prices will be calculated on weekends or public holidays.

Whilst Nikko AM Wholesale Multi-Strategy Fund and Nikko AM Multi-Strategy Fund unit prices are calculated daily, security pricing occurs twice per month, upon receipt of the incremental return from the investment strategy.

Delegation

Nikko AM NZ has delegated certain functions to BNP Paribas Fund Services Australasia Pty Limited ("BNP Paribas") under Administration Agreement dated 27 June 2011.

This delegation includes:

- tax administration for the Funds, retention of records for at least seven years, completion of monthly and annual PIE returns in the IRD prescribed format, completion and delivery of annual PIE investor statements;
- calculation of daily unit pricing for the Funds, release to investors after tolerance reviews, provision of PIE components direct to investors; and,
- allocation and cancellation of units to/for unit holders upon receipt of instruction from Nikko AM NZ.

Nikko AM NZ instructs BNP Paribas following the requirements contained within the Communication Protocol for Transmission of Authorised Instructions to Fund Administrator.

BNP Paribas (and their successors) discharge their delegated responsibilities following the requirements of three separate policy document as listed below:

- BNP Paribas Securities Services Unit Pricing Policy New Zealand;
- BNP Paribas Securities Services Securities Pricing Policy;
- BNP Paribas Securities Services Standard Unit Pricing Methodology Single Class – Unit Trust and Superannuation Funds, New Zealand.

Methodology – calculation of unit prices

The method used to calculate the net asset values, issue price and redemption price is generally expressed as follows :

$$\text{Net asset value price (mid-price)} = \frac{\text{Net asset value}}{\text{Number of units on issue}}$$

where both the net asset value and the number of units on issue are determined at a consistent point in time; the valuation date

$$\text{Issue price} = \text{Net asset value price (mid-price)} \times (1 + \text{buy spread})$$

where the buy spread is an allowance for the estimated transaction costs of acquiring the underlying assets of the Trust; and

$$\text{Redemption price} = \text{Net asset value price (mid-price)} \times (1 - \text{sell spread})$$

where the sell spread is an allowance for the estimated transaction costs of disposing of the underlying assets of the Trust.

Unit prices are calculated to four decimal places. Registry nominals are calculated and recorded to four decimal places. Net asset values, application and redemption prices will be calculated on an un-rounded basis as specified above. These are then rounded down to four decimal places in the last step of the calculation prior to publication and use for unit applications and/or redemptions (refer clause 4.13 of the Trust Deed).

Security valuation

For securities issued within New Zealand and Australia; prices and yields are generally calculated as at the close of the respective markets on the valuation date.

For securities issued outside New Zealand and Australia; prices and yields are generally calculated as at the close of local market on the most recently available valuation date, plus accrued interest to the valuation date.

Exchange rates and forward points are calculated using the WM/Reuters closing spot rates and forward points at 4.00pm London mid close.

Independent reviews of delegated provider

BNP Paribas' key operational processes are documented as part of key controls and included in their Risk and Control Matrix (RCM) for monthly controls testing and the semi-annual ISAE3402 performed by their external auditor.

Deloitte performs this review in March each year and provides findings to BNP Paribas' Head of Risk, Compliance and Permanent Control. The findings are agreed, and the relevant updates are made to the policy, which is formally approved by their Internal Controls Committee and then released to clients.

BNP Paribas has engaged external auditors who conduct semi-annual reviews to report on the description, design and effective operation of internal controls surrounding performance analytics, mandate compliance, fund administration and registry services provided by BNP Paribas in New Zealand and Australia and includes those controls performed for these services by BNP Paribas Sundaram Global Securities Operations. These reviews, for which an opinion issued by the external auditor, occur for the six month period ended 30 September and the year ended 31 March.

BNP Paribas has engaged external auditors to conduct annual reviews to report on the description, design and effective operation of internal controls surrounding custody provided by BNP Paribas Paris. This review, for which an opinion is issued by the external auditor, occurs annually for the year ended 30 September.

G. Determining issue price and redemption price

The Trust Deed requires Nikko AM NZ as the investment scheme manager ("the manager") to determine an issue (and redemption) price of each unit issued by the manager with such calculation reflecting the costs of acquiring (or disposing of) investments in the Funds and other administrative costs relating to the issue of units (refer clauses 4.13 and 6.7).

The cost to establish (or to disestablish) exposures has been determined from the recent historical cost experience for each capital market, having regard to market conventions and the manager's purchasing power. Current costs with buy/sell spreads can be found in Appendix B.

