

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

2010 was yet another strong year for the Fund, and its contribution to the national pension system exceeded SEK 21 billion.

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## ABOUT THIS ANNUAL REPORT

### ABOUT THIS ANNUAL REPORT

Welcome to the Fourth National Pension Insurance Fund's 2010 annual report, which sums up the past year with a focus on AP4's asset management in 2010.

The annual report is an intentionally brief summary of the past year. You can read the 2010 annual 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 annual report has been correctly rounded, though they may not always sum to the totals shown.

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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 annual report was produced by AP4 in cooperation with Oxenstierna & Partners and NordicStation. Photos: Magnus Fond

## REPORT ON OPERATIONS

AP4 at a glance

### AP4 AT A GLANCE

The Fourth Swedish National Pension Fund (AP4) is one of five buffer funds in the national pension system. The Fund's brief is to manage Fund capital so as to generate the best possible return over time for Swedish pensioners and thus support the stability of the pension system.

### 2010 GOALS

Based on its brief, AP4 has formulated two overall goals.

- The Fund's total return in real terms - that is, adjusted for inflation - shall average 4.5% per year over a 10-year period. According to the Fund's analyses, this is the return required for the pension system's assets and liabilities to balance in the long run.
- The Fund shall achieve an active return - that is, a return exceeding its benchmark index - of 0.5 percentage points per year.

### OPERATIONS

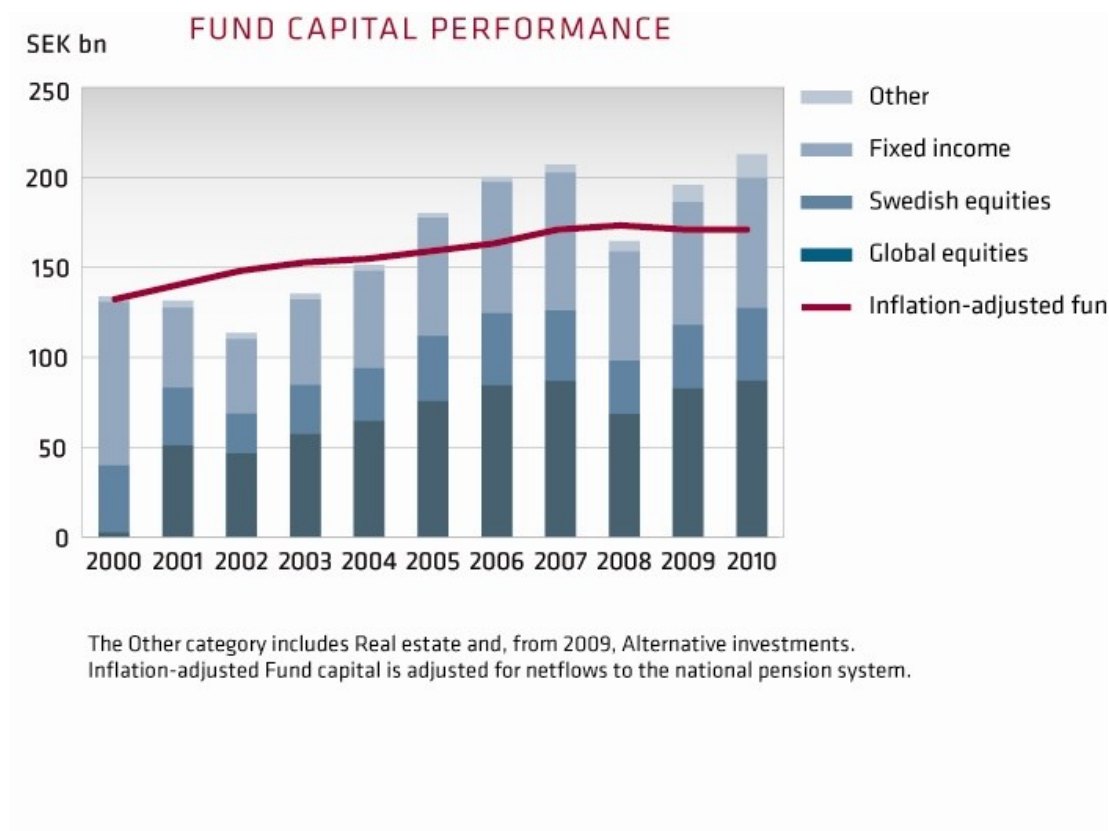
The Fund is a governmental authority whose operations are regulated in the Swedish National Pension Funds Act (2000:192). The Government appoints all nine of the Fund's Board members, and the Ministry of Finance continually supervises and evaluates the Fund's operations.

The Fund shall independently formulate its targets and strategies, and 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.

### FUND CAPITAL

At year-end 2010, Fund capital totalled SEK 213 billion. The Board has decided that the Fund will best fulfil its long-term asset management brief by holding a large proportion of publicly quoted equities, Swedish and foreign. At year-end, equities accounted for 60% of assets. Fixed income securities accounted for 34% of assets. The remaining 6% was invested in other assets such as real estate, private equity funds, and other alternative investments.

## Images in this section



## Key points of 2010

### KEY POINTS OF 2010

- Fund capital increased SEK 17.1 (31.0) billion, to SEK 212.8 (195.7) billion.
- The total return was 11.0% (21.6) before expenses. The total return after expenses was 10.9% (21.5). The real (inflation-adjusted) total return equalled 8.6% (20.6).
- The real total return averaged 2.0% during the preceding 10-year period, which fell short of the target of 4.5%, mainly as a result of the financial crises of 2000-2002 and 2007-2008.
- The active return, that is, the return exceeding the benchmark index, equalled 0.8 percentage points (1.4) before commission expenses, surpassing the Fund's 2010 target by 0.3 percentage points (1.0).
- The Fund's operating expenses totalled SEK 176 million (174), which equates to an operating expense ratio of 0.09% (-0.10).
- At year-end, the Fund's foreign currency exposure was 19.8% (14.6).
- The Fund's net profit for 2010 totalled SEK 21.2 (34.9) billion.

The year in brief

## **SEK 1.4 BILLION EARNED THROUGH ACTIVE MANAGEMENT**

2010 was another profitable year for the Fund, which can be seen as confirmation of the success of the Fund's previous change initiative. The continued recovery of global stock markets and excellent active returns in all management areas gave rise to the Fund's healthy return.

Fund capital totalled SEK 212.8 (195.7) billion at year-end, an all-time high for the Fund since its reorganisation in 2001. It should also be noted that the Fund disbursed almost SEK 8 billion net to the pension system in 2009 and 2010. The Fund's net profit, in other words its contribution to the national pension system, equalled SEK 21.2 (34.9) billion.

AP4's active management comfortably outperformed its 2010 targets. It was gratifying that all management areas contributed to earnings. As a whole, active management contributed SEK 1.4 (1.9) billion.

2010 was distinguished by extremely low interest rates, continued financial uncertainty with bailouts of indebted European states, robust industrial growth, and rising equity prices. The ample appreciation of the Fund's assets largely resulted from the continued favourable development of global stock markets during the year. The Fund benefited from a high equity allocation of about 60% and from its exposure to the Swedish stock market.

## **TOTAL RETURN EQUALLED 11.0%**

The total return for the full year was 11.0% (21.6). AP4's real return during the period 2001-2010 averaged 2.0% annually. Thus the Fund did not achieve its long-term target of 4.5% on average during the 10-year period. The Fund suffered chiefly from sharp downturns in stock markets worldwide during the financial crises of 2000-2002 and 2007-2008.

## **COMPETITIVE OPERATING EXPENSES**

Cost-efficiency is always important, and alternative ways of working and generating value added are assessed continually. AP4's operating expenses totalled SEK 176 million (174). This corresponded to a cost level of 0.09% (0.10) in relation to the average value of Fund capital, which is a competitive and low level even internationally.

## Images in this section

**INVESTMENT ASSETS, ALLOCATION AND RETURNS**

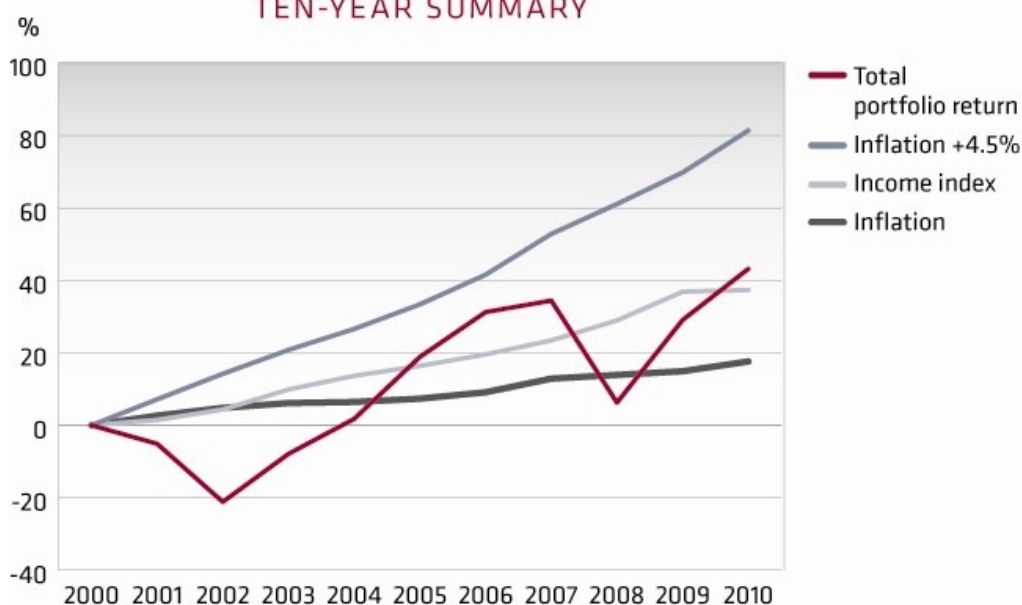
Asset class	Return, Jan-Dec 2010		Contribution, Jan-Dec 2010			Asset mix 31 dec 2010	
	Portfolio return %	Active return %	Contribution to total portfolio return, %	Contribution to profit/loss for the year SEK bn	Contribution to active return, %	Market value, SEK bn	Exposure, % <sup>4</sup>
Global equities	9.8	0.36	3.9	7.7	0.16	85.8	41.0
Swedish equities	27.0	0.98	4.6	8.9	0.18	40.3	18.9
Räntebärande	4.3	0.76	1.6	3.1	0.32	71.3	34.0
Fixed income <sup>1</sup>	0.0	0.04	0.0	0.1	0.04	0.3	0.0
Active foreign exchange management <sup>1</sup>	0.1	0.10	0.1	0.2	0.10	0.0	0.0
<b>Total actively managed liquid assets</b>	<b>11.0</b>	<b>0.80</b>	<b>10.3</b>	<b>19.9</b>	<b>0.80</b>	<b>197.6</b>	<b>93.9</b>
Alternative investments	13.0		0.2	0.4		4.3	2.0
Real estate	22.1		0.8	1.5		8.2	3.9
<b>Total actively managed assets</b>	<b>11.4</b>		<b>11.3</b>	<b>21.8</b>		<b>210.1</b>	<b>99.8</b>
Implementation of the strategic portfolio <sup>2</sup>	-0.3		-0.3	-0.4		2.8	0.2
<b>Total investment assets</b>	<b>11.0</b>		<b>11.0</b>	<b>21.3<sup>3</sup></b>		<b>212.9</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 as well as reversal of a SEK 96 million provision for losses on securities lending and the strategic position.

<sup>3</sup>) Profit/Loss before expenses. The profit after expenses totalled SEK 21.2 billion.

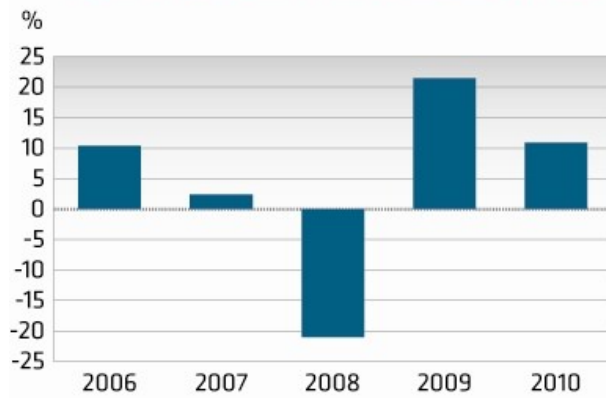
<sup>4</sup>) Exposure includes the underlying value of derivatives in tactical asset allocation for each asset class.

**TEN-YEAR SUMMARY**

The Fund's cumulative total return since its reorganisation in 2001 exceeds both inflation and the income index. It does not satisfy the long-term targeted return which, in nominal terms, equals inflation plus 4.5% per year.



### TOTAL RETURN AFTER EXPENSES



The Fund's total return after expenses closely tracked trends in global stock markets during the period.

### ACTIVE RETURN



The Fund's active return, its return in proportion to its benchmark index, has turned around following two years of work for internal change and in 2009 outperformed its benchmark index as well as its internal target.

Letter from the CEO

## **2010 - A TRULY GREAT YEAR FOR AP4**

The Fourth Swedish National Pension Fund contributed more than SEK 21 billion to the pension system, and the Fund's active management outperformed its benchmark index by 0.8 percentage points, equal to more than SEK 1.4 billion in value added. The Fund's exposure to equities and especially the Swedish stock market aided performance.

Events in financial markets took a number of dramatic turns. At the end of 2008, few if any believed that in only two years we would see the recovery of most of the substantial losses in asset prices that followed the global financial crisis. Fortunately the situation has stabilised, and worst case scenarios no longer feature in discussions. However, world economic recovery is uneven as well as fragile, and threats still cloud the outlook.

Massive efforts by governments and central banks, benchmark interest rates at record lows, and extremely easy monetary policy have helped risky assets appreciate sharply in the past two years. Equities clearly outperformed fixed income assets in 2010. The Swedish stock exchange stands out in a global perspective and once again performed extraordinarily well, rising more than 25%. The global index, measured in Swedish kronor, increased just slightly more than 6%.

## **RECORD LEVELS FOR FUND CAPITAL**

I am proud to report that AP4 beat its benchmark index for the second year running and, at the end of 2010, had Fund capital totalling almost SEK 213 billion. Adjusted for the net outflow from the Fund to the national pension system, capital under management has never been greater. The Fund's large exposure to equities and the Swedish stock market obviously benefited performance.

