



INTERIM REPORT

1 JANUARY – 30 JUNE 2013

AP4 overshot short- and long-term return targets.

The positive outcome contributed more than SEK 14 billion to the pension system. The Fund's active management outperformed the index for the ninth consecutive six-month interim period.

Fund capital increased to SEK 241 billion.

A positive six months with a new management structure

- **AP4 overshot short- and long-term return targets**
- **SEK 241 billion in Fund capital**
Fund capital increased to SEK 240.9 billion (220.5).
- **Total return of over 6%**
Total return both before and after expenses was 6.3% (5.8). AP4 benefited from its high proportion of equities in the upbeat performance of equity markets in Sweden and around the world.
- **Average real return of close to 6% in ten years**
AP4 has generated annual nominal return after expenses of 7.2% on average over 10 years, which in real terms (adjusted for inflation) equals 5.9%. This has overshot the Board's real return requirement of 4.5% on average annually, and outperformed the income index.
- **SEK 0.3 billion kronor in active return**
AP4's active management outperformed the benchmark index by 0.1 (0.8) percentage points before expenses, equalling SEK 0.3 billion (1.6).
It was the ninth consecutive six-month interim period in which the Fund's active management outperformed the benchmark index, thus delivering a better return than passive management.
- **Over SEK 14 billion in net profit**
Net profit for January–June totalled SEK 14.4 billion (12.2).
- **Low expenses**
The operating expense ratio, excluding commission expenses, was 0.07% (0.08) on an annualised basis. Including commission expenses, the ratio was 0.11% (0.10). Management expenses totalled SEK 127 million (110).
- **Foreign exchange exposure was 28.6% (27.4) at the end of June.**
- **During the January–June period, AP4 paid out a net amount of SEK 3.1 billion (1.7) to the pension system from Fund capital.**

241

billion kronor in Fund capital

6.3%

in total return

AP4 outperformed the index for the ninth consecutive six-month interim period

14

billion kronor in net profit

Letter from the CEO

Heightened focus on the long-term mandate

Since the turn of 2012/2013, AP4 has been implementing a new portfolio and management structure. The key change is that there is now a clear strategic mandate. The intention is for a larger proportion of the Fund's risk and capital to be geared to investments with longer evaluation horizons (3–15 years). This change is being implemented with a maintained focus on our three core parameters – return, risk and cost level.

Allow me to provide a few examples demonstrating what we wish to achieve with this new mandate.

In the last five years, AP4's underlying exposure to real estate, through ownership in unlisted real estate companies, has more than tripled from SEK 10 billion to over SEK 30 billion. This initiative includes Rikshem (50% co-owned with AMF), which focuses on residential properties and what are known as public service properties. Here, AP4's long-term mandate can be utilised to create a Rikshem that will be an attractive partner for many municipalities. Rikshem, which at the turn of the year managed properties worth around SEK 20 billion, is in the process of becoming the long-term partner on the real estate market demanded by several municipalities.

Another example of how a long-term mandate can be utilised is AP4's high exposure to the Swedish equity market. In a world index, Sweden accounts for around 1% of the value. This can be compared to AP4's weighting in excess of 30% Swedish equities in the Fund's total equity portfolio. In a long-term perspective, we are convinced that the Swedish stock market will outperform foreign counterparts. This has been the case for the past 20 years. The reason for this in my view is that Sweden has had a much better corporate governance model than is usually the case in other countries.

Another distinctive feature of AP4 is our focus on listed SMEs. Over 15% of the

Swedish equity portfolio is in this segment. Many dismiss this category because liquidity are considered too poor. We believe that investors who, like AP4, are able to weather turbulent times attain a better return in the long term by investing in attractive listed SMEs.

Common to all three of these examples is that they cannot be evaluated annually. Rather, such investments require patience and a longer evaluation horizon.

Most pension managers globally conduct their operations under regulations which more or less oblige them to take short-term market volatility into account. Few managers thus have AP4's possibilities of acting as a long-term investor. At AP4, we have the ambition of capitalising on this opportunity even more beneficially in the future. Our new strategic mandate should be viewed in that light.

“Strategic investments require patience and a longer evaluation horizon.”



A sound six months

Major challenges still persist in navigating the world's securities markets. The January–June period featured substantial fluctuations and shake-ups. By now, the background and reasons are well known. In the wake of the 2008 financial crisis, central banks and governments around the world took measures unprecedented in modern times, with dizzying amounts of liquidity being pumped out and key rates being kept at record-low levels. We thus find ourselves in uncharted waters, where each and every signal from governments and legislators regarding any potential new course is interpreted (or rather over-interpreted), often resulting in major market fluctuations.

In a financial world in which investment and evaluation horizons have gradually shortened, these short-term fluctuations are often amplified. Fundamentally, AP4 has a very long-term mandate. For this reason, the financial outcome of an individual six-month period is rather uninteresting, unless it is put into the context of a longer time frame.

