



Tredje AP-fonden

Sweden- The Third Swedish National Pension Fund, AP 3

Notice

Tender procedure: Negotiated procedure-Services (Directive 92/50 EEC)

1. Awarding authority:

The Third Swedish National Pension Fund, PO Box 1176, SE-111 91 Stockholm, Sweden

Tel. (46) 8 555 17 100 Facsimile. (46) 8 555 17 120

2. Category of service and description, CPC reference number, quantity, options:

CPV: 722 30 000-6, and 722 420 000-3.

The Fund plans to introduce an IT solution for performance measurement and attribution, possibly also a firm wide risk management solution, and invites interested suppliers to submit applications to tender. The Fund does not want to restrict the form of the proposed solution and is therefore willing to consider

- Buying one (or several) existing performance attribution (or possibly risk measurement) product(s)
- Buying a fully customized solution that is not based on an existing product.
- Buying a combination of the two alternatives above.
- Support services related to the system during the contract period.

3. Delivery to:

As in 1.

4. a. Reserved for particular profession-no requirements

b. Law, regulation or administrative provision- no requirements

Applicants must fulfil National legal obligations for companies such as tax-payments, registration.

c. Obligation to mention the names and qualification of key-personnel:

The entity and any relevant staff involved in the provision of the service must be duly approved under the appropriate regulations for the locations from which the services are supplied. Key personnel in the provision of the service should be named in the application.



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5 Division into lots:

The tender can be divided.

6 Number of suppliers which will be invited to tender:

To be determined on consideration of applications received.
Qualified applicants will be given the possibility to tender.

7 Variants:

Variants will be accepted

8 Time limits for completion of duration of the contract, for starting or providing the service:

The contract will be for an initial period of one year with the possibility for a prolongation for an additional five years.

9 Legal form in case of group bidders:

No certain requirements.

10 a. –

b. Deadline for receipt of requests to tender:

June 11, 2002

c. Address:

Erik Valtonen, The Third Swedish National Pension Fund, PO Box 1176, SE-111
91 Stockholm, Sweden
Facsimile. (46) 8 555 17120

E-mail info@ap3.se

Requests to tender should be submitted in writing to address above.
Envelopes should be marked with "Performance tender". Note that
requests submitted by e-mail or facsimile are not accepted.

All inquires related to this notification should be submitted to address
above in writing. Facsimile or e-mail may be used.

d. Language(s):

English

11. Deposits and guarantees:

Not required



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12. Qualification criteria:

To qualify the applicant must have a proven track record either as a vendor of performance attribution or risk measurement IT-systems, or as a consultant in these areas. In both cases the focus will be on performance attribution. To support their application all applicants should supply data that establishes that they can meet the following requirements:

- Experience from the construction, installation and support of complex performance attribution (and possibly, risk measurement) IT-systems.
- Proven track record in implementing and supporting their solution into existing IT-platforms/environments for European clients.
- Sufficient financial and economic standing.
- Technical capacity and ability to provide the required service.
- Key personnel who have adequate experience from the construction and implementation of complex IT systems required and from IT-support.

The answers will be used to judge the suitability of the applicant's approach to the Fund's needs.

13. Suppliers already selected:

None

14. Other information:

Interested applicants will upon request receive an Appendix to this notice describing the investment process and organisation at AP 3. The Appendix can be obtained by contacting Erik Valtonen e-mail address erik.valtonen@ap3.se

Opening of requests to tender will take place two days after closing date. On the request of a supplier a representative from the Swedish Chamber of commerce may participate in the opening procedure.

Public entity: Public Pension Fund

Connection to project financed by the EC: None

Applications should be submitted as one original and two copies.



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15. Notice postmarked: April 30 2002

Sent by facsimile on April 30

16. Notice received on: -

17. -

18. Covered by the "GPA" agreement:

Yes.



