

# Procedure of LHV Asset Management for determining the net asset value of the funds

## 1. General provisions

- 1.1. This procedure for determining the net asset value of investment funds managed by LHV Asset Management (hereinafter **Management Company** or **LHV Asset Management**) has been established according to the Securities Market Act (hereinafter **SMA**), Investment Funds Act (hereinafter **IFA**), Minister of Finance regulation no 11 of 31 March 2017 "Procedure for Establishment of Net Asset Value of Investment Funds", Minister of Finance regulation no 64 of 20 September 2005, "Procedure for the units of compulsory pension funds" and the requirements prescribed by the fund rules of the funds managed by LHV Asset Management (hereinafter **Fund** or **Funds**) for establishment of net asset value of investment funds managed by LHV Asset Management and the net asset value of the units of the respective Funds.

## 2. Terms

For the purposes of this Procedure, the following terms shall be used in the following meaning:

- 2.1. **Fund Assets** are securities, other things and rights which belong to the assets of a contractual investment fund, including immovables acquired on account of the fund but in the name of the Management Company;
- 2.2. **Valuation Day** is the day for which the net asset value of the Fund Assets and of units is calculated;
- 2.3. **IFRS** is International Accounting Standards established by the European Council pursuant to the procedure prescribed in Regulation (EC) no 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards;
- 2.4. **Information Provider** is the source of the price information of securities;
- 2.5. **Tradable Security** is a security admitted for trading on a regulated market;
- 2.6. **Banking Day** is any calendar day other than Saturday, Sunday or either a national holiday or a public holiday in the Republic of Estonia;
- 2.7. **Regulated Market** is a market defined under specified in chapter 3 of the SMA;
- 2.8. **Derivative Instrument** is a derivative security or a derivative contract;
- 2.9. **Derivative Contract** is a contract specified in chapter 2, sections 10 - 12 of the SMA;
- 2.10. **Derivative Security** shall have the meaning specified in chapter 2 section 3 of the SMA;
- 2.11. **Debt Security** is the security specified in chapter 2 section 1, sub-sections 2 and 5 of the SMA and a subscription right specified in chapter 2 section 1 subsection 3 of the SMA which grants the right to acquire the securities specified in chapter 2, section 1, subsection 2 of the SMA;
- 2.12. **Security** is security specified in chapter 2, section 1 of the SMA, except for the security specified in chapter 2, section 1, sub-section 7 of the SMA;
- 2.13. **Fair Value** is the estimated sales price of the assets, which has been determined reasonably, in good faith and proceeding from the best interests of the fund's unit-holders and for which the assets can be exchanged or an obligation can be settled in a transaction between informed, interested and independent parties.

## 3. General principles for determining the net asset value of the Fund and the unit

- 3.1. The net asset value of the fund and that of the unit or units shall be determined pursuant to the procedure prescribed by IFA, hereby Procedure and the provisions of the Fund Rules.

