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Annex C – Best practice for fund management

Procurement: US and North America Funds, Active Management

Fondtorgsnämnden
Swedish Fund Selection Agency

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Introduction

The Swedish Fund Selection Agency collaborates with the Swedish Pensions Agency, which acts as insurer, to guarantee a safe and secure premium pension system.

The Swedish Fund Selection Agency manages the fund platform and makes sure that Fund Managers and investment funds continually meet the terms of the fund agreement. As insurer, the Swedish Pensions Agency is responsible for fund trading, fund information and choice architecture.

The Fund platform is not an open trading centre for the sale of fund units, it is instead intended for pension savers when making fund selections so as to investing their premium pensions in funds procured for the purpose. This places special demands on all parties involved with the premium pension system's fund platform. By law, the fund agreement must include the conditions required to maintain good practice in the premium pension area. The good practice has been compiled within the premium pension system over time and has been developed taking into account the special nature of the premium pension system, among other things to maintain confidence in the premium pension system and safeguard the interests of pension savers.

The purpose of this annex is to more closely regulate and supplement the obligations that Fund Managers are under according to the Fund Agreement's Main Document. This annex includes examples of what constitutes minimum standards of best practise in the area of premium pensions; it does not provide an exhaustive list. What is considered best practise can change over time as a result of developments in the premium pension system and changes in the fund market.

1. General

Funds for premium pensions shall be managed according to the fundamental objective that allocated financial resources and achieved yield shall secure future livelihood during retirement. This means that Fund Managers shall take into account the long-term nature of these fund savings and base their actions on the purpose of these investments. The Fund Manager and related parties shall take due care to act in the interests of pension savers.

The work carried out by the Fund Manager in investment funds on the premium pension fund platform shall be based on relevant principles for this fund

agreement. These principles include the fact that the funds shall be cost-effective, sustainable and of high quality. It is the Fund Manager's obligation to continuously analyse the arrangement and ensure that the investment fund meets these and other requirements in the tender documents, including the fund agreement.

This annex includes examples of what constitutes minimum standards of best practise in the field of premium pensions; it does not provide an exhaustive list.

2. Responsibilities of the Fund Manager

2.1. Responsibilities of related and interested parties

Within the scope of this fund agreement, the Fund Manager is responsible for any and all measures taken in violation of best practise. If a Related Party or an Interested Party takes an action in violation of best practise, the Fund Manager will be held responsible for that action as if the Fund Manager had personally taken that action.

This means, for example, that the Fund Manager is responsible for ensuring that related parties do not damage confidence in the premium pension system or are otherwise allowed to harm the interests of pension savers when performing or providing the fund's asset management, or advisory services, marketing, information and sales that involve investments in the fund on the fund platform.

The Fund Manager is responsible for ensuring that the presence of an Interested Party in connection with fund operations does not damage confidence in the premium pension system or is otherwise permitted to harm the interests of pension savers.

3. Best practise for fund management

3.1. Inappropriate investment funds within the premium pension system

In accordance with Section 3.3i in the main document of the fund agreement, the investment fund shall at any given time be considered by the Swedish Fund Selection Agency as appropriate to the premium pension system in order to be

able to participate on the fund platform. It is, for example, inappropriate that investment funds within the premium pension system:

i. have their performance compared against a benchmark that is not relevant to the fund's long-term investment focus and philosophy, for example with regard to factors such as the choice of asset class and market, or with regard to return and risk profile in general; or
ii. charge a variable fee based on the performance of the fund more than once for the same performance.
iii. It can also be considered inappropriate for a fund to have a special share class intended for investments from the Swedish Pensions Agency with a higher fee than the equivalent share class intended for non-premium-pension investors, or
iv. have a structure governed by association law, so that the Swedish Pensions Agency risks gaining a significant (controlling) influence.

3.2. Market terms

All trading in securities and financial instruments, as well as other transactions relating to investment funds, shall be done on market terms and to the benefit of pension savers.

3.3. Inappropriate investments within the premium pension system

Inappropriate investments are in conflict with best practise in the area of premium pensions.

Inappropriate investments in premium pensions include investing funds in:

i. financial instruments that make the investment unnecessarily complicated, reduce transparency or facilitate exposure to or investment in assets that would otherwise not be permitted in a fund that meets the requirements of the UCITS Directive.
ii. financial instruments that do not allow daily redemption due to a lack of liquidity or difficulties in determining a daily market value, other than as permitted within the scope of the UCITS Directive and that can be considered to be in agreement with the stated investment policy and risk profile for each fund,
iii. financial instruments that are not in agreement with the communicated or described investment policy for the fund,
iv. funds or financial instruments in which there are business relationships between the Fund Manager (or a party related to the Fund Manager) and

the entity that issues the security, that are not based on market principles or that are solely in the interests of mutual fund shareholders.

v. the Fund Manager's own funds, or funds within the same group of undertakings, with the exception of investments in zero fee index funds and holdings in funds where the placing is only intended to temporarily manage the liquidity of the fund, provided, however that otherwise is not stated in the tender documentation for each respective procurement. If the fund, in whole or in part, is managed by an Investment Manager, this requirement correspondingly applies to investments in that one's own investment funds within the Investment Manager's group of undertakings.

