PRICING GUIDANCE FOR INVESTMENT FUNDS:

FAIR VALUE PRICING

JOINT GUIDELINES BY THE INVESTMENT MANAGEMENT ASSOCIATION
AND THE DEPOSITARY AND TRUSTEE ASSOCIATION

September 2004

FAIR VALUE PRICING OF INVESTMENT FUNDS

Introduction – what is Fair Value Pricing

Fair Value Pricing ("FVP") can be defined as the application of a Manager's best estimate of the amount an investment fund might receive on a sale, or expect to pay on a purchase, of one or more securities or even an entire portfolio of securities, at the time of the fund's valuation point, with the intention of producing a 'fairer' dealing price, thereby protecting ongoing, incoming and outgoing investors.

FVP is not a new concept to the Managers of UK Investment Funds. The UK's Collective Investment Scheme rules have, since inception, given Managers the flexibility to value investments "at a price which, in the authorised fund manager's opinion, reflects a fair and reasonable price for that investment." The rules also note, that "the Manager should document the reasons for its decision and should be prepared to justify any assumptions made."

Managers of UK domiciled investment funds have for a number of years been aware of the risks of investors arbitraging funds valued on stale prices, and the Financial Services Authority's draft rules for Fair Value Pricing included in its Consultation Paper CP185 – Review of the Collective Investment Scheme Sourcebook, and the subsequent final rules published on 23 March 2004, followed lobbying by Managers for the rules to clarify the existing regulatory flexibility.

In CP 185, the FSA noted that "Where a fund invests in securities markets that are closed for trading at the fund's valuation point, there is a danger that the calculated price of a fund does not reflect its NAV at the valuation point because of developments since the markets closed. Such developments may relate to a particular investment or to a whole market. This potentially causes losses or gains to the fund and opens a window of opportunity for investors to buy or sell units at prices calculated on stale (i.e. out of date) asset prices. Such transactions, particularly if they are relatively large, can be detrimental to the continuing investors in a fund".

An example of when such a situation might occur, would be when a fund is invested into US stocks and is valued/priced at 12 noon UK time based on US market closing prices from 9.00 UK time the previous evening. During the period between 21.00 and the following 12 noon fund valuation/dealing cut-off point, global futures markets, company news releases on Wall Street, or general economic or political news etc, may indicate that US market prices at the valuation point are likely to be significantly different from the previous day's close and that investors buying or selling holdings in the fund may, intentionally or unintentionally, gain an advantage at the expense of other investors.

The value that the investor receives would of course be based on stale prices whilst the prices of the underlying securities that the Manager may be obliged to trade will be future, with the difference between the two being borne by the other investors in the fund. Even if the Manager does not invest new monies into securities but retains it in cash, the other investors can be disadvantaged (see example in Appendix 1).

As noted above, many Managers will already have in place processes to cater for:

- a temporary valuation price feed failure;
- the conclusions from Managers' static price checks (as covered under the FSA's guidance on investment fund pricing);
- valuation of unquoted stocks;

and while these fall within the overall definition of FVP, they may well require less complex procedures and controls than FVP for a full fund.

Whilst FVP has a role to play, it cannot and should not be used as an alternative pricing process as a matter of course, unless it can be demonstrated that not to do so would be against the interests of long-term investors. An example might be when other circumstances prevent the Manager from valuing the fund at a time when the relevant underlying securities markets are open for trading.

Purpose of this IMA/DATA paper

This paper emphasises the need for Managers to establish and maintain robust and demonstrably reasonable procedures for FVP and does not attempt to set calculation standards or recommend specific techniques.

Several FVP methodologies are available to Managers and clearly if complex and sophisticated FVP techniques are employed this may require a more comprehensive control structure than would suffice for less complex techniques. It is, however, important to note that the key test of a FVP methodology is its appropriateness in relation to the fund to which it is to be applied and not its simplicity. Appropriateness is to be seen in the context of the extent to which FVP is used, primarily in terms of the proportion of the portfolio that is subject to FVP techniques, but also the frequency with which it is applied in practice.

When considering the possible use of fair value pricing techniques, the Manager should recognise that no pricing process can ever be wholly accurate, and before deviating from the normal process of using actual market prices as the basis for valuation of a fund, should be satisfied that the use of fair value pricing is likely to lead to a materially more accurate valuation without requiring disproportionate costs or effort to be expended.

