

# WHAI RAWA UNIT TRUST

## UNIT PRICING BUSINESS RULES



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**WhaiRawa** NGĀI TAHU



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## 1.0 Overview

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### 1.1 Purpose

This document sets out the end to end processes and business rules adopted for pricing units and allocating investment income in the Whai Rawa Unit Trust (the 'Trust') and the associated cash flow and rebalancing processes. Whai Rawa Fund Limited (the 'Manager') governs the Trust in line with the Trust Deed and legislative requirements.

This document serves as a guide for all key stakeholders associated with the Trust's operational framework to help them gain a better understanding of the practical implementation of the Manager's endorsed policies in relation to key operational areas of the daily unitisation model.

The Unit Pricing Business Rules document has been formulated with reference to the Trust's governing documents and other guidelines as set out below.

This document is to be read in conjunction with the Trust's *Unit Pricing Policy* document which sets out the specific policies the Manager has adopted in allocating the Trust's investment income.

For the purpose of this document the individuals investing in the Trust are referred to as 'Members'.

### 1.2 Business Requirements Scope

This document outlines how the Trust's *Unit Pricing Policy* (the '**Policy**') is implemented including the key operational processes and business rules. These processes and business rules have been derived in the context of the Trust using a daily unit pricing framework to allocate earnings to Members.

#### 1.2.1 In Scope

#	Description
1	The Trust's unitised investment structure
2	The operational framework under which daily unit prices are determined – including the interaction of all stakeholders
3	Business rules associated with unit pricing policies and the operational framework
4	Various inputs and outputs relating to the unit pricing process

#### 1.2.2 Review and Revision

While it is the responsibility of the Manager (or their delegate) to maintain and document an appropriate operational environment, it is the separate responsibility of each service provider to develop, maintain and implement detailed procedures to give effect to the Manager's policies and overall operational framework. To this end, a copy of this document is to be provided to each relevant service provider (see section 2.3).

The Manager (or their delegate) is responsible for reviewing the business rules at least annually and to document and approve amendments, as necessary.

### 1.2.3 Approval

This document will be approved by the Manager (or their delegate).

## 1.3 Acronyms & Glossary

Term	Description
TRoNT	Te Rūnanga o Ngāi Tahu
MINZL	Mercer Investments (New Zealand)
SLA	Service Level Agreements
SAA	Strategic Asset Allocation
MTAA	Medium Term Asset Allocation
MITNZ	Mercer Investment Trusts New Zealand
SIPO	Scheme's Statement of Investment Policies and Objectives
NAV	Net Asset Values

## 2.0 Operational Framework

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### 2.1 Scheme Structure

The Trust is a Managed Investment Scheme which is open to any Registered Tribal Individuals of TRoNT. The Trust has over 28,000 members and manages over \$NZ 100m in funds under management. The Trust's primary purpose is to help provide retirement savings for its members.

The Manager has appointed Mercer to provide administration services to the Trust, replacing Link Market Services from 1 October 2019. The assets are held in the Mercer MITNZ Socially Responsible Tōtara-Conservative, Mataī-Balanced, and Rātā-Growth Funds which operate on a daily unitised basis. Members can select from these options.

### 2.2 Governing Principles and Related Documents

The Manager is committed to adopting market best practices and processes to promote member equity. The business rules were formulated with reference to the Trust's governing documents, disclosure documents, related policies and general industry best practice.

The principles and policies associated in establishing the Trust's operational framework are set out in the Manager's *Unit Pricing Policy* dated 17 September 2019.

There are also a number of other documents, including Service Level Agreements ('SLA') established between the Manager and its service providers. Where this business rules document outlines a process which is in conflict with an SLA deliverable, process or a policy, the requirement of the relevant SLA or policy will override the process outlined in this document.

### 2.3 Stakeholders Involved

The Trust and the third party service providers involved with the overall operational framework to determine Scheme unit prices are set out below.

