



Unit Pricing Policy

Policy Owner: General Manager, Investments (GMI)

VERSION	Approval Date	Approved By	Change Description
10.6	31 May 2019	GMI	Non material ¹ : Amending new role titles post restructure; Clauses 2.2, 4.1, 4.3 and 9.5 (general updates)
10.5	16 April 2018	GMI	Non material ¹ : Amending Clause 2.5 Backdating and Clause 3.3 (Checks and Controls)
10.4	24 March 2017	GMI	No changes required
10.3	21 March 2016	GMI	Non material ¹ : Amending Clauses 1.9, 3.12, 4.1, 6.1 - 6.2 (general updates).
10.2	4 March 2015	GMI	Non material ¹ : Amending Clause 1.8 (Custodian as material outsourcing provider)
10.1	19 November 2014	GMI	Non material ¹ : Amending Clauses 1.10, 2.2 & 8.1 (general updates), Clause 3.12 (fee accruals) & Clause 4.2 (Bloomberg acquiring the UBS indices).
10	19 December 2013	Board	
9	25 October 2013	Board	
8	27 June 2013	Board	
7	1 January 2013	Board	
6	28 June 2012	Board	
5	01 June 2011	Board	
4	29 June 2010	Board	
3	26 June 2009	Board	
2	18 December 2008	Board	
1	23 October 2008	Board	

¹ Non-material amendments were approved by the Policy Owner

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1 OVERVIEW

1.1 Introduction

A key business process for any superannuation fund is the calculation of unit prices. Rest manages a range of products that require unit prices to be calculated. This document sets out Rest's policies regarding the calculation of unit prices, and associated issues and processes.

The purpose of calculating unit prices is to reflect the estimated value of each of Rest's Investment Options to facilitate the accurate and efficient implementation of all transactions undertaken by members, so that the movements in unit prices reflect the returns of Rest's Investment Options.

Underpinning the development of this Policy is an acknowledgement of the obligation to treat all members of the Fund equitably. A common-sense approach has been adopted which aims to combine good practice with existing processes, having regard to the characteristics of Rest and its members. In certain areas within this document, it is acknowledged that some risks remain. In those instances, an explanation has been provided as to why it is believed that those risks have been mitigated to an acceptable level.

1.2 Policy Implementation, Review and Approval

The responsibility for implementing and monitoring the application of this Policy lies with the Manager, Investment Operations who will draw upon the support of the Senior Manager, Investment Operations and General Manager, Investments (GMI) with regards to those aspects of the Policy which align with each individual's day-to-day roles at Rest.

The Policy, and any subsequent material amendments to the Policy, is to be recommended by the Investment Committee for approval to the Rest Board (being the Trustee and Responsible Entity for the products discussed in this document). Where amendments are considered non-material, they may be approved by the GMI and then noted by the Investment Committee.

A review of the Policy is to be carried out annually (or more frequently if prompted by changes in regulatory requirements or the business environment) by the Senior Manager, Investment Operations to ensure that it remains appropriate.

1.3 Review and Release of Information

In various places throughout this document, requirements for the review and release of information by particular Rest employees may be noted. Where such action is required, the release of information must be advised in a written form (physical sign-off or fax or email) or through established electronic sign-off mechanisms to be valid.

1.4 Policy Scope

This Policy covers products issued by Rest where a member's interest in the Fund is expressed in investment units.

The Policy covers issues directly related to the activity of unit pricing. It does not cover:

- Registry administration processes.
- Monitoring of outsourced relationships (formally covered under relevant contract documentation).
- Fund accounting or investment accounting processes for the purposes of financial statements and tax returns.
- Product design or maintenance processes.
- Specific rectification methodologies.
- Business continuity planning or disaster recovery.
- Information systems and processes.

This Policy forms the nucleus of the unit pricing framework. Detailed procedures for the implementation of the Policy are set out in separate documents as outlined below:

Rest Unit Pricing Policy (this document)

Rest Unit Pricing Policy

Valuation/ Calculation	Member Transaction Processing	Tax	Reserves	Breaches/ Incidents
SSAL unit pricing related policies Investment Policy Unlisted Assets Valuation Policy	Business Rules	Tax Provision for Unit Pricing Policy	Reserving Strategy and Policy	Incident and Breach Reporting Policy

Responsibility for the maintenance of the documentation supporting this Policy is shown below:

Document	Owner:	Approval of material changes by:
SSAL unit pricing related policies	SSAL	State Street Australia Limited (SSAL)
Investment Policy	GMI	Board on recommendation from Investment Committee
Unlisted Assets Valuation Policy	GMI	Board on recommendation from Investment Committee
Business Rules	Group Executive Product and Operations	Administration Committee
Tax Provision for Unit Pricing Policy	Group Executive Corporate Services	Board on recommendation from Tax Planning Committee
Reserving Strategy and Policy	Group Executive Corporate Services	Board on recommendation from ARCC
Incident and Breach Reporting Policy	General Manager, Risk & Compliance	Board on recommendation from ARCC

1.5 Relevant Documentation

The pricing practices must be consistent with the requirements of the following documents, which govern the administration of Rest's products:

- Superannuation trust deed;
- Product disclosure statements; and
- Risk Management documentation.