For the first six months of 2013, AP4 reported a net profit of just over SEK 14 billion. This equals a return of over 6%, which can be considered decent in light of the difficult terrain. The Fund's efforts to pursue active management (that is, the ambition of attaining a better outcome than passive index management) remain successful. For January–June 2013, the contribution was close to SEK 300 million.

Sound 10-year result

If we extend the time frame to a more relevant evaluation period and look at the last ten years, AP4 has generated annual nominal return of 7.2% after expenses, equalling 5.9% in real terms. This is higher than the Board's required real return of 4.5% annually, and is also much better than the income index, see diagram on page 6.

On the whole, the AP Funds have helped strengthen the income pension system over time. In its annual evaluation of the AP Funds' operations, the Swedish government noted in the latest issue that, "without the accumulated contribution of the buffer funds, the deficit (in the pension system) would have been more than double".

In the last five years, AP4's skilled managers have delivered an active return of close to SEK 5 billion. While this could appear to be a fairly negligible contribution in light of the Fund's size of SEK 241 billion at the end of June, this additional return actually corresponds to around SEK 2,500 per pensioner in Sweden.

"A characteristic of a long-term investor ought to be the ability to withstand volatility."

A measurement method with pitfalls

Our ability to act with a long-term approach is conditional upon our operations being evaluated in a relevant manner at the same time. The government's annual evaluation of the AP Funds is now performed with three different horizons – performance since the start, five-year performance and ten-year performance. The five-year horizon is used to assess the active management, and the ten-year approach to assess the overall return.

The government also measures the risk-adjusted return, that is a measure for assessing whether the return appears satisfactory in light of the risks each Fund works with. This presents problem, however – of the kind which all asset managers have to contend with. How should the measurement of risk-adjusted return be devised to assess risk-taking accurately?

Measuring volatility (i.e. fluctuations in the price of an asset) is a common approach here. All else being equal, the lower the volatility, the higher the risk-adjusted return. While this might seem wise at first, there are as ever pitfalls that can easily lead to the wrong conclusion and – even worse – wrong investment decisions, poorer transparency, higher costs and poorer possibilities of acting with a long-term approach. Allow me to use two examples to highlight the difficulties.

As already mentioned, AP4 has successfully increased its underlying exposure to real estate to over SEK 30 billion through various unlisted real estate companies. The risk-adjusted return, that is with account taken of volatility in pricing, has been exceptionally good – much better than that demonstrated by listed Swedish real estate companies during the period. A reason for the difference is that the listed companies are quoted daily on the stock market, while the value of our unlisted holdings basically only change twice a year – at the end of June and the end of December. This means that the risk-adjusted return for two basically identical companies can differ due to the way they are quoted, and in this case the number of valuation occasions. This is fundamentally illogical.

In this special context, it could well be argued that the listed company ought to take priority and involve lower risk-taking for the very reason that it provides managers with the opportunity of increasing, reducing or selling their holdings on a daily basis. Nonetheless, the listed asset's values as quoted daily inflate the measured volatility and can thus, based on the measured risk metric alone, be perceived as more risky.

In such measurements, venture capital funds (which are fundamentally unlisted companies but most commonly much more indebted) also usually appear to be assets that generate better risk-adjusted return than an equivalent portfolio of listed equities. A strong reason for this is that venture capital funds are not quoted daily either; rather, they are valued and priced in the same way as unlisted real estate companies. It is not evident to my mind that an investment in a venture capital fund carries lower risk than one in a well-diversified, listed equity portfolio. Also, an asset manager's possibilities of controlling the investments with venture capitalists are highly limited. It can also be added that venture capital funds are a highly expensive form of management.

AP4 has a very high proportion of assets (over 90%) invested in listed equities and fixed income securities. I am convinced that, in a longer-term perspective, this will benefit who we serve and thus ultimately pensioners in Sweden, despite periodically substantial short-term fluctuations, which usually affect risk-adjusted return negatively. A characteristic of a long-term investor ought to be the ability to withstand volatility. This is also fundamental to the ability to capitalise on a long-term mandate.



Mats Andersson, CEO

Fund capital increased to SEK 241 billion

Fund capital totalled SEK 241 billion at 30 June 2013. In the January–June period, it increased by over SEK 11 billion, after net payments of SEK 3 billion to the pension system.

Change in Fund capital

SEK bn	Jan–Jun 2013	Jan–Jun 2012
Fund capital, opening balance	229.6	210.0
Net payments to the pension system	-3.1	-1.7
Profit/Loss for the period	14.4	12.2
Fund capital, closing balance	240.9	220.5

Fund capital consists of investment assets and balance sheet items from the Fund's asset management activities, including accounts payable.

Net payments to the pension system

A net amount of SEK 3.1 billion was paid out to the pension system from Fund capital during the period.

The majority of AP4's capital is invested in global and Swedish listed equities.