Nikko AM NZ regularly reviews the recent cost experience of capital markets transactions to ensure the level of buy/sell spread is appropriate and to ensure equity amongst investors.

Net asset price used for distribution reinvestment

Some Funds make regular distributions to investors to enable certain investors to "recognise income separately from capital appreciation". Unless an investor has provided an instruction to receive distributions in cash, all distributions are reinvested as additional units for the investor. The unit prices applied for distributions reinvestment is the net asset value price for the pricing point at time of distribution.

H. PIE regime outputs

All Funds are Multi-Rate PIES, designated as "Exit PIES" by notice from Inland Revenue dated 7 April 2011. For investors with a prescribed investor rate other than 0%, Nikko AM NZ will deduct taxation on redemption and pay to Inland Revenue monthly based on the selected tax rate of the investor. In April each year, an annual taxation deduction and payment occurs for those investors with a portfolio investor rate other than 0%, based on their taxable income (less credits) for the previous twelve month period. For all investors Nikko AM NZ notifies the investor and the Inland Revenue of the PIE components for the previous twelve month period.

The taxable income and tax credits are allocated to the investors by way of PIE components. The components calculated as a dollar per unit as part of the unit pricing process are:

- taxable income;
- foreign tax credits;
- foreign dividend payment credits;
- imputation credits.

There are no resident withholding tax deductions at source for the Funds as all of them hold RWT exemption certificates.

PIE components are available for investors (generally portfolio investor proxies, or PIPs). This file transmission is in XML format prescribed by Financial Services Council of New Zealand. The components, along with investor information, enable investors to value their investment in the Multi-Rate PIE and to calculate and pass through the taxable income and tax credits earned from the Multi-Rate PIE through to the end investors.

The taxable income and tax credits for the unit pricing period are determined by taking the difference between the values from the previous day and the current valuation day.

I. No liquidity maintained in sector specific funds

Sector specific funds aim to be fully invested in the relevant capital market so as to maximize the chosen capital markets exposure. Accordingly a withdrawal request generally initiates capital market transactions with consequent costs (if any) to be charged to the active investor. This may require the investor to wait for several days before liquidity is available to satisfy the withdrawal request.

The Trust Deed does not contemplate an investor withdrawal funded other than by cash to the value of its unit holding. Correspondingly, an application initiates capital market transactions with consequent costs.

J. No liquidity maintained in composite funds

For funds offering a composite asset mix, large investor transactions will require capital market transactions with consequent costs to be charged to the active investor. For large cash flows (which invariably mean multi sector movements), an actual asset allocation is performed on the date to determine which sectors receive funds (for deposits) or liquidate funds (for withdrawals). In these instances the active investor will bear the actual cost incurred in establishing (or disestablishing) capital markets exposures.

For large cash flows the cost of activity may be calculated by the manager with detail provided upon request. The cost may be reflected in an adjusted unit price buy/sell spread and this cost will replace the standard quoted buy/sell spread at Appendix A. This adjusted unit price spread applied to the transaction may be less, but not more, than the standard quoted spread for the composite funds.

Large withdrawals normally result in the investor having to await liquidation of all funds from the affected sectors before payment is made. This may be several days before liquidity is available to satisfy the withdrawal request.

Investors initiating small value unit issues (and redemption) are charged the cost to establish (or disestablish) market exposures. Small and large value transactions are not determined by fixed dollar amounts, but rather, these are relative to the size of the active investor's request and the size of the Fund itself.

K. Suspension of determination of unit prices and unit holder transactions

Suspension of determination of unit prices

If circumstances arise that would prejudice investors because reliable valuations cannot be obtained at the valuation time then unit pricing may be suspended. Such circumstances include (but are not limited to):

- where there is a disruption to the information flow necessary to establish the investment assets, liabilities or the number of units for the Funds (i.e. IT system failure);
- closed or restricted markets for particular material assets;
- sharp market movements, especially market crashes, or major world events that trigger market disorder where (meaningful) accurate valuation is not immediately or readily available;
- calculating the final redemption price for any fund subject to a winding up resolution;
- where investor equity may be materially affected;
- where the Trustee/ Supervisor has issued an instruction to suspend the determination of unit prices; and,
- where the Financial Markets Authority has issued an instruction to suspend the determination of unit prices.

