

Sunsuper Pty Ltd

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Sunsuper Pty Ltd
Sunsuper Superannuation Fund
Sunsuper Financial Services Pty Ltd
Sunsuper Pooled Superannuation Trust
Precision Administration Services Pty Ltd
Sunsuper Infrastructure Trust 3

Valuation and Unit Pricing Policy

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1 Overview

1.1 Purpose

The primary purpose of valuing the Fund's assets and calculating unit prices is to enable Sunsuper to equitably allocate interests in the Fund's underlying net assets when members buy, sell or switch interests in one or more investment option(s).

The complete, accurate and timely valuation of assets, and the calculation and application of unit prices are the most important, complex and risky activities of the Fund. This document summarises the Fund's policies in the areas of asset valuations and unit prices.

Reference to "investment option(s)" or "option(s)" throughout this policy includes the investment pools that form part of the Lifecycle Investment Strategy, unless otherwise noted.

1.2 Responsibility

The primary responsibility for the valuation of the Fund's assets, including any assets held through subsidiary entities, and the calculation of unit prices has been assigned to the Fund's custodian. The custodian utilises dedicated personnel, appropriate systems and formal processes to calculate and validate the accuracy of the valuations and unit prices.

The unit prices provided by the custodian are subject to additional scrutiny by Sunsuper's Investment Operations team to further reduce the risk of errors and oversights.

1.3 Frequency

The custodian calculates the daily unit prices for the investment options for each business day. A business day is any day other than:

- Weekends;
- New Year's Day;
- Australia Day;
- Good Friday;
- Easter Monday;
- Anzac Day;
- Christmas Day; and
- Boxing Day.

Sunsuper management reserves the right to determine other non-business days where a day is gazetted as a public holiday in Queensland, New South Wales, Victoria and South Australia.

1.4 Calculation

The unit price for an investment option is calculated by taking the total dollar value of the option's assets minus its liabilities and dividing the result by the number of units recorded on the custodian's unit pricing system. An allowance for investment tax, investment fees (including performance fees where applicable), transaction fees (where applicable) and member administration fee (where applicable) is incorporated into the calculation of the unit price at the investment option level. This unit price calculated is commonly known as the net asset value price or mid price.

For each investment option, a mid, entry and exit price is calculated for each business day. The unit prices are calculated to 5 decimal places.

Further information is provided in the following sections:

- Section 2.0 - Investment Valuation;
- Section 3.0 - Unit Pricing;
- Section 4.0 - Investment Fees and Costs;
- Section 5.0 - Taxation Policy;
- Section 6.0 - Reconciliations; and
- Section 7.0 - Errors.

The Balanced Sector Pool (where the Balanced investment of Lifecycle product for the Sunsuper for life - Super-savings as well as the choice offerings of Balanced super and Balanced pension invest in) is used to buy and sell investments on behalf of the Fund for all the investment options. An outcome of this process is that the Balanced Sector Pool holds investments that do not form part of its strategic holding or has different weightings to its strategic asset allocation. The Balanced Sector Pool holds a significant portion of the members' assets and the value of these investments held by the Balanced Sector Pool is modest and does not have a material effect on the performance of the Balanced Sector Pool.

Sunsuper may, at its discretion, charge any or all of the other investment options a transaction fee to cover the estimated transaction costs (e.g. brokerage costs) that the Balanced Sector Pool has incurred in its role of buying and selling investments on behalf of the Fund as a result of member transactions. This approach is reviewed annually to ensure it remains appropriate.

2 Investment Valuation

The Fund's custodian undertakes the valuation of the assets for each investment option. The custodian utilises a number of independent external valuation services to obtain the value or price of each investment held within the option.

The Sunsuper Investment team has a robust decision making process involving a detailed analysis of the underlying investments and investment managers. In the case of the unlisted assets where valuations are provided by the investment managers, the Investment team considers the valuation process and the methodology approach adopted by the investment managers, prior to their appointment. The Investment Operations team also reviews the valuation process and methodologies used by the investment managers during the initial and ongoing operational due diligence reviews of the investment managers.

Where the valuation of an asset is expected to be received on a daily basis (e.g. exchange-traded assets) but a valuation is not received, then Sunsuper reserves the right to instruct the custodian to apply an estimated value to the asset, including the use of industry accepted indices to determine an approximate and appropriate value.

For non exchange-traded assets (e.g. direct property and alternative assets such as infrastructure, private equity and hedge funds), the valuation or price is generally supplied by the investment manager, who will typically appoint an independent external valuation specialist or utilise generally-accepted valuation techniques. Many of these types of assets are valued on a less frequent basis than daily (e.g. weekly, monthly, quarterly, semi-annually or yearly). All valuations are subject to tolerance and reasonability checks undertaken by the custodian. Significant changes are questioned and confirmed with the investment manager or external valuation specialists, as required.

In the majority of cases when an independent external valuation specialist is used, the appointment is managed by the investment manager. However, in some cases (e.g. direct investment, majority shareholder) Sunsuper may be directly involved in the appointment of the valuation specialist. In such cases, the appointment of the specialist will be in accordance with the Investment Operations' internal procedures, specifically the Agent Selection Procedures for Unlisted Assets. The procedures define the key selection requirements and also the considerations for the appointment.

Sunsuper recognises the potential conflict of interest risks that arise with the appointment of an external valuation specialist (e.g. the valuer is related to the investment manager, a member of the investment team, a director of the Trustee or the Fund's auditor). Where Sunsuper is directly involved in the appointment of the specialist, the Chief Investment Officer or the relevant asset class manager from the Investment team will identify and assess any actual, potential or perceived conflicts and provide a recommendation to Sunsuper's Head of Investment Operations (or their approved delegate) who will be responsible for the final decision. The management of conflicts of interest will follow the guiding principles in the Audit, Compliance and Risk Management Committee Charter (i.e. pre-approval of non-audit services provided by Sunsuper's auditors) and the Outsourcing Policy (i.e. identification and assessment of conflicts of interest).

