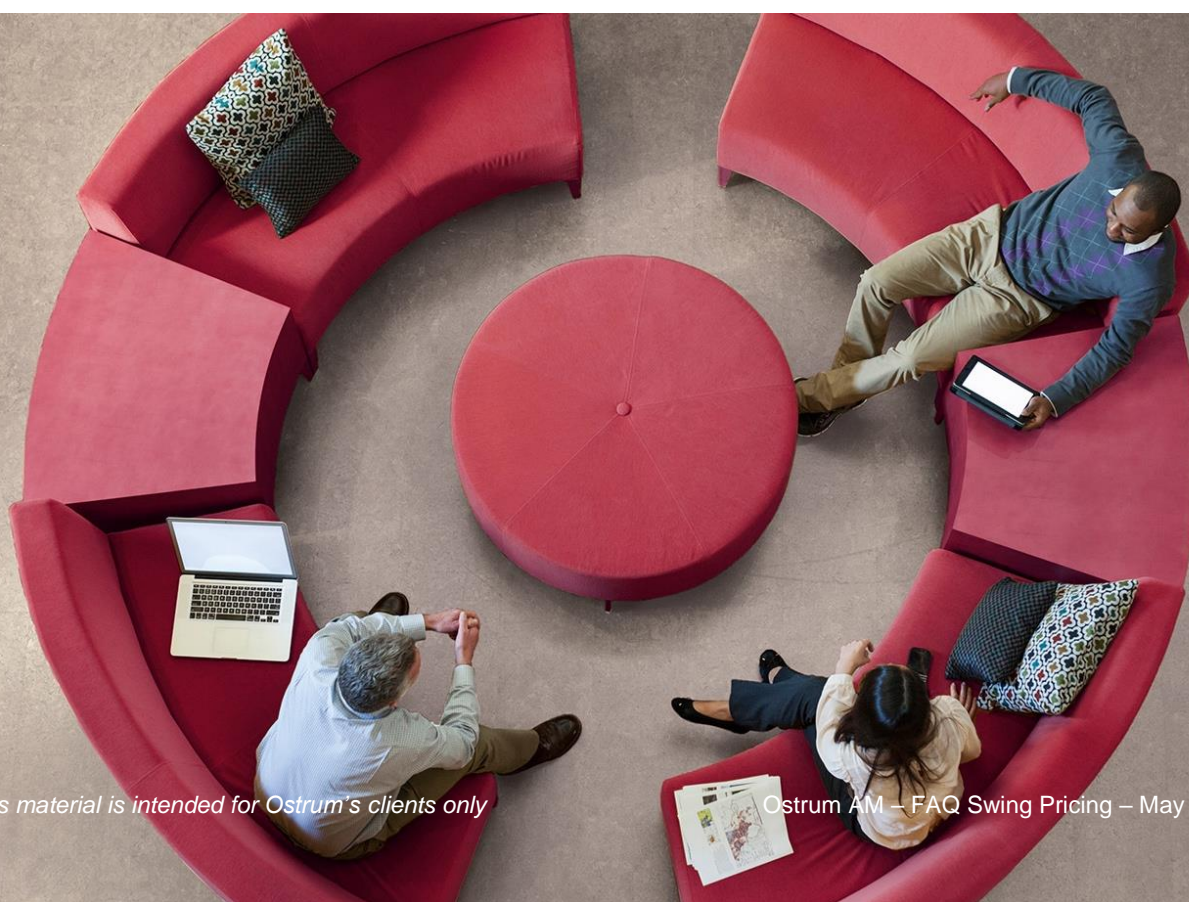


● **FREQUENTLY ASKED  
QUESTIONS  
SWING PRICING: PROTECTING  
HOLDERS FROM FUND  
DILUTION**

May 2021

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## **1. OVERVIEW:**

- **FUNDAMENTAL PRINCIPLES  
ADOPTED BY OSTRUM  
ASSET MANAGEMENT**

# 1.1.FUNDAMENTAL PRINCIPLES ADOPTED BY OSTRUM ASSET MANAGEMENT

Since June 24, 2014, the AMF has authorized Swing Pricing in France for OPCVM and FIA. In order to be aligned with these regulation changes and to preserve the interests of its holders over the long term, Ostrum Asset Management has chosen to deploy this mechanism in accordance with the terms recommended by the AFG charter.

The introduction of swing pricing focuses on funds having an interest in benefiting from this mechanism. Holders can refer to the various prospectuses to obtain this information.