Service provider	Role
Mercer (N.Z.) Limited ( <b>'Investment Consultant'</b> )	<ul style="list-style-type: none"><li>• Scheme investment consultant</li><li>• Provides advice in relation to investment issues</li><li>• Monitoring of Strategic (<b>'SAA'</b>) and Medium Term (<b>'MTAA'</b>) Asset Allocation</li><li>• Reviews investment performance</li></ul>
Mercer (NZ) Limited and Mercer Outsourcing (Australia) Pty Ltd (Collectively referred to as <b>'Mercer'</b> or <b>'Administrator'</b> )	<ul style="list-style-type: none"><li>• Determines daily unit prices</li><li>• Determines and processes member contributions, benefits and switches and tax</li><li>• Determine adjustments required to unit prices</li><li>• Reports to the Manager on unit pricing errors, delays in delivery of unit prices and suspension in unit prices</li><li>• Provides uninvested cash flow information to MINZL</li></ul>

Service provider	Role
Mercer Investments (New Zealand) Limited ('MINZL')	<ul style="list-style-type: none"> <li>• Trustee of the Mercer Investment Trusts New Zealand</li> <li>• Reviews movement of daily unit prices to identify any material discrepancies</li> <li>• Monitors and allocates uninvested cash</li> <li>• Rebalances MITNZ investment options</li> </ul>

The Manager has appointed Mercer to provide administration, daily unit pricing and financial reporting services for the Trust.

The Administrator maintains a register of the ownership of the Trust's assets across the underlying investments in the Mercer Investment Trusts New Zealand ('MITNZ').

MINZL is the Trustee of the MITNZ. MINZL conducts reasonableness checks on unit prices and manages cash flows, into and out of investments which are associated with the Trust, in line with defined operational ranges.

The Manager has advised its stakeholders that, in determining the Trust's unit prices, the practices and business rules detailed in this document are to be adhered to and implemented.

Responsibility for the operational maintenance of this document as well as the ongoing assumptions and estimates used within the unit pricing process is delegated in accordance with the Trust's operational change management processes.

## 3.0 Investment and Unit Pricing Framework

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### 3.1 Investment Structure

The investment and unit pricing structure for the Scheme consists of three layers –

- layer 1 being the Trust investment options offered to Members,
- layer 2 being the investment vehicles into which the Trust invests (MITNZ options)
- layer 3 being the underlying asset classes or investment vehicles into which the MITNZ options invest.

Further details regarding each investment option, including the SAA of each investment option are included in the Trust's Statement of Investment Policies and Objectives (SIPO).

### 3.2 Unit Pricing Framework

To facilitate unit pricing, the Administrator provides the daily cash flow directed to each Trust investment option by Members. Using this cash flow, and based on agreed thresholds for the Scheme Liquidity Accounts, the Investment Operations area of MINZL determines whether or not cash needs to be invested into each Whai Rawa option.

MINZL will then perform a similar cash flow management process at the MITNZ option level. Each MITNZ option then buys units into a range of underlying asset sector vehicles at layer 3.

Operational ranges are used to decide when and how to rebalance the assets of each MITNZ option and how cash flow will be managed – i.e. the thresholds above which cash flow will be invested with, or redeemed from, underlying investment vehicles

Pricing, tax management and investment management at the layer 2 and layer 3 levels is the responsibility of MINZL as trustee of the MITNZ.

The Administrator determines unit prices for each of the Trust investment options (i.e. layer 1) by taking into account the layer 2 valuations, the number of units issued in respect of each investment option (as recorded in the Administrator's systems) and adjusting for expenses, fees and taxes, as appropriate. The Administrator documents and maintains the unit pricing processes.

The Trustee may resolve from time-to-time to amend the Trust's investment structure or operational framework more broadly. Any changes can only be made in line with the Operational Change Management business rules.

The unitised investment structure allows for additional investment options, asset classes, investment managers, strategic asset weights to be added or removed with minimum disruption to the Trust's operations.

## 4.0 Operational Checks and Controls

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### 4.1 Operational Checks and Controls

As trustee of the MITNZ, MINZL has responsibility for the validity of the MITNZ prices (layer 2). To a large extent the Manager therefore relies on the controls and checks that MINZL has in place to determine these prices. In this regard, the Manager understands that:

- MINZL's custodian performs a range of checks and controls in relation to the asset valuations held by each underlying investment manager; and
- MINZL compares unit price movements for the layer 3 vehicles and MITNZ options relative to market indices within specified tolerance ranges.

