

Government Actuary's Department - Economic Scenarios

Clarification responses – 6 December 2023

1. Does GAD plan to deliver the scenario sets to their clients or just the work derived from the scenario sets?

Please inform us in your bid of any limitations regarding sharing information provided to GAD with our client. GAD does not have any plans to share the full scenario sets with our client, however we will need to share sufficient information to provide the service they require.

2. How many clients does GAD have for whom they might want to use scenarios?

Our current intention is to only use these scenarios for a single client. However, there may be future projects where this information is deemed applicable for use. Please inform us in your bid of any additional costs that may be incurred if we were to re-use information supplied.

3. Can GAD share the name of their current provider and more information about their current modelling framework?

Detailed information cannot be provided due to commercial sensitivity. However, please see the relevant Contracts Finder notice here, <https://www.contractsfinder.service.gov.uk/notice/cc85dbab-c380-4b8b-a58f-423a59cb8380?origin=SearchResults&p=1>

4. Can the retained provider's name be included in the public publication detailing the outcome of the analysis?

We can't guarantee that the provider's name will be included in the publication at this point, however this could be explored with the client. If this isn't possible, we may be able to include the provider's name in another publication.

5. What is the expected lifetime of the contract?

The invitation to tender sets out a contract duration of up to 12 months. We expect the vast majority of this work to be carried out in the first 6 months of the contract, but wish to retain the ability to work with the provider further as required.

6. Does GAD would like to use their own data series or the provider's data series for calibrating the models?

We would like providers to be able to suggest standard data series they rely on, which have been subjected to robustness and quality management.

7. Regarding "Global government bonds" what would be the desired economies/countries?

We would like to understand what global government bonds could be provided. for example indices of developed government bonds or emerging market bonds.

8. What would be the desired "wider range of equity indices"?

We would like to understand what wider equity indices could be provided, both on a regional and market cap basis. For example FTSE 100, FTSE 250, FTSE all share, MSCI UK, Nasdaq 100.

**9. What would be the desired "wider range of alternative investments"?
Also what are the expectations regarding hedged/unhedged assets?**

We would like to understand what wider alternative investment indices could be provided, for example private debt, leveraged loans or diversified growth funds.

We would like projections of assets that are denominated in currencies other than GBP to be provided on both a hedged and unhedged basis with regards to currency risk.

10. For alternative indices, do you have specific data series you would like the provider to use (e.g., asset manager funds, ...)?

No, we would like providers to be able to suggest standard data series they rely on, which have been subjected to robustness and quality management.

11. If government yield curves and corporate spread curves are provided, would that also cover the needs regarding "Total return projections for fixed income assets"?

No, we would expect the provider to provide a return series based on a portfolio of bonds. The definition of this portfolio would need to be set out, for example the issuance and rebalancing applied.

12. What kind of adjustments is expected for taxation and investment costs?

We would like to understand whether providers have a standard methodology or assumption they use to adjust for the impacts of tax and investment costs. This would be expressed as a reduction in returns on each asset projection class.

13. The value of the contract is set to £5,000 on your website. We understand this to be the minimum expected value. Could you please give indication of maximum expected value, even if just a price range? As the tender requirements are pretty broad we might need to undertake some model development work, so it would be good to understand if this could risk exceeding the available budget.

There is no fixed maximum budget at this stage. Please provide your costings split by essential and desired aspects, so we can understand the different options available and their cost.

14. The "Service Provision" mentions that you require the scenario set to be "calibrated to current market conditions". Could you please elaborate what is meant by that. Does this mean the central forecast / mode of the scenarios should reflect current economic and financial developments more generally, or rather that projections should reflect the consensus / inferred market pricings where these are available?

We would expect the model to be calibrated to current market conditions, for example we would expect starting interest rates to reflect current interest rates. We would expect less divergence from these current market conditions in the short term than in the long term. We are not expecting the scenarios to infer current market prices (we are not after a risk neutral / market consistent model), but central outcomes should reflect consensus views / your expert views.

15. The “Technical Specification” mentions that a 50 year horizon is desirable. Is this an essential criteria meaning that tenderers that don’t meet this are automatically being excluded, or can a shorter horizon – e.g. 25 years – be considered as well?

A 50 year time horizon is essential. Where an applicant does not reach any of the essential criteria they will be automatically eliminated from the process.

16. The “Technical Specification” mentions that various maturities of UK/global investment grade corporate bonds are desirable. Is this an essential criteria meaning that tenderers that don’t meet this are automatically being excluded, or are tenderers also considered that only provide a single UK/global investment grade corporate bond?

Coverage for bonds of different durations is essential. Where an applicant does not reach any of the essential criteria they will be automatically eliminated from the process.

17. The “Technical Specification” mentions that projections for alternative investments is desirable, e.g. hedge funds / infrastructure / private equity. Is this an essential criteria meaning that tenderers that don’t meet this are automatically being excluded, or are tenderers also considered that can’t provide these indicators?

An ability to simulate returns on alternative investments, hedged and unhedged including: commodities, hedge funds, infrastructure and private equity, is essential. Where an applicant does not reach any of the essential criteria they will be automatically eliminated from the process.