



Interim report 2006  
1 January–30 June

- The total market value of AP4's investment assets rose to SEK 182.3 billion.
- Total return on assets was 0.8%.
- Net profit totalled SEK 1.4 billion

# Interim report 2006

## ECONOMY

Growth in the OECD area remained buoyant in the first half, driven by strong global industrial activity and increased demand for consumables in Europe, Japan, China and some emerging markets.

The US economy showed signs of slowing, however, amid an appreciable weakening of the residential real estate market and only moderate growth in employment and real disposable incomes. Many forecasters predict lower growth for the US economy over the next 12 months.

Oil prices climbed to new highs and stood at around \$US74 a barrel at the half-year mark. Prices for some base metals, including zinc, nickel and copper, also rose sharply during the period.

The increased global economic activity prompted central banks to tighten monetary policy, with the US Federal Reserve raising interest rates by 1 percentage point and the European Central Bank and Swedish Riksbank increasing rates by 0.50 and 0.75 percentage points respectively. Meanwhile, Japan's central bank reduced banking sector liquidity. The next step in the shift towards a more normal monetary policy came after the half-year mark when Japanese interest rates were raised above zero for the first time since 2001. Global bond rates rose sharply in response to the monetary tightening and robust economic growth. Somewhat higher inflationary pressure and inflation risk premiums also helped push up bond rates.

Given the strength of the world economy in the first half of 2006, experience suggests that we should be approaching the peak of the business cycle. Higher interest rates and rising oil prices appear to be having a negative effect on US economic growth, while key global industrial indicators are close to the levels seen during previous peaks.

## MARKET TRENDS

The strong levels of industrial activity helped lift equity markets in the first few months of the year. But in mid-May equity markets fell heavily as growing fears of continued interest rate increases, coupled with a belief that economic growth was close to its peak, had a negative impact on investors' appetite for risk. The MSCI World index posted a 1.8% gain in local currency terms during the period. Japan was the weakest of the major equity markets, losing 1.9%, while other developed Asian markets outperformed the MSCI World. The US and European equity markets posted

moderate returns of 1.6% and 3.4% respectively, and the Swedish equity market gained 5.3%.

Rising interest rates resulted in negative returns on fixed income markets during the period. JP Morgan's global bond index fell 2.1%.

The Swedish krona strengthened on a trade-weighted basis, while the US dollar weakened.

## INVESTMENTS AND RETURNS

The Fund's absolute return on a rolling five-year basis stood at 24.2%, corresponding to an average annual rate of 4.4%. Though they may appear modest, these figures equate to a real annual return of 3.2% and also compare favourably to the average returns of Swedish life assurance companies over the last five years.

Return on investment assets in the first half was 0.8% (8.3), with Swedish equities making the largest contribution. The figure was 0.5% below the benchmark index. Fixed income and tactical asset allocation made positive contributions, while equities had a negative impact. The relative contributions of the various asset categories are shown in the table below.

The strategic portfolio's composition at the end of June was 41.5% global equities, 18.8% Swedish equities, 37.8% fixed income and 1.9% real estate. Externally managed assets accounted for 17.9% of the total portfolio.

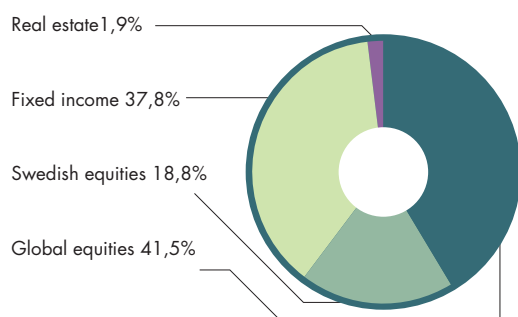
### *Tactical allocation*

Tactical asset allocation contributed 0.01 percentage points to AP4's overall first-half return, with active tactical allocation contributing 0.04 percentage points of total portfolio return. The positive outcome was due primarily to a long position in European equities and a short position in Japanese bonds.

### Contributions to Fund performance, 1 January–30 June 2006

Asset class	Contribution to absolute return (% points)	Contribution to relative return (% points)
Global equities	0.6	-0.3
Swedish equities	0.9	-0.2
Fixed income	-0.5	0.1
Real estate	0.4	0.0
Currencies	-0.5	-0.1
actively managed	0.0	0.0
Other	-0.1	0.0
<b>Total</b>	<b>0.8</b>	<b>-0.5</b>

### Strategic portfolio 30/06/2006



### Global equity portfolio

The market value of the global equity portfolio was SEK 73,991 million at 30 June (including private equity holdings of SEK 769 million). SEK 15,996 million of the Fund's listed equities were managed semi-actively, while SEK 15,485 million were under external active management.

