

BT FUNDS MANAGEMENT LIMITED
ABN 63 002 916 458 AFSL 233724



Financial
Group

BT FUNDS MANAGEMENT NO. 2 LIMITED
ABN 22 000 727 659 AFSL 233720

WESTPAC FINANCIAL SERVICES LIMITED
ABN 20 000 241 127 AFSL 233716

ADVANCE ASSET MANAGEMENT LIMITED
ABN 98 002 538 329

UNIT PRICING DISCRETIONS POLICY

22 March 2010 Version 3

1. Purpose of this document

This document has been prepared by **BT Funds Management Limited, BT Funds Management No. 2 Limited, Westpac Financial Services Limited and Advance Asset Management Limited** (each a 'BT Company, and together, **BT**) in relation to the registered managed investment schemes (**BT Funds**) for which a BT Company is the responsible entity. It has been prepared for the purposes of Australian Securities and Investments Commission (**ASIC**) Class Order 05/26.

This document sets out the discretions the BT Companies may exercise in calculating unit prices.

This document is not a complete description of all matters affecting unit prices or investments in BT Funds, and should be read subject to the Product Disclosure Statement (**PDS**) and Constitution for the relevant BT Fund.

2. Unit pricing

The entry price and exit price for units in a BT Fund at any time are each calculated as the total value of the assets of the BT Fund less its total liabilities, adjusted for transaction costs (where applicable), divided by the number of units on issue.

3. Discretions

(a) Transaction costs

Transaction costs (where applicable) are a BT Company's estimate of the total transaction cost the BT Fund would incur to buy the assets of the BT Fund (for applications) or sell those assets (for withdrawals).

BT bases these estimates on costs incurred historically on transactions for the BT Funds, as well as its experience in buying or selling similar assets.

In some cases, BT may estimate the transactions costs as being zero. For example, where a BT Company agrees that an investor is to receive assets from the BT Fund instead of cash on a withdrawal, the BT Company may agree that there will be no transaction costs. This is because no assets will need to be sold to pay the withdrawal.

For an application for units, an adjustment is made to increase the unit price for transaction costs; and for a withdrawal of units, an adjustment is made to decrease the unit price for transaction costs.

BT believes that exercising its discretions in this way is reasonable because it ensures that transaction costs relating to applications and withdrawals of units are fairly allocated to the relevant investors, and are not unfairly borne by all investors in the relevant fund.

(b) Timing of Transactions

Entry and exit prices for the BT Funds are determined each business day based on market prices or valuations available at the end of the business day on which the application or withdrawal is taken to be received.

An application or withdrawal is taken to be received on a business day if it is received before the cut-off time specified by BT. BT has exercised its discretion to make the cut-off time 4pm (Sydney time) for the BT Funds. An application or withdrawal received after the cut-off time on a business day receives an entry or exit price based on market prices or valuations at the end of the following business day.

BT believes that exercising its discretions in this way is reasonable because it ensures that investors are able to apply for or withdraw units at prices that reflect the recent market valuations as closely as is reasonably practicable.

(c) Rounding

BT rounds entry and exit prices to 4 decimal places for all BT Funds, apart from those set out in Appendix 1, whose entry and exit prices are rounded to 3 decimal places.

Fractions of units will be issued to 2 decimal places..

This is consistent with ordinary commercial practice, and is reasonable because it ensures a high degree of unit pricing accuracy.

(d) Frequency of valuations

BT values the assets of each BT Fund daily. In unusual circumstances, such as in times of extreme market volatility, BT may value investments more than once during a business day.

For some investments held by BT Funds, an up-to-date value of an investment may not be available at the time the valuation is performed or the valuations may not be available on a daily basis. For these investments, BT may use the value most recently obtained, or may adjust that value by reference to comparable investments or movements in market indices or other factors.

BT believes that exercising its discretions in this way is reasonable because it ensures that valuations are carried out as frequently as is necessary to ensure that units are priced daily and are fair as between investors.

(e) Valuations

In valuing the assets of each BT Fund, BT uses the most recent market prices available to it at the time it carries out the valuation. Where market prices are not available (for example, because the asset is not traded on a market) BT will calculate the value using the best information reasonably available to it, including by reference to comparable investments. BT may employ independent valuers or other appropriate sources of information in determining these values.