The Fund's return for 2010 equalled 11%, or more than SEK 21 billion in earnings. That comfortably surpassed the Fund's required long-term real return of an average of 4.5% annually. However, the Fund has yet to reach this target averaged over the most recent 10-year period. The repercussions of two serious financial crises in the most recent decade left indelible marks.

For an asset manager the size of AP4, the business year is filled with challenges related to asset management and returns but is also sprinkled with red-letter events, and 2010 was no exception.

Undoubtedly most gratifying were the results delivered by the Fund's active management, that is, the return compared to the results of passive management, which totalled 0.8 percentage points. In hard cash, active management contributed more than SEK 1.4 billion for 2010.

For the second year in a row, all management areas outperformed their corresponding indexes.

## **INDIVIDUALS BEFORE MODELS**

Asset managers apply different strategies for reaching their targets. At AP4 an objective assessment of the asset management structure each year is a vital part of efforts to produce excellent reproducible results. A pillar of our strategy is our focus on the individual rather than

on the model. We try to find individuals whose asset management models work, rather than interesting theoretical models that individuals are supposed to adapt to.

An example illustrates how this philosophy allows widely differing management models.

AP4's Swedish equity portfolio is managed in-house based on a model resembling a classical equities fund, a model that many theoreticians nowadays disparage but one that works well for us with our current staff.

AP4's global equity portfolio is managed in a wholly different manner. In various ways that have been pioneering at times, a new management structure has been built up under new leadership. Here the Fund uses only external managers, with the goal of achieving earnings through active management, that is, outperforming the index. The strategy for the global portfolio is based in part on differentiating between market risk (beta) and the ability to generate earnings through active management (alpha). The results so far look very promising.

Overall performance in financial 2010 shows that both the Swedish and global equity portfolios achieved active earnings that undoubtedly satisfy the Fund's targets, but their paths differed widely in terms of asset management strategy.

Another red-letter event in the past year was AP4's purchase of the property company Dombron. The company owns properties with a total market value exceeding SEK 5 billion and specialises in the acquisition and development of residential properties as well as public buildings, the latter often leased long-term to Swedish municipalities or county councils. I am convinced that investment in this type of real estate over time will provide a relatively secure cash flow and thus stable earnings. This can help balance the dramatic fluctuations that AP4's earnings experience because of the high proportion of listed shares.

Considering AP4's long-term brief, Dombron could easily become an interesting actor in a market where ever more actors take an increasingly short-term approach to the investment horizon and returns. The aim is also to find one or more new partners during 2011 who can help develop this property company.

## **OWNER RESPONSIBILITY BEYOND NOMINATING COMMITTEES**

AP4's long-term mandate requires certain behaviour from us as owners. One apparently eternal, often debated question concerns how much latitude financial institutions have as owners and how they should exercise that role. More often than not, this debate is based on the role of investors in listed companies in Sweden. I am convinced that institutions such as AP4 fulfil an important ownership role and that we and our institutional colleagues have often helped to create the steadily improving Swedish model for corporate governance.

At AP4 we use different strategies to reach our goals as owners, too. For global equities, the Fund collaborated with AP1, AP2, and AP3 to establish the Ethical Council. Here the AP Funds work together - and even together with other international institutions - to expand their possibilities for successfully pursuing their agenda. Separately, our holdings in individual foreign companies are normally quite small. Thus without cooperation, our voice would never be heard.

In contrast, in Sweden AP4 has been one of the largest institutional investors ever since its launch in the 1970s. Thus the Fund has completely different possibilities for exerting influence, though we recognise our limitations. There are other owners who are better equipped to take

a long-term and active ownership role, such as families who are majority shareholders.

From time to time, though, we financial institutions end up in situations where there is **no long-term owner such as those and we must play a larger role.** One recent example is TradeDoubler. AP4 gradually accumulated a shareholding that made us one of the three largest investors by the end of 2008. Towards the end of this year, it turned out the company's problems were bigger than was reflected in the market. When the gravity of the problems came to light, the company's three largest shareholders - Alecta, AMF, and AP4 - came together and established a close relationship with the board.

Today TradeDoubler has a largely new board, which in turn has appointed new company management. The company's financial stability has been restored following a new share issue. Trust in the company has been gradually restored among investors in the market. It is still too soon to draw final conclusions from the management of this crisis. Neither can one draw a general conclusion from this example that institutional investors are suitable for taking chief responsibility for listed companies. On the other hand, one could claim that three institutional investors in the listed company TradeDoubler assumed responsibility that far exceeded their duties on the nominating committee, the traditional platform where large financial institutions in Sweden exercise their ownership role.

In summary, 2010 was largely a successful year for AP4. However, challenges are not lacking in the coming financial year. We will face them with great humility. Granted, the nightmare scenarios for the global economy have dispersed, but threats to several financial markets are gathering on the horizon, as I noted in my introduction.

A handwritten signature in black ink, appearing to read 'Mats Andersson', with a stylized flourish at the end.

Mats Andersson, CEO

The market

## **2010 - A YEAR OF GROWTH AND STOCK MARKET ADVANCES**

Economic growth showed impressive strength around the world in 2010, reaching almost 5%. Both consumption and investment increased, though most forecasts at the start of the year anticipated the opposite. Ongoing low interest rates, healthy corporate profits, and attractive valuations contributed most to advances in many stock markets worldwide.

### **SURPRISINGLY ROBUST PERFORMANCE**

After outstanding performance in 2009, few people believed yet another year of advances was in store for global stock markets. Stock markets advanced smartly primarily in the latter part of 2010. The first six months were all the more unstable, and investors swung between hope and despair. The main concern was overall economic development, and the prophets of doom were many. Several of these people stubbornly asserted that the global recovery would falter and that we would soon enter a new major recession. But that did not happen. Instead, statistics indicated better than anticipated economic development. To be sure, unemployment remained high in many countries, but despite that the economic climate gradually improved, and key industrial production expanded during most of the year. Interest rates, which were already extremely low at the start of the year, continued to decline. Though interest rates rose slightly towards year-end, they were still lower than at the start.

### **ONGOING RECOVERY IN THE UNITED STATES**

The US economy, which had suffered a deep slump, continued to show signs of recovery. The improvement was not without setbacks, though, which at times caused great concern in financial markets. During the year, the United States took a range of actions to calm financial markets and stimulate the labour market and growth. The temporary tax breaks introduced by the previous administration were extended, and payroll taxes were reduced. In addition, the Federal Reserve introduced a comprehensive stimulus package late in the autumn. The United States also repeatedly promised to pursue a sustained expansive financial policy for a long time.

### **EURO ZONE BESIEGED**

In the spring, the public finances of European states attracted intense interest. The financial situation in certain countries had deteriorated. The situation was far from clear, but in general some countries in southern Europe had acute financial problems. Greece, Ireland, Portugal, and to some extent even Spain occasionally came under severe fire this past year. An extended period of very low interest rates contributed to economies overheating. High indebtedness and large deficits in public finances finally made the situation in these countries untenable. In May, the International Monetary Fund (IMF) and EU agreed to a crisis package and later in the year a decision was made to also set up an emergency fund for euro states in crisis.

### **CHINA'S ECONOMY GROWS APACE**

In the latter part of 2010, investor concerns increased over developments in China, whose robust growth exacerbated inflation worries. However, China took numerous measures to cool down its economy. Investors then became concerned that the brakes applied would prove excessive. Combined with perceptions that Chinese stock markets were relatively

overvalued following a long rally, these worries led to Chinese stocks performing weakly, especially during the latter part of the year.

## **MARKETS ADVANCE**

All Nordic stock exchanges performed extremely well in 2010; engineering companies in particular drove the rally. Engineering companies the world over achieved outstanding results in general. Countries whose stock markets retreated during the year included Greece, Italy, Spain, Portugal, and Ireland.

Emerging markets performed well in general with a few exceptions, such as China. Some of the best stock markets during the year were the Russian and Indian markets. The Korean stock market was also one of the absolutely best in the world in 2010, which was especially impressive considering the tense political situation between South and North Korea.

## **CURRENCIES AND GOLD**

Currency markets also experienced dramatic changes. The euro weakened when the financial crisis flared up in Europe in the spring. The euro bottomed out in June, after which it recovered somewhat during the latter half of the year. The Swedish krona appreciated against almost all major currencies, except for the Japanese yen.

In commodity markets, the price of gold rose sharply during the year. Investors, who often turn to gold as a refuge in times of great uncertainty, drove up the price. Industrial consumption of gold is modest, as is its impact on the price of gold.

Long-term goal

## **REAL TOTAL RETURN - THE FUND'S PARAMOUNT GOAL**

AP4's goal is to achieve an average real total return of 4.5% per year in the long run. That is the return that the Fund estimates is required for increases in pensions to keep up with the income index.

The Fund's real (inflation-adjusted) targeted return is based on analyses of how the pension system's assets and liabilities are expected to develop during the next 40 years. If pensions are to be able to increase at the same pace as the income index, AP4 estimates that all the AP Funds together must contribute a real total return of at least 4.5% per year to the pension system. This is also why the Fund's overriding financial target is a 4.5% real total return on average. Ideally the return target ought to be evaluated over an entire financial cycle. The length of these cycles cannot be determined for certain, so the Fund has chosen an evaluation period of 10 years; perhaps the Fund need an even longer period for the evaluation.

## **TARGET DEMANDS BIG EQUITY ALLOCATION**

To make it possible to achieve the return target, the Fund invests about 60% of its capital in equities. Equities are anticipated to provide a higher return in the long run than fixed income assets do. The proportion of equities may seem high, but because the AP Funds together are responsible for only a little more than one-tenth of the pension system's assets, equities constitute about 7% of the system's total assets. This is a small equity allocation considering the long investment horizon for pension funds.

## **MISSING THE LONG-TERM TARGET**

During the 10-year period 2001-2010, the Fund's real return averaged 2.0% per year, which was less than the target of 4.5%. The return fell short of the Fund's target because that period included two financial crises: 2000-2002 and 2007-2008. The significant impact of these events on the Fund's real return is apparent from the fact that in 2012, even with a zero real return in 2011 and 2012, the Fund could exceed the target of a 4.5% average real 10-year return. This is because the deep market downturn of 2001-2002 would no longer be included in the evaluation period.

## **FINANCIAL TURBULENCE LEAVES ITS MARK ON 2011 PENSIONS - DESPITE THE AP FUNDS' HIGH RETURNS**

Declining payments into the pension system as a consequence of weak employment and a falling consumer price index were the main reasons the value of pension system assets dropped below liabilities at the end of 2009. To prevent the system from becoming underfinanced, this activated the system's automatic balancing mechanism, popularly referred to as "the brake". The effects of the 2009 brake will not be felt until 2011, when pensions will be reduced for many pensioners. At the same time, the AP Funds' high returns in 2009 (more than 19% or SEK 136 billion) will cause pensions to be higher in 2011 than they would have been otherwise.

## **TIGHT MARGINS IN THE PENSION SYSTEM**

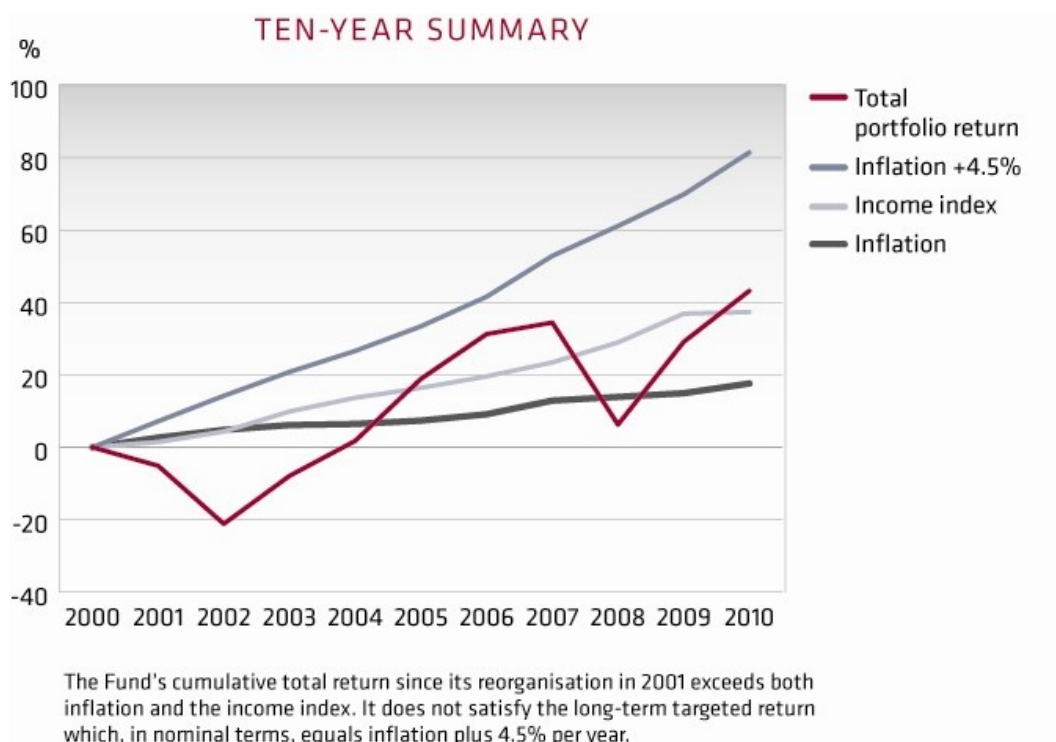
Margins in the pension system are tight, and there is always the risk that a year of extreme stock market fluctuations, such as 2008, will activate the brake. On the other hand, if the AP Funds were not invested in assets with a high return, the system would have been

underfinanced back in 2004 and 2007, activating the brake then. In the long run, though, factors other than the AP Fund's returns are the main influence on the system's stability. Such factors are the number of gainfully employed and pensioners, the retirement age, nativity rates, life spans, and immigration.

## AP FUNDS PAY SEK 16 BILLION NET TO THE PENSION SYSTEM

In 2010, the AP Funds paid a total of SEK 16 billion net to the pension system. Since 2009, disbursements to current pensioners have been larger than payments into the pension system from current wage earners. According to forecasts by the Swedish Pensions Agency, the net outflows from the AP Funds will continue each year until the mid-2040s. One important reason for this is that the post-war generation is now approaching retirement age. When these "boomers" leave the labour force, they will stop paying income pension contributions and start receiving their pensions.