Market value, 30 June 2013

Management unit	Market value, SEK bn	Exposure, % 1)
Global equities	97	40
Swedish equities	37	15
Fixed income	80	33
Total tactically managed assets	214	88
Real estate	13	5
SMEs	7	3
Other strategic investments	9	4
Implementation of the strategic portfolio 2)	-1	0
Total strategically managed assets	27	12
Total investment assets	241	100

1) Exposure includes the underlying value of derivatives in tactical asset allocation for each asset class.

2) Strategic asset allocation, strategic foreign exchange exposure and cash.

Return overshoot targets

Total return overshoot long-term targets

In the past ten years, AP4 has returned close to 100% after expenses, representing an average return of 7.2% annually. After a deduction for inflation in the same period, this equals an average annual real return of 5.9%. AP4 thus overshoot the real return target decided by the Board of 4.5% annually on average over a 10-year period. The return also outperformed the income index, see diagram below.

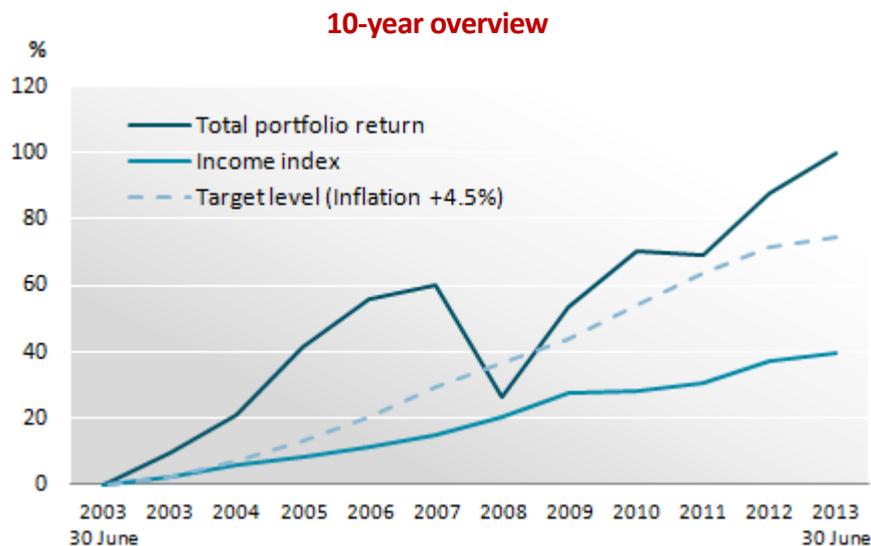
The proportion of equities is at around 65% in AP4's normal portfolio, which has a long-term investment horizon of 40 years. The high proportion of equities is crucial to the Fund's total return and risk.

Over SEK 3 billion in active return in three years

In the past three-year period, the Fund's active tactical management has generated a positive contribution of 0.6 percentage points on average. This equals a positive contribution of SEK 3 billion in the same period.

The target decided by the Board is that the Fund's active management shall amount to at least 0.5 percentage points on average over a three-year period. The active management thus overshoot the target.

Active tactical management made a positive contribution to the return of 0.1 percentage points in the January–June period. That equalled a contribution of SEK 0.3 billion.



AP4's real (inflation-adjusted) total return (the upper dark blue line) overshoot both established targets (dotted line) and the income index¹ (pale unbroken line) during the ten-year period 2003–2013.

¹ Assuming that the income index's performance over a year can be distributed equally over each six-month period. This is a simplification because the income index is based on the average real income performance in the last three years, combined with the change in the consumer price index in the past year, calculated between June one year previously compared with June two years previously.

Markets – upbeat performance with shake-ups

Stock markets around the world performed well in the first half of the year despite growing unease at the beginning of the summer. Equity markets rose sharply in January and February. The upbeat performance then continued at a slightly calmer pace until May. Both equity and fixed income markets then featured heightened jitters, resulting in substantial volatility.

The Japanese stock market was one of the best equity markets, surging 20% in local currency or over 30% in Swedish kronor. The Swedish stock market also performed well during the period, rising around 8% with small caps among the best performers.

Two reasons for the strong start to the year on stock markets was the absence of more negative news about the eurozone crisis at

the beginning of the year, and Congress' approval of a budget bill that enabled a large proportion of households to avoid tax hikes.

Emerging markets were among the stock markets which did not perform as well in the January–June period.

However, there was no lack of negative news during the period. In February, North Korea conducted a nuclear test, increasing tension in the region, and in Italy politicians failed to secure a majority in the upper house following the election. In March, the banking crisis in Cyprus was in focus. Towards the close of the period, markets were coined by fears about a greater economic slowdown in China and forthcoming economic austerity measures in the US economy.

Market rates rose during the period, and on the foreign exchange market the SEK depreciated slightly against both the EUR and USD.

Return of 6.3% – over SEK 14 billion

Total return for January–June was 6.3% after expenses, equalling a positive contribution of SEK 14.4 billion.

