

Dilution – Frequently Asked Questions August 2024



What is Dilution?

The value of a fund may suffer what is known as ‘dilution’ which is a reduction in the fund’s value 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 significant dilution, Royal London utilises two different mechanisms, these are Dilution Adjustment (also known as “Swinging Single Pricing”) and “Dilution Levy”. We utilise Swinging Single Pricing for most of our Equity and Fixed Income funds.

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

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.

Dilution Levy information for specific funds may be made available on request.

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

How does Swinging Single Pricing work?

Swinging Single Pricing is an approach widely used within the fund management industry and is an adjustment to a fund’s price on any given day, which aims to best treat 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. Royal London Asset Management does not benefit from the swing in price, and it is only used to handle the effect of dilution in a fund.

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.

Do we disclose the Threshold levels?

We will not disclose the current 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.

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 information for specific funds may be made available on request.

For our UK fund range, historic information including the swing frequency and annual average swing factors is published in the Prospectus.

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.

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. The Depositary also performs oversight of the valuation and pricing of the funds.

Contact us

For more information,
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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) or Key Information Document (KID), available via the relevant Fund Price page on www.rlam.com/uk

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