Finax

Methodology for calculating the aggregate risk and return indicator for the PEPP product and Information on performance scenarios

1. General Information

1.1. Finax, o.c.p., Inc, with registered office at Bajkalská 19/B, Bratislava - Ružinov 821 01, ID No.: 51 306 727, registered in the Commercial Register of the District Court Bratislava I, Section Sa, File No. 6713/B (hereinafter referred to as "Finax") hereby informs the PEPP savers (within the meaning of Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20.12.2019 of the European Parliament and of the Council of 20. June 2019 on a pan-European personal pension product, hereinafter referred to as the "PEPP Regulation") on the methodology for calculating the aggregate risk and return indicator of the PEPP product and information on the performance scenarios in the PEPP KID.

2. Summary Risk Indicator

2.1. The PEPP Product Risk and Return Aggregate Indicator determines the relationship between risk and return of an investment strategy in a particular PEPP product.

2.2. The summary risk indicator is expressed on a scale of 1 to 4, where a value of 1 means that the PEPP saver's wealth may fluctuate less during the savings phase and the PEPP saver is more likely to receive a lower pension income, and conversely a value of 4 means a higher fluctuation in the value of savings during the savings phase and a higher probability of receiving a higher amount saved at the end of the savings phase, and therefore a higher pension income.

2.3. PEPP investment options (strategies) are designed to maximise returns for a given level of risk.

2.4. Both the summary risk indicator and the risk sub-indicators are calculated in accordance with the provisions of Commission Delegated Regulation (EU) 2021/473 of 18 December 2020 supplementing Regulation (EU) 2019/1238 of the European Parliament and of the Council with regard to regulatory technical standards specifying the information document requirements, the costs and charges included in the price cap and the risk mitigation techniques for the pan-European personal pension product (hereinafter referred to as "RTS"). A stochastic model built by pension experts and researchers from academia, the creators of the Oranžová Obálka® portal (www.oranzovaobalka.sk), was used to calculate them.

2.5. The summary risk indicator (SRI) for the PEPP[1] product investment strategies is shown in the table below.

Saving period / Strategy	Resulting Summary Risk Indicator (SRI)
Life cycle 100 - 60	4
Life cycle 80 - 60	3

2.6. The summary risk indicator (SRI) varies with the expected length of the savings horizon, with the SRI decreasing with increasing savings horizon length in both strategies. However, for the purpose of comparing PEPP products with each other, the value with the highest value is taken into account, which is also presented as the summary risk indicator (SRI).

2.7. Please note that the aggregate risk indicator of a PEPP product is different from, and not comparable to, the aggregate risk indicator of products (e.g. funds, structured products) covered by Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for structured retail investment products and insurance-based investment products (PRIIPs).

2.8. The PEPP product risk aggregate indicator is composed of 2 sub-indicators of risk:
A. safety,
B. riskiness.

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[1] The Basic PEPP uses a Life Cycle Strategy of 100-60 and the Alternative PEPP - Conservative uses a Life Cycle Strategy of 80-60

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A. Product Safety

2.9. The PEPP product safety indicator measures the probability (frequency of occurrence in percentage points) that the saver will have saved less than the inflation-adjusted amount of contributions at the end of the savings period. In other words, product safety determines in how many cases a saver can expect that at the end of the saving period his/her savings will have a purchasing power lower than the sum of all his/her contributions. A safer product is one where this probability is as low as possible. The safety level of a product on a scale from 1 (safest product) to 4 (least safe product) is determined by the legislative requirement as follows:

Risk category	Savings horizon length			
	40 years	30 years	20 years	10 years
1	up to 13.75 %	up to 17 %	up to 27 %	up to 36 %
2	up to 16.55 %	up to 19.75 %	up to 29.25 %	up to 43.25 %
3	up to 19.35 %	up to 22.55 %	up to 31.55 %	up to 50.55 %
4	above 19.4 %	above 22.6 %	above 31.6 %	above 50.6 %

Source: Annex III of the RTS

2.10. Based on stochastic modelling, the offered PEPP product has the following probability of not saving an amount equal to the inflation-adjusted contributions and a corresponding risk profile:

Doba spoření / Strategie	10	20	30	40	10	20	30	40	Rizikový profil
Life cycle 100 – 60	16.01 %	10.39 %	5.24 %	2.54 %	1	1	1	1	1
Life cycle 80 – 60	16.08 %	10.03 %	4.90 %	2.24 %	1	1	1	1	1

2.11. Pro For each investment strategy, the probability is calculated that, at the end of a specified number of years of saving, the amount saved will be less than the amount of contributions adjusted for inflation. For the first investment strategy "Life Cycle 100–60", this probability is 16.01% for a 10-year savings horizon. This means that in approximately 16.01% of cases, the saver can expect to have saved less than the amount of his/her inflation-adjusted contributions after 10 years of saving. In the case of a 40-year savings horizon, this probability is at 2.54%. This means that the saver can expect that in almost 98% of cases the purchasing power of the savings will be higher than the contributions.