Checks will also be carried out by the Investment Operations area of MINZL on the Trust prices by checking the consistency of the Trust option price movement with the related MITNZ option price movement. For example, if a MITNZ option price moves by 1% the related Whai Rawa option price would be expected to also move by 1%.

**Business rule**      *The Investment Operations area of MINZL will check that the movement of Trust option prices is in line with the movement of the underlying MITNZ options.*

### 4.2 Asset and Liability Reconciliation

Due to the Trust's operational framework, it is possible that on any particular balancing date, the value of the Trust's assets in a particular investment option is different to the value of member accounts (i.e. liabilities) recorded in that option in the Trust administration system. To mitigate large variances the Manager (or their delegate) and the Administrator will initiate regular comparison of the Trust's assets against its liabilities. The Manager (or their delegate) will advise the Administrator of any adjustments to be made as a result of any variances – e.g. redemption of units from one investment option and the purchase of units in another investment option.

**Business rule**      *The Administrator will provide reports to the Manager (or their delegate) to facilitate asset liability rebalancing at investment option level. Reports will need to be provided at least annually. (It is noted that to ensure an appropriate comparison of assets and liabilities, reports may need to be adjusted – e.g. to reflect operational lags, differences in assets valuation, any reserves, etc.)*

**Business rule**      *The Manager (or their delegate) will inform the Administrator on any adjustments required.*



## 5.0 Cash flow management

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### 5.1 Background

Member contributions and requests for benefit payments are received by the Administrator who processes these transactions to members' accounts in line with its SLA.

The Administrator will process this information on its administration system which then flows through to MINZL the next morning in the form of a daily cash flow report.

An illustration of the cash flow management process is contained in the Appendix.

### 5.2 Daily Cash Flow Process

MINZL receives a daily cash flow report in respect of each Trust investment option. This report shows the amount of cash invested in each option's Liquidity Account based on the member transactions processed by the Administrator the previous day.

On a daily basis the Investment Operations area of MINZL then compares the amount in each option's Liquidity Account with the agreed minimum and maximum operational liquidity thresholds as instructed by the Manager (refer below).

Investment option	Liquidity Account – Operational threshold		
	Minimum	Rebalancing Target	Maximum
Rātā-Growth	0%	0.4%	1%
Mataī-Balanced	0%	0.4%	1%
Tōtara-Conservative	0%	0.4%	1%

Where the maximum threshold is exceeded for a particular Trust option(s), Investment Operations will invest monies in the relevant Trust option to reduce the liquidity level down to the Rebalancing Target. This money will then flow through to the cash account attached to the relevant MITNZ option (layer 2).

Where a Liquidity Account goes below the minimum threshold, a redemption from a Trust option is required to increase liquidity to the Rebalancing Target and this money is effectively taken from the relevant MITNZ option's Liquidity Account at layer 2.

At the layer 2 level, the cash flow management process becomes the responsibility of MINZL as trustee of the MITNZ. MINZL will apply its own operational thresholds to determine whether monies physically need to be invested/redeemed. It will also have its own process for investment/redemption agreed with its custodian.

**Business Rule**      *The Investment Operations area of MINZL will monitor and maintain the Liquidity Accounts attached to each Whai Rawa option within the operational ranges agreed with the Manager.*

**Business rule**      *The Administrator will provide daily cash flow information to MINZL capturing the daily cash flows into and out of each Whai Rawa option for the prior day.*

## 6.0 Rebalancing assets

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### 6.1 Investment Option Rebalancing

Managing the rebalancing of the MITNZ options between asset classes is the responsibility of MINZL as trustee of the MITNZ.

The Investment Operations area of MINZL will maintain the asset allocation of each MITNZ option in line within the asset allocation ranges approved by MINZL. These ranges will reflect instructions provided to MINZL by the Manager based on advice from their Investment Consultant.

**Business rule** *MINZL is responsible for managing the rebalancing of the MITNZ options within the asset allocation ranges approved by MINZL. These ranges would generally be expected to reflect instructions provided to MINZL by the Manager from time to time.*

### 6.2 Asset Class Rebalancing

MINZL is responsible for determining and monitoring the underlying managers and investments within each asset class (layer 3) investment vehicle.

