

Chimaera Capital

Unit Pricing Discretions Policy

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Contents

1.	Introduction	3
2.	Policy scope	3
3.	The Funds' constitutions	3
4.	What type of discretions do we exercise?.....	3
5.	Are our discretions reasonable?	8
6.	Register of discretions	8
7.	Record keeping	8
8.	Policy disclosure	8
9.	Compliance with this policy	8
10.	Review of this policy.....	8
	Schedule A – Registered schemes for which Chimaera Capital is responsible entity	9
	Schedule B – Summary of discretions exercised by Chimaera Capital	10

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Unit Pricing Discretions Policy

1. Introduction

Chimaera Capital Limited (Chimaera) is the responsible entity of the registered managed investment schemes listed in Schedule A (Funds). This document provides guidance on how Chimaera will exercise its discretion permitted under the constitution of each Fund to determine the issue price and withdrawal price.

2. Policy scope

This document is known as the 'Unit Pricing Discretions Policy' and outlines the description of the unit pricing processes that are to be followed by Chimaera in accordance with ASIC Class Order 05/26 'Constitutional provisions about the considerations to acquire interests' (Class Order) (as amended from time to time).

The information in this document is general information and is a description of the discretions, which may be exercised by Chimaera Capital. Further information relating to the exercise of discretions is contained in the disclosure document and constitution for each relevant scheme.

3. The Funds' constitutions

The constitutions of each Fund listed in Schedule A sets out the method that Chimaera Capital uses to calculate the issue price and withdrawal price of the Fund at a particular time. There may be variations between the methods, however, each method provides for the issue price to be calculated by dividing the net asset value by the number of units in issue and then adjusting the result of this calculation up for transaction costs (if any) and each method for the withdrawal price to be calculated by dividing the net asset value by the number of units in issue and then adjusting the result of this calculation down for transaction costs (if any).

Where a Fund has more than one class of unit the issue price or withdrawal price is determined, in broad terms, by dividing the net asset value referable to that class by the number of units in issue in that unit class and then adjusting the result of this calculation up (for issue price) or down (for withdrawal price) for transaction costs (if any).

A description of the method used to calculate the issue price for a Fund is set out in the product disclosure statement for the Fund.

4. What type of discretions do we exercise?

In accordance with the above formula, Chimaera Capital has identified the following discretions that it is likely to exercise in calculating the issue and withdrawal price of each Fund:

- estimating an allowance for transaction costs;
- selecting a valuation method;
- determining entry, exit or switching fees;
- determining the net asset value of the Fund;
- allocating assets, liabilities, revenue and expense between classes of units;
- rounding unit prices;
- determining a time at which unit prices are calculated; and
- determining a time at which assets and liabilities are valued.



Estimating an allowance for transaction costs

Estimated allocation costs are allocated when an investor buys or sells units in a Fund by incorporating a buy-sell spread in the relevant entry and/or exit price. A buy-sell spread is a cost charged to enter (buy units) or exit (sell units) in a Fund. This aims to ensure that other members do not pay the transaction costs associated with a particular investor buying or selling units in a Fund. In circumstances where no transaction costs are incurred because there is no trading of underlying assets (as a result of the member transferring to a similar Chimaera Capital product), Chimaera Capital may waive the buy-sell spread.

The estimated transaction costs relevant to each Fund are listed in the product disclosure statement or from our website at www.chimaeraglobal.com.

The decision to introduce buy-sell spreads is considered at each review of the buy-sell spreads across the Chimaera Capital Funds. The following factors are considered when determining the buy-sell spread as part of the annual review:

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

The approach taken in the review will vary depending on the nature of the assets held by the Fund. That is, whether the asset is held directly by the Fund, involve funds managed by external fund managers, involve funds operated by Chimaera Capital or involve a number of different asset classes. This is discussed further below.

Directly held assets

Where direct assets of a single class are held, transaction cost estimates are based on recent trading experience of relevant assets of the Fund. This involves Chimaera Capital obtaining the following for a recent 12 month period:

- the total gross value of asset purchases over the period; and
- the total transaction costs relating to asset purchases over the period.