Whilst these Guidelines have been prepared for the benefit of IMA's membership, they do not have the status of regulation and accordingly are neither binding nor evidential. Following these Guidelines may not demonstrate compliance with FSA rules and not following them, in itself, will not represent a breach of an FSA rule nor lead to regulatory action.

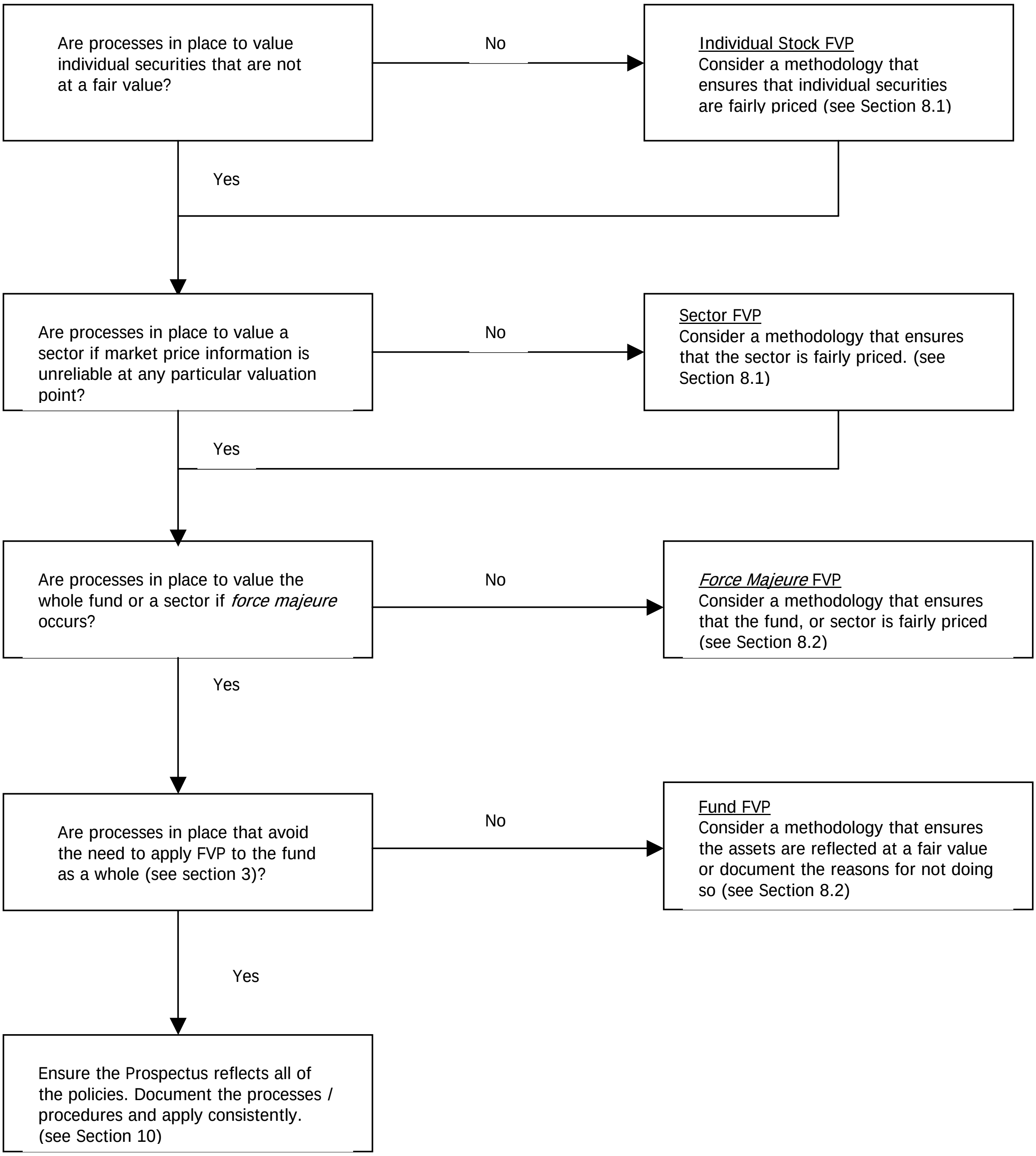
FSA regulations

IMA and DATA believe that the proposals in this paper accord with the UK regulatory requirements. For information, the full relevant regulations can be accessed in the CIS and COLL Sourcebooks on the FSA's web-site at: **http://www.fsa.gov.uk/vhb/html/CIS/CIS4.8.html**, (rule 4.8.4) and **http://www.fsa.gov.uk/vhb/COLL.pdf** (rule 6.3.6).