The return on the global equity portfolio, fully hedged, was 1.2% – an underperformance of 0.8 percentage points against the reference index. The internally managed part of the portfolio recorded a return of 2.1%, which was 1.2 percentage points lower than the reference index. The underperformance was predominantly due to sector allocations. Overall, the external mandates made a negative contribution to relative return on the global portfolio.

### Swedish equity portfolio

The market value of the Swedish equity portfolio was SEK 33,501 million at 30 June (including private equity holdings of SEK 427 million).

The Swedish equity portfolio posted a return of 4.3%, which was 1.0 percentage points lower than the reference index. This underperformance was attributable mainly to the choice of equities in the listed portfolio.

### Fixed income portfolio

The fixed income portfolio had a market value of SEK 67,234 on 30 June. The fully hedged first-half return was negative at -1.3%, reflecting the rise in interest rates during the period. It was, however, 0.2 percentage points higher than the reference index and this positive relative return was due the Fund having positioned itself for a steeper yield curve in Sweden.

### Currency management

Currency management made a negative contribution of 0.5 percentage points to absolute return, which was due to the appreciation of the Swedish krona during the period. Active currency management made a negative contribution of 0.03 percentage points to relative return. The main reason for this was that the Fund was overweight in the yen contra the euro.

Some 9.2% of total assets were exposed to foreign currencies at the half-year mark, compared to 10.1% at the start of the year.

### Real estate

The Fund's real estate holdings consist of shares and notes receivable in AP Fastigheter Holding AB. The portfolio had a market value of SEK 3,995 million at 30 June, of which SEK 1,905 million was in shares and SEK 2,090 was in notes receivable. The return on the portfolio was 19.3%.

### INCOME

Fund capital stood at SEK 182,284 million on 30 June, having increased by SEK 2,186 million since the turn of the year. The increase included net profit of SEK 1,444 million, net payments from the pension system of SEK 659 million and transfers of SEK 83 million from the liquidation and special asset management funds managed by AP1 and AP4 on behalf of all the AP funds.

### Allocation of investment assets

Asset class	Market value (SEK m) 30/06/2006	Exposure* (%) 30/06/2006	Exposure* (%) 30/06/2005	Exposure* (%) 31/12/2005	Strategic portfolio (%) 30/06/2006
Global equity portfolio	73,991	41.4	43.1	42.2	41.5
Swedish equity portfolio	33,501	18.6	18.9	20.0	18.8
Fixed income portfolio	67,234	37.6	36.4	36.4	37.8
Real estate	3,995	1.9	2.1	2.1	1.9
Currencies/tactical asset allocation/cash **	3,572	0.5	-0.5	-0.7	0.0
<b>Investment assets</b>	<b>182,293</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

\* Exposure includes underlying value of derivatives for each asset class.

\*\* Market value includes unrealised income from currency futures for hedging.

## Return and risk

Asset class	Return (%)			Return (%)			Return (%)			Volatility (%)	Active risk (%)
	Jan-June 2006			Jan-June 2005			2005			12 mth	12 mth
	Portfolio	Index	Relative	Portfolio	Index	Relative	Portfolio	Index	Relative	Portfolio	Portfolio
Global equity portfolio*	1.2	2.0	-0.8	3.3	3.2	0.2	14.5	14.8	-0.2	8.8	1.3
Swedish equity portfolio	4.3	5.3	-1.0	14.7	15.1	-0.3	34.1	36.3	-2.2	17.8	2.1
Fixed income portfolio*	-1.3	-1.5	0.2	4.3	4.3	0.0	3.7	3.5	0.2	2.0	0.7
Real estate	19.3	19.3	0.0	34.0	34.0	0.0	47.7	47.7	0.0	0.0	0.0
<b>Investment assets **</b>	<b>0.8</b>	<b>1.3</b>	<b>-0.5</b>	<b>8.3</b>	<b>8.2</b>	<b>0.1</b>	<b>16.9</b>	<b>17.0</b>	<b>-0.1</b>	<b>6.6</b>	<b>0.8</b>
Investment assets incl. management expenses	0.8	1.3	-0.5	8.2	8.2	0.0	16.8	17.0	-0.2	6.6	0.8
Listed investment assets	0.5	1.0	-0.5	7.8	7.7	0.1	16.4	16.5	-0.1	6.6	0.8

\* Including full currency hedging.

\*\* Including currencies and tactical allocation. Contributions from these asset classes are shown in the "Contributions to performance" table.

Percentages in the above tables are individually rounded up or down and totals therefore do not always correspond exactly to individual figures.