**Business rule** *MINZL is responsible determining, monitoring and rebalancing the underlying investment allocation within each layer 3 investment vehicle.*

## 7.0 Calculation of Daily Unit Prices

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### 7.1 Background

The Administrator will determine unit prices for each of the Trust's investment options in line with the Manager's Unit Pricing Policy. The Trust allocates investment earnings based on the unit prices. The Manager remains responsible for ensuring the methodology adopted in determining unit prices remains appropriate.

### 7.2 Frequency, Timing and Precision

Unit prices will be determined daily by the Administrator for transaction purposes and for performance reporting purposes.

The unit pricing process involves the following steps:

- The determination of MITNZ option unit prices (for which MINZL is responsible for associated processes, controls and assumptions) net of investment fees; and
- The determination of Whai Rawa option unit prices based on the MITNZ option prices after adjusting for expense provisions (if any) and investment fee rebates (if any) in line with the Trustee's policies.

Unit prices are struck in the afternoon effective close of business the previous day.

Unit prices are to be calculated to four decimal places with normal rounding.

**Business rule**      *Unit prices will be determined daily by the Administrator to four decimal places (with normal rounding).*

### 7.3 Forward Unit Pricing

All unit prices for investment options and asset classes will be determined on a forward basis. Cash flows will be processed by the Administrator using the unit prices of the effective date stated on the cash flow file received. For example, the unit price applying to an application is the buy unit price determined for the day the instruction was processed – this price is typically determined the day after the process date of the transaction.

Benefit payments requests are normally processed two days after the request is received. The unit price applying to the redemption is the sell unit price prevailing at the time the instruction is processed – the prevailing unit price is typically that which applies for two days prior i.e. the day the benefit request was received. This approach means that benefit payments are effectively processed using a forward price.

**Business rule**      *The Administrator will allocate cash flow to unit prices determined after the period to which the cash flow relates.*

## 7.4 Buy-sell Spreads

All Trust option unit prices will be determined using Net Asset Values (NAVs) of underlying assets with no allowance for buy-sell spreads. However, in future the Manager may decide to apply sell unit prices (equal to NAV unit prices less a sell spread which reflects the estimated costs of redeeming interests in underlying investments) and buy unit prices (equal to NAV unit prices plus a buy spread which reflects the estimated costs of acquiring interest in the underlying investments) where deemed applicable.

**Business rule**      *Each Trust option unit price will be determined based on the NAV unit price with no allowance for buy-sell spreads unless the Manager advises otherwise.*

## 7.5 Valuation of Assets

The Trust invests in the MITNZ for which the valuation of assets is the responsibility of MINZL.

The Manager understands that assets are valued by MINZL at market value on a 'going concern' basis in a manner consistent with New Zealand accounting standards and generally accepted accounting principles.

## 7.6 Application of Discretion

The Manager has the discretion to make adjustments to the unit pricing process in specific circumstances in order to ensure equity and fairness amongst members. Discretion may involve implementation or adjustment to a buy-sell spread or the unit price at which to process a particular transaction.

Adjustments may also be necessary to overcome inappropriate impacts to unit prices which may arise for a number of reasons including inherent operational lags, stale prices, large transactions, liquidity constraints or offsetting cash flows.

Refer to the *Unit Pricing Policy* for further details.

**Business rule**      *Application of discretions are effected in line with the Trust's Unit Pricing Policy. Any application of discretion should be applied consistent with the Operational Change Management rules.*

## 7.7 Provision of Fees

Trust option unit prices will provide for investment management fees at the appropriate rates. Investment management fees will generally be provisioned for at the MITNZ layer, with rebates (if any) provisioned within the Trust options.

At present all other Trust expenses are met by the Trust's sponsor (and not from Trust assets). If this changes in the future and these expenses are then recovered from the Trust, these expenses will be taken into account in determining unit prices.

The Administrator will undertake a quarterly reconciliation of the fees accrued in unit prices versus those actually paid. Any adjustments as a result of such reconciliation will be made to the prevailing unit prices.

