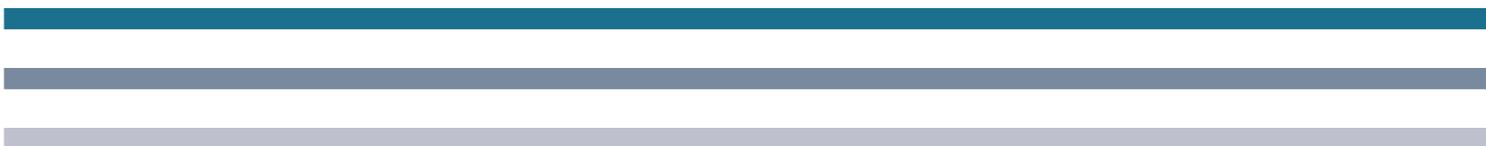


AP4's brief is to manage the Fund's capital for the best possible return over time.

During the first six months of 2011, the Fund contributed SEK 3.6 billion to Sweden's pension assets. The Fund outperformed its benchmark indexes by 0.1 percentage points, equal to SEK 0.2 billion in value added for the period.

# INTERIM REPORT

## 1 JANUARY – 30 JUNE 2011



## ABOUT THIS INTERIM REPORT

### ABOUT THIS INTERIM REPORT

Welcome to the Fourth National Pension Fund's 2011 interim report, which sums up the past six months with a focus on AP4's asset management.

The interim report is an intentionally brief summary of the past six months. You can read the interim report on-line in its web version. You can also download a PDF version - either the entire document or just the parts you want.

Every entry in the tables in the interim report has been correctly rounded, though they may not always sum to the totals shown. The figures in parentheses refer to 30 June 2010 unless stated otherwise.

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

2011 Interim Report Table of Contents [>Site map](#)

We wish all readers a fascinating reading experience.

For further information about the Fund, please visit the AP4 website at  [>www.ap4.se](http://www.ap4.se).

For in-depth information about the pension system and automatic balancing of pensions, contact the Swedish Pensions Agency:  [>www.pensionsmyndigheten.se](http://www.pensionsmyndigheten.se) and  [>www.minpension.se](http://www.minpension.se).

The Swedish Pensions Agency, the new government agency for pension issues, was formed on 1 January 2010, when the Premium Pension Authority (PPM) and the Swedish Social Insurance Agency's units for pensions were combined.

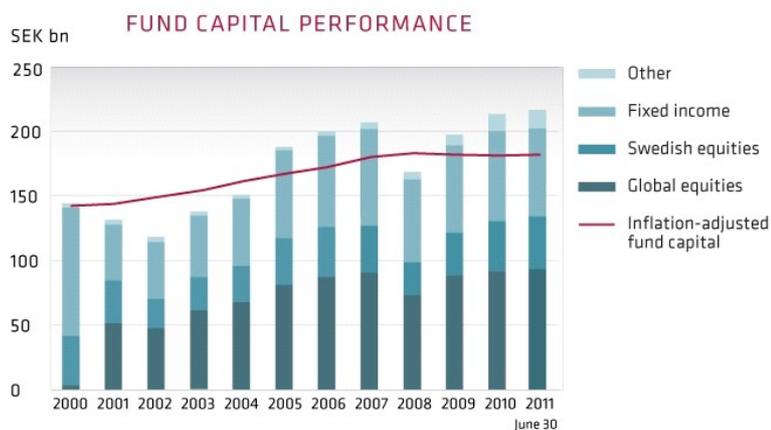
This on-line interim report was produced by AP4 in cooperation with Oxenstierna & Partners and NordicStation. Photos: Magnus Fond

## REPORT ON OPERATIONS

Key points of January–June

### KEY POINTS OF JANUARY-JUNE

- Fund capital totalled SEK 216 billion (196) at 30 June 2011. Fund capital increased SEK 3.4 billion (0.4) during the first six months, the combination of SEK 3.6 billion (2.4) in profit for the period and SEK -0.2 billion (-2.0) attributable to net payments to the pension system.
- AP4's net profit for the period was SEK 3.6 billion (2.4).
- The total return before expenses was 1.7% (1.3). The total return after expenses was 1.6% (1.2).
- The active return, that is, the return exceeding the benchmark indexes, was 0.1 (0.4) percentage points before expenses, corresponding to a contribution of SEK 0.2 billion.
- AP4's expenses totalled SEK 108 million (106). The management cost ratio was 0.10% (0.11) on an annualised basis.
- The real total return averaged 2.6% for the most recent 10-year period, which fell short of the target of 4.5% primarily because of the financial crises of 2000-2002 and 2007-2008.
- At 30 June, the Fund's foreign currency exposure was 25% (15).



