Dilution Levy Explained

What is Dilution?

Buying and selling assets within a fund will incur costs, which are normally paid for by existing investors in the fund. The actual cost of purchasing, selling or switching underlying investments in a fund may deviate from the mid-price value used in calculating its share price, due to dealing charges, taxes (where applicable), and any spread between buying and selling prices of a fund's underlying investments. These costs would be same as those incurred by any individual buying or selling a portfolio of assets outside of a fund structure.

If a fund buys or sells assets in response to substantial new subscriptions or redemptions (e.g. a daily transaction above 5% of a fund's Net Asset Value), existing investors in the fund may be adversely affected, as they will pay (indirectly via costs absorbed by the fund) a large proportion of the costs for transactions that they did not initiate, especially when the purchase of large volume of securities can widen the spread. **This effect is known as dilution.**

What is bid and offer pricing?

Investments are normally bought and sold in markets at different prices. Within markets, the price an investor pays to buy an investment is generally higher than the price the investor would achieve for selling the same investment. The price at which you buy an investment is known as the 'offer' price, and the price at which you sell an investment is known as the 'bid' price. This, in turn, leads to creating an imbedded cost or 'spread' between the two transactions. In the context of the funds ConBrio manages, these vehicles are valued at the 'mid-price', which is the half-way point between bid and offer prices. Therefore, when an investor instructs a transaction (either to purchase or sell) into a fund it is executed using the 'mid-price'.

Illustration of bid and offer pricing

Why is Dilution Levy applied?

To ensure that existing investors in a fund do not absorb the costs of large transactions, in case of a significant subscription, the application of a Dilution Levy will have the indirect effect of increasing the purchase price of units, thus reducing the proceeds invested from the subscription of units. Inversely, in the case of a large redemption, the application of a Dilution Levy will effectively decrease the selling price of units, thus reducing the proceeds received from a redemption of units. The Dilution Levy will be paid into a fund and become part of the property of a fund, with the final objective of protecting the value of the existing or remaining Shareholder's interests, as relevant.

How is Dilution Levy calculated?

The Dilution Levy is calculated by reference to the costs of dealing in the underlying investments of the relevant fund, including any dealing spreads, commission and transfer taxes.

The need to apply a Dilution Levy will depend on the volume of purchases and redemptions. It is not possible to predict accurately in advance whether dilution would occur at any point in time.

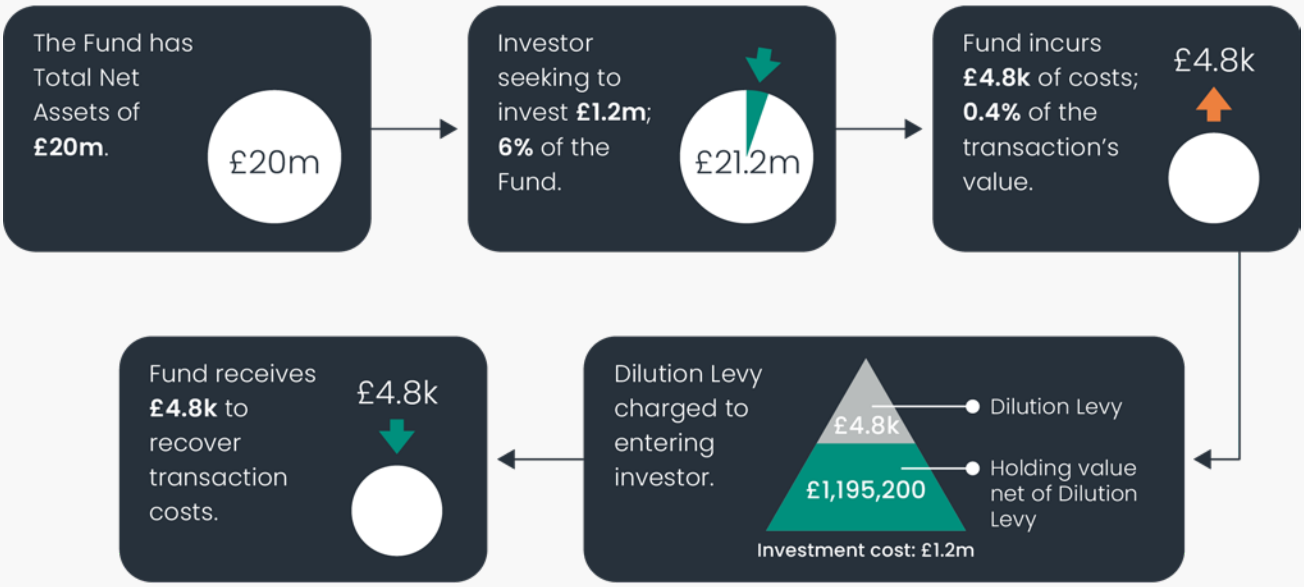
When is Dilution Levy applied?

The Authorised Corporate Director's ("ACD") policy is that it may apply a Dilution Levy on the purchase and redemption of Shares if, in its opinion, the existing Shareholders (for purchases) or remaining Shareholders (for redemptions) might otherwise be adversely affected. For example, the Dilution Levy may be applied in the following circumstances: where a fund is in continual decline; on a fund experiencing large levels of net purchases relative to its size; on 'large deals' (typically being a purchase or redemption of Shares, to a size exceeding 5% of the Net Asset Value of the relevant fund); in any case where the ACD is of the opinion that the interests of existing or remaining Shareholders require the imposition of a Dilution Levy.

By way of example and based on data for the first half 2022, the rate of any Dilution Levy would be expected to be in the range between 0.1% and 2%. The percentage of deals where a Dilution Levy has been applied during the same period has been for approximately 0.02% of deals. Further information on actual Dilution Levies paid is available from the ACD.

Worked example

The following hypothetical example illustrates how charging a Dilution Levy on a fund can protect investors when a fund incurs significant costs in the case of a large redemption or subscription. Please note that the scenario is a guide for illustration purposes only and the actual cash thresholds used in these scenarios do not reflect the actual levels of cash flow thresholds that would apply to ConBrio.



Transaction	Without Levy	With Levy
Existing investors' value	£ 20,000,000	£ 20,000,000
Transaction costs charged	-£ 4,800	-£ 4,800
Dilution Levy proceeds		£ 4,800
Value Existing Investors	**£ 19,995,200**	**£ 20,000,000**
New investor's holdings	£ 1,200,000	£ 1,200,000
Dilution Levy applied	0	-£ 4,800
Value New Investor	**£ 1,200,000**	**£ 1,195,200**
Total Asset post-transaction	**£ 21,195,200**	**£ 21,195,200**

The table above provides evidence that, despite transaction costs and the Dilution Levy accounting for the same amount, with Dilution Levies the cost is absorbed by the investor entering into the fund, as opposed to the costs being equally absorbed by all existing investors without the imposition of Levy.

Does the Authorised Corporate Director make a gain or profit from Dilution Levy?

No. Dilution Levies work solely to protect the best interests of existing and remaining investors in the fund, and proceeds charged are paid into the fund therefore collectively becoming part of investors' capital.

Where can I find more information on the Dilution Levy Policy?

The Dilution Levy Policy can be found in the Prospectus for the relevant fund which is available on our website. In addition, further information on the role of the ACD can be found also be found on our website.

TNCFPDL/011122

EMPLOYEE OWNERSHIP