2.12. Both PEPP investment strategies achieve the lowest risk profile in terms of safety.

B. Product Riskiness

2.13. The second indicator is the riskiness of the PEPP product in terms of the average amount of expected loss that a PEPP saver can expect if their savings fall below at least the inflation-adjusted contribution rate. The PEPP product riskiness indicator is expressed as a percentage of the expected decline relative to the sum of the inflation-adjusted contributions. The expected decline is determined on the basis of observations (simulations) where inflation-adjusted contributions are higher than the expected value of the accumulated assets at the end of the savings period and the average losses of these observations (simulations). The product risk level on a scale from 1 (least risky product) to 4 (riskiest product) is

determined by the legislative requirement as follows:

Risk category	Savings horizon length			
	40 years	30 years	20 years	10 years
1	up to –20 %	up to –17 %	up to –13 %	up to –8 %
2	up to –23 %	up to –20.25 %	up to –16.5 %	up to –11.25 %
3	up to –26.25 %	up to –23.55 %	up to –20.1 %	up to –14.55 %
4	above –26.5 %	above –23.6 %	above –20.1 %	above –14.6 %

Source: Annex III of the RTS

2.14. Based on stochastic modelling, the PEPP product offered has the following riskiness and corresponding risk profile:

Strategy / Saving period	10	20	30	40	10	20	30	40	Risk profile
Life cycle 100 – 60	–16.16 %	–17.56 %	–19.55 %	–16.69 %	4	3	2	1	4
Life cycle 80 – 60	–14.51 %	–15.87 %	–16.90 %	–16.31 %	3	2	1	1	3

2.15. The investment strategy "Life Cycle 100-60" is at risk category 4 and the investment strategy "Life Cycle 80-60" is at risk level 3.

2.16. A saver who chooses the "Life Cycle 100-60" investment strategy can expect to experience an expected loss ranging from 16.16% (in the case of a 10-year savings horizon) to 19.69% in the case of a 40-year savings horizon, should a situation arise where their savings are less than their inflation-adjusted contributions. For the "Life Cycle 80-60" investment strategy, the expected loss ranges from 14.51% for the 10-year savings horizon to 16.31% for the 40-year savings horizon.

C. Product Returns

2.17. The return on the PEPP product is a key indicator in terms of the amount expected to be saved and the amount of pension accruing from the PEPP product.

2.18. The PEPP product return indicator reflects the ratio of the amount saved to the inflation-adjusted contributions at the 50th percentile (median).:

2.19. The level of product performance on a scale of 1 (least profitable product) to 4 (most profitable product) is determined by legislative requirements as follows

Performance Category	Savings horizon length			
	40 years	30 years	20 years	10 years
1	up to 1.7 %	up to 1.3 %	up to 1.08 %	up to 0.93 %
2	up to 2.03 %	up to 1.45 %	up to 1.165 %	up to 0.985 %
3	up to 2.36 %	up to 1.615 %	up to 1.255 %	up to 1.045 %
4	above 2.365 %	above 1.615 %	above 1.26 %	above 1.05 %

Source: Annex III of the RTS

2.20. Based on stochastic modelling, the PEPP product on offer has the following return and corresponding return profile

Strategy / Saving Period	10	20	30	40	10	20	30	40	Return profile
Life cycle 100 – 60	1.325 %	1.902 %	2.786 %	4.199 %	4	4	4	4	4
Life cycle 80 – 60	1.286 %	1.755 %	2.443 %	3.484 %	4	4	4	4	4

2.21. investment strategies offer the highest return profiles. At the end of the savings period (in the table, the first columns labelled 10, 20, 30 and 40), the saver can expect to receive, on average, between 1.286 times (10-year savings period and 'Life Cycle 80-60' strategy) and 4.199 times (40-year savings period and 'Life Cycle 100-60' strategy) the inflation-adjusted contributions. Longer savings horizons (over 20 years) offer significantly higher returns with a decreasing risk profile.

3. Information on Performance Scenarios

3.1. PEPP providers stochastically determine expected PEPP benefits, taking into account in particular the level of the standardised contribution, the length of the savings phase, the expected nominal investment returns in line with the investment strategy and strategic investment allocation, the annual inflation rate, the level of expenses.

3.2. We present the output indicators in the PEPP KID under the following scenarios, in line with the requirements of the PEPP RTS:

   a) In the favourable scenario (OPTIMISTIC), the value of the indicators is at the 85th percentile of the distribution;
   b) in the best-estimate scenario (NEUTRAL), the value of the indicators is at the 50th percentile of the distribution;
   c) in the unfavourable scenario (PESSIMISTIC), the value of the indicators is at the 15th percentile of the distribution;
   d) in the stress scenario (STRESS), the value of the indicators is at the 5th percentile of the distribution.