### Images in this section





Investment policy

## **INVESTMENT POLICY**

The investment policy, adopted by the Riksdag, is the same for AP1, AP2, AP3, and AP4 and entails the following.

- The Funds may invest in all listed and transferable instruments traded in capital markets except commodity-based instruments.
- At least 30% of fund assets must be invested in fixed income securities with low credit and liquidity risk.
- A maximum of 40% of Fund assets may be exposed to currency risk.
- A maximum of 10% of Fund assets may be exposed to a single issuer or group of issuers that are interrelated.
- Holdings of equities issued by listed Swedish companies may not exceed 2% of total market capitalisation.
- The fund may own shares corresponding to no more than 10% of voting rights in any single listed company.
- No more than 5% of Fund assets may be invested in unlisted securities, and such investments must be made indirectly via venture capital firms and the like. Shares and investments in real estate companies are excepted from this rule.
- At least 10% of Fund assets must be managed by external asset managers.

Administration report

## **ADMINISTRATION REPORT**

The Fourth Swedish National Pension Fund (AP4) annually submits an Administration Report containing those parts of the Swedish Code of Corporate Governance appropriate for the Fund.

AP4's Board of Directors, comprising nine regular members, is appointed by the Government and is responsible for the organisation and the management of AP4's funds. At the end of May, the Ministry of Finance announced that Jakob Grinbaum had been appointed to the Fund's Board of Directors. Jakob Grinbaum replaces Inga Persson, who had been a member of the Board since 2000 and declined re-election. In the beginning of July, Elisabeth Nilsson was appointed to the Fund's Board.

>Board member presentations.

The Board has delegated responsibility for day-to-day management to AP4's CEO, who has an executive management committee of eight employees to support him in the decision-making process.

>Executive Management Committee presentation.

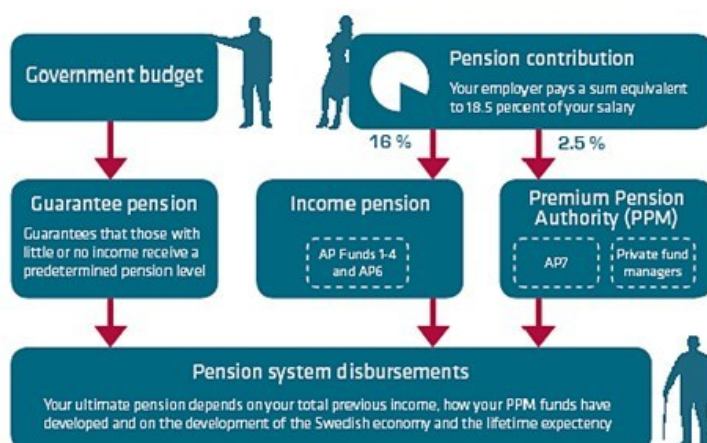
AP4's auditors are appointed by the Government. The current audit mandate for 2010 is valid until the income statement and balance sheet for 2010 are adopted. The auditors report to the Fund's Board and to the Ministry of Finance.

The 2010 Administration Report can be downloaded here

>Administration Report.

## INCOME PENSION SYSTEM

AP4 is part of the Swedish income pension system. The Fund's brief is to manage Fund capital so as to generate the best possible return over time for Swedish pensioners and thus support the stability of the pension system.



The income pension system is a distribution system in which pension contributions paid in by the gainfully employed during the year are used to pay out pensions to pensioners the same year. The surpluses and deficits that arise when contributions deviate from disbursements are handled by the AP Funds, which is why they are often referred to as "buffer funds".

For the income pension system to function reliably for numerous generations, the assets must be as large as the liabilities. In simple terms, future pension contributions make up about 90% of assets, while the AP Funds' assets constitute the remaining 10% or so. The liabilities correspond to the value of paid-in contributions, increased by the pension system's internal rate of return (IRR). As a rule, the IRR is made up of changes in an income index, but when the automatic balancing mechanism (ABM, or "the brake") is activated, the IRR decreases.

The AP Funds' operations are regulated in legislation. Each year, the Ministry of Finance evaluates the AP Funds' operations and reports to the Riksdag. The purpose of having five separate AP Funds is to spread risk in the pension system, to prevent excessive concentration of ownership in the Swedish economy, and to foster creative competition among the Funds. Each Fund has wide latitude for independently formulating its targets and strategies, and by law each 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.

## REPORT BY THE BOD

Operations

### FUND CAPITAL INCREASED SEK 17 BILLION

2010 was yet another strong year for AP4, and its contribution to the national pension system equalled SEK 21.2 billion. At year-end, the Fund's capital equalled SEK 212.8 billion, total return 10.9% after expenses.

### FUND ACTIVITIES

Good performance in 2010 and 2009 indicates that the management organisation is moving in the right direction, though an assessment ought to cover a longer period.

The Fund's new asset management organisation is set apart by broadly accepted processes, clear targets, an explicit division of responsibilities, and - not least important - modified management strategies and improved measurement of risk and return.

The Fund conducts corporate governance work proactively to safeguard and grow the capital invested. The Fund strives to participate actively in numerous annual general meetings, serve on nominating committees, and in other ways contribute to the ongoing dialogue surrounding corporate governance.

Work on sustainability issues is also becoming increasingly prominent, as business ethics and sustainability are crucial to the assessment of risks and potential profitability in future investments.

### FUND CAPITAL INCREASED SEK 17 BILLION

Fund capital increased SEK 17.1 billion, to SEK 212.8 (195.7) billion. Change in fund capital consists of profit/loss for the year, in other words the return for the year less management expenses, as well as the net payment to the pension system. The excellent return for the year resulted primarily from the recovery of stock markets worldwide.

The Fund benefited from an equity allocation of about 60% and its ample exposure to the Swedish stock market. Active management also contributed SEK 1.4 billion in that all sub-portfolios outperformed their benchmark indexes. Net payments to the pension system totalled SEK 4.0 billion (3.9).

#### CHANGE IN FUND CAPITAL SEK bn

	2010	2009
Fund capital, opening balance	195,7	164,7
Net payments to/from the pension system	-4.0	-3.9
Net profit/loss for the period	21.2	34.9
<b>Fund capital, closing balance</b>	<b>212,8</b>	<b>195,7</b>

### YET ANOTHER YEAR OF HIGH RETURNS

Total return for 2010 reached 11.0% (21.6) before expenses and 10.9% (21.5) after expenses. This return corresponded to a management return of SEK 21.2 billion (34.9).

The single most important factor behind the healthy return was the Fund's decision to maintain a high equity allocation, about 60%, during the year. The decision to allocate about 19% to the Swedish stock market also had a major impact on the good total return. The Swedish equity portfolio delivered a whopping 27.0% (53.8), contributing 4.6 percentage

points to the Fund's total return of 11.0%. Investments in real estate and the global equity portfolio also delivered a healthy return. Real estate earned a 22.1% (-1.4) return, the global equity portfolio 9.8% (26.8).

### Active management outperformed targets

The active return totalled 0.8 percentage points (1.4), comfortably outperforming the Fund's established targets for the second year running. Consequently, the active return contributed SEK 1.4 billion (1.9) to the management return.

The different sub-portfolios' total and active returns are shown in the table below. All sub-portfolios outperformed their benchmark indexes and thus generated significant value added through active management.

#### RETURN BY TYPE OF ASSET

Asset class	Portfolio return, %		Active return, %	
	2010	2009	2010	2009
Global equities	9.8	26.8	0.4	0.6
Swedish equities	27.0	53.8	1.0	0.7
Fixed income	4.3	3.9	0.8	1.9
Active tactical asset allocation <sup>1)</sup>	0.0	0.0	0.0	0.0
Active foreign exchange management <sup>1)</sup>	0.1	0.1	0.1	0.1
Alternative investments	13.0	7.8		
Real estate	22.1	-1.4		

1) Portfolio return and active return based on Total investment assets.

The global equity portfolio's active management, alpha management, started in the autumn of 2010. After extensive work on a unique platform, alpha asset management got off to an excellent start.

The Swedish equity portfolio performed well for the second year in a row. The active return totalled 1.0 (0.7), contributing mightily to the Fund's active earnings. Management thereby surpassed the established targets.

Fixed income management once again delivered extremely robust active earnings. The active return totalled 0.8 percentage points (1.9), by a wide margin exceeding the management target, which has been 0.3 percentage points in recent years.

For the fourth year running, foreign exchange management achieved its active return target of 0.1 percentage points of the market value of investment assets, a remarkably stable active return.

### LOW OPERATING AND EMPLOYEE BENEFITS EXPENSES

The management cost, measured as operating expenses divided by average fund capital, equalled 0.09% (0.10).

Including commission expenses, such as fees paid to external managers and for custody accounts, the ratio was 0.10% (0.11). The Fund's management cost, with and without commission expenses, is low and competitive in domestic as well as international comparisons.

### CHANGES IN STAFFING

After two years at relatively high levels, employee turnover returned to more normal levels in

2010. At year-end, the Fund had 51 (53) employees.

Lower expenses

## **LOWER EXPENSES TO MAINTAIN THE STRATEGIC ASSET ALLOCATION**

The Fund dedicates significant resources to making the actual portfolio (excepting the active strategic positions) reflect the asset allocation and foreign exchange exposure of the strategic portfolio. One reason this demands resources is hedging; another is that the values of different assets change in different ways, which changes their weighting in relation to one another. Thus the Fund has to continuously make changes in investment assets to maintain the preferred asset weightings.

The cost of implementing the strategic portfolio, which is passive management, continued to decline during the year. The main reason was additional improvements in the Fund's routines. In 2010, the small positions taken in relation to the benchmark (a result of implementation) produced a contribution to earnings that more than offset their cost. Thus implementation of the strategic portfolio yielded an overall positive contribution to Fund earnings of SEK 0.1 billion (-0.3), corresponding to a return contribution of 0.1 percentage points (-0.2).

Significant events

## **SIGNIFICANT EVENTS FOR THE FUND IN 2010**

### **Acquisition of Dombron**

AP4 acquired Bostadsaktiebolaget Dombron, taking control of the company on 1 July. The seller was Vasakronan, a company in which AP4 owns 25% of the shares. At the time of acquisition, Dombron owned and managed residential properties valued at more than SEK 5 billion. Property holdings were concentrated in Uppsala, Stockholm, and Gothenburg. The objective is for Dombron to significantly increase its exposure to housing and "public buildings". The Fund intends to invite one or more pension fund managers who can contribute to developing Dombron to become partners.

### **New platform for active management of global equities**

In 2010, an entirely new structure was introduced for the Fund's active global equities management. The strategy is based on alpha-beta separation. This means that the external managers engaged have a mandate to generate active returns (alpha) only while maintaining market neutrality (beta). The new management structure got off to an extremely promising start.

Collaboration between the AP Funds

## **COLLABORATION BETWEEN THE AP FUNDS**

One of the basic ideas behind managing assets in an income pension system was that several buffer funds would diversify risk and performance would benefit from creative competition among the Funds. At the same time, it was feared that, because of its size, an extremely large fund might have a negative impact on the way the Swedish capital markets work.

Ever since the pension system was reorganised in 2001, AP1, AP2, AP3, and AP4 have worked closely together in different areas that did not affect competition between the Funds.

The most extensive example of this cooperation is the Funds' work on environmental and ethical issues through their Ethical Council.

It is vital that AP4's operations continue to be run in a cost-effective manner, which embraces opportunities for efficiency gains through administrative collaboration with the other AP funds. However, such collaboration must be devised so that it does not limit the possibility of competition among the Funds.

Aided by external consultants, AP1, AP2, AP3, and AP4 have jointly carried out a thorough analysis to obtain solid background data for their approaches to expanded administrative cooperation. The Funds share the external consultants' conviction that some savings can be achieved through more coordination but that such coordination demands relatively large investments and entails significant risk in setting up. Questions concerning the control and priorities of coordinated administration could cause future problems as the Funds' operations increasingly diverge.

Consequently, to deepen their existing cooperation, the AP Funds resolved during the year to establish a separate forum for collaboration with the aim of reducing expenses through increased transparency and coordination within the framework of their existing organisations. Joint working groups for all back-office functions are connected to this forum. AP6 and AP7 also participate in this collaboration.

Asset allocation

## **ASSET ALLOCATION IN THE LONG, MEDIUM, AND SHORT TERM**

The Fund's asset allocation, in other words the proportion of equities in relation to fixed income assets and other types of asset such as real estate, is estimated to produce 80%-90% of total return in the long run. The Fund invests significant resources in analysis to optimise the allocations among various types of asset.

Because the investment horizon for pension assets is very long, up to 40 years, the asset allocation analysis is broken down into three timeframes. This approach is intended to better utilise the opportunities and manage the limitations in long, medium, and short-term analyses. For each investment horizon, the Fund determines an optimal asset portfolio.

Long term

### **LONG TERM - NORMAL PORTFOLIO**

The normal portfolio indicates the asset allocation that will yield the best anticipated return in the long run based on the Fund's analyses.

To derive the normal portfolio's asset allocation, the Fund analyzes the income pension system's total assets and liabilities using asset liability modelling (ALM). In simple terms, future pension contributions make up about 90% of assets; the AP Funds' assets constitute the remaining 10% or so. The liabilities of the pension system correspond to the value of paid-in contributions plus the pension system's internal rate of return (IRR), normally an income index. >See Income pension system.

A pension is earned and consumed over a long period, and the Fund's ALM analyses use forecasts of future contributions to and disbursements from the pension system in a 40-year perspective. Examples of factors that steer these forecasts are the number of pensioners and employable persons, unemployment, immigration, the number of births, and the expected returns and risks on various types of asset.

AP4's Board adopts the normal portfolio with the aim of contributing the greatest benefit possible to the pension system. ALM analysis shows that the AP Funds can best contribute to the pension system if they invest long-term in assets with good anticipated returns, though this may entail higher risk in the short run.

Based on the results of the ALM analysis, the Board has decided that the normal portfolio should have a high proportion of equities, that fixed income assets should have a large proportion of investment-grade corporate bonds, and that the Fund should invest in fixed income instruments of long maturity. The Board's decision means the Fund should allocate about 60% of assets to equities in the long run. An equity allocation of 60% in the AP Funds may seem high, but it translates into an equity allocation of about 7% for the pension system as a whole. Thus the income pension system, in the opinion of the Fund, has a modest exposure to stock market risk.