In valuing the assets of each BT Fund, BT applies valuation practices which are consistent with ordinary market practice. BT believes that exercising its discretions in this way is reasonable as it ensures to the extent practicable that a fair value is attributed to the assets of each BT Fund and that investments are valued consistently between funds and in different periods.

(f) Fees and expenses

daily accrual

Fees charged and expenses recovered within a BT Fund are accrued in the unit price on a daily basis, based on an estimate by BT of the amount of the fee accrued on that day.

entry and exit fees

Entry and exit fees are charged for some BT Funds. Where the relevant BT Fund's constitution provides for a maximum amount of entry or exit fees, the responsible entity will generally exercise its discretion to charge a lower fee than the maximum, and the lower fee will be set out in the BT Fund's PDS.

Entry and exit fees, including any variation or waiver of those fees, are charged outside the relevant BT Fund and do not affect unit prices.

management fees – fee accrual

BT charges management fees for BT Funds. Where the relevant BT Fund's constitution provides for a maximum amount of management fees, BT will generally exercise its discretion to charge a lower fee than the maximum, and the lower fee will be set out in the BT Fund's PDS.

Management fees are calculated by BT and accrue in the unit price on a daily basis.

performance fees

Where a performance fee is charged by BT in relation to a particular BT Fund, BT calculates and accrues the fee as set out in the fund's constitution. The BT Funds which charge a performance fee are set out in Appendix 2.

Performance fees are calculated by BT and accrue in the unit price on a daily basis. Because performance fees are generally payable based on either quarterly or annual performance of a BT Fund, BT applies a reasonable methodology to accrue performance fees daily based on the daily performance of the relevant fund. This is considered more equitable to investors in the relevant BT Fund across the period for which the performance fee is payable.

Please refer to the PDS for your fund to determine if performance fees apply, and the way in which they are calculated. Calculation of performance fees for the BT Funds listed in Appendix 2 involve the exercise of certain discretions provided for in the constitution of each fund. The manner in which those discretions are exercised is described in Appendixes 2A and 2B.

expenses

For some BT Funds, the ordinary expenses of the fund will be met by BT from its management fee, and these expenses are not recovered from the fund. Please refer to the PDS for your fund to determine if BT will meet the ordinary expenses of the fund from its management fee. If extraordinary or unusual expenses are incurred in relation to such funds, the responsible entity may recover these from the relevant fund separately.

For all other BT Funds, BT will recover from the relevant BT Fund the expenses of administering the fund and investing the assets of the fund. Expenses are apportioned between those funds based on the actual expenses incurred relating to that fund. Where expenses are incurred collectively in relation to a number of BT Funds, those expenses are apportioned between those funds on a fair basis.

BT believes that exercising its discretions in these ways is reasonable because it ensures that fees and expenses are fairly allocated to the BT Funds and equitably apportioned as between investors in those funds.

(g) Liabilities

Where a BT Fund incurs liabilities other than fees and expenses, BT determines the value of these liabilities based on Australian Accounting Standards as in force immediately prior to 1 January 2005 and generally accepted accounting principles. Where a liability is payable over an extended period, BT may make provision for the value of the liability and adjust the unit price of the relevant fund to reflect this provision. Liabilities affecting more than one fund are apportioned by BT fairly amongst the affected funds.

BT believes that exercising its discretions in this way is reasonable because it ensures that liabilities of the BT Funds are borne fairly by all investors in the funds.

(h) Distributions

Frequency of distributions

The frequency with which BT Funds distribute their income and realised capital gains in most circumstances is set out in the fund's PDS. However, BT may exercise a discretion to vary this frequency, based on the amount and timing of taxable income and capital gains within the fund and other factors specific to the fund, such as expected cash flows. Immediately following a distribution, the fund's unit price will be reduced by the amount of the distribution.

BT calculates interim distributions based on estimated income in accordance with the fund's constitution. Capital gains and foreign exchange gains are not normally distributed until the June distribution. BT may also exercise its discretions as to whether a fund should distribute in a particular period and the amount of the interim distribution. In exercising this discretion, BT will have regard to anticipated cash flows in the fund and any anticipated large deposits into or withdrawals from the fund, in order to ensure as far as possible that all investors are treated fairly.

BT believes that exercising its discretions in this way is reasonable because it ensures that the income of the fund is distributed fairly to investors and that the income and capital gains of the fund can be distributed in a way which does not impose an unfair tax burden on particular investors.