The Other category includes Real estate and, from 2009, Alternative investments.  
Inflation-adjusted Fund capital is adjusted for netflows to the national pension system.

Letter from the CEO

## LETTER FROM THE CEO

In the first six months of 2011, financial markets were like a roller-coaster ride. Asset managers were tossed between hope and despair. A snapshot taken at 30 June shows AP4 earning a profit of SEK 3.6 billion. We must underscore that this is merely a snapshot, though. Current market volatility can quickly change outcomes. Following the end of the reporting period, turbulence in financial markets intensified to a degree reminiscent of the most recent financial crisis, in 2007-2008.

A range of factors is feeding the uncertainty that many investors feel in the current situation.

Of course, the sovereign debt problem in Europe is nothing new, but the market has yet to see a lasting solution to the profound problems. That is why every statement by a prime minister or central bank governor is dissected and, more often than not, has a rapid and dramatic impact on asset prices.

Even the world's biggest economy, the United States, faces significant challenges in managing the country's mushrooming national debt. Also, when China shows signs that it may no longer serve as the locomotive for the global economy, uncertainty naturally increases.

So far this year, the fixed income, foreign exchange, and equity markets have fluctuated wildly. It is a safe bet that this situation will continue for a considerable time to come.

### Long-term brief

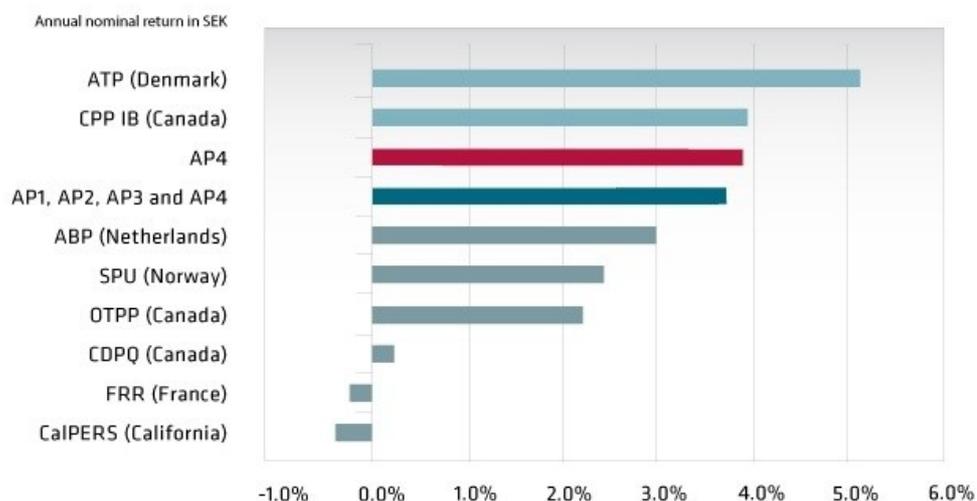
It is fairly pointless to use six-month results to evaluate the performance of asset management with a brief such as that of AP4. Our brief has an entirely different investment horizon.

Rather, allow me to review a few of the changes that the Fund has carried out in the past few years which are now starting to bear fruit.

Historically, the Fourth AP Fund has been criticised for not having delivered an acceptable active return, that is, the return compared to passive indexing. In recent years, we have fundamentally changed our processes and our strategy. The results of this transformation have been favourable. During the first six months of 2011, the contribution was SEK 0.2 billion. The corresponding statistic for the most recent 30 months is SEK 3.5 billion.

