SWING PRICING POLICY

SYCOMORE ASSET MANAGEMENT

Version number: 2
First version: March 2020
Update: September 2022

The AMF has allowed swing pricing for UCITS and AIFs since 24 June 2014. Supportive of the current regulations and striving to protect the long-term interests of its unitholders, Sycomore AM has chosen to apply this system in accordance with the recommendations of the AFG Charter.

Swing pricing is implemented only for those funds which will benefit from it. Unitholders may refer to the prospectus for more information in this regard.

The Swing Pricing Policy clarifies the rules for setting thresholds. These rules may allow for variable thresholds (which will depend on liquidity conditions in particular) so that the mechanism can be adjusted to market conditions, and it is harder for unitholders to play the system. The Swing Pricing Policy may also stipulate that swing pricing will not be applied to the closing Net Asset Value.

Glossary

Swing Pricing: mechanism whereby the Net Asset Value is adjusted upwards (or downwards) if the change in liabilities is positive (or negative) so as to reduce existing unitholders' portfolio readjustment costs when securities are traded due to investors entering or exiting the fund.

Swing Pricing with Trigger Threshold: In this case, swing pricing will only be applied if the change in net liabilities exceeds a predetermined amount, covering all of the assets.

Swing Threshold: If swing pricing is practiced with a trigger threshold, then this is the threshold beyond which swing pricing is applied. Upside and downside thresholds may differ. The threshold may be expressed as an amount, as a number of units or as a percentage of the assets.

Swing Factor: adjustment to NAV Pricing, expressed as a percentage of the Net Asset Value before Swing Pricing is applied.

Net inflows: the net value of a fund's subscriptions-redemptions and transfers received by the Centralising Agent on a given date.

Net Asset Value (NAV): a fund's Net Asset Value is the net assets divided by the number of units in circulation.

Swing Factor: the adjustment coefficient (normally expressed as a percentage) is the amount by which the NAV is adjusted in order to protect existing unitholders from the dilutive effect of movements in the fund's liabilities. The swing factor is applied as soon as the trigger threshold is reached when a trigger threshold applies, or whenever liabilities change in the case of total swing pricing.

Unswung NAV: the NAV to which no adjustment is made.

Foreword

What is dilution?

A fund's buying and selling of securities incurs transaction costs such as brokerage fees, taxes and levies, as well as the risk of a liquidity gap linked to the fund's valuation policy.
Gaps emerge when the fund's net asset value (NAV) is calculated using the price quoted at close of trade. When portfolio managers buy securities: they purchase them on the basis of an Ask price; and when they sell them from their portfolio: they do so at the Bid price.
Clients investing in a fund are subject to dilution through the manager's trading aimed at achieving the investment objectives set out in the fund's prospectus.

How does swing pricing protect existing unitholders?

The purpose of swing pricing is to offset the dilutive effect on existing/remaining unitholders, by making incoming and outgoing unitholders bear their share of transaction and liquidity costs.
Swing pricing is a mechanism by which the NAV is adjusted upwards (or downwards) if the net balance of the flows received exceeds (or falls short of) a trigger threshold when the NAV is calculated.

As a low subscription/redemption amount does not incur significant transaction costs, Sycomore AM has opted for a partial swing pricing model with trigger threshold. Swing pricing protection will therefore only be triggered from a certain point (i.e. looking at the net balance of all unitholders' subscriptions/redemptions), valued as a percentage of the fund's net assets.
In practice, this means that if a given fund's net inflows do not reach the trigger threshold, the NAV will not be "swung".

The aim of this mechanism is always to protect the interests of the fund's existing investors.

Calculation method

The "swung" net asset value is calculated in two stages: the total cost of subscriptions/redemptions relating to the fund is estimated, before this total cost is divided up between remaining, incoming and outgoing unitholders.
The nature of the costs involved, and the method used to estimate them and divide them up, fall under the responsibility of the Management Company, which documents them as part of its Swing Pricing Policy.

The following notation is used:

N: Number of units with subscriptions and redemptions
S: number of units subscribed
R: number of units redeemed (R > 0)
NAV_{gross}: "gross" unit value calculated before Swing Pricing is applied
NAV_{swing}: net asset value per unit after Swing Pricing is applied
SF: swing factor (expressed as a percentage)

Estimated total cost of subscriptions and redemptions

The estimated portfolio adjustment cost is calculated on the basis of the net balance of subscriptions and redemptions.
This readjustment cost may reflect:

- transactions actually carried out in connection with the subscription or redemption;
- a theoretical investment or divestment in proportion to the assets held in the portfolio;
- a theoretical investment or divestment in proportion to the fund's benchmark;

Cost apportionment

The previously estimated readjustment cost is incorporated into the net asset value in proportion to the fund's assets under management. It increases the net asset value if net subscriptions exceed the trigger threshold, and decreases it if net redemptions exceed the trigger threshold, but applies to all of the assets.

The net asset value per unit is therefore:

- if **$S-R > THRESHOLD_{subscription}$: $NAV_{swing} = NAV_{gross} \times (1+SF)$**
- if **$THRESHOLD_{subscription} >= S-R >= THRESHOLD_{redemption}$: $NAV_{swing} = NAV_{gross}$**
- if **$THRESHOLD_{redemption} > S-R$: $NAV_{swing} = NAV_{gross} \times (1-SF)$**

Determination of settings

A swing pricing management committee is responsible for validating the calibration of swing pricing settings, including trigger thresholds and adjustment coefficients for the funds concerned. These settings are reviewed periodically, at least quarterly.

