A SIMPLE GUIDE TO FUND PRICING

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A fund pools the money of lots of investors to buy a portfolio of assets. The price of these assets fluctuates and so does the size of the fund as investors buy and sell shares. So pricing the fund is complex and needs to be fair to both ongoing investors in the fund and those wishing to deal (buy or sell the fund). In this guide we explain what this means in practice.

How is the fund price calculated?

The fund price takes into account the value of the fund's assets, such as the shares, bonds and property it owns. Several factors contribute to the fund price:

- **Spreads on underlying assets in the fund:** When you buy an individual share or a bond you may notice there is one price for buying (the offer price) and a lower price if you want to sell (the bid price). This difference between the two prices is known as the spread. For widely traded assets the spread may be very small and for some very liquid assets there may be no spread at all, such as on cash. For other assets that are not widely traded, such as smaller-company shares, the spread could be large, say 3%. It's larger because the broker who buys or sells the shares doesn't want to sell you them too cheaply or pay you too much when buying them from you. The larger spread compensates the broker for the extra risk of dealing in smaller-company shares.

- **Transaction costs:** There are often external transaction costs for buying or selling assets, such as commissions, transfer fees and stamp duty. These costs can vary widely depending on the type of asset and where they are. For example, you need to pay 5% stamp duty land tax when buying UK commercial property above £250,000.

- **Initial charge:** This is applied by the fund manager when you buy into the fund. It covers the cost of setting up the investment, although fund managers often offer a partial or full discount on this charge, particularly if you invest through a cost-efficient platform.

The spread, transaction cost and initial charge mean there is essentially a buying price and a selling price for every fund, although the quoted price for the fund will depend on the pricing method.

Summary: what does the fund price include?

Underlying assets	The fund's assets, such as the shares, bonds or property it owns
Spreads on underlying assets in the fund	The difference between the buying price (the offer price) and the selling price (the bid price)
Transaction costs	External transaction costs attached to buying/selling assets such as commissions, transfer fees and taxes
Initial charge	The cost of setting up the investment applied by the fund manager

For information relating to charges please see our Simple Guide to Charges

Pricing methods – single or dual pricing

Funds can be priced using one of two methods: either single priced or dual priced. Both methods aim to treat all investors fairly, whether they are buying into or selling out of a fund or staying invested. In the ordinary course of managing the fund, costs for buying and selling assets are taken from the fund's capital. However, when the fund expands or contracts due to investor flows additional transaction costs may arise. The fund pricing tries to apply these transaction costs in a way that is fair to all.

What are single-priced funds?

The majority of open-ended investment companies (OEICs) and some unit trusts operate on a single-price basis. In other words, under normal conditions, investors can buy or sell shares from the fund manager at the same price. This price reflects the mid-point of the buying and selling price of the fund's assets. It is called the net asset value per share, and is calculated by dividing the fund's assets less its liabilities by the number of shares in issue.

This arrangement typically works well when the number of shares bought and the number of shares sold is small compared to the overall size of a fund. However, if significantly more shares are bought or sold on any single day, the fund manager can impose a **dilution adjustment**. This aims to protect the interests of existing investors and those staying in the fund. It does so by transferring the additional costs of buying/selling significant amounts of assets onto the investors who are coming into or out of the fund.

What are dual-priced funds?

Some funds are dual priced, which means a separate buying price (quoted offer price) and selling price (quoted bid price) are set. The difference between these two prices is known as the quoted spread.

If a dual-priced fund is in a net position of taking money in from investors, then the price you buy shares at (the offer price) reflects the buying price of the fund's assets plus transaction costs associated with buying plus, if applied, the initial charge.

If a dual-priced fund is in a net position of paying money out to redeeming investors then the price you sell at (the bid price) reflects the selling price of the fund's assets less the transaction costs associated with selling.

On any given day, the *offer price* is higher than the *bid price*.

Summary table

The table below summarises how the two pricing methods reflect the price of the fund's underlying assets and how they capture the costs associated with buying or selling a fund.

Single-priced fund		Dual-priced fund
Not reflected in the single price, so a dilution adjustment may be imposed	**Underlying asset spread**	Reflected in the fund's bid or offer pricing basis
Not reflected in the single price, so a dilution adjustment may be imposed	**Transaction costs**	Reflected in the fund's bid or offer pricing basis
Deducted from your money before you invest. The charge may be discounted by reducing or eliminating the deduction.	**Initial charge**	Included in the quoted bid/offer spread. The fund manager may discount the charge by reducing the spread.

Top tips

- ✓ You can find the latest as well as historical prices for Henderson funds on our website.
- ✓ If two prices are available for the same share class of a fund, the fund is dual priced.
- ✓ For dual-priced funds, if you own the fund it is the bid price that we use to calculate the value of your holding.
- ✓ A financial adviser can help you further understand how funds are priced. They may charge you for any advice.
- ✓ Funds are typically priced once each working day at a time known as the valuation point.
- ✓ The price applied when buying or selling a fund reflects the price at the valuation point that follows receipt of your buy/sell instruction.

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