Where valuations are not received on a daily basis, Sunsuper periodically assesses the following factors in determining whether a more frequent valuation is required:

- Materiality of the value of the assets to the total investment option value;
- Ability to obtain a valid valuation or reasonable estimate on a more frequent basis from an appropriate source;
- Significant changes in markets that are likely to have a material impact on the valuation of the assets; and
- The cost of obtaining valuations.

For each asset class, Sunsuper aims to stagger the valuations of the non-daily priced assets over the year to:

- Avoid any concentrations in the valuation for the unit pricing calculation. For example, for an asset class where there are annual valuations, the valuations are generally spread out over the quarter ends; and
- Assist in the identification of significant market movements indicating that valuations for other similar investments may be required.

If the value of a non-daily priced asset is expected to significantly change with the next valuation cycle, then Sunsuper will assess the appropriateness of using an estimated price to build the estimated value into the unit pricing calculation on an incremental basis. The factors noted previously will be considered in this assessment. Any proposed changes will be recommended by the Chief Investment Officer or the relevant asset class manager (or their approved delegate) from the Investment team to Sunsuper's Head of Investment Operations (or their approved delegate) who will be responsible for the final decision.

The methodology used by the custodian to value all investments is set out in the *Price Source Agreement* as agreed between the custodian and Sunsuper (see appendix 2). For certain transactions (primarily Successor Fund Transfers), it may be appropriate to adopt a different pricing methodology and in these circumstances the Head of Investment Operations or their approved delegate retains the discretion to instruct the Custodian to use a pricing methodology that differs from the Price Source Agreement.

The Investment Operations team reports to the Audit, Compliance and Risk Management Committee on a quarterly basis on investment valuation issues relating to non-daily priced assets. This will generally include:

- Size relative to the total Fund size and to each investment option;
- List and value of the top 10 assets held within the Fund;
- Percentage of assets revalued in previous 5 quarters;
- Valuation methodologies used;
- Details of valuations of material assets held in the underlying investment vehicles;
- Backtesting results (i.e. sale value versus last valuation);
- Adjustments to, or over-rides of, investment valuations by Sunsuper management;
- Details on any valuation errors;
- Details of disputes with any external valuers and/or investment managers; and
- A quarterly attestation from the Chief Investment Officer or their approved delegate confirming that there were no assets that required material adjustments to their valuations during the period.

3 Unit Pricing

3.1 Methodology

Unit prices are calculated for each investment option for each business day based on:

- Latest available valuations of the assets and liabilities at the applicable close of business in all relevant domestic and international asset market exchanges for the effective pricing date;
- Member transaction information for each of the investment options from the administration records on a daily basis;
- Estimated allowance for investment tax, investment fees, transaction fees and member administration fees (where applicable); and
- If applicable buy/sell spreads.

Based on the above, the mid unit price is calculated by taking the total dollar value of the option's

assets minus its liabilities and dividing the result by the number of units recorded on the custodian's unit pricing system. An allowance for investment tax, investment fees (including performance fees), transaction fees and the member administration fees (where applicable) is incorporated into the calculation of the unit price at the investment option level. The entry and exit prices are then calculated for each investment option based on the relevant buy/sell spreads (refer "*Buy/sell spreads*" below for further information).

When money is invested in an investment option, the entry unit price is used to buy units. When money is withdrawn from an investment option, the exit unit price is used.

There are special circumstances where Sunsuper may decide to use a price different to what is described above. An example of this is where Sunsuper closes an investment option and the member's account balance in that investment option is switched to another investment option and buy/sell spreads apply for the options. In this example, it may be determined that the money withdrawn from the closing investment option will be allocated to the new investment option using the exit price.

3.2 Forward Pricing

Unit prices are calculated and assigned to members' transactions on a 'forward pricing' basis. In other words, the unit prices that are assigned to members' transactions are not known at the start of or throughout a business day, but are determined based on the closing valuation of the net assets held by the Fund at the end of trading on that business day. This approach stops material selection and "arbitrage" against the Fund.

For benefit payment requests, income payments and transfers between Sunsuper products that are processed using the last available price, these unit prices are not known by the member at the time of request.

3.3 Cut-Off Rules

Contributions paid via a cheque (or similar) and received by mail or in person in the Sunsuper Brisbane office by 3pm Australian Eastern Standard Time (AEST) on a business day, will be processed using the unit price for that day which is calculated using the latest available value of net assets at the close of business for that day.

Contributions received after this cut-off time will be processed using the unit price for the next business day, except for the last business day of the financial year where contributions up until 6pm may be accepted and processed using the unit price for that day.

Contributions requested to be Direct Debited through Sunsuper's on-line system by 3pm AEST on a business day will be processed using the unit price for that day. Sunsuper reserves the right to use a later unit price if the money is not received on that day.

Contribution amounts received in Sunsuper's bank account on a business day via Electronic Funds Transfer (EFT) or Bpay will be processed using the unit price for that day.

Switch requests received by mail or in person in the Sunsuper Brisbane office, or through Sunsuper's on-line system, by 3pm AEST on a business day will be processed using the unit price for that day which is calculated using the latest available value of net assets at the close of business for that day. Requests received after this time will be processed using the unit price for the next business day.

As excessive switching can have adverse effects on the Fund and its members, Sunsuper monitors members' accounts for large and/or frequent switching between investment options. If Sunsuper determines that a member is switching excessively, Sunsuper reserves the right to limit the number of switches a member can make in any financial year.