- Business rule** *Trust option unit prices will include a provision for investment manager fees, net of rebates.*
- Business rule** *Expense provisions, other than for investment manager fees, are not required.*
- Business rule** *Any changes to expense provisions and rates must be provided to the Administrator via a formal instruction from the Manager.*
- Business rule** *The Administrator will reconcile the investment manager fee provision versus the actual investment fees paid on at least an annual basis.*

## 7.8 Provision for Investment Tax

The Trust is a Portfolio Investment Entity (PIE). Investment tax is determined under PIE tax rules. Investment tax is not provisioned for in unit prices. PIE tax paid by the Trust is deducted from members' accounts through redemption of units in the investment option(s) held by the member.

Tax in relation to the earnings on any Trust assets outside the unit pricing structure will be managed by the Administrator and the Trust's tax adviser on behalf of the Manager.

- Business rule** *Provision for tax is not required in the Trust option prices.*
- Business rule** *PIE tax components will be calculated and passed to the member registry system to enable the calculation of PIE tax deductions and associated reporting.*

## 7.9 Other Provisions

The Manager may resolve to make other provisions within Trust unit prices provided they are consistent with disclosures made to members. Any introduction of such provisioning must be in line with the Manager's Operational Change Management rules.

## 7.10 Reserves

The Manager has resolved to maintain a General Reserve. This Reserve will be invested in the Mercer MITNZ SRI Conservative Option.

## 8.0 Contingency Arrangements

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Under the Manager's policy on contingency arrangements, the Administrator has up to 48 hours to issue unit prices in the event that prices cannot be determined (e.g. systems failure).

If unit prices are not calculated within this timeframe the Manager's policy is to adopt soft unit pricing by indexing the latest unit prices using the change in value of underlying assets or the change in indices used for checking unit prices provided this approach remains fair and equitable.

As outlined in the Manager's policy, if soft pricing is expected to be necessary for more than one week, the Manager (or its delegate) will consider suspending transactions.

- Business rule** *In the event that the Administrator is unable to strike prices within 24 hours of the normal delivery time in respect of a particular New Zealand business day, then the Administrator's Head of Finance Operations (or their delegate) will inform the Manager (or their delegate) accordingly. In these circumstances the Administrator has up to 48 hours from the normal delivery time to strike prices.*
- Business rule** *If prices cannot be struck within 48 hours of the normal delivery time Mercer's Head of Finance Operations (or their delegate) must advise the Manager (or their delegate) of the decision to adopt soft pricing.*
- Business rule** *In the event that it is expected that soft pricing would be required for a period of more than one week, the Administrator will consult the Manager and a decision made whether to:*
- i. continue to use soft pricing; or*
  - ii. suspend transaction processing.*
- Business rule** *All affected member transactions pending during a suspension period will generally receive the next calculated unit price (once determined) unless otherwise determined.*

## 9.0 Operational Change Management

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A number of changes, both internal and external to the Trust can have flow on implications for unit pricing. These include but are not limited to:

- regulatory changes relating to the Trust;
- changes to applicable unit pricing and accounting standards;
- organisational changes;
- key personnel changes;
- product changes; e.g. fee changes, investment option changes;
- changes to the legal structure of the Trust; and
- IT/systems changes.

It is critical to the ongoing unit pricing process that the impact of such changes is identified and the necessary changes to the unit pricing process are made as a result.

Each stakeholder is primarily responsible for identifying changes required as a result of changes arising from the above items.

Also, it is the Manager's policy that the Administrator's Head of Unit Pricing (or their delegate) will confirm to the Manager when a new policy or a change to an existing policy, has been implemented. Any changes to these or the Administrator's existing policies must be made via authorised instructions and will take effect as soon as it is practicably possible or as otherwise agreed.

**Business rule**      *The Administrator will review on an annual basis the impact of internal and external changes on the unit pricing model.*

**Business rule**      *In the event the Manager resolves or agrees to make changes to the Trust's operational structure, the Administrator is responsible for advising all key stakeholders involved of the changes and to implement the change (including updating this document).*

## 10.0 Management of Unit Pricing Incidents

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Unit pricing incidents, including errors, may be identified by various sources including, but not limited to, service providers, control mechanisms, internal and external audits and member queries or complaints. Once an incident is identified, reporting and escalation occurs via the processes outlined in the Manager's *Unit Pricing Policy* document.

**Business rule**      *If an incident or error occurs, its impact on unit prices needs to be reviewed against the Unit Pricing Policy.*



## APPENDIX

### Illustration of Cash Flow Management Process