3.4. Hidden charges and fees

It is prohibited to charge hidden charges and fees within the premium pension system, such as:

i. through trading in financial instruments with investment funds in the management group/group of undertakings as the other party (other than in cases where the parties act completely independently of each other and can convincingly demonstrate that they maintain the arm's length and best execution principles) that burden the fund with costs and fees that are not recorded as management fees, i.e., that constitute a hidden cost for the mutual fund shareholders.

ii. the Fund Manager, by charging the fund, paying for research within the group of undertakings or to a Related Party beyond what can be considered reasonable and normal on the basis of market share or special ability/skill, or if it does not take place according to a transparent, objective and ongoing evaluation of other parties,

iii. brokerage splits or distribution of revenue from securities loans generating profit that is not recorded,

iv. by allowing a financial instrument to bear the actual cost of management costs, or

v. by otherwise failing to report actual management costs to the Swedish Pensions Agency.

4. Inappropriate business practises and unfair contract terms

A Fund Manager or Related Party may not make use of inappropriate business practises or contract terms that, with a view to price and other considerations, can be considered unfair to the pension saver.

4.1. Inappropriate business practises

Inappropriate business practises are in conflict with best practise in the area of premium pensions.
Inappropriate business practises may include:

i. using electronic or other identity documents to pose as the pension saver when dealing with the Swedish Pensions Agency or persuading the pension saver to misuse his or her electronic identification or other documents,
ii. altering or adding information to a fund switching form after a pension saver has personally signed it, or switching funds using a form that has not been personally signed by a pension saver,
iii. using aggressive sales methods, such as repeatedly contacting a pension saver so that he or she feels pressured to enter into an agreement.

It is furthermore not allowed:

iv. to claim that the Fund Manager or Related Party has signed or is covered by a code of conduct or equivalent when such is not the case,
v. to describe a product as “free”, “free of cost”, “without charge” etc. as a consequence or result of choosing a certain fund on the fund platform,
vi. for the Fund Manager or Related Party, in connection with information about or marketing of the fund on the fund platform, to include an invoice or similar document that gives the pension saver the impression that he or she has already ordered the marketed product when such is not the case,
vii. to make repeated and unsolicited contact, except to the extent justified according to statutes or other regulatory frameworks in order to have a contractual obligation fulfilled.
viii. to claim that contact with the pension saver is being made on behalf of the Swedish Fund Selection Agency, the Swedish Pensions Agency or any entity other than the actual principal.

4.2. Unfair contract terms for products and services

With regard to investments in funds on the fund platform or other services and products, a Fund Manager or Related Party may not employ contract terms that,

with a view to price and other considerations, can be considered unfair to the pension saver. An example of an unfair contract term is a lock-in period of more than one year for an agreement for premium pension services or products. As a general rule, it must be considered advantageous to a pension saver to be able to change Fund Managers or terminate an agreement with a Related Party without being locked in for an unreasonable contractual term. Contract terms with extended lock-in periods that benefit the Fund Manager at the expense of a pension saver mean that there is no reasonable balance of power between the parties. It shall also be simple for a saver to be able to terminate the agreement with the Fund Manager or Related Party.

Unfair contract terms with regards to services or products involving funds on the fund platform are deemed to comprise contract terms whose objective or the consequence thereof is to:

i. automatically extend an agreement with a definite duration unless the pension saver expresses otherwise or when the deadline by which the pension saver can state that he or she does not wish to extend the agreement is unreasonably early.
ii. irreversibly tie a pension saver to terms that he or she has no actual opportunity to review before entering into the agreement,
iii. allow the Fund Manager or Related Party to unilaterally alter the terms of agreement without just cause being stated in the agreement,
iv. state that the price of the product will be determined upon delivery or allow the Fund Manager or Related Party to raise the price without the pension saver in both cases being correspondingly entitled to withdraw from the agreement if the final price is higher than the one agreed upon at the time of entering into the agreement.
v. obligate the pension saver to fulfil all of his or her obligations even if the Fund Manager or Related Party fails to fulfil theirs,
vi. revoke or restrict the pension saver's right to take a matter to court or pursue other legal remedies, especially by requiring the pension saver to handle all disputes through arbitration, by unjustifiably limiting the pension saver's access to evidence, or by imposing on the pension saver a burden of proof that under applicable law should lie with another party to the contract.