Each year, the Swedish Government commissions an assessment of the AP Funds, and this year's assessment included a comparison with eight international pension funds. The comparison reported the funds' returns as well as their costs for the period 2006-2010. Although care should be taken in drawing conclusions from such comparisons, AP4 performed extraordinarily well in this sample. No other fund had lower costs. For the return measured in Swedish kronor, we ranked third. This is a solid base for our continued work to develop and strengthen the Fourth AP Fund under increasingly problematic circumstances.

## Returns for AP1, AP2, AP3 and AP4 vs Non-Swedish Pension Funds 2006-2010



Source: McKinsey (converted to the same currency)

Efforts to incrementally apply the Fund's mandate to make investments that lock in capital for the slightly longer term are also moving in the right direction. For example, in the past four years the Fund has more than doubled its exposure to real estate. The three real estate vehicles in which we are partners - Vasakronan (25% participation), Dombron (50%), and Hemfosa (15%) - delivered a surplus contribution of more than SEK 1 billion for the first six months of 2011. Based on their limited carrying amount, less than SEK 9 billion in total, the results appear even more satisfactory.

The Fund's new and pioneering way of managing its global equity portfolio continues to impress, too.

On a longer horizon, AP4's total return still appears somewhat slim, at little more than 4% annually during the most recent 10 years, corresponding to 2.6% annually in real terms (inflation-adjusted). We did not reach our target of an average real return of 4.5% annually, though we surpassed the income index, a measure of the average change in income in Sweden. And as I have previously indicated, the Fund's long-term real return target must be evaluated using a period longer than 10 years.

Mats Andersson, CEO

Fund capital performance

## FUND CAPITAL PERFORMANCE

Fund capital totalled SEK 216 billion (196) at 30 June 2011. Fund capital increased SEK 3.4 billion (0.4) during the first six months, the combination of SEK 3.6 billion (2.4) in profit for the period and SEK -0.2 billion (-2.0) attributable to net payments to the pension system.

### CHANGE IN FUND CAPITAL SEK bn

	Jan–Jun 2011	Jan–Dec 2010
Fund capital, opening balance	212.8	195.7
Net payments to the pension system	-0.2	-4.0
Profit for the period	3.6	21.2
<b>Fund capital, closing balance</b>	<b>216.3</b>	<b>212.8</b>

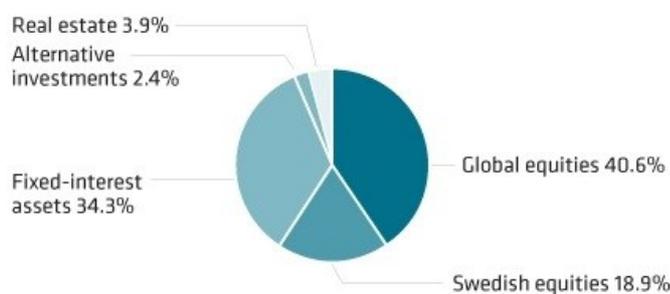
Fund capital consists of investment assets and balance sheet items from the Fund's asset management activities, including accounts payable and pension liabilities for AP4 employees.

The total return before expenses was 1.7% (1.3). The total return after expenses was 1.6% (1.2).

The highest returns were achieved by the global equity portfolio, at 2.8% (-7.1), and the fixed income portfolio, at 2.4% (4.5), while the Swedish equity portfolio had a negative return, -0.4% (6.1).

Active management outperformed the benchmark indexes by 0.1 (0.4) percentage points, contributing SEK 0.2 billion to the return. The biggest contribution to the Fund's active return came from the Swedish equity portfolio, which outperformed its benchmark index by 0.4 (-0.1) percentage points. The global equity portfolio outperformed its benchmark index by 0.2 (0.2), while the fixed income portfolio returned -0.2 (0.6) percentage points versus its benchmark index.

### ACTUAL PORTFOLIO, 30 JUNE 2011



AP4's investment assets are dominated by listed equities and interest-bearing credit. This breakdown includes the intrinsic values of derivatives used to continuously maintain the strategic portfolio's asset allocation.