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Appendix to

Tender Notice in TED

Third Swedish National Pension Fund, AP3

Date: 2002-05-13



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This document is an appendix to the Tender Notification in TED, and describes the Fund's investment process, the current performance measurement structure and outlines the performance attribution needs of the Fund.

Background

AP3 (The Third Swedish National Pension Fund) is a buffer fund in the Swedish public elderly pension system with SEK 135 bn in assets under management. The portfolio comprises both domestic and foreign equities and bonds. In addition, the Fund applies tactical asset allocation as well as a currency overlay. For further information about the Fund we refer to www.ap3.se. The web site also contains a list of the Fund's holdings as of 31 Dec 2001.

The Fund's current performance measurement infrastructure combines internal calculations with those done by an external consultant. AP3 uses Axys (part of Advent Office) as its back office system. Axys can calculate and report daily performance (rate of return) on portfolio and portfolio group levels as well as on sector and security levels. The Fund's internal calculations are based on the performance reports provided by Axys, which are combined with in-house index calculations to derive active returns for each portfolio. However, Axys has no performance attribution or risk measurement functionality.

The Fund's external performance consultant works with the transaction list exported from Axys, and produces a performance analysis that is independent from the performance reports in Axys.

The current internal and external reports cover the following areas.

Performance

Absolute and active performance can be reported daily for all portfolios and all groups of portfolios.

Risk

Risk and risk-adjusted performance measures can be reported daily for all portfolios and all groups. The measures are: volatility, tracking error, information ratio and Sharpe ratio.

Performance Attribution

Within the Swedish and the internally managed European equity portfolios the performance can be attributed to sector allocation, selection and interaction effects on a daily basis. Within fixed income no attribution is done. The tactical asset allocation level can be split into several decision points (outlined below). The contribution of overall currency overlay decisions can be explained. However, many of the calculation points are error prone and time and resource consuming.

Vision

The vision is to implement a performance attribution solution that captures all the essential decision points in AP3's investment process, described below. The solution should be able to attribute the active return to the right decision points, and to relate the active return with the risks taken in terms of tracking error. Although the focus is on performance attribution, the Fund is also interested in how the solution could be used in risk analysis (ex ante) and risk budgeting.

The solution must be fully integrated with the existing system environment (Axys or Axys data warehouse). The solution should support STP (straight through processing) by automatically importing all relevant data in a daily batch. The users of the system, typically middle office staff, quantitative staff and asset managers, shall have the possibility to perform daily performance and risk analysis on many different levels of data from stock level data to the most aggregated level, the total portfolio of AP3.



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The solution should be based on a modern technology that is flexible, open and permits future development and customizations. In particular, the system should be able to cope with changes in AP3's investment process. The supplier of the solution should have an outstanding track record in implementing similar solutions at major asset management organizations.

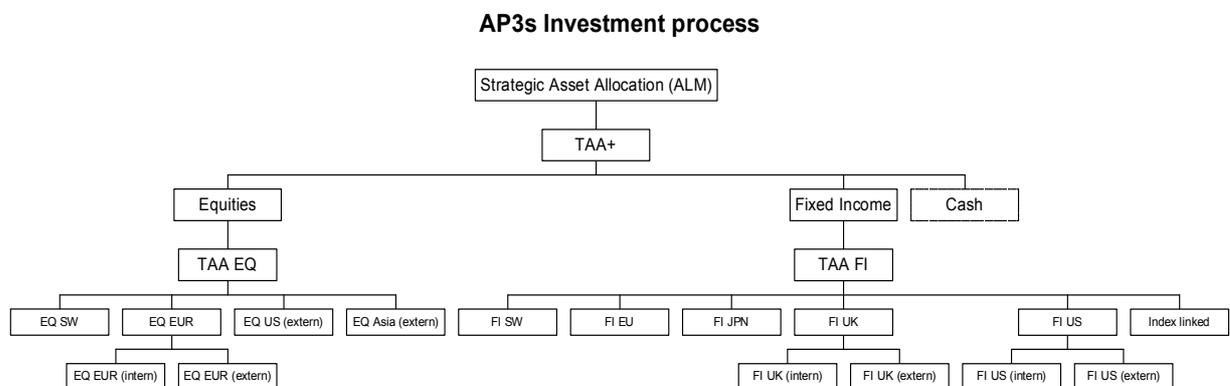
AP3 is aware that these requirements are very demanding and that no single off-the-shelf product might meet all the requirements. If this is the case, AP3 will evaluate each supplier's ability to customize the solution. If AP3 does not find a supplier with the ability to implement a satisfactory and efficient solution, AP3 might reject all proposals and choose to develop the solution internally using internal and/or external consultants. It is also possible that AP3 might choose a supplier's solution to a specific part (like fixed income) if the solution is deemed to be particularly good for that area. The solution can therefore be a combination of buying existing products and building a solution from scratch.

