

Price Reduction

Appendix A



PENSIONS
MYNDIGHETEN

Table of Contents

1.	General.....	1
2.	Definitions.....	1
3.	Fund type and Management Group as basis for price reduction	1
4.	Data for calculation of cost withdrawal quotient	1
4.1.	Formula for cost withdrawal quotient	1
4.2.	Fund with changed ongoing charges	2
4.3.	Fund with estimated ongoing charges	2
5.	Reporting of fees and costs	3
5.1.	Reporting of fees.....	3
5.2.	Reporting of costs	3
6.	Calculation of price reduction.....	3
6.1.	Total price reduction (PRTOT)	3
6.2.	Price reduction above ceiling level (PRTAK)	3
6.3.	Price reduction below ceiling level (PRGRUND)	4
6.3.1.	Formula for price reduction below ceiling level	4
6.3.2.	Free cost withdrawal (FRI)	4
6.3.3.	Adjusted total cost withdrawal quotient (TKJUST)	5
6.3.4.	Discount levels (R_i) and exposure (EXPi)	5
6.3.5.	Calculation example for PRGRUND.....	6
7.	Verification.....	6
8.	Invoicing with respect to price reduction	7

Introduction

As an insurer, the Swedish Pensions Agency invests a significant annual amount in funds on behalf of more than seven million pension savers. The Swedish Pensions Agency also handles a large part of the administration and information that would normally be the responsibility of the Fund Managers. The cost of maintaining accounts, annual statements and fund information, for example, will therefore be lower for the fund managers. Accordingly, the Swedish Pensions Agency is entitled to a price reduction on the management fees that are charged by the fund managers. The reimbursed management fees that the Swedish Pensions Agency receives from the fund managers are reinvested on behalf of the pension savers.

The price reduction is based on the ongoing charges for each fund with the addition of a performance-based fee and where the fees for any Underlying funds are included. The size of the price reduction depends on how much the Swedish Pensions Agency has invested with each Management Group. The higher the amount invested by the Swedish Pensions Agency, the greater the price reduction. The reduction is not calculated on the whole cost withdrawal, but only on the part that exceeds a certain "reduction free" amount.

1. General

This Appendix regulates the price reduction in particular and specifies the undertakings made by the parties to this part of fund agreement.

2. Definitions

For the purpose of this Appendix:

Equity fund: fund that over time almost exclusively invests in equities or equity-related financial instruments.

Fund holdings: the value in SEK of the Swedish Pensions Agency's holding in the fund on the day in question.

Fund manager value: the total value in SEK of the Swedish Pensions Agency's holding in a Management Group's funds on the day in question.

Fixed income fund: fund that over time almost exclusively invests in fixed income securities or cash.

Other funds: the funds that do not fall under the definition of an equity fund or a fixed income fund.

This Appendix also includes the definitions listed in s. 1 in the main document of the fund agreement and, moreover, the explanations of abbreviations, etc. as follows below in this Appendix.

3. Fund type and Management Group as basis for price reduction

The types of fund used for calculating price reduction are Equity fund, Fixed income fund and Other funds.

The Fund Manager shall, within the time specified by the Swedish Pensions Agency, provide the information deemed necessary by the Swedish Pensions Agency for their determination on what type of fund it is, for the purpose of calculating the price reduction, and to which Management Group the fund shall belong.

4. Data for calculation of cost withdrawal quotient

4.1. Formula for cost withdrawal quotient

At the end of each calendar quarter, the Swedish Pensions Agency calculates the total price reduction for that quarter. The price reduction shall be calculated on the basis of the fund's cost withdrawal quotient (TK), which is calculated according to the formula below.

$$\text{Cost withdrawal quotient (TK)} = \text{Ongoing charges} + \text{Performance-based fee}$$

Ongoing charges = The ongoing charges for the fund according to the CESR (Committee of European Securities Regulators) recommendations, Guidelines on the methodology for calculation of the ongoing charges figure in the Key Investor Information Document (CESR/10-674).

The ongoing charges shall be expressed as a percentage to six decimal places.

