

## Swing Pricing

### Solution to deal with dilution effects arising from capital activities



Swing pricing is the market's preferred mitigation technique against dilution effects from subscriptions and redemptions. Implementation, operational practices, governance structure and monitoring are key elements of the process for which Deloitte can provide assistance.

When net subscriptions and redemptions are received, the portfolio manager has to buy or sell securities on the market. These transactions have direct and indirect costs which can lead to a dilution of the performance of the fund without any mitigation.

Swing Pricing is an anti-dilution technique which helps funds manage liquidity risks internally by effectively passing on transaction costs to the shareholders associated with that activity. Technically, the NAV is adjusted upward/downward in case of net subscription/redemption.

The goal of this technique is to better protect long term investors from costs triggered by short term investors and therefore reach a fair treatment of investors.

For fund managers, it helps to maintain the expected performance of their strategy and directly improves their track record as well as their benchmarking position and indirectly sustain their revenues.

However, Asset Managers face some strategic, legal and operational challenges to implement Swing Pricing.

## Key Challenges

### Strategic:

- Swing Pricing can be very effective for specific funds but might not be relevant for others. It is essential to assess the scope of funds on which Swing Pricing can be applied before starting any implementation
- The Swing Pricing methodology such as Full Swing / Partial Swing must be selected in accordance with the features of the funds

### Legal:

- All legal documents have to be amended, prepared or signed before going live
- Regulators will check as well that the proper governance of the process has been properly setup with for instance a dedicated Swing Pricing Committee
- Record keeping and audit trails must be taken into account as well

### Operational:

- Calculation methods can be freely defined
- Parameters to be included in the Swing Factors estimation and levels of thresholds are key to properly remove dilution costs
- Frequency of factors revaluation and emergency procedures must be defined
- Efficiency of the Swing Pricing should be monitored and properly reviewed

## How can we help?

### Swing Pricing Study:

- **Benchmarking** of the market to communicate the need for action to the board
- Back-testing of historical fund **performance dilution** to assess the need to implement swing pricing, the potential benefits and the scope of the policy
- Methodological assessment

### Implementation assistance:

- Assistance in the setup of all regulatory and legal procedures including the **governance**
- Definition of the **Swing Factor calculation methodology**
- Assistance in the selection of the **thresholds, frequency** of review
- PMO of the implementation: progress tracking of the central administration, setup of **internal controls**, internal and external communication of the new anti-dilution strategy, training facilitation for internal and commercial teams...

### Deloitte Swing Pricing Analytics:

- Analysis of triggered NAV swings given **threshold levels** and **threshold values**
- Independent reporting of the observed diluted performance and benefit from the Swing Pricing in order to assess the **efficiency ratio of the Swing Pricing Policy**

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