ARVESTAR

Policy Liquidity Tools

1- Objective of the policy

As investors redeem from a fund, the fund manager may be required to liquidate assets to make cash payouts. The value of the shares held by the remaining investors might be negatively impacted.

The present policy documents the use of the liquidity tools described in the Belgian Royal Decree of 15 October 2018 by Argenta DP for the two compartments: Argenta DP Dynamic Allocation and Argenta DP Defensive Allocation.

Three possible liquidity tools to protect shareholders can be considered: Swing pricing, Anti-dilution levy and Redemption gates:

- By means of swing pricing the NAV will be adjusted to make certain the costs only apply for the redeeming investor. Longer-term investors will not be impacted.
- With the method of Anti-dilution levy, the redeeming investor can be requested to pay additional costs to the fund.
- The tool Redemption gates limits redemptions in a Fund for a short period of time to prevent a run on a Fund in times of market stress.

Argenta DP has opted for the swing pricing liquidity tool because of the transparency and the simplicity of the process.

2- Swing Pricing Liquidity Tool: description

The objective of swing pricing is to mitigate performance dilution risk due to large net inflows or net outflows. Swing pricing aims to protect existing Fund investors as the increased transaction and illiquidity costs will be directly integrated in the Net Asset Value and absorbed by the entering (large net subscriptions) or leaving (large net redemptions) investors.

- Increased (large) net in- or outflows can put in danger the investment Funds and individual investors and – in fine – also financial markets. Investments Funds might be forced to liquidate positions to generate liquidity.

  In situations of extreme volatility, investment Funds can suffer from the (in)direct trading costs following these capital movements. It might be difficult to liquidate large positions unless at prices substantially below the indicated market prices. The latter is obviously the case for the most illiquid positions such as small/midcap equity positions or corporate bond exposure.

- Transaction fees or cost of illiquidity of underlying financial markets are driven by increased bid –ask spreads, off market prices and volume constraints among others.

- The application of swing pricing will transfer the additional trading costs to investors leaving or entering the investment Fund. Existing investors will subsequently not bear these costs and will be protected to potential performance dilution following increased net in- or outflows.

- By the application of the swing pricing liquidity tool, additional trading costs will be directly integrated into the calculation of the Net Asset Value (NAV) of the investment Fund.

- The costs will subsequently be borne by the investors entering respectively leaving investors in function of the net amount of subscription or redemption amount.

3- Swing Pricing Liquidity Tool: application by Argenta DP

- Argenta DP has opted for the partial swing as opposed to the full swing. The latter implies that the NAV is adjusted with the transaction costs at each capital movement.

  In case of the application of the partial swing method, a threshold must be exceeded before the NAV will be adjusted. The use of the partial swing avoids that limited net subscriptions/net redemptions would result in the activation of the swing whereas they would not dilute performance.

- Argenta DP has opted for the symmetrical swing approach as opposed to the asymmetrical swing method. The swing is subsequently activated for both subscriptions and redemptions whereas the asymmetrical swing would only apply to subscriptions or redemptions.

  The use of swing pricing will not favor one or more categories of investors.

- All fees (including possible performance fees) will be calculated on the Net Asset Value of the Fund without considering the swing.

- No swing pricing can be applied on the NAV in case of a merger or restructuring of an Investment Fund or its sub-funds.

- Arvestar must always ensure that the fund administrator and the transfer agent, have an appropriate system in place to apply swing pricing.

  The monitoring of the correct functioning of the liquidity tools will make part of the Oversight of the subcontracted activities. Arvestar will inform the service providers at each change with regards to the application of the liquidity tools. The Transfer Agent will monitor daily if the swing threshold is exceeded and will subsequently inform Arvestar and the Fund administrator. The latter will adjust the NAV with the swing factor.

The policy document details the process put in place to reduce performance dilution risk in terms of swing parameter setting principles, governance, record keeping, publication and reporting.

