



Dilution Adjustments

Frequently Asked Questions

Aberdeen UK Funds

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What is dilution?

Buying and selling assets within a fund will normally incur costs, e.g. investment dealing and other associated costs, which are normally paid for by *existing* investors in the fund.

If a fund is forced to buy or sell assets in response to substantial new subscriptions or redemptions, existing investors in the fund may be adversely affected, as they will pay (indirectly via the fund) a large proportion of the costs for transactions that they did not initiate. 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 you pay to buy an investment is generally higher than the price you 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. Investments are typically valued at the 'mid-price', which is the half way point between bid and offer prices.

What is a dilution adjustment?

In order to counter the effect of dilution during periods of large inflows or outflows, the price at which shares in a fund are bought or sold can be adjusted, with an aim to reduce the impact of dilution on existing investors in the fund. The price is adjusted so that investors who are buying/selling shares in the fund pay their fair share of the cost. This is known as a dilution adjustment.

Some funds operate dual pricing, where the price to buy shares (the 'offer price') is higher than the price for selling (the 'bid' price). However, our funds are single priced, which means that they have a single price at which investors buy and sell shares.

In normal circumstances, shares are sold at 'mid-price' which is the middle point between 'bid' and 'offer' prices. When a fund experiences large inflows or outflows, dilution is applied. This means that the price of buying or selling shares in the fund is adjusted ('swung'). The price to buy shares will be higher, or the price at which shares are sold will be lower. The adjustment in price means that investors joining or leaving the fund pay the associated costs, instead of existing investors in the fund.

When is dilution applied?

The Authorised Corporate Director or Manager (Aberdeen Fund Managers Limited) has a policy for dilution. Normally, dilution is only applied where the net inflows or outflows of a Sub-Fund value are significant on any particular day, although it will be imposed where the estimated potential cost to the relevant Sub-Fund justifies its application.

As the requirement to swing the price directly relates to the purchases and redemptions of shares in a fund, it is not possible to predict when or how frequently dilution will occur.

How does it work in practice?

The value of a fund is made up of the sum of the mid-market prices of all the underlying investments (the sum-total is known as the Net Asset Value or 'NAV' of the fund).

A dilution adjustment can be made to the NAV, which will adjust the price at which investors buy and sell shares in the fund.

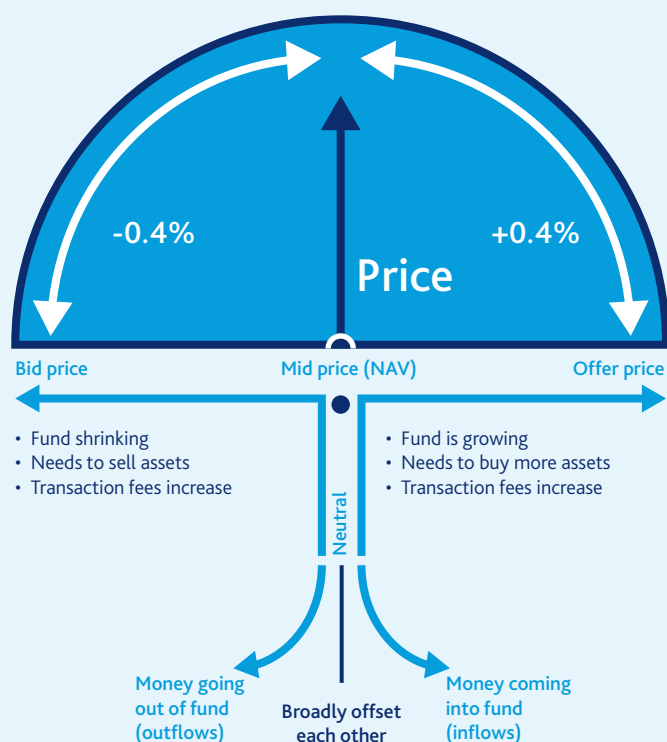
Worked examples

Aberdeen Emerging Markets Bond Fund (a Sub-Fund of Aberdeen Investment Funds ICVC)

If the price per share is 100 pence, and the fund's dilution adjustment is simply 0.40% for inflows and outflows, then:

If the fund has significant inflows, the price is adjusted up to $100.4 = [100 \times (1 + 0.004)]$. Therefore, an investment of £1,000 would buy 996.0159 shares in the fund. If the dilution adjustment had not been made, the same investment would have purchased 1,000 shares in the fund.

If the fund has significant outflows, the price will be adjusted to $99.6 = [100 \times (1 - 0.004)]$. Therefore, selling 1,000 shares in the fund would generate £996. If the dilution adjustment had not been made, the same transaction would generate £1,000.

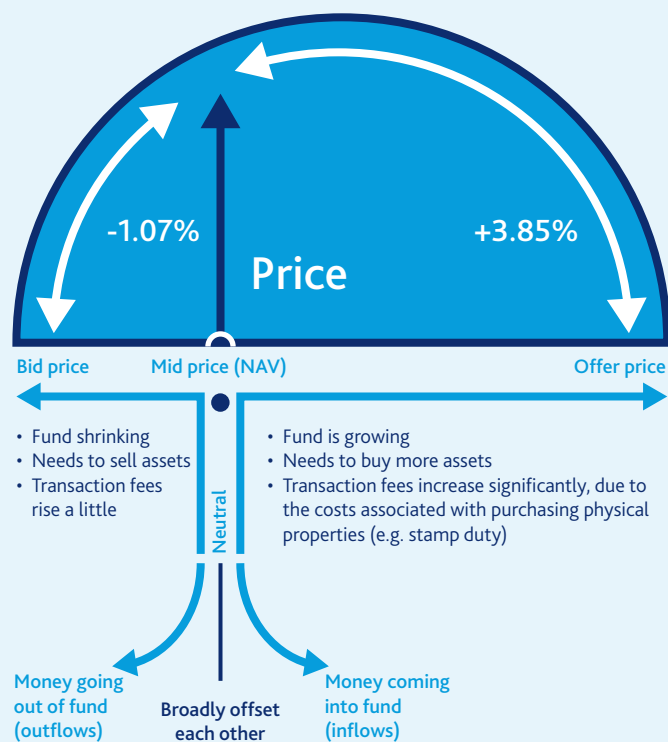


Aberdeen UK Property Fund (PAIF)

If the price per share is 100 pence, and the fund's 'offer' dilution adjustment is 3.85% then:

If the fund has significant inflows, the price is adjusted up to $103.85 = [100 \times (1 + 0.0385)]$. Therefore, an investment of £1,000 would buy 962.9272 shares in the fund. If the dilution adjustment had not been made, the same investment would have purchased 1,000 shares in the fund.

If the fund is experiencing significant outflows and the price per share is 100 pence, the price will be adjusted down 1.07% to the 'offer' price - $98.93 = [100 \times (1 - 0.0107)]$. Therefore, selling 1,000 shares in the fund would generate £989.30. If the dilution adjustment had not been made, the same transaction would generate £1,000.



Where can I find the dilution rates that apply for my funds?

The rate of dilution can be found in the Prospectus for the relevant fund which is available online at aberdeen-asset.co.uk.

Does the Authorised Corporate Director or Manager make a gain or profit from dilution adjustment?

No. Dilution adjustments work solely to protect existing investors in the fund.

The value of investments and the income from them can go down as well as up and you may get back less than the amount invested