In the past 10 years, the Fund has returned 49.9% after expenses, for an average return of 4.1% annually. Adjusted for inflation, this corresponds to an annual real return of 2.6%. This return falls short of the targeted real return of 4.5% per year, adopted by the Fund in 2006, mainly because of the financial crises of 2000-2002 and 2007-2008.

### Expenses remain low

The management cost ratio, excluding commission expenses, was 0.08% (0.09) on an annualised basis. Including commission expenses, such as fees paid to external managers and for custody accounts, the figure was 0.10% (0.11).

The Fund's expenses totalled SEK 108 million (106). Operating expenses increased slightly to SEK 91 million (89) and commission expenses totalled SEK 17 million (17).

## Markets

### MARKETS

Global stock markets advanced during the six-month period, rising almost 3%, though at times market activity was gripping and volatile. At the start of the year, markets reflected the political unrest in North Africa and the Middle East, pushing up oil prices more than 18% during the six months. In contrast, other commodity prices declined slightly during the period.

In mid-March, Japan suffered from a severe earthquake. The Bank of Japan and G7 governments intervened to facilitate the recovery of Japan's industry.

At times, global markets have reacted to concerns that inflation was on the rise in China and that the requisite belt-tightening might excessively slow the Chinese economy. Such a development would have major repercussions in other economies and the financial markets.

In May, the focus shifted to the escalating debt crisis in several euro-zone countries. In the spring, the immediate concern was Greece, where politicians finally agreed on a package of austerity measures, in cooperation with the EU and IMF. This helped financial markets close the period on a positive note. Greece and other heavily indebted countries face a long and challenging road to recovery, which is likely to influence markets from now on.

The Swedish stock exchange fell slightly during the period while still performing the best of the Nordic markets. As a group, emerging markets declined almost 2% during the first six months of the year. The individual emerging markets have differed greatly in returns. For example, the Russian stock market rose almost 8%, while the Brazilian market fell 10%.

Investment asset performance

## INVESTMENT ASSET PERFORMANCE

### INVESTMENT ASSETS, ALLOCATION AND RETURNS

Asset Class	Return Jan-Jun 2011		Contribution Jan-Jun 2011			Asset mix 30 Jun 2011	
	Port- folio return %	Active return %	Contri- bution to total portfolio return %	Contri- bution to profit/ loss for the year SEK bn	Contri- bution to active return %	Market value SEK bn	Expos- ure <sup>4</sup> %
Global equities	2.8	0.2	1.2	2.5	0.1	87.5	40.5
Swedish equities	-0.4	0.4	-0.1	-0.2	0.1	40.6	18.9
Fixed income	2.4	-0.2	0.8	1.7	-0.1	74.2	34.3
Tactical asset allocation <sup>1</sup>	0.0	0.0	0.0	0.0	0.0	0.3	0.0
Foreign exchange management <sup>1</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total actively managed liquid assets</b>	<b>2.0</b>	<b>0.1</b>	<b>1.9</b>	<b>4.0</b>	<b>0.1</b>	<b>202.6</b>	<b>93.6</b>
Alternative investments	11.7		0.3	0.5		5.1	2.4
Real estate	13.3		0.5	1.0		8.4	3.9
<b>Total actively managed assets</b>	<b>2.6</b>		<b>2.6</b>	<b>5.6</b>		<b>216.0</b>	<b>99.9</b>
Implementation of the strategic portfolio <sup>2</sup>	-0.9		-0.9	-1.8		0.3	0.1
<b>Total investment assets</b>	<b>1.7</b>		<b>1.7</b>	<b>3.7<sup>3</sup></b>		<b>216.4</b>	<b>100.0</b>

<sup>1</sup>) Portfolio return and active return based on total investment assets.

<sup>2</sup>) Passive tactical asset allocation, strategic foreign exchange, and cash and the strategic position.

<sup>3</sup>) Profit/Loss before expenses. The profit after expenses totaled SEK 3.6 billion.

<sup>4</sup>) Exposure includes the underlying value of derivatives in tactical asset allocation for each asset class.

### Global equity management

At 30 June, the market value of the global equity portfolio was SEK 87.5 billion (77.8), corresponding to 40.5% (39.7) of assets. The portfolio's return for the period was 2.8% (-7.1), 0.2 (0.2) percentage points better than its benchmark index.

