

**Deutsche Asset Management (Australia) Limited**  
**ABN 63 116 232 154**

**Policy & Methodology**

**Unit Pricing**



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# OUR POLICY

## Overview

### 1. Introduction

Deutsche Asset Management (Australia) Limited (**DeAM**) is the responsible entity of the registered managed investment schemes listed in Schedule A (Funds) as may be amended from time to time. This Policy and Methodology (**the Policy**) sets out how DeAM will exercise its discretions permitted under the constitution of each Fund to determine the issue price and withdrawal price of units in those Funds.

### 2. Background

APRA and ASIC have developed a Unit Pricing Guide to Good Practice (**the Guide**) to help product providers understand and comply with their unit pricing obligations and to avoid costly errors by ensuring that unit pricing has a high profile and adequate resources.

The board and senior management of DeAM, in its capacity as the responsible entity of registered managed investment schemes, have set the tone and approach for DeAM's compliance with the Guide. This Policy has been developed to ensure that the requirements of the Guide are understood and applied consistently and is also designed to meet the requirements of ASIC Class Order 05/26 "Constitutional Provisions About the Consideration to Acquire Interests" and the variation to this Class Order 05/1236 (together **the Class Order**). This Class Order permits DeAM to decide a matter that affects the method or formula used to calculate the unit price of DeAM's Funds (**the Discretion**) where the conditions under the Class Order are met. This includes the documentation of DeAM's Policy on the Discretions permitted under the constitution of each Fund.

### 3. Reasonableness of this Policy

Unless noted below, the Policy relating to each discretion has been developed in accordance with industry standards some of which are outlined in relevant standards and guidance notes issued by the Financial Services Council (**FSC**) and the Guide. Accordingly DeAM considers the exercise of each discretion under this Policy as reasonable.

### 4. Outsourcing and DeAM's Responsibilities

The Discretions permitted under the constitution of each Fund are exercised by DeAM. However, the functional elements of the unit pricing process for the Funds is currently carried out by a third party, State Street Australia Limited (ABN 21 002 965 200) (**SSAL**). DeAM retains ultimate responsibility to unit holders regarding the calculation of unit prices. DeAM has entered into a service level agreement with SSAL which is designed to meet all regulatory expectations in respect of outsourcing arrangements. DeAM retains responsibility for all activities undertaken by SSAL.

### 5. Defined Terms

Unless the context permits otherwise, the terms below have the following meanings:

**Australian Accounting Standards** means the applicable accounting standards under the Corporations Act 2001 (Cth) and other mandatory professional reporting requirements in Australia.

**Issue Price** is as defined in Section 7.2 of this Policy.

**Net Asset Value** is as defined in Section 7.3 of this Policy.

**Outsourcing** means those activities normally undertaken by the Responsible Entity which have been contracted out to a related or unrelated third party but for which the Responsible Entity retains responsibility.

**Unit** means an interest in the property of a relevant Fund divided into units.

**Unit Holder** means a holder of units in the relevant Fund.

**Withdrawal Price** is as defined in Section 7.3 of this Policy.

## Unit Pricing

### 6. General Discretions Exercised by DeAM

The constitutions of the Funds include a range of matters on which DeAM may exercise its discretion in relation to a Fund, including those relating to unit pricing. This Policy sets out the processes that DeAM uses including details of how unit prices are calculated and how DeAM may exercise each discretion. For discretions applied in respect of the valuation of Fund assets, the manner in which the discretion is exercised will, as far as practicable, be consistent with ordinary commercial valuation practices.

#### 6.1 Forward pricing or historic pricing

DeAM utilises forward pricing to calculate unit prices. This means that applications and redemptions for units are transacted at a price calculated after receipt of those application or redemption requests received prior to the relevant cut off time as set out in the relevant Product Disclosure Statement (**PDS**).