Special distributions

Where a large deposit is made into, or a large withdrawal is made from a BT Fund, BT may assess the tax position of the fund to decide if a special distribution is required. A special distribution will be made if BT considers that it is appropriate to distribute the fund's income before the deposit or withdrawal, to ensure that all investors in the fund are treated fairly for tax purposes, and that no group of investors bears a disproportionate share of the tax on the fund's income or realised gains.

BT believes that exercising its discretions in this way is reasonable because it ensures that the taxable income and gains of the fund are allocated to investors fairly, and are not unfairly borne by any group of investors.

(i) Multi-class portfolios

Where a BT Fund has issued more than one class of units, BT exercises discretions as to the allocation of assets, liabilities, revenues and expenses to the classes, as set out below.

Where the BT Fund has more than one class of units, but the same fees and expenses are applicable to each class, fees and expenses are allocated equally to all units, irrespective of class.

Where the BT Fund has more than one class of units with different fees and expenses, the fund's assets, liabilities and investment income are allocated to each class proportionally based on the size of each class, or as otherwise reasonably necessary to ensure that the amounts referable to each class are taken into account.

BT believes that exercising its discretions in this way is reasonable because it ensures that, where a BT Fund has issued multiple classes of units, the assets, liabilities, revenues and expenses of the BT Fund are allocated fairly between the classes.

4. Records

Where BT exercises a discretion consistently with this policy, BT will retain a record of the result of the exercise of discretion, but will generally not retain any other records relating to the exercise of the discretion.

Where BT exercises a discretion:

- in relation to which BT has no documented policy or
- in a way that involves a departure from BT's documented policy,

BT will retain records containing details of the exercise of the discretion for a period of 7 years.

5. Nominees

None of the discretions specified in this document are exercised by nominees of any of the BT Companies.

6. Further information

If you have any questions about anything in this document or require any further information, please contact:

BT Customer Relations on 132 135 or post your enquiry to:
BT Financial Group
GPO Box 2675
Sydney NSW 2001

Advance Contact Centre 1800 819 935 or post your enquiry to:
Advance Asset Management Limited
GPO Box B87
Perth WA 6838

Appendix 1

BT Funds whose entry and exit prices are calculated to 3 decimal places

| Fund | ARSN | Responsible Entity |
|------------------------------------|-------------|-----------------------------------|
| BT Active Balanced Fund | 106 553 977 | BT Funds Management No. 2 Limited |
| BT Active Balanced Fund – NEF | 089 133 746 | BT Funds Management No. 2 Limited |
| BT Core Australian Share Fund | 089 134 001 | BT Funds Management No. 2 Limited |
| BT Core Hedged Global Share Fund | 098 376 419 | BT Funds Management No. 2 Limited |
| BT Diversified Share Fund | 106 554 803 | BT Funds Management No. 2 Limited |
| BT Diversified Share Fund – NEF | 089 133 853 | BT Funds Management No. 2 Limited |
| BT Ethical Share Fund | 097 575 703 | BT Funds Management No. 2 Limited |
| BT Fixed Interest Fund | 089 133 184 | BT Funds Management No. 2 Limited |
| BT Global Share Fund | 089 839 743 | BT Funds Management No. 2 Limited |
| BT Imputation Fund | 089 839 912 | BT Funds Management No. 2 Limited |
| BT Natural Resources Fund | 089 134 341 | BT Funds Management No. 2 Limited |
| BT Smaller Companies Fund | 089 133 666 | BT Funds Management No. 2 Limited |
| BT Tax Effective Income Fund | 106 554 376 | BT Funds Management No. 2 Limited |
| BT Tax Effective Income Fund – NEF | 089 134 136 | BT Funds Management No. 2 Limited |

Appendix 2

BT Funds which charge performance fees

| Fund | ARSN | Responsible Entity |
|--|-------------|-----------------------------------|
| BT Global Share Fund | 089 839 743 | BT Funds Management No. 2 Limited |
| International Shares Multi-Blend Fund | 087 295 501 | Advance Asset Management Limited |
| Advance Concentrated Australian Share Fund | 115 641 328 | Advance Asset Management Limited |
| Advance Global Alpha Fund | 115 639 248 | Advance Asset Management Limited |
| Advance Investment Fund No. 4 | 115 641 800 | Advance Asset Management Limited |

