ASISA GUIDELINE ON TRANSACTION COST METHODOLOGIES (ANNEXURE B OF THE ASISA STANDARD: CALCULATION AND DISCLOSURE OF TOTAL EXPENSE RATIOS AND TRANSACTION COSTS)

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ANNEXURE B

GUIDELINE ON TRANSACTION COST (TC) METHODOLOGIES
(the "Guideline")

1. Background

The ASISA Standard on the Calculation and Disclosure of Total Expense Ratios and Transaction Costs (the "Standard") requires the following:

"*4.3* *All charges and expenses as prescribed in this Standard are to be included in the TER and TC measures. Where a charge is not available, a reasonable best-estimate must be used and explained in the free text notes.*

4.4 *A Provider must ensure that all values used in calculations are accurate and complete and that its calculations are accurate. Where any value is not available, a reasonable best-estimate must be used and explained in the free text notes*."

This Guideline is intended to provide guidance to members in respect of the calculation of the TC and reasonable best estimate costs (Best Estimate) as required in the Standard. Please note that the methodologies outlined in this Guideline are merely suggested guidelines to assist members and are neither compulsory nor definitive.

2. General

The TC could be determined according to the following waterfall:

- Use the Actual TC where it is explicitly available (calculated as per section 9 of the Standard).
- If the Actual TC is not available but the TC is stipulated in an agreement with the broker/counterparty, use the Actual Transaction Volumes x Agreed Costs per transaction.
- If the TC cannot be determined as set out above, use the Actual Transaction Volumes x Best Estimate costs per transaction.
- If the TC cannot be determined as set out above, use the Turn Over Ratio x Best Estimate costs (of buying and selling).

Notes:
If the Turn Over Ratio is used, take care as to how it was determined. For example, the UCITS Portfolio Turnover Ratio (PTR) definition includes purchases and sales which are consistent with the calculation above. Other definitions could be to use the average or maximum of purchases and sales in which case the rate should be multiplied by 2 in order to estimate the costs of both buying and selling.

3. TC for Interest Rate Securities - Brokerage Commission

The following options are suggested:

Option A:

- Only include trades where a broker is used.
- Take the Settlement Amount (Principal + Accrued Income).

- Multiply the absolute value of the buy/sell trade values by the implied Broker Commission Spread as determined by the trading team.
- The broker commission spread could be determined by:
  - polling selected fixed income brokers; or
  - the commission rate as quoted in the yield spread by the broker; or
  - the Bond Broker Commission Spread as determined by multiplying a reasonable broker commission spread (on Yield) by a reasonable duration estimate for all bond trades for the period to determine the commission spread on the Bond Price.
- This Bond Transaction Expense is implied and may be subject to change as and when any of the following changes:
  - Broker Yield Commission Estimate.
  - Average Bond Duration for trades for the period.
  - A change in interest rates.

Option B:

Where clients are members of the JSE, use the actual bond exchange fee paid on the trade.
For all other bond trades where the cost is included in the yield: apply, with guidance from clients, an assumed brokerage of x basis points. However, instead of doing a number of calculations, a fixed fee per million on all listed bonds can be used.

For example: take a number of bonds with maturity dates between 1-25 years and calculate the market value differential between the current yield and the yield including x% commission, in order to estimate the rand value of the transaction cost. Based on the assumption that a certain percentage of the bonds are long term and the balance is short term, a weighted average fixed fee per R1m nominal is calculated. This fee will be revisited on a frequent basis or when a rate change becomes effective; to ensure that market/yield movements are taken into account – at a minimum this should take place annually.

4. TC for Currency (FX) - Brokerage Commission

The following options are suggested:

Option A:

- Only include Buy/Sell trades
- Take the absolute value of the settlement amount in the base currency of the fund and sum them for the applicable period.
- Multiply each of these values by the implied Currency Broker Commission Spread as determined by the Trading Team.
- The Currency Commission Spread is determined by:
  - polling selected currency brokers; or
  - the commission rate as quoted in the currency spread by the broker; or
  - the Currency Broker Commission Spread as determined by multiplying a reasonable broker commission spread by a reasonable estimate for all currency trades for the period to determine the commission spread on the Currency Price.
- This Currency Broker Transaction Expense is implied and may be subject to change as and when the Broker Currency Commission Estimate changes.

Option B:

Transaction costs on FX trades may not be transparent in which case Best Estimate costs can be determined as follows:

- Where actual transaction amounts are available, by calculating the weighted average FX rate for the period in question and comparing to the weighted average WM/Reuters Standard Fixings Spot Rates (using the same transactions).
- Where sufficient transactions are not available to make a reasonable estimate (or Actual Transaction amounts are not available), by using the cost implied by the WM/Reuters Standard Fixings Spot Rates Bid / Offer spread.
- Using the Best Estimate costs based on the ZAR Value of the purchase leg multiplied with a fixed percentage that will be confirmed by the management company.
  - Where actual transactions are available – using the spread on the date of such transaction.
  - Where transactions are not available (as would be the case for an underlying offshore fund) – using the average spread percentage over the period in question.
- The intention is to apply the confirmed percentage to the portfolio currency of the forex trade in order to estimate the transaction costs.

5. <u>TC for Derivatives - Brokerage Commission</u>

- Only include Buy/Sell (all long and short trades included) and rebook trades.
- Take the absolute value of the number of contracts bought/sold.
- Multiply each of these values by the implied Derivative Broker Commission Spread as determined by polling the Trading Teams.
- The Derivative Commission Spread is determined by multiplying a reasonable broker commission spread per contract (determined by the Trading teams after polling selected brokers) to determine the broker commission.
- This Derivative Broker Transaction Expense is implied and may be subject to change as and when the Broker Derivative Commission Estimate changes.

6. <u>TC for Offshore Funds</u>

- For funds managed by the management company, full transaction information is available and will be used to calculate the TC (as per para 2 above).
- For other funds, request a best estimate from the fund manager.
- Where managers are unable / unwilling to provide such an estimate:
  - Calculate the TC as the Turnover Ratio of the fund x Best Estimate transaction cost.
  - Best Estimate transaction cost will be estimated for each asset class i.e. Listed Equities, Cash, Bonds, and Unlisted Equities etc.
  - For Multi-Asset funds, the Best Estimate transaction cost will be determined each quarter by asset-weighting the quarter-end asset allocation.
- If none of the above is available, the Turnover Ratio (and/or quarter-end asset allocation) will be estimated using whatever information is available on such a fund or reasonable proxy