Benefit payment requests, income payments and transfers between Sunsuper products will be

processed using the last available unit price for the day Sunsuper finalises the processing of the request or transfers.

These cut-off times are defined in Sunsuper's Product Disclosure Statements.

For certain transactions (primarily Successor Fund Transfers) the assets (including cash) are transferred to Sunsuper directly from start of day. As all Investment returns on that day accrue within the Sunsuper environment it is appropriate to apply a 'start of day' unit price for unit allocations and since a start of day unit price is not available Sunsuper (through the Head of Investment Operations or their approved delegate) retains the discretion, in these circumstances, to use the unit price for the close of business on the previous day.

3.4 Incomplete Requests

The processing and pricing of contributions, switches, income payments and benefit payments may be delayed if Sunsuper does not receive all the information required to process the transaction, or if Sunsuper does not receive payment for the contribution. If delayed, the request will be processed using the cut-off rules outlined above.

3.5 Changes to Requests

Changes to requests received by Sunsuper are not permitted once the cut-off times outlined above have occurred for a business day.

3.6 Buy/Sell Spreads

A buy/sell spread is a cost which may be charged by the investment manager for transaction costs in buying and selling the underlying assets of the investment option. The difference between the entry and mid unit price is called the buy spread. The difference between the exit and mid unit prices is called the sell spread.

For investment options that consist of an investment manager's underlying pooled investment vehicle, the buy/sell spread of the relevant investment manager can be passed on to the members through the unit prices. This buy/sell spread may vary, from time to time, to reflect the buy/sell spread charged by the relevant investment managers. Sunsuper does not add a margin to the buy/sell spreads charged by the investment manager.

Sunsuper does not currently charge buy/sell spreads for any of the investment options.

For any investment option with a nil buy/sell spread, Sunsuper may, at its discretion, apply a buy or sell spread:

- If a Sunsuper employer requests all or part of the assets invested in an investment option within the plan account to be switched to another investment option; or
- If a Sunsuper employer requests a withdrawal from Sunsuper in order to transfer funds to another superannuation plan or fund; or
- In the case of corporate transfers, where the buy/sell spreads are applicable in accordance with the Sunsuper's "*Buy/Sell Spread Application Procedures For Corporate Plans via Successor Fund Transfer*".

The sell spread will be equal to the estimated sale cost of the underlying assets. When a sell spread is used, this will be an additional cost to the members of that particular plan.

Sunsuper will conduct an annual review of the buy/sell spreads to ensure the buy/sell spread policy remains appropriate.

The annual review will comprise two stages:

Stage 1:

- Determining the estimated transactions costs for each underlying asset pool (including unit trust investments and discrete mandates); and
- Allocating these estimated costs through the unit pricing structure to the investment option,

based upon each option's strategic asset allocation.

Stage 2:

- Determining the level and appropriateness of the buy/sell spread estimated in stage 1, by assessing the following factors:
 - The typical cashflow direction of member transactions (e.g. net inflows or outflows to/from an option and any netting effect);
 - The typical dollar amount of member transactions during the year for an option; and
 - The level of net cashflow required to be physically invested in or redeemed from an underlying investment vehicle.

In terms of applying a buy/sell spread:

- A buy/sell spread may be implemented for an investment option where a spread currently exists, if it has been determined by Sunsuper that a spread is required to ensure equity amongst the existing and future members of that option; and
- Alternatively, a spread or a transaction fee allowance may be implemented for significant cashflows, if it has been determined by Sunsuper that it is required to ensure equity between the Balanced investment option which generally buys and sells investments on behalf of the Fund and the remaining investment options.

The rules and conditions under which a buy/sell spread or a transaction fee allowance is applied are documented within the Investment Operations' internal procedures.

3.7 Availability of Unit Prices

Unit prices for the previous business day are to be provided by the custodian to Sunsuper no later than 3pm Brisbane time (or any other time agreed in writing between Sunsuper and the custodian) on each business day for uploading to the administration system. Sunsuper uses these unit prices to process the previous business day's member transaction requests and to value existing members' accounts.

Unit prices are subject to a reasonability check by the Investment Operations team prior to being signed off and processed into the administration system.

Sunsuper reserves the right to delay the calculation of unit prices at any time during the year. The delay would not normally exceed three business days and will result in delays in assigning units for member requests received before the cut-off time on the relevant business day, although such requests will be backdated to the correct date.

Sunsuper must provide details of all contribution, benefit payment, income payment and transfer requests to the custodian by 2pm Sydney time the following business day.

Unit prices are published on Sunsuper's web site each business day. The unit price for a specific business day will normally display online 2 business days later.

Performance results for each investment option are published on Sunsuper's web site on a monthly basis.

3.8 Backdating

Sunsuper's business rules allow certain member transaction requests to be processed with an earlier "business effective date" than the actual "processing date". This is to ensure that members are not disadvantaged in situations where administration staff are unable to process the request in accordance with the stated policies.

The following are situations where the backdating of transactions is permitted:

- Delays in processing member transactions that have met the defined cut-off times and transaction information requirements due to administration workloads; and
- Correction of an error.

The following are situations where the backdating of transactions is not permitted:

- Receipt of an incomplete request form;
- Requests from members to backdate a transaction; and
- Receipt of a request after defined cut-off times.

3.9 Suspension of Trading

Sunsuper reserves the right to temporarily suspend the processing of member transactions and the calculation of unit prices if it has permission from a regulator, if it is required to by law, or on the occurrence of an extraordinary event. An extraordinary event is any significant adverse event that Sunsuper deems will impact some or all members and may include the following examples:

- Unit prices cannot be calculated or provided by the custodian;
- A catastrophic global event results in a significant decline in financial markets or the collapse of financial markets;
- Suspension of trading on one or more major stock exchanges;
- A disaster event that impacts the ability of Sunsuper's custodian or member administration area to perform their activities; and
- Detection of a major unit pricing error that brings into question the current or past integrity and accuracy of investment valuations and unit prices.