At the end of December 2010, AP4's normal portfolio consisted of 61.6% equities, 34.5% fixed income assets, and 3.9% real estate.

During 2010, the normal portfolio delivered a return of 9.7%. The healthy return was primarily



attributable to the Fund's large equity allocation and chiefly the large proportion of Swedish equities. Thus the Fund benefited from strong performance especially in the Swedish stock market. Had the normal portfolio consisted of fixed income assets alone, the return for 2010 would have been 3.5%. The long-term decision to invest in equities thus added 6.2 percentage points to the return, corresponding to a contribution of SEK 12 billion to profit for the year.

Medium term

## MEDIUM TERM - STRATEGIC PORTFOLIO

The Fund's strategic portfolio is used as a tool to achieve, in the medium term, an even better return than the normal portfolio's. The Fund starts with the normal portfolio's asset allocation and adapts it to fluctuations in capital markets and medium-term forecasts of returns on various assets.

Differences in asset allocation between the normal portfolio and the strategic portfolio constitute strategic positions. The Fund also takes strategic positions in the form of medium-term investments, such as when using derivatives to improve the Fund's overall risk exposure. The Board decides on the strategic positions with a special mandate for the CEO.

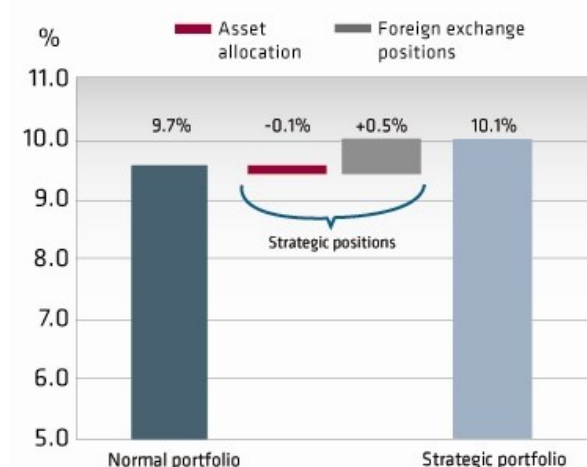
## THE FUND'S STRATEGIC POSITIONS IN 2010

The strategic positions, which can be divided into asset allocation and foreign exchange positions, contributed 0.3 percentage points (-0.9) to the return for the entire year; in other words, the strategic portfolio returned 10.1% (20.6), compared to the normal portfolio's 9.7% (21.5).

The normal portfolio's and the strategic portfolio's returns, as well as the returns contributed by strategic positions, appear in the diagram on the right.

Images in this section

## RETURN AND RETURN CONTRIBUTIONS ON THE MODEL PORTFOLIOS 2010



Short term

## SHORT TERM - ACTUAL PORTFOLIO

The actual portfolio contains the Fund's investment assets.

The benchmark index for the actual portfolio is the strategic portfolio, which is a model portfolio consisting of a different index for each type of asset. Thus the allocations among types of asset and markets are decided primarily by the strategic portfolio's asset mix, though differences result from decisions made in active management.

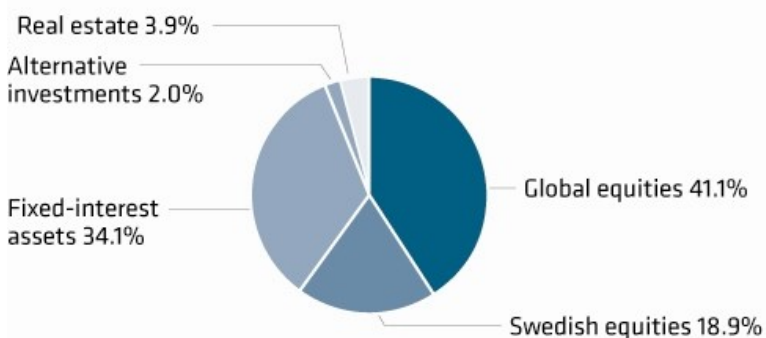
The majority of active management mandates invest in comparison with a benchmark index. This means that risk and return targets are set, measured, and assessed against a benchmark index derived from the strategic portfolio. Exceptions to the above are active tactical asset allocation, active foreign exchange management, and parts of the active global equities management.

Each year, every asset management unit at the Fund undergoes an objective assessment of its possibilities for generating an active return. Important choices made in the actual portfolio include whether to have active or passive management and whether to manage in-house or externally. At year-end, 61% (58) of the Fund's investments was managed actively, while 39% (42) was managed passively. 23% (21) of assets was managed externally.

The active return for 2010 equalled 0.8 percentage points, thus outperforming its target by 0.3 percentage points. The Fund's actual portfolio had a market value of SEK 212.9 billion (195.8) at year-end.

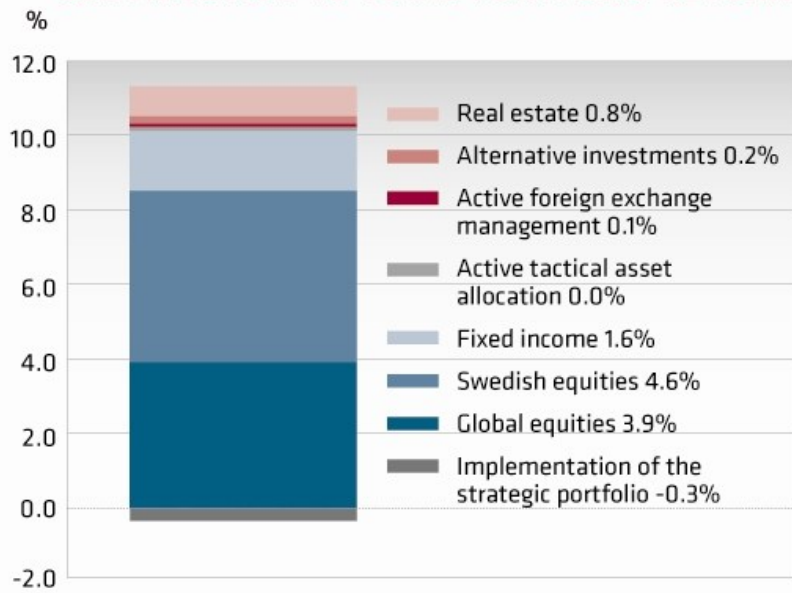
### Images in this section

#### ACTUAL PORTFOLIO, 31 DEC 2010

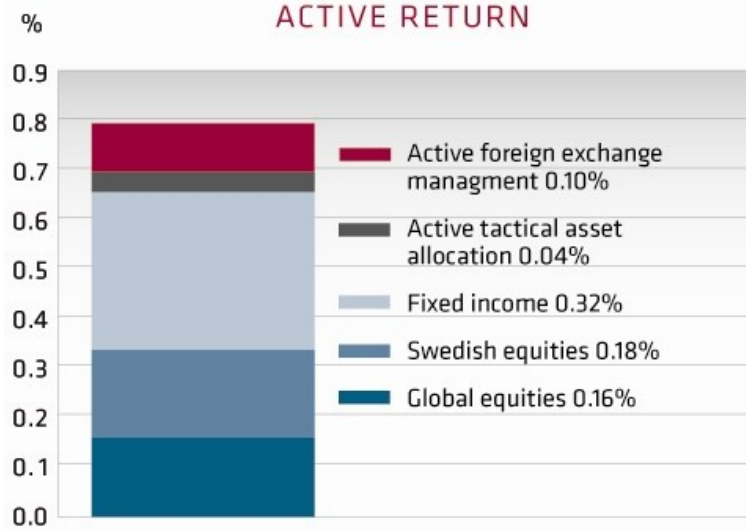


AP4's assets are dominated by listed equities and interest-bearing corporate bonds. This breakdown includes underlying values for various derivatives and forward contracts used to continuously maintain the strategic portfolio's asset allocation.

### CONTRIBUTION TO TOTAL PORTFOLIO RETURN



### ACTIVE RETURN



## FACTS IN BRIEF - ASSET ALLOCATION

### Normal portfolio

Investment horizon: 40 years

**Purpose:** The normal portfolio indicates the asset allocation and currency mix yielding the best anticipated return in the long run.

**Asset allocation:**

Determined based on analyses of all assets and liabilities in the pension system. The normal portfolio's asset allocation is estimated to determine 80%-90% of the Fund's return.

**Contains:**

Model portfolio containing different indexes.

**Benchmark index:**

**Positions:**

**Deciding authority:**

Adopted by the Board of Directors once a year.

**2010 return:**

9.7%

### Strategic portfolio

Investment horizon 3-5 years

**Purpose:** The return should exceed the normal portfolio's return in the medium term.

**Asset allocation:**

Based on the normal portfolio's asset allocation, adjusted for prevailing economic conditions and medium-term forecasts of returns.

**Contains:**

Model portfolio containing different indexes.

**Benchmark index:** Uses the normal portfolio as its benchmark.

**Positions:**

Strategic positions, that is, deviations from the normal portfolio, such as in asset allocation, foreign exchange exposure, and choice of index.

**Deciding authority:**

Decided by the Board of Directors with a special mandate for the CEO.

**2010 return:**

10.1%

### Actual portfolio

Investment horizon <1 year

**Purpose:** In active management, a manager strives to achieve a better return by deviating from the index and taking positions, such as when pricing disparities appear in the market.

**Asset allocation:**

Reflects the strategic portfolio's asset allocation and currency mix.

**Contains:**

Contains the actual investment assets.

**Benchmark index:** Uses the strategic portfolio as its benchmark.

**Positions:**

Active positions are taken in managing the sub-portfolios.

**Deciding authority:**

Investment officers responsible for asset management within the framework of the mandates assigned by the Board.

**2010 return:**

11.0%

Returns on investment assets

## RETURNS ON INVESTMENT ASSETS

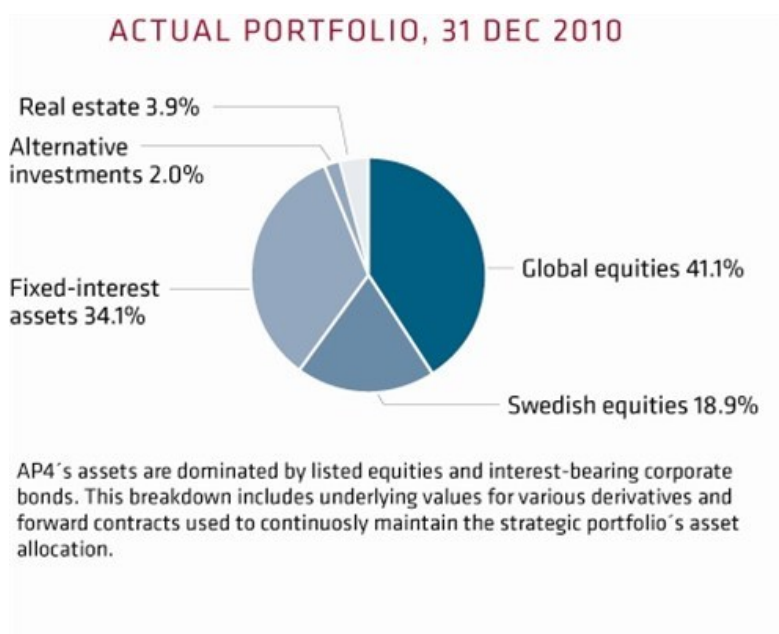
For a description of the Fund's management areas, please see under each sub-heading.

Asset class	Portfolio return %	Active return %	Sharpe ratio, 12-month portfolio	Information ratio, 12 months
Global equities	9.8	0.4	0.7	6.0
Swedish equities	27.0	1.0	1.4	1.6
Fixed income	4.3	0.8	1.4	1.0
Active tactical asset allocation <sup>1)</sup>	0,0	0.0	-	1.0
Active foreign exchange management <sup>1)</sup>	0.1	0.1	-	1.5
<b>TOTAL ACTIVELY MANAGED LIQUID ASSETS</b>	11.0	0.8	1.2	2.5
Alternative investments	13.0			
Real estate	22.1			
<b>TOTAL ACTIVELY MANAGED ASSETS</b>	11.4			
Implementation of the strategic portfolio <sup>2)</sup>	-0.3			
<b>TOTAL INVESTMENT ASSETS</b>	11.0			

1) Portfolio return and active return based on Total investment assets

2) Passive tactical asset allocation, strategic foreign exchange and cash as well as reversal of a SEK 96 million and strategic position

The diagram below shows investment asset allocation.



Global equity

## GLOBAL EQUITY MANAGEMENT

At year-end, the market value of the global equity portfolio equalled SEK 85.8 billion (82.8), corresponding to 40.3% (42.3) of Fund assets. The return for the full year was 9.8% (26.8), outperforming the benchmark index by 0.4 percentage points (0.6). That corresponded to an active profit contribution of SEK 277 million. The positive active return was attributable to index and risk management in-house as well as to the external alpha management that commenced during the year.

### GLOBAL EQUITY MANAGEMENT HAS BEEN SEPARATED INTO ALPHA AND BETA MANDATES.

The beta management (index management) is done mostly in-house. Active management, the source of alpha returns, is provided by external specialists with a specific market-neutral mandate from AP4. Thus, the Fund's internal alpha and beta management focus on choosing external managers, portfolio composition, and indexing.

### INDEX PORTFOLIO MANAGED MOSTLY IN-HOUSE

The index portfolio is managed using a good system infrastructure and low risk and has delivered a positive active return. Internal index management has major advantages over external. Besides cost benefits, including transaction costs, there are efficiency gains in portfolio composition and a noticeable relative advantage in index rebalancing, for example.

### ACTIVE MANAGEMENT IS CONDUCTED USING EXTERNAL ABSOLUTE RETURN STRATEGIES

The active management, the alpha portfolio, is conducted by external managers applying only absolute return strategies. Good portfolio composition can achieve the benefits of diversification. The alpha portfolio that started in September 2010 outperformed by a wide margin the Fund's required return.