Total return both before and after expenses was 6.3% (5.8).

Out of AP4's various management units, the SME portfolio generated the highest return at 14.1% (6.2). The biggest contributor to total return was the Fund's global equity portfolio, at 3.7% (2.7). The sharp surge in the Japanese stock market contributed over SEK 2 billion to the global equity portfolio.

Return and contribution of assets, 1 Jan - 30 Jun 2013

Management unit	Portfolio return, %	Contribution to total return %	Contribution to profit/loss for the year, SEK bn
Global equities	9.8	3.7	8.5
Swedish equities	8.3	1.3	2.9
Fixed income	-1.0	-0.3	-0.8
Allocation 1)	0.0	0.0	-0.1
Currencies 1)	0.1	0.1	0.2
Total tactically managed assets	5.3	4.7	10.8
Real estate	8.7	0.4	1.0
SMEs	14.1	0.4	0.9
Other strategic investments	10.4	0.3	0.8
Implementation of the strategic portfolio 1) 2)	0.5	0.5	1.0
Total strategically managed assets	11.8	1.6	3.7
Total investment assets 3)	6.3	6.3	14.5

1) Portfolio return based on total investment assets.

2) Strategic asset allocation, strategic foreign exchange exposure, cash and strategic positions.

3) Profit before expenses, profit after expenses was SEK 14.4 billion.

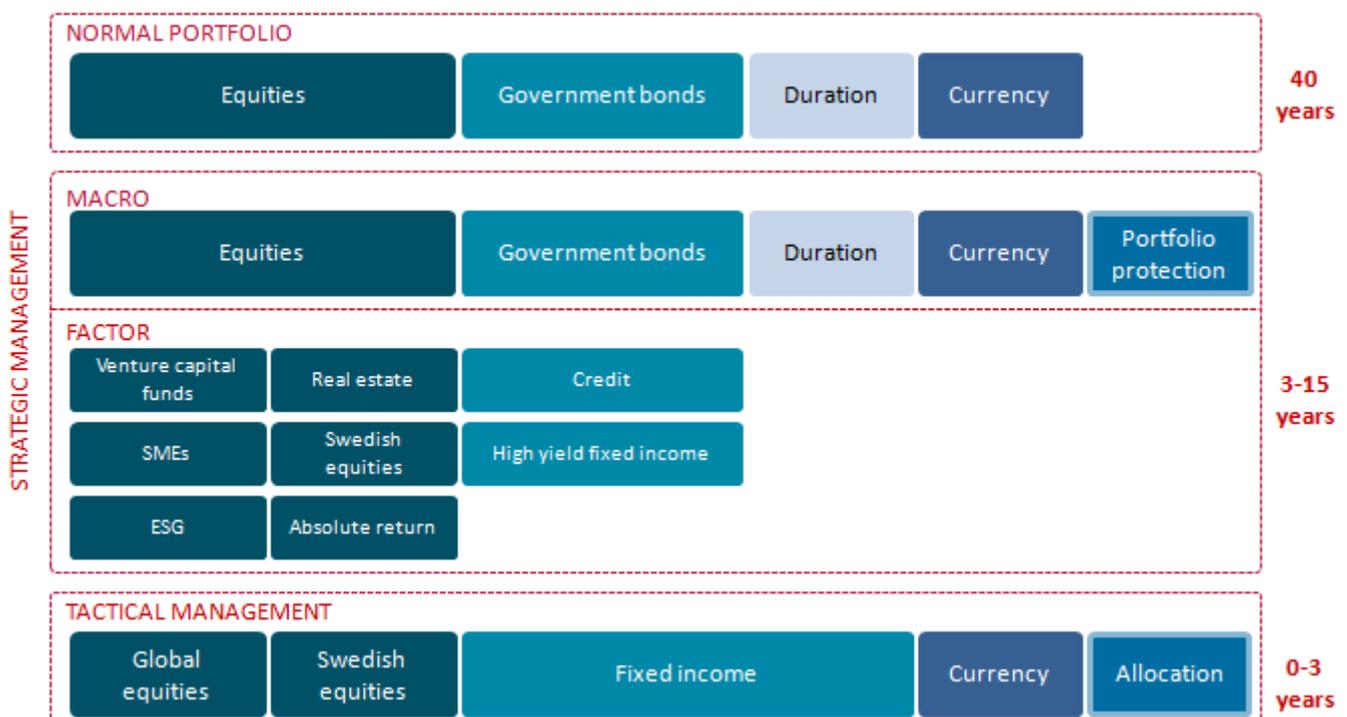
Growth in the value of AP4's assets

At the turn of the year 2012/2013, AP4's new management structure was in place. The new structure brings several important improvements.

- AP4 can better harness business opportunities with a longer investment horizon (3–15 years) and thus benefit more from the Fund's long-term mandate.
- Improved measurability of return, risk and expense, enabling better follow-up, evaluation and governance possibilities.
- The management units' structure and mandates have been developed to better capitalise on various identified business opportunities.