3.10 Responsibilities for Suspension of Trading

3.10.1 *Initiation*

The decision to temporarily suspend unit pricing will typically be initiated by the Investment Operations team.

3.10.2 *Decision to Suspend or Resume*

The decision to temporarily suspend unit pricing, to resume unit pricing after a temporary suspension, or to request approval from a regulator to temporarily suspend unit pricing resides with the Chief Executive Officer. In the absence of the Chief Executive Officer, approval can be obtained from either the Chief Risk Officer or the EGM-People, Projects & Performance.

3.10.3 *Documentation and Calculation*

The documentation of the rationale for temporarily suspending unit pricing is the responsibility of the Investment Operations team.

3.10.4 *Communication*

The communication and the basis for the decision, to temporarily suspend unit pricing is the responsibility of the Investment Operations team. This team is also responsible for notifying or requesting the appropriate parties to notify:

- Investment team;
- Executives;
- Custodian;
- Customer Engagement;
- Growth, Advice and Marketing;
- Customer and Technology;
- Board Chair and the Chairs of the Investment Committee and Audit, Compliance and Risk Management Committee;
- Risk, Legal and Compliance (RLC); and
- Regulators (to be notified by RLC).

Communication to the above persons and areas should be consistent and provide both an explanation of the reason for the suspension and a conservative estimate of the period of suspension. In some cases the communication should be in writing to ensure that an accurate and consistent communication is provided, particularly to members.

The decision to temporarily suspend unit pricing must be communicated on Sunsuper's website in all appropriate places as agreed with the Customer and Technology team.

All communication should take place in a timely and urgent manner (e.g. within one to two hours) once the decision to temporarily suspend unit pricing has been approved and meet any regulatory obligations to notify members.

3.10.5 *Impact on Transaction Processing*

The decision to temporarily suspend unit pricing will impact the processing of member transactions as follows:

- Processing of contributions, income payments, benefit payments, switches and adjustments will be suspended until the unit price effective for the relevant transaction date is calculated once Sunsuper resumes the normal or estimated calculation of unit prices (i.e. transactions will not receive the last calculated price).

3.11 Calculation of Estimated Unit Prices when Unit Prices Cannot be Determined by the Custodian

In situations where unit prices cannot be determined by the custodian, Sunsuper may decide to calculate estimated unit prices for a short period of time based on the use of the relevant market indices.

3.11.1 *Responsibilities*

a. *Use of Estimated Prices*

The decision for Sunsuper to calculate the estimated unit prices based on the use of the relevant market indices or other factors, requires the approval of the Head of Investment Operations. In the absence of the Head of Investment Operations, approval can be obtained from the EGM-People, Projects & Performance.

b. *Documentation and Calculation*

The documentation of the rationale for the calculation of estimated unit prices (where necessary) is the responsibility of the Investment Operations team.

4 **Investment Fees and Costs**

In calculating the unit prices for the member investment choice options for both superannuation options and pension options, an allowance for investment fees (including performance fees where applicable) is incorporated into the calculation of unit prices. In line with the regulatory requirements, the Lifecycle Investment Strategy charges the same fee across all the pools in the strategy, based on the total investment costs incurred across the total strategy.

For investments fees, which are defined as the fees charged to members for managing each investment option, including performance-related fees, internal investments fees and custody fees, the allowance for each investment option is calculated at the beginning of the financial year and is set to match expected investment fees for the financial year ahead taking into account recent experience and current long-term expectations for ongoing investment fees. Sunsuper will advise the custodian of these percentages for inclusion in the investment options' daily unit prices.

At the end of the financial year, the actual investment fees incurred may differ from the estimates, for example, due to changes in the investment manager mix or investment manager fees.

At the end of the quarters ending 30 September, 31 December and 31 March the allowance for investment fees for each investment option will be reviewed by the Finance team based on the actual investment fees incurred for the financial year to date. Based on the results of each review, where appropriate, the allowance for investment fees in the daily unit prices will be updated to reflect the actual investment fees and any trends in the actual investment fees.

At the end of each financial year, the allowance for investment fees for each investment option will be reviewed by the Finance team based on the actual investment fees incurred for the financial year. The investment fees (that is excluding the internal investment fees and custody fees) deducted will not be more than the actual investment fees incurred. For internal investment fees and custody fees, the amount included in the investment fee is estimated at 0.08% pa, as at the date of this Policy.

Indirect costs, which are defined as expenses incurred in managing our investments in addition to

investment fees and include operational and transactional costs such as brokerage and stamp duty, are not paid by Sunsuper or the member, but rather are incurred indirectly by our investment managers and as such are included in net investment returns.

The determination as to whether an adjustment constitutes an error will be assessed as part of Sunsuper's error policy as outlined in section 7.0.

5 Taxation Policy

As part of the unit pricing process, Sunsuper apportions the overall investment tax position of the Fund to its investment options.

As a superannuation fund, Sunsuper has investment tax consequences that should be reflected in the unit pricing calculation for each option to ensure equity amongst its members, not only for the current members but for the future generations of members as well.

Sunsuper is concessionally taxed at a rate of 15% on investment earnings and is entitled to an allowance for imputation credits and other tax offsets.

Sunsuper calculates the estimated investment tax position of each investment option on a periodical basis (usually monthly). This calculation confirms the appropriateness of the effective investment tax rate(s) applied to each investment option by the custodian. The custodian is advised of any rate changes as and when required. Details of the calculation are set out in appendix 1 - *Tax estimates*.

