

Unit Pricing Discretions Policy

Version 1.0

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1 Introduction

Uniting Ethical Investors Limited (**U Ethical**) is an ethical fund manager with a difference. We believe in creating a better world by investing with purpose—today and into the future.

U Ethical is the responsible entity of the following registered managed investment schemes:

- U Ethical Enhanced Cash Trust; and
- U Ethical Australian Equities Trust.

U Ethical is the trustee for the following wholesale managed investment schemes:

- U Ethical Australian Equities Trust (Wholesale); and
- U Ethical International Equities Trust.

Additionally, U Ethical is also the manager of the following funds:

- U Ethical Funeral Fund issued by U Ethical;
- U Ethical Enhanced Cash Portfolio issued by UCA Cash Management Fund Limited; and
- U Ethical Growth Portfolio issued by UCA Growth Fund Limited.

This document provides guidance on how U Ethical manages unit pricing and exercises any discretions permitted under the constitution of each fund to determine the unit price.

2 Purpose

This policy sets out the circumstances in which a discretion in relation to the calculation of unit prices of funds is exercised and aims to ensure that:

- unit prices are calculated fairly and equitably
- the process of calculating unit prices is transparent and consistently applied
- the methodologies adopted are reviewed at appropriate intervals and revised, as necessary, to meet commercial and regulatory requirements.

For registered managed investment schemes, this policy is also designed to meet the requirements of ASIC Class Order 13/655 'Provisions about the amount of consideration to acquire interests and withdrawal amounts not covered by CO 05/26' for registered managed investment schemes. ASIC Class Order 13/655 allows U Ethical to decide a matter that affects the method or formula used to calculate unit price of registered managed

investment schemes issued by U Ethical where the conditions of the Class Order are met.

The exercise of any discretion is subject to the general duties of a responsible entity under the *Corporations Act 2001*, to act in the best interests of unitholders and to exercise a degree of care and diligence that a reasonable person would exercise in that position.

3 Scope

This unit pricing policy will apply to the following funds:

- U Ethical Enhanced Cash Trust
- U Ethical Australian Equities Trust
- U Ethical Australian Equities Trust (Wholesale)
- U Ethical International Equities Trust
- U Ethical Enhanced Cash Portfolio
- U Ethical Growth Portfolio
- U Ethical Property Trust (not open to investors)
- U Ethical Funeral Fund (collectively, **Funds** or singularly, **Fund**).

4 Outsourcing arrangements

The discretions permitted under the constitution of each Fund are exercised by U Ethical. Although the functional elements of the unit pricing process for the Funds are carried out by a third party, U Ethical remains ultimately responsible to unitholders for ensuring that unit prices are determined appropriately.

5 Review mechanism

This policy will generally be reviewed once every three years, and at any other time as required to ensure that the policy remains current, including in the following circumstances:

- A change in regulatory requirement which is relevant to the exercise of discretion in relation to unit pricing;
- The introduction of a new fund, or a material change in the operation or management of a Fund; or
- A change in the constitution of a Fund or formula applied to unit pricing calculation;
- Material changes to IT systems, or a change in the operations of a material outsourced provider, to a Fund;

- Any variance to the nature of the outsourcing of any activities relating to unit pricing.

6 Current version

The most current version of this policy can be found on our website. Alternatively, you can request a free copy by contacting U Ethical on 1800 996 888.

7 Exercise of discretion

7.1 Compliance with Fund constitution and regulatory requirements

Unit pricing must be undertaken in accordance with the Fund governing document, Corporations Act and relevant ASIC legislative instruments and guidelines.

7.2 Set unit prices

The following Funds have their unit prices set at \$1.00 in accordance with their respective governing documents:

- U Ethical Enhanced Cash Trust;
- U Ethical Enhanced Cash Portfolio;
- U Ethical Funeral Fund (**collectively, Enhanced Cash Funds**).

A valuation is performed each business day to assess the maintenance of a \$1 unit price for each Enhanced Cash Fund. The unit price must not exceed \$1 but may be below \$1.