Fees for both Underlying funds and all other Fund holdings shall be included; in particular shall any subscription and redemption fees, ongoing charges and performance-based fees charged by these funds be included in the Fund Manager's calculation of its own ongoing charges.

Performance-based fee = If the Fund Manager has received a performance-based fee from the fund during the quarter, this fee shall be expressed as a percentage in the annual rate to six decimal places.

If the regulations and industry standard forming the basis for the Fund Manager's statement of fees for calculating the cost withdrawal quotient change, the Swedish Pensions Agency is entitled to adjust the method for calculating the cost withdrawal quotient (TK).

4.2. Fund with changed ongoing charges

When the ongoing charges for a fund change, the Fund Manager shall notify the Swedish Pensions Agency as soon as possible, after which the calculation of price reduction is adjusted.

4.3. Fund with estimated ongoing charges

In the event of significant changes regarding the fund, estimated ongoing charges can be used for the cost quotient for the first year after the changes. When the actual ongoing charges can be calculated, the Swedish Pensions Agency may decide that the actual ongoing charges should instead be used as cost withdrawal quotient. The Swedish Pensions Agency is then entitled to re-invoice the Fund Manager.

5. Reporting of fees and costs

The Fund Manager shall report fees and costs to the Swedish Pensions Agency according to this section, as set out below.

5.1. Reporting of fees

Reported fees shall always be calculated at annual rate.

Reporting of fees shall be made to the Swedish Pensions Agency at the frequency, in the manner, and using the systems specified by Swedish Pensions Agency at any point in time. The reporting shall refer to the fees specified in s. 4.1 in this appendix.

5.2. Reporting of costs

The Fund Manager shall report to the Swedish Pensions Agency each year on all costs charged to a fund, divided into different cost categories, as well as the cost amounts charged to the fund reported per fund unit on a daily basis, and then indicate the amount that refers to management costs, including costs for storing the fund assets.

Reporting of costs shall be made to the Swedish Pensions Agency in the way and by the deadline specified by Swedish Pensions Agency.

6. Calculation of price reduction

6.1. Total price reduction (PRTOT)

The Swedish Pensions Agency calculates the price reduction on a daily basis in two steps. In step 1, the discount for the cost withdrawal quotient above the ceiling level is calculated, so-called PRTAK. In step 2, the discount for the cost withdrawal quotient below the ceiling level is calculated, so-called PRGRUND. These discounts are added together to make a total price reduction PRTOT.

$$\text{Price reduction for a certain day (PR}_{\text{TOT}}) = \text{PR}_{\text{TAK}} + \text{PR}_{\text{GRUND}}$$

6.2. Price reduction above ceiling level (PRTAK)

The total cost withdrawal quotient (TK) is limited to the pre-determined maximum levels below (ceiling levels).

Type of fund	Ceiling level
Fixed income funds	1,00%
Equity funds	2,00%
Other funds	1,25%

The share of the TK that exceeds the ceiling level is discounted by 100% and is designated PR_{TAK}.

designated PR_{TAK}.

TK > Ceiling level	$PR_{TAK} = \frac{\text{Fund holdings} * (\text{TK} - \text{Ceiling level})}{365 \text{ (366 leap year)}}$
TK ≤ Ceiling level	$PR_{TAK} = 0 \text{ SEK}$

6.3. Price reduction below ceiling level (PRGRUND)

6.3.1. Formula for price reduction below ceiling level

For the share of the cost withdrawal quotient that is below the ceiling level, the price reduction is calculated based on the discount level that applies for the Fund Manager. This share of the price reduction is designated PRGRUND.

$$PR_{GRUND} = \sum_{i=1}^4 \left(\frac{\text{Fund holdings} * TK_{JUST} * R_i * EXP_i}{\text{Fund manager value} * 365 \text{ (366 leap year)}} \right)$$

TKJUST = Cost withdrawal quotient (TK) in %, adjusted to ceiling level and with deducted free cost withdrawal (FRI), see also s. 6.3.2 and s. 6.3.3.

R_i = Discount level in % for interval i, see also s. 6.3.4.

EXP_i = Exposure in SEK in discount interval i, see also s. 6.3.4.