5. Best practise with regards to marketing, advisory services and sales

5.1. Inappropriate marketing

Premium pensions are part of the social security system. The Swedish Pensions Agency serves as insurer for the premium pension system and administers the investment fund accounts of pension savers. The Swedish Pensions Agency is also tasked with providing information regarding the entire pension in the areas administered by the Swedish Pensions Agency. In carrying out this assignment, the Swedish Pensions Agency observes the rules in the Administrative Procedure Act (2017:900) regarding guidance given to individuals. Information regarding a pension saver's premium pension holdings is confidential. In the opinion of the Swedish Fund Selection Agency, therefore, there is no need to market premium pension funds other than when giving financial advice, the provision of which is governed by other regulations. Marketing that is contrary to the purpose of the premium pension scheme and applicable regulations is inappropriate and damages confidence in the type of insurance that the premium pension scheme comprises.

5.2. Remuneration and sales etc.

In line with Section 3.14.2 of the main document of the fund agreement, no remuneration shall be paid for sales and subscriptions of mutual fund shares on the fund platform. Remuneration for sales and subscriptions also includes:

i. remuneration for marketing directed toward employees in the same organisation, related parties or other third parties, where remuneration is linked to the subscription of mutual fund shares on the premium pension fund platform,
ii. earnings or commission paid to employees that can be linked to the subscription of mutual fund shares on the fund platform.

The Fund Manager is responsible for ensuring that its remuneration policy and incentive programme reflects the long-term nature and objective of the premium pension scheme. Incentive programmes that are based directly on volume growth within the premium pension scheme are not permitted other than as a result of the management performance of the fund. Upon request from the Swedish Fund Selection Agency, the Fund Manager or the Swedish Pensions Agency shall report on the structure and content of the remuneration policy and any incentive programme.

The Fund Manager is not permitted to use other products or services as selling points for selecting a certain premium pension fund. This includes products and services that are associated with the premium pension by means of marketing, such as life insurance, survivorship protection external to the premium pension, other savings products, or management services, such as discretionary management. Neither is it permitted for pension savers to be offered discounts on financial services or products such as mortgages, loans or insurance policies in connection with marketing a fund in the premium pension system. Offers such as cash, lotteries, gifts or other benefits, products or services may not be made in connection with marketing a fund in the premium pension system.

If a Fund Manager or Related Party offers consultation or makes suggestions that involve the premium pension system, information shall be collected from the pension saver regarding his or her knowledge of their own financial situation and their objective for their savings, as well as their experience in investments. This information shall be used as the basis for the Fund Manager or Related Party when providing appropriate advice or when suggesting an appropriate management strategy. The saver's risk tolerance and ability to bear losses shall also be considered in this context in order to achieve sound and suitable risk management according to the retirement objective.

In the event that consultation involves proposing a measure that includes a package of solutions, services and products, that includes a premium pension, the Fund Manager or Related Party shall carry out a suitability assessment to consider whether the package as a whole is appropriate on the basis of the saver's risk profile and objectives. No solutions may be recommended other than those that can be considered appropriate to the individual pension saver. The Fund Manager as well as other related parties shall also advise pension savers against taking measures that cannot be considered appropriate with a view to their individual needs, financial situations or other circumstances.

5.3. Misleading marketing

Misleading marketing conflicts with best practise in the area of premium pensions.

Misleading marketing includes, for example, a party claiming that:

i. a fund is guaranteed a certain yield, or to falsely claim that funds other than their own entail a higher fee for the pension saver,

ii. a fund is completely protected from decreasing in value, or to falsely imply that their own fund will in any event lose less value than the comparable investment funds of competitors,

iii. the pension saver's current investment funds will inevitably decline sharply in value or to portray the level of risk in the individual's current fund selection to be higher than it really is,

iv. the Fund Manager or Related Party has related work in collaboration with the Swedish Fund Selection Agency, the Swedish Pensions Agency or another party when such is not the case, or to

v. give the impression that the purpose of a measure is merely to provide information about the premium pension system when the real aim is also to influence the pension saver's choice of investment funds within the premium pension system.

5.4. Documentation

The Fund Manager and related parties shall comprehensively document all relevant information regarding strategies, processes, implementation etc. when giving consultation, marketing, providing information and making sales that relate to investments in funds on the fund platform, as well as other products and services within the area of premium pensions. This documentation shall include, among other things, examples of marketing and information material used in communications with customers.

On the request of the Swedish Fund Selection Agency or the Swedish Pensions Agency, the Fund Manager shall submit the information described in the first paragraph as well as any relevant agreements between the Fund Manager and related parties.