



Contract reference: 2018/S 227-519576

Active Alpha Management

Questions and Answers

Version 5



Information

- AP7 is a **governmental authority** covered by the Swedish open governance principle.
- The objective of the procurement (the “**Procurement**”) is to render discretionary asset management services for Active Alpha Management. In total, 6 - 10 mandates will be awarded with a total volume of up to SEK 20 billion.
- The **contract notice** has been published on ted.europa.eu (2018/S 227-519576).
- **Applications must be made in accordance with the procedure set out in the “Procurement Guidelines”. Carefully read all Procurement Guidelines prior to submitting your request to participate.**
- All questions regarding this tender must be submitted in writing by email to the contact stated in chapter 3 of the Procurement Guidelines. AP7 will provide answers as soon as practically possible. All answers will be sent to all participating tenderers in the same stage in anonymous form and such a manner as will not cause discriminatory treatment of the participating tenderers or distort competition in any other respect. AP7 will strictly adhere to equal treatment of all tenderers.



Questions and Answers

Nr.	Question	Answer
1.	To clarify, at this stage the only document that needs to be submitted is appendix 3 "Request to Participate"?	Please refer to chapter 8.2 of the Procurement Documents, which states that in the first stage the Request to Participate must be submitted (Appendix 3). Upon request the tenderer shall provide supplementary documents.
2.	Is the procurement open for factor-based strategies?	Yes, the procurement is open to active factor-based strategies with an absolute return focus.
3.	One question regarding the section Currency Management: would AP7 accept as well submissions for Alternative Risk Premia strategies in this segment?	Yes.
4.	Is there a limit of ownership in the managers portfolio (for example, the investment can't be larger than 10% of the combined strategy)	Please refer to the investment guidelines items 5, 6, 14, 18.
5.	Is the +/- 10% net exposure a hard limit. Based upon historical numbers the -10% net short would not be an issue and we have managed at an average of 15% net. We would, however, be able to manage to the guideline and can easily operate within the 300% gross limits.	Please refer to IMA page 6, footnote 2.
6.	Are you able to clarify what the stop loss limit is?	Please refer to chapter 8 of the IMA.
7.	Is there a minimum AUM for the strategy currently managed?	Qualification criteria a stated in chapter 6 of the Procurement Guidelines. The qualification criteria must be fulfilled as per the date of signing the document, not a date in the future.
8.	What is the minimum length of track record required?	Qualification criteria a stated in chapter 6 of the Procurement Guidelines.
9.	Knowledge sharing objective: AP7 expects a strategic partnership including knowledge sharing. Would it be possible to get more details on this please?	AP7 intends to have a relationship where information and market research is shared between the manager and AP7.
10.	Volatility: max 7% p.a. each year or average of rolling 3 years?	To be defined in the final IMA.
11.	Correlation to equity markets: If participating only in Lot 2 (L/S Europe), low correlation depends on market not MSCI All Country World?	Please refer to item 11 of the investment guidelines. The low correlation refers to the MSCI All Country World index. To be defined in the final IMA.



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12.	Currency exposure: would it make sense to hedged back to SEK as this is the currency of the pension funds liabilities or is this already carried out at master fund level?	Please refer to item 13 of the investment guidelines. To be defined in the final IMA.
13.	Investment universe: Are you open for participating in IPOs?	Please refer to item 14 of the investment guidelines, which addresses IPOs.
14.	Derivatives: When putting on a pairs trade, does this mean NO CFDs?	Please refer to item 17 of the investment guidelines. To be defined in the final IMA.
15.	<p>Procurement Guidelines, Section 4.1 second paragraph where it states: "the mandates to be awarded will not be funded by awarding a specific amount to be managed. Instead, the mandates are to be financed through a combination of short and long positions where the managers are to finance the long positions with securities loans entered into by the manager on behalf of AP7 with securities lenders with which AP7 has securities lending agreements.</p> <ul style="list-style-type: none"> • Great if you could provide an example of how this works in practice? Is this just a funding requirement? Meaning they want us to take fully funded longs to launch the portfolio? • If this is an ongoing ask, as we rebalance the portfolio, do AP7 monitor and fund the portfolio as needed? • Does AP7 currently have a relationship where this is done? 	<p>Please refer to item 16 of the Investment Guidelines.</p> <p>AP7 will provide all cash necessary for the implementation of the mandate within the parameters agreed.</p> <p>AP7 has existing mandates under this setup.</p>
16.	With respect to Paragraph 2(a) of the Qualification Criteria, are the U.S. Securities and Exchange Commission and U.S Commodity Futures Trading Commission considered to be competent financial supervisory authorities or, alternatively, must the competent financial supervisory authority granting the license be located within the European Union?	The SEC is considered as a competent financial supervisory authority.