6.3.2. Free cost withdrawal (FRI)

With respect to the fund, the Fund Manager is entitled to a free cost withdrawal that is not discounted. The withdrawal is determined in accordance with the following:

Type of fund	Free cost withdrawal
Fixed income funds	0,07 %
Equity funds	0,11 %
Other funds	0,09%

6.3.3. Adjusted total cost withdrawal quotient (TKJUST)

To calculate PRGRUND, the total cost withdrawal quotient (TK), calculated in s. 3.1, needs to be adjusted to ceiling level in s. s. 6.2 and with the free cost withdrawal, FRI in s. 6.3.2. Adjusted TK is designated TKJUST and is determined in accordance with the following:

	TK _{JUST} =
TK ≤ FRI	0 %
FRI < TK ≤ Ceiling level	TK - FRI
TK > Ceiling level	Ceiling level - FRI

6.3.4. Discount levels (R_i) and exposure (EXPi)

The price reduction is progressive and depends on the size of the Swedish Pensions Agency's holding with each Management Group. For PRGRUND, discount is given according to the following intervals:

Interval (i)	Fund Manager value in mSEK		Discount level (R _i)
	Lower limit (UG)	Upper limit (ÖG)	
1	0	< Fund manager value ≤ 1 000	70 %
2	1 000	< Fund manager value ≤ 5 000	75 %
3	5 000	< Fund manager value ≤ 10 000	85 %
4	10 000	< Fund manager value	90 %

The discount level only applies for the share of the Fund manager value that is within the discount interval. If the Fund manager value exceeds the upper limit in an interval, it is only the excess amount that is given the higher discount level.

	Exposure in interval <i>i</i> (EXP_i)
Fund Manager value ≤ UG _i	0 SEK
UG _i < Fund Manager value ≤ ÖG _i	Fund Manager value – UG _i
Fund Manager value > ÖG _i	ÖG _i – UG _i

Where:

UG_i = The lower limit for discount interval *i*.

ÖG_i = The upper limit for discount interval *i*.

6.3.5. Calculation example for PRGRUND

Assume: Fund X is an Equity fund

TK = 1.5%

Fund holding value = MSEK 500

Fund Manager value = 1500 mSEK

$$\text{Then } PR_{GRUND} = \sum_{i=1}^4 \left(\frac{\text{Fund holdings} * TK_{JUST} * R_i * EXP_i}{\text{Fund Manager value} * 365 \text{ (366 leap year)}} \right) = \left(\frac{500 * 1.39\% * 70\% * 1000}{1500 * 365} \right) + \left(\frac{500 * 1.39\% * 75\% * 500}{1500 * 365} \right) + \left(\frac{500 * 1.39\% * 85\% * 0}{1500 * 365} \right) + \left(\frac{500 * 1.39\% * 90\% * 0}{1500 * 365} \right) = 0.008886 + 0.004760 + 0 + 0 = 0.01365 \text{ mSEK} = 13646 \text{ SEK}$$

7. Verification

The Swedish Pensions Agency is entitled to, independently or with the help of an independent third party, verify that the information on fees etc. provided by the Fund Manager is correct.

At the request of the Swedish Pensions Agency, the Fund Manager shall provide the agency with a current auditor's certificate relating to the fund's fees etc., without charge and within the time specified by the Swedish Pensions Agency.

If the invoicing is incorrect, e.g. due to incorrect supporting documentation or calculations, the Swedish Pensions Agency may correct the invoicing either by means of an additional invoice or by the Fund Manager being credited or debited with the excess amount paid. The Fund Manager shall have the opportunity to submit comments on this before such corrections are made.

8. Invoicing with respect to price reduction

Invoicing of the price reduction is made quarterly in the month following the end of the calendar quarter (April, July, October and January). If the fund has been closed during the quarter, invoicing may be made earlier.

At the request of the Fund Manager, the Swedish Pensions Agency shall provide data on its calculation of the price reduction.

The invoice from the Swedish Pensions Agency shall be paid no later than 30 days after invoice date and the payment shall be made in Swedish kronor (SEK). In the event of late payment, penalty interest is charged in accordance with § 6 Swedish Interest Act (1975:635).

www.pensionsmyndigheten.se