6 Reconciliations

6.1 Matching of Units

The unit pricing process independently keeps track of the total number of units by investment option that should be recorded on the administration system. This enables regular cross-checking to be done.

On at least a monthly basis, the Finance team reconciles the total number of units held on Sunsuper's administration system with the total units held in the custodian's unit pricing system. Some discrepancies are expected due to delays in processing some member transactions. Any unexplained discrepancies are investigated by the financial accounting team.

6.2 Reasonableness Checking

The unit pricing process adopted by the custodian includes comprehensive checking of the changes in the calculated unit prices compared to the performance of the benchmark return (based on long-term asset allocations and market indices). The checks are undertaken on a daily and month-to-date basis. All differences outside nominated tolerance ranges are investigated and, where appropriate, an explanation for the over/under performance is obtained and documented by the custodian. This is then resolved by Sunsuper management in conjunction with the custodian and the investment manager, as appropriate.

The unit prices are subject to the reasonability checks performed by the Investment Operations team, in order to further reduce the risk of errors and oversights.

7 Errors

7.1 Definition of Errors and Tolerance Levels

An error can occur at three levels:

- Valuation of securities (valuation of one or more securities is incorrect);
- Calculation of unit prices (calculation of a unit price is incorrect); or
- Application of unit prices (member transaction is assigned an incorrect price).

Not all errors are treated equally. An immaterial error that does not have a significant impact on the Fund and its members, would typically not receive the same treatment as a material error that has a significant impact on the Fund and its members.

Prima facie, an error does not include the situation where best estimates are appropriately used and

the reconciliation process later shows that these best estimates are different to the actual (e.g. use of tax estimates in the unit pricing calculation or use of estimated prices as per section 3).

Examples of what constitutes an error include, but are not limited to:

- Incorrect valuation of a security included in the unit price calculation;
- Data processing error by the custodian on key components in the unit price calculation;
- Incorrect application of allowances for investment fees, investment tax, member administration fees and buy/sell spreads in the unit price calculation by the custodian;
- Investment trade information not included in an investment option's asset valuation in line with relevant service level agreements, resulting in a unit price performance impact. The error may be caused by the custodian or an investment manager not providing timely information to the custodian;
- Incorrect member transaction information provided to the custodian by the administration area; and
- Incorrect unit prices applied to the member transactions for a particular business day.

In accordance with industry standards, Sunsuper will generally tolerate pricing errors that are less than 0.30% of a unit price for an individual member in the determination of compensation or re-work to the Fund or its members. Although this figure is a maximum expectation, all pricing errors will be closely reviewed to determine whether there is sufficient detriment to one or more members to warrant compensation. The following pricing error guidelines are used to assist in this determination:

- Cash: 0.05%;
- Capital guaranteed: 0.10%;
- Fixed interest: 0.20%; and
- All other options: 0.30%.

In the event of detecting a valuation or unit pricing error requiring member rectification, Sunsuper Management will form a Working Group from the key relevant areas of the business to assess and recommend appropriate actions for decision by the Executive General Manager - People, Projects and Performance who will consult with other Executives, as necessary. The Working Group will be responsible for co-ordinating and overseeing the agreed approach for rectification of the affected members, including communication with those members regarding:

- The nature of the error;
- How the error has/will be rectified; and
- How the affected member has/will be compensated for the error.

The rectification approach will involve close communication between internal Sunsuper teams and the custodian. The Board will be notified of all material unit pricing errors. Where required, as determined by Sunsuper's legal and/or compliance function, notification will be given to Sunsuper's regulators.

When an error occurs, the following factors will be considered when making a determination as to compensation, correction, changes and reporting of the error:

- Amount of the error;
- Impact on the Fund;
- Impact on the members;
- Source of the error;
- Period of the error;
- Scope of the error (i.e. isolated or extensive);
- Materiality of the error;
- Cause of the error;
- Responsibility for the error (i.e. trustee, custodian, investment manager);
- Nature and extent of the remedial action required;
- Timetable for the remedial action;
- Who to advise and how (including members, Board and regulators); and
- Changes required to the processes, systems and quality checks.

7.2 Funding of Errors

Sunsuper management is responsible for deciding whether compensation will be paid to members for unit pricing errors.

Refer to the “Sunsuper Financial Make Good Policy” for information on the funding of errors.

Appendix 1 - Tax Estimates

1 Overview

As part of the unit pricing process, Sunsuper seeks to apportion the overall investment tax position of the Fund to its investment options. As a superannuation fund, Sunsuper has investment tax consequences that should be reflected in the unit pricing calculation for each of the options to ensure equity amongst its members, not only for the current members but for the future members as well.

A superannuation fund is concessional tax at a rate of 15% on investment earnings and is entitled to an allowance for imputation credits and other tax offsets.

This section describes the policy of Sunsuper in incorporating investment tax into the Fund's unit pricing calculations.

2 Responsibilities

Sunsuper calculates the estimated investment tax position of each investment option excluding imputation credits, where required. This calculation determines the effective investment tax rate(s) to be applied to each option.

Management reviews and signs-off on the rates calculated and determines the appropriate effective investment tax rate(s) to be included in the unit pricing calculation.

The custodian applies an allowance for imputation credits (either based on actual or estimate) to each option, at the time when the relevant income is recognised in the accounting records.

3 Effective Investment Tax Rate(s)

An effective investment tax rate(s) is the best estimate of the expected net tax liability/asset for an option excluding imputation credits (where required).

Management will determine how many different types of rates will be used per option (e.g. management may determine that it is best to have one rate for income and a separate one for capital).

The effective investment tax rate(s) will be set for each financial year based upon, but not limited to, the following factors:

- Recent history of actual tax rates per option (minimum of 3 years history will be included);
- Expectations of earnings (amount and nature) for the current year in comparison to recent years; and
- Level and assessed recoverability of deferred tax attributable to an option.