Thanks to the new structure, the Board can transparently follow up on and evaluate the asset management, for instance broken down into different levels with different investment horizons – the normal portfolio, strategic management and tactical management.

AP4's management structure



Asset portfolios with different investment horizons, 1 Jan - 30 Jun 2013

Management structure	Return contribution %	Risk contribution %	Operating expense ratio %
Normal portfolio	5.9	6.5	0.04
Strategic management	0.3	-0.5	0.03
Tactical management	0.1	0.1	0.04
Total portfolio	6.3	6.1	0.11

The normal portfolio – the high proportion of equities is positive

The positive return of 5.9% on the normal portfolio was chiefly attributable to the decided proportion of equities, which amounted to around 65% during the period. The proportion of equities, which determined the healthy return, also accounted for the largest proportion of the risk contribution in the normal portfolio.

Foreign exchange exposure increased in the first half of the year, mainly in USD and JPY, totalling 28.6% at the end of June. The Fund's largest foreign exchange exposures, the USD and EUR, appreciated against the SEK during the period, so foreign exchange exposure made a positive contribution the normal portfolio's return.

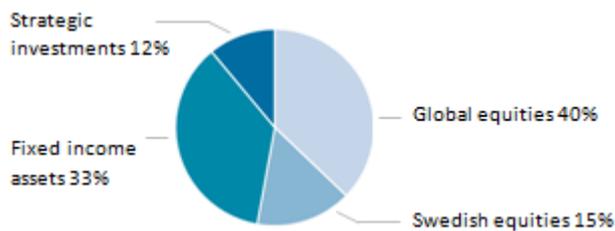
The normal portfolio is a fictitious portfolio consisting of various liquid indexes. AP4's assets are found in **strategic management** and **tactical management**.

Strategic and tactical assets

Investments in global and Swedish equities form the largest proportion of assets.

During the period, the strategic management contributed to reducing the risk in the AP4's total portfolio, while at the same time both the strategic and tactical management made a positive contribution to the Fund's total return.

The Fund's investment assets, 30 June 2013



The investments of the strategic management, see illustration above, include listed Swedish SMEs to around 3%. The allocation includes underlying values for various derivatives, which are used to continually maintain the asset allocation of the strategic portfolio.

Strategic management – a long-term mandate

The strategic management capitalises on the Fund's long-term mandate and harnesses business opportunities with an investment horizon exceeding three years. Investment horizons for the strategic positions and investments are 3–15 years. The strategic management will be evaluated over a rolling five-year period.

A reason for the longer investment horizon is that liquidity in this type of management is much poorer, and short horizons risk creating restrictions which can lead to poorer earnings. Examples of strategic investments include real estate, SME equities management, ESG (environment, social and governance) and venture capital funds.

Tactical management – creating additional return

AP4's active management of equities, bonds and currencies is mainly conducted in the tactical management. The management's task is to capitalise on pricing disparities with a view to outperforming the earnings of passive index management. The active tactical management is evaluated over rolling three-year periods.

Strategic management performed well

Strategic management outperformed the benchmark index by 0.3 (0.0) percentage points, contributing SEK 0.7 billion (0.1) to the return in the first half of the year.

The strategic management is divided into a macro portfolio and a factor portfolio, and will be evaluated over a rolling five-year period. The six months that have passed since the new strategic management was put in place are therefore a very short measurement period in this context.

Active return of the strategic management, 1 Jan - 30 Jun 2013

Strategic management areas	Contribution to active return, %	Contribution to active return, SEKm
Allocation between asset classes	-0.1	-322
Allocation within asset classes	-0.1	-140
Currency	0.1	343
Duration	0.2	352
Other	0.0	-79
Total macro management	0.0	154
Real estate	0.0	-104
SMEs	0.2	345
Other strategic investments	0.1	244
Allocation to credit	0.3	686
Allocation to Swedish equities	-0.3	-597
Total factor management	0.3	573
Total strategic management	0.3	727

Strategic macro management

The macro management made a slight positive contribution to the active return. The underweight position in JPY and AUD, overweight position in USD and short duration in relation to the normal portfolio made a positive contribution to the active return.

Strategic factor management

The factor management made a positive contribution to the active return. The greatest positive contributions came from the management's allocation to credit and SMEs.

Market value of the strategic factor management, 1 Jan - 30 Jun 2013

	Market value, SEK bn	Share of total investment assets, %
Strategic management areas		
Real estate	12.9	5.3
SMEs	6.9	2.9
Other strategic investments	8.6	3.6
Absolute return	1.5	0.6
ESG	2.2	0.9
Venture capital funds	3.0	1.3
High yield fixed income	1.8	0.8
Implementation of the strategic portfolio 1)*	-1.4	0.0
Total strategically managed assets	26.9	11.8

1) Strategic asset allocation, strategic foreign exchange exposure, cash and strategic positions.