#### FIVE LARGEST HOLDINGS IN THE GLOBAL EQUITY PORTFOLIO, 2010-12-31

	Market value, SEK mn	Percentage of global portfolio
EXXON MOBIL CORP	1,134	1.6
Apple INC	898	1.3
Microsoft Co	662	0.9
ROYAL DUTCH SHELL PLC	628	0.9
Nestle	617	0.9
<b>Total</b>	<b>3,940</b>	<b>5.6</b>

Swedish equity

## SWEDISH EQUITY MANAGEMENT

At year-end, the market value of the Swedish equity portfolio excluding unlisted equities was SEK 40.3 billion (35.9), corresponding to 18.9% (18.4) of Fund assets. The five largest holdings in the portfolio were H&M, Nordea, Volvo, Ericsson, and TeliaSonera which together constituted more than 30% of the portfolio.

The return for the full year was 27.0% (53.8), which was 1.0 (0.7) percentage point better than the benchmark index and corresponded to SEK 323 million in active profit contribution. All mandates in equity management contributed positively to the high active return.

At year-end, asset management was divided into three large-cap mandates and one mandate with small and mid-cap companies. All four mandates can invest a portion of their portfolio outside the benchmark index in Nordic equities. The proportion of holdings outside Sweden totalled 4.5% at year-end, somewhat higher than at the preceding year-end. During the year, Swedish equities began to lend equities.

### THE LARGE CAP PORTFOLIO RETURNED ALMOST 26%.

Large cap portfolio management contributed a return of 25.9% (50.3), which was 0.7 percentage points (0.0) better than the benchmark. The active return was positive primarily towards the end of the year. All large-cap mandates appreciated. Overweighting in cyclical consumer goods, commodities, and energy, and underweighting in banks had a positive impact on the active return. Overweighting in MTG, Lundin Mining, Tricorona, SKF, Ratos, and Enquest, and underweighting in TeliaSonera, Handelsbanken, and Nordea contributed positively to the active return.

### THE PORTFOLIO OF SMALL AND MID-CAP COMPANIES RETURNED MORE THAN TO 33%

The portfolio of small and mid-cap companies returned 33.1% (79.4), 2.8 percentage points (6.9) better than its benchmark. Underweight positions in SAS, KappAhl, and Alliance Oil, and overweighting in Munters, Biovitrum, Haldex, Academedia, and Rezidoor had a positive influence on the active return.

#### FIVE LARGEST HOLDINGS IN THE SWEDISH EQUITY PORTFOLIO, 2010-12-31

Company	Market value, SEK mn	Percentage of Swedish portfolio
H&M	3,045	7.6
Nordea	2,775	6.9
Volvo	2,589	6.4
Ericsson	2,308	5.7
TeliaSonera	2,183	5.4
<b>Total</b>	<b>12,900</b>	<b>32.0</b>

Fixed income

## FIXED INCOME MANAGEMENT

The Fund's fixed income portfolio had a market value of SEK 71.3 billion (67.9) at year-end. The return for the full year ended at 4.3% (3.9), which was 0.8 (1.9) percentage points better than the benchmark. That translated into an impact of SEK 534 million on earnings.

The high active return was mainly attributable to trading on interest rate volatility, overweighting in corporate bonds, and positions taken between different markets, including the markets for government and corporate bonds.

Fixed income management is divided into a number of mandates, each of which is managed with their own responsibility for risk and earnings.

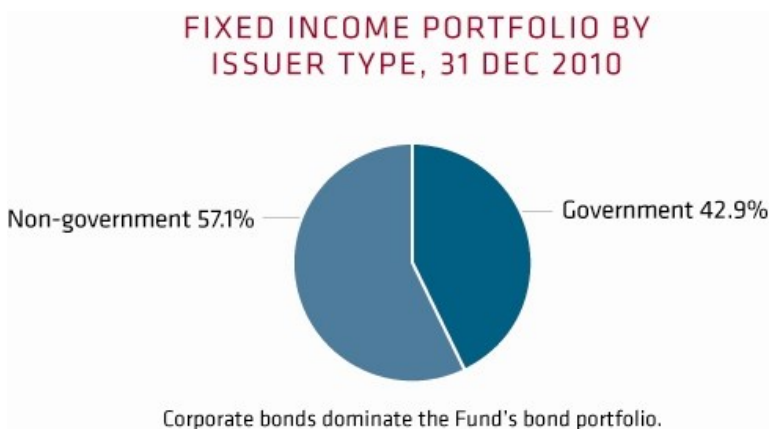
## POWERFUL MARKET FLUCTUATIONS BENEFITED PERFORMANCE

2010 was the year when previous powerful stimuli from central banks and governments were supposed to produce a sustainable recovery after the deep global crisis of 2009. In the first part of the year, recovery was unreliable, leading to more stimuli. The latter half of the year provided a clearer picture, with rising equity markets and interest rates and advancing energy and commodity prices. Several countries that had been less affected by the crisis began to tighten their purse strings because of stronger growth and rising inflation. The costs of the vigorous stimuli and bailouts in several countries in the West increased risk premiums for these countries and resulted in rising borrowing costs.

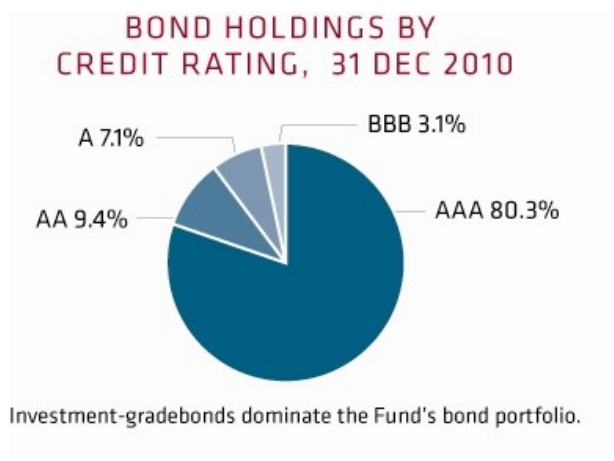
## CONTINUED OVERWEIGHTING IN CORPORATE BONDS

At year-end 2010/11, the fixed income portfolio was still overweight in corporate bonds versus government bonds. This position reflects the Fund's belief in continued wide or decreasing spreads between interest on government bonds and various corporate bonds. In addition, these portfolios were underweight and underweight in different countries' bonds. Bond holdings distributed by type of bond and credit rating are shown in the diagram in the right-hand column.

### Images in this section







Tactical asset allocation

## TACTICAL ASSET ALLOCATION

Tactical asset allocation made a positive contribution of 0.04 percentage points (0.03) to the Fund's return for 2010, which translated into an impact of about SEK 85 million on earnings. Long positions in equities and short positions in fixed-income securities during the latter half of the year were the main contributors to the positive results.

In tactical asset allocation, the Fund takes positions in different asset classes to achieve the highest possible return, given a carefully structured level of risk. The tactical allocation is managed as an independent management mandate with an absolute return target related to the Fund's total assets.

Foreign exchange

## FOREIGN EXCHANGE MANAGEMENT

Foreign exchange management is divided into active and strategic management. The active return for the full year totaled 0.10 (0.11) percentage points, corresponding to a positive contribution of SEK 199 million to earnings.

### ACTIVE FOREIGN EXCHANGE MANAGEMENT

Active foreign exchange management is divided into two mandates: one foreign exchange mandate and one interest rate risk mandate.

The independent foreign exchange mandate has an absolute return target related to the Fund's total assets. This mandate contributed 0.07 percentage points (0.11) to the Fund's earnings, corresponding to an impact of SEK 140 million. The results were mainly attributable to long positions in the US dollar, Swedish krona, and Swiss franc and short positions in the euro.

The interest rate risk mandate actively manages interest rate risk in the book for forward currency contracts and implements and rebalances currency exposure in a cost-effective manner. This mandate contributed 0.03 percentage points to the Fund's earnings, corresponding to an impact of SEK 59 million. The results were mainly attributable to positions taken in short-term interest rates for euros and SEK.

## STRATEGIC FOREIGN EXCHANGE MANAGEMENT

Strategic foreign exchange management hedges part of the Fund's foreign assets according to the foreign currency exposure approved by the Board.

At year-end 2010/11, the Fund's foreign currency exposure, that is, the proportion of assets in foreign currencies not neutralised by hedges, equalled 19.8% (14.6) of total assets.

Real estate

## REAL ESTATE

AP4's investments in real estate chiefly consist of Vasakronan, in which the Fund owns 25%, and Dombron.

AP4 owns the property management company Vasakronan jointly with AP1, AP2, and AP3. Vasakronan is Sweden's biggest property owner, and AP4's holding has a carrying amount of SEK 8.2 billion.

For financial year 2010, the Fund's holding in Vasakronan gave a return of 22.1% (-1.4), corresponding to an impact of SEK 1,478 million on earnings.

During the year, AP4 acquired the property company Dombron from Vasakronan. Dombron manages and develops residential properties. Its property holdings, valued at more than SEK 5 billion at year-end, are concentrated in Uppsala, Stockholm, and Gothenburg. The goal is for Dombron to expand in the housing and public buildings segments. Public buildings are properties under long-term lease, more often than not with Swedish municipalities or county councils as the tenants.

Besides Vasakronan and Dombron, AP4 owns 15% of the property company Hemfosa. At year-end, the Company owned property with a carrying amount totalling SEK 9.2 billion.

Overall the property and rentals markets are showing clear signs of recovery. Rent levels as well as required yields in the sector have improved. It is noteworthy that the number of transactions grew appreciably during the year.

Alternative investments

## ALTERNATIVE INVESTMENTS

The market value of alternative investments was SEK 4.3 billion (2.6) at year-end, corresponding to 2.0% (1.3) of total Fund assets. Total return equalled 13.0% (7.8), which translates into an impact of SEK 449 million on earnings.

Continued economic growth and robust stock markets in 2010 also raised the valuations of private equity holdings.

The management of alternative investments is divided into two sub-portfolios: private equity funds and "opportunistic investments". The sub-portfolio for opportunistic investments was established in 2009 to capitalise on opportunities that arose in the wake of the financial crisis.

Alternative investments are mainly unlisted and are made using longer valuation metrics and investment horizon than the Fund's publicly quoted assets. The benchmark for each alternative investment is determined based on an individual assessment of relevant risk. For example, the benchmark for unlisted investments in private equity funds is the MSCI World

index plus four percentage points, which reflects an investment in equities including compensation for lower liquidity and higher operating and financial risk.

## **INVESTMENTS AND COMMITMENTS**

In 2010, the Fund made no new commitments to private equity funds but did purchase additional units in an existing holding. In the opportunistic investments sub-portfolio, new investments were made in EW Special Opportunities Fund LLC and in a bond issued by Bayport Management Ltd. AP4 also participated in an issue of new shares in Hemfosa Fastigheter AB.

## Risks

**RISKS**

Each year, the Board of Directors adopts a risk management plan for the Fund's activities. The plan describes the principal operational risks and how these risks shall be managed. The principal risks are of a financial and operational nature.

The financial risks are managed by an independent Performance and Risk Control department that reports directly to the CEO and Board. The task of this department is to ensure that the Fund complies with legislated investment rules and the risk management plan. The chief means are careful measurement and analysis as well as daily reporting of return and risk, in absolute terms and in relation to benchmarks.

To manage operational risks, the head of each AP4 department takes responsibility for identifying, limiting, and controlling their units' operational risks in accordance with the risk management plan.

In the current organisation, the CEO of the Fund has operational responsibility for investment operations. The principle of duality is safeguarded by rules in the organisation; for example, the CEO may not independently carry out transactions, and every change in a limit must be reviewed and approved in advance by Performance and Risk Control. Moreover, the head of Performance and Risk Control is entitled at any time to submit any questions that arise within the department's remit directly to the Board.

The Fund's active management is conducted principally for mandates that are intended to generate an active return in relation to their benchmark indexes, but the Fund also has several mandates based on absolute returns. Thus the risks in active management are defined partly as risk related to benchmarks (active risk), partly - for the absolute mandates - as contributions to the total actual portfolio's risk related to its benchmark (contribution to total active risk).

Foreign exchange, fixed income, and equity risks in active management are managed by means including limitation of active risk, duration, and permissible deviations from index weights.

The Fund hedges all of its holdings of foreign fixed income assets and parts of its foreign shareholdings using foreign exchange derivatives. At year-end, the Fund's foreign currency exposure was 19.8% (14.6). The following table shows the Fund's foreign exchange exposure.

**Foreign exchange exposure 2010-12-31, SEK mn**

	USD	EUR	GBP	JPY	Other	Total
Shares and investments	51,133	14,595	7,056	7,365	9,432	89,580
Bonds and other fixed income assets	21,209	9,919	7,223	0	0	38,350
Derivatives, excluding foreign exchange derivatives	1	72	0	9	0	83
Other receivables and liabilities, net	259	100	47	73	109	587
	-	-	-	-	-	-
Foreign exchange derivatives	42,190	19,073	7,963	7,458	9,732	86,416
<b>Foreign exchange exposure, net</b>	<b>30,411</b>	<b>5,614</b>	<b>6,362</b>	<b>-11</b>	<b>-191</b>	<b>42,185</b>

Credit and counterparty risks consist of the risk that individual counterparties will be unable to fulfil their commitments to the Fund. AP4 has established individual, continuously monitored counterparty limits to manage credit risks. Credit risk is also limited by a rule that permits

investment only in securities with a rating of BBB or better. The following table summarises the Fund's credit exposure broken down by credit rating.

Credit exposure	Bonds		Non-standard derivatives	
	Exposure	Fair value	Collateral/Security	Residual risk
AAA	57,138			
AA	6,718	483	-111	372
A	5,045	10,078	-8,712	1,366
BBB	2,236			
Not rated	214			
<b>Total</b>	<b>71,351</b>	<b>10,561</b>	<b>-8,823</b>	<b>1,738</b>

Liquidity risk consists of the risk that a financial instrument cannot be sold or can only be sold at a significantly lower price than the publicly quoted price. Liquidity risk is limited by special rules for investment in fixed income assets and careful monitoring of cash balances.

### RISK MANAGEMENT KEEPS EVOLVING

During the financial year, day-to-day risk management involved measuring the risk in liquid assets weekly. This gives the Fund access to forecasts of the aggregate risks in the Fund's investments, both in absolute numbers and relative to their benchmarks. Risk forecasts can be broken down by management areas, instruments, risk factors, and more, serving as input data for the Fund's ongoing efforts to optimise its risk-taking.

To reduce its counterpart exposure, the Fund has demanded collateral from a growing number of counterparts and contracted with an external vendor to handle the collateral received.