The effective investment tax rate(s) will be reviewed for reasonableness on a periodical basis (usually monthly). As part of this review, a calculation is generally performed for each option based on the current financial year to date information, including the movement in deferred tax amounts as appropriate. The movement in the under/over provision from the prior year will also be included, as required, in the calculation.

The basic calculation to be performed for each option is:

$$\frac{\text{(Current tax for the current year to date +/- Deferred tax movement for the current year to date +/- under/over provision from prior year)}}{\text{Net investment income (investment income less investment expenses) for the current financial year to date}}$$

The effective investment tax rate(s) will be adjusted as necessary, in the following circumstances:

- Any component of the rate calculation is not a true indicator of an option's tax position (e.g. an abnormal item distorts the rate and is not a reflection on the option position going forward);
- A new option does not have sufficient history to determine its rate based upon the above calculation;
- An option is closing down; and
- Any other circumstance likely to distort the rate as calculated.

The cyclical nature of some of the tax components will also be considered as part of this review.

4 Tax Components of the Effective Investment Tax Rate(s) Calculation

4.1 Current vs Deferred Tax

To determine the tax accrual to be used in the unit pricing calculation, the tax calculation is broken down into two broad categories.

1. Current tax - this is the amount of net investment income tax payable (recoverable) in respect of the taxable profit (tax loss) for the current period; and
2. Deferred tax - this is the amount of potential net investment income tax payable (recoverable) in respect of the timing differences on tax liabilities (assets) for future periods. Deferred tax may include the carry forward of recoupable tax losses.

4.2 Breakdown of Current and Deferred Tax

Sunsuper will consider the following broad categories when determining the Fund's current and deferred tax:

Income Components:

- Income tax on net investment earnings;
- Foreign tax offsets (both direct and indirect); and
- Franking credits.

Capital Components:

- Tax on realised capital gains (investments);
- Tax on unrealised capital gains (investments);
- Potential value of realised investment losses; and
- Potential value of unrealised investment losses.

Sunsuper's policy in respect of each of these categories for determining the tax calculation for unit pricing is described below.

4.3 Income Tax on Net Investment Earnings

Net investment earnings include, but are not limited to:

- Income items such as dividends, interest, rental income, foreign exchange gains and losses, and trust distributions (actual and deemed); less
- Expense items such as management fees charged directly to the Fund, internal investment costs and external investment costs.

Prima facie the Fund pays tax on net investment earnings at a rate of 15%.

4.4 Exceptions to the Rule

For the interim trust distributions received throughout the year without notification of tax components, prior year tax components may be used. These tax components may include tax credits and offsets, capital gains discounting and tax free amounts which will reduce the prima facie tax rate.

4.5 Foreign Income Tax Offsets (Both Direct and Indirect)

Foreign income tax offsets are those received from a direct holding of an applicable overseas security.

Indirect foreign income tax offsets are those received as part of a distribution from an investment entity.

Any known foreign income tax offsets, or best estimates as required, will be included as part of the effective investment tax rate calculation to the extent that such offsets are likely to be available.

4.6 Tax on Realised Capital Gains (Investments)

Gains made on assets sold within 12 months of original purchase date (short gains) will be taxed at 15%.

Gains made on assets sold after 12 months from original purchase date (long gains) generally receive a one-third discount and will therefore be taxed at an effective tax rate of 10%.

To the extent that realised capital losses are incurred, these will be offset against the full value of the realised capital gains prior to the calculation of the tax liability, including the calculation of the discount for long gains.

4.7 Tax on Unrealised Gains (Investments)

Unrealised capital gains will be treated in a similar manner to realised capital gains.

4.8 The Potential Value of Realised Capital Losses (Investments)

An assumption is made that none of the unrealised investments will have a better result using the indexation method where both discounting and indexation methods are available for use.

Any realised capital loss will be offset to the extent of the full value of any realised capital gains. The capital loss will be offset in the following order:

- Short gains; and
- Long gains for any excess over the offset of short gains.

In the allocation of capital losses to the different investment options, regard will first be given to the investment option which incurred the loss. Once the offsetting is complete the appropriate tax rate will be applied to the net realised gain position. If the offsetting amount results in a net loss position after taking into account all unrealised capital gains, the option will have a deferred tax asset (DTA).

The value attributable to the DTA will be calculated at an effective rate of 10% and will be assessed on a periodical basis. Factors which will generally be considered as part of the DTA assessment will include:

- The level of net unrealised losses;
- The investment timeframe;
- Likely investment inflows and outflows for the Fund/option;
- Exposure of the Fund to possible significant redemptions; and
- Marked changes in the circumstances of the Fund.

As a guideline, the overall level of the DTA value recognised by the Fund as a whole in the rate calculation is not to exceed 2% of the net asset value of the Super-savings account investments of the Fund. If the overall level of the DTA value recognised by the Fund, exceeds 1.5% of the net asset value of the Super-savings account investments of the Fund, then:

- The DTA level will be monitored by the Finance team on a monthly basis via reports from the custodian; and
- Tax Manager will meet with the Head of Finance, at least, monthly to discuss the level of the DTA and its acceptability and consider whether any adjustments should be made.

The overall level of the DTA value recognised by the Fund as a whole in the effective investment tax rate calculation should not exceed 2% of the net asset value of the Super-savings account investments of the Fund. It is, however, acceptable for the level of the DTA for a particular option to exceed 2% of the net asset value of the investments supporting that particular option. This recognises the fact that the capital losses of a particular option can be applied against gains elsewhere in the Fund. However, in these circumstances the level of the DTA of that particular option will be reviewed by the Finance team on a weekly basis using custodian's reports. The

Finance team will also discuss the DTA level with the Tax Manager (as appropriate), to ensure it does not become unreasonable.

