FULLERTON
FUND MANAGEMENT

Investor Education - Swing Pricing FAQ

What is fund dilution?

Dilution occurs when a fund suffers from a reduction in value as a result of transactions being dealt at a net asset value ("NAV") that does not reflect the dealing costs associated with security trades undertaken by the Investment Manager.

The reduction in value happens because the NAV at which investors buy or sell the fund only reflects the value of its assets. It does not take into account the transaction costs that arise when the Investment Manager has to trade securities, as a result of subscription or redemption flows triggered by investors of the fund.

These transaction costs such as brokerage fees, transaction charges, taxes and bid-ask spread do not fall on the investors who have traded, but on all the non-transacting investors of the fund in the absence of swing pricing.

What is swing pricing and its objective?

Swing pricing is a widely accepted anti-dilution standard used on Luxembourg domiciled funds. The Association of the Luxembourg Fund Industry ("ALFI") has published best practice brochures on the subject.

Swinging a fund's NAV is an attempt to pass on the transaction costs to the transacting investors and thus, protect existing investors of the fund from the transaction costs associated with large transactions, frequent trading and generally, the transaction costs resulting from subscription and redemption activities of the fund.

How does swing pricing protect investors?

Fullerton Fund Management Company Ltd. ("Fullerton") adopts the partial swing approach where the NAV will be swung upwards on a dealing day where there is a net subscription and downwards on a dealing day where there is a net redemption.

This ensures that investors trading on that day bear the bulk of the transaction costs and the difference in the NAV (swing factor) is credited back to the fund to ensure that existing investors are protected from dilution effects.

Does swing pricing benefit Fullerton?

No, Fullerton does not benefit from swing pricing. Only the investors of the fund will benefit from swing pricing as it serves to protect them from dilution effects triggered by transacting investors.

When will swing pricing be applied?

Swing pricing will only be applied if the total net subscription or net redemption on a dealing day exceeds the pre-defined swing threshold of the fund. The swing threshold is the pre-defined net subscription or net redemption on a dealing day, expressed as a percentage of the fund's NAV.

How is the NAV per share or unit adjusted?

The swing factor is the amount by which the NAV is being swung upwards (net subscription) or downwards (net redemption). The swing factor is an estimate of transaction costs e.g. spreads, transaction costs, taxes etc.

Swing pricing will be applied at fund level, across all classes of shares or units.

If the swing threshold is exceeded, the NAV per share or unit will be adjusted by the swing factor. For example, if the swing factor is 0.5%, it may have the following effects on the NAV per share or unit:

Net inflow: upward adjustment of the price from $100 to $100.5

Net outflow: downward adjustment of the price from $100 to $99.5

Will investors be informed when swing pricing is triggered?

No formal notification will be made as to whether the NAV for the day is swung or unswung.

If applied, the swing adjustment will be included in the published (official) NAV and all investors (regardless of buying or selling) will deal at the published (official) NAV per share/unit.

What are the funds' swing thresholds and swing factors?

The swing thresholds and swing factors are confidential and therefore, not published. This confidentiality policy is consistent with the current ALFI guidance and best market practices adopted by other fund managers in the market.

In line with ALFI guidance and best market practices adopted by other fund managers, Fullerton will not disclose the exact rate of swing threshold and swing factor as doing so will undermine the ability of the swing mechanism to mitigate dilution effects.

How are the swing factor and threshold determined?

The swing factors and thresholds are determined and reviewed by Fullerton's Valuation Committee on a regular basis.

Considerations determining the swing threshold of a fund may include fund size, type and liquidity of securities, transaction costs, investment guidelines, and the extent to which an investment fund manager may hold cash as opposed to always being fully invested.

The swing factor is an estimate of the transaction costs based on a combination of bid-ask spread, broker commissions, tax charges etc.

Are switches subject to swing pricing?

Switches between sub-funds may be subject to swing pricing if one or both of the sub-funds have their swing thresholds exceeded on that particular dealing day.

Who is impacted by swing pricing?

The investors buying or selling the fund on the relevant day will subscribe or redeem at the swung NAV i.e. bearing the transactions costs that they have caused.

Non-transacting investors who remain invested in the fund are not affected. They will experience a temporary paper (unrealized) gain or loss, which will usually be normalised on the following valuation date.

Do all funds have the same swing factor?

The amount by which the NAV is adjusted will vary depending on the type of fund, for example, a high yield fund will generally have a higher swing factor than a government debt fund given the higher spreads and costs associated with buying and selling securities in these particular markets.

Which products apply swing pricing?

Swing pricing is implemented on selective Fullerton funds offered set up as Singapore authorized funds and Luxembourg UCITS.

To find out if your fund is subject to swing pricing, please refer to the prospectus of the relevant funds. Generally, the information will be indicated under a section titled “Swing Pricing Adjustment” or “Dilution Adjustment”.

To find out more about swing pricing, please contact your relationship manager or Fullerton representative.

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