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17.	As we're long equity strategy experts, given lot 1 to lot 4 are required for long/short mandate, would us be meeting the requirement?	Please refer to the investment guidelines item 12 for the market exposure of the tendered mandates.
18.	For the Lot 4: L/S Equities: Global/Multi Region, how many countries/markets need to be involved for this mandate? We have capability on managing global long equity strategy which including markets like China A Shares, Hong Kong stock market, US stock market, and etc. would us be meeting the requirement?	Please refer to the investment guidelines item 12 for the market exposure of the tendered mandates. To be defined in the final IMA.
19.	For the Lot 5: Currency Management, just would like to clarify, would this mandate is requesting for currency manager who can manage their currency conversion/FX or manager who has the capability to manage the money market fund.	Please refer to the investment guidelines item 15 for the investment universe of Lot 5 and item 16 with respect to cash.
20.	Item 10+11 of the investment guidelines, correlation and beta to equity markets. What's the acceptance limit around this, would you accept negatives values for correlation and beta.	Target 0, to be defined in the final IMA. See also item 12 of the investment guidelines.



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21.	We notice in point 3.17 of the Investment Guidelines that no derivatives are allowed (except from the use of FX forwards) and that “The mandate should be implemented with physical long and short positions”. We also note that according to “Appendix_4Fund Rules” the legal status of the “Equity Fund” is a UCITS fund. It is however our understanding that shorting of physical securities is prohibited under the UCITS rules. Can you please clarify?	AP7 Equity Fund is authorised by the Swedish FSA to do shorting of physical securities.
22.	Is there a desired return target for the proposed mandate(s)?	At this stage, there is no defined return target. To be defined in the final IMA.
23.	Can we submit two proposals for the same “Lot”? (We have two strategies that both comply with the max 7% volatility target, but have different return targets).	Please refer to chapter 8.2 of the Procurement Documents, which states that at this stage the Request to Participate must be submitted (Appendix 3). Upon request the tenderer shall provide supplementary documents.
24.	Could you provide more details around the existence / use of a primebroker(s)?	Not at this stage in the tender process.
25.	In the procurement guidelines document, question 3a states that the net assets of funds account for the minimum threshold. Please could you clarify what net means in this context?	This refers to the net asset value of collective investments (funds) and the net exposure of client accounts.
26.	The reference to “asset class” in 6.2 Item 3 in the documents suggests that the criteria refer to the “Equity” asset class rather than the “Long Short / Alternative Asset Class”. Is the fact that the long side of our Long/Short has an extensive track record and billions in assets sufficient? Or does the L/S strategy itself need to meet the criteria for submission (3 year track record and sizeable AuM and Mandate investment)?	The term “respective asset class of the Lot/Lots (comprised of the tender)” refers to L/S portfolios only.
27.	Is the SRI exclusion requirement applicable for a Market Neutral L/S strategy? Do we need to exclude from the Long and Short positions and restricted stocks?	Please refer to page 4, item 4 of the investment guidelines.



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28.	Further to Item 18, do you only consider single strategies (one manager) or do you also consider multi-manager solutions that are implemented via managed accounts specifically for AP7 (i.e. no other investors, fund-for-one for AP7)?	AP7 is looking for a direct relationship with only one asset manager and is generally not looking for a multi-manager type of structure. However, AP7 is open to a set-up in which one manager has an internal multi-manager structure.
29.	Should the Request To Participate be submitted on a company level? We have a number of different investment entities within our firm that we may want to participate in so would need to clarify if the signatories should be filled in on a group level or one for each underlying fund level.	The qualification criteria are stated in chapter 6 of the Procurement Guidelines. The qualification criteria must be fulfilled by the tenderer itself (not a parent company of the tenderer) as per date of signing the document. Therefore tenderers should state the entity that fulfils the criteria.
30.	In the investment guidelines it states that no derivatives are to be used. Are CFD's allowed?	AP7 prefers strategies that do not extensively use derivatives. Therefore, the Investment Guidelines state that no derivatives except for currency hedging must be used. However, the investment guidelines are indicative and the use of CFD's has to be defined in the final IMA.
31.	Which are the documents asked for in 6.1 in the Procurement Guidelines needed for the Request To Participate?	Please refer to Request to Participate (Appendix 3), which states that the material to submit. Schedule 1 mentions that AP7 may ask for additional documentation. If this is not applicable, no additional material has to be submitted.
32.	Will AP7 consider 3-year track records with different volatility and net exposure characteristics than AP7's stated investment objectives?	Qualification criteria are stated in chapter 6 of the Procurement Guidelines. The provided track record must be relevant for the proposed strategy, but AP7 accepts track records which are not perfectly in line with the Investment Guidelines.
33.	Is it necessary to hand in one Request for Participate for each Lot we want to participate?	Interested asset managers should hand in one Request to Participate, regardless of how many Lots the asset manager is interested in.