If unit pricing is suspended, no transactions shall be processed until the day unit pricing is resumed. The transactions will be processed using the unit price for the first valuation point following resumption of pricing as determined by Nikko AM NZ.

The decision to suspend unit pricing should be communicated to investors, including the rationale for the suspension.

No compensation for backdating costs or opportunity cost shall be payable to the Investors if transactions are not processed due to the suspension of unit prices.

Suspension of investor transactions

Nikko AM NZ retains the right to refuse applications at any time (refer clause 4.2 of the Trust Deed).

Nikko AM NZ retains the right to defer the redemption of units if (refer clause 6.19 of the Trust Deed):

- a redemption request, or a series of redemption requests are received within a period of three (3) months that in aggregate relates to more than 5% of the number of units on issue in the Funds at the time of the redemption request or last redemption request in such series; and
- Nikko AM NZ, in good faith, determines that it is in the general interests of all investors in the Funds to defer immediate redemption of the total units requested, then such units may be redeemed by instalments at valuation times falling in a period determined by Nikko AM NZ or in total at the expiration of a period determined by Nikko AM NZ. In any such case, the redemption price is to be calculated at the valuation time(s) on which units are redeemed. Nikko AM NZ must notify the Trustee/ Supervisor of its intention to invoke this right as soon as reasonably practicable.

L. Errors – compensation, correction and reporting

Nikko AM NZ's response to errors is addressed in the Operations Incident Management and Error Reporting Policy. The purpose of this policy is to ensure investors are equitably treated if an error occurs by determining when compensation is required for a unit pricing error and/or PIE allocation error, the principles for calculating such compensation and how errors should be communicated to stakeholders.

Where an actual or potential incident has been identified, either by internal review or brought to Nikko AM NZ's attention by a service provider, a client or a regulator, an incident report will be completed for each issue and error irrespective of the materiality. This report covers how the error was identified, how it occurred, the immediate remedial action required and any subsequent process changes required to prevent reoccurrence.

What constitutes an error

A unit pricing error occurs when an investor or investors do not receive the share of the value of the Funds to which they are entitled or received too large a share of the value as ascertained in accordance with unit pricing policies because these policies have not been followed or because of an administration error.

A PIE allocation error occurs when an investor or investors do not receive the correct share (either too much or too little) of PIE income, PIE tax or other PIE component to which they are entitled as ascertained in accordance with unit pricing policies because these policies have not been followed or because of an administration error.

Materiality threshold

In accordance with industry standards, the materiality threshold can be determined by Nikko AM NZ, who will also determine whether an error requires compensation to be considered. This calculation is for both pricing errors and for PIE allocation errors.

Nikko AM NZ has determined the materiality threshold shall be 0.30% of the price of a unit. However, in certain circumstances Nikko AM NZ, or its delegate, may approve compensation amounts below this materiality threshold.

For the purposes of the materiality threshold the size of a unit pricing error shall be assessed by measuring the size of the variance between the incorrect unit price and the correct unit price, as a percentage of the correct unit price, at the particular point of time.

Where an error is below the materiality threshold, but Nikko AM NZ (rather than the investors) has directly benefited financially, compensation must be paid. Such compensation is not required to be made to the investor where the value for an individual investor is less than NZD\$20. Instead, the compensation will be paid into the Fund for the benefit of all investors.

Where an error is above the materiality threshold, in principle, the compensation paid should return the investor to the financial position that would have existed if the error had not occurred.

Where there is a delay of six months or more in payment by Nikko AM NZ, compensation interest may be paid on the compensation amount at the Reserve Bank of New Zealand Official Cash Rate, if the amount is material.

In the event of PIE tax errors the materiality of the impact of the incorrect PIE data is evaluated to consider the impact on investors' tax positions. If the calculation is not material, the difference in taxable income I tax credits will be taken up in the next available PIE component calculation period.

Differences that will materially impact investors' tax positions will need to be evaluated and amendments made to the investor records. Such an event would require a full analysis of the investor activity I transactions that have taken place over the duration of the error. Any corrective action required will be agreed between all affected parties.

M. Regular review of policy

The maintenance of this policy is the responsibility of the Head of Operations. The policy will be reviewed by the CRD Committee annually. Policies may be reviewed earlier if a relevant new standard or legislation is promulgated or there is a change in market conditions.

