

## Administration Report 2014

Total return for the Fourth Swedish National Pension Fund (AP4) was 15.7% after expenses in 2014. Fund capital increased to SEK 295 billion. AP4 delivered its best earnings to date of over SEK 40 billion. AP4 overshot both short- and long-term targets. The Fund's active management outperformed the index for the twelfth consecutive six-month interim period.

### Operations

The Fourth Swedish National Pension Fund's (AP4) assets comprise public funds that have statutorily been allocated to the special asset management stipulated in Chapter 9 § 8 of the Constitution. AP4 is a governmental authority whose operations are regulated in 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.

AP4 shall independently formulate its targets and strategies. By law, AP4'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 government agencies. For example, the AP funds are more independent than most other government agencies. The operations are governed by law and the AP funds have their own Boards of Directors who bear responsibility for the operations. The AP funds are reviewed by external auditors. Every year, the Government adopts the AP funds' income statements and balance sheets. The AP 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 AP4.

### 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 30 May 2014, the Government prescribed that all Board members in the Fund be re-elected, with the exception of

Charlotte Strömberg and Lena Micko, who submitted a request to step down from office in the spring of 2014. They were replaced by the appointment of Maj-Charlotte Wallin and Helene Hellmark Knutsson on 30 May 2014. In the autumn Helene Hellmark Knutsson and Roger Mörtvik submitted a request to step down from office. On 22 January 2015 Göran Zettergren and Heléne Fritzon were appointed to be new members of the board to succeed Helene Hellmark Knutsson and Roger Mörtvik.

Board members as at 22 January 2015 are Monica Caneman, Chair, Jakob Grinbaum, Vice Chair, Ing-Marie Gren, Stefan Lundbergh, Sven Hegelund, Erica Sjölander, Maj-Charlotte Wallin, Göran Zettergren and Heléne Fritzon.

### 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 AP4's policies regarding remuneration and other employment terms for all employees.

### Risk committee

At the end of 2012, the Board established a risk committee consisting of three Board members. The committee's task is to further improve communication and understanding of the financial risks of the operations. It was established when the Board delegated an extended mandate to the strategic management.

### 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. Remuneration for the risk and remuneration committees, respectively, amounts to SEK 50,000, and is equally distributed between the three members.

In addition to regular fees, the Chairman of the Board was paid a fee of SEK 40,000 for the task of representing AP4 on Nordea's nominating committee during the year.

The Board's appointment applies until the AP4's balance sheet and income statement for 2014 have been 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](http://www.ap4.se)

### Rules of procedure

The Board is responsible for the AP4'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 2014

During the financial year, the Board held 8 meetings at which minutes were recorded. As shown in the table below, attendance remained high, at around 83% on average. In the autumn/winter, the Board performed an evaluation of its work. At the Board meetings, the CEO attended as did employees of AP4 such as persons reporting and secretaries.

Board work in 2014 focused on the pension group's proposal for changes to the AP fund system, AP4's Sustainability strategy and low-carbon strategies and investments, follow-up of the continued strategic investments initiative, improved risk reporting and follow-up of AP4's regulations.

In order to provide the Board with continuous information, the CEO usually 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.

### Executive Management Committee

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 2014, consisted of four employees. The executive management committee as per 31 December 2014 is presented in the annual report, see [www.ap4.se](http://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 only payable if AP4 posts positive total earnings for the financial year. For employees, incentive-based remuneration is payable to a maximum of two monthly salaries. It is payable when clear and measurable goals have been achieved. Such salaries are based on group-oriented quantitative goals and the quantitative contribution of the

individual employee measured over a rolling three-year period. No incentive-based salaries are paid to the CEO, senior executives or the compliance officer.

Other benefits only constitute a very limited value and are offered to all employees. Examples include health insurance, group insurance and fitness subsidies. 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 pay in 2014, is provided in detail in note 6 of AP4's annual report. Furthermore, the Fund's work on remuneration matters is presented in the section "Remuneration at AP4" in the annual report.

### Policies

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

### Auditing

AP4's auditors are appointed by the Government. The current audit mandate for 2014 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 2014 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 Directors adopts an investment policy, a credit policy and a risk management plan for AP4's operations. Alongside the Swedish National Pension Funds Act, these steering documents provide a framework for the Fund's risk tolerance.

The risk and investment strategy has been devised with due consideration of AP4's overarching objective to generate the best possible return over time and thus support the stability of the pension system.

- For example, the investment policy describes AP4's management orientation through the Normal (reference) portfolio resolved by the Board, as well as return targets and risk mandates for Strategic and Tactical management. This involves an overarching framework for the operations.

- 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 Board appoints a **risk committee** which works on further improving communication and understanding of the financial risks of the operations.

The financial and operational risks are monitored and controlled in an independent unit – **Performance and Risk Control**. The unit reports directly to the CEO and Board.

The task of Performance and Risk Control is to ensure operational compliance with statutory investment regulations, the investment policy, the credit policy and the risk management plan, as well as compliance with CEO decisions in the operation. This work includes measurement

and analysis, as well as daily reporting of return and risk, in absolute terms and in relation to benchmarks, as well as reporting any infringements on prevailing regulations.

Performance and Risk Control is divided into a risk analysis function and a compliance function.

**The risk analysis function** is responsible for analysis, control and reporting of chiefly market risks.

**The compliance function** is responsible for complying to rules with monitoring and control of financial risks such as credit risk and liquidity risks. The compliance function is also responsible for monitoring the operational risks in the investment operations, and ensuring compliance with regulations relating to these risks.

#### Other information

In the section Risk Management and in note 20 of the AP4's 2014 annual report, a more detailed overview is provided of different financial and operational risks. The annual report is available at [www.ap4.se](http://www.ap4.se).

## BOARD MEETINGS 2014

	20 Feb	9 Apr	16 May <sup>3)</sup>	11 June	11 July <sup>3)</sup>	20–21 Aug	14 Oct	27 Nov	Fee received SEK '000
Monica Caneman, Chairman <sup>1</sup>	X	X	X	-	X	X	X	X	117
Jakob Grinbaum, Deputy Chairman <sup>2</sup>	X	X	X	X	-	-	X	X	91
Ing-Marie Gren, member of the Board <sup>2</sup>	X	X	X	-	X	X	X	X	67
Stefan Lundbergh, member of the Board <sup>2</sup>	X	X	X	X	X	X	X	X	67
Lena Micko, member of the Board	-	-	X						25
Roger Mörtvik, member of the Board <sup>1</sup>	X	X	X	X	X	X	-		50
Charlotte Strömberg, member of the Board <sup>1</sup>	-	X	X						33
Sven Hegelund, member of the Board <sup>1</sup>	X	X	X	X	X	X	X	-	54
Erica Sjölander, member of the Board	X	X	X	X	X	X	X	X	50
Maj-Charlotte Wallin <sup>1</sup>				X	X	X	X	X	29
Helene Hellmark Knutsson.				X	X	X	-		12

<sup>1)</sup> The fee received includes the fee from the remuneration committee.

<sup>2)</sup> The fee received includes the fee from the risk committee.

<sup>3)</sup> The meeting was held by correspondence.