Real estate

The Fund's unlisted real estate holding chiefly comprises Vasakronan (25% ownership holding) Rikshem (50% ownership holding) and Hemfosa (more than 15% ownership holding). The Fund has also invested in Areim II and ASE Holdings.

The activity level in the companies was high in the first six months of the year. For instance, Rikshem carried out several acquisitions, was given an A- credit rating from S&P, and issued a bond. Hemfosa is preparing for a market listing on the Nasdaq OMX.

AP4 did not make any new investments during the period.

SMEs

Swedish SMEs equities management consisted of an internal and external mandate at the end of June. AP4 did not invest further capital during the period.

Other strategic investments

Other strategic investments included the following strategic asset classes during the period:

- Absolute return
- ESG (environment, social and governance)
- Venture capital funds
- High yield fixed income

In the Absolute return asset class, AP4 made an additional investment in newly started hedge fund Carve at the end of the period. In ESG (environment, social and governance) an additional investment was made in the external equities management mandate of Japanese SMEs in the spring. No further investments were made in the asset classes venture capital funds or high yield fixed income during the period.

Implementation of the strategic portfolio

Strategic asset allocation, foreign exchange exposure, cash and other strategic positions are included under the subheader implementation of the strategic portfolio. The positions, mainly taken through derivatives, are included under the macro management.

Tactical management outperformed the index

Tactical management outperformed the benchmark index by 0.1 (0.8) percentage points, contributing SEK 0.3 billion (1.6) to return for the period.

AP4's active management of equities, bonds and currencies is chiefly conducted in the tactical management. The management's task is to capitalise on pricing disparities with a view to outperforming the earnings of passive index management. The active tactical management is evaluated over rolling three-year periods.

Active return of the tactical management, 1 Jan - 30 Jun 2013

Tactical management unit	Active return, %	Contribution to active return, SEKm
Global equities	0.15	123
Swedish equities	0.15	49
Fixed income	-0.02	-8
Active tactical allocation 1)	-0.04	-82
Active foreign exchange management 1)	0.09	206
Total tactically managed assets	0.15	287

1) Active return based on total investment assets.

The biggest contribution to AP4's active return came from the active foreign exchange management, which contributed 0.1 (0.1) percentage points. The global equities management outperformed its benchmark index by 0.2 (0.3) percentage points. The Swedish equity portfolio outperformed its benchmark index by 0.1 (0.6) percentage points.

Environmental and social issues and corporate governance

AP4 seeks to integrate environmental and social factors directly into the asset management, in both the tactical and strategic management. Such integration ensures risk awareness and enables harnessing business opportunities. Work on environmental and social matters is also pursued by the Fund's corporate governance unit in collaboration with the asset management, and through its work on the Ethical Council.

In Sweden

Active participation at shareholders' meetings

In the first six months, AP4 was represented at 49 shareholders' meetings, 44 of which were annual general meetings. The meetings of companies in which AP4 has a significant holding have top priority. For companies listed on foreign stock exchanges, the Fund exercised its voting rights at 436 shareholders' meetings. More information about AP4's participation in various Swedish shareholders' meetings is available on www.ap4.se.

AP4 on nominating committees

Representation on nominating committees is one of the Fund's most important means of exercising influence in Swedish listed companies. During the period, AP4 participated in 10 nominating committees for Swedish companies with AGMs held in 2013, chairing one of them.

AP4 participated in the nominating committees of the following companies

Company	Company
Atlas Copco	New Wave Group
Beijer Electronics	Oriflame
Concordia Maritime	Svolder
Intrum Justitia	Tradedoubler
Lundin Petroleum	Transcom

The principal task of a nominating committee is to propose a solidly assembled board; in addition to the appropriate expertise and experience, diversity is important. For several years, AP4 has actively sought to increase the proportion of women nominated to boards of listed companies. In the companies for which AP4 took part in nominating committee work during the period, the proportion of female board members averaged 23%. This was slightly above the figure of 22% for listed companies as a whole. In terms of the proportion of newly elected members in companies for which AP4 participated in nominating committee work, the proportion of females was 43% compared to 30% for listed companies as a whole.

Dialogues with companies

AP4 continued with the work it has pursued over several years on holding dialogues with companies, for instance ahead of shareholders' meetings regarding long-term remuneration and incentive programmes, and on safeguarding the preferential rights of shareholders in new share issues ahead of AGMs. Positive effects of these dialogues were visible in proposals from the companies ahead of shareholders' meetings, in many cases with better motivated terms and improved information dissemination from the companies. It can thus be considered that the Fund's work with pursuing dialogues with companies ahead of AGMs was conducted with solid results.

Sustainable value creation

Sustainable value creation is a collaborative venture between AP4 and 13 other major Swedish institutions to highlight the importance of companies working in a structured manner on sustainability in terms of both environmental and ethical matters.