4.9 The Potential Value of Unrealised Capital Losses (Investments)

Unrealised capital losses will be treated in a similar manner to realised capital losses.

5 **Imputation Credits (Both Direct and Indirect)**

Direct imputation credits are those received from a direct holding of a share with franked dividends attached.

Indirect imputation credits are those received as part of a distribution from an investment entity.

Any known imputation credits, or best estimates, will be included as required on a daily basis from the next determined unit price for an option, post recording of the relevant income in the custodian's accounting records.

Franking credits are accrued at the asset class level for Australian shares direct holdings only and factored into the effective tax rate in other cases.

6 **Timing of Review**

The review of the effective investment tax rate(s) for each option is generally conducted on a monthly basis, once the month end tax information is available from the custodian.

The Finance team is responsible for advising the custodian of any changes to the rates and/or any adjustments required to the existing tax balances in each option; also for ensuring that the custodian has implemented the rates and/or adjustments as advised.

7 **Reconciliation**

For the financial year ending 30 June each year, and for each of the preceding 3 quarter ends, a reconciliation is performed between the amount accrued in unit pricing as a result of using the effective investment tax rate(s) and the actual investment tax attributable to an option on completion of the tax provision for financial statement purposes. Any adjustments will be made as necessary as soon as possible in the unit pricing calculation.

As best estimates are used in the rate calculation throughout the year there will be differences between these estimates and the actual year end tax position. Any adjustments required as part of the year end reconciliation process, will not usually be considered to be an error warranting adjustments.

Reconciliation will also be performed once the tax return has been completed and any adjustments made as required in the unit price calculation. Any adjustments required as part of this reconciliation process will not usually be considered an error.

8 **Data**

The custodian is responsible for providing the required investment information to ensure the calculation of the effective investment tax rate can be performed. This information will be delivered as part of the normal month end reporting.

9 **Exceptions in the Sunsuper Tax Model**

Pension - Sunsuper is exempt from paying tax on any income relating to its pension options, but is generally entitled to imputation credits. Sunsuper will assess and include known imputation credits, or best estimates as required, in attributing a tax benefit of these credits to the pension investment options as appropriate in the unit pricing calculation.

Appendix 2 - Letter re Price Source Agreement



State Street Australia Limited

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13 October 2017

██████████
Sunsuper Pty. Ltd.,
30 Little Gribb Street
Milton
QLD 4064

Re: PRICE SOURCE AGREEMENT – Sunsuper

We refer to the Administrative Services agreement between Sunsuper Pty Ltd (the 'Client') and State Street Australia Limited ("State Street") dated 2nd of February 2012 (the 'Agreement') (as amended from time to time). In schedule 1 of the Agreement, State Street agrees to calculate the net asset value of the securities held in each portfolio administered by State Street using the security price source methodology provided or approved by the Client or its agents.

State Street wishes to advise you of its standard methodology used to calculate the net asset value of the securities held in each portfolio and to seek your agreement for the ongoing use of these price sources as set out in Annexure A to this letter.

If you are in agreement with State Street using the security price source methodology set out in Annexure A to calculate the net asset value of the securities held in your portfolios, please sign and return the enclosed copy of this letter. Pending receipt of a signed copy of this letter, State Street will continue to use the security price source methodology set out in Annexure A to price the securities held in your portfolios.

This letter and our agreement to use the security price source methodology set out in Annexure A are subject in all respects to the terms and conditions of the Agreement and all provisions of the Agreement remain unchanged.

STATE STREET

Yours sincerely,

[Redacted signature block]

The foregoing terms are acknowledged and agreed by the Client:

[Redacted acknowledgment block]

By: [Redacted signature]

Date: 13/10/2017

[insert name and position of authorised person]

For and on behalf of Sunsuper Ply Ltd

Information Classification: General

ANNEXURE A

Security Type	Primary Source	Methodology	Alternative Source(s)	Methodology
EQUITIES				
US Equities (Listed)	Thomson Reuters	Close/Last Sale	Bloomberg Interactive Data	Close/ Last Sale
International Equities (Listed)	Thomson Reuters	Close/ Last Sale	Bloomberg Interactive Data	Close/ Last Sale
Thal Equities	Thomson Reuters	Foreign Close Defaulting to Local Close	Bloomberg Interactive Data	Foreign Close defaulting to Local Close
Australian Equities	Thomson Reuters	Close / Last Sale	Bloomberg Interactive Data	Close / Last Sale
New Zealand Equities	Thomson Reuters	Close / Last Sale	Bloomberg Interactive Data	Close / Last Sale
FIXED INCOME				
US Bonds	Interactive Data	Evaluated Bid	JPMorgan Bloomberg FRI (Statpro)	Evaluated Bid
Canadian Bonds	Interactive Data	Evaluated Bid	Bloomberg FRI (Statpro)	Evaluated Bid
International Bonds	Interactive Data	Evaluated Mid / Evaluated Bid	Bloomberg IBOXX FRI (Statpro)	Evaluated Mid / Evaluated Bid
Australian and New Zealand Fixed Income	Interactive Data – Australia	Evaluated Mid	Interactive Data Bloomberg FRI (Statpro)	Evaluated Mid / Evaluated Bid