If, in any instance, these documents contradict statements in this Policy, the requirements of these documents supersede the statements in this Policy.

1.6 Relevant Legislation & Regulation

Rest and its products are governed by a range of legislation and regulation that can impact on this Policy. Relevant legislation includes:

- Corporations Act 2001;
- Superannuation Industry (Supervision) Act 1993 and Regulations; and
- Associated guidance and prudential standards as published by ASIC and APRA.

Rest's obligations under the Corporations Act 2001 include its obligations as an Australian Financial Services licensee. Rest also has obligations under its RSE licence.

1.7 Relevant Guidance

APRA and ASIC released a Unit Pricing Guide to Good Practice in November 2005 ('the Guide') which was subsequently amended in August 2008.

The Financial Services Council (FSC), previously known as the Investment and Financial Services Association (IFSA), has also issued a range of Standards and Guidance Notes that relate to unit pricing. However, as Rest is not a member of the FSC it is not bound by this guidance, but will follow the guidance where applicable to Rest.

The relevant FSC Standards and guidance are:

- FSC Standard No. 8 Revised "Scheme Pricing"
- FSC Standard No. 9 Revised "Valuation of Scheme Assets and Liabilities"
- FSC Standard No.17 "Incorrect Pricing of Scheme Units – Correction and Compensation"
- FSC Guidance Note No. 26.00 "Asset Valuation and Unit Pricing for Infrequently Valued Assets"

1.8 Outsourcing

Rest has outsourced various aspects of its unit pricing processes to State Street Australia Limited ("SSAL") (as Custodian) and Australian Administration Services ("AAS") (as Administrator). This Policy applies to all unit prices, whether calculated within Rest or by a third party via an outsourcing arrangement.

Due to the nature and the extent of the information exchanged between Rest and SSAL and Rest's reliance on SSAL systems and processes to calculate the unit prices, SSAL is a material outsourcing provider to Rest. As such, SSAL and Rest representatives meet on a regular basis to discuss and understand any changes that arise from strategic or other changes undertaken by SSAL, in particular their impacts on Rest.

Although the functional elements of the unit pricing process are carried out by third parties, Rest is not able to outsource its responsibility to members regarding the calculation of unit prices. Hence, the ultimate responsibility for ensuring that unit prices are determined appropriately lies with Rest.

Rest will monitor the production of unit prices to ensure they are appropriate.

1.9 Definitions

Business Day: a day on which banks are normally open for business in New South Wales other than a Saturday or Sunday.

Hard Close: Valuations used for financial accounting at month end incorporating any late trades and prices received after the soft close cut-off.

Rest Investment Team: Team within Rest responsible for the oversight of the production of unit prices. References to "delegate/s" for the GMI or Senior Manager, Investment Operations refer to the Manager, Investment Operations and/or Senior Investment Operations Officer or Investment Operations Officer. However, on occasion, it may refer to another member of the Rest Investment Team who has received appropriate training with regard to the unit pricing process.

Senior Manager, Investment Operations: Leads the relevant sub-team within the Rest Investment Team responsible for unit pricing.

Net Asset Value (NAV): The net asset value is described in section 3.2.

Rest Operations Team: Team within Rest responsible for the oversight of the administration of Rest member accounts by AAS.

Soft Close: Valuations used in the calculation of unit prices are the last available for the relevant Valuation Date.

Transaction: Any activity in a member's account resulting in the buying or selling of investment units. This includes (but is not limited to) transactions such as: applications (be it initial applications or

subsequent contributions), redemptions, switches, payment of fees by unit deduction, application of rebates and deduction of insurance premiums.

Valuation Date: The date at which the assets and liabilities are valued.

1.10 Pricing Response Team

The Manager, Investment Operations is responsible for convening and co-ordinating the Pricing Response Team (PRT) to deal with issues arising from the unit pricing process. The PRT consists of:

- Senior Manager, Investment Operations (or delegate)
- GMI (or delegate)
- Group Executive Product and Operations (or delegate)
- Group Executive Corporate Services (or delegate)

All officers nominated above will be included in all activities of the PRT in order to avoid the situation whereby a delegate is asked to make a decision without having sufficient background knowledge regarding the role or past activities of the PRT.

The PRT has responsibility for making a recommendation to the Chief Executive Officer for approval regarding the following activities:

- Determine whether some other price or value should be substituted for the price or value that would apply on application of the normal unit pricing process.
- Suspension of processing of member transactions where a suitable unit price is not available for use.
- Determine whether errors/incidents reported which impact members' transactions are required to be rectified in accordance to the materiality threshold set under the Policy.
- Determine if appropriate to make provisions/accruals in the unit pricing process to rectify any errors/incidents.

