

# Swing Pricing Q&A

October 2024

## **Applicable to the sub funds of the Irish-domiciled UCITS available through Aegon Asset Management Investment Company (Ireland) Plc.**

Aegon Asset Management believes that it is of utmost importance to protect investors in our funds from performance dilution due to subscriptions and redemptions. As a result, Aegon AM operates an anti-dilution adjustment mechanism, also referred to as swing pricing.

The objective of the swing pricing mechanism is to ensure fair treatment of incoming, exiting and current investors, by striking a balance between the amount of dilution and volatility suffered by the funds which would be caused by changing the pricing basis too little or too much in response to countertrend cashflow.

Aegon AM maintains a swing pricing policy that sets forth a framework and guidelines for operating a swing pricing mechanism. This policy outlines guidelines for how sub-funds (further: funds) should respond to changing cashflow trends, in accordance with the prospectus. This policy applies to the sub funds of Irish UCITS being Aegon Asset Management Investment Company (Ireland) Plc. The Management Company of the fund is Aegon Investment Management B.V. and delegated investment manager is Aegon Asset Management UK Plc (Aegon AM UK).

### **Sub-funds for the Aegon Asset Management Investment Company (Ireland) Plc**

- Aegon Absolute Return Bond Fund
- Aegon Global Diversified Income Fund
- Aegon Global Equity Income Fund
- Aegon Global Sustainable Equity Fund
- Aegon High Yield Global Bond Fund
- Aegon Investment Grade Global Bond Fund
- Aegon Global Short Dated High Yield Climate Transition Fund
- Aegon Global Short Dated Climate Transition Fund
- Aegon Strategic Global Bond Fund

The document includes common questions and answers regarding the funds' swing pricing approach and is not intended to cover all aspects of swing pricing. Please refer to the Prospectus and fund documents for additional fund-related details.

## **1. What is fund dilution?**

Buying and selling securities in a fund generates trading costs such as brokerage fees, taxes and more. When subscriptions or redemptions occur, the associated buying and selling securities involves trading costs. These transaction costs can negatively impact, or dilute, existing investors' performance. Performance is said to be "diluted" when the fund pays brokers and dealers commissions, market spreads and other types of costs depending on the market, while buying and selling assets for the fund. These transactions costs are initially borne by the existing investors in the fund. This causes dilution of the performance and the value of the fund decreases.

## **2. What is swing pricing?**

Swing pricing is a common mechanism used across the industry that aims to ensure fair treatment of all investors in the event of subscription or redemption. Swing pricing has been used by asset managers in many major fund jurisdictions for over twenty years as an anti-dilution investor protection tool. This mechanism aims to mitigate performance dilution by amending the fund price (also known as the NAV per share) in the event of significant subscriptions or redemptions.

Funds may follow full or partial swing policies, which are further defined below. The price of the fund is swung by the swing factor (in basis points) to adjust the price up or down depending on the subscriptions and redemptions. The swing pricing mechanism aims to ensure that trading costs are reallocated to the investors that enter or exit the fund, instead of the existing shareholders.

## **3. How does swing pricing protect investors?**

In an effort to protect current investors, swing pricing aims to transfer an estimate of the trading costs to the investors that are subscribing or redeeming. This is done by adjusting the price transacting investors pay or receive for fund shares by an appropriate swing factor. The swing factor can vary according to asset class and market conditions.

## **4. Is swing pricing an additional fee for investors?**

A swing pricing mechanism is not used as an extra fee or service charge for active trading, but merely as a protection mechanism for the value of the fund. When a fund investor subscribes or redeems from a fund and a swing pricing adjustment is applied, they are paying or receiving a fair price that takes into account the costs of trading. An investor would have borne these costs themselves if they were dealing in the underlying securities directly, and swing pricing aims to ensure those costs are fairly allocated to the investor that is redeeming or subscribing into the fund.

## **5. What are the differences between full and partial swing pricing?**

Aegon AM operates a partial swing policy with a predetermined swing threshold for all Aegon Asset Management Investment Company (Ireland) Plc funds. We favour using a swing threshold as we recognize that smaller transactions can frequently be managed with the fund's existing cash position and small flows typically do not lead to material transaction costs. In addition, using a partial swing and having a swing threshold reduces the impact that the swing has on the volatility of the price, as the swing factor adjustment is not applied on each trading day.