#### 6.2 Valuation of assets

Unit prices are generally calculated daily, with the exception of those Funds which are priced monthly. However, in unusual circumstances unit prices can be calculated more or less frequently as specified in the relevant product disclosure statement.

A price source agreement has been entered into by DeAM and SSAL which details a primary and secondary source of valuation data. The primary and secondary price source agreement details the data feeds on which the valuation is based. These are market standard feeds which reflect the last traded positions of the respective securities. The valuation source clearly shows a differentiation between valuation sources for different types of asset classes. In addition the external auditors conduct an audit of valuations on an annual basis.

DeAM uses the following accounting treatments in respect of the different asset classes:

##### **Illiquid assets**

The last available market price is utilised where there is an expectation of future entitlement, unless there is a belief that it should be valued at zero. Where primary and secondary data sources do not provide a price, alternative manual sources may be utilised.

##### **Hard price/soft price**

We define soft prices as those estimated as a part of normal business operations when actual or hard prices are unavailable or not received in time to strike the unit price. Soft prices may be based on such information as index or other market movements. SSAL calculate daily unit prices, using soft prices, excluding distribution close dates where hard close is utilised.

##### **Stale prices and movement tolerance**

Stale prices occur where the daily asset price movements are outside usually accepted tolerances. For example, prices are deemed to be stale when no movement has occurred for five days or a price has moved +/- 10% during any given day. In these circumstances, a price movement review is undertaken. Stale prices are reviewed daily and reported to the Operating Committee on a monthly basis. Some examples of where stale prices may occur are as follows:

- There is no market in respect of the asset; or
- The market value does not represent the fair value of the asset.

##### **Estimates**

DeAM does not apply estimates to the security value component of unit prices where actual values are available. However, where a current value may not be available, for example an illiquid security or a complex security, the last available price may be used as an estimate.

**Performance fees**

DeAM designs and tests any performance fee model as part of the new product process, and reviews the model on a regular basis thereafter. Where a performance fee is applicable to a Fund, this fee is incorporated into the unit price as an accrued amount. Operations monitor the accruals relating to any performance fee on a monthly basis.

**Price movement**

Daily checks are completed via Data Control. Any security that has moved +/-10% is investigated. A report on these reviews is provided to the Operating Committee with explanations of the movements outside tolerances.

**Expense recoveries**

Estimates are utilised in forecasting expenses for a Fund and are calculated annually on an assessment of expenses for the Fund and may be accrued daily or covered by DeAM. Estimates are updated as actual data becomes available. SSAL is responsible for calculating the accrual and Operations reviews these calculations at least on a quarterly basis. Expense recoveries are made available on our website [www.am.australia.db.com](http://www.am.australia.db.com) and/or [www.ironbarkam.com](http://www.ironbarkam.com) at regular intervals.

Where the expenses are capped at a particular level and passed to the Fund, any excess over a cap is borne by DeAM. Where expenses are not capped they are either passed to the Fund or may be covered by DeAM. Any over/under estimation of expenses, where the impact on the unit price is greater than 30 basis points per annum will be treated as a unit pricing adjustment and follow the pricing adjustment procedure.

**6.3 Monitoring controls**

DeAM as Responsible Entity is responsible for monitoring all aspects of unit pricing including oversight of SSAL. DeAM monitors both the performance of SSAL and the end-to-end performance of the unit pricing function on a daily, monthly and annual basis. Monitoring controls, including supervisory review, are embedded in unit pricing processes at SSAL, for example, measurement of tolerance movements outside acceptable ranges are in place on a fund by fund basis. There is a formal process in place for SSAL to report on exceptions and obtain approval for release of any unit prices outside set tolerances from Operations.

**6.4 Market disruption**

In accordance with the Fund constitutions, DeAM may suspend unit pricing in certain circumstances such as where asset valuations are not able to be supplied via either the primary or alternate pricing source. Should it become necessary to suspend unit pricing, unit holders are kept informed by mail and also on our website [www.am.australia.db.com](http://www.am.australia.db.com) and/or [www.ironbarkam.com](http://www.ironbarkam.com).