The PRT has responsibility for the following activities:

- Determine whether additional or less frequent unit prices are required for operational purposes.
- Enlist Rest staff or service providers to provide assistance with regards to any aspect of the unit pricing process as deemed necessary.
- Review, adjustment and write-off of Investment related accruals as appropriate.
- Any other decisions required to ensure that the unit pricing process is managed in accordance with this Policy.

In making any recommendation or decision, the PRT must take into account the appropriate input of, and impact upon, all relevant stakeholders. In the event that it is not possible to convene a meeting of all members of the PRT, a decision may be taken by a minimum of two members of the PRT plus the Chief Executive Officer, after having taken into account the appropriate input of, and impact upon, all relevant stakeholders.

All decisions taken by the PRT which have not involved the approval of the Chief Executive Officer will be immediately reported to the Chief Executive Officer.

The PRT will report quarterly to the Audit, Risk and Compliance Committee ("ARCC") on both its activities and decisions.

2 UNIT PRICING METHODOLOGY

Guidance on appropriate unit pricing methodologies is included in the Guide. The policies described in this section have been determined with reference to the Guide and current practices, and are detailed in the SSAL unit pricing related policies and the Business Rules.

2.1 Forward vs Historic Pricing

Unit pricing can be carried out using forward pricing or historic pricing:

- *Forward pricing* is when applications to buy and sell units are processed using a price based on asset data effective after the applications have been received.
- *Historic pricing* is when applications to buy and sell units are processed using a price calculated prior to the receipt of applications.

The preferred pricing methodology is forward pricing as it eliminates the potential for some members to benefit to the detriment of other members of the Fund. Rest currently uses the following combination of forward and historic pricing:

- historic pricing basis for applications and redemptions;
- forward pricing has been implemented with regards to switching by delaying switches by 2 business days from the request date.

With regards to the use of historic pricing for the processing of applications and redemptions for unitholders, Rest acknowledges that the best practice for processing would be on a forward basis, but this is not possible at the current time due to constraints within the Administrator's system on which member records are kept. Rest is comfortable that the risk of member arbitrage arising from this area is minimal due to the following:

- The large majority of applications into Rest are Award or Superannuation Guarantee (SG) contributions. The nature of SG contributions and many personal contributions (via payroll deductions) and rollovers in (from other institutions) is that the timing of applications is not under the direct control of individual members;
- withdrawal forms are not available to members except for pension members via the website and on-line processing is not available (except for pension up to maximum \$10,000); and
- the main risk of member arbitrage due to the use of historic pricing has been eliminated via the introduction of the two business day processing delay for switching activity. This means that a member will not have knowledge of the transaction price at the time of notification.

2.2 Frequency of Calculation of Unit Prices

Unit prices are calculated each Business day. If the month end date is a Saturday or Sunday, the Friday preceding the month end date being a Saturday or Sunday will be deemed to be the month end. However, at the custodian SSAL, the month end date will be used as the "As Of" date to ensure that income and expenses are accrued to include the Saturday and Sunday as appropriate. The Valuation Dates are agreed between the Custodian and Rest before the start of each calendar year and advised to the Administrator in advance. The Valuation Date used for a unit price should generally be no more than two business days old, however the PRT has the ability to change the Valuation Date for operational reasons.

The unit prices are reviewed by the Manager, Investment Operations or delegate before release to the Administrator. This release is completed via a web-based software, Miraql, and unit prices are automatically uploaded in the Administrator's system at a designated time for use in the processing of member transactions on the next business day.

The above process flow may be disrupted from time to time due to various reasons, including:

- system issues
- underlying price delays
- human error

The disruption to the process can be minor (under 2 hours) or severe (2 hours or more). Rest's Manager, Investment Operations or delegate, has the authority to stale the prices (i.e. use the most recent price available for the purpose of processing of member transactions).

Rest's Manager, Investment Operations or delegate will immediately inform the PRT and the CEO of the decision to stale the prices as well as providing all relevant information. Should the delay persist

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to the second day, the PRT will be convened in order to suggest an appropriate course of action for the next pricing point.

In the event that the above deliverable timeframe is not met, Rest will liaise with the Custodian and the Administrator to ensure that the status of the calculation and review of unit prices is communicated to the Administrator. Once unit prices have been released to the Administrator, they will be used for processing member transactions at the earliest possible time, subject to the Administrator's agreement.

2.3 Calculation of Unit Prices

Effective 1 July 2013 Rest commenced quoting different unit prices for transactions which involve the buying of units (prices include buy spread) and selling of units (prices include sell spread). Buy/sell spreads will be reviewed annually or more frequently as required. Buy/sell spreads are discussed in details in section 9.1 below.