Operating expenses excluding commission expenses fell to SEK 62 million, compared to SEK 63 million in the corresponding period last year. Total expenses including commission expenses were SEK 100 million, compared to SEK 120 million in the first half of 2005. The asset management cost quotient was 0.07% (0.08) on an annualised basis. Including commission expenses, the figure was 0.11% (0.15). During the first half, the number of AP4 employees decreased from 50 to 46.

AP4's special asset management unit, which manages the AP funds' withdrawal from private equity holdings, had assets of SEK 531 million under management at 30 June.

### CORPORATE GOVERNANCE

During the first half of 2006 AP4 attended 39 annual general meetings, meaning that we were represented at the AGMs of virtually all the companies in the Swedish equity portfolio.

Corporate governance has grown in scope in recent years and not only involves attending AGMs but also includes greater involvement in nomination committees and informal discussions with companies and other investors prior to AGMs.

In 2006 the Fund was represented on 19 nomination committees. In four of these, our nominee was chairman. The main task of a nomination committee is to identify and propose candidates for Board membership and to recommend the level of directors' fees. The committee's workload customarily increases every fourth year in connection with the selection of auditors. Members of the nominating committee are also often able to comment on any proposals for new share-related incentive schemes. AP4 has also held

discussions on governance-related issues in companies in which it does not have a seat on the nomination committee. Agenda items at AGMs are usually well prepared in advance and the aim is to settle any disagreements prior to the meeting.

### NEW PRESIDENT

The AP4 Board of Directors decided on 6 July to appoint Mats Andersson as President to succeed Thomas Halvorsen, who is retiring after 23 years at the Fund. Mats Andersson is currently chief investment officer at Skandia Liv and takes up his new post at year-end.

Stockholm, 31 August 2006



Thomas Halvorsen  
President.

## INCOME STATEMENT

SEK m	Jan–June 2006	Jan–June 2005	Jan–Dec 2005
<b>OPERATING INCOME</b>			
Net interest income	258	799	1,263
Dividends received	1,926	1,681	2,131
Net income, listed shares and investments	2,054	4 635	17,592
Net income, unlisted shares and investments	277	484	741
Net income, fixed income management	-1,826	1 348	180
Net income, derivatives	-93	56	351
Net income, foreign exchange	-1,052	3,621	3,721
Net commission expenses	-38	-57	-87
<b>Total operating income</b>	<b>1,506</b>	<b>12,567</b>	<b>25,892</b>
<b>OPERATING EXPENSES</b>			
Personnel costs	-41	-41	-91
Other administrative expenses	-21	-22	-42
<b>Total operating expenses</b>	<b>-62</b>	<b>-63</b>	<b>-133</b>
<b>NET PROFIT</b>	<b>1,444</b>	<b>12,504</b>	<b>25,759</b>

## BALANCE SHEET

SEK m	30/06/2006	30/06/2005	31/12/2005
<b>ASSETS</b>			
Shares and investments, listed	105,967	102,942	112,091
Shares and investments, unlisted	3,101	2,123	2,445
Bonds and other fixed income assets	67,941	63,725	64,611
Derivatives	3,797	763	1,404
Cash and bank balances	1,683	843	942
Other assets	1,655	410	74
Prepaid expenses and accrued income	2,180	1,667	2,166
<b>Total assets</b>	<b>186,324</b>	<b>172,473</b>	<b>183,733</b>
<b>LIABILITIES AND FUND CAPITAL</b>			
<b>Liabilities</b>			
Derivatives	1,213	5,793	2,322
Other liabilities	1,630	283	162
Deferred income and accrued expenses	1,197	711	1,151
<b>Total liabilities</b>	<b>4,040</b>	<b>6,787</b>	<b>3,635</b>
<b>FUND CAPITAL</b>			
Fund capital, opening balance	180,098	151,434	151,434
Net payments from the national pension system	659	1,533	2,312
Transfers from liquidation and special asset management funds	83	215	593
Net profit	1,444	12,504	25,759
<b>Total fund capital</b>	<b>182,284</b>	<b>165,686</b>	<b>180,098</b>
<b>TOTAL LIABILITIES AND FUND CAPITAL</b>	<b>186,324</b>	<b>172,473</b>	<b>183,733</b>

Accounting and valuation principles and definitions are presented in AP4's 2005 annual report.

This interim report has not been examined by the Fund's auditors.

**FOURTH SWEDISH NATIONAL PENSION FUND**

Sveavägen 25 | Box 3069 | 103 61 Stockholm, Sweden

Tel +46 (0)8 787 7500 | Fax +46 (0)8 787 7525

4apfonden@ap4.se | [www.ap4.se](http://www.ap4.se)