The purpose of these FAQs is to respond to likely questions of all potential investors and existing holders of the funds in scope regarding the working of the mechanism and its impacts. It applies to professional and non-professional clients within the meaning of the Markets in Financial Instruments Directive. This document is available at:

- Ostrum Asset Management website at the following address: <http://www.ostrum.com/en-UK/p/commitments/swing-pricing>.
- On request from the Distribution Services Department by e-mailing [ClientServicingAM@natixis.com](mailto:ClientServicingAM@natixis.com) or send a letter to: Ostrum Asset Management – Direction des Services Clients à la Distribution - 43, avenue Pierre Mendès-France, 75 013 Paris.
- Or through your local Natixis Investment Managers International sales representative.

The background of the page is a solid light red color. It features a series of concentric circles of varying shades of red, creating a ripple effect. A small, solid dark red dot is positioned at the center of the innermost circle.

## 2. GLOSSARY<sup>1</sup>

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<sup>1</sup> Source : Ostrum Asset Management

## 2.1. GLOSSARY

### **Bid-Ask spread:**

The amount by which the ask price exceeds the bid price. This is essentially the difference in price between the highest price that a buyer is willing to pay for an asset and the lowest price that a seller is willing to sell the same asset.

The size of the spread from one asset to the other will diverge mainly due to the difference in liquidity of each asset respectively.

### **Ask price:**

The price a seller is willing to accept for a security, also known as an offer price. Along with the price, the ask quote will generally also stipulate the amount of the security willing to be sold at that price.

### **Bid price:**

The price a buyer is willing to pay for a security. This is one part of the bid with the other being the bid size, which details the amount of shares the investor is willing to pay.

### **Net Asset Value (NAV):**

The Net Asset Value of the fund is the sum of the net assets of all different share classes of a fund.

### **Capital activity:**

Net value of subscription, redemption and switch orders received by the transfer agent for a single fund on anyone trading day.

### **Full swing:**

The NAV is adjusted every capital activity (regardless of the size of subscription-redemption orders received). The direction of the swing (up or down) is determined by the net capital activity of the day (positive or negative).

### **Partial swing:**

With this model, the fund's NAV is swung only when the net inflow for a given day exceeds a certain determined threshold (i.e. the trigger threshold).

### **Swing factor:**

A swing factor is the amount (normally expressed as a percentage) by which the NAV is adjusted to protect existing investors in a fund from dilution caused by securities trading following capital activity. The swing factor is applied due to the capital activity exceeding a pre-defined threshold (for partial swing) or any capital activity (for full swing).

The swing factor can also be referred as the impact adjustment.

### **Swing threshold:**

The level of net capital activity, expressed as a percentage of the NAV or an absolute monetary value (or both), required to trigger the swinging process where partial swing pricing is employed. The factors influencing the determination of the swing threshold are described in the next section. The "Swing Factor" could be considered as an adjustment tool.

### **Unswung NAV:**

The Unswung NAV is the NAV without application of a swing factor.

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## **3. FREQUENTLY ASKED ● QUESTIONS**

## 3.1. WHAT IS DILUTION?

The purchase and sale of securities in a fund incurs trading costs such as brokerage fees, taxes and spread effects (liquidity) relating to the fund valuation policy.

Spread effects occur when the fund's NAV is calculated by using the last-traded price (the portfolio manager buys securities based on the Ask quotations and sells them based on the Bid quotations).

Clients who invest in a fund are exposed to a dilution effect as a result of the manager's trading activities in order to achieve the investment objectives contained within the fund's prospectus.

## 3.2. HOW DOES SWING PRICING PROTECT EXISTING HOLDERS?

The objective of swing pricing is to minimize the dilution effect for existing holders by supporting the entering and leaving holders their transaction fees and liquidity costs.

Swing pricing is a mechanism by which the NAV is adjusted upwards (or downwards) where the balance of net inflows is positive (or negative).

Basing on the principle that a low amount of subscription and redemption activity will not result in material trading costs, Ostrum Asset Management has opted for a swing pricing model with a trigger threshold (i.e. Partial Swing). As such, swing pricing protection will only be activated once the Swing Threshold is reached (by considering the net balance of subscriptions / redemptions of all holders), assessed as a percentage of the net assets of the fund.

In practice, this means that if the net flows of a given fund do not trigger the Swing Threshold, the NAV will not swing.

Net in- or outflows below threshold	Net inflows above threshold	Net outflows above threshold
No swing	Swing up	Swing down

The purpose of this mechanism is to always protect the interests of investors already present in the fund:

- If an investor redeems his parts when cash flows of the fund exceed the pre-determined net redemption threshold, the price that the investor receives will be adjusted downward by the Swing factor of the Bid quote.
- If an investor subscribes when cash flows of the fund exceed the pre-determined net subscription threshold, the price that the investor pays will be adjusted upward by the Swing factor of the Ask quote.
- If an investor subscribes when cash flows of the fund exceed the redemption threshold, the price will be adjusted downward by the Swing factor (and benefit them).
- If an investor redeems his parts when the price swings upward due to subscriptions generated by other investors, he will benefit an increased NAV.