**6.5 Tax treatment**

Tax issues, as identified, are discussed with SSAL, Operations and Deutsche Bank Group Tax. Where tax issues are complex in nature external tax advice is sought. Operations and the external tax advisers review tax methodology on an annual basis. Operations, liaising with external tax advisers have the relevant tax experience to review tax components together with the annual review of distributions and tax return preparation. SSAL provide a written tax Policy document to DeAM every twelve months.

## OUR METHODOLOGY

### 7 Calculation of Unit Prices

The constitutions for each of DeAM's Funds set out the method that DeAM uses to calculate the issue price and withdrawal price of the Fund at a particular time. This is generally expressed as follows:

#### 7.1 Issue Price

$$\frac{\text{Net Asset Value of the Scheme Assets + Acquisition Expenses}}{\text{Total Number of Units on Issue}}$$

#### 7.2 Withdrawal Price

$$\frac{\text{Net Asset Value of the Scheme Assets – Disposal Expenses}}{\text{Total Number of Units on Issue}}$$

#### 7.3 Net Asset Value

The method for calculating Net Asset Value of the Fund's assets is generally determined in accordance with Australian Accounting Standards. It is equal to the total value of Fund assets less Fund liabilities at the time of calculation. Determining the Net Asset Value involves the exercise of discretion by DeAM in order to determine the value of Fund assets and the value of those Fund liabilities which are contingent at the time of calculation.

#### 7.4 Valuation

Determining the total net asset value of the Fund Under each Fund's constitution, the total net asset value is calculated as the value of the assets less the liabilities excluding the application amount in respect of applications that have not been accepted by the responsible entity. DeAM has discretion to determine how the assets are valued including the valuation methodology and the timing of the valuation.

*Method:* Subject to the relevant Fund's constitution, investments within each Fund are valued at their market value consistent with the FSC standards. The assets of a fund include all investment assets, capital, income, property and rights of the Fund. Security prices are obtained, where possible, from independent security pricing services, and are based on market price where the security is traded on a regulated market.

*Timing:* Subject to the relevant Fund's constitution, DeAM may cause any assets of the Fund to be valued at any time (not limited to once a day) in accordance with the asset valuation method noted above. Generally, Fund assets will be valued at least daily. However for those Funds which are priced monthly, DeAM may cause the assets to be valued on a monthly basis. The frequency of valuation is set out in the relevant PDS for each Fund.

*Rounding of Unit Prices:* The Issue Price and Withdrawal Price will be rounded up or down to the number of decimal places specified in the Constitution or as determined by DeAM in accordance with market practice.

#### 7.5 Transaction Costs

An estimate of the costs associated with acquiring or disposing of an asset of the Fund is made each time an investor buys or sells units in a Fund by incorporating a buy/sell differential in the relevant issue and/or withdrawal unit price. The **buy/sell differential** is an additional cost which operates to increase (for each application) or decrease (for each withdrawal) the unit price received by the investor to recover transaction costs associated with buy and selling the fund's assets such as broking charges. The purpose of the buy/sell differential is to protect long-term investors from the costs associated with those investors who come into and leave the Fund. In those circumstances where no transaction cost is incurred because there is no trading of underlying assets DeAM may waive the buy/sell differential.

The estimated transaction costs relevant to each Fund are listed in the relevant PDS, or from our website at [www.am.australia.db.com](http://www.am.australia.db.com) and/or [www.ironbarkam.com](http://www.ironbarkam.com). The buy/sell differentials are regularly reviewed and the following factors are taken into account:

- Current brokerage costs;
- Current government charges (such as stamp duty); and
- Other costs directly associated with the acquisition or disposal of assets of the kind held within the relevant Fund, such as settlement, valuation, legal or clearing costs.