The calculation of a buy and sell price of a unit for a particular Valuation Date is determined as follows:

	Superannuation	Pension
Buy Price	$\left(\frac{\text{Post Tax NAV}}{\text{No. of units on issue}}\right) \times (1 + \text{Buy spread})$	$\left(\frac{\text{Pre Tax NAV adjusted for franking credits}}{\text{No. of units on issue}}\right) \times (1 + \text{Buy spread})$
Sell Price	$\left(\frac{\text{Post Tax NAV}}{\text{No. of units on issue}}\right) \times (1 - \text{Sell spread})$	$\left(\frac{\text{Pre Tax NAV adjusted for franking credits}}{\text{No. of units on issue}}\right) \times (1 - \text{Sell spread})$

Where NAV (Net Asset Value) is defined in Section 3.2.

2.3.1 Application of unit prices

2.4 The unit prices for the Valuation Date will be applied to transactions occurring the first business day after unit prices have been calculated by SSAL and reviewed and released by Rest for use by the Administrator, and then applied until the next pricing date.
Rounding

The number of decimal places used when calculating unit prices is 4 decimal places. Unit prices are rounded to the nearest applicable decimal place (i.e. a 4 or less in the next decimal place is rounded down, and a 5 or above is rounded up).

2.5 Backdating

Backdating of applications should be minimised. Rest acknowledges that this practice can result in existing members being disadvantaged. However, there may be situations where processing delays result in backdating being required in order to meet the requirements of the constitution, trust deed or offer documents. The main cause of the requirement to back date transactions is the receipt of poor quality data from employers.

This section defines how backdating is to be managed by Rest Operations.

The policy regarding backdating is as follows:

- Applications (contributions) will be allocated and backdated to the date at which the funds were received by Rest.
- Redemptions, including switches (which are processed 2 business days after receipt), will not be backdated and have the effective date set to the process date.

The activity of backdating creates a minor exposure within the Core Strategy to the extent that funds may not be immediately invested in the relevant asset classes. The Rest Investment Team monitors the impacts of backdating as part of the unit pricing process to ensure that the impact is immaterial.

Whilst backdating may affect member activities, monitoring the application or redemption transaction is embedded within the daily unit pricing process. Any large movements greater than 0.01% will be reviewed by the Administrator and the Rest Investment Team to ensure the difference is caused by reasonable backdating activities only.

2.6 Switching

Switches are effected two Business Days after the request is received. Switches are processed using the redemption price from the original option and the application price from the new option.

Switching between unitised Investment Options uses unit prices with the same effective date for the switch being two Business Days after the request is received by Rest. Where this falls on a weekend or public holiday, the switch effective date will be the next business day.

3 VALUATION OF ASSETS AND LIABILITIES

As per the Guide, the processes for valuing assets and liabilities should meet the following criteria:

- they should be accurate;
- they should be consistent;
- they should be simple; and
- they should be transparent.

3.1 Principles of Valuation

3.1.1 Investment Assets

For unit pricing purposes investment assets are valued at fair value in accordance with AASB 13 *Fair value measurement* and AASB 136 *Impairment of assets*. Detailed valuations of investment assets will use the guidelines contained in the following documents, unless otherwise stated by disclosure or offering documents, the trust deed or the constitution:

- SSAL unit pricing related policies
- Unlisted Assets Valuation Policy

Rest's valuation process differs according to the type of investment as discussed below:

- **Listed assets held within discrete mandates** – valuations are undertaken by the Custodian with security prices being obtained from widely used price feeds from publicly quoted and independent security pricing services.
- **Unlisted assets** – the Unlisted Assets Valuation Policy documents the Trustee's approach to both its directly held investments and unlisted trust investments. For directly held property and infrastructure investments, independent valuations are undertaken, and external valuers are rotated in accordance with criteria established in that Policy. For other unlisted investments, the Trustee adopts the latest valuation which may be determined on a weekly, monthly, quarterly, or less frequent basis depending upon the actual investment as supplied by the relevant Investment Manager.

All valuations are as at close of business on the Valuation Date. In the event that there is no updated valuation available at the Valuation Date, the last available price is regarded as the best estimate of the security value, i.e. stale price. This practice will mainly affect the directly held and unlisted assets and is considered acceptable as it uses the latest available valuation and these assets comprise a relatively small part of the total assets of the Fund.

3.1.2 Other Assets and Liabilities

Other assets and liabilities in the Fund, which may include tax, base management fee accruals and rebates, will be valued in good faith, using the principles discussed in the Guide. In particular:

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- investment income is accrued on an ex-date basis with adjustments processed when income is received; and
- Investment Manager performance fee estimates are accrued for on an asset class level monthly.

Tax liabilities and assets are specifically considered in section 5 of this Policy.

3.1.3 Accounting Standards

Valuations between unit pricing (soft close) and financial statements (hard close) are different since a provision for disposal cost under AAS25 is included in the hard-close price. Differences may also arise due to the timing of transactions and the delay in receiving valuations. This difference is reflected in the investment earnings not yet allocated and is reconciled on a quarterly basis by the General Manager, Finance to confirm that any difference is due to the expected differences in the valuation approach.

See Section 7.2 for adjusting reserves.

3.2 Net Asset Value

The Net Asset Value (NAV) of the Fund is the value of the gross assets of the Fund less the liabilities of the Fund.