### 3.3. HOW THE “SWUNG” NET ASSET VALUE CALCULATED ?

Basing on the frequency of the NAV calculation, the net amount of subscriptions and redemptions is calculated as a percentage of the fund net assets. If this amount exceeds a pre-defined threshold, the mechanism is applied at the fund level. Once applied, all share/unit classes within a fund swing in the same direction (upward or downward) and by the same percentage.

Where the threshold is breached (percentage), the fund is valued normally in compliance with the valuation policies defined in the fund's prospectus. The swing factor is then applied to adjust the NAV (upward in the case of net inflows or downward in the case of net outflows).

In practice, holders do not know when the NAV has been swung to preserve the equality of holders. In case of adjustment, the swing adjustment is included in the published NAV. No information will be communicated to specify whether the net asset value has been adjusted or not.

### 3.4. HOW ARE THE SWING FACTOR AND THRESHOLD LEVELS DETERMINED?

Ostrum Asset Management has created a Swing Pricing Committee, which is responsible for setting and reviewing the swing factors, thresholds, and the funds in scope of Swing Pricing.

The coefficient by which the net asset value is adjusted (swing factor) varies according to the type of fund and is reviewed at least quarterly.

The trigger threshold is also reviewed at least quarterly. The committee therefore sets the trigger threshold at a level that can protect holders, while minimizing the volatility of the net asset value and ensuring that the net asset value is not adjusted when the dilution effect on the fund is considered insignificant.

The chairman of the Swing Pricing Committee is the Ostrum Head of Compliance and Risk.

#### **Swing factors:**

This is the amount by which the NAV is adjusted, and it will vary depending on the type of fund. For example, a high-yield fund will likely have a higher swing factor than a euro sovereign debt fund regarding liquidity and the cost of purchasing securities on their respective markets.

The following items are considered when deriving the swing factor:

- The bid offer spread is a key factor to be included in the swing factor.
- Net broker fees paid by the fund.
- Custody transaction charges.
- Fiscal charges (e.g. sales tax and stamp duty).
- Subscription or redemption fees on the underlying funds.
- Any swing factors or dilution amounts or spreads applied to underlying investment funds or derivative instruments.

#### **Swing thresholds:**

The Committee sets the Swing Thresholds at a level that they believe protects holders, while minimizing NAV volatility and ensuring that the NAV does not swing where the dilution impact on the fund is deemed to be immaterial. Different funds may have different Swing Thresholds.

To determine the swing thresholds, the following elements are considered:

- The fund sizes.
- The type and liquidity of securities in which the fund invests.
- The costs, and hence the dilution impact, associated with the markets in which the fund invests.
- The fund's investment policy and the fund's extent of holding cash or investing fully in securities.

### **3.5. CAN THE SWING PRICING PARAMETERS BE DISCLOSED?**

In accordance with regulations, Ostrum Asset Management will not disclose swing pricing parameters and has implemented procedures to restrict access to parameters, subscription / redemption flows and to identify possible conflicts of interest.

### **3.6. DOES THE IMPLEMENTATION OF SWING PRICING GENERATE ADDITIONAL COSTS?**

Swing pricing does not generate additional costs for holders. The mechanism only results in a distribution of the different costs between the holders<sup>2</sup>.

This is a tool designed to ensure that the holders do not bear the transaction fees that the portfolio manager must carry out due to the subscriptions/redemptions of other holders entering and exiting the fund.

### **3.7. WHAT IS THE IMPACT OF SWING PRICING ON THE MEASUREMENT OF RISK AND PERFORMANCE COMMUNICATED IN THE REPORTING?**

Performance and risk indicators are calculated based on the NAV, which could be swung or not. The mechanism's application therefore has an impact on the fund's volatility level published by the OPC and occasionally on the performance level.

As the one-off impact of swing pricing on the NAV is not related to the investment management, performance fees are calculated before applying the Swing Factor.

### **3.8. HOW CAN I LEARN ABOUT THE SWING PRICING ?**

Holders are invited to get in touch with their privileged correspondent for any additional information or to send their request to [ClientServicingAM@natixis.com](mailto:ClientServicingAM@natixis.com).

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<sup>2</sup> Charter of Good Conduct for Swing Pricing and Adjustable Entry and Exit Rights Acquired to Funds, AFG, published in 2014 and amended in 2016

# LEGAL NOTICES

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Under Ostrum Asset Management's social responsibility policy, and in accordance with the treaties signed by the French government, the funds directly managed by Ostrum Asset Management do not invest in any company that manufactures, sells or stocks anti-personnel mines and cluster bombs.



Ostrum Asset Management

Asset management company regulated by AMF under n° GP-18000014 – Limited company with a share capital of 48 518 602 euros – Trade register n°525 192 753 Paris – VAT: FR 93 525 192 753 –

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