Swing Pricing:
Protecting Investors from Fund Dilution

For professional investors only
BlueBay Funds (SICAV-UCITS) and BlueBay Structured Funds (SICAV-SIF) both Luxembourg domiciled umbrellas have implemented swing pricing as an anti-dilution mechanism since June 2015. Swing Pricing is a widely accepted anti-dilution mechanism to protect existing shareholders from the effects of dilution. BlueBay Investment Funds (an Irish domiciled ICAV) also has the ability to apply swing pricing.

What is swing pricing and how does it protect investors?

The swing pricing mechanism aims to protect existing investors within a fund from dilution caused by subscriptions & redemptions of other investors entering and exiting the fund. Dilution refers to the bid-ask spread and transaction costs incurred when a portfolio manager buys or sells underlying securities of a fund as a result of investor net flows.

Investors subscribe in and redeem out of a fund at a single net asset value (“NAV”) which is based on the mid-price of underlying securities in the fund. However, when a portfolio manager buys securities following a net inflow or sells securities held following a net outflow, the portfolio manager buys at ask price (ie a higher price than mid-price) and sells at bid price (ie a lower price than mid-price).

With swing pricing, these transaction costs are borne by the transacting investors instead of the existing investors in the fund, therefore protecting the long-term interest of shareholders who remain in the fund.

Is Swing Pricing Another Charge for Investors?

No. Swing pricing is a widely used mechanism designed solely for the protection of ongoing investors within a fund, to reduce the impact of trading costs incurred by other investors entering or exiting the fund. A swung price includes a best estimation of these trading costs, so that they are rightfully allocated to those investors that generated them.

How does swing pricing work?

Swing pricing operates at fund level, meaning that a NAV adjustment will impact all share classes and individuals transacting on the day. Importantly, the NAV is swung based on the net flows rather than on individual flows. This makes it difficult for investors to ‘game’ the threshold as other investors’ flows are unknown.

**Net inflow: The fund’s NAV will be swung upward**

Investors subscribe at a higher price (i.e. receive fewer shares) to cover the transaction costs incurred by the fund to invest in the market.

Investors who redeem will benefit as they will repurchase at a higher NAV, receiving more redemption proceeds.

**Net outflow: The fund’s NAV will be swung downward**

Investors redeem at a lower price (i.e. receive less redemption proceeds) to cover the transaction costs incurred by the fund to sell in the market.

Investors who subscribe will benefit as they will subscribe at a lower NAV, receiving more shares.

Frequency of Swing – Swing Threshold

BlueBay adopts a “partial swing” model, meaning that the NAV of a fund is adjusted only if the net flow exceeds a pre-determined swing threshold expressed as a percentage of the total net assets of the fund. This reduces the frequency of NAV adjustments by only capturing material net flows that cause dilution to the fund.

Magnitude of Swing – Swing Factor

If swing pricing is triggered by a net flow exceeding the swing threshold, the NAV is adjusted by a pre-determined swing factor, currently defined in the prospectus as not exceeding 2% of NAV.

As a consequence of the exceptional market conditions following the COVID-19 pandemic the Board of Directors of BlueBay Funds and BlueBay Structured Funds have approved a temporary increase in the swing factor to a maximum of 5%. This is in accordance with guidance issued by the Luxembourg regulator CSSF and is intended to protect existing investors during this period of increased market volatility. A communication was shared with all investors on 6th April 2020 to inform them of this change. It is expected that as and when normal market conditions resume, BlueBay Funds and BlueBay Structured Funds will both return to their normal 2% maximum swing factor.
How are swing thresholds and swing factors determined?

To ensure strong governance and independence, the BlueBay Market Risk Committee is responsible for setting the swing thresholds and the swing factors for each fund. These are reviewed on a quarterly basis, or more frequently if market conditions warrant. The Market Risk Committee determines swing thresholds and swing factors for each fund based on the medium-term outlook based on certain factors, such as the size of the fund, the type of securities in which the fund invests in and bid-ask spreads.

The Market Risk Committee, in conjunction with the BlueBay Funds Management Company S.A., also reports any swing pricing activity to the Fund Board on a quarterly basis.

The latest swing factors of a fund may be obtained by investors upon request from their local Sales Representative.

Which funds will implement swing pricing?

Swing pricing can apply to all funds under the BlueBay Funds (UCITS umbrella) and the BlueBay Structured Funds (SIF umbrella) in Luxembourg. The Irish domiciled BlueBay Investment Funds ICAV also has the ability to implement swing pricing.

It is important to note that while we have the ability to implement swing pricing in the above umbrellas (as provided for in the prospectus), whether the NAV will actually be adjusted for any of the funds is dependent on the swing threshold and the swing factor.

Will newly launched funds be subject to swing pricing?

There will be no NAV adjustment on the first trade day of a new fund. Whether the fund will be subject to swing pricing from the second trade day onwards will be subject to the review of the Market Risk Committee as described above.

Will the NAV be swung for conversions between funds?

Conversions between funds may also be subject to swing pricing if the net flows on that trade day breach the swing threshold for either fund.

How will performance fees be calculated?

Performance fees will be based on the unswung NAV, rather than the swung NAV, as the fee relates to the fund’s performance and should not be influenced by the effects of significant trading activity on behalf of investors.

How does swing pricing affect publication of the NAV?

Each fund implementing swing pricing will publish a single NAV whether it has been swung or not. No disclosure will be made whether the published NAV includes a swing adjustment.

The swing pricing process is not expected to delay the timing of NAV publication.

What is the impact of swing pricing on fund performance and volatility?

By swinging the NAV, the fund’s performance can be affected positively or negatively depending on whether the NAV is swung up or downward. However, the swing threshold is intended to reduce the volatility of the NAV by limiting the frequency of swings.

In the long term, the application of swing pricing is likely to have a positive effect on fund performance by limiting the impact of dilution.

Does BlueBay publish the Swing Factor for its Sub-Funds?

BlueBay does not routinely publish swing factors. However, these can be disclosed to clients on request.

Does BlueBay publish the Swing Threshold for its Sub-Funds?

In line with industry practice, BlueBay does not disclose the swing thresholds applicable to each of its sub-funds in order to protect its existing shareholders from investors who may intend to trade just below the threshold in order to avoid the price being swung.
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