The assets of the Fund include all investment assets, capital, income, future income tax benefits, property and rights of the Fund.

The liabilities of the Fund include all borrowings, contingent liabilities, tax liabilities (current and deferred), accrued fees payable, and any other liabilities or provisions the trustee believes should be made.

3.3 Checks and Controls

The Administrator produces a “trial run” on a quarterly basis, which simulates a year end, and earnings are applied to member accounts. The General Manager, Finance is responsible for reconciling the earnings applied to member accounts against the Fund earnings for reasonableness. Differences are reflected in the investment earnings not yet allocated. There are a number of factors which explain the difference, and these can be classified as either timing differences or permanent differences. For example:

- Timing difference – soft close for member records compared to hard close for financial statements.
- Permanent difference – differences resulting from backdating of applications. Any difference greater than 0.20% will be investigated further.

Effective 1st July 2016, provision for disposal costs per AAS1056 is no longer required and no longer included within unit prices.

4 MONITORING OF UNIT PRICES

4.1 Review and Release

Unit prices are not to be used for the purposes of member transactions until they have been reviewed, and the results released to the Administrator, by the Manager, Investment Operations or delegate.

As a result of the unit price review process, the Manager, Investment Operations or delegate may require the Custodian to recalculate unit prices prior to being released to the Administrator for use in transactions processing. Such action will result in notification being sent to the Senior Manager, Investment Operations.

Where an error, issue or incident is identified, the relevant communication protocol per the Incident and Breach Reporting Policy and Section 6 of Errors and Rectifications is to be applied. This is also recorded via an incident report logged in the Custodian Issues Register.

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However, if an issue is identified after unit prices have been released to the Administrator for use in transactions processing, it is the role of the PRT to determine what actions should be taken.

The Manager, Investment Operations or delegate have the authority to request the Custodian to proceed with unit pricing without receiving cash flow files from the Administrator and to state the unit price to the next business day in the case of a significant delay in receiving files from the Custodian.

4.2 Tolerance Checks

Rest employs active Investment Managers, and so it is possible that a Manager's return will differ significantly from that of other managers and from a pre-determined benchmark over each valuation period. Hence, whilst the relative returns for Managers within a Sector are monitored, the preferred method is to establish formal tolerance thresholds at the overall Sector level i.e. review the performance of the Sector compared to a pre-determined benchmark.

The Senior Manager, Investment Operations is responsible for setting the Sector benchmarks and tolerance thresholds against which any difference is compared. The table below lists the benchmarks and tolerance levels for the custodian to monitor and report to Rest where a breach of the tolerance level emerges as part of the regular unit pricing information delivered by the custodian.

SECTOR	TOLERANCE LEVEL
Australian shares	S&P/ASX 300 Accumulation Index +/- 0.50%
Overseas shares	MSCI World Index ex Australia, gross, unhedged in \$A +/- 1.00%
Growth alternatives	0% +/- 0.20%
Defensive alternatives	0% +/- 0.20%
Infrastructure	0% +/- 0.20%
Property	0% +/- 0.20%
Bonds	50% Bloomberg AusBond Composite Bond Index, 50% Citigroup World Government Bond Index, +/- 0.20%
Cash	Bloomberg AusBond Bank Bill Index +/- 0.05%
Basic Cash	RBA Cash Rate +/- 0.05%

Rest undertakes the following checks with any movement outside of tolerance levels being reviewed by the Manager, Investment Operations or delegate before being released. The Manager, Investment Operations or delegate should be satisfied as to the causes of the movement outside of tolerance levels before releasing the unit price, and conduct further investigation if the causes are not understood:

- The percentage movement of each Sector from the previous Valuation Date will be compared against an appropriate benchmark, in order to check that the movement is reasonable for that period.
- The percentage movement in the unit price for an Investment Option from the previous Valuation Date is broadly in line with the performance of the individual Sectors and the asset allocation and cash flow of the relevant Investment Option.

4.3 Rebalance of Strategic Asset Allocation (SAA)

At each unit pricing date, the Custodian undertakes the rebalancing calculations to realign the Investment Options (excluding the Core Strategy) actual asset allocation to SAA. The Core Strategy is the option where all the rebalancing from actual to SAA for all other Investment Options is processed. This means that Core Strategy will buy/sell asset class units to effect this rebalance. A standing instruction to execute this periodic rebalance is provided to the Custodian.

The Superannuation Core Strategy's actual asset allocation is used to realign the Pension's Core Strategy. This is to ensure that returns for the Pension Core Strategy mirrors that of the Superannuation Core Strategy except for the tax-exempt difference in the Pension Core Strategy and differences arising from strategic decisions made to differentiate the Superannuation and Pension options.

4.4 Checks and Controls

It is the responsibility of the Manager, Investment Operations to ensure that appropriate checks and controls are in place throughout the unit pricing process (including those portions of the process performed by any outsourced provider).