- 3.2. The Management Company shall select the principles and methods for determining the net asset value of the assets proceeding from the general legitimate interests of the unit-holders, the type and the investment policy of the Fund, the procedure for redemption of units and the principles of possible alternative valuation methods and their reliability.
- 3.3. If determining the value of the Fund Assets pursuant to the methods stipulated in this Procedure does not guarantee a reliable calculation of fair value, the Management Company may, in exceptional cases, determine the Fair Value of the assets differently than provided in the procedure, proceeding from the justified interests of the fund's unit-holders and the best skills and knowledge of the Management Company. The Fair Value calculated in such manner shall be approved by the Management Board of the Management Company with its reasoned decision. Exceptional cases shall mean, for example, situations where trading securities has been suspended on regulated markets or the Management Company finds that the asset's last market price does not reflect its actual value and thus it is not possible to determine the Fair Value of assets in a reliable manner.
- 3.4. The net asset value (NAV) of the Fund's assets is determined by calculating the value of the Fund's asset, from which the liabilities of the Fund are subtracted.
- 3.5. The net asset value of the unit is calculated by dividing the net asset value of the Fund by the number of all units issued and not redeemed by the time of the calculation. If the Fund has several classes of units, the net asset values of unit of different types are obtained by dividing the net asset value of the units of the respective class by the number of all units issued and not redeemed by the time of the calculation, allowing for the nominal values of the units of different types.
- 3.6. The net asset value of the fund's assets is calculated in the base currency stipulated in the Fund rules of the respective Fund. The net asset value of the fund's unit is calculated in the nominal value of the respective unit.
- 3.7. If the net asset value of the Fund and/or the units of the respective class differ from the previous calculated net asset value by more than 1% in case of an equity fund, mixed fund or fund of funds or by more than 0.5% in case of bond fund, the adequacy of the data used at the calculation of the net asset value shall be reviewed and a recalculation shall be made in order to avoid mistakes in determining the net asset value.
- 3.8. The net asset value of a unit shall be specified at the accuracy stipulated in Fund rules of the Fund, which is usually four or five decimal places.
- 3.9. The net asset value of the Fund Assets and the units of the respective class shall be calculated for each Banking Day, unless another frequency has been stipulated for calculating the net asset value in the Fund rules of the respective Fund.
- 3.10. The net asset value of the Fund Assets and of units shall be determined at the time specified in the prospectus and published on the web page of the Management Company immediately after it has been determined.
- 3.11. If an event occurs or information becomes known that in the best professional opinion of the Management Company has a significant impact on the net asset value of a unit and thereby damages the best interests of the fund or its unit-holders, the Management Company shall have the right to immediately annul the calculated net asset value of a unit and to calculate a new net asset value that corresponds to the prevailing circumstances.

## **4. Determining the net asset value of the Fund Assets**

### **4.1. Determining the value of cash and deposits**

- 4.1.1. Cash shall be taken into account in its nominal value.
- 4.1.2. Deposits shall be taken into account in their nominal value to which the accrued interest as of the Valuation Day shall be added.

### **4.2. Determining the value of the assets denominated in a foreign currency**

- 4.2.1. Foreign currencies and assets denominated in a foreign currency shall be restated in euros with the exchange rate established by the European Central Bank.
- 4.2.2. The Management Company shall choose the last known exchange rate of the European Central Bank as of the Valuation Day.

- 4.2.3. If the exchange rates from the European Central Bank are not available, the exchange rates offered by professional market participants or received from the depository bank as of Valuation Day shall be used.
- 4.2.4. Foreign currencies the exchange rate of which is not established by the depository nor fixed by the European Central Bank, are recalculated at the exchange rate of euro fixed by the respective country's central bank.

### **4.3. Determining the value of debt securities**

- 4.3.1. The value of a debt security shall be determined using one of the methods below based on which one of them allows the adequate fair value of the debt security to be established in the estimation of the Management Company:
  - 4.3.1.1. bid-price on the Regulated Market on which the relevant debt security is traded;
  - 4.3.1.2. non-market bid-price provided by a market participant;
  - 4.3.1.3. discounted cash-flow method;
  - 4.3.1.4. amortised cost method.
- 4.3.2. In the case of a traded Debt Security, the fund management company may base it on the last buy quote on the regulated market on which the corresponding debt security is traded or a buy quote provided by a market participant outside of the regulated market for up to 20 banking days. After that, the management company can continue to use the price if it is assessed to be reasonable and the circumstances regarding the decision are documented.
- 4.3.3. If the Debt Security has been acquired with the intent to hold it until the redemption, the amortised cost method may be used for determining the value of the Debt Security.

### **4.4. Determining the value of a tradable share**

- 4.4.1. The value of a tradable share is its last known closing price on the Regulated Market where the share is traded.
- 4.4.2. Proceeding from the justified interests of unit-holders, the Management Company may, in exceptional cases and upon proving to be necessary for determining the fair value of the share, proceed from any closing price on the respective market known within 20 banking days before the Valuation Day.
- 4.4.3. If no transactions have been made with the tradable share within the preceding 20 Banking Days or earlier on any Regulated Market where the share can be traded, clause 4.5 of the Procedure shall be applied.