The FSA have provided input to the production of these Guidelines.

This document is intended to provide a helpful indication of some (but not all) of the kinds of controls and procedures that may be adopted by Managers of Investment Funds when applying the principle of Fair Value Pricing. They are in no way conclusive or exhaustive, and in many cases will need to be adapted to fit the resources available to the Manager, the expertise of the Manager's staff and any requirements that may be imposed upon the investment funds and/or the Manager either contractually or by regulation. Managers should consider seeking appropriate external professional advice as regards the procedures, practices and controls appropriate to their own particular use of Fair Value Pricing.

Managers should note that the complexity of their Fair Value Pricing processes will vary depending on the extent to which their funds are required to apply FVP



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Definitions

For sake of simplicity this document uses the following generic terms:

- *Board* – the governing body of a Manager
- *Committee* – Valuation Committee that supervises the FVP process
- *Depositary* – a unit trust trustee or an OEIC depositary
- *FSA* – the UK's Financial Services Authority
- *FVP* – fair value pricing
- *Investment Fund* – a UK authorised unit trust or OEIC (also known as an ICVC, Investment Company with Variable Capital)
- *Manager* - a unit trust manager or an authorised corporate director of an OEIC
- *OEIC* - Open Ended Investment Company

Roles of the Investment Management Association and the Depositary and Trustee Association

The Investment Management Association (IMA)

The IMA represents the UK collective investment scheme and investment management industry.

The IMA was formed on 1st February 2002 when the Association of Unit Trusts and Investment Funds (AUTIF) and the Fund Managers Association (FMA) merged to establish a new association.

IMA's key objectives are to:

- make representations to the UK Government on legislative, regulatory and taxation matters which affect the business interests of its members;
- liaise with the Financial Services Authority and other organisations in the UK and Europe on regulatory issues affecting investment funds and asset management;
- increase the public awareness and understanding of investment funds;
- seek to improve the standards of training in the industry;
- add value to member companies by providing them with information, guidance and assistance in matters related to their business;
- offer an information service to external parties interested in the activities of the UK investment funds industry.

Further information on the IMA can be obtained from its website (www.investmentuk.org).

The Depositary and Trustee Association (DATA)

DATA was formed in 1999 and represents the industry views of depositaries of open-ended investment companies and trustees of unit trusts within the UK.

Its prime objective is to promote, support, oppose or propose changes in the relevant UK legislation, in respect of the responsibilities of members of the Association and to promote and support the development of the depositary and unit trust trustee industry in the UK. In addition, DATA undertakes to promote and support research, and to coordinate and support initiatives for the future growth of the industry.

Further information on DATA can be obtained from its website (www.datasoc.co.uk).

1 Regulatory background

The FSA's Principles for Business no. 3 states that a firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems. Whilst it is clear that there are a number of areas to which a Manager should apply a risk management process, these Guidelines specifically address the Principles in relation to the management of Fair Value Pricing ("FVP"). FSA Principles 6 and 8 require a firm to treat customers fairly and to manage conflicts of interest between customers and other clients. The potential detriment to customers from the use of stale prices may be managed by the application of FVP.

It is not the intention of IMA and DATA to produce a comprehensive reference guide to FVP. This document is intended to provide a helpful indication of some (but not all) of the kinds of controls and procedures that may be adopted by Managers of Investment Funds when applying the principle of FVP. Managers may wish to take external professional advice as regards the procedures, practices and controls appropriate to their own particular use of FVP.

2 Responsibilities of the Manager and the Depositary

Manager

Within the unit trust structure the Manager operates the scheme, makes all the investment decisions, is responsible for valuing the fund and calculating dealing prices based on those valuations. Under the OEIC structure, the equivalent to the Manager is the authorised corporate director (ACD), which has similar responsibilities to the unit trust Manager.

Depositary

Within the unit trust structure the Trustee has responsibility for custody of, or control over, fund assets, oversight of the activities of the Manager and protection of the interests of the beneficiaries, i.e. incoming, ongoing and outgoing share/unit holders.

Under the OEIC structure, the equivalent to the Trustee is the Depositary, which has similar responsibilities as the unit trust Trustee.

In both the unit trust and the OEIC structures, the separation of management of the scheme property from the possession and ownership of it is a fundamental element of investor protection.