AP3's investment process

This section describes the investment process and portfolio structure of AP3 in general. The objective of this section is to give the reader an understanding of the investment process and how AP3 wants to evaluate the process. A more detailed description of the investment process at AP3 is available on www.ap3.se.

We want to stress that the performance attribution (and risk measurement) system, must be able to cope with the current investment process and portfolio structure. Furthermore, the solution should not only be customizable to the current investment process, but also adaptable to changes in the process.

The picture gives an overview of the investment process.



Strategic asset allocation

AP3's mandate is to generate best long-term return on capital in relation to the liabilities in the pension system. AP3 uses an internally developed Asset/Liability model (ALM) to identify the most efficient long-term strategic asset allocation mix, the reference portfolio. Another result of the ALM-analysis is the long-term hedge ratios of currency exposures in different assets. The attribution process does not need to deal with this level, but the benchmark index set here can be taken as given.

Tactical asset allocation

AP3 is an active asset manager on short and mid-term. The objective is to add value by deviating from the benchmark.

There are a number of active decisions in the investment process that need to be evaluated and analyzed. Tactical asset allocation decisions are made on three levels:



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TAA+ = Allocation between Equities, Fixed Income and Cash.
TAA EQ = Regional allocation within Equities.
TAA FI = Regional allocation within Fixed Income.

The total allocation effect is:

$$TAA \approx TAA EQ + TAA FI + TAA+$$

In addition to these levels, tactical decisions are also made on the currency hedge ratios, which at the tactical level might differ from the strategic hedge ratios.

Internal equity management

Currently, all Swedish equities and part of the European equity portfolio (benchmarked against FTSE Europe) are managed internally. Decisions are made on two different levels: 1) sector allocation and 2) stock picking within sectors. These decisions should be analyzed using a normal S/A/I framework. In addition, the effect of each stock selection within a sector must be explained. It must also be possible to perform the analysis based on customized sectors.

Internal fixed income and currency management

The fixed income team works with positions in duration and interest rate spreads between countries and between government, mortgage and corporate bonds. For credit bonds, positions are also taken on spreads between credit categories and sectors.

Active currency positions can be taken on different levels in the investment process. On the strategic level, the benchmark of the fund, foreign equities are hedged with a ratio of 80% and foreign bonds are fully hedged. The TAA team can choose to deviate from these hedge ratios. Furthermore, the FX trading team can take positions that differ from the ones chosen by the TAA team. So there are two different currency decisions that have to be analyzed.

Today the FX hedging in AP3's benchmark index is done using one three months rolling forward contract. In general, the portfolio will consist of a basket of different forward contracts and the average maturity will probably differ from three months. The effect of these maturity decisions must also be analyzed.

External mandates

AP3 uses external managers on a few markets. These markets are currently European equities, Japanese equities, US equities, US and UK corporate bonds.

The benchmark index

The benchmark index of AP3 is a fixed weight aggregation of equity and fixed income indices. AP3 uses SIX return index for Swedish equities, the FTSE index family for foreign equities and the Merrill Lynch index family for fixed income. As mentioned above, foreign bond indexes are fully hedged and foreign equity indices are hedged with a ratio of 80%.