

Administration Report 2012

AP4 overshot short- and long-term return targets. The positive outcome contributed SEK 23 billion to the pension system. Close to SEK 2 billion came from the Fund's active management. The Fund's active earnings were positive for the fourth consecutive year. Fund capital increased to SEK 230 billion.

Operations

The Fourth Swedish National Pension Fund's assets comprise public funds that have statutorily been allocated to the special asset management stipulated in Chapter 9 § 8 of the Constitution. The Fund is a governmental authority whose operations are regulated by the Swedish National Pension Funds Act (2000:192). The Act entails that AP4's funds may only be utilised by the Government to finance the income-related retirement pension, unless the Riksdag (Swedish Parliament) resolves otherwise.

The Fund shall independently formulate its targets and strategies. By law, the Fund's Board of Directors and operations are not to be controlled by Government directives or by national business or other economic policy interests. Environmental and ethical issues must be taken into account without compromising the goal of best possible return.

There is a substantial difference between the AP Funds and other governmental authorities. For example, the Funds are more independent than most other authorities. The operations are governed by law and the Funds have their own Boards of Directors who bear responsibility for the operations. The Funds are reviewed by external auditors. Every year, the Government adopts the Funds' income statements and balance sheets. The Funds are also evaluated each year by assignment of the Government. This evaluation results in a written communication to the Riksdag.

AP4 is thus an authority and the Swedish Code of Corporate Governance is in many respects not applicable to the Fund because the differences between public law and company law are too large. The Administration Report has therefore been limited to the parts that can be deemed relevant for the Fund.

Board of Directors

AP4's Board of Directors shall consist of nine ordinary members without deputies. The members are appointed by the Government, of which one according to proposals from an employer organisation, and two according to proposals from employee organisations. The Government appoints the Chairman and Deputy Chairman from the members who have not been nominated by labour market parties.

Board members

On 1 June 2012, the Government appointed Sven Hegelund and Erica Sjölander new members of the Fund's Board. They replaced Kajsa Lindståhl and Håkan Arnelid, who declined re-election.

Other members of the Board were re-elected. They are Monica Caneman, Chairman, Jakob Grinbaum, Deputy Chairman, Roger Mörtvik, Ing-Marie Gren, Stefan Lundbergh, Lena Micko and Charlotte Strömberg.

Remuneration committee

Since 2010, the Board has had a remuneration committee consisting of three Board members. The committee has the task of advising the Board and preparing matters regarding remuneration made to the CEO and other senior executives. The remuneration committee also prepares matters relating to the Fund's policies regarding remuneration and other employment terms for all employees.

Risk committee

In 2012, the Board established a risk committee consisting of three Board members. The task of the committee is to further improve communication about and understanding of the financial risks of the operations, and was established in connection with the Board delegating an extended mandate to the strategic management. The work of the risk committee commenced at the end of the year.

Fees

Fees paid to Board members are determined by the Government. Full-year remuneration for the Chairman of the Board is SEK 100,000, for the Deputy Chairman SEK 75,000 and for other members SEK 50,000 each. The remuneration of the remuneration committee amounts to SEK 50,000, distributed equally between the three members, and equivalent remuneration is paid to the members of the risk committee.

The Board's appointment applies until the Fund's balance sheet and income statement for 2012 are adopted.

Members of AP4's Board are presented in more detail in the annual report and on the Fund's web site www.ap4.se.

Rules of procedure

The Board is responsible for the Fund's organisation and management of its funds. The Board adopts rules of procedure for its work and an instruction for the CEO. These fundamental documents, as well as ethical guidelines for employees and regulations governing their transactions in financial instruments, are reviewed annually.

The work of the Board in 2012

During the financial year, the Board held seven meetings at which minutes were recorded. As shown in the table below, attendance remained high, at around 92% on average. In the spring, the Board performed an evaluation of its work. At the Board meetings, the CEO attended as did employees of the Fund such as persons reporting and secretaries.

In 2012, the Board's work focused on the structure of the Fund's normal and strategic portfolios as well as internal control. During the year, the Fund's Board deepened its work and the discussion relating to the ALM process (Asset Liability Management). An initiative has been pursued together with the other AP Funds to prepare a joint policy for e.g. remuneration policies and other employment terms. More information is presented in the Policies section.

In order to provide the Board with continuous information, the CEO writes an information bulletin between the Board members.

In November, the Board adopted an operational plan for the coming year, in accordance with the rules of procedure.

Fund management

The Board of AP4 has delegated responsibility of ongoing administration to the CEO of the Fund. To support him in his decision-making, the CEO has appointed an executive management committee which, at the end of 2012, consisted of four employees. The executive management committee as per 19 February 2013 is presented in the annual report, see www.ap4.se.

Remuneration for employees

The Board sets the terms of employment for the CEO based on recommendations from the remuneration committee. All employees have individual employment contracts. The Board has adopted a policy for remuneration and other employment terms.