4- Swing Pricing Liquidity Tool: swing threshold, swing factor and parameter setting

- The Swing Threshold is the value determined as the trigger event for net subscriptions and redemptions. This threshold value is expressed as a percentage of the total Net Asset Value of the sub-fund concerned. Subscriptions and redemptions will be combined over all share classes. Redemptions in one share class and equivalent subscriptions in another share class will in fact not require the fund manager to adjust positions and subsequently no transaction costs will be incurred.

The swing threshold is systematically applied in view of the equal treatment of all investors.

- In case of a net inflow of capital, the Swing Factor will be added to the NAV whereas for net redemptions, the Swing Factor will be deducted from the NAV. In case the swing has been activated, the same NAV will be applied to all investors entering/leaving on a given date (for all share classes).

- The Pricing & Valuation Committee of the management company Arvestar is responsible for setting the swing parameters.

  The Pricing & Valuation Committee is an Advisory Committee to the Executive Committee of the Management Company and meets every month. The review of the swing threshold and the swing factors will be systematically put on the agenda of the Committee. The swing factor may be reviewed more regularly (even daily) in case of stressed market conditions. Final decision making on the swing parameters is the responsibility of the Executive Committee of Arvestar:

  - The swing factor is determined based on the weighted average bid-ask spreads on Bloomberg. In case of volatile markets, the Pricing & Valuation Committee can meet more frequently. In a stressed market environment, the Pricing & Valuation Committee can decide to apply a swing factor based on trading prices if Bloomberg screen pricing is not representative and that these trading prices are relevant for the entire portfolio.

  - In normal market conditions the swing threshold is determined in a way that limited net subscriptions/net redemptions do not automatically result in the activation of the swing as they do not significantly dilute the performance of the Fund.

    The Pricing & Valuation Committee might however decide to lower the swing threshold (up to 0%) in periods of stressed market conditions.

5- Swing Pricing Calculation

Each month Arvestar receives a Bid Ask Spread Package from MSCI Risk Metrics via the RM Support team of Luxcellence (rm_support@luxcellence.lu). The monthly package includes the source file Arvestar needs for the Swing Price Calculation for the Pricing & Valuation Committee.

Argenta_DP_Defensive_Allocation.Liquidity_Diagnostic_ESMA.20240131	Microsoft Excel Worksheet	313 KB	No	504 KB
Argenta_DP_Dynamic_Allocation.Liquidity_Diagnostic_ESMA.20240131	Microsoft Excel Worksheet	322 KB	No	514 KB

On the following location the file can be found where the calculations are done to calculate the Swing Pricing Mechanism:

Evolution relative bid ask spread Argenta DP.xlsx (sharepoint.com)

The weighted average Bid/ask Spread is being calculated based on the following information that can be copied from the liquidity excel file (tab Diagnostic):

- Asset Class

- Security
- Mkt Value
- Bid-Ask
- Liquidity Score

⇨ With the following formule the weighted average is calculated: =SUMPRODUCT(BidAsk;Market Value)/SUM(Market Value)

⇨ This formule is used on the entire portfolio (Bonds + Equity), Bonds and Equity separately. Within the bond and equity, the calculation is made for the Liquid, Highly Liquid, illiquid and Less Illiquid parts.

Weighted Average Relative BID/ASK Spread
Bond
Highly Liquid
Liquid
Less Liquid
Equity
Highly Liquid
Liquid
Less Liquid
Illiquid

6- Record keeping, Publication and Reporting

- Record keeping of decisions about swing parameters will be organized via the minutes of the Pricing & Valuation Committee with a reporting to the Executive Committee and the Board of Directors of the Management Company and the UCITS.

- The decision of the Board of Directors to apply swing pricing will be published on Arvestar's fund website or by any other process or means of communication authorized by the FSMA.

- The swing threshold and factor will be published on Arvestar's fund website.

- Avestar will report the use of swing pricing in line with the conditions set out in the annex of the Royal Decree of 10 November 2006 on accounting, annual accounts and periodic reports of public Investment Funds.