

Price Reduction

Appendix A

FOR REFERENCE ONLY

PENSIONS
MYNDIGHETEN

Table of Contents

1.	General.....	1
2.	Definitions.....	1
3.	Data for calculation of cost withdrawal quotient	1
3.1.	Formula for cost withdrawal quotient	1
3.2.	Fund with changed ongoing charges	2
3.3.	Fund with estimated ongoing charges	2
4.	Reporting of fees and costs	2
4.1.	Reporting of fees.....	2
4.2.	Reporting of costs	3
5.	Fund type and Management Group as basis for price reduction	3
6.	Calculation of price reduction.....	3
6.1.	Total price reduction (PR_{TOT})	3
6.2.	Price reduction above ceiling level (PR_{TAK})	4
6.3.	Price reduction below ceiling level (PR_{GRUND})	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 (TK_{JUST}).....	5
6.3.4.	Discount levels (R_i) and exposure (EXP_i)	5
6.3.5.	Calculation example for PR_{GRUND}	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.

FOR REFERENCE ONLY

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 an 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. Data for calculation of cost withdrawal quotient

3.1. 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.

Cost withdrawal quotient (TK) = Ongoing charges + Performance-based management fee

Ongoing charges = The ongoing charges for the fund according to the recommendations in the CESR (Committee of European Securities Regulators) Guidelines - 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.

Fund-of-funds

For Fund-of-funds, the fees for Underlying funds shall be included; in particular any subscription and redemption fees, ongoing charges and performance-based fees that are charged by Underlying funds shall be included in the Fund Manager's calculation of its own ongoing charges.

For Underlying funds without ongoing charges, the management fee shall be used.

Performance-based management 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 industry standard that forms the basis for the calculation of the cost withdrawal quotient changes, the Swedish Pensions Agency is entitled to adjust the calculation of the cost withdrawal quotient (TK).

3.2. 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.

When the ongoing charges for a fund have changed, the fund's cost withdrawal quotient (TK) shall be adjusted to an equivalent extent from and including the next price reduction aggregation in accordance with s. 6 below.

3.3. 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 can then re-invoice the Fund Manager.

4. Reporting of fees and costs

4.1. Reporting of fees

Reported fees shall always be calculated at annual rate.

Reporting of fees shall be made to the Swedish Pensions Agency for all of the Fund Manager's premium pension funds at the frequency specified by Swedish Pensions Agency at any point in time. The reporting shall refer to the fees specified in s. 3.1 in this appendix.

4.2. 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.

5. 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.

In its application and at the request of the Swedish Pensions Agency, and within the time specified by the Swedish Pensions Agency, the Fund Manager shall provide the information that the Swedish Pensions Agency deems necessary in order to determine which type of fund a particular fund should be considered to be for calculating the price reduction and the Management Group to which the fund belongs. On the basis of this information, the Swedish Pensions Agency determines which type of fund a particular fund is for calculating the price reduction and the Management Group to which it belongs.

6. Calculation of price reduction

6.1. Total price reduction (PR_{TOT})

The price reduction is calculated 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 PR_{TAK} . In step 2, the discount for the cost withdrawal quotient below the ceiling level is calculated, so-called PR_{GRUND} . These discounts are added together to make a total price reduction PR_{TOT} .

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

6.2. Price reduction above ceiling level (PR_{TAK})

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	2,25%
Other funds	1,50%

The share of the TK that exceeds the ceiling level is discounted by 100% and is 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 (PR_{GRUND})

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 PR_{GRUND}.

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

TK_{JUST} = 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)

Each fund 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	0,10%
Equity funds	0,15%
Other funds	0,15%

6.3.3. Adjusted total cost withdrawal quotient (TK_{JUST})

To calculate PR_{GRUND} , 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 TK_{JUST} and is determined in accordance with the following:

	$TK_{JUST} =$
$TK \leq FRI$	0 %
$FRI < TK \leq \text{Ceiling level}$	$TK - FRI$
$TK > \text{Ceiling level}$	$\text{Ceiling level} - FRI$

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

The price reduction is progressive and depends on the size of the Swedish Pensions Agency's holding with each Management Group. For PR_{GRUND} , 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	65 %
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 (EXP_i)
Fund Manager value $\leq UG_i$	0 SEK
$UG_i < \text{Fund Manager value} \leq \ddot{O}G_i$	Fund Manager value - UG_i
Fund Manager value $> \ddot{O}G_i$	$\ddot{O}G_i - UG_i$

Where:

UG_i = The lower limit for discount interval i .

$\ddot{O}G_i$ = The upper limit for discount interval i .

6.3.5. Calculation example for PR_{GRUND}

Assume: Fund X is an Equity fund

$$TK = 1.5\%$$

$$\text{Fund holding value} = \text{MSEK } 500$$

$$\text{Fund Manager value} = 1500 \text{ mSEK}$$

$$\begin{aligned} \text{Then } PR_{GRUND} &= \sum_{i=1}^4 \left(\frac{\text{Fund holdings} * TK_{JUST} * R_i * EXP_i}{\text{Fund manager value} * 365 \text{ (366 leap year)}} \right) = \left(\frac{500 * 1,35\% * 65\% * 1000}{1500 * 365} \right) + \\ &\left(\frac{500 * 1,35\% * 75\% * 500}{1500 * 365} \right) + \left(\frac{500 * 1,35\% * 85\% * 0}{1500 * 365} \right) + \left(\frac{500 * 1,35\% * 90\% * 0}{1500 * 365} \right) = 0,008014 + 0,004623 + \\ &0 + 0 = 0,01264 \text{ mSEK} = 12634 \text{ SEK} \end{aligned}$$

7. Verification

The Swedish Pensions Agency is entitled to verify that the information on the cost withdrawal quotient provided by the Fund Manager is correct by means of using independent information sources.

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 costs, and without charge and within the time specified by the Swedish Pensions Agency.

If the information on the total cost withdrawal quotient (TK) proves to be incorrect, which in turn causes the invoicing to be incorrect, 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).

The Fund Manager shall ensure that the Swedish Pensions Agency has the correct invoice address at all times for invoicing the price reduction.

FOR REFERENCE ONLY

OR REFERENCE ONLY

www.pensionsmyndigheten.se