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34.	<p>Given the wording “active factor-based strategies”, can this be read as that “passive” factor-based strategies (i.e. strategies that follow and index methodology strictly) will not be eligible for this procurement? If the index methodology follow the Investment Guidelines, and the implementation is done in a way and by a manager to meet the Procurement Guidelines, will this be eligible (e.g. passive following of a BofAML Index)?</p>	<p>AP7 prefers strategies which are actively managed based on proprietary research (factors, fundamental analysis, etc.) to passive strategies which replicate a benchmark.</p>
35.	<p>Given the long/short approach of the investment strategy and AP7’s role within the pension system, could you share any information that you have around the shape of the fee, please?</p>	<p>Fee structures accepted by AP7 will be discussed at a later stage of the process. AP7 has full discretion to decide on the individual fee structure and level for all managers. The final agreements are fully confidential and fee levels are never communicated.</p>
36.	<p>How much flexibility is there around the structuring of the vehicle (i.e. is it safe to assume that a Fund investment, even a Fund-of-One, is not feasible?)?</p>	<p>Please refer to the investment guidelines. The structure of the mandate is a segregated account.</p>
37.	<p>Is a EUR based position which is larger than 25% of the portfolio but 100% hedged back to SEK considered as a breach of the 25% limit?</p>	<p>Currently, this would be considered as a breach of the guidelines. Please note that the investment guidelines are indicative and subject to discussion.</p>
38.	<p>How flexible are the specified exposure limits (net exposure limit)?</p>	<p>Please note that the investment guidelines are indicative and subject to discussion. However, keeping in mind the goal of the mandate, there is not much flexibility regarding the net exposure limits.</p>
39.	<p>Questions to Lot 5 :</p> <ul style="list-style-type: none"> a. How can “net exposure” be applied to currencies? b. Does market neutrality / exposure limits have to be applied to this currency lot? c. How much flexibility do we have with the Volatility limit of 7%? d. Should the strategy be a pure FX strategy or can it include UCITS compliant investment assets as well? 	<p>Please note that the investment guidelines are indicative and subject to discussion. To be discussed at a later stage of the process.</p>



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40.	Could you please confirm that the investment scope of the tender is for direct investment in companies within the MSCI Europe IMI Index (as per Appendix 2)?	Please refer to the Investment Guidelines (Item 14) for the investment universe of each Lot. Please note that the Investment Guidelines are indicative and subject to discussion.
41.	Can we provide four strategies for one Lot via one RFP? For example show 4 strategies for Lot 2: L/S Equities: Region Europe	The number of strategies which can be offered by the same asset manager will be limited. To be discussed at a later stage of the process.
42.	Is the minimum requirement of at least SEK 20 billion AUM in L/S Equities per region? Can the criteria still be met if total L/S Equities AUM across regions make up more than SEK 20 billion?	Total assets in closely related strategies have to be above SEK 20 billion.
43.	Regarding TradeseC, do you require the Manager to use this system? Or does the Manager have the option to implement its own trading and reporting system? If TradeseC system is required, could you please give us more details about the operational setup via this platform and let us know if we need to trade FX forwards via this system? If we cannot trade via the platform, is there a possibility to input automatically the trades in the system via an XML or other type of file?	Yes, TradeseC is a requirement, but only for reporting trades to AP7 and its Global Custodian. The actual trading is not affected by TradeseC which is only a reporting system for the manager to use after the trades are done in the market. TradeseC can accept any commonly used file-format (XML, CSV, .XLS) or can be setup for fully automated STP use. It can also be operated manually. For more information, please visit the website of TradeseC: https://www.tradechannel.se/tradeseC/
44.	Within the IMA on page 3 it lists appendices 1-8. Could you please point us in the direction of where we can view these? In particular, we are interested in viewing the Administrative Routines (Appendix 1).	The listed appendices of the IMA are subject to negotiation and are therefore not provided to all interested asset managers.
45.	What communications must be done via STP in practice while maintaining the portfolio? For example, are capital activity instructions and monthly reporting intended to be picked up?	Monthly reporting is not done via TradeseC but usually through a PDF-file. TradeseC is only used for the manager to report trades to AP7 and its custodian. This does not need to be STP on the side of the manager (input can be done automatically, via file or manually).



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46.	Can you explain in more detail how the financing of the mandate will be done?	AP7 will at all times make sure that the manager has sufficient cash to finance the strategy as long as it adheres to the contracted limits. This will be done in several ways. Firstly the manager can sell short physical shares and use the proceeds to finance long positions. AP7 will provide all collateral needed. Above the financing from short selling the manager can draw on cash from AP7 for up to the maximum net long limit (set individually but with an indicated level of 10%). AP7 will also provide the possibility to synthetically go long and short via swap-facilities for applicable markets. AP7 will also post collateral for all listed and OTC derivatives, such as equity-futures or FX-forwards, if they are included in the strategy. AP7 has, and will ensure, that it has contracts in place with first class, global, counterparties for all services described.
47.	Is the TradeseC setup for reporting trades and communicating with AP7/the custodian currently in use with real trades/mandates?	Yes, AP7 is currently running four, live, mandates via this system and has previously run several more mandates simultaneously with very good operational results.
48.	Has AP7 ever had problems with borrowed stock being recalled?	AP7 has never had issues with borrows being recalled. AP7 strives to have first class, global, prime broker relationships.

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