4.5 Communication of Option Returns

Where information is communicated to external parties (e.g. research houses) via a non-automated process, the unit price information being communicated will be prepared and checked by the Manager, Investment Operations or delegate before being distributed.

5 TAXATION CONSIDERATIONS

Tax considerations in unit pricing are complex and are covered separately in the Rest Tax Provision for Unit Pricing Policy. The main principles are outlined below:

- Unit prices include a provision for income tax.
- Tax is calculated at the asset class level based on the accounting profit and loss. Tax is applied at different rates dependent on the nature of the gain or loss. For example, gains and losses on capital investments such as equities, options and futures are recognised at 10% since Rest generally holds assets for more than 12 months. Gains and losses on traditional investments such as Bonds and Discount securities are recognised at 15%. Income and expense items such as dividends and interest are recognised at 15% on the gross amount, with the full amount of franking credits and foreign tax offsets recognised on an ex-date basis.
- The tax rate for capital investments such as equities can be changed. The appropriateness of the tax rate will be reviewed on an annual basis, and take into account the likelihood of Rest realising short term capital gains in the next 12 months, in which case a new rate somewhere between 10% and 15% may be more appropriate to recognise that a proportion of capital gains may be taxed at the higher rate of 15%.
- Since Rest maintains a single pool of assets for both accumulation and pension phases, the pension sector unit price is based on the pre-tax net asset value of the asset class including the benefit of franking credits. The Super sector unit price includes a tax provision based on the average percentage of the asset class held by Super at the beginning of the year and at the most recent month end date.
- Realised and unrealised capital losses are recognised as a deferred tax asset at 10% since it is probable that the Fund will make capital gains in the future to offset against the losses. However, where the total deferred tax asset relating to capital losses exceeds 1% of net assets, the General Manager, Finance or delegate will ensure that further consideration is undertaken to determine if it is appropriate to continue to recognise the full amount. Factors to consider include:
 - economic outlook;
 - fundamental changes to the Fund;
 - potential legislative changes;
 - future growth of the Fund; and
 - balance of accumulation versus pension assets.
- On a monthly basis, the General Manager, Finance or delegate is responsible for reconciling the tax provision in the unit price (i.e. soft close) to the tax provision in the monthly accounts (i.e. hard close).
- On a monthly basis, after the PAYG instalment is made, Rest Finance Team will calculate how much of the instalment relates to investment related income tax using State Street's month-end report of current tax liability. This is allocated to each of the taxed sectors proportionally based on their share of the current tax payable per State Street's month-end report, taking into account instalments already paid. This reduces the overall tax provision in the unit prices, and is therefore more closely aligned to the actual tax provision of the Fund as a whole.

- The General Manager, Finance is responsible for ensuring that on an annual basis, following the tax return process, a reconciliation is undertaken between the tax in unit prices and the final tax position of the Fund. Adjustments are then processed back to the relevant sectors.

6 ERRORS AND RECTIFICATION

6.1 Unit Pricing Calculation and Upload Errors

- ***Custodian – Unit Pricing Calculation Errors***

The large number of processes that affect inputs to a unit price means that from time to time errors may occur in the calculation of a unit price, despite best endeavours to prevent them. Errors can arise due to an incorrect calculation methodology or if any of the inputs into the process are erroneous. Causes of errors include:

- an incorrect security/asset valuation
- incorrect tax provision
- incorrect management fee/other expense accruals
- incorrect creation or cancellation of units

From time to time, adjustments to unit prices, which are not considered to be errors, will occur through the ongoing application of policy (or changes to policy). (For example, adjustments to unit prices resulting from differences between a tax accrual within unit pricing and actual tax liabilities are not considered errors, where the tax accrual has been calculated consistently with this policy and related documents.) This section is not intended to apply to adjustments of this kind.

Any adjustments arising from the consistent application of a valuation policy, estimations or assumptions are not errors requiring compensation, provided the policies, estimations and assumptions are sound and revisions were made promptly after actual information has become available.

- ***Administrator – Unit Pricing Upload Errors***

The Administrator is responsible for the final results of the automated upload of unit prices once released by Rest. Error in upload is not a unit pricing error. However, any errors impacting members must be considered and be subject to the appropriate response and rectification procedures under Rest's Policies.

Upload error is highly unlikely as this process is managed via a web-based system, Miraque, which executes an automatic upload of unit prices once released by Rest.

6.2 Management of Unit Pricing Errors and Incidents

All unit pricing errors and incidents identified after the data has been released to the Administrator for use in transactions processing, regardless of size, must be notified to the Senior Manager, Investment Operations, or delegate, as soon as possible or within one business day after discovery of the issue.

Where a material incident has been identified, the Manager, Investment Operations, or delegate, will convene a meeting of the PRT which will, at a minimum:

- Determine whether unit prices should be reissued, for a unit pricing calculation error or in case of an upload error, considering the potential impact to members.
- Determine whether the issue is to be classified as an error or an incident.
- Advise the Chief Executive Officer.
- Log all issues in the Custodian's and Administrator's Issues Registers, documenting the cause of the issue, and actions taken to avoid recurrence.
- Written notification of the new entry into the Custodian's and Administrator's Issues Registers must be sent to General Manager, Risk and Compliance after receipt of a formal incident report from the relevant service provider.