## **7.6 Determination of Issue and Withdrawal Fees**

The constitution of each Fund sets out the maximum issue and withdrawal fees that the responsible entity is entitled to charge. We are not able to change more than the constitution permits without unit holder approval. The current issue fee (which may be referred to as an establishment fee) and withdrawal fee (which may be referred to as an exit fee) applicable to each Fund are disclosed in the relevant PDS.

DeAM may exercise its discretion to charge those fees up to the maximums stated in each Fund's constitution. The amount generally depends on market practice and competition. DeAM would always provide investors with at least one month's notice of any proposed changes to fees. This notice period is given to provide investors with sufficient time to consider the impact of the change and withdraw their funds if they so wish.

DeAM may also charge different fees for different investors, for instance negotiation of the transaction costs may be available to sophisticated and professional investors as set out in the Corporations Act. DeAM will not, however enter into individual fee arrangements with retail investors.

## **8 Unit Pricing Issue**

All Unit pricing issues are the subject of an incident report which, in the first instance is recorded by Operations and is provided to Compliance where it is recorded in the Incidents Database following a detailed review. Recorded incidents are reported to the Operating Committee on a monthly basis, with further quarterly reviews by the Compliance and Audit Committee. Membership of these Committees includes senior management and external representatives. In resolving an issue DeAM does not back-date to correct any unit pricing error.

### **8.1 Compliance**

Compliance and Legal are instrumental in assisting the DeAM business in identifying the relevant regulatory obligations. Compliance is included in the review and sign off of all unit pricing matters, including escalation and reporting as appropriate.

DeAM's out-source provider, SSAL, also has monitoring processes in place including:

- a structured pricing Policy,
- tolerance level checks, and
- multi-level sign-off of unit prices on a daily basis.

DeAM Compliance, together with other relevant areas, such as Fund Managers and Client Services, is involved in the resolution of all unit pricing issues. These processes are in line with the Guide and FSC Standards. Both the DeAM and SSAL processes require detailed analysis of each issue, including identification of the basis point impact and consideration of compensation to unit holders and the Fund where appropriate (eg where basis point impact is greater than 30 basis points or is material in nature - DeAM will ensure that the unit holder and/or Fund is treated fairly and not disadvantaged).

In accordance with DeAM's Incidents Policy, all unit pricing issues are escalated to the relevant committees for review and consideration of resolution and any regulatory reporting. Operations are responsible for communicating any resolution and corrective action to SSAL and other relevant DeAM business areas and for ensuring that, where appropriate, compensation is paid.

### **8.2 Errors & Compensation**

#### **Errors**

Unit pricing errors may result in unit holders not receiving the correct number of units on application or proceeds on redemption to which they are entitled.

Unit pricing calculation errors can result in:

- the unit price to be too high, then fewer units are issued to investors on entry to the Fund. If there is no correction to the number of units, the unit holder will hold a lower value in the Fund than should have been received.
- the unit price to be too low then, when a unit holder makes contributions, that unit holder gains the benefits that accrue from the greater number of units acquired, at the expense of ongoing unit holders.
- the unit price to be too low at the time of withdrawal then, when a unit holder withdraws from the Fund, the total amount paid to the unit holder for units redeemed is less per unit than the unit holder's actual entitlement to Fund value.
- the unit price to be too high then, when a unit holder withdraws from the Fund, the total amount paid to that unit holder for units redeemed is too high, at the expense of ongoing unit holders.

For the avoidance of doubt in respect of unit pricing errors, DeAM does not undertake backdating of any transactions. Rather it is DeAM's Policy that where an error has occurred, DeAM will give good value to ensure all investors are treated equally and that investors are in the same position they would have otherwise been had the error not occurred. (See the compensation section below.)