The outperformance of global equities resulted chiefly from active management, that is, the alpha portfolio. The index portfolio developed in line with its benchmark index.

### Swedish equity management

At 30 June, the market value of the Swedish equity portfolio excluding unlisted equities was SEK 40.6 billion (34.6), corresponding to 18.9% (17.6) of Fund assets. The return for the period was -0.4% (6.1), which was 0.4 (-0.1) percentage points better than the benchmark index.

### Fixed income management

At 30 June, the market value of the fixed income portfolio was SEK 74.2 billion (75.7), corresponding to 34.3% (38.6) of assets. The portfolio's return for the first six months was 2.4% (4.5), diverging -0.2 (0.6) percentage points from its benchmark index.

Underperformance resulted primarily from fixed income management's trading in government bonds.

### Tactical asset allocation

Tactical asset allocation made a negative contribution to the Fund's return for the first six months, of -0.02 (-0.03) percentage points. Overweighting in equities and underweighting in fixed income securities during the period contributed negatively to performance.

### Foreign exchange management

Foreign exchange management made a negative contribution to the Fund's return for the first six months, of -0.02 (0.1) percentage points. Taking positions for a weaker euro and Australian dollar and against a stronger U.S. dollar adversely affected results.

Total foreign currency exposure at 30 June was 25.5% (14.8).

### Alternative investments

At 30 June, the market value of alternative investments excluding real estate was SEK 5.1 billion (3.1), corresponding to 2.4% (1.6) of Fund assets. The return during the first six months equalled 11.7% (7.6).

The appreciation was chiefly attributable to revaluations of holdings and divestments by buyout funds. During the period, AP4 pledged additional investments in Hemfosa Tetis AB, Proventus II, and Priveq IV. The Fund has previously invested in funds under these managers.

### Real estate

The carrying amount of AP4's real estate holdings is SEK 8.4 billion (6.1), corresponding to 3.9% (3.9) of assets. The return during the first six months equalled 13.3% (9.0).

The Fund's main exposure to real estate as an asset class is its 25% holding in Vasakronan. The company is owned jointly with AP1, AP2, and AP3.

During the first six months, AP4 divested 50% of the residential property management company Dombron to AMF. The Fund retains half of Dombron, thus providing long-term stable ownership for the company's future expansion.

During the first six months, the real estate and rentals market followed a positive trend.

### Strategic positions

Overall the Fund's strategic positions yielded a return contribution of 0.10 (0.27) percentage points for the first six months. "Strategic positions" encompasses asset allocation, foreign currency exposure, choice of index, and other factors.

Corporate governance

## CORPORATE GOVERNANCE

During the first six months, the Fund was represented at 54 shareholders' meetings, 52 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 383 shareholders' meetings. Voting in foreign companies is cost-effective thanks to collaboration among AP1, AP2, AP3, and AP4.

Representation on nominating committees is one of the Fund's most important means of exercising influence in Swedish listed companies. During the period, the Fund participated in 11 nominating committees for AGMs held in 2011, chairing one of the committees. The principal task of a nominating committee is to propose a balanced slate for the board; in addition to the appropriate expertise and experience, diversity is important. For several years, the Fund has actively sought to increase the proportion of women nominated to boards of listed companies. In companies where the Fund participated in the work of the nominating

committee during January-June 2011, the proportion of female directors averaged about 32%, compared to about 24% for all companies on the stock exchange.

The Fund's longstanding work to conduct dialogues with companies prior to AGMs continued to yield favourable results. In the run-up to last year's AGMs, the majority held in spring 2010, the Fund held extensive discussions with company boards about long-term remuneration and incentive programmes. As early as 2010, these discussions led in several cases to less generous terms and to improved disclosure by the companies. The positive effects of last year's discussions were also apparent in further improved proposals from the companies prior to AGMs in 2011. Dialogue with companies prior to AGMs yielded favourable results in 2011, too.

The Ethical Council is a collaborative effort of AP1, AP2, AP3, and AP4 with the purpose of working together for positive change in foreign companies that can be linked to violations of international conventions on the environment or human rights.