- If, in accordance with the Incident and Breach Reporting Policy, the incident is determined to be a reportable breach to the Regulator, then the CEO must notify the Chair of the Board or in his/her absence, a member of the Board.
- Report to the Audit Risk and Compliance Committee and, if required, the Board.

All actions taken with regards to incident and error reporting and rectification are determined in accordance with the Incident and Breach Reporting Policy.

6.3 Error Rectification

Rectification of affected members is a complex task, with many considerations that will differ from case to case. When rectifying unit pricing errors, adjustments will generally be applied both to members that have been disadvantaged by the error, and to members that have benefited. This will ensure that, as far as practicable, members have been restored to the position they would have been in had the error not occurred. The Incident and Breach Reporting Policy covers the general principles to be used when rectifying an error and provides details of possible exceptions to the general principle discussed above.

6.4 Materiality Assessment

In assessing whether remediation of individual affected members should be undertaken for a particular error, the following materiality levels are to be applied.

6.4.1 Basis Point Materiality

Where it has been determined that a unit pricing calculation error has occurred, a basis point materiality threshold will be used to determine if an error requires compensation to members.

The materiality threshold will depend on the nature of the error and the nature of the Investment Option. Rest has chosen to use a separate materiality threshold for the Cash Option where there is a lower expectation of volatility.

Rest has chosen to adopt the following materiality thresholds for determining whether compensation action will be undertaken. Where an error is below the threshold, Rest will generally not provide compensation to members:

Error Type	Investment Option	Materiality Threshold
Fee Error	All	0 basis points (0.00%)
Other Error	Cash and Basic Cash Option	5 basis points (0.05%)
Other Error	All Options except the Cash and Basic Cash Option	30 basis points (0.30%)

For a fee error, it is only necessary to remediate individual members if the basis point impact on members exceeds the Investment Option basis point materiality threshold e.g. if a fee error was found to be 0.30% for an Investment Option, individual members would receive their portion of the value of the error into their actual account. Where the impact is below these materiality limits, compensation will be made to the impacted Investment Options(s) e.g. if a fee error was found to be 0.04% for an Investment Option, the total amount of the value of the error would be returned to the Investment Option i.e. not repaid to individual members.

Application of such materiality thresholds is considered appropriate due to the nature of unit price calculations, which at any given time are only a best estimate of the value of each unit or account, using available information at that time.

Rest may choose to apply lower materiality thresholds at its discretion. Examples of where a lower materiality threshold may be considered are:

- Where there is a lower expectation of volatility.
- Where the error is lower than the materiality threshold, but large transactions have occurred which may make the impact of the error on individual members large in absolute dollar terms.

6.4.2 Dollar Materiality

Dollar materiality thresholds apply to errors in general, i.e. not just unit pricing calculation errors, and are documented in the Incident Response Policy and are included here for completeness.

Member's Status	Dollar Materiality
Exited	\$20
Remaining member	\$0

6.4.3 Aggregation of multiple unit pricing incidents resulting in a material error/incident

When an error or incident is reported, this may not be material under the materiality guidelines set under the Unit Pricing Policy. However, there may be separate errors/incidents that, on an aggregate basis, exceed the materiality thresholds. As some errors/incidents may be discovered in the future, all errors/incidents are tracked to determine if these become material when aggregated with other items.

If relevant materiality thresholds are reached for a particular Investment Option, the PRT will deal with the matter in the same manner it would deal with any other pricing error in accordance with this Policy.

7 ADJUSTMENTS TO, OR SUSPENSION OF, UNIT PRICES

7.1 Market Disruption Policy

From time to time, it may be necessary to alter the frequency of the calculation of unit prices. The PRT is responsible for any decision regarding the frequency of valuation after consideration of the impacts on the Custodian, the Administrator and the members of the Fund.

Examples of conditions under which such decisions may be taken include:

- asset markets becoming extremely volatile;
- market prices of underlying assets not being available;
- external events or shocks resulting in an inability to fairly calculate the NAV of the Fund, for example due to one or more stock exchanges being closed;
- very large amounts of redemptions which impose an unfair burden on remaining investors; and
- the Fund or an Investment Option becomes illiquid.

Where information is not available to properly calculate the NAV of the Fund, or where the use of the most recently calculated unit prices may result in material inequity between members of the Fund, the PRT may determine that it is appropriate to suspend the processing of all, or some, transactions having regard to the impacts on the Administrator and the members of the Fund.

The Trust Deed, "Clause 7 – Powers of Trustee" documents the ability to suspend the calculation of unit prices.

7.2 Other Adjustments to Unit Prices

The Trustee maintains a number of reserves, as set out in the Reserving Strategy and Policy. From time to time, it may be necessary to increase the level of reserves by adjusting unit prices accordingly. This will be done on an equitable basis and may be spread over an appropriate timeframe as determined by the Trustee.