### **4.5. Determining the value of a non-tradable share**

- 4.5.1. Equity investments not traded on a regulated market are initially accounted for at acquisition cost, which also includes costs directly related to the acquisition. After the acquisition, equity investments are recorded at fair value.
- 4.5.2. The value of a non-tradable share shall be determined using one of the methods below based on which one of them reflects the fair value of the non-tradable share in the estimation of the Management Company:
  - 4.5.2.1. bid-price provided by a market participant;
  - 4.5.2.2. the value of the share in the last known representative transaction on the Valuation Day;
  - 4.5.2.3. other method specified in the internal rules of procedure established by the Management Board of the Management Company setting out the methodology for determining the fair value of a non-tradable share based, among other things, on the International Private Equity And Venture Capital Valuation Guidelines<sup>1</sup>.

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<sup>1</sup> The referenced document, as at 15 August 2023, is available at:  
<http://www.privateequityvaluation.com/valuation-guidelines/4588034291>.

- 4.5.3. The fair value of non-tradable real estate companies shall be determined by determining the fair value of all the assets of the company pursuant to the principles of the hereby procedure and those specified in IFRS. The value of the capital investment made by the Fund into such real estate company shall be the value of the shareholder equity I of the company after the aforementioned considerations.

#### **4.6. Determining the value of a unit or a share of an investment fund**

- 4.6.1. The value of a unit/share of an investment fund is its last known closing price on the Regulated Market in case of a tradable fund or its last known net asset value in case of a non-tradable fund.
- 4.6.2. The value of a holding in private equity funds or other closed end funds shall be determined using the appropriate method stipulated in the International Private Equity And Venture Capital Valuation Guidelines.
- 4.6.3. In an instance provided for in clause 4.6.2, the Management Board of the Management Company shall approve the internal rules of procedure with the methodology for determining the fair value of a unit.

#### **4.7. Determining the value of an immovable**

- 4.7.1. The value of immovable property shall be determined on the basis of a valuation report provided by a certified real estate valuator or in another manner provided in the Fund Rules. The value of an immovable shall be determined prior to its acquisition and henceforth at least annually as at the end of the financial year and prior to the auditing of the annual report.
- 4.7.2. The immovables owned by the Fund shall be initially valued at acquisition cost which shall also take into account the direct costs of the acquisition. In the following valuations following the acquisition, fair value shall be used.
- 4.7.3. The real estate valuator shall be chosen by the Management Board of the Management Company, whereby the valuator shall meet the following requirements:
- 4.7.3.1. the valuator shall be professional;
- 4.7.3.2. the area of activity of the valuator shall include also valuation of real estate in the country where the real estate is located;
- 4.7.3.3. the valuator shall have sufficient experience in valuing real estate;
- 4.7.3.4. the valuator shall be independent and have a good reputation.
- 4.7.4. If the Management Company has reason to believe that the fair value of the immovable property has significantly changed compared to the last independent valuation, a new valuation shall be acquired from an independent valuator.
- 4.7.5. If the valuation specified in clause 4.7.1 is not possible or relevant, the Management Company shall use the cost method as provided in IFRS.

#### **4.8. Determining the value of a derivative instrument**

- 4.8.1. The value of a tradable derivative instrument shall be determined pursuant to clause 4.4 of the Procedure.
- 4.8.2. The value of a currency forward and swap shall be determined on the basis of the spot rate and forward rate as on the Valuation Day, taking into account the time left until the closing of the respective positions.
- 4.8.3. The value of non-tradable options shall be determined according to the Black & Scholes Model.

#### **4.9. Determining the value of repurchase and reversed repurchase transactions**

- 4.9.1. The value of a repurchase transaction is the transaction value of securities serving as the underlying assets of the transaction from which the difference between the repurchase and sales price that has divided into instalments has been subtracted.
- 4.9.2. The value of a reverse repurchase transaction shall be the smallest of the following: the purchase price of securities serving as the underlying assets of the transaction to which the difference between the repurchase and sales price that has been divided into instalments has been added or the value of Securities serving as the underlying assets of the transaction.

#### **4.10. Determining the value of other assets**

- 4.10.1. Upon determining the Fair Value of receivables, the receivables shall be valued in the amounts likely to be received.
- 4.10.2. If using the valuation method stipulated in clause 4.10.1 is not possible or relevant, other generally accepted methods can be used proceeding primarily from the valuation methodology set out in IFRS.
- 4.10.3. The value of other assets stipulated in this Procedure is its Fair Value.

#### **4.11. Determining the value of transactions made for hedging purposes**

- 4.11.1. The Management Company may use hedge accounting in determining the value of transactions made for the purposes of hedging.

