

Code of Conduct in the Premium Pension Sector

Appendix C

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PENSIONS
MYNDIGHETEN

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Introduction

The specific nature and purpose of the premium pension

The Swedish Pensions Agency has been commissioned to ensure a safe and secure premium pension. As part of this assignment, the Swedish Pensions Agency has prepared Code of Conduct in the Premium Pension Sector. This appendix has been developed with regard to the specific nature of the premium pension system, partly to maintain confidence in the premium pension system and partly to safeguard the interests of pension savers. The meaning of code of conduct may change over time as part of the premium pension system's development and changes in the fund market.

The premium pension is a defined contribution part of the national pension, where the individual saver can choose the funds in which investments shall be made. The Swedish Pensions Agency is the principal for the premium pension's fund platform and provides the savers with the channel and platform for the funds on the fund market. The fund platform is not an open platform for the sale of funds, it is intended for the saver's choice of funds for investing the members premium pension. This implies specific demands on the parties involved in the premium pension's fund platform, which are presented by this appendix.

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1. General

The management of funds in the premium pension must be based on the fundamental objective that invested capital and returns achieved should ensure future pension provision. This means that Fund Managers must take into account the long-term nature of fund saving with the purpose of fund saving as the basis for their work. The Fund Manager and Related Party shall safeguard the interests of pension savers with due care and diligence.

The Fund Manager's management of the funds on the premium pension's fund platform shall be based on the principles relevant to this assignment. These principles include return, risk and liquidity in the portfolio as whole, as well as principles on the presentation of information, financial advice and marketing of fund units. The Fund Manager has the obligation to continuously analyse and ensure that the fund meets the requirements in the fund agreement.

This appendix contains examples of the minimum requirements on code of conduct and does not constitute an exhaustive list.

2. Responsibilities of the Fund Manager

2.1. Responsibility for Related Party and Interested Party

Within the framework of this fund agreement, the Fund Manager is responsible for all action taken that is contrary to code of conduct. If a Related Party takes action that is not in accordance with code of conduct, the Fund Manager is responsible for this action as if the Fund Manager had taken the action itself.

This means, for example, that the Fund Manager is responsible that Related Parties do not damage the confidence in the premium pension system or otherwise potentially harm the interests of pension savers while providing external investment management, financial advice, marketing, information and sales related to investing in the fund on the Swedish Pensions Agency's fund platform.

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

2.2. Code of conduct relating to External Investment Managers

External investment management may only be conducted by an external investment manager with authorisation to administer securities funds or conduct discretionary portfolio management with regard to financial instruments and who has managed capital for at least three (3) years.

3. Code of conduct relating to fund management

3.1. Fund track record

In accordance with legal requirements, the fund must have at least three (3) years of track record at the time the application is examined.

The track record must be coherent, relevant and representative for the investment policy and risk profile of the fund. The requirement for relevant and representative track record means that the fund's investment policy, risk profile etc. must not have been changed in a significant way.

To comply with code of conduct in the premium pension sector, the fund must also meet the requirement of three (3) years of track record during the term of the agreement.

3.2. Inappropriate funds in the premium pension

In accordance with s. 3.7.2 in the fund agreement's main document the fund must, at any point in time, be considered suitable by the Swedish Pensions Agency to participate in the fund platform. For example, it is inappropriate that funds in the premium pension:

- i. compare their development to a benchmark index that is not relevant based on the fund's investment philosophy and investment policy,
- ii. withdraw a variable remuneration on the fund's performance more than once in the same performance,
- iii. have a special share class, intended for investments from the Swedish Pensions Agency, with a higher fee before price reduction than an equivalent share class intended for investors outside the premium pension.

3.3. Market-based terms and conditions

All trading in securities and financial instruments, as well as other transactions relating to the fund operations, must take place on market-based terms and conditions and for the benefit of the pension saver.

3.4. Inappropriate investments in the premium pension

Inappropriate investments are contrary to code of conduct in the premium pension sector.

Inappropriate investments in the premium pension are considered, amongst other things, as investing fund resources:

- i. in financial instruments that make the investment unnecessarily complex, reduce the transparency or facilitate an exposure to or investment in assets that would otherwise not be allowed in a UCITS fund,
- ii. in financial instruments that do not allow daily redemption due to lack of liquidity or difficulties in determining a daily market value, other than what is permitted within the framework for the UCITS Directive and can be considered in line with the stated investment policy and risk profile for each fund,
- iii. in financial instruments where the return opportunities do not correspond with the counterparty risk involved in the investment,
- iv. in financial instruments that do not comply with the fund's communicated or described investment policy,
- v. in funds or financial instruments where there are business relationships between the Fund Manager (or Related Party to the Fund Manager) and the issuer the security, that are not based on market-related principles or exclusively in the interests of the fund unit-holders,
- vi. in funds within the same Group of companies, with the exception of feeder funds as well as for investments based on an objective analysis with the aim of ensuring investments that optimally safeguard the interests of the pension saver. The objective analysis shall be provided to the Swedish Pensions Agency on request.