Risk in investment assets

## RISK IN INVESTMENT ASSETS

### MODEST LEVELS OF RISK

Volatility in stock markets remained modest during 2010, except during a temporary upswing late in the spring. The volatility of investment assets averaged 7.8% (11.6). The decrease in volatility was especially pronounced in stock markets, with volatility in global equities declining to 14.3% (20.7) and in Swedish equities to 18.9% (26.9).

The active risk for the Fund's publicly quoted assets decreased further during the year, to a low 0.3% (0.4), partly as a result of reduced market volatility. The global equity portfolio's beta portion was indexed with an extremely low active risk. Notwithstanding the risk contributed by global equity management's alpha mandate, which commenced in the autumn, the global equity portfolio's average active risk remained at 0.1% (0.1). In Swedish equity management, the active risk declined, to 0.6% (1.7), primarily as a consequence of reduced positions. The active risk in fixed income management was unchanged, at 0.8% (0.8). The risks in the mandates based on absolute returns - active tactical asset allocation and active foreign exchange management - were low and made only minor contributions to the Fund's aggregate active risk.

The following table summarises the Fund's financial risks in absolute terms and relative to the benchmarks.

### RISK IN INVESTMENT ASSETS

Asset class	VaR, ex-ante	Volatility % 12-month portfolio	Active risk% 12 months
Global equities	5,322	14.3	0.1
Swedish equities	3,047	18.9	0.6
Fixed income	726	2.8	0.8
Active tactical asset allocation <sup>1)</sup>	28	0.0	0.0
Active foreign exchange management <sup>1)</sup>	106	0.1	0.1
<b>Total actively managed liquid assets</b>	<b>7,927</b>	<b>8.8</b>	<b>0.3</b>
Alternative investments	247		
Real estate	593		
<b>Total actively managed assets</b>	<b>8,626</b>		
Diversification effects <sup>2)</sup>	-1,536		
<b>Total investment assets</b>	<b>8,535</b>		

1) Portfolio return and active return based on Total investment assets

2) Diversification effect is a result from the imperfect correlation between assets

The Value at Risk (VaR) metric is used to calculate financial risks. Value at Risk is defined as the maximum loss that can occur with a given probability and a given time horizon. The table above applies a time horizon of 10 days and a confidence level of 95%.

The risks reported for asset types refer to individual types of asset. Risks cannot be added up, because diversification effects result from the imperfect correlation between asset types.

The Fund's illiquid assets, represented by real estate and alternative investments, lack public prices quoted periodically. Thus the Fund has chosen to use listed shares in Swedish property companies as an approximation of the risk in its property holdings. For approximations of the risk in alternative investments, the Fund uses an index for European small-cap companies

combined with a European high-yield fixed-income index.

All assets are assumed 100% hedged except for active foreign exchange management and alternative investments. Thus the majority of the Fund's currency risk is found on the "Total investment assets" line in the table above.

Managing derivatives

## **MANAGING DERIVATIVES**

The Fund uses derivatives in most of its management mandates. Derivatives have several different areas of application and purposes. The most important are as follows.

- Hedging the Fund's foreign investments, for which derivatives are the only alternative.
- Making index management more efficient, where derivatives are used to minimise transaction costs and simplify administration.
- Making active management more efficient, where derivatives are used not only to minimise transaction costs and simplify administration but also to enable positions to be taken that cannot be generated using other instruments (short positions, volatility positions, and more).
- Regulating the strategic portfolio's risk with the help of strategic derivative positions.

The use of derivatives is limited in terms of the nominal underlying values as well as market risk. All derivative positions and associated risks are subject to daily position and risk monitoring.

Corporate governance

## CORPORATE GOVERNANCE

**By law, AP4's work on active corporate governance shall promote the Fund's overall goal of generating the best possible return over time for the benefit of Swedish pensioners. AP4 has the responsibility of safeguarding and growing the capital invested. This is fundamental to AP4's active ownership.**

AP4 shall exercise the rights and obligations of its ownership role in a responsible and sustainable manner. AP4 shall also promote the development of good practices in the securities market for the benefit of those insured by the retirement pension system.

By law, work in corporate governance is 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.

Each year, AP4's Board of Directors approves the Fund's ownership policy, which contains guidelines for how the Fund shall apply its voting rights and take policy positions in individual companies, Swedish as well as foreign. The ownership policy shall safeguard the best interests of shareholders and individual companies. The policy shall take into account the unique circumstances and needs of each company and strive to contribute in the long run to maximising AP4's long-term return.

In the field of the environment and ethics, the Fund has chosen to work on many issues through the Ethical Council, a collaboration of AP1, AP2, AP3, and AP4.

AP4's ownership policy is available on the Fund's web site, [www.ap4.se](http://www.ap4.se).

For further information about the Fund's work on corporate governance in 2010, read [>Corporate governance report 2010](#) .

In Sweden

## CORPORATE GOVERNANCE IN SWEDEN

**In Sweden, particular emphasis is placed on companies in which AP4 has a significant shareholding or is one of the largest shareholders. In addition, the Fund strives to play an active role in significant issues of principle.**

- The annual general meeting (AGM) is the shareholders' principal forum, and voting rights are one of the most important means a shareholder has to influence a company. AP4 strives primarily to attend and exercise its voting rights at AGMs of companies in which the Fund has a significant shareholding or AGMs deemed important for some matter of principle.
- The primary task of a nominating committee is to propose candidates for the board of directors to the AGM. One of the Fund's most important tasks as an owner is to ensure that each company has the best possible board. Thus AP4 will participate in nominating committees in companies as justified by the Fund's holding.
- AP4 will also participate in processes preparatory to AGMs of companies in which the Fund has a significant shareholding even if the Fund is not among the shareholders with the most votes. In these tasks, the Fund will take the initiative for dialogue with other shareholders on issues of common interest.
- The Fund will also actively attempt to drive the development of quality and practices in



corporate governance and to promote a smoothly functioning Swedish securities market. Direct contact with companies on ownership issues will normally be taken via the company's chairman of the board and by paying heed to the general regulations that apply to disclosure by stock market companies.

Outside Sweden

## **CORPORATE GOVERNANCE OUTSIDE SWEDEN**

**Outside Sweden AP4 also uses several means to exercise active ownership. Important tools include exercising the Fund's voting rights at AGMs and cooperating with other institutional investors to put more weight behind the pursuit of key questions of principle.**

The Fund's opportunities for exercising its ownership role abroad in the way it does in Sweden are limited. The Fund is one of Sweden's largest institutional investors. Internationally, the picture is completely different, because the Fund's ownership is more widely spread and holdings are relatively smaller. Thus the Fund may have limited opportunities for pursuing ownership issues on its own or for participating in nominating committees.

The rules and regulations for pursuing ownership issues differ significantly among markets. What may appear self-evident in Sweden, in terms of opportunities for exercising an ownership role, can be completely different in another market. Thus local codes and regulations, industry standards, listing agreements, and circumstances specific to each market can lead to divergence from principles appropriate to particular markets.

AP4's guidelines for corporate governance in foreign companies are based on internationally accepted principles for good corporate governance, chiefly the UN Global Compact and the OECD Principles for Corporate Governance and Multinational Corporations. The principles cover proposals from boards as well as shareholders.

Significant events after the end of the financial year

## **SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR**

Effective 1 February 2011, AP4 established a position called "Chief Investment Officer" reporting directly to the CEO.

The Fund's work is progressing according to plan, and there are no significant events to report that have occurred since year-end.

## FINANCIAL INFORMATION

Five-year summary

### FIVE-YEAR SUMMARY

Five-year summary	2010	2009	2008	2007	2006
<b>FUND CAPITAL, FLOWS, AND NET PROFIT/LOSS, SEK BN</b>					
Fund capital	212.8	195.7	164.7	207.3	200.5
Net inflows from the pension system and special asset management funds	-4.0	-3.9	0.9	2.0	1.7
Net profit/loss for the period	21.2	34.9	-43.5	4.8	18.8
<b>RETURN, %</b>					
Return on total portfolio excluding expenses	11.0	21.6	-20.8	2.5	10.5
Return on total portfolio including expenses	10.9	21.5	-21.0	2.4	10.4
Return on total portfolio versus index, excluding expenses	1.0	0.9	-1.1	-1.0	-0.6
Return on listed assets versus index, excluding expenses <sup>1)</sup>	0.8	1.4	-0.5	-1.2	-0.5
Inflation	2.3	0.9	0.9	3.5	1.6
Real return after expenses	8.6	20.6	-21.9	-1.0	8.8
<b>MANAGEMENT COSTS AS A % OF ASSETS UNDER MANAGEMENT</b>					
Operating expenses	0.09	0.10	0.08	0.07	0.07
Operating expenses and commission expenses	0.10	0.11	0.11	0.10	0.11
<b>RISK IN TOTAL PORTFOLIO, %</b>					
Portfolio, ex-post <sup>2)</sup>	7.8	11.6	17.1	8.6	7.1
Active risk, ex-post	0.3	0.4	0.7	0.7	0.8
Sharpe ratio <sup>2)</sup>	1.3	1.8	neg	neg	1.0
<b>FOREIGN EXCHANGE EXPOSURE, %</b>					
	19.8	14.6	14.5	14.2	15.1
<b>PROPORTION UNDER ACTIVE MANAGEMENT, INCLUDING ENHANCED, %</b>					
	61.2	57.7	59.7	93.5	100.0
<b>PROPORTION UNDER EXTERNAL MANAGEMENT, INCLUDING INVESTMENTS IN VENTURE CAPITAL FIRMS, %</b>					
	22.6	21.1	41.9	17.8	17.3
<b>NUMBER OF EMPLOYEES AT END OF ACCOUNTING PERIOD</b>					
	51	53	50	45	46
<b>ALLOCATION OF INVESTMENT ASSETS, % <sup>3)</sup></b>					
Global equity portfolio	41.0	42.4	41.7	42.0	42.2
Internally managed	24.3	25.8	0.0	24.2	25.1
Externally managed	16.7	16.6	41.7	17.8	17.1
Swedish equity portfolio	18.9	18.0	18.0	18.8	19.9
Fixed income portfolio	34.0	34.9	36.8	36.9	36.3
Real estate	3.9	3.2	4.1	2.4	2.3
Alternative investments <sup>4)</sup>	2.0	1.3			
Foreign exchange/Tactical asset allocation/Cash	0.2	0.3	-0.6	-0.2	-0.7
Total investment assets	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>Notes</b>	<b>2010</b>	<b>2009</b>
<b>OPERATING INCOME</b>			
Net interest income	1	2,955	2,997
Dividends received		2,759	2,944
Net income, listed shares and investments	2	14,406	26,578
Net income, unlisted shares and investments	3	1,721	-314
Net income, fixed income assets		238	554
Net income, derivatives		2,061	3,004
Net income, changes in exchange rates		-2,775	-666
Net commission expenses	4	-30	-25
<b>Total operating income</b>		<b>21,335</b>	<b>35,072</b>
<b>OPERATING EXPENSES</b>			
Employee benefits expense	5	-101	-93
Other administrative expenses	6	-75	-81
<b>Total operating expenses</b>		<b>-176</b>	<b>-174</b>
<b>PROFIT/LOSS FOR THE YEAR</b>		<b>21,159</b>	<b>34,898</b>

Balance sheet

**BALANCE SHEET**

<b>BALANCE SHEET SEK mn</b>	<b>Notes</b>	<b>31 Dec 2010</b>	<b>31 Dec 2009</b>
<b>ASSETS</b>			
Shares and investments, listed	7	118,278	111,368
Shares and investments, unlisted	8	6,722	4,473
Bonds and other fixed income assets	9	75,169	70,301
Derivatives	10	12,150	9,100
Cash and bank balances		685	708
Other assets	11	731	25
Prepaid expenses and accrued income	12	1,840	2,029
<b>Total assets</b>		<b>215,575</b>	<b>198,004</b>
<b>LIABILITIES AND FUND CAPITAL</b>			
<b>LIABILITIES</b>			
Derivatives	10	1,720	1,764
Other liabilities	13	877	373
Deferred income and accrued expenses	14	142	149
<b>Total liabilities</b>		<b>2,739</b>	<b>2,286</b>
<b>FUND CAPITAL</b>			
	15		
Fund capital, opening balance		195,718	164,726
Net payments to the pension system		-4,041	-3,906
Profit for the year		21,159	34,898
<b>Total fund capital</b>		<b>212,836</b>	<b>195,718</b>
<b>TOTAL LIABILITIES AND FUND CAPITAL</b>		<b>215,575</b>	<b>198,004</b>
Pledged assets, contingent liabilities, and commitments	16		

## ACCOUNTING AND VALUATION POLICIES

According to the Swedish National Pension Funds Act (2000:192), the annual report shall be prepared according to generally accepted accounting principles, such that the assets in which AP4's funds are invested shall be recognised at fair value. Based on this premise, AP1-AP4 have developed and put into practice a set of common accounting and valuation policies as summarised below. The accounting and valuation policies have not changed since the preceding year. The Fund's accounting and valuation policies are being successively adapted to comply with International Financial Reporting Standards (IFRS). The IFRS are undergoing extensive revision, so in 2010 compliance focused on disclosure requirements under IFRS 7. Complete compliance with IFRS would not materially affect reported earnings or capital. The following major discrepancies with current IFRS have been identified.

The Funds do not measure financial instruments using purchase or sale prices but using the market prices applied in each designated index (often average prices). Transaction costs, such as brokers' commissions, are recognised in the income statement under net income for each asset class. Commission expenses are specified in a note.

Unlisted shares and investments are measured based on valuations obtained from the counterpart or other external party. This valuation may lag 1-3 months, so the Funds adjust for additional cash flow during that period. The Report of the Directors contains the pertinent sensitivity analyses.

Consolidated financial statements are not prepared.

## TRANSACTION DATE ACCOUNTING

Purchases and sales of securities and derivative instruments in the money, bond, equity, and foreign exchange markets are recognised in the balance sheet at the transaction date; that is, at the point when material rights, and therefore risks, are transferred between the parties. Receivables and liabilities posted between transaction and settlement dates are recognised in other assets and other liabilities, respectively. Other transactions, primarily transactions in private equity, are recognised in the balance sheet at the settlement date, conforming to market practices.