The unit value is calculated as follows:

$$\text{Current unit value} = \frac{\text{Net asset value}}{\text{Number of units on issue}}$$

Investors' accounts in the Enhanced Cash Funds earn investment income at the declared income rate, known as the crediting rate. The crediting rate used will depend on the Enhanced Cash Fund selected.

The income is calculated and accrued daily and paid to investors upon full redemption of their investment or at the time of the Funds' income distributions.

As returns can fluctuate up or down reflecting changes in investment markets and asset values, the actual returns are based on the performance of the underlying investments and U Ethical does not guarantee or promise any specific rate of return.

The discretion applied to set the unit price for the Enhanced Cash Funds at \$1.00 is reasonable in all circumstances such that new, existing or former clients are not materially or significantly advantaged or disadvantaged.

For the Enhanced Cash Funds, U Ethical applies a crediting rate methodology to attribute a share of the value of the pooled products to investors. U Ethical applies its crediting rate policy for these Enhanced Cash Funds.

In addition, the U Ethical Enhanced Cash Portfolio operates a reserve which represents undistributed income from prior periods. The reserve is used to smoother returns and support the \$1 pricing of the Enhanced Cash Portfolio.

7.3 Unit pricing calculation

The following Funds' governing documents sets out the method that U Ethical uses to calculate the application price and redemption/withdrawal price of the Fund:

- U Ethical Australian Equities Trust;
- U Ethical Australian Equities Trust - Wholesale;
- U Ethical International Equities Trust;
- U Ethical Growth Portfolio; and
- U Ethical Property Trust (**collectively, Equities Funds**).

The calculation of application and redemption/withdrawal prices for these Equities Funds is generally expressed as follows:

$$\begin{aligned} \text{Application price per unit} &= \frac{\text{Net asset value} + \text{transaction costs}}{\text{Number of units on issue}} \\ \text{Redemption/withdrawal price per unit} &= \frac{\text{Net asset value} - \text{transaction costs}}{\text{Number of units on issue}} \end{aligned}$$

7.4 Areas where discretion may apply

The following elements may be open to the exercise of discretion by or on behalf of U Ethical for a Fund:

- Selecting a valuation method
- Determining when assets and liabilities are valued
- Determining the fees and expenses;
- Determining the net asset value of a Fund;
- Estimating an allowance for transaction costs;
- Determining when unit prices are calculated;
- Determining a cut-off time;
- Suspension of redemptions;
- Staggering of redemptions;
- Rounding of unit prices;
- Distributions; and
- Unit pricing error rectification.

8 Discretions outside policy

For registered managed investment schemes, if U Ethical exercises a discretion for which there is no documented policy current at the time or in a way

that involves a departure from this policy, U Ethical will prepare a document that sets out:

- the date on which the discretion was exercised;
- who is making the decision;
- how the discretion was exercised;
- an explanation 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's property being valued in accordance with ordinary commercial practice, an explanation as to why it was impractical to do so.

9 Information about discretions

9.1 Selecting a valuation method

Investment assets are valued using the following guidelines:

- security prices are obtained, where possible, from independent security pricing services and these are based on market prices at the end of business day where the asset is traded on a regulated market;
- where there is no market value or we reasonably believe the value obtained is not the fair market value of the asset or where the security price is not available from an independent source or is not traded on a regulated market, the valuation of that asset is determined in good faith in accordance with industry standards, considering all relevant factors which may affect the security price.

The function of sourcing asset valuations has been outsourced to U Ethical's custodian, Northern Trust. The asset valuation and unit pricing methodologies of Northern Trust specify how assets under custody are valued and how security prices are sourced.

Whilst Northern Trust provides the asset valuations, U Ethical retains the responsibility to ensure the asset valuations are determined in accordance with each Fund's Product Disclosure Statement (**PDS**), Information Memorandum (**IM**), Offer Document, constitution and relevant legislation, standards and guidelines.

9.2 Determining when assets and liabilities are valued

U Ethical has discretion under a Fund's constitution to determine when the Fund's assets and liabilities are valued. U Ethical generally determines that the assets and liabilities are valued on each business day, with the exception of some particular types of

assets such as direct property or alternative assets, where applicable.