In the spring of 2013, the institutions in the Sustainable value creation collaboration and the Nasdaq OMX Stockholm Stock Exchange invited the chairmen, CEOs and other company representatives of the 100 largest listed companies to a seminar on anti-corruption. The seminar was followed by round table talks in small groups, with the purpose of sharing experiences and learning from each other. More information is available at www.hallbartvardskapande.se/new/.

Abroad

AP4 works with environmental and social aspects in foreign companies.

AP4 works with environmental and social aspects, and corporate governance, in foreign companies. This work is partially conducted through the Ethical Council. The Ethical Council is a collaborative effort of AP1, AP2, AP3, and AP4 with the purpose of joint influence to achieve positive change in foreign companies through commitment and dialogue.

Both preventive dialogues and what are known as incident dialogues are conducted with foreign companies. Incident dialogues are conducted with companies which can be linked to violations of international environmental and human rights conventions.

More information about the Fund's work through the Ethical Council is available in the 2012 annual report of the Ethical Council published during the period. The report and more information about the work of the Ethical Council are available at www.ethicalcouncil.com.

In the autumn, AP4 publishes an annual report about its work on sustainability and corporate governance matters. This report provides more detailed information about AP4's work on environmental and social matters, and corporate governance.

Low expenses

AP4's management costs are, in both a domestic and international comparison with other pension managers, low and competitive.

The management cost, measured as operating expenses (annualised) as a percentage of the average fund capital value, was 0.11% (0.10). The operating expense ratio excluding commission expenses, such as fees paid to external managers and for custody accounts, was 0.07% (0.08).

Operating expenses (chiefly personnel and IT costs) have been lower in 2013 than the same period last year, amounting to SEK 88 million (90). Total expenses including commission expenses, increased to SEK 127 million (110).

Management costs

	Jan–Jun 2013	Jan–Jun 2012
Operating expenses, SEKm	88	90
Commission expenses, SEKm	39	20
Operating expense ratio, % 1)	0.07	0.08
Operating expense ratio, % 2)	0.11	0.10

1) Operating expenses (annualised) as a percentage of the average Fund capital.

2) Operating expenses including commission expenses, annualised, as a percentage of the average Fund capital.

Expenses by management structure

The expenses of the normal portfolio accounted for 40% or SEK 51 million for the period.

The expenses of the strategic and tactical management together accounted for around 60% of Fund expenses, or SEK 76 million for the period. This should be compared with the return contribution from the tactical and strategic management equalling SEK 1 billion for the same period.

Employees

At 30 June employees were 55 in number, which was six more individuals from the beginning of the year.

Accounting and valuation policies

This interim report was prepared in accordance with the accounting and valuation policies jointly prepared by the AP Funds. These are presented in AP4's 2012 annual report, available at www.ap4.se.

Figures in the tables in the January – June report have each been correctly rounded, and hence may not always sum to the totals shown.

The January – June report has not been reviewed by the Fund's auditors.

Next reporting date

The complete year-end accounts for the 2013 financial year will be released in February 2014.

Awards and nominations

AP4 received positive attention in many different contexts in the first six months, and was awarded the following prizes and nominations.

AP4's global equities management was awarded an international prize.

- **Financial News – Awards for Excellence in Institutional Hedge Fund Management Europe 2013 – Most Pioneering European Institutional Investor in Hedge Funds**

In competition with other European managers, AP4 received a prize for its global equities management.

AP4 was nominated for two different international prizes.



- **aiCIO European Innovation Awards 2013 – Asset Allocation Innovation – Asset Owners**
A4 was nominated by aiCIO (Asset International's Chief Investment Officer) for "the stance it has taken on ESG investing - in particular the low-emission portfolio - and the long-term horizon the pension has taken on relatively illiquid investments".



- **RI – Best Responsible Investor Report 2013 – Large Pension Funds**

AP4 was nominated by RI (Responsible Investors) in competition with major pension funds globally for its reporting on its sustainability and corporate governance work.



Financial information

Multi-year summary

	30 June					
Multi-year summary	2013	2012	2011	2010	2009	2008
Fund capital, flows and net profit/loss, SEK bn						
Fund capital	240.9	229.6	210.0	212.8	195.7	164.7
Net flows to the pension system and special asset management	-3.1	-3.8	-1.2	-4.0	-3.9	0.9
Profit/Loss for the period	14.4	23.4	-1.6	21.2	34.9	-43.5
Return, %						
Return on total portfolio before expenses	6.3	11.3	-0.7	11.0	21.6	-20.8
Return on total portfolio after expenses 1)	6.3	11.2	-0.7	10.9	21.5	-21.0
Operating expense ratio as a % of assets under management (annualised)						
Operating expenses	0.07	0.08	0.08	0.09	0.10	0.08
Operating expenses and commission expenses	0.11	0.10	0.10	0.10	0.11	0.11
Risk, %						
Total portfolio ex post	6.1	5.6	9.2	7.5	11.0	17.1
Liquidity portfolio ex post 2)	6.2	6.0	9.8	7.8	11.6	17.1
Sharpe ratio total portfolio ex post	0.9	1.8	neg.	1.4	1.9	neg.
Sharpe ratio liquidity portfolio ex post 2)	0.7	1.7	neg.	1.3	1.8	neg.