## NET ACCOUNTING

Net accounting is applied for fund settlements, repurchase agreements, and derivatives when the right to offset assets and liabilities is established and the intent is to wind them up simultaneously.

## FOREIGN CURRENCIES

Transactions in foreign currency are posted at the exchange rate on the transaction date. Assets and liabilities denominated in foreign currencies are measured at year-end exchange rates. Changes in the values of foreign-currency-denominated assets are divided into changes attributable to changes in the value of the asset or liability in local currency and changes stemming from fluctuations in exchange rates.

## HOLDINGS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

According to the Swedish National Pension Funds Act, shares in subsidiaries and associated companies are recognised at fair value. There is no obligation to prepare consolidated financial statements.

## VALUATION OF FINANCIAL INSTRUMENTS

All of the Fund's investments are stated at fair value such that realised and unrealised changes in value are recognised over the income statement. Where the following refers to designated index providers, please see the glossary in the annual report for information about each index. The following describes how fair value is determined for the Fund's different investments.

### Listed shares and investments

Shares and investments traded on a regulated market or trading platform are measured at fair value. Fair value is calculated based on the official public quotation at year-end according to the Fund's designated index provider, usually an average rate. Holdings not included in an index are recognised at quoted prices observable in an active market. Commission fees paid are recognised as expenses in net income, listed shares.

### Unlisted shares and investments

Shares and investments not traded on a regulated market or trading platform are measured at fair value based on a valuation obtained from the counterpart or other external party. The value recognised is updated upon receipt of a new valuation and is adjusted for any cash flows up to the end of the accounting period. If the Fund has good reason to judge the valuation to be incorrect, the valuation received can be adjusted. Stated values comply with International Private Equity and Venture Capital (IPEVC) Valuation Guidelines or equivalent principles and are based primarily on transactions with third parties, though other valuation methods may be used.

### Bonds and other fixed income assets

Bonds and other fixed income assets are measured at fair value. Fair value is calculated based on the official public quotation (usually the bid rate) at year-end according to the Fund's designated index provider. Holdings not included in an index are recognised at quoted prices observable in an active market. If an instrument is not traded in an active market and reliable market prices are not available, the instrument is measured using generally accepted valuation models, which discount cash flows using a yield curve appropriate for the instrument.

Net income is the difference between average amortised cost and market value or fair value. The amortised cost is the discounted present value of future payments, where the discount rate corresponds to the effective interest rate at time of purchase. Thus, premiums or discounts on acquisition are accrued to maturity or until the coupon changes. These premiums and discounts are recognised as interest income.

### Derivatives

Derivatives are measured at fair value based on year-end market rates. If an instrument is not traded in an active market and if reliable market prices are not available, the instrument is measured using generally accepted valuation models, in which observable market data is used as the input data.

Derivative positions with a positive fair value on the balance date are recognised as assets, while positions with a negative fair value are recognised as liabilities. The difference between forward and spot rates is accrued evenly over the term of the forward contract and reported as interest.

### Buybacks

In a true repurchase transaction (buyback), the asset remains on the balance sheet, and cash received is recognised as a liability. The divested security is recognised as a pledged asset on the balance sheet. The cash value difference between the spot and forward legs is accrued to maturity and recognised as interest.

## **SECURITIES ON LOAN**

Securities on loan are recognised on the balance sheet at fair value. Collateral received for securities on loan consists of securities and cash. If AP4 is entitled to exercise control over cash received as collateral, the collateral is recognised on the balance sheet as an asset, and an offsetting liability. The value of securities on loan as well as their collateral is recognised in pledged assets, contingent liabilities, and commitments. Payments received for securities on loan are recognised as interest income.

## **ITEMS RECOGNISED DIRECTLY IN FUND CAPITAL**

Transfers to and from the national pension system are recognised directly in fund capital.

## **COMMISSION EXPENSES**

Commission expenses are recognised in the income statement as a deduction from operating income. They consist of direct transaction costs such as custody account fees and fixed fees paid to external managers as well as fixed fees for exchange-traded funds. Performance-based fees, paid when a manager produces returns above the agreed level where profit-sharing applies, are recognised in the income statement as a deductible item in net income for the asset class in question.

Fees for the management of unlisted shares and investments, for which repayment is granted prior to profit-sharing and for which repayment is deemed probable, are included in unrealised earnings. Otherwise, such fees are recognised as commission expenses.

## **OPERATING EXPENSES**

All management expenses except brokers' commissions, fees to external managers, and custody account fees are recognised as operating expenses. Investments in equipment and in software, whether developed in-house or purchased, are customarily expensed as they are incurred.

## **TAXES**

AP4 is exempt from all income tax on investments in Sweden. Tax on dividends and interest withheld in certain countries is recognised net in the income statement under each type of income.

AP4 is exempt from value-added tax (VAT), because the Fund is not regarded as an entity conducting business activities. Thus the Fund is not entitled to reimbursement of VAT it has been charged. VAT that has been paid or reserved for payment is recognised with the expense item to which it belongs.



## NOTES FOR P&L

### Note 1 Net interest income

	2010	2009
<b>INTEREST INCOME</b>		
Bonds and other fixed income securities	2,739	2,828
Derivatives	730	1,248
Other interest income	80	107
<b>Total interest income</b>	<b>3,549</b>	<b>4,183</b>
<b>INTEREST EXPENSE</b>		
Derivatives	-584	-1,173
Other interest expense	-10	-13
<b>Total interest expense</b>	<b>-594</b>	<b>-1,186</b>
<b>NET INTEREST INCOME</b>	<b>2,955</b>	<b>2,997</b>

### Note 2 Net income, listed shares and investments

	2010	2009
Net income, listed shares and investments	14,448	26,625
Less brokers' commissions	-34	-47
Less performance-based fees	-8	-
<b>NET INCOME, LISTED SHARES AND INVESTMENTS</b>	<b>14,406</b>	<b>26,578</b>

### Note 3 Net income, unlisted shares and investments

	2010	2009
Capital gain	221	29
Unrealised changes in value	1,500	-343
<b>NET INCOME, UNLISTED SHARES AND INVESTMENTS</b>	<b>1,721</b>	<b>-314</b>

## Note 4 Commission expenses

	2010	2009
External management fees, listed assets	-20	-13
External management fees, unlisted assets	-2	-2
Other commission expenses, including custody account fees	-8	-10
<b>COMMISSION EXPENSES</b>	<b>-30</b>	<b>-25</b>

Performance-based fees are not included in commission expenses, but are recognised in net income for each asset class. Performance-based fees totalled SEK 8 million (0) in 2010. External management fees for unlisted assets are recognised as commission expenses to the extent agreements do not permit repayment prior to profit-sharing in connection with future profitable divestment. During the year, SEK 85 million (64) in management fees related to unlisted assets were paid. Of this total, SEK 83 million (62) referred to agreements that permit repayment of fees paid prior to profit-sharing upon divestment. These are recognized as part of the purchase cost of the asset.

## Note 5 Personnel

	2010 Total	2010 Women	2009 Total	2009 Women
<b>NUMBER OF EMPLOYEES</b>				
Average number of employees	51	16	48	16
Number of employees at 31 December	51	16	53	17
Number of executive management committee members at 31 December	9	3	9	3
<b>EMPLOYEE BENEFITS EXPENSE, SEK '000</b>			<b>2010</b>	<b>2009</b>

### SALARIES AND REMUNERATION

Chairman of the Board		117	100
Other directors		433	388
CEO		3,382	2,951
Other executive management committee members <sup>1)</sup>			
Manager 1		1,728	1,720
Manager 2		1,360	1,318
Manager 3		2,345	2,179
Manager 4		1,845	1,731
Manager 5		1,417	1,343
Manager 6		2,535	2,590
Manager 7		1,657	1,576
Manager 8		1,714	1,766
Other employees <sup>1)</sup>		34,613	31,461
<b>TOTAL SALARIES AND REMUNERATION</b>		<b>53,146</b>	<b>49,123</b>

1) Costs of employee cutbacks, other employees, included

	-	558
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### INCENTIVE-BASED PAY

CEO		-	-
Other executive management committee members		-	-
Other employees		4,982	4,152
<b>TOTAL INCENTIVE-BASED PAY</b>		<b>4,982</b>	<b>4,152</b>

### PENSION EXPENSES

CEO		968	876
Other executive management committee members			-

Manager 1 <sup>2)</sup>	524	522
Manager 2 <sup>2)</sup>	689	642
Manager 3	727	673
Manager 4	474	472
Manager 5	421	373
Manager 6	809	746
Manager 7 <sup>2)</sup>	836	798
Manager 8 <sup>2)</sup>	589	635
Other employees <sup>3) 4)</sup>	11,175	9,919
<b>TOTAL PENSION EXPENSES</b>	<b>17,212</b>	<b>15,656</b>
2) Substitution of pension for salary by executive management committee members included	431	384
3) Costs of employee cutbacks, other employees included	-	182
4) Substitution of pension for salary, other employees included	1,084	996
<b>SOCIAL SECURITY EXPENSES</b>		
Chairman of the Board	37	32
Other directors	115	100
CEO	1,298	1,140
Other executive management committee members		
Manager 1	670	667
Manager 2	595	570
Manager 3	913	848
Manager 4	695	658
Manager 5	547	512
Manager 6	993	995
Manager 7	723	689
Manager 8	681	709
Other employees <sup>5)</sup>	14,849	13,034
<b>TOTAL SOCIAL SECURITY EXPENSES</b>	<b>22,116</b>	<b>19,954</b>
5) Costs of employee cutbacks, other employees, included		219
<b>OTHER EMPLOYEE BENEFITS EXPENSE</b>	3,369	4,559
<b>TOTAL EMPLOYEE BENEFITS EXPENSE</b>	<b>100,825</b>	<b>93,444</b>
Costs of employee cutbacks included	-	959

AP4 adheres to the Government's guidelines on remuneration to senior executives and other employees.

#### Costs of employee cutbacks

The Fund had no costs of employee cutbacks in 2010. For 2009, the cost was SEK 959 thousand and related to compensation for pension expenses and salary in connection with employee cutbacks in investment operations.

#### Salaries and remuneration

The Government sets remuneration for the Board of Directors. The increase in 2010 stemmed from fees to the remuneration committee, which did not previously exist. The Board sets the terms of employment for the CEO based on recommendations from the remuneration committee. Remuneration to the CEO and senior executives consists of base salary.

#### Incentive-based pay

The CEO and senior executives receive no incentive-based pay. The policy for remuneration and other terms of employment (remuneration policy) is determined by the Board. The policy

covers all employees, except for the CEO and senior executives, employed more than six months. The basic principle is that employees earn incentive-based pay when the Fund outperforms the benchmark and reference indexes, provided that the Fund posts a positive return. The maximum incentive-based entitlement for a full-year employee is two months' salary.

#### **Pensions and similar benefits**

The CEO's pension benefits and severance package are specified in his employment contract. The provisions of the contract include pension entitlement at age 65, with a pension provision of 30% (30) of salary. A mutual period of notice of termination of six months applies for the CEO. If the Fund gives notice, the CEO is also entitled to a severance package equal to 18 months' salary. Any other income is deducted from the severance pay, which is paid monthly.

Other executive management committee members and other employees have individual employment contracts that specify severance notice based on the current collective agreement between the Employers' Organisation of the Swedish Banking Institutions (BAO) and the Swedish Confederation of Professional Associations (SACO). Pension entitlements are based on either defined benefits, according to the current collective agreement between BAO and SACO, or defined contributions, according to the Fund's remuneration policy specifying a pension contribution of 30% on remuneration exceeding 7.5 base amounts.

All employees are entitled to substitute pension contributions for gross salary. In such cases, the pension contribution is increased 5.8%, corresponding to the difference between company's costs for payroll tax and social security contributions.

All employees also have healthcare coverage. The CEO and persons employed before 1 January 2007 have, in addition to remuneration as per the collective agreement, sickness insurance covering terms of illness longer than three months, which pays compensation of 90% of income less than 20 basic amounts and 80% of income greater than 20 basic amounts. The maximum amount is 40 basic amounts. The amount disbursed is reduced by any other amounts disbursed under the Social Insurance Administration, SPP insurance, and any other insurance policies.

#### **Other benefits**

All employees can purchase group life insurance taxed as a fringe benefit. The Fund also has four parking spaces that employees can use, which are also taxable as a fringe benefit.

#### **Sickness absence**

During the year, the sickness absence rate was 2.8% (2.4) of normal working hours; for women, it was 6.2% (2.1), for men 1.4% (2.6). Of total absences, 1.2% (1.1) lasted 60 days or longer. The sickness absence rate was 0.6% (1.6) for employees aged 29 or younger, 3.2% (3.1) for employees aged 30-49, and 2.4% (1.5) for employees over 50.