9.3 Fees and costs

U Ethical may determine the time and amount of fees charged for a Fund in accordance with a Fund's constitution and disclosure document. U Ethical will generally exercise its discretion to charge fees within the range specified in the constitution and disclosure documents. The fees and costs details are set out in the Funds' PDS, IM or Offer Document

Application, redemption/withdrawal and exit fees

The constitution for each Fund generally provides the range of application, redemption and exit fees. U Ethical may charge a lower fee than the maximum or waive the fee.

Management fees

Management fees are charged for each Fund within the range specified in the constitution and are accrued in the unit prices on a daily basis.

U Ethical may also vary or waive management fees for certain wholesale investors, where permitted under ASIC and other regulatory policy and legal requirements. If management fees are varied or waived,

Performance fees

U Ethical may exercise its discretion to vary or waive performance fees for any Fund.

Where performance fees are charged, they are calculated and accrued in the unit price on a daily basis. Performance fees are generally payable only if the performance of a Fund exceeds the agreed performance target set out in a Fund's constitution or disclosure document.

U Ethical does not currently charge a performance fee for any of its Funds.

Expenses

Unless the disclosure document of a Fund states that U Ethical meet the expenses of the Fund from its management fee, U Ethical will recover expenses of administering and investing the assets of the Fund from that relevant Fund.

Where Fund expenses are not attributable to one particular fund, they are apportioned on an equitable basis.

Where the fees for a Fund is stated in its disclosure document to be inclusive of expenses, or where the constitution limits the expenses that the Fund can incur, U Ethical will bear the cost of any expenses which arise and exceed those amounts.

9.4 Determining the net asset value of a Fund

Under each Fund's governing document, the net asset value of a Fund is generally calculated as the value of the assets less the liabilities plus any income payable but not paid to investors, excluding the application amount in respect of applications that have not been accepted by the responsible entity, expressed in the following way:

$$\text{Net asset value} = \text{Total value of asset} - \text{total value of liabilities}$$

U Ethical has discretion to determine how assets are valued, including the valuation methodology and the timing of the valuation.

Method and timing

All purchases and sales of assets are recorded on the day of the transaction, not settlement date.

Dividends and interest are accrued and form part of a Fund's assets from the date they are quoted ex dividend and ex interest.

Other assets and liabilities are provided for when they have a known value or a value that can be reliably estimated. Fees, expenses and rebates are accrued on a daily basis.

Investment in the U Ethical Enhanced Cash Portfolio by other Funds

If the unit price of the U Ethical Enhanced Cash Portfolio is less than \$1.00, that price will be resettled in valuation of units of any Fund that invests in the U Ethical Enhanced Cash Portfolio to the extent of that investment.

Franking credits

For the U Ethical Enhanced Cash Portfolio and U Ethical Growth Portfolio, U Ethical claims the franking credits on dividends from the Australian Taxation Office.

Franking credits on dividends form part of the U Ethical Enhanced Cash Portfolio and U Ethical Growth Portfolio's assets from the date the relevant securities are quoted ex dividend and are included in the assets of the two Funds for the purpose of calculating the unit price until they have been distributed. Following receipt from the Australian Taxation Office, the cash equivalent of the franking credits is distributed to Unitholders in the next income distribution period.

For the U Ethical Australian Equities Trust - Wholesale and U Ethical Australian Equities Trust, all franking credit entitlements are distributed as a non-cash component to unitholders as part of the 30 June income distribution.

9.5 Allocation of Fund assets, liabilities, revenue and expenses between classes of units

In Funds where there is more than one class of units, the Fund's assets, revenue, liabilities and expenses for each class is generally calculated based on the proportion of the net asset value of the Fund to which the class relates.

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

As such, for a particular class of units where a particular expense may be different, the net asset value in a Fund for that class of units is expressed in the following way:

$$\text{Net asset value for the class of units} = \text{Total value of asset} - \text{total liabilities (including total expenses attributable to the class of units)}$$

9.6 Estimating an allowance for transaction costs

The governing documents of each Fund may provide that the issue and redemption/withdrawal prices of a unit may be adjusted by a transaction cost allowance (commonly referred to as a buy/sell spread).