In this paper the term Depositary is used to describe both the trustee of a unit trust and the depositary of an OEIC. Of direct relevance to this paper, one of the activities carried out by the Depositary will be monitoring the process by which the Manager values and prices funds to ensure that the methodology and controls conform to relevant statements in the Prospectus, FSA rules and best market practice. Consequently the Depositary will wish to be confident that the Manager will be addressing the control processes described in this paper and will undertake reviews to confirm this.

3 What can be done to avoid the need for FVP?

FVP techniques can be complex and the use of FVP may require the Manager to maintain additional processes and controls than would otherwise be necessary. This may result in additional costs and consequently Managers may wish to consider carefully whether the administration of their funds could be rearranged to avoid the need for FVP specifically to cater for closed market pricing, for all, or at least some, of their funds. Options include:

- ensuring that fund valuation points are set at times when relevant securities markets are open (n.b. there is no regulatory reason why sub-funds of an OEIC cannot have different valuation points, apart from at the end of the accounting period, when a special valuation can be taken without creating a dealing point);
- not accepting investor deals in funds on days when markets in which they are principally invested are closed for local public holidays, e.g. Thanksgiving Day in the USA and Golden Week in Japan (n.b. any such arrangements will need to be disclosed in the Prospectus). Current regulations do not permit sub-funds of an umbrella scheme to have different dealing days, but Managers can apply to the FSA for a waiver in this regard;
- establishing investor dealing cut-off points prior to the close of the principal market (or where possible, markets) in which the fund is invested (e.g. in the case of a fund invested in US stocks, where Wall Street closes at 21.00 UK time, a cut-off point could be set at the close of the Manager's dealing day at 18.00, to cater for the following day's 10.00 valuation point). Whilst this will not remove stale prices from the fund valuation, such an approach can limit opportunities for arbitrage and make the fund less attractive to arbitrageurs. This will not totally protect global funds, as although the fund's major market will have been addressed, it may also be significantly exposed to markets in other time zones. Managers should also note that arbitrageurs are able to make significant profits from small pricing anomalies. It is recognised however, that for many large Managers the distribution channels (such as a fund supermarket) for their funds may present real and practical difficulties in making use of differing cut-off points.
  Managers should note that this flexibility only applies to those funds that have been launched under, or converted to, the FSA's new COLL Sourcebook. Managers of funds complying with the earlier CIS Sourcebook who believe that a dealing cut-off point may help to protect investors, should apply to the FSA for a rules waiver to enable them to make use of this facility, but, to be successful, Managers will need to demonstrate why their circumstances meet the criteria set out for granting a waiver of FSA's rules;
- delay in pricing, until the particular issue is resolved, e.g. relevant market(s) are open and trading on orderly basis, price feed is restored - perhaps most suitable for one-off situations, e.g. terrorist attacks, price feed failure etc. This procedure may prove the most practical in the event of news likely to have a material impact on market prices becoming public after trading in a security or number of securities has ceased, but prior to the fund valuation point. If a material part of a fund portfolio is impacted then the next following market price may provide a better reflection of the true value of the security/securities in question as at the valuation point;

- temporary suspension of the fund, or delay in pricing, until relevant market(s) are open. However, bearing in mind the administrative and regulatory issues associated with suspending a fund, suspension is perhaps only suitable as a last resort.

Other issues that Managers need to consider before making any changes include any volume constraints on third party providers coping with amended valuation points, management of investor switches between funds/sub-funds on different valuation points and notification to investors of any change in valuation points. In the example of dealing cut-off points, whether this would inconvenience significant investors, e.g. fund-supermarkets and funds of funds.

The additional administration that FVP will require may make its use unattractive to Managers. However, even though regulations do not make FVP compulsory, there is clear evidence that pricing using stale prices can be damaging to incoming, outgoing and continuing investors. Consequently Managers that do not contemplate the routine use of FVP in their policies and procedures, will need to research and document their reasons for not doing so, and review how they meet the requirements of FSA Principles 6 and 8.