Any excess reserves may be distributed to members via an adjustment to the unit prices.

7.3 Prevention of Technical Insolvency

There will always be timing differences between the amounts credited to members at year end and the earnings disclosed in the year-end financial statements due to hard close vs. soft close unit prices and any audit adjustments.

These timing differences are shown as "investment earnings not yet allocated" as part of vested benefits in the financial statements.

A technical insolvency could arise because it is theoretically possible that the investment earnings not yet allocated could be negative in amount and that negative amount is greater than the total reserves. In these circumstances, the amount allocated to member accounts would exceed the net assets of the Fund.

In this event the Trustee will make an adjustment as at 30 June of an amount equal to or greater than the excess. This adjustment will be made by adjusting the unit prices as at 30 June, or by another equitable mechanism determined by the Trustee. The Trustee will also consider whether this may trigger a unit pricing calculation error, which is covered in section 6 of this policy.

8 ACCRUAL OF COSTS

8.1 Investment Related Accruals

Rest will accrue for investment related costs, for example, asset consultant and custodian fees and after-tax benchmarking costs.

These costs are reconciled periodically when Rest receives the relevant fee invoices. The accrual rates will be reviewed on an annual basis by the Manager, Investment Operations, or delegate and any changes to the rates will be reviewed and approved by the Senior Manager, Investment Operations.

9 IMPLEMENTATION OF BUY/SELL SPREADS

The Board has approved the implementation of buy/sell spreads on Rest's options. This commenced on 01 July 2013. In determining appropriate buy/sell spreads for Rest the following factors were taken into consideration.

9.1 Buy/Sell Spreads

Rest incorporates buy/sell spreads into the unit prices of unitised Investment Options. Buy/sell spreads are estimated transaction costs that are allocated when an investor buys or sells units in an Investment Option. A buy spread is a cost charged to buy units (arising from a new contribution, rollover or a switch into an Investment Option) and the sell spread is a cost charged to sell units (arising from a withdrawal or switch out of an Investment Option). These transactions of members that may give rise to transaction costs for the Investment Options are referred to as 'member activity'.

Buy/sell spreads aim to reflect the expected cost to the Investment Option of buying or selling assets that arises as a result of member activity and are incorporated into unit prices in order to ensure that existing members of an Investment Option do not pay the transaction costs that arise from a member buying or selling units in the Investment Option.

Some of the factors considered when determining the level of buy/sell spreads are as follows:

- Brokerage costs;
- Government taxes and charges (such as stamp duty);
- Custodial transaction costs;
- Market transactions costs (such as bid-offer spreads);
- Other costs directly associated with acquisition or disposal such as settlement, valuation, or legal costs; and
- The buy/sell spreads of any pooled vehicles in which an Investment Option invests.

The approach taken to estimate appropriate buy/sell spreads will vary depending on the nature of the underlying investments/assets comprising the asset class sectors in which each Investment Option invests, as described below.

9.2 Directly Held Assets

For directly held investments in listed and liquid sectors, such as equities, bonds and cash, transaction cost estimates are based on recently observed actual transaction costs as well as forward-looking estimates.

For unlisted, less liquid and infrequently traded assets (in particular direct property or infrastructure), transaction cost estimates are based on a combination of factors, including:

- Use of a longer history of transactions to determine transaction costs; and/or
- Reasonable estimates of forward-looking transaction costs; and/or
- Reference to the transaction costs of similar types of assets; and/or
- Reference to a relevant expert to assess the level of transaction costs that may be expected when transacting in that asset class; and/or
- The degree to which transaction activity is expected to be driven by member activity as distinct from asset allocation or portfolio construction decisions made by the trustee.

9.3 Investments in Pooled Vehicles

Where the assets of an Investment Option include investments in an externally managed pooled vehicle, the estimation of buy/sell spreads will utilise the actual current buy/sell spreads applicable to each external pooled vehicle. As part of the annual review of the buy/sell spreads of the Investment Options, the buy/sell spreads of all external pooled vehicles will be confirmed with the investment manager, either by direct contact with the manager or by reference to the latest offering documents issued by the manager.

9.4 Offsetting of Cash Flows

When estimating acquisition costs, allowance will be made for the possible offsetting of application and withdrawal cash flows of the Trust. This approach has been adopted as the historical level of offsetting of inflow/outflow transactions is reasonably stable and therefore reasonably predictable. By taking account of net cash flows, the objective is to ensure that the buy/sell spreads closely reflect the actual transaction costs that are expected to arise from member activity.

9.5 Review

The level of buy/sell spreads is reviewed annually or more regularly as required. Any exceptions will be reported to the Investment Committee.

9.6 Estimation Impact

Where actual transaction costs resulting from member activity vary from the allowance reflected in the buy and sell spreads, the impact will be borne by the relevant Investment Option. The review process aims to minimise this impact.