The buy/sell spreads relevant to each Fund are disclosed in the PDS, IM or Offer Document, which are generally available on our website.

The spread is based on U Ethical's estimates of the average transaction costs incurred by the Fund where it is applicable. The estimated transaction costs are reviewed regularly. The approach taken in the review will vary depending on the nature of the assets held by the Funds. The following factors are considered when determining the buy/sell spread:

- brokerage costs;
- government charges (such as stamp duty)
- other costs associated with acquisition or disposal of assets of the kind held by the relevant Fund, such as settlement or clearing costs;
- buy/sell spreads of any underlying Funds.

The buy/sell spreads are charged to the unitholders when they buy or sell units in a Fund, so that other investors in the Fund do not bear these costs.

U Ethical has the discretion to allow for a spread to be waived or reduced in certain circumstances. Examples of such circumstances include:

- An in-specie asset transfer, where allowed by the governing document of a Fund. The buy/sell spread may be reduced or waived if

an application or redemption/withdrawal request is funded (or partially funded in the case of reducing spread) by an in-specie transfer of assets into or out of the Fund.

- A simultaneous application and redemption of units of equivalent value by different unit holders, therefore no transaction costs incurred.
- Reinvestment of distributions by unitholders into the Fund.

In these instances, there is no need to buy or sell assets in the market, and hence no transaction costs will be incurred. If, however, the Fund incurs costs on the transfer of assets, these may be passed on to the transacting unitholders.

U Ethical has discretion to determine whether a transaction cost allowance should apply and the basis for calculating the allowance. U Ethical considers that its transaction cost methodology is reasonable as it aims to ensure equity between unitholders by applying a standard process consistently to all unitholders. Where actual transaction costs vary from the estimated transaction costs, any profit or loss arising from the application of the transaction cost methodology will be benefited or borne by the Fund.

9.7 Determining when unit prices are calculated

U Ethical has discretion under each Fund's constitution to determine when unit prices are calculated.

U Ethical generally determines that the unit price of each Fund is calculated daily. The unit pricing frequency for each Fund is set out in the PDS, IM or Offer Document.

Unit pricing can be carried out using forward pricing or historic pricing. U Ethical calculates unit prices by using forward pricing

9.8 Determining a cut-off time

All units are issued and redeemed on the basis of forward pricing. When using a forward pricing methodology, a cut-off time must be applied to determine which transactions will receive a particular unit price.

Forward pricing means that for an investor transaction received before instruction cut-off time, the price will reflect a valuation point in the future (the price will be unknown at instruction time and will be calculated in the future).

The cut-off time is set out in each Fund's PDS, IM or Offer Document. The cut-off time is applied to the time when the transaction is received and accepted by U Ethical.

The unit price used for all unit purchases and redemptions reflects the price calculated at the close of business on the day the application or redemption request is received.

Application and redemption/withdrawal requests for Equities Funds will be processed on the next business day following receipt of request.

Application and redemption/withdrawal requests relating to Enhanced Cash Funds will be processed on the same day or next business day following receipt of request, depending on the time of receipt.

9.9 Unit price availability

Unit prices for Funds are generally available on our website after 10.30 a.m. on the next business day.

9.10 Suspension of redemptions

There may be circumstances where U Ethical determines that the value of a Fund's assets or liabilities cannot be calculated reliably, and to process transactions would give rise to inequities between transacting and non-transacting unitholders. Such circumstances can include, but are not limited to:

- a significant disruption to financial markets,
- where large numbers/values of redemption requests have been received, or
- in cases where there may be a delay in distributions to the fund and the asset value is unknown.

In such circumstances, U Ethical may determine that it is in the best interests of unitholders to suspend the calculation of unit prices.

Transactions received during the period of suspension will be processed using the unit price applicable on the first pricing day after lifting the suspension.

9.11 Staggering of redemptions

Where U Ethical deems it is in the best interests of unitholders and where permitted within a Fund's Constitution, U Ethical may restrict redemptions.