3.5. Hidden fees

It is forbidden to charge *hidden fees* within the premium pension, such as through:

- i. trading with financial instruments funds within Management Group/Group of Companies as counterparty (other than where the parties act completely independently of each other and can convincingly demonstrate that they maintain the principles of arm's length and best order execution) that burden the fund with costs and fees that are not reported as management fees, i.e. that constitute a hidden cost for the fund unit holders,
- ii. that the Fund Manager pays for research within the Group of companies or Related Parties beyond what can be considered reasonable and normal, based on market share, specific ability/competence or if it does not take place based on a transparent, objective and ongoing evaluation of counterparties,
- iii. brokerage fee split or distribution of revenue from securities lending creating profits that are not reported as management fees, i.e. that constitute a hidden cost for the owners of the fund units,

- iv. to allow a financial instrument to bear the costs of actual management fees, or
- v. to otherwise fail to report actual management fees to the Swedish Pensions Agency.

3.6. Fund mergers

In a merger of funds, one or more funds (transferring fund(s)) are transferred into another fund (receiving fund). If the receiving fund is not covered by a fund agreement with the Swedish Pensions Agency, the Fund Manager is required to apply to enter into a fund agreement. If a fund agreement exists for the receiving fund, the Swedish Pensions Agency will assess whether the fund meets the requirement for fund track record in accordance with the provisions of s. 3.1, partly whether the fund is considered suitable to continue to be covered by a fund agreement.

If funds are merged, the Fund Manager shall immediately notify the Swedish Pensions Agency of the plan for the merger established by the supervisory authority. The notification of the merger and the notification of the terms and conditions that apply for the merger must be signed by an authorised representative of the Fund Manager. If professional secrecy is involved, the Swedish Pensions Agency must be notified about this.

The Swedish Pensions Agency must be provided with an information document addressed to all fund unit holders in a transferring mutual fund, which contains information on the possible consequences of the merger. The Fund Manager must give an account of the investment policies and fund rules for both the receiving fund and the transferring fund.

4. Improper business practices and unfair contract terms

A Fund Manager or Related party must not use improper business practices or contract terms which may be considered as unfair in relation to pension savers such as, for example, in terms of price and other circumstances.

4.1. Improper business practices

Improper business practices are contrary to code of conduct in the premium pension sector.

Improper business practices can include, for example:

- i. by means of electronic or other identity document in relation to the Swedish Pensions Agency, claim to be a pension saver, or to cause the pension saver to use, for example, his/her e-identification in an incorrect way,
- ii. change or add information on a fund's change form after the pension saver has personally signed the form, or to proceed with a change of

fund via a form that has not been personally signed by the pension saver,

- iii. use aggressive sales methods, e.g. to contact a pension saver repeatedly so that he/she feels pressured to enter into an agreement,

It is furthermore not allowed to:

- iv. claim that the Fund Manager or Related Party has signed or is subject to a code of conduct or equivalent if this is not the case,
- v. describe a product as "free", "free-of-charge", "without fee" or similar as a consequence or effect of choosing a certain fund on the fund platform,
- vi. The Fund Manager or Related Party, in connection with information about or marketing of a fund on the fund platform, to include an invoice or similar payment document that gives the consumer the impression that he/she has already ordered the marketed product when he/she has not,
- vii. make repeated and unwanted contact, except to the extent that is justified in accordance with provisions or other regulations, to enforce a contractual obligation,
- viii. claim that contact with the pension saver is made on behalf of the Swedish Pensions Agency or party other than the actual client.

4.2. Unfair contract terms relating to products and services

When investing in funds on the Swedish Pensions Agency's fund platform, or for other services and products, a Fund Manager or Related Party must not impose contract terms which may be considered as unfair in relation to pension savers such as, for example, in terms of price and other circumstances. An example of unfair contract terms could be a fixed period of more than one year for an agreement on services and products in the premium pension sector. As a starting point, it must be considered beneficial for a pension saver to be able to change Fund Manager or terminate an agreement with a Related Party without being bound by an unfair contract period. Contract terms with long fixed periods that benefit the Fund Manager at the expense of a pension saver mean that there is no reasonable balance between the parties. It should also be simple for a saver to terminate an agreement with a Fund Manager or Related Party.

Unfair contract terms relating to services or products that include funds on the Swedish Pensions Agency's fund platform are assessed to be contract terms whose objective or consequence is to:

- i. automatically extend a fixed term contract unless the pension saver expressly declares otherwise, or when the last day for the pension saver

to declare that he/she does not wish to extend the agreement is unreasonably early,

- ii. irrevocably bind the pension saver to terms and conditions that he/she has not had any actual opportunity to examine before the agreement was entered into,
- iii. allow the Fund Manager or Related Party to unilaterally change the contract terms without any valid reason being stated in the agreement,
- iv. indicate that the price of an item shall be determined at the time of delivery or allow the Fund Manager or Related Party to raise the price without the pension saver in both cases having a corresponding right to withdraw from the agreement if the final price is higher in relation to the price agreed when the agreement was entered into,
- v. obligate the pension saver to fulfil all of his/her undertakings even if the Fund Manager or Related Party does not fulfil its own,
- vi. withdraw or restrict the pension saver's right to go to court or take other legal action, in particular by demanding of the pension saver that disputes are only taken to arbitration proceedings by, in contravention of the law, restricting the pension saver's access to evidence or by imposing a burden of proof on the pension saver which, in accordance with applicable law, should be the responsibility of another party to the contract.