### **5. Principles for selecting the regulated market**

- 5.1. If the security is tradable on several Regulated Markets, determining the Fair Value of the Security or calculating the necessary comparison prices is based on the quotations of the Regulated Market that was used to acquire the respective security in the Fund Assets, or that is located in the country of location of the issuer of the Security.
- 5.2. If it is not possible to clearly determine the relevant regulated market according to the criteria provided in clause 5.1, the value of the security shall be determined by using the quotations of the Regulated Market, which according to the assessment of the Management Company is more liquid and has higher trading activity.
- 5.3. If quotations are temporarily unavailable on the preferred Regulated Market, the Management Company may use quotations of other Regulated Markets on which the respective Securities are traded.

### **6. Correcting errors made in determining the net asset value and indemnifying for the losses caused thereby**

- 6.1. If it becomes evident that the published net asset value of the Fund unit is incorrect due to calculation errors made in determining the net asset value of the Fund Assets or value of the security belonging in the Fund Assets, the effect of such errors on the net asset value shall be assessed.
- 6.2. The acceptable limit for the error made in the calculation of net asset value shall be:
- 6.2.1. no more than 1.0% in case of an equity fund;
- 6.2.2. no more than 0.5% in case of a bond fund;
- 6.2.3. no more than 0.5% in case of a mixed fund;
- 6.2.4. no more than 0.25% in case of money market fund.
- 6.3. If an error made in the calculation of the net asset value of the fund unit is bigger than specified in clause 6.2, the error made in the calculation of the net asset value shall be deemed a material error and the Management Company shall inform the depositary, the Financial Supervision Authority and if the units are also offered in foreign countries, the Management Company shall inform the financial supervision authorities of the respective countries, and provide the action plan specified in clause 6.4.
- 6.4. In the case specified in clause 6.3, the Management Company shall prepare a plan of action for the correction of the error and for the purposes of avoidance of such errors in the future. The plan of action shall entail the following actions that shall be undertaken or have been undertaken for the correction of errors:
- 6.4.1. evaluation of the impact of the error on different groups of investors;
- 6.4.2. the recalculation of the net asset value of a unit as of the day when the occurrence of a significant error was established;
- 6.4.3. determining the monetary loss borne by the fund or the affected investors;
- 6.4.4. procedure for informing the affected investors of the error detected and of the procedure for compensation of loss borne by the investor for the period the net asset value was incorrect.
- 6.5. The loss caused by material errors made in determining the net asset value shall be indemnified at the expense of the Management Company as follows:
- 6.5.1. a set-off shall be made on account of the fund in the extent of the fund's estimated surplus by issuing more units or transferring money to the unit-holder;
- 6.5.2. if the unit-holder has suffered losses from the incorrect net asset value of the fund's share caused by undervaluation of the Fund Assets at unit subscription, the deletion of over issued units of the respective class from the unit-holder's securities account shall be applied for;
- 6.5.3. if the cost of making registry entries necessary for deleting over issued units would be unreasonably high compared to the losses caused to the fund, the Management Company shall indemnify to the fund the amount lacking upon issuing units;

- 6.5.4. if the fund has suffered losses from the incorrect net asset value of the fund's share caused by overvaluation of the fund's assets at the redemption of units, the Management Company shall indemnify the overpaid amount to the fund;
- 6.5.5. The minimal amount of indemnification shall be 3.5 euros per unit-holder. the Management Company shall not indemnify smaller losses unless the unit-holder applies for compensation;
- 6.5.6. The costs arising from processing the compensation of losses shall be borne by the Management Company.
- 6.6. In case of mandatory pension funds, the correction of material errors made in determining the net asset value and the indemnification of losses caused thereby shall be carried out pursuant to the procedure prescribed in the Funded Pensions Act.

## **7. Final provisions**

- 7.1. The Management Company shall not generally disclose the calculations related to determining the value of the instruments belonging in the Fund Assets, price inputs used at pricing, analysis, expert opinions and estimates, decisions and other specific pricing information.
- 7.2. Any information published by the Management Company about the net asset value of the Fund Assets or unit, or the value of any single instrument belonging in the Fund Assets shall not be interpreted as investment advice, investment recommendations or any other investment or ancillary service.