## **6. Does Aegon AM follow a full or partial swing policy?**

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## **7. When does swing pricing apply?**

The partial swing pricing policy applies in situations where the fund experiences net of subscriptions and redemptions above a pre-defined swing threshold. The threshold is represented by the subscription or redemption as a percentage of fund's total NAV.

## **8. What is the swing threshold?**

In alignment with industry best practices, Aegon AM does not disclose the swing thresholds to investors. Disclosing this threshold may encourage subscriptions or redemptions below the threshold, which can place current investors at a disadvantage. As a result, we do not disclose the threshold in an effort to protect the interests of investors.

Swing thresholds are set on a case-by-case basis to reflect the unique characteristics of each fund and may be adjusted up or down from time to time.

## 9. How are the swing thresholds determined?

The threshold level for each fund is set by an oversight group within Aegon AM in consultation with representative Fund Managers and re-evaluated at least once a year or more frequently if applicable.

## 10. How does the swing pricing mechanism adjust the fund price?

On each valuation day, the fund's administrator calculates the fund's Net Asset Value (NAV). The price of the fund is calculated at each recognised valuation point, as prescribed within the prospectus, by totalling the assets less the liabilities of the fund and dividing that total by the share in issue (plus any adjustments, such as dealing commission where applicable).

The assets of the fund in many cases have more than one quoted price:

- **Bid:** A bid price represents the price it would cost to sell the assets
- **Offer:** An offer price represents the price it would cost to buy the assets
- **Mid:** A mid price is the arithmetic average of the bid and offer prices

The price of the fund is typically calculated at mid prices in alignment with the prospectus.

The swing pricing mechanism can adjust the fund price if the fund experiences subscriptions or redemptions above the swing threshold. The swing is an adjustment on the fund price by a percentage, also known as the swing factor. The direction of the adjustment will vary depending on the direction of flows and transaction costs. The adjusted fund price is the execution price (single price) at which investors can buy or sell participations of the fund.

For example:

- **Net inflows:** If the fund experiences inflows above the swing threshold, the swing factor will be added to the price per share. The price will swing up to account for the transaction costs associated with buying securities.
- **Net outflows:** If the fund experiences outflows above the swing threshold, the swing factor is deducted from the fund price. The price will swing down to account for the transaction costs associated with selling securities.

## 11. How are the swing factors determined?

The swing factor is typically set daily by the market quotes on bid, mid and offer of the portfolios. This daily determination is accomplished through an automated process in which the portfolio quotes are fed by different market vendors where the fund administrator derives an average swing factor (daily factor). An alternative approach to setting the swing factor may also be utilized. The one-year historical swing factor will be available on the Aegon AM website.

**12. What is the oversight and review process for swing pricing?**

Aegon AM has a governance process in place to monitor and oversee the effectiveness of our swing pricing policy.

Overall, Aegon AM's swing policy and procedures aim to ensure fair treatment of incoming, exiting and current investors and protect investors from performance dilution due to subscriptions and redemptions.

This policy will be reviewed at regular intervals to ensure it remains effective.

Please note that the swing factors can be changed at any time, without consent of the investor, if it so deems necessary to protect the fund's investors.

Full swing pricing adjusts, or swings, the price of the fund every dealing day, regardless of the volume of investor subscription or redemption activity.

Partial swing pricing takes into account a predetermined swing threshold. The fund's price is only adjusted (or swung) if the volume of subscriptions or redemptions meets the set threshold, which is typically based on the percentage of the fund's net assets. This partial swing approach is based on the idea that a relatively low volume of subscription and redemption activity should not result in material trading costs as these smaller transactions can usually be managed with the existing cash positions. As a result, the threshold is set to a percentage that typically reflects when dilution may occur.

## Disclosures

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**All investments contain risk and may lose value.**

Aegon Asset Management Investment Company (Ireland) Plc (AAMICI) is an umbrella type open-ended investment company which is authorised and regulated by the Central Bank of Ireland. Please refer to the Prospectus and Key Investor Document of the UCITS for further information. The relevant documents can be found at [aegonam.com](http://aegonam.com).

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