RBC Funds (Lux): Swing Pricing

As part of our commitment to protect the best interest of our clients, RBC Funds (Lux) implements swing pricing on certain Sub-Funds. Swing pricing is an anti-dilution mechanism that aims to protect existing shareholders from the performance dilution effects they may suffer as a result of transactions by other investors in a Sub-Fund.

Why does RBC Funds (Lux) utilize anti-dilution Measures?

A Sub-Fund may suffer a reduction in value, known as "dilution", when trading the underlying assets as a result of net inflows or net outflows. This is due to transaction charges and other costs that may be incurred by liquidating and purchasing the underlying assets and the spreads between the buying and selling prices (transaction costs).

In order to counter this effect and to protect overall performance of the Sub-Fund and existing shareholders' interests, from 1 September 2017 the RBC Funds (Lux) Board of Directors (the Board) adopted a swing pricing mechanism as part of its valuation methods.

What is Swing Pricing?

Swing pricing is an anti-dilution mechanism for compensating an investment fund for the dilution effect of redemptions and subscriptions and is designed to protect continuing investors in the Sub-Fund. It aims to ensure that investors subscribing to or redeeming from a fund bear their portion of the transaction costs. With swing pricing, a single price is issued for the Sub-Fund and all clients buy and sell shares at this price. This single price incorporates a swing in the net asset value (NAV) of the Sub-Fund due to subscription and redemption activity on a valuation day. The extent and direction of the swing is dependent on the magnitude and direction of the dealing activity.

Investors should be aware that swinging the NAV per share may introduce volatility into the daily prices. However, this should not be interpreted as an increase in the inherent level of portfolio risk.

Swing pricing can be applied on either a full or partial basis.

- **Full swing** means that the price is swung each day, regardless of the size of the net capital flows.
- **Partial swing** means that the price swings only if the calculated net capital flows exceed a pre-determined threshold.

RBC Funds (Lux) will implement a "partial swing" method, which means that on any valuation day, if the aggregate net investor(s)'s transactions in a Sub-Fund exceed a pre-determined threshold, the NAV per share will be adjusted upwards or downwards to reflect the costs attributable to the net inflow or outflow.

Swing Factor and Direction

The price swings in accordance with the pre-determined swing threshold and the percentage by which the NAV is adjusted (Swing Factor) is set individually for each Sub-Fund based on market conditions. The Swing Factor represents the magnitude of the swing, while its direction depends on whether the Sub-Fund is receiving net inflows or net outflows on any particular valuation day:

- If the day's dealings for the Sub-Fund result in a net inflow, the NAV is adjusted upwards.
- If the day's dealings for the Sub-Fund result in a net outflow, the NAV is adjusted downwards.

How do we set the Swing Factor?

The Swing Factor is set by the RBC Global Asset Management Valuation Committee ("GAM Valuation Committee") and approved by the Board. The Swing Factors for equity Sub-Funds are reviewed at least every six months (or as needed) to reflect an approximation of current transaction and other costs. The extent of the adjustment may vary from Sub-Fund to Sub-Fund due to transaction charges but may not exceed the limit of 2% of the original NAV per share. In general, the Swing Factor will be set between 5 and 25 bps for all Equity Sub-Funds.

For Fixed Income Sub-Funds, the Swing Factor will be based on an analysis of the bid/offer spreads. For example, portfolio valuation would be based on the *ASK* price when dealing with net subscriptions and the *BID* price is used when dealing with redemptions. The valuation prices for all Fixed Income Sub-Funds will be moved to mid prices from bid prices effective with the implementation date of swing pricing.

How do we set the Swing Thresholds?

Swing thresholds are recommended by the GAM Valuation Committee and approved by the Board. The threshold levels are determined for each Sub-Fund considering the level at which capital activity and related trading within the Sub-Fund becomes material and dilutes the value of shareholders' holdings. As with the Swing Factor, the threshold levels will be dependent on the underlying asset class and regional exposure of the Sub-Fund and will therefore vary across the Sub-Fund range. RBC Global Asset Management Inc. does not disclose the swing thresholds as this may encourage some investors to deal below the threshold level, thereby undermining the ability of the swing pricing mechanism to mitigate dilution.

Calculation of the Net Asset Values

The swing effects on the NAV per share are reviewed by the fund administrator RBC Investor Services Bank S.A. in Luxembourg during the normal process of calculating the NAV of the Sub-Fund. The fund administrator calculates the NAV as normal and then adjusts the NAV by the Swing Factor if the net dealing activity exceeds the swing threshold.

Illustrative Examples of the Swing Pricing Mechanism

Below are three hypothetical scenarios of how swing pricing operates in practice:

To illustrate, assume NAV per share of the Equity Sub-Fund is constant at USD100 (assume no market movement during the period). The Swing Factor for the Equity Sub-Fund is set to 0.10% (10 basis points) and the swing threshold for the same Sub-Fund is set at 5% of its previous trading day's closing total NAV.

Example 1: A net outflow or inflow of 3% of total NAV

No adjustment is made to the NAV as the net subscriptions/ redemptions do not exceed the swing threshold.

Result: A NAV per share of USD100 is published.

Example 2: A net outflow of 12% of the total NAV

The Fund receives dealing requests resulting in net redemptions above the 5% threshold. The price will swing to USD 100 minus 0.10% swing adjustment.

Result: The price swings downwards and all capital trades for the day will be priced at USD99.90.

Example 3: A net inflow of 12% of the total NAV

The Sub-Fund receives dealing requests resulting in net subscriptions above the 5% threshold. The price will swing to USD100 plus 0.10% swing adjustment.

Result: The price swings upwards and all capital trades for the day will be priced at USD100.10.

Conclusion

The swing pricing mechanism is applied across all Equity and Fixed Income Sub-Funds of RBC Funds (Lux) to protect long-term shareholders from the dilutive effect of capital trading activity.

Contact

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