Managers should however bear in mind that even if they have made effective arrangements to protect investors from the impact of fund-wide stale prices, they will potentially still be exposed to stale prices of individual stocks. This exposure may arise from illiquidity, especially in markets where valuations are based on the last traded price, and from listing suspensions etc, and from instances of *force majeure*, e.g. failure of pricing suppliers or of stock markets. Consequently they should consider how to provide for such scenarios. If significant holdings have not traded within the past week or a period within which the benchmark index for that stock has moved materially, then such illiquid stock should be reviewed in order to ascertain whether the prices remain valid. It may be appropriate to apply an adjustment in line with that stock's benchmark index, or to document the specific reasons for retaining the last traded price or applying some other valuation. As the proportion of illiquid stock increases so must the quality of the review become more robust. For a retail open-ended collective investment scheme this only serves to reinforce the desirability of ensuring that the vast majority of the portfolio is liquid stock that is regularly traded.

Managers should also be aware of situations in which the fund holds stock in size that is likely to be difficult to trade. This issue should be reviewed in the context of likely levels of trading in the fund, and the associated likelihood of the fund manager wishing to respond to such trading levels by way of trading in the stock in question. If trading in the security is likely, then the Manager should consider whether the market quote, or last traded price remain valid as a valuation basis.

4 Appropriate supervisory structure

The Board of a Manager of Investment Funds should establish and approve an effective policy and an appropriate supervisory structure for the procedures and processes of FVP, which is consistent with regulatory requirements and the investment policy and risk profile of those funds.

The FSA Handbook, Supervision module, states that the FSA "aims to focus and reinforce the responsibility of the management of each firm to ensure that it takes reasonable care to organise and control the affairs of the firm responsibly and effectively and develops and maintains adequate risk management systems." To this end, the FSA has specified a number of "controlled functions" which it sees as key within firms' operations, and stated that individuals performing these important functions should be "approved persons". As FVP is a critical function it is likely to be directly or indirectly, under the direction and control of such an "approved person", perhaps as part of the overall pricing function.

The Senior Management Arrangements, Systems and Controls ("SYSC") module of the FSA Handbook notes that the FSA introduced these particular rules to encourage firms' directors and senior managers to take appropriate practical responsibility for their firms' arrangements on matters likely to be of interest to the FSA because they impinge on the FSA's functions under the Act. The main matters of interest to the FSA include the fair treatment of a firm's customers and even-handed management of conflicts of interest by firms.

The use of FVP should be accompanied by appropriate systems and controls to accord with the relevant FSA Principles, Rules, best practice etc.

Typically the processes will include all or some of the following, although the precise arrangements will, of course, vary from firm to firm depending on their relative size, existing organisational structure and the complexity, frequency and sophistication of the FVP methodologies utilised.

4.1 Board of the Manager

The Board of the Manager should ensure that appropriate FVP processes are:

- consistent with the policy on the valuation of fund assets disclosed in the fund Prospectus;
- designed, approved and implemented;
- properly recorded;
- maintained and updated when appropriate;
- subject to ongoing supervision;
- subject to periodic independent review by internal/external auditors.

4.2 FVP Committee

If the Board wishes to delegate day-to-day FVP activities, it should nominate one or more individuals to comprise a Valuation Committee, ("Committee"). The Board should initially assess and regularly review the seniority and the skills of those involved. The inclusion of a member of the Manager's Compliance team on the Committee can reduce the need for separate regulatory reviews.

The Committee should ensure that, prior to the introduction of FVP and thereafter:

- appropriately qualified and experienced staff are employed in the process;
- reporting lines of staff involved with FVP are independent from the portfolio managers, i.e. the same approved person should not be responsible for both functions;

- the decision-making process supports the independence of the outcome (for example a Chief Investment Officer may be a member of the Committee and provide valuable input, but his or her vote would not count towards a decision), which should represent a majority view of the independent or disinterested members;
- documented FVP policies, assumptions and procedures have been drawn up, agreed and disclosed in the Prospectus;
- the Depositary and Fund Auditors have been given adequate opportunity to review and comment on the above;
- if FVP is being provided by a third party, that appropriate due diligence and testing has been carried out on that provider. The mandate should permit the Manager to monitor the third party and to exit such agreement if this is in the interests of investors.

