

Objective Pricing Principles

This document supplements Valuation Policy and describes the process for valuing funds' assets when market prices are not available or they are considered unreliable.

Approved by the Board of Danske Invest Fund Management Ltd. on 9.6.2023

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1 Background

FIN-FSA regulations and guidelines 03/2011 recommends that the board of a management company approves Objective Pricing Principles that supplement the valuation of funds' assets. Furthermore it is recommended that these principles shall be consistently applied and be made available for unitholders.

In order to ensure a fair and equal treatment of all unitholders, each fund's assets must consistently and objectively be priced according to corresponding Fund Regulations. Sometimes there could be circumstances under which it is not possible to apply normal pricing methodologies. The purpose of this document is to define how the assets shall then be valued. The document also outlines the circumstances for when the fund shall be suspended.

2 Roles and responsibilities

Board of Directors of DIFM is responsible for reviewing and approving the Objective Pricing Principles together with Valuation Policy at least on an annual basis.

Static Data and Prices ("SDP") department in Danske Bank A/S is responsible for day-to-day pricing of funds' assets in accordance with the guidance issued by Danske Invest Fund Management ("DIFM"). SDP shall maintain an SOP that describes the daily valuation process. SDP shall escalate to DIFM in case escalation triggers (as defined in Fund Suspension Procedure) have been breached.

If escalated to DIFM then a Valuation Committee shall convene to consider the situation on a case-by-case basis. The Committee shall consist of DIFM's Managing Director, Risk Manager and Product Manager. If needed the Committee can also escalate the case to the consideration of the Board of DIFM in extreme situations.

DIFM is responsible for maintaining this document and for supervising the defined escalation framework.

3 Determining the reliability of asset valuation

SDP monitors the quality and availability of downloaded market prices. For bonds it uses BVAL score as a general reliability indicator. For equities SDP monitors the divergence between different data providers and follows up on significant price changes. Furthermore, it monitors the share of assets without an updated or unchanged market price. Should the average BVAL score fall below a pre-defined threshold value for a pre-defined share of assets, SDP shall escalate the matter to DIFM. Likewise should the threshold for equities without a new or unchanged market price be exceeded for a pre-defined share of assets, while there is significant general market movement, the situation shall be escalated to DIFM. Finally, in case the results from liquidity stress tests show significant deterioration on a fund level, the Valuation Committee shall consider introducing an illiquidity discount to the valuation of the assets.

The BVAL threshold values, shares of assets and the definition for significant general market movement are maintained in a separate internal document (Fund Suspension Procedure).

4 Objective pricing process

Valuation of funds' assets is a time constraint process that has to be carried out on each Finnish banking day. It is usually not possible to delay the NAV calculation. The more volatile the markets are the more checks there are to be made to ensure data correctness, thus limiting resources. Therefore the process for price determination in exceptional circumstances has to strike a balance between accuracy and speed. This is emphasized in situations where a significant number of securities is without a reliable market price.

Whenever Objective Pricing Principles have been applied, individual asset valuations together with the reason for deviating from normal pricing methods shall be documented and archived for at least six years.

4.1 Objective pricing on a fund level

In case only a small share of a fund's assets as defined in Fund Suspension Procedure is without reliable market price, the last available market prices shall be used. But if a significant share of fund's assets are missing a reliable market price and there is significant market movement (as defined in Fund Suspension Procedure), DIFM's Valuation Committee shall evaluate the situation. In case there is no sufficiently accurate alternative pricing method available, the fund may ultimately be suspended (see Chapter 5 below).

4.2 Illiquid investments review process

SDP monitors unchanged prices on a daily basis. If a price has not changed from its quotation 20 banking days ago it will be added to a monthly file that is sent to DIFM. DIFM oversees the list and may reach out to portfolio managers for further information regarding individual securities. DIFM instructs SDP in case there is reason to update the prices. All changes shall be documented.

4.3 Main principles for objective valuation

The starting point for objective valuation is the security's latest market quotation. Although it is possible that in some cases the price could have risen versus that quotation, typically the trading has tried up implying a lower investor interest and hence a lower valuation. Company-specific information is the primary driver in estimating a fair price, but also the changes in general market conditions, index prices and in comparable companies' valuations shall be taken into account.

In case there has not been a market quotation, the security's purchase price will serve as a starting point. As a general rule, pricing shall be prudent and rather err on the downside than on the upside.

| Type of instrument | Primary method | Secondary method | Objective pricing |
|--------------------|--|---|---|
| Equity | Last trade at 07:00/14:00 Finnish time | Last available trade or latest bid/ask if last trade is outside of spread | Last price, unless objectively priced positions' combined market value exceeds the trigger level that has been pre-defined in Fund Suspension Procedure and if there has been significant market movement/events since last pricing, or if a price has been stale for more than a month. In these cases DIFM's Valuation Committee shall evaluate a fair price on a case-by-case basis. |
| Bond | BVAL bid price at 14:00 Finnish time | Last available market quotes | Last price, unless objectively priced positions' combined market |

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| | | | value exceeds the trigger level that has been pre-defined in Fund Suspension Procedure or if a price has been stale for more than a month. In these cases DIFM's Valuation Committee shall evaluate a fair price on a case-by-case basis. |
| Fund | Last available NAV price at 07:00/14:00 Finnish time | Last available NAV price | Last price, unless objectively priced positions' combined market value exceeds the trigger level that has been pre-defined in Fund Suspension Procedure and if there has been significant market movement/events since last pricing, or if a price has been stale for more than a month. In these cases DIFM's Valuation Committee shall evaluate a fair price on a case-by-case basis. |
| Money market | Theoretical valuation based on remaining maturity, Euribor yield curve and an instrument specific risk premium | - | Last price, unless objectively priced positions' combined market value exceeds the trigger level that has been pre-defined in Fund Suspension Procedure or if a price has been stale for more than a month. In these cases DIFM's Valuation Committee shall evaluate a fair price on a case-by-case basis. |

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| Derivatives | Last trade at 14:00 Finnish time | Theoretical pricing | Last price, unless a price has been stale for more than a month. In these cases DIFM's Valuation Committee shall evaluate a fair price on a case-by-case basis. |
| FX rates | Last bid at 14:00 Finnish time | Last available trade | Last price, unless a price has been stale for more than a month. In these cases DIFM's Valuation Committee shall evaluate a fair price on a case-by-case basis. |

5 Fund suspension

It is stated in DIFM's Fund Regulations that *"The Fund Management Company may temporarily suspend the subscription and/or redemption of fund units if it is in the best interests of the fund unit-holders, if it is required in order to ensure equality, if no reliable market information is available from the primary market places of the Fund's investment instruments or from a significant number of these market places, if there are disruptions in normal information transfer, or due to another especially weighty reason."*

DIFM considers that in case more than a pre-defined percentage (as in Fund Suspension Procedure) of a fund's investments are without an up-to-date or reliable market price, there could be reason to temporarily close the fund to ensure fair treatment of all unitholders. However, missing market prices alone are not necessarily an adequate precondition for closure, it could be that the prices can be estimated indirectly via a proxy. Furthermore, in case the general market has not moved significantly the fund may be kept open and the latest available market prices may be used. These considerations will be made on a case-by-case basis by DIFM. The decision is made by DIFM's Managing Director. If a fund is suspended all relevant parties shall be urgently notified (e.g. FSA, unitholders, internal and external partners).