MAINFIRST

Rules of MAINFIRST AFFILIATED FUND MANAGERS S.A. on “Swing Pricing/ Protection of Investors against Fund Dilution”

As of March 2020

MainFirst Affiliated Fund Managers S.A. has established rules and principles for a “swing pricing process” to better protect unitholders from the effects of dilution caused by the activities of other unitholders.

This document explains the swing pricing procedure and how it is implemented at the operational level.

1. Background and objective of swing pricing

The purchase and sale of securities within a fund portfolio generates trading costs, such as brokerage fees, transaction fees, taxes and spread effects. Spread effects occur because the net asset value (NAV) of the Fund is calculated using the average or most recently traded price, while the Portfolio Manager purchases the underlying securities at the ask price and sells them at the bid price.

Investors who purchase units in an actively managed fund should expect to be exposed to dilution caused by the trading activities of the Investment Manager designed to achieve the investment objectives described in the fund prospectus.

However, investors should not expect to be exposed to dilution caused by the trading activities of the Investment Manager that are affected by the fact that other unitholders buy or sell fund units.

The objective of swing pricing is to protect existing investors from any dilution in value caused by trading costs arising from ***significant*** subscription and redemption activities of the Fund.

The swing pricing model adopted by MainFirst Affiliated Fund Managers S.A. is based on the assumption that a small amount of unitholder activity in relation to a fund does not give rise to significant transaction costs and that these costs can be covered by the existing cash balances held within the fund.

Consequently, swing pricing protection only occurs ***if a specific level of net unitholder activity*** (i.e. all unitholder transactions combined) is exceeded, which is calculated as a percentage of the Fund’s net assets.

This method is known as “partial” or “half” swing pricing.

If the ***threshold*** is exceeded, the NAV per unit will be adjusted up or down by a certain basis point amount to produce a nominal bid or offer price to ensure that the trading costs are not borne by the existing unitholders of the Fund but by the subscribing or redeeming investor.

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

2. **<u>How is the NAV per unit adjusted in operational terms</u>?**

Net unitholder activity is calculated daily as a percentage of the Fund's net assets.

If these activities exceed a ***predetermined threshold***, the mechanism is applied at fund level.

In this case, ***all unit classes within a fund will be adjusted in the same way and by the same percentage***. This replicates the effects of dilution as all unit classes are proportionally diluted due to the cost of trading at portfolio level.

If the ***percentage threshold*** is exceeded, the Fund will be valued as on any normal business day in accordance with the valuation guidelines described in the fund prospectus. A basis point adjustment, known as the swing factor, is then applied to adjust the NAV per unit upwards if there have been net inflows and downwards if there have been net outflows.

The ***swing factor is an estimate of the "costs" of trading***, taking into account spreads, transaction costs and relevant taxes.

The following simple example shows how the NAV per unit would be adjusted if there were:

1) no significant inflows or outflows;
2) significant inflows; or
3) significant outflows.

For purposes of this example, we assume that the NAV per unit is USD 10 and the swing factor adjustment is 50 basis points (bp):

1) No significant inflows or outflows above the swing threshold:
    a. No adjustment of the NAV per unit.
    b. A NAV per unit of USD 10.00 is published.
2) Significant net inflows that exceed the swing threshold:
    a. NAV per unit is corrected upwards by 50 bp.
    b. A NAV per unit of USD 10.05 is published.
    c. Unitholders trading on that date will receive fewer units in circulation for their invested money to compensate existing unitholders for the resulting dilution of the Fund.
3) Significant net outflows that exceed the swing threshold:
    a. NAV per unit is corrected downwards by 50 bp.
    b. A NAV per unit of USD 9.95 is published.

c. Redeeming unitholders will be paid a lower amount of proceeds on their outstanding units to compensate existing unitholders for the dilution caused.

In practice, investors will not know whether the NAV per unit has been corrected. If a swing adjustment is made, it will be reflected in the NAV published for that day. Investors will continue to receive one published NAV per unit per day, which may or may not have been corrected. All investors, whether they buy or sell, will trade at this price. No disclosure is made as to whether or not the NAV has been corrected for that day.

3. **Definition of the swing threshold**

The swing threshold is determined and reviewed by an internal committee, the Swing Pricing Committee.

The management of MainFirst Affiliated Fund Managers S.A. recognises that the objective is to protect existing unitholders from the dilutive effect of significant trading activities by other unitholders.

The Committee will accordingly set the threshold at a level that provides protection for unitholders while minimising NAV volatility by ensuring that the NAV per unit will not be adjusted if the dilution effect on the Fund would be considered extremely low for existing unitholders.

The management will not disclose the swing thresholds, as this could cause some clients to keep their trading activities below this threshold, which would undermine the mechanism's ability to reduce dilution.

This confidentiality principle is in line with current ALFI guidelines and best market practices adopted by other issuers in the market.

4. **Impact on or adjustments to the NAV per unit due to the swing factor**

The amount by which the NAV is adjusted depends in principle on the investment strategy of the Fund.

The management will recalculate or review the factors/adjustments at least every three months.

This guideline also gives the Committee the authority to update the factors more frequently if, for example, a particular systemic market event has occurred in the relevant period that has led to significant changes in spreads or transaction costs.

The Committee, the Risk Management Department, the Compliance Department and the management will also monitor the proper application of these principles and the correct calculation of the swing factors.

In the interest of investor protection, we will not disclose the various swing factors.

However, in principle no swing adjustment will ***exceed 1% of the original NAV per unit***.

The management of the Management Company reserves the right to define and apply a swing factor in emergency situations and in the exclusive interest of investor protection above this fixed value. In this case, the management will explain the reason through the information channels specified in the Prospectus and inform the CSSF immediately of the decision taken. The Prospectus shall be amended immediately with regard to the indication of the maximum applicable swing factor, the possibility to increase the swing factor in certain emergency situations included under the aforementioned investor information requirements and shall be sent to the CSSF for approval without delay.

The Committee proposes the swing factor to the management. After intensive review and assessment of the background situation, the management will decide on the swing factor to be applied and send it to the service providers involved for calculation of the NAV and application of the swing factor.

The Risk Management & Valuation Department will subsequently review the correct application and consideration and report any findings to the management.

5. Impact in the form of a fee or similar charges to the disadvantage of investors

Swing pricing is ***not a fee*** charged to the Fund or the investors. It is an instrument designed to ensure that existing investors in a fund do not bear the trading costs incurred by significant subscription or redemption activities by other unitholders.

In the final analysis, swing pricing ensures that trading costs are charged to the unitholders who have incurred the costs.

6. Swing pricing for conversion orders

Switching between subfunds may be subject to swing pricing if the NAV of one or both subfunds has been adjusted on the relevant day.

This should be considered in the same way as a regular subscription or redemption, as the Portfolio Manager of the old or new fund will incur the same costs in the event of significant inflows or outflows.

7. Application in addition to market valuation

Market valuation is carried out under the existing guideline for valuing securities whose valuations may have been affected between the close of trading and the date of NAV valuation.

8. The swing pricing adjustment is not part of the portfolio valuation.

If triggered, the swing pricing adjustment is made after the NAV valuation has been completed, irrespective of a market valuation.

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Document history

Document number	Date of entry into force	Reason for change/notices
1.0	03/2020	Entry into force

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