The estimated buy spread is calculated as the total transaction costs over the period, divided by the total gross value of asset purchases over the period. This calculation is then repeated for asset disposals, and transaction costs relating to asset disposals, in order to determine and estimated sell spread.

If a Fund holds infrequently traded assets (eg. infrastructure), a 12 month period may not be sufficient to obtain a realistic estimate of transaction costs. In this case, alternatives will include:

- use of a longer history of transactions to determine the estimate; or
- reference to a relevant expert to assess the level of transaction costs that may be expected when trading that asset class.

For new Funds, as there is not trading history to assess transaction costs, reference may be made to Chimaera Capital Funds that hold similar types of assets to estimate the buy-sell spread, or to a relevant expert (such as the investment manager of the new Fund).

Internal inter-funding

Where the asset of a Fund is another Fund operated by Chimaera Capital, the total buy-sell spreads will be equal to the total buy-sell spread of the underlying Fund(s).

Diversified Funds

Where a Fund invests in a number of different asset classes, whether the assets are held directly or by internal/external Funds, the estimated buy-sell spread will be the weighted average of the buy-sell spreads calculated for each asset class, using the strategic asset allocation of the Fund as the appropriate weighting.



Offsetting

When estimating acquisition or disposal costs, no allowance will be made for the possible offsetting of application and withdrawal cash flows within a Fund. This approach has been adopted as the offsetting of transactions cannot be predicted, and overestimation of the level of offset would result in a disadvantage to existing members in the Fund when transaction costs are incurred. Where actual transaction costs vary from the allowance within the issue and withdrawal price, the impact will be borne by the overall Fund. This approach is reviewed on an annual basis.

Chimaera Capital may also exercise a discretion where rather than having a separate buy-sell spread, the allowance for both buying and selling costs are allowed for in the buy spread, with a sell-spread of zero. This occurs most commonly where the primary investments of a Fund are other Funds. Where this is the case, this approach is disclosed in the product disclosure statement.

Selecting a valuation method

Under the constitutions of the Funds, where there is no market value or we reasonably believe the value obtained is not the fair market value of the asset, Chimaera Capital may exercise its discretion by choosing an alternative method of valuation (ie. the secondary pricing source) listed below.

Instrument Type	Primary Pricing Source	Secondary Pricing Source
Domestic equities (including LPTs)	Bloomberg is a world-wide provider of market information	Paritech/Pulse is a domestic pricing provider for all Australian and New Zealand listed securities
Domestic options – exchange traded options	Bloomberg received in electronic feed	Paritech/Pulse received in electronic feed
Domestic options – company and warrants	Bloomberg received in electronic feed	Paritech/Pulse received in electronic feed
Interest rates	Bloomberg received in electronic feed	Paritech/Pulse received in electronic feed
Swaptions	External valuer	Chimaera Capital
Unlisted unit trusts	Benchmark indices where available and confirmation with third party scheme managers	Individual investment managers
Suspended/delisted shares	Paritech/Pulse, Bloomberg	Last pricing source or Chimaera Capital
Unlisted shares	Preferably from Bloomberg, but if unavailable then the investment managers	Client if no independent source

Where certain tolerance checks performed on valuations appear unreasonable, alternative pricing sources may also be used. Tolerance levels are allowable variances that might occur between the Fund and a benchmark. A few examples of benchmarks that are used in the Funds are listed below:

- S&P/ASX 200 Index;
- S&P/ASX 300 Index;
- S&P/ASX 20 Leaders Index;
- S&P/ASX 50 Leaders Index;
- S&P/ASX 200 and 300 Accumulation Indices; and
- The Generic Australian 5 Year Commonwealth Government Bond Yield.

The benchmark adopted depends on the asset. It is usually linked to the asset class the Fund invests in and is detailed in the Fund's relevant product disclosure statement.