The Committee should on an ongoing basis:

- ensure that the detailed FVP methodology, including appropriate trigger levels, is fully documented, up to date and periodically reviewed as regards implementation and consistency with Prospectus disclosure;
- identify the securities in respect of which FVP will operate, and in what circumstances;
- ensure that agreed responsibilities and recipients for monitoring/reporting of circumstances which may trigger the application of FVP (see Section 6) are formally documented and their effectiveness periodically reviewed;
- take full responsibility for the invocation of FVP (see Section 7);
- document approval (whether by the full Committee, or by an authorised individual) of each application of FVP;
- monitor to ensure that reliable market quotes are used as soon as these become available;
- ensure that FVP is applied consistently across all funds with similar assets and geographical spreads;
- ensure that the Depositary is kept fully informed;
- ensure that FVP forms part of an internal or external monitoring programme as appropriate;
- periodically formally report to the Board on the usage and effectiveness of the FVP processes;
- ensure that personnel involved in the FVP process are adequately trained and that there is adequate cover for vacations/ sickness;
- ensure that full audit trails are maintained for six years.

5 When FVP might be needed

Even if it is possible to avoid FVP being generally necessary (see Section 3), there are a number of scenarios when FVP may need to be applied, including where a fund is valued at the time that the markets in which its portfolio is invested are closed for trading and any of the following occur:

- market movements above a pre-set trigger level (see section 7) in other correlated open markets;
- war, natural disaster, terrorism;
- government actions, political instability;
- currency realignment or devaluation;

- changes in interest rates;
- corporate activity;
- credit default or distress;
- litigation.

Even if the valuation point is set during the time markets are normally open for trading, in addition to the above examples, there are a number of further scenarios which might give rise to the application of FVP:

- failure of pricing provider;
- closure or other failure of a market , volatile or “fast” markets, markets closed over national holidays;
- stale or unreliable prices;
- listing suspensions or delistings.

As part of a training and awareness programme for staff involved in the FVP process, Managers could usefully run brain-storming sessions to identify other scenarios that might impact markets and trigger the FVP process for different funds.

6 Information networks

Managers should establish information networks to ensure that relevant personnel are forewarned of the circumstances in which FVP may be required and their responsibilities.

The Committee should formalise a process that establishes:

- nominated individuals through whom request for use of FVP to the Committee should be routed, or who are authorised by the Committee to approve such moves to FVP;
- standards of documentary evidence that should be produced for the Committee.

As part of its ongoing responsibilities the Committee should allocate responsibilities for establishing and escalating appropriate information, for example:

Fund pricing department/team:

- individual stock prices outside tolerance checks run as part of daily price-checking procedure (e.g. price against previous day’s price, valuation price against same day purchase or sale price, price against pre corporate action price);
- static/stale price checks, not just confirmation of the last traded price, but consideration as to whether or not that price is still valid in comparison with related market movements;
- fund price tolerance checks against appropriate index movements;
- partial or complete price feed failure.

Fund managers/dealers:

- market information;
- fast markets;
- volatile markets;
- movements of other correlated markets.

Managers should arrange for news from financial information providers to be formally monitored and establish whether other providers, e.g. depositaries, custodians, brokers etc can provide, probably on an informal basis, relevant warnings.

In addition to those noted above, other useful indicators include:

- price movements of futures contracts on individual stocks, sectors and indices;
- price movements of individual and baskets of depositary receipts;
- price movements of country specific ETFs;
- fx trading activity;
- changes in interest rates;
- changes in credit ratings;
- changes in values of dual-listed stocks.

7 Invoking FVP

The Committee should formalise a process that establishes:

- appropriate market movement trigger levels, bearing in mind that arbitrageurs are able to make significant profits over a period by taking advantage of very small price discrepancies. Trigger levels will need to take account of the materiality of individual stocks, or cumulative impact of a number of stocks, sectors or markets and confidence levels in the indicators being used for each fund. Operation of a trigger will depend on the combination of two variables, firstly the estimated/correlated market movement and secondly the proportion of the fund that is being impacted. The trigger levels set will be a matter of judgement for the Committee, but they might wish to consider the two per cent market movement which triggers a fund revaluation and mandatory move from historic to forward pricing. Indicators and trigger levels for each fund should be discussed with the fund Depositary;
- if a reasonably correlated indicator cannot be identified for a particular fund, then the Committee should consider the alternatives to FVP set out in Section 3 above;
- total investor transactions trigger levels during a dealing period below which the application of FVP may be immaterial and consequently unnecessary;
- consideration whether underlying funds in Funds of Funds may already have applied FVP;
- policy/procedures as to the application of FVP at month-end for performance measurement purposes, taking account of potential for real or perceived conflicts of interest;
- a quorum for the Committee that is independent from the fund management function;
- daily communication to the Depositary when FVP is being applied for an entire fund or for a material sector of a fund.