Version Control	Reasons for Change	Author/Editor	Date
Version 8.0	Annual review	CRD Committee	August 2017
Version 7.0	Annual review	Nikko AM NZ Operations	August 2016
Version 6.2	Approval of Update	Nikko AM NZ Board of Directors	7 June 2016
Version 6.1	Review and update	CRD Committee	6 May 2016
Version 6.0	General edit and update of wording to ensure consistency across all FMA disclosed documents	Project team	March 2016
Version 5.3	Update Appendix B; update issue dates for Administrator's policies, name change	Nikko AM NZ Investment Committee	21 October 2014
Version 5.2	Update Appendix B; additional independent reviews of delegated provider	Tyndall Operations	5 May 2014
Version 5.1	Addition of Tyndall Multi-Strategy Fund	Tyndall Operations	20 December 2013
Version 5.0	Annual review and merge with Entry and Exit Policy	Tyndall Investment Committee	15 October 2013
Version 4.1	Recognise policies and methodologies adopted by delegated Administrator	Tyndall Operations	4 September 2012
Version 4.0	Recognise change in Custodian and Administrator	Tyndall Operations	1 July 2011
Version 3.0	Rewrite for PIE regime	Product Manager	1 October 2008
Version 2.0	Review for Trustee	Product Manager	September 2006
Version 1.0	Establishment	Product Manager	April 2002

Appendix A – Public Trust Application Account



6 November 2014

The Directors
Nikko Asset Management New Zealand Limited
P O Box 3892
Shortland Street
Auckland 1140

Dear Directors,

**Standard Settlement Instructions – Nikko Asset Management New Zealand Limited
("Nikko AM") Wholesale Unit Trusts – Application Account**

All application moneys for Nikko AM's wholesale unit trusts are to be paid into the Public Trust Application Account, as follows:

Account name	Public Trust Application Account
Street Address	c/- BNP Paribas Securities Services Level 13, PWC Tower 113-119 The Terrace Wellington
Postal Address	P O Box 3299 Wellington, 6140
Bank Account Details	Bank: Westpac Banking Corporation Branch: 318 Lambton Quay, Wellington Account Title: Public Trust Application Account Account No: 03-0502-0367697-11

Kind regards,

A blue ink signature of David Campbell.

David Campbell
Manager Custodial Services

A blue ink signature of Ireen Muir.

Ireen Muir
Senior Manager Client Services

Appendix B – Schedule of buy/sell spreads

Trusts investing in debt markets	Buy / sell spread
Nikko AM Wholesale NZ Cash Fund	nil / nil
Nikko AM Wholesale NZ Bond Fund	nil / nil
Nikko AM Wholesale Option Fund	nil / nil
Nikko AM Wholesale Global Bond Fund	nil / nil
Nikko AM NZ Corporate Bond Fund	nil / nil
Nikko AM Wholesale NZ Cash Fund Two	nil / nil
Nikko AM Wholesale NZ Immigration Fund	nil / nil
Trusts investing in listed equity markets securities	Buy / sell spread
Nikko AM Wholesale Core Equity Fund	0.35% / 0.35%
Nikko AM Wholesale SRI Equity Fund	0.35% / 0.35%
Nikko AM Wholesale Concentrated Equity Fund	0.35% / 0.35%
Nikko AM Wholesale Property Fund	0.245% / 0.245%
Nikko AM Wholesale Global Equity Unhedged Fund	0.07% / 0.07%
Nikko AM Wholesale Global Shares Fund	0.07% / 0.07%
Trusts holding collective investment vehicles	Buy / sell spread
Nikko AM NZ Cash Fund	nil / nil
Nikko AM NZ Bond Fund	nil / nil
Nikko AM Global Bond Fund	nil / nil
Nikko AM Core Equity Fund	0.35% / 0.35%
Nikko AM Concentrated Equity Fund	0.35% / 0.35%
Nikko AM Wholesale Global Equity Hedged Fund	0.07% / 0.07%
Nikko AM Global Equity Unhedged Fund	0.07% / 0.07%
Nikko AM Global Equity Hedged Fund	0.07% / 0.07%
Nikko AM Wholesale Multi-Strategy Fund	nil / nil
Nikko AM Multi-Strategy Fund	nil / nil
Nikko AM Global Shares Fund	0.07% / 0.07%
Composite Trusts	Buy / sell spread
Nikko AM Income Fund	nil / nil
Nikko AM Wholesale Balanced Fund	0.105% / 0.105%
Nikko AM Wholesale Conservative Fund	0.0473% / 0.0473%
Nikko AM Wholesale Growth Fund	0.1176% / 0.1176%