Information Classification: General

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OTHER ASSETS				
International Trusts	Thomson Reuters	Close / Last Sale	Bloomberg	Close / Last Sale
Australian Options	Thomson Reuters	Settlement Price / Close price	Bloomberg	Settlement Price / Close price
Australian Futures	Thomson Reuters	Settlement Price / Close price	Bloomberg	Settlement Price / Close price
International Options	Thomson Reuters	Settlement Price / Close price	Bloomberg	Settlement Price / Close price
International Futures	Thomson Reuters	Settlement Price / Close price	Bloomberg	Settlement Price / Close price
Daily Priced Unlisted Vehicles	AUSMAQ	NAV / MID / Value	Fund Manager Unit Registry Bloomberg Client	NAV / MID / Value
Unlisted Vehicled Priced less Frequently than Daily	Fund Manager Unit Registry	NAV / MID / Value	Client AUSMAQ	NAV / MID / Value
Unlisted Vehicles held in SUKD, SUKA and SUPH	General Partner / Fund Manager / Unit Registry	NAV / MID / Value	Client	NAV / MID / Value
OTC Derivatives - Bilateral	Markit Partners	Evaluated Price	Bloomberg / Investment Manager	Evaluated Price
OTC Derivatives - CCP	Exchange Prices	Evaluated Price	Markit Partners Investment Manager	Evaluated Price
Bank Loans	Markit Partners	Mean defaulting to Mid	Investment Manager	Mean defaulting to Mid
EXCHANGE RATES				
All Currencies	WM Company	London 4PM	Thomson Reuters	Sydney 4PM
FORWARD POINTS				

Information Classification: General

All Currencies	WM Company	London 4PM	Thomson Reuters	Sydney 4PM
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EXCEPTIONS

- For forward rates, "All Currencies" excludes Non-Deliverable currencies. These will receive an NDF-Forward rate as at Boston 5pm, rather than standard forward rates. These currencies include, at the time of execution of this document: INR, KRW, MYR, PHP, TWD, CNY, IDR, VND, NGN, KZT, UAH and RUB.
- Suspended, delisted and defaulted securities will be valued at the last available market price where there is an expectation of future entitlement as determined by the Client or Investment Manager, unless State Street is instructed to value such securities at nil.
- Corporate action entitlements will be valued at cost or a fair value price if no market price is available.
- Placements / IPOs / Institutional offers will be valued at market, unless the placement shares do not rank equally to the ordinary shares. If placement shares do not rank equally, they will be priced at cost until a market price is available. If the placement shares are not entitled to the next expected dividend, they will be priced at market, less the next expected dividend rate, if available.
- Shares traded in countries with restricted internal and external ownership regulations will be valued at local price if there is no current market price available.
- Where State Street is unable to source an initial price for a security from the primary or alternative sources noted above, it will be valued at cost unless otherwise instructed by the Client or Investment Manager.
- Where the above sources have ceased to value a security it will continue to be priced at the last available price unless otherwise instructed by the Client or Investment Manager.
- Russian foreign share holdings will be valued using the local share price from MICEX and converted to USD using WM11 exchange rates.
- Thailand foreign share holdings will be valued at the local share price if the foreign share price is stale.

Information Classification: General

STATE STREET

- The three (3) holdings listed below are required to be indexed daily when State Street does not receive the prices before the agreed cutoff. Indexes and weightings to be used are referred to on Annexure B and have been provided by Sunsuper. In the event of any changes, it will be the responsibility of Sunsuper to instruct State Street of the new weightings.
 1. AMP Responsible Investment Leaders Balanced
 2. Tribeca Alpha Plus Fund C2
 3. Mercer Global Listed Property Fund
- For Vanguard Unlisted Unit Trusts, State Street to price securities as per the standing instructions issued by Sunsuper.

Detailed indices' information is listed as per below:

Information Classification: General

Fund	CUSIP	Security Name	Index Name	BBG Ticker	Percentage	Comments
SUDE	984VCN900	Responsible Investment Leaders Balanced Fund	Bloomberg AusBond 90 Day Bank Bill	BAUBIL	5%	
			Bloomberg AusBond Government Index	BAGV0	11%	
			Bloomberg AusBond Inflation Index	BAIL0	2%	
			Barclays Global Treasury GDP Weighted by Country Index	BGTGTRAH	4%	No Access
			Barclays Capital Global Aggregate – Credit Index	LGCPTRAH	8%	
			S&P/ASX 200 Accumulation Index	ASA51	30%	
			MSCI All Countries World Accumulation Index (ACWI) Unhedged	M1WD	18%	In USD
			MSCI AC World Local	MSELACWF	7%	
			MSCI Emerging Markets	M1EF	2%	In USD
			FTSE EPRA/NAREIT Developed Net Total Rental Index	RRAHTR	4%	
			Mercer/IPD Direct Property Index	Mercer/IPD Australia Unlisted Wholesale PFI Report	5%	No Access
			10 Year Australian Bond Yield + 3%	GTAUD10YR Corp	4%	

Information Classification: General

STATE STREET

Fund	CUSIP	Security Name	Index Name	BBG Ticker	Percentage	Comments
SUAL	984YBW905	Tribeca Alpha Plus Fund Class 2	S&P/ASX 200 Accumulation	ASA51	100%	
SSMH	ACI0299Z7	Mercer Global Listed Property Fund	TEPRA/NAREIT Global Hedged in AU\$ total Return Index	TEGHAA	100%	Index to T-2

- With the Year- End Pricing methodology, when no hard close prices are available, SSAL UIT apply the CUM price less the DPU + index until FM release the catch prices.
- Where an estimated return/price is provided to SSAL by an IM or Sunsuper, this return/price will be updated by SSAL in the next available unit pricing day. If an estimated price is provided by Sunsuper with no input from an IM, SSAL may not be able to confirm the price with the relevant source.
- In the case of Unlisted assets, if SSAL is not able to obtain the month end valuation or an estimate within the agreed time frame for the purposes of month end hard close reporting, SSAL will use the latest price available unless otherwise instructed by the Client or Investment Manager

Information Classification: General