8 FVP techniques

Regulators and Depositaries recognise that no single standard exists for determining fair value and consequently this paper does not attempt to prescribe appropriate techniques for FVP.

As investment instruments, strategies, geographical sectors, benchmarks etc vary significantly between different funds and different house styles, it is clear that Managers, or their third-party FVP service providers, may need to adopt different FVP processes from fund to fund. The techniques employed and the appropriate methodology should be set out in the Manager's policy/supervisory structure.

8.1 FVP techniques for individual stocks or sectors

These might include:

- reference to a dual-listed class of that stock on an open market;
- single stock futures, covered warrants and other contracts for difference;
- an earnings multiple determined from similar quoted securities, applying a discount to reflect lack of liquidity when appropriate;
- a premium/discount to other relevant quoted securities;
- a premium/discount to last traded prices;
- a yield to maturity determined from similar quoted debt securities;
- a correlation to prices of the same security, similar securities, derivatives, baskets of ADRs traded on other markets;
- documented fundamental or quantitative analysis;
- indications received from the receiver/administrator of stocks in liquidation.

8.2 FVP techniques for an entire fund

One of the simpler processes is to apply a stock market index movement to a fund price, or to the value of a fund invested into by a fund of funds. In some circumstances it may be appropriate to apply different indices to different portions of the fund portfolio. However, the Manager will need to be confident, and able to demonstrate, that reasonable correlation between the fund and the selected index can be proven and adequate audit trail retained. Correlation may change over time so this will need to be periodically reviewed and agreed. The index may also need adjusting for the relative volatility (beta) of the fund against the index, but Managers should remember that excessive betas might indicate a lack of adequate correlation.

FVP for entire funds, or on funds invested into by funds of funds, might also be based on:

- price movements of other correlated markets;
- price movements of futures contracts on market and sector indices;
- price movements of baskets of depositary receipts;
- price movements of country specific ETFs;
- indicative quotes from brokers for baskets of securities and/or depositary receipts.

9 FVP and price errors

So long as the Manager has in good faith, consistently followed procedures and processes similar to those outlined in this paper, the Regulator or the Depositary will not regard as pricing errors, any variances between an FVP calculated price, a subsequent market opening price, or FVPs set by other Managers. In the event of a significant event impacting individual stocks, sectors or markets over a period, it is inevitable that initially there will be major variations between FVPs independently established by different Managers, but as more information becomes available a consensus is likely to evolve.

Managers should however review their FVP methodology, procedures and processes for appropriateness in the event of either a significant variance, e.g. over 2%, or a series of smaller variances, between their FVP prices/s and the market next opening price over a period and in the light of the policy on valuation disclosed in the fund Prospectus. Such variances will of course be less relevant if the market opening is not close to the fund valuation point, as other economic factors may well have made an impact during this period.

10 Prospectus disclosure

FSA Prospectus disclosure requirements include details of how the value of the scheme property is to be determined and a description of any circumstances in which the scheme property may be specially valued. Consequently if Managers wish to avail themselves of FVP, they should clearly describe their FVP policy in the relevant fund Prospectus, explaining the circumstances in which FVP may be utilised.

Managers should not however disclose either the methodologies to be used, or market movement trigger levels that will cause funds to use FVP, as whilst this information might be of interest to investors, there would be significant potential investor detriment in making this information available to arbitrageurs. Clearly this information will need to be supplied to the depositary.

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Appendix 1

EXAMPLE OF DILUTIVE IMPACT ON A FUND AND PROFIT TO AN ARBITRAGEUR

Fund with 10,000,000 units in issue, to be priced at £10.00 at the next valuation point, using stale market close prices. The fund is 100% invested in securities.

Based on news flow since the underlying market closed, a Market Timer ("MT") believes that the fair value of the units is £10.50.

MT places a buy trade of 500,000 units costing £5m.

The following day, the underlying market rises 5.3%.

The manager decides not to invest any more cash into securities – the fund now has 5% liquidity following receipt of MT's monies.

The fund value is now:

Securities - £100m X 1.053% =	£105.3m
Cash	£5.0m.
Total	£110.3m

Based on 10.5m units in issue, the unit price is now £10.505.

If MT had not traded with the fund, the valuation would have been:

Securities	£105.3m as before
Cash	nil
Total	£105.3m

Based on 10m units, the unit price would have been £10.53.

The MT has seen a (virtually) risk free profit on the day of 5.05%. The continuing investors have seen a dilution of their potential return of ¼%.