During the spring, the AP Funds refined the fundamental values that govern the work of the Ethical Council on environmental and ethical issues. The fundamental values of the AP Funds - and thus of the Ethical Council - proceed from the principles of involvement, action, and change with the aim of making a difference. This is a responsible and ethical approach to a Fund's role as owner. If a Fund divests a holding because of a problem, the problem will not disappear and the unsatisfactory state of affairs will remain with fewer owners who can pursue the issue and try to achieve change for the better. The fundamental values of the Swedish state and the international conventions Sweden has signed also serve as essential instruments for the Ethical Council in its efforts to ensure that the AP Funds pay proper attention to the environmental and ethical aspects of their operations.

In January-June, the Ethical Council published its annual report for 2010. The report and more information about the work of the Ethical Council are available at [www.ap4.se/etikradet](http://www.ap4.se/etikradet).

AP4 will publish a more comprehensive corporate governance report at [www.ap4.se](http://www.ap4.se) in autumn 2011.

Employees

## **EMPLOYEES**

The Fund had 52 employees at 30 June, one more than at 31 December.

Board of Directors

## **BOARD OF DIRECTORS**

At the end of May 2011, the Ministry of Finance announced that Jakob Grinbaum had been appointed deputy chairman of the Fund's Board. Jakob Grinbaum replaced Lars Frithiof, who declined re-election. Ing-Marie Gren, Stefan Lundbergh, and Lena Micko have been appointed to the Board. Elisabeth Nilsson declined re-election, and Ilmar Reepalu will resign, having served on AP4's Board for 11 years.

Next reporting date

## **NEXT REPORTING DATE**

The full annual report for the 2011 financial year is scheduled to be published on 17 February 2012.

## FINANCIAL INFORMATION

Overview

### OVERVIEW

<b>OVERVIEW</b>	<b>30 jun</b>					
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>FUND CAPITAL, FLOWS, AND NET PROFIT/LOSS, SEK BN</b>						
Fund capital	216.3	212.8	195.7	164.7	207.3	200.5
Net inflows from the pension system and special asset management funds	-0.2	-4.0	-3.9	0.9	2.0	1.7
Net profit/loss for the period	3.6	21.2	34.9	-43.5	4.8	18.8
<b>RETURN, %</b>						
Return on total portfolio excluding expenses	1.7	11.0	21.6	-20.8	2.5	10.5
Return on total portfolio including expenses	1.6	10.9	21.5	-21.0	2.4	10.4
Return on total portfolio versus index, excluding expenses	0.2	1.0	0.9	-1.1	-1.0	-0.6
Return on listed assets versus index, excluding expenses <sup>1)</sup>	0.1	0.8	1.4	-0.5	-1.2	-0.5
Inflation	1.5	2.3	0.9	0.9	3.5	1.6
Real return after expenses	0.1	8.6	20.6	-21.9	-1.0	8.8
<b>MANAGEMENT COSTS AS A % OF ASSETS UNDER MANAGEMENT (ANNUAL)</b>						
Operating expenses	0.1	0.09	0.10	0.08	0.07	0.07
Operating expenses and commission expenses	0.1	0.10	0.11	0.11	0.10	0.11
<b>RISK IN TOTAL PORTFOLIO, %</b>						
Portfolio, ex-post <sup>2)</sup>	6.1	7.8	11.6	17.1	8.6	7.1
Active risk, ex-post	0.2	0.3	0.4	0.7	0.7	0.8
Sharpe ratio <sup>2)</sup>	0.1	1.3	1.8	neg	neg	1.0
<b>FOREIGN EXCHANGE EXPOSURE, %</b>						
	25.5	19.8	14.6	14.5	14.2	15.1
<b>PROPORTION UNDER ACTIVE MANAGEMENT, INCLUDING ENHANCED, %</b>						
	61.5	61.2	57.7	59.7	93.5	100.0
<b>PROPORTION UNDER EXTERNAL MANAGEMENT, INCLUDING INVESTMENTS IN VENTURE CAPITAL FIRMS, %</b>						
	23.8	22.6	21.1	41.9	17.8	17.3
<b>NUMBER OF EMPLOYEES AT END OF ACCOUNTING PERIOD</b>						
	52	51	53	50	45	46
<b>ALLOCATION OF INVESTMENT ASSETS, % <sup>3)</sup></b>						
Global equity portfolio	40.5	41.0	42.4	41.7	42.0	42.2
Internally managed	22.9	24.3	25.8	0.0	24.2	25.1
Externally managed	17.6	16.7	16.6	41.7	17.8	17.1
Swedish equity portfolio	18.9	18.9	18.0	18.0	18.8	19.9
Fixed income portfolio	34.3	34.0	34.9	36.8	36.9	36.3
Real estate	3.9	3.9	3.2	4.1	2.4	2.3
Alternative investments <sup>4)</sup>	2.4	2.0	1.3			
Foreign exchange/Tactical asset allocation/Cash	0.1	0.2	0.3	-0.6	-0.2	-0.7
Total investment assets	100.0	100.0	100.0	100.0	100.0	100.0

