

When calculating the price of units in a fund, the pool of assets is valued, adjusted for charges and expenses and then divided by the number of units in existence to get the unit price. While this may sound quite straightforward it is actually quite intricate. Unit trusts are usually dual priced, however, a small number are single priced.

Dual pricing

The majority of existing unit trusts operate a dual pricing policy. This means two prices are calculated each day and investors buy units at the offer price and sell at the bid price. The difference is known as the bid offer spread and includes the initial charge.

Single pricing

Only one price is calculated each day and investors buy and sell units at the same 'single' price. Please note the initial charge is deducted from the amount invested and the balance is used to buy units at the single price.

When the investment manager buys and sells assets such as equities or bonds, the broker quotes two prices: an offer price for buying assets for the fund and a bid price for selling assets of the fund. The offer price is slightly higher than the bid price as it includes the stockbroker fee.

Under single pricing, the value of the assets within the unit trust is based on the mid-value price – the average of the offer price and bid price of the assets as quoted by the stockbroker. This is reflected in the unit price each day – it is sometimes called the unit mid-price.

Buying units

If investors joining the fund pay the mid-price for their units then the investment manager would have insufficient funds to purchase the new assets required. This is because the stockbroker would charge the offer price for new assets and as a result, the value of the units held by existing unit holders would decrease slightly – they are said to be diluted.

Selling units

Conversely, if investors leaving the fund are paid the mid-price for their units the investment manager would have to sell additional assets to cover the value of the units being sold. This is because the stockbroker would only pay the bid price for the assets being sold and as a result, the value of the units held by existing unit holders would decrease slightly – again, they would be diluted.

Dilution adjustment

In order to protect the value of units for existing investors in a fund, our approach is to make a 'dilution adjustment' – an adjustment to the unit price. This covers the costs and taxes associated with dealing.

If the fund is expanding (i.e. there are more new investments being made than redemptions) then the unit price will be the price based on the mid-value of the assets plus a 'dilution adjustment' to reflect the cost to the fund of buying new assets. The 'dilution adjustment' is sometimes called the 'swing' and the unit price is said to 'swing to offer'.

On the other hand, if the fund is contracting (i.e. there are more redemptions being made than new investments) then the unit price will be the price based on the mid-value of the assets minus a 'dilution adjustment' to reflect the cost to the fund of selling assets to meet redemptions. In this case, the unit price is said to 'swing to bid'.

The published unit price can therefore 'swing' between the two values described above depending on whether the fund is expanding or contracting. In fact, the unit price may be set at any value between these two extremes. The policy with respect to pricing – the conditions that permit the price to 'swing' one way or the other – is agreed with the Trustee of the fund and is clearly stated within the fund's Prospectus. The pricing policy is reviewed on a regular basis.

Because the 'dilution adjustment' is allowed for within the unit price, it will be paid directly to the fund to cover the costs. If a dilution adjustment was not applied, the fund would have to cover these costs directly which in turn would restrict growth.

Dilution levy

Some unit trusts that operate single pricing use a 'dilution levy' instead of a 'dilution adjustment'. A dilution levy differs in that it is applied to a transaction and not included in the unit price. Therefore, an investor buying units in a fund would have the initial charge and dilution levy deducted from their investment before it is applied to buy units. The dilution levy is paid directly to the fund to cover the costs and taxes associated with dealing. Similarly, investors leaving the fund would receive the appropriate price per unit but a dilution levy would be deducted from the total.

Single and dual pricing comparison

Single pricing	Dual adjustment
Only one price is calculated daily: investors buy and sell units at the same price.	Two prices are calculated daily: investors buy units at offer price and sell at bid price.
All deals are calculated on a forward pricing basis – deals are calculated at the next valuation point.	All deals are calculated on a forward pricing basis – deals are calculated at the next valuation point.
All new investments will have the initial charge deducted before being applied to purchase units at the 'single' price.	The offer price includes the initial charge and – on any given day – is more than the bid price. All new investments will be applied in full to purchase units at the offer price.
The unit price allows for the accrual of the annual management charge and fund expenses.	Both the offer and bid prices allow for the accrual of the annual management charge and fund expenses.
Any investor buying units will receive the 'single' price.	Any investor buying units will receive the offer price.
Any investor selling units will receive the 'single' price.	Any investor selling units will receive the bid price.
The unit price can 'swing to offer' or 'swing to bid' depending on whether the unit trust is expanding or contracting. This protects the value of units for existing investors.	If the unit trust is expanding, the offer price of units is based on the offer value of the underlying assets and the bid price of units is derived from the offer price of the units.
The policy with respect to pricing is agreed with the Trustees and must be stated clearly within the unit trust full Prospectus and Simplified Prospectus document.	If the unit trust is contracting, the bid price of units is based on the bid value of the underlying assets and the offer price of units is derived from the bid price of the units.

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