Determining entry, exit or switching fees

The constitution of each Fund sets out the maximum entry, exit and switching fees. The applicable entry, exit and switching fees are disclosed in the relevant Fund's product disclosure statement.

Chimaera Capital exercises its discretion to charge a fee up to the maximums stated in each Fund's constitution. It is not possible to describe a precise methodology on how the entry, exit and switching fees are determined, however, the amount of entry, exit or switching fees charged depends on market practice and competition.

Determining the net asset value of the Fund

The net asset value of each Fund is calculated by deducting the value of the liabilities from the gross assets. Investments within each Fund are valued at their market value consistent with IFSA standards. The assets of a Fund include all investment assets, capital, income, property and rights of the Fund.

Investment assets are valued using the following guidelines:

- Security prices are obtained, where possible, from independent security pricing services, and are based on market price where the security is traded on a regulated market.
- Where a security price is not available from an independent source, or is not traded on a properly regulated market, the valuation of that security is determined in good faith in accordance with industry standards referred to in IFSA Standard No.9 Valuation of Scheme Assets and Liabilities considering all relevant factors which may affect the security price.

The liabilities of a Fund include all borrowings, contingent liabilities, accrued fees payable, and any other relevant liabilities of the Fund. Other assets and liabilities in a Fund, which may include fees and rebates, are valued in good faith in accordance with industry standards (IFSA Standard No.9 Valuation of Scheme Assets and Liabilities). In particular:

- Fees and rebates will be accrued on a daily basis.
- Expense will be accrued daily using a reasonable estimate of annual expenses, with reconciliations and wash-ups against actual expenses occurring at least annually.
- An estimate of performance fees will be accrued on a monthly basis. Each Fund listed in the below table has a performance fee methodology which is outlined in the Fund's product disclosure statement:
 - Associated Equities Aussie Fund; and
 - Chimaera Equity High Yield.
- Tax liabilities of assets are calculated in accordance with relevant taxation laws. As tax is paid in the hands of the member, a tax provision is not included in the unit price for the Fund.
- The unit price of the Fund does not take into account tax credits collected by the Funds. Tax credits will be distributed to members at each distribution period.

Allocating assets, liabilities, revenue and expense between classes of units

Chimaera Capital has discretion under each Fund's constitution to issue different classes of units and to determine the rights, liabilities, obligations and restrictions, which attach to each class. Where this occurs, the respective product disclosure statement for the Fund will set out the strategy of the Fund which in turn is used to determine the allocation of assets, liabilities, revenue and expenses between classes.

Where there is more than one class of units in issue in respect of a Fund, Chimaera Capital is required to allocate the assets and liabilities of the Fund between the relevant unit classes to ensure that the net asset value of each class of units is accurately determined.

Chimaera Capital will allocate assets and liabilities of a Fund between unit classes where there is more than one unit class in issue. Assets and liabilities will be allocated by reference to:



- (a) in relation to assets:
- (i) the value of the assets acquired in respect of a unit class as a result of the consideration paid for the issue of interests in that unit class; and
 - (ii) any other assets which are acquired in connection with those assets (for example bonus shares issued in respect of shares referable to a unit class); and
- (b) in relation to liabilities:
- (i) by allocating a percentage of the liabilities of the Fund to each unit class equal to the percentage determined by dividing the gross asset value of the Fund; and
 - (ii) by allocating liabilities which are incurred in relation to a particular unit class to that unit class only.

Rounding unit prices

The constitutions of each Fund allow Chimaera Capital discretion to round the unit prices calculated. Chimaera Capital currently adopts the rounding methodology to four (4) decimal places. Unit prices are rounded to the nearest applicable decimal place (that is, a 4 or less is rounded down, and a 5 or above is rounded up).

Chimaera Capital may vary the unit price rounding for any Fund, in the event that performance strategies change and system constraints are overcome. Any changes will be reflected in this policy at the time of that change.

Determining a time at which unit prices are calculated

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

Chimaera Capital has exercised its discretion to determine that the unit price of each Fund will generally be calculated daily, weekly or monthly. Refer Schedule A for a Fund's unit pricing frequency.