In normal circumstances, where a redemption request is received before the relevant cut-off time U Ethical will process a valid redemption request in full using the redemption price calculated for that business day.

However in some circumstances, having regard to the total size of redemption requests being more than 5% of (or such higher percentage as U Ethical may in its discretion determine) the units in the respective Fund, U Ethical may decide that it is in

the best interest of unitholders for the relevant Fund to reduce each redemption request pro-rata so that only 5% in total of the units in the relevant Fund (or such higher percentage as U Ethical determines) are redeemed as at the relevant valuation time. The unredeemed portion of the relevant redemption requests are carried forward to the next redemption date using the applicable redemption prices for that date.

9.12 Rounding of unit prices

The application and redemption prices per unit are calculated in Australian dollars to four decimal places (\$0.0000).

The number of units issued to an investor will be calculated and rounded down to the nearest whole unit. Where rounding has resulted in fractions of units that are not allocated to unitholders, any excess will remain in the relevant fund at all times.

9.13 Distributions

Frequency of distributions

The frequency of distributions is generally set out in the disclosure and governing documents of a Fund. U Ethical has discretion to vary this frequency, based on the amount and timing of taxable income and capital gains within the Funds and other factors such as anticipated cash flows and large applications into or redemptions from the Funds.

Distributable income

Generally, all taxable income earned by a Fund in a financial year is to be attributed to investors of the Fund during that financial year as distributable income.

Distributable income is calculated in accordance with each Fund's governing documents. The frequency of distributions is generally set out in each Fund's disclosure document. U Ethical has discretion to determine whether each Fund should distribute in a particular period. In exercising this discretion, the Responsible Entity will have regard to anticipated cash flows in a Fund, and any anticipated large deposits into or redemptions from a Fund, in order to ensure that unitholders in the same class are treated equally and unitholders in different class are treated fairly.

Distribution processing

When a Fund distributes, unit prices are unable to be accurately determined until such time as the distribution has been calculated. As a result, unit prices are delayed following the end of a distribution period. Any transaction that cannot be processed until the distribution is finalised and the

catch up prices are calculated can be backdated to ensure these transactions receive correct value.

9.14 Unit pricing error rectification

Materiality

Where a unit pricing error occurs resulting in incorrect values attributed to unitholders in a fund, the errors are rectified in accordance with the relevant standards and guidance notes issued by the Financial Services Council (FSC) and ASIC/APRA:

- Financial Services Council Standard No.17: Errors in Pricing/Crediting Rates when Determining Scheme Interests – Correction and Compensation (FSC Standard No. 17); and
- ASIC/APRA Unit pricing: Guide to good practice (RG94).

The size of the unit pricing error can 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 a particular point in time.

Where multiple errors impact a unit price on any given day, the combined effect of those errors will be measured to verify whether the tolerance level has been reached.

Procedure

In the event U Ethical detects a pricing error, there are clear procedures in place to rectify the error and determine its impact on investors within each of the funds.

Once an error has been detected, the manager must take all appropriate steps to ensure that the following actions are satisfied:

- Contain the error by identifying the extent of the problem;
- Liaise with the Risk and Compliance Manager concerning the extent of the problem and appropriate course of action to address the error;
- Ascertain the number of disadvantaged investors as a result of the error;
- Ascertain the materiality of the error;
- Consider the need for compensation and identify what constitutes a material exposure; and
- Communicate, if necessary to investors.

Compensation

U Ethical must determine the circumstances and manner it will seek to recover money from unitholders where unitholders have financially benefitted from a unit pricing error.

Where U Ethical has financially benefited from an error, e.g. overcharging management fees, U Ethical will pay compensation to unitholders of the fund impacted regardless of the materiality to the unit price.

Should the amount of compensation for an individual investor in this circumstance be less than AUD\$10, U Ethical will not pay compensation to the unitholder but will pay the amount back into the fund so that no financial benefit is retained by U Ethical.

All unit pricing errors will be reported to the Audit, Risk and Compliance Committee and monitored to ensure that they are not systemic.