



Error Rectification and Compensation Policy

19 July 2021



Table of Contents

Introduction	1
ASIC regulatory guide 94	1
FSC standard no 17	1
Unit pricing errors and their impact	1
Managing Unit Pricing Errors	1
Compensation	1
Payments to exited members	2
Communication of errors to the responsible entity	2
Other	2
Policy Review	2
Contact	2
Appendix A	3

Error Rectification and Compensation Policy

Applicable to registered schemes

Introduction

This policy sets out the policies and procedures to be followed when errors in unit pricing are discovered which have an adverse effect on unit holders or former unit holders of registered managed investment schemes managed by Fawkner Property Ltd (**Fawkner**). An error occurs when units are issued or surrendered at a price that is not in accordance with the Fawkner Pricing Policy.

ASIC regulatory guide 94

The joint ASIC and APRA guide *Unit pricing – Guide to good practice* sets out good practice principles for unit pricing and describes the application of those principles. One important principle is that there should be established policies and procedures for managing unit pricing errors and addressing compensation issues.

FSC standard no 17

In compiling this policy, Fawkner has had regard to FSC Standard No 17 – *Errors in Pricing/Crediting Rates when Determining Scheme Interests – Correction and Compensation*, which sets out requirements for managers of schemes to ensure that they act in the best interests of unit holders on a consistent basis, although, the requirements in the standard are not intended to be exhaustive.

Unit pricing errors and their

Schemes managed by Fawkner are illiquid and not subject to continual issue or redemption of units. The circumstances in which errors can occur and the impact on unit holders are as follows:

- second or subsequent issue of units – issue price is less than the correctly determined price: existing unit holders will be diluted by value (and, hence, share of income) and by voting rights;
- second or subsequent issue of units – issue price is greater than the correctly determined price: incoming unit holders will be diluted by value (and, hence, share of income) and by voting rights;

- liquidity event – withdrawal price is less than the correctly determined price: exiting unit holders will be diluted by value; and
- liquidity event – withdrawal price is greater than the correctly determined price: remaining unit holders will be diluted by value.

Managing Unit Pricing Errors

The most likely time at which errors in unit pricing will come to light is in end-of-year preparation of audited financial statements. In these circumstances, the issue or surrender event to which the error applies is likely to have been completed.

In the event of a unit pricing error occurring Fawkner will follow the below steps:

1. limit the consequences as far as possible and monitor new applications and redemptions while we identify the extent of the problem;
2. determine the number of disadvantaged unit holders who have entered and exited the relevant scheme during the period of the error;
3. consider the need for compensation by determining who has gained and who has lost, and by how much;
4. compensate unit holders (making reasonable efforts to contact former unit holders, if required) the individuals or the fund, if compensation is appropriate; and
5. communicate appropriately with unit holders. Depending on the nature of the error we may communicate with all unit holders, whether or not affected. We will consider the circumstances and our obligations in each case.

Compensation

The objective of compensation is to return unit holders to the financial position that would have existed if the error had not occurred. Depending on the circumstances, including whether unit holders are ongoing or exited, and whether performance has been positive or negative, appropriate compensation may include allowances for:

- investment performance (the investment rate of return applied to the amount of the error for the relevant period); or

- the time value of money (a rate such as the RBA cash rate applied to the amount of the error for the period of the error).

When determining whether compensation is payable, Fawkner will consider the aggregate impact on each individual unit holder of any unresolved error and will:

- compare the value that would have accumulated if the unresolved error had not arisen with the value that accumulated in the presence of the error, from the date the error started to the date the effect of the error ceased;
- if the difference is equal to or greater than 0.30% (30 basis points) of the value that would have accumulated without the error, pay compensation; and
- if the difference is less than 0.30%, consider whether compensation should be paid.

Compensation may include:

- payment of cash;
- issue/adjustment to units issued to affected investors; or
- reimbursement by the manager to the fund; or
- waiver or reduction of fees.

Payments to exited members

Fawkner has a *de minimis* threshold for exited unit holders of 0.50% of the minimum investment in the fund set out in the disclosure document before payment will be made.

Communication of errors to the responsible entity

Fawkner will notify the responsible entity of the scheme of any material errors, including:

- errors where the difference is equal to or greater than 0.30% (0.30% impact of the transaction itself or 0.30% p.a. for cumulative errors); and
- errors which indicate a systemic issue with calculation of unit prices.

Fawkner will provide full disclosure to the responsible entity as soon as possible and will detail the proposed course of action, including proposed compensation, if any.

Other

Where unit holders have gained an advantage due to a unit pricing error, Fawkner may choose to bear the cost, or may

seek to recover the amount from the relevant unit holders. It may not be feasible or legally possible to recover amounts overpaid to unit holders in some cases.

If required Fawkner will involve the Australian Tax Office (**ATO**) when considering errors and compensation. There may be consequential impacts on unit holders – for example, regarding overpaid tax or compensation for tax. These impacts will be factored into our approach when determining compensation.

Policy Review

This policy will be reviewed at least annually by the Fawkner board of directors.

Date of most recent management review: 17 June 2019

Date of approval by the Fawkner Board: 19 July 2021

Contact

Unit holders or advisers who have any questions or would like to request more information available to existing or potential investors, are invited to contact Fawkner investor relations:

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Appendix A

Open Funds

- Private Property Trust No 12 (ARSN 637 331 929)

Closed Funds

- none

