

DILUTION – FREQUENTLY ASKED QUESTIONS (MAY 2020)

1. What is Dilution?

The value of a fund may suffer what is known as ‘dilution’. This is the term used to describe the reduction in the value of the fund as a result of the costs incurred when dealing in its underlying investments because of subscriptions or redemptions of shares in the Fund by investors.

To protect existing investors in our funds from the effects of dilution, where this is significant, we utilise two different mechanisms: Dilution Adjustment (also known as “Swinging Single Pricing”) or Dilution Levy.

We utilise Swinging Single Pricing for the majority of our Equity and Fixed Income funds.

Cash and selected other funds apply a Dilution Levy on large subscriptions and redemptions as this is a more suitable model for this type of funds.

Please refer to the prospectus for information on specific fund ranges and sub funds.

2. When is a Dilution Levy charged?

Dilution levy can be charged where an investor is making a large subscription or redemption in a fund in order to protect the fund and other investors from dilution. The threshold for a large transaction may vary depending on current market conditions.

Levy for specific funds can be made available on request on an ad hoc basis.

There is no impact on the price of the fund and no charge for other investors subscribing or redeeming on that day.

3. How does Swinging Single Pricing work?

Swinging Single Pricing is an approach that is widely within the fund management industry and is an adjustment to a fund’s price on any given day which aims to reduce the effect of dilution. When applied, it affects the price for all investors dealing at a particular valuation point.

The swing factor is set on a fund level to reflect the overall transaction costs and is based on the bid-offer spread of the underlying securities and other elements such as broker commission and taxes. It will be applied to adjust the price if positive or negative capital flows exceed a set threshold and the adjustment will be included in the price for the day.

We do not benefit from the swing in price and it is only used to reduce the effect of dilution in a fund.

4. How are the Swing or Levy Thresholds determined?

The thresholds are set at a level to protect shareholders in a fund and at the same time ensuring a fund does not swing (or levy applied) where the dilution impact is considered immaterial to existing shareholders in a fund. We review the thresholds on a regular basis to ensure they are set at an appropriate level.

5. Do we disclose the Threshold levels?

We will not disclose the swing/levy thresholds to ensure the integrity of the model is maintained

and our ability to mitigate dilution is not undermined. This confidentiality policy is to ensure we're treating customers fairly and acting in the best interest of all investors.

6. How much will a fund swing?

The swing factors are calculated to reflect the cost associated with buying and selling securities in the market resulting from subscriptions and redemptions in the fund. The ultimate aim is that remaining investors in the fund are not disadvantaged by other investors entering or leaving the fund.

Swing Factors for specific funds can be made available on request on an ad hoc basis.

For UK funds, swing frequency is included in the prospectus and historic information including annual average swing factors and swing frequency will be published from January 2021.

7. How will I know if a fund swings?

Investors will not know when the price per share has been swung. If invoked, the swing adjustment will be included in the published price for the day. Investors will continue to receive one published price per share each day that may (or may not) have been swung. All investors, whether buying or selling, will deal on this price.

If you have bought or sold shares in a fund, information on swing decision and factor applied can be communicated on an ad hoc basis for a specific valuation point.

8. What is the oversight in place for Swinging Single Pricing and Dilution Levy?

Both thresholds and factors are reviewed on a quarterly basis or ad hoc as required.

To ensure all shareholders are treated fairly, the effectiveness of the swing thresholds are monitored on an ongoing basis and reviewed and approved by the RLAM Valuation Oversight Committee

Swing and levy factors are calculated by the administrators of the funds followed by a review by RLAM Fund Accounting and approved by the RLAM Valuation Oversight Committee.

FOR PROFESSIONAL CLIENTS ONLY, NOT SUITABLE FOR RETAIL INVESTORS.

Past performance is not a reliable indicator of future results. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.

For more information on the fund or the risks of investing, please refer to the fund factsheet, Prospectus or Key Investor Information Document (KIID), available via the relevant Fund Price page on www.rlam.co.uk

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