Adjustment thresholds

For each fund concerned, the Swing Pricing Committee sets the thresholds at a level thought to protect existing unitholders, while minimising NAV volatility, and ensures that there is no adjustment to the NAV when the dilutive effect on the fund is negligible. Each fund may have a different trigger threshold.

In determining trigger thresholds, the following are taken into consideration:

- The size of the fund
- The type and liquidity of the securities in which the fund is investing
- The costs and consequent dilution in relation to the markets in which the fund invests
- The fund's investment policy and extent to which it may hold cash (or equivalents) or, conversely, may be fully invested in securities.

Governance

Principles:

Within the Management Company, the Fund Management, Development and Risk departments can ask for swing pricing to be applied to a fund or set of funds.

A fund is selected or excluded on the basis of objective criteria:

- asset class,
- dilution,
- nature of the liabilities,
- frequency of subscriptions/redemptions,

The decision is signed off by the Swing Pricing Committee, which validates the scope of the funds concerned by the mechanism, adding and removing funds as it sees fit. Methods are determined and swing pricing settings presented by the Risk Department before being signed off by the Swing Pricing Committee.

The Swing Pricing Committee meets every six months. Decisions are communicated to Business Development teams.

If market conditions require a rapid adjustment or if there is a serious operational failure, then the Risk Department may convene an ad hoc committee to implement or modify the mechanism without delay.

Operational implementation

The Risk Department receives from Fund Management or Development (or directly expresses) a request to change the scope of swing pricing (addition/removal of a fund) and assesses the impacts in terms of thresholds and factors to be applied.

The scope and settings are presented to the Swing Pricing Committee, which makes final decisions. These are then communicated to the different service providers for operational implementation

in the systems. The Fund Management and Risk departments are informed when limits are broken and swing pricing triggered.

Swing Factor Calculation Method

A swing factor calculation method has been predetermined for all funds that have been identified as eligible for swing pricing.

The swing factor consists of the following:

- transaction costs,
- taxes,
- bid/ask spreads are dynamic data and are reviewed at least quarterly.

Transaction costs and taxes are deemed "static" data and are reviewed annually on the basis of the following formula:

Costs and taxes component = Impact of costs and taxes on each transaction.

Impacts of transaction costs and taxes = [(Total of all brokerage costs, custodian fees and taxes)/Total absolute value of all portfolio transactions]

Itemised approach

The itemised approach consists of calculating the portfolio's swing factor according to every position held.

The Risk Management team will monitor the change in each security's Bid/Ask prices. For all dates (i) in the quarter, the mid-range of a security (j) is calculated:

$$\mathbf{Spread_{i,j} = (Ask\text{-}Bid) / (2xMid)}$$

Where

$$\mathbf{Mid = (Ask+Bid) / 2}$$

A symmetrical value is thus obtained for all the securities on each date in the quarter.

Note $\mathbf{W_{i,\,j}}$ the weight of each security j in the portfolio on date i. The portfolio's spread for date i is then calculated:

$$\boldsymbol{Spread\ Q_i} = \sum_{\boldsymbol{j=1}}^{\boldsymbol{n}} (\boldsymbol{w_{i,j}} \times \boldsymbol{Spread_{i,j}})$$

The swing factor is then obtained by adding up the average spread over the quarter and considering the impacts of costs and taxes:

Swing Factor = Average (Spread Q_i) + transaction costs (as %) + taxes (as %)

Communication of Swing Pricing settings

In accordance with regulations, Sycomore AM will not disclose its swing pricing settings and has established procedures aimed at restricting access to these settings, as well as to subscription/redemption flows, and at identifying any conflicts of interest.

Does the implementation of swing pricing generate additional costs?

Swing pricing does not generate additional costs for unitholders. The mechanism results only in a different apportionment of costs among unitholders.
It is a tool aimed at ensuring that existing unitholders do not incur transaction costs when the fund manager has to trade securities because of subscriptions/redemptions by investors entering and exiting the fund.

Exception to the mechanism's application

Swing pricing is not applied when a fund is launched. This exception to the application of the swing pricing mechanism is valid during the six months following the creation of the fund, provided net assets under management do not exceed EUR 200 million.

What is the impact of swing pricing on the risk and performance metrics shown in the report?

Performance and risk indicators are calculated on the basis of the single net asset value, which may be "swung". The application of the mechanism therefore has an impact on the level of volatility experienced by the fund as well as on the calculated level of performance from time to time.
As the one-off effect of swing pricing on the net asset value is not related to portfolio management, performance fees are calculated before the method is applied.

Further information

Investors looking for more information about this policy should contact their usual financial adviser or write to info@sycomore-am.com

Funds concerned

At the time of writing the following funds are concerned:

- Sycomore Sélection Crédit
- Sycoyield 2026

Disclaimer

This document is informative only and has no contractual value. Sycomore Asset Management reserves the right to change its content at any time and without notice, and is not responsible for any decision taken on the basis of this document or for its use by third parties. The mechanisms described in this document provide no protection or guarantee against the risk of capital loss specific to the funds concerned.