1) Annualised return after expenses was 6.5 % for the last five-year period and 7.2% for the last ten years.

2) Refers to liquid assets (investment assets ex alternative investments and real estate); prior to 2009 refers to all investment assets.

	30 June					
Other key ratios	2013	2012	2011	2010	2009	2008
Active return, tactical management before expenses 1)	0.1	1.0	0.2	0.8	1.4	-0.5
Inflation	-0.2	0.0	2.0	2.3	0.9	0.9
Real total return after expenses	6.5	11.2	-2.7	8.6	20.6	-21.9
Active risk ex post, tactical management	0.2	0.4	0.5	0.3	0.4	0.7
Foreign exchange exposure, %	28.6	27.7	25.7	19.8	14.6	14.5
Proportion under active management, including enhanced, %	46.7	50.2	63.6	61.2	57.7	59.7
Proportion under external management, including investments in venture capital firms, %	22.3	21.7	18.4	22.6	21.1	41.9
Number of employees at end of accounting period	55	49	52	51	53	50
Allocation of investment assets, % 2)						
Global equity portfolio	40.0	37.2	37.9	41.0	42.4	41.7
Internally managed	26.9	23.6	26.6	24.3	25.8	0.0
Externally managed	13.1	13.6	11.3	16.7	16.6	41.7
Swedish equity portfolio	15.3	15.7	17.8	18.9	18.0	18.0
Fixed income portfolio	32.9	36.1	37.3	34.0	34.9	36.8
Real estate	5.3	5.2	4.5	3.9	3.2	4.1
SMEs 3)	2.9	2.6				
Other strategic investments 4)	3.6	3.1	2.5	2.0	1.3	
Implementation of the strategic portfolio 5)	0.0	0.1	0.0	0.2	0.3	-0.6
Total investment assets	100	100	100	100	100	100

1) Tactical management corresponds to the part of the portfolio which, between 2008 and 2011, was called actively managed liquid assets. As of 2012, there are also actively management liquid assets within strategic management

2) Refers to exposure; underlying values for derivatives have been distributed by asset class.

3) Before 2012, SMEs were included in Swedish equities. As of the spring of 2012, SME management is included in strategic management.

4) Other strategic investments correspond, in 2009–2011, to what was previously called alternative investments. Before 2009, this was included in global and Swedish equities respectively.

5) Implementation of the strategic portfolio corresponds before 2012 to what was previously called foreign exchange/tactical allocation/cash.

Income statement

SEKm	Jan–Jun 2013	Jan–Jun 2012	Jan–Dec 2012
OPERATING INCOME			
Net interest income	1,502	1,769	3,467
Dividends received	2,654	2,594	3,479
Net income, listed shares and participations	9,670	4,837	13,399
Net income, unlisted shares and participations	1,219	421	1,222
Net income, fixed income assets	-2,109	946	2,057
Net income, derivatives	217	1,006	2,617
Net income, changes in exchange rates	1,352	704	-2,603
Commission expenses	-39	-20	-39
Total operating income	14,466	12,257	23,599
OPERATING EXPENSES			
Employee benefits expense	-53	-51	-109
Information and IT expenses	-19	-18	-35
Services purchased	-6	-11	-17
Costs of premises	-6	-6	-11
Other administrative expenses	-4	-4	-7
Total operating expenses	-88	-90	-179
PROFIT/LOSS FOR THE PERIOD	14,378	12,167	23,420

Balance sheet

SEKm	30 June 2013	30 June 2012	31 Dec 2012
ASSETS			
Shares and participations, listed	136,836	114,383	117,974
Shares and participations, unlisted	11,398	8,700	9,963
Bonds and other fixed income securities	84,117	83,891	86,530
Derivatives	9,435	12,224	12,869
Cash and bank balances	1,820	1,828	1,467
Other assets	288	943	332
Prepaid expenses and accrued income	1,414	1,629	1,986
Total assets	245,308	223,598	231,121
LIABILITIES AND FUND CAPITAL			
Liabilities			
Derivatives	3,952	2,057	1,205
Other liabilities	394	867	138
Deferred income and accrued expenses	83	174	147
Total Liabilities	4,429	3,098	1,490
Fund capital			
Fund capital, opening balance	229,631	209,999	209,999
Net payments to the pension system	-3,130	-1,666	-3,788
Profit/Loss for the period	14,378	12,167	23,420
Total fund capital	240,879	220,500	229,631
TOTAL LIABILITIES AND FUND CAPITAL	245,308	223,598	231,121

Further information and to contact AP4

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