Total remuneration for an employee of AP4 consists of fixed salary, any incentive-based remuneration, pension and other benefits.

Incentive-based remuneration is not payable to the CEO, senior executives or the compliance officer. For other employees, incentive-based remuneration is payable to a maximum of two monthly salaries. It is payable when clear and measurable goals have been achieved. Incentive-based remuneration is based on group-oriented quantitative goals and the quantitative contribution of the individual employee measured over a rolling three-year period. Incentive-based remuneration is only payable if AP4 posts positive total earnings for the financial year.

Other benefits only constitute a very limited value and are offered to all employees. Examples of such are healthcare

coverage, group insurance and wellness contribution. AP4 also has four parking spaces that employees can use, which are taxable as a fringe benefit.

Information regarding remuneration levels for the CEO, executive management committee and other employees, as well as the outcome of incentive-based remuneration in 2012, is provided in detail in note 6 of the Fund's annual report.

Policies

In 2012, AP1, AP2, AP3, and AP4, AP6 and AP7 drew up a common policy for remuneration terms, staff benefits, entertainment and business travel, which was adopted by the Board of each Fund. The overall common policy is supplemented by the Fund's more detailed internal staff-related policies and guidelines.

Auditing

AP4's auditors are appointed by the Government. The current audit mandate for 2012 is held by Jan Birgeron and Peter Strandh of Ernst & Young AB. The assignment is in place until the Fund's income statement and balance sheet for 2012 have been adopted, and also involves a special mandate for Ernst & Young AB to co-ordinate the audits of the AP Funds. The auditors submit an auditors' report on their review. They report directly to the Board, partly by means of a written audit memorandum, and partly by verbal presentation. The auditors attend at least one Board meeting per year. The auditors also provide a verbal report to the Ministry of Finance annually.

Internal control

Each year, the Board of the Fund adopts an investment policy, a credit policy and a risk management plan for the Fund's operations.

- The investment policy describes, for instance, the Fund's management orientation and goals in terms of return and risk.
- The credit policy stipulates rules and limits for managing credit risk and credit exposure.
- The risk management plan describes the division of responsibilities and authority for the investment operations. The principal operational risks and how these risks shall be controlled and monitored. The principal risks are of a financial and operational nature.

The risk management plan was prepared in accordance with generally accepted principles on the financial market and the Swedish National Pension Funds Act. It shall ensure smoothly functioning internal control of risks, that the responsibility of the Performance and Risk Control unit (which has an independent position) is clearly established, and that this responsibility carries the requisite authorities.

The Performance and Risk Control unit is independent of the investment operations and administration and reports directly to the CEO and to the Board if necessary.

Performance and Risk Control reports to the Board verbally and in writing at each Board meeting. In the opinion of the Board, such reporting and frequency thereof adequately covers the Board's requirement in this regard. According to the plan, the Management shall be aware of different risks and how they are managed. It shall also ensure that routines are established to ensure that the Fund complies with the legislation governing its operations and the decisions taken by the Board and CEO.

Other information

In the section Risk Management and in note 21 of the Fund's 2012 annual report, a more detailed overview is provided of different financial and operational risks. The annual report is available on the Fund's web site www.ap4.se.

BOARD MEETINGS 2012

	14 Jan	16 Feb	12 Apr	15 June	21 Aug	11 Oct	26 Nov	Fee received, SEK
Monica Caneman, Chairman ¹⁾	x	x	x	x	x	x	x	116,667
Jakob Grinbaum, Deputy Chairman ²⁾	x	x	x	x	x	x	x	78,166
Ing-Marie Gren, member of the Board ²⁾	x	x	-	x	x	x	x	54,166
Stefan Lundbergh, member of the Board ²⁾	x	x	x	x	x	x	x	54,166
Lena Micko, member of the Board	-	x	x	x	x	x	-	50,000
Roger Mörtvik, member of the Board ¹⁾	x	x	x	x	x	-	x	66,667
Charlotte Strömberg, member of the Board ¹⁾	x	x	x	x	x	x	x	66,667
Kajsa Lindståhl, member of the Board ³⁾	x	x	x					25,000
Håkan Arnelid, member of the Board ³⁾	x	x	x					25,000
Sven Hegelund, member of the Board ³⁾				-	x	x	x	25,000
Erica Sjölander, member of the Board ³⁾				x	x	x	x	25,000

1) The fee received includes the fee from the remuneration committee.

2) The fee received includes the fee from the risk committee. During the year, the members of the risk committee received one quarter of a fee, because the committee was established in the autumn of 2012.

3) On 1 June, the Government announced that it had appointed the following members of AP4's Board: Sven Hegelund (Master of Politics) and Erica Sjölander (economist). Kajsa Lindståhl and Håkan Arnelid left their assignments.