5. Code of conduct relating to marketing, financial advice and sales

5.1. Inappropriate marketing

The premium pension is a part of the Swedish social security system. The Swedish Pensions Agency is an insurer for the premium pension and administers the fund accounts of the pension savers. The Swedish Pensions Agency's assignment also includes informing about the pension in all parts that it administers. In this work, the Swedish Pensions Agency observes the rules of the Administrative Procedure Act (2017:900) for guidance to individuals. Information on the premium pension holdings of the pension savers is strictly confidential. According to the Swedish Pensions Agency, there is therefore no need for marketing of the premium pension funds in addition to the financial advice that should be provided under other regulations. Marketing that contravenes the purpose of the premium pension as well as the applicable regulations is inappropriate and damages confidence in the type of insurance that the premium pension provides.

5.2. Remunerations and sales, etc.

In accordance with the fund agreement's main document s. 3.15.2, no remuneration may be paid for the sale and subscription of fund units on the fund platform. Remuneration for sale and subscription also covers:

- i. remuneration for marketing to employees in the organisation in question, Related Party or other third party, where the remuneration is linked to the subscription of fund units on the premium pension's Fund platform,
- ii. salary or commission to an employee linked to the subscription of fund units on the fund platform.

The Fund Manager is responsible that its remuneration policy and incentive programmes reflect the long-term nature and purpose of the premium pension. It is not permitted to have incentive programmes directly based on volume growth within the premium pension, other than as an effect of the fund's management results. At the request of the Swedish Pensions Agency, the Fund Manager shall give an account of the structure and content of the remuneration policy and any incentive programmes.

The Fund Manager is not permitted to use other products or services as sales arguments for the choice of a particular premium pension fund. This includes products and services that are associated with the premium pension in the marketing, e.g. life insurance, survivor protection outside the premium pension, other savings products or management services, such as discretionary portfolio management. In addition, the pension saver must not be offered discounts on financial services or products, such as mortgages, other loans or insurance in connection with marketing a fund in the premium pension system. Offers of, for example, money, lotteries, gifts or other benefits, products or services must not be made in connection with marketing a fund in the premium pension system.

If a Fund Manager, or a Related Party, offers financial advice or proposals in which the premium pension is included, information must be collected from the pension saver on his/her knowledge about his/her financial situation and saving goals as well as experience of investments. The information shall form the basis for the Fund Manager or Related Party to be able to provide suitable financial advice or propose a suitable investment strategy. In this context, consideration must also be given to the saver's risk tolerance and capacity to sustain losses in order to achieve sound and relevant risk management based on retirement objectives.

In the case where the financial advice includes a proposal for a measure that consists of a combination of solutions, services and products, where the premium pension is one part, the Fund Manager or Related Party must conduct an appropriateness assessment in order to consider whether the offer as a whole is suitable based on the saver's risk profile and objectives. Solutions other than those that may be considered suitable for the individual pension saver must not be recommended. The Fund Manager and other Related Parties must also advise the pension saver against taking measures that may not be considered appropriate taking into account his/her needs, financial circumstances or other circumstances.

5.3. Misleading marketing

Misleading marketing is contrary to code of conduct in the premium pension sector.

Misleading marketing *is, for example, to claim that:*

- i. the fund guarantees a certain return or to falsely claim that other funds than the party's own involve a higher fee for the pension saver,
- ii. the fund is fully protected against decline or to falsely imply that, in any event, the party's own fund will decline less than comparable funds offered by competitors,
- iii. the pension saver's current funds will face an unavoidable and significant loss in value or to give the impression that the risk level in the current choice of funds is higher than it is,
- iv. the Fund Manager or Related Party has a cooperation relevant to the matter in question with the Swedish Pensions Agency or other party if this is not the case,
- v. the purpose of the contact is only to inform about the premium pension system when the purpose is to influence the pension saver's choice of funds within the premium pension system.

5.4. Documentation

The Fund Manager and Related Parties shall, at an overall level, document all relevant information about strategies, processes and execution, etc., with regard to financial advice, marketing, information and sales related to investing in funds on the Swedish Pensions Agency's fund platform and for other products and services in the premium pension sector. Amongst other things, the documentation must include examples of marketing and information material used in the communication with customers.

At the request of the Swedish Pensions Agency, the Fund Manager shall provide such information as specified in the first paragraph as well as any relevant agreements between the Fund Manager and Related Party.

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