### ***Compensation***

**In principle, compensation returns unit holders or the Fund to the financial position that would have existed if the error had not occurred.** It is generally considered not feasible to recover amounts overpaid or additional units created from unit holders who have gained an advantage from a unit pricing error. In general it is DeAMs' Policy to compensate the Fund in such circumstances. Where a new unit holder (or an ongoing unit holder who has applied for additional units) is affected by an error and compensation has been assessed as payable this will generally take the form of the issue of additional units. For those unit holders who have exited the Fund, and who may also be entitled to compensation, DeAM's procedures require that these unit holders be contacted at their last known address and in this case compensation will generally take the form of a cash payment.

In accordance with this Policy and in the Responsible Entity's view if it is more appropriate to compensate the Fund as a whole rather than individual unit holders, this will generally be accomplished by the Responsible Entity making a payment to the affected Fund. DeAM has set a de-minimus dollar amount for payment of compensation of A\$20, below which compensation will not be paid to unit holders. In all cases where compensation is payable, unit holders will be provided with full details relating to the matter.

### **8.3 Managing unit pricing errors**

In managing a unit pricing error, DeAM will take into account:

- The consequences of the error (the impact on the Fund and the unit holders) and monitoring of new applications and redemptions which occur during the period when the extent of the issue is being assessed;
- Determination of the number of disadvantaged unit holders, including details of unit holders entering and exiting the fund during the affected period, including registration in the Incident's Register.
- Consideration of compensation and an analysis of the impact on the unit holders or the fund.
- Communication with unit holders and, where appropriate, internal committees and regulators.
- The extent of any correction and that it is appropriately managed to limit the possibility of arbitrage.
- Any involvement, where requested, of external auditors in confirming the impact of any corrective actions for a unit pricing issue.

### **8.4 Identifying the source of unit pricing errors**

Through analysis of the cause of a unit pricing error, Operations and Compliance are able to identify and enhance the DeAM unit pricing activities including those provided by SSAL. Systemic issues identified within the unit pricing process are followed up and where appropriate give rise to process change in order to minimise recurrence. An issue such as those listed below may give rise to a unit pricing error and may be subject to review and assessment:

- potential complications in asset valuation (eg the failure of data source feeds);
- possible malfunction in information technology systems;
- possible disturbance in the provision of outsourced services;
- human error.

## **9 Discretions Outside this Policy**

If DeAM exercises a discretion in a manner which departs from this Policy, DeAM will document the following detail:

- The date on which the discretion was exercised;
- Who exercised the discretion (ie DeAM or a delegate);
- How the discretion was exercised;
- An explanation as to the reasonableness of the exercise of the discretion and if it was not in line with normal commercial practice, the criteria for the departure;
- Who authorised the exercise of the discretion.

## **10 Records Maintained by DeAM**

DeAM will, in accordance with the Class Order, retain this Policy for seven years after it ceases to be current. DeAM will also retain records relating to circumstances where the exercise of discretions is not covered by this Policy or involves a departure from this Policy.

## **11 Review and Update of this Policy**

This Policy is generally reviewed on an annual basis and where an update is required in line with changed circumstances, for example, the Funds listed in Schedule A, changes in market conditions, legislation or strategic direction, this will be issued and communicated to all relevant business areas. This Policy (or any update) and any additional material which relates to discretions not covered in this Policy are available free of charge by contacting us on 02 8258 2400.

### **More Information?**

If you have any questions or would like to request more information please contact DeAM:

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**Fund Listing**

<b>Fund Name</b>	<b>ARSN</b>
<b>Deutsche DBI Global Shares Fund</b>	146 426 057
<b>DWS Diversified Income Fund</b>	139 852 761
<b>DWS Global Equity Agribusiness Fund</b>	124 220 202
<b>DWS Global Equity Thematic Fund</b>	090 379 105
<b>DWS Global Equity Thematic Fund (Fully Hedged)</b>	122 000 524
<b>RREEF Global (Ex-Aust) Prop Fund</b>	110 908 793
<b>RREEF Global Property Securities Fund</b>	110 908 506
<b>RREEF Paladin Property Securities Fund</b>	087 897 667