1) Refers to actively managed listed assets starting in 2008 and total listed assets prior to 2008.

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

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

4) Alternative investments are included in global and Swedish equities before 2009.

## Income statement

**INCOME STATEMENT**

<b>INCOME STATEMENT SEK mn</b>	<b>Jan-Jun 2011</b>	<b>Jan-Jun 2010</b>	<b>2010</b>
<b>OPERATING INCOME</b>			
Net interest income	1,697	1,545	2,955
Dividends received	2,313	1,961	2,759
Net income, listed shares and investments	-188	-4,427	14,406
Net income, unlisted shares and investments	1,347	610	1,721
Net income, fixed income assets	617	1,463	238
Net income, derivatives	-109	-312	2,061
Net income, changes in exchange rates	-1,970	1,705	-2,775
Net commission expenses	-17	-17	-30
<b>Total operating income</b>	<b>3,690</b>	<b>2,528</b>	<b>21,335</b>
<b>OPERATING EXPENSES</b>			
Employee benefits expense	-50	-49	-101
Other administrative expenses	-41	-40	-75
<b>Total operating expenses</b>	<b>-91</b>	<b>-89</b>	<b>-176</b>
<b>PROFIT/LOSS FOR THE PERIOD</b>	<b>3,599</b>	<b>2,439</b>	<b>21,159</b>

## Balance sheet

**BALANCE SHEET**

<b>BALANCE SHEET SEK mn</b>	<b>30 Jun 2011</b>	<b>30 Jun 2010</b>	<b>31 Dec 2010</b>
<b>ASSETS</b>			
Shares and investments, listed	118,451	104,906	118,278
Shares and investments, unlisted	7,803	5,097	6,722
Bonds and other fixed income assets	78,006	79,325	75,169
Derivatives	11,906	9,867	12,150
Cash and bank balances	472	1,150	685
Other assets	670	13,128	731
Prepaid expenses and accrued income	1,754	1,663	1,840
<b>Total assets</b>	<b>219,062</b>	<b>215,136</b>	<b>215,575</b>
<b>LIABILITIES AND FUND CAPITAL</b>			
<b>LIABILITIES</b>			
Derivatives	2,110	5,584	1,720
Other liabilities	494	13,263	877
Deferred income and accrued expenses	207	128	142
<b>Total liabilities</b>	<b>2,811</b>	<b>18,975</b>	<b>2,739</b>
<b>FUND CAPITAL</b>			
Fund capital, opening balance	212,836	195,718	195,718
Net payments to the pension system	-184	-1,996	-4,041
Profit for the period	3,599	2,439	21,159
<b>Total fund capital</b>	<b>216,251</b>	<b>196,161</b>	<b>212,836</b>
<b>TOTAL LIABILITIES AND FUND CAPITAL</b>	<b>219,062</b>	<b>215,136</b>	<b>215,575</b>

Accounting and valuation policies

## **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 2010 annual report, which can be read at [www.ap4.se](http://www.ap4.se).



Box 3069 103 61 Stockholm

Tel: 08-787 75 00

[info@ap4.se](mailto:info@ap4.se)

[www.ap4.se](http://www.ap4.se)