**Appendix 2A Performance Fee discretions – Funds where Advance Asset Management Limited is Responsible Entity
("RE")**

| Unit pricing discretion | Description of how pricing discretion is exercised | Circumstances in which discretion may be exercised | Why discretion is reasonable |
|--|--|--|--|
| <p>Performance Fees Advance Global Alpha Fund Advance Concentrated Australian Share Fund Advance Investment Fund No. 4</p> <p>Benchmark performance is the performance of the benchmark for the quarter as at a particular day, expressed as a decimal and calculated as follows: (BM2-BM1)/BM1 where BM1 is the benchmark for the last day of the previous quarter; and BM2 is the benchmark for that day. The constitution outlines the index or composite index to be used as a benchmark or provides for such other benchmark that may be substituted for or effectively replaces the benchmark outlined in the constitution.</p> <p>Extinguishment of negative daily cumulative performance fee accrual if an investment manager is terminated.</p> <p>Extinguishment of proportion of negative daily cumulative performance fee accrual if units on issue decrease by more than 5% or more during a quarter due to redemptions</p> | <p>The RE may review the benchmark in certain circumstances.</p> | <p>Where the investment manager changes or the investment style of the investment manager or Fund changes, in this case the benchmark will be reviewed and may be changed.</p> | <p>Only exercised where considered reasonable, subject to RE's duties.</p> |
| <p>Extinguishment of negative daily cumulative performance fee accrual if an investment manager is terminated.</p> | <p>Only exercised if considered reasonable in the circumstances, subject to the RE's duties.</p> | <p>Where there is a change in investment manager.</p> | <p>Only exercised where considered reasonable, subject to RE's duties.</p> |
| <p>Extinguishment of proportion of negative daily cumulative performance fee accrual if units on issue decrease by more than 5% or more during a quarter due to redemptions</p> | <p>Only exercised if considered reasonable in the circumstances, subject to the RE's duties.</p> | <p>Where units on issue decrease by more than 5%.</p> | <p>Only exercised where considered reasonable, subject to RE's duties.</p> |

**Appendix 2A Performance Fee discretions – Funds where Advance Asset Management Limited is Responsible Entity
("RE") continued**

| Unit pricing discretion | Description of how pricing discretion is exercised | Circumstances in which discretion may be exercised | Why discretion is reasonable |
|---|---|--|--|
| <p>International shares Multi-Blend Fund</p> <p>Performance fee can be charged in respect of a period equal to the performance fee charged by an investment manager in respect of the same period.</p> | <p>A performance fee is payable in relation to each active currency portfolio of the Fund, of 0 to 23.06% of a currency portfolio's positive performance for the quarter multiplied by the average daily notional value of the portfolio for the quarter.</p> <p>If cumulative performance of the particular currency portfolio for the quarter is negative, the extent of the underperformance will be carried forward to the following quarter and no further performance fee in relation to that portfolio will be included in the Fund's unit price or paid until the underperformance has been recouped.</p> | <p>Daily.</p> <p>Each day the unit price will take into account the effect of each currency portfolio's change in performance relative to the previous day and the performance fee rate applicable for the relevant portfolio.</p> | <p>Payment of active currency managers by way of performance-based fees only is common practice.</p> |

**Appendix 2B Performance Fee discretions – Funds where BT Funds Management No. 2 Limited is Responsible Entity
("RE")**

| Unit pricing discretion | Description of how pricing discretion is exercised | Circumstances in which discretion may be exercised | Why discretion is reasonable |
|--|---|--|---|
| <p>BT Global Share Fund</p> <p>Replacement of the consumer price index ("CPI") with any replacement index if it is withdrawn or materially altered.</p> <p>Ability to vary the percentages in the formula by way of written notice of the amendments.</p> | <p>Only exercised if considered reasonable in the circumstances, subject to the RE's duties.</p> <p>Only exercised if considered reasonable in the circumstances, subject to the RE's duties.</p> | <p>Where the CPI index is withdrawn or materially altered.</p> <p>After provision of written notice.</p> | <p>Only exercised if considered reasonable in the circumstances, subject to the RE's duties.</p> <p>Only exercised if considered reasonable in the circumstances, subject to the RE's duties.</p> |