Value Partners
Investing through discipline

Swing Pricing

As part of its commitment to protect the best interest of its clients, Value Partners has implemented swing pricing on its funds. Swing pricing aims to protect existing investors from the dilution impact resulting from the transactions by other investors in a fund. Swing pricing is implemented in a clear and systematic fashion.

What is investor dilution?

A fund's trading activity, i.e. the buying and selling of securities, incurs costs such as brokerage fees, transaction charges, commissions, taxes and bid/offer spreads (buying securities at a higher offer-price and selling at the lower bid-price). These costs can negatively impact existing investors by causing a reduction in the value of the net asset value (NAV). This negative impact is known as "dilution".

What is swing pricing?

Swing pricing is a mechanism designed to manage investor dilution. Swing pricing aims to allocate trading costs to the subscribing or redeeming investors that are responsible for the trading activity, rather than to all existing investors in the fund.

How does swing pricing work?

The purpose of swing pricing is to protect the interests of existing investors against dilution by transferring the impact to those investors transacting in the fund. This is accomplished by adjusting or "swinging" the price at which a fund is priced, its NAV, upward in the case of net subscriptions and downward in the case of net redemptions by a set amount, i.e. the swing threshold. In this way some or all of the transaction costs for that day are attributed to the investors who have caused the impact by transacting on that day, thus lessening or eliminating the impact of dilution of existing investors.

Full vs Partial swing pricing

There are two forms of swing pricing, the "full" and "partial" swing methods.

Under the full swing method, a fund's NAV will be adjusted up or down every NAV calculation day. If the fund enjoys net inflows on a particular day, the NAV will swing upward, whereas if the fund suffers net outflows, the NAV will swing downward - irrespective of the amount of net inflows or net outflows, respectively.

Under partial swing pricing, the NAV will not be adjusted unless net inflows or outflows exceed a predetermined swing threshold. Since the threshold applies to aggregate flows into or out of a fund on a given dealing day, a transacting investor will not know in advance whether the price will be swung that day or, if swung, the direction of the swing.

How are the swing factor and swing threshold determined?

The swing factor for a fund is determined by a swing pricing governance committee to ensure the appropriate level of protection. The committee will analyse the bid/offer spreads, transaction costs and potential taxes for each market in which the portfolio of the relevant funds invest in order to determine the appropriate level of the swing factor. This means that the swing factor will vary from one fund to another, depending on the asset class(es), the geographical focus of the fund, etc.

The swing threshold is set by the committee at a level that will achieve the protection for existing investors while at the same time minimising NAV volatility by ensuring that the NAV per share does not swing where the dilution impact on the fund would be of a level considered so immaterial to existing investors.

Once the committee has determined the swing factor it is passed to the fund' Custodian or Trustee who checks the rate is reasonable before applying the adjustment. For funds that allow a swing factor to be increased beyond the range expected in normal circumstances, an additional control check is introduced whereby the manager or directors of the fund need to review the factor and approve it.

Is swing pricing applied in additional to market level fair valuation?

Yes. Swing pricing does not form part of the fair valuation and will be carried in addition to the fair valuation policy as appropriate.

Impacts on investors

	Net subscriptions above Swing Threshold **NAV price swings upward**	***Net subscriptions/ redemptions below Swing Threshold*** **NAV price not adjusted**	***Net redemptions above Swing Threshold*** **NAV price swings downward**
Subscribing investor	Subscribing investor pays estimated transaction costs by subscribing in at a higher swung NAV (example below).	Transaction costs deemed immaterial. No additional costs passed on to subscribing investor.	Subscribing investor (on a day where there are net redemptions) benefits from subscribing at a lower swung NAV.
Redeeming investor	Redeeming investor (on a day when there are net subscriptions) benefits from redeeming at a higher swung NAV (example below).	Transaction costs deemed immaterial. No additional costs passed on to redeeming investor.	Redeeming investor pays estimated transaction costs via redeeming out at a lower swung NAV.
Investors remaining in the fund	Estimated transaction costs borne by dealing investors. No material impact on remaining investors.	Transaction costs deemed immaterial. No material impact on remaining investors.	Estimated transaction costs borne by dealing investors. No material impact on remaining investors.

- The simple example below demonstrates how the NAV per share would be adjusted based on whether there are 1) no material flows; 2) material inflows; or 3) material outflows.

  Assume that the NAV per share is $10 and the swing factor adjustment is 30 basis points (bps):

  1. No material flows above swing threshold:
     - No adjustment to the NAV per share
     - Publish a NAV per share of $10.00
  2. Material net inflows exceed swing threshold:
     - NAV per share swings up by 30bps
     - Publish a NAV per share of $10.03
     - The investors trading on the day receive fewer shares in issue for their monetary investment to compensate existing investors for the dilution incurred on the fund
  3. Material net outflows exceed swing threshold:
     - NAV per share swings down by 30bps
     - Publish a NAV per share of $9.97
     - The redeeming investors receive less proceeds for their shares in issue to compensate the existing investors for the dilution being caused.

Which Value Partners products apply swing pricing?

If a product is subject to swing pricing, you will find details of the method employed from its offering document. In some cases, the offering document allows a fund to swing beyond the normal swing factor set out therein under extreme market conditions.

An example is Value Partners Greater China High Yield Income Fund. The offering document sets out that the swing factor is normally not exceeding 3% of the fund's NAV. However, under extreme market conditions (such as market crash or global financial crisis), the swing factor may be increased to protect interests of the shareholders.

In volatile market conditions such as those experienced since late March 2020 due to the COVID-19 epidemic, there is a significant widening of the spread between bid and ask prices. Value Partners Greater China High Yield Income Fund may temporarily apply a swing factor beyond the normal 3% whilst the period of extreme market conditions persist. The swing factor is reviewed daily and is calculated with reference to the spreads being observed on each individual dealing day.