Unit pricing can be carried out using forward pricing or historical 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.
- Historical pricing is when applications to buy and sell units are processed using a price calculated prior to the receipt of applications.

Chimaera Capital calculates unit prices by using forward pricing.

When using a forward pricing methodology, a cut-off time must be applied to determine which transactions will receive a particular unit price. The cut-off time used for the Funds is 3pm on the last business day of the month. Cut-off times are applied to the time when Chimaera Capital receives the transaction.

Applications or withdrawal requests received before the cut-off time on the last business day of the month will receive the relevant price for that month. Transaction requests received after the pricing cut-off time are processed using the unit price calculated for the following month following receipt of the transaction request.

Chimaera Capital may suspend the calculation of unit prices in certain circumstances, including:

- the closure of, or trading restriction on, a share market;
- an emergency (including an emergency caused by a mechanical or electronic malfunction) exists as a result of which it is not reasonably practicable to acquire or dispose of Fund assets or to determine unit prices fairly.



Determining a time at which assets and liabilities are valued

Chimaera Capital has discretion under each Fund's constitution to determine when the Fund's assets and liabilities are valued. Chimaera Capital has exercised its discretion to determine that the assets will generally be valued each business day.

5. Are our discretions reasonable?

Unless otherwise specified, the policy underpinning each discretion has been developed in accordance with industry standards some of which are outlined in relevant standard and guidance notes issued by the Investment and Financial Services Association (IFSA) and the Australian Securities and Investments Commission (ASIC) and Australian Prudential Regulation Authority (APRA) Unit Pricing Guide to Good Practice. Chimaera Capital accordingly believes it would be reasonable to exercise each discretion under this policy.

6. Register of discretions

Chimaera Capital will maintain a register of the discretions Chimaera Capital has exercised which are not included in the policy or involve a departure from the existing policy. Chimaera Capital would only exercise such discretions where it deemed it to be in the best interests of members.

The following will be recorded in the register for all and any departures from this policy:

- date the discretion was exercised and the Fund involved;
- by whom the discretion was exercised;
- description explaining how the discretion was exercised;
- explanation as to why it was reasonable to exercise the discretion the way it was exercised;
- if discretion was not exercised in accordance with ordinary commercial practice, provide an explanation as to why it was not practical to do so; and
- who authorised the exercise of discretion.

7. Record keeping

In accordance with the Class Order, Chimaera Capital will retain this policy for seven years after this policy ceases to be current. Chimaera Capital will also retain the register of discretions as well as documentation of circumstances where the exercise of discretions are not covered by this policy or involves a departure from this policy.

8. Policy disclosure

Chimaera Capital will provide a copy of this policy and upon request and at no charge by contacting us on 1300 799 459.

9. Compliance with this policy

All Chimaera Capital staff are expected to comply with the requirements of this policy.

10. Review of this policy

This policy may be updated from time to time including the Funds listed in Schedule A to which this policy relates. Chimaera Capital will review this policy at least annually to ensure that it remains relevant, current and compliant with all applicable laws governing Chimaera Capital's relevant activities and functions.



Schedule A – Registered schemes for which Chimaera Capital is responsible entity

as at 20 July 2011

	Name of Scheme	ARSN	Unit Pricing Frequency	External investment manager appointed
1.	Chimaera 20 Fund	122 844 839	Not In Use	No
2.	FolioMandate	122 844 679	Not In Use	No
3.	Associated Equities Aussie Fund	129 028 253	Not In Use	Yes
4.	Associated Equities Income Fund	129 028 422	Not In Use	Yes
5.	DIGGA Australian Mining Fund*		Daily	No
6.	Chimaera Equity Market Neutral Fund*		Monthly	No

* awaiting ARSN



Schedule B – Summary of discretions exercised by Chimaera Capital

Date	Fund	Who Exercised the Discretion	Description of Discretion	Rationale for Exercising the Discretion	Rationale if Discretion not Exercised in accordance with Ordinary Commercial Practice	Compliance Sign-Off

