WHAT IS A DILUTION ADJUSTMENT?
When investors make subscriptions or redemptions it may result in the investment manager buying or selling the underlying investments of the fund, attracting dealing costs that would be borne by the fund’s current investors. As a result, long-term investors could be adversely affected by investors buying and selling shares in the fund. This effect is known as dilution.

A dilution adjustment is a technique whereby the Net Asset Value per share (the fund’s dealing price) is adjusted to reduce the impact of dilution, thereby protecting existing investors. A dilution adjustment aims to ensure that the investors buying or selling shares in the fund bear some of these dealing costs and that these costs are not borne entirely by existing investors.

HOW DOES A DILUTION ADJUSTMENT WORK?
The Net Asset Value (NAV) of a fund is determined using the latest available mid-market prices of the underlying investments held in the fund. However, an adjustment to the NAV can be made if the fund experiences material net subscriptions or redemptions on a particular dealing day.

The direction of the adjustment depends on whether the fund is experiencing net subscriptions or redemptions on the dealing day, while the magnitude of the adjustment reflects the level of dealing costs within the fund.

However, regardless of whether the price is adjusted up or down, all investors buy and sell at the same price. So, for example, if the price for a fund is 120 and the fund’s dilution adjustment is 0.25%, then:

- If the fund experiences material net subscriptions (inflows), the price is adjusted up to 120.3 (by multiplying 120 by 1.0025).
- If the fund experiences material net redemptions (outflows), the price is adjusted down to 119.7 (by multiplying 120 by (1 - 0.0025)).
- If the subscriptions and redemptions are not material, or there is no shareholder trading, no adjustment will be applied and the price will remain at 120.

BNY MELLON GLOBAL FUND’S DILUTION ADJUSTMENT PROCESS
The price will be adjusted whenever there are net subscriptions or net redemptions above a specific threshold. The threshold is the level when net inflows or outflows reach a size where dealing costs are deemed material.

The dilution adjustment is applied to the NAV per share, based on the mid price valuation of the underlying investments. The same adjustment is applied to all share classes of a Sub-fund.

HOW IS THE DILUTION ADJUSTMENT CALCULATED?
The extent to which prices are adjusted is based on an estimated dealing cost made up of a number of elements, including bid-offer spreads and other transaction costs (e.g. transaction taxes). The estimated rates are reviewed and updated periodically.

It is worth noting that any investor impacted by a dilution adjustment is paying/receiving the fair price for their trade, taking into account the costs of dealing. They are not being treated unfairly. The process exists purely for the protection of the existing investors in the fund.

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