## Note 6 Other administrative expenses

	2010	2009
Costs of premises	11	11
Information and IT expenses	37	38
Services purchased	19	18
Cost of moving office to new premises	-	7
Other administrative expenses	8	7
<b>TOTAL OTHER ADMINISTRATIVE EXPENSES</b>	<b>75</b>	<b>81</b>

Services purchased includes fees to accounting firms as follows:

	2010	2009
Audit services, Ernst & Young	1.1	1.0
Other audit services, Ernst & Young	0.5	0.4
Other services, Öhrlings PwC	-	0.1
<b>TOTAL FEES TO ACCOUNTING FIRMS</b>	<b>1.6</b>	<b>1.5</b>

## Note 7 Listed shares and investments

	31 Dec 2010		31 Dec 2009	
	Fair value	Purchase cost	Fair value	Purchase cost
Swedish equities	39,720	31,010	36,073	33,439
Foreign equities	71,518	67,025	71,110	69,420
Investments in foreign mutual funds	7,040	6,588	4,185	4,444
<b>TOTAL LISTED SHARES AND INVESTMENTS</b>	<b>118,278</b>	<b>104,623</b>	<b>111,368</b>	<b>107,303</b>

A detailed list of holdings is published on the AP4 website, [www.ap4.se](http://www.ap4.se)

## Note 8 Unlisted shares and investments

Holding at 31 Dec 2010	Corp. ID no.	Quantity	Pctg. Voting capital	Pctg. Equity capital	Pctg. Equity in total fund	Purchase cost
<i>Swedish shares and investments:</i>						
Accent Equity 2003 KB	969694-7739			19	6	68
BrainHeart Capital KB	969674-4102			21	19	110
Dombroon Intressenter AB	556806-2466	500	100	100		539
HealthCap 1999 KB	969656-1647			8	8	33
HealthCap Annex Fund I-II KB	969690-2049			20	20	76
HealthCap CoInvest KB	969625-6255			24	24	-
HealthCap III Sidefund KB	969699-4830			20	20	43
HealthCap IV KB	969683-6650			41	2	35
HealthCap KB	969614-4162			16	16	0
Hemfosa Fastigheter AB	556780-5816	1,500,000	15	15		26
Industrial Development & Inv. Equity KB	969640-9631			15	15	-
Innoventus AB	556602-2728	2,334	17	17		2
Innoventus Life Science I KB	969677-8530			16	16	25
Innoventus Project Northern Europe Private Equity KB (EQT III)	556616-8356	31,032	9	9		13
Priveq Investment Fund III KB	969670-3405			10	1	33
Priveq Investment II KB	969704-1524			19	12	103
Vasakronan Holding AB	969654-5046			60	60	67
	556650-4196	1,000,000	25	25		1,221
<b>TOTAL SWEDISH SHARES AND INVESTMENTS</b>						<b>2,394</b>

<b> Holding at 31 Dec 2010</b>	<b> Pctg. Equity capital</b>	<b> Pctg. Equity in total fund</b>	<b> Purchase cost</b>
<i>Foreign investments:</i>			
Accent Equity 2008 LP	6	6	95
CapMan Public Market Fund FCP-SIF	18	18	152
EQT IV LP	4	3	683
EQT V LP	2	1	469
EQT Opportunity LP	12	7	124
EQT Infrastructure LP	3	3	84
European Strategic Partners II	4	4	213
Goldman Sachs Multi-Strategy Fund Offshore LP	95	*	416
Goldman Sachs Vintage Fund IV Offshore LP	1	1	134
Goldman Sachs Distressed Opportunities Fund III Offshore LP	5	3	151
Goldman Sachs Private Equity U.S.Focused II Offshore LP	21	21	89
Goldman Sachs Vintage Fund V Offshore LP	1	1	113
HealthCap V LP	12	12	105
Keyhaven Capital Partners III LP	18	18	30
Scope Growth II LP	10	10	71
<b>TOTAL FOREIGN INVESTMENTS</b>			<b>2,929</b>
<b>TOTAL PURCHASE COST, UNLISTED SHARES AND INVESTMENTS</b>			<b>5,323</b>
Total fair value, Swedish shares and investments			4,128
Total fair value, foreign investments			2,594
<b>TOTAL FAIR VALUE, UNLISTED SHARES AND INVESTMENTS</b>			<b>6,722</b>
* AP4's shares of the underlying funds are 2% (GS Vintage III) and 4% (GS PEP 2004).			
			<b>31 Dec 2009</b>
<b>TOTAL PURCHASE COST, UNLISTED SHARES AND INVESTMENTS</b>			<b>4,325</b>
Total fair value, Swedish shares and investments			2,457
Total fair value, foreign investments			2,016
<b>TOTAL FAIR VALUE, UNLISTED SHARES AND INVESTMENTS</b>			<b>4,473</b>

## Note 9 Bonds and other fixed income assets

	31 Dec 2010		31 Dec 2010	
	Fair value	Amortised cost	Fair value	Amortised cost
<i>Issuer category</i>				
Kingdom of Sweden	9,252	9,433	4,121	4,101
Swedish housing institutions	17,664	17,859	20,697	20,225
Other Swedish financial services companies	3,839	3,951	3,073	3,084
Swedish non-financial companies	7,611	7,618	5,664	5,581
Foreign governments	18,522	19,400	10,580	10,679
Other foreign issuers	18,281	19,180	26,166	25,857
<b>TOTAL FIXED INCOME ASSETS</b>	<b>75,169</b>	<b>77,441</b>	<b>70,301</b>	<b>69,527</b>
<i>Type of instrument</i>				
Inflation-linked bonds	-	-	1,284	1,282
Other bonds	69,208	71,458	64,097	63,342
Treasury bills	131	135	-	-
Subordinated debentures	809	827	651	634
Unlisted promissory note loans	3,625	3,625	4,250	4,250
Unlisted shareholder loans	1,396	1,396	19	19
<b>TOTAL FIXED INCOME ASSETS</b>	<b>75,169</b>	<b>77,441</b>	<b>70,301</b>	<b>69,527</b>

## Note 10 Derivatives

	31 Dec 2010		
	Nominal amounts	Fair value Positive	Fair value Negative
<i>Equity-based instruments:</i>			
Stock options	8,392	8,372	20
Stock futures	6,906	-	-
<b>TOTAL EQUITY-BASED INSTRUMENTS</b>	<b>15,298</b>	<b>8,372</b>	<b>20</b>
of that total, cleared	6,906	-	-
<i>Interest-based instruments:</i>			
FRAs / Forward contracts	38,240	-	-
Swaps	8,474	141	46
<b>TOTAL INTEREST-BASED INSTRUMENTS</b>	<b>46,714</b>	<b>141</b>	<b>46</b>
of that total, cleared	38,240	-	-
<i>Instruments based on foreign exchange:</i>			
Foreign currency options	15,013	29	35
Foreign exchange forward contracts	156,983	3,608	1,619
<b>TOTAL INSTRUMENTS BASED ON FOREIGN EXCHANGE</b>	<b>171,996</b>	<b>3,637</b>	<b>1,654</b>
<b>TOTAL DERIVATIVE INSTRUMENTS</b>	<b>234,008</b>	<b>12,150</b>	<b>1,720</b>
of that total, cleared	45,146	-	-



### Note 11 Other assets

	31 Dec 2010	31 Dec 2009
Receivables on unsettled transactions	45	23
Received securities	685	-
Other assets	1	2
<b>TOTAL OTHER ASSETS</b>	<b>731</b>	<b>25</b>

### Note 12 Prepaid expenses and accrued income

	31 Dec 2010	31 Dec 2009
Accrued interest income	1,729	1,907
Accrued dividends and repayments	104	111
Other prepaid expenses and accrued income	7	11
<b>TOTAL</b>	<b>1,840</b>	<b>2,029</b>

### Note 13 Other liabilities

	31 Dec 2010	31 Dec 2009
Trade payables	6	6
Payables for unsettled transactions	148	111
Payables for collateral received	685	-
Other liabilities	38	256
<b>TOTAL OTHER LIABILITIES</b>	<b>877</b>	<b>373</b>

### Note 14 Deferred income and accrued expenses

	31 dec 2010	31 Dec 2009
Accrued interest expense	98	103
Accrued employee benefits expense	12	11
Accrued external management expenses	27	29
Other accrued expenses	5	6
<b>TOTAL</b>	<b>142</b>	<b>149</b>

## Note 15 Fund capital

	31 Dec 2010	31 Dec 2009
<b>Fund capital, opening balance</b>	<b>195,718</b>	<b>164,726</b>
<i>Net payments to/from the pension system</i>		
Paid-in pension contributions	51,267	50,678
Disbursed pension payments	-55,050	-54,348
Transfer of pension entitlements to the EU	-1	-5
Administration fee paid to the Swedish Pensions Agency	-257	-231
<b>TOTAL NET PAYMENTS TO THE PENSION SYSTEM</b>	<b>-4,041</b>	<b>-3,906</b>
<b>PROFIT FOR THE YEAR</b>	<b>21,159</b>	<b>34,898</b>
<b>FUND CAPITAL, CLOSING BALANCE</b>	<b>212,836</b>	<b>195,718</b>

## Note 16 Pledged assets, contingent liabilities, and commitments

	31 Dec 2010	31 Dec 2009
<i>Collateral pledged for AP4's liabilities and equivalent collateral:</i>		
Securities on loan for cash received <sup>1)</sup>	647	-
<i>Other pledged assets and equivalent collateral:</i>		
Securities on loan for securities received <sup>2)</sup>	15,208	18,590
Collateral pledged for exchange-traded derivative contracts	876	895
Collateral pledged for OTC derivative contracts <sup>3)</sup>	10	170
<i>Commitments</i>		
Investment commitments for alternative investments	1,988	3,223
1) Collateral received for securities on loan totalled SEK 685 million (0). These are recognised as part of other assets (note <sup>11)</sup> ).		
2) Collateral received for securities on loan totalled SEK million 16 399 million (19 335).		
3) Collateral received for OTC derivatives totalled SEK 9 515 million (9 746).		

## Note 17 Related parties

AP4 rents its office premises from Vasakronan AB at market rates.

## Note 18 Income and expenses, external management of unlisted assets

SEK mn	Unlisted assets
Gross income (interest income, dividends, realised and unrealised gains/losses)	1,817
Management fees paid and posted on the balance sheet	-83
Management fees paid and recognised as commission expenses	-2
<b>Net contribution</b>	<b>1,732</b>
Assets under management, 31 Dec 2010	6,722
Invested capital, 31 Dec 2010	5,323
Commitments for future investments, 31 Dec 2010	1,528

## Note 19 Fair value hierarchy

FAIR VALUE HIERACHY, SEK mn	LEVEL 1 Valuation methods based on non-observable market data	LEVEL 2 Instruments with publicly quoted prices	LEVEL 3 Valuation methods based on observable market data	TOTAL
<b>ASSETS</b>				
Shares and investments	118,278	-	6,722	125,000
Bonds and other fixed income securities	69,208	940	5,021	75,169
Derivatives	8,397	3,753	-	12,150
<b>Total assets</b>	<b>195,883</b>	<b>4,693</b>	<b>11,743</b>	<b>212,319</b>
<b>LIABILITIES</b>				
Derivatives	-26	-1,694	-	-1,720
<b>Total Liabilities</b>	<b>-26</b>	<b>-1,694</b>	<b>-</b>	<b>-1,720</b>
<b>TOTAL LIABILITIES AND ASSETS</b>	<b>195,857</b>	<b>2,999</b>	<b>11,743</b>	<b>210,599</b>

### Level 1

Financial instruments traded in an active market. A market is deemed active if quoted prices are regularly updated and the prices are used unaltered to settle trades in the market.

### Level 2

Financial instruments traded in a market that is not active and does not periodically update quoted prices; values are determined using valuation methods. If the valuation uses input data that is observable, the instrument is classified as level 2.

### Level 3

Financial instruments that lack an active market and for which the input data for valuation is not observable are classified as level 3.

Board of Directors' signatures

## **BOARD OF DIRECTORS' SIGNATURES**

**Stockholm, 16 February 2011**

*Monica Caneman*

CHAIRMAN OF THE BOARD

*Lars Frithiof*

DEPUTY CHAIRMAN

*Håkan Arnelid*

*Jakob Grinbaum*

*Kajsa Lindståhl*

*Roger Mörtvik*

*Elisabeth Nilsson*

*Ilmar Reepalu*

*Charlotte Strömberg*

*Mats Andersson*

CHIEF EXECUTIVE OFFICER

## **Our auditors' report was submitted on 17 February 2011**

*Anna Peyron*

AUTHORISED PUBLIC ACCOUNTANT

Appointed by the Government

*Lars Bonnevier*

AUTHORISED PUBLIC ACCOUNTANT

Appointed by the Government

Auditors' report

## AUDITORS' REPORT

*For the Fourth Swedish National Pension Fund*

Corporate identity number 802005-1952

We have examined the annual accounts, the accounting records, and the administration of the Fourth Swedish National Pension Fund by the Board of Directors for the financial year 2010. The Fund's annual accounts are included in this document and found under the headings Report of the Directors and Financial Statements. These accounts and the administration as well as the application of the Swedish National Pension Funds Act in conjunction with the annual accounts are the responsibility of the Board of Directors. Our responsibility is to express our opinion on the annual accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. These standards require that we plan and perform the audit to obtain high but not absolute assurance that the annual accounts are free from material misstatement. An audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting policies used and their application by the Board of Directors, the significant estimates made by the Board when compiling the annual accounts, and the overall presentation of information in the annual accounts. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Swedish National Pension Funds Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting standards in Sweden. The Report of the Directors is compatible with the other sections of the annual accounts.

The audit has given us no reason for qualification with regard to the annual accounts, the income statement and balance sheet, the accounting records, the inventory of assets, or the administration of the company in general.

We recommend that the income statement and balance sheet be adopted.

**Stockholm, 17 February 2011**

*Anna Peyron*

AUTHORISED PUBLIC ACCOUNTANT

Appointed by the Government

*Lars Bonnevier*

AUTHORISED PUBLIC ACCOUNTANT

Appointed by the Government

## MANAGEMENT

Board of Directors

### BOARD OF DIRECTORS



#### **MONICA CANEMAN**

Chairman since 2008. Born 1954.

Other board assignments:

Chairman of the boards of Linkmed AB, SOS International A/S, Arion Bank hf, and Frösunda LSS AB.

Member of the boards of Investment AB Öresund, Orexo AB, Poolia AB, Securia AB, Point International AB, SAS AB, SPP AB, and Schibsted ASA.



#### **LARS FRITHIOF**

Deputy Chairman since 2008. Born 1946.

Other board assignments:

Chairman of the boards of Swedgas AB, Chamber of Commerce & Industry of Southern Sweden, and Comsys AB.

Member of the boards of SBS-SIMI Executive Foundation, Midway Holding AB, AH Industries A/S, and the Advisory Board at the Lund University School of Economics and Management.



#### **HÅKAN ARNELID**

Member of the Board since 2009. Born 1949.

Former finance manager, IF Metall.



#### **JAKOB GRINBAUM**

Member of the Board since 2010. Born 1949.

Senior Advisor.

Other board assignments:

Member of the boards of SBAB, IK Sirius, Stiftelsen Östgötagården foundation, Uppsala, and the Advisory Board of Genesta Property Nordic AB.



### **KAJSA LINDSTÅHL**

Member of the Board since 2004. Born 1943. Previously chairman and CEO of Banco Fonder. Other board assignments: Chairman of the boards of Södersjukhuset AB, Vectura Consulting AB, and Stiftelsen Tumba Bruk. Member of the boards of Försäkringsbolaget PRI Pensionsgaranti and the Institute for Financial Research (SIFR).



### **ROGER MÖRTVIK**

Member of the Board since 2009. Born 1960. Head of the Swedish Confederation of Professional Employees' social policy department.



### **ELISABETH NILSSON**

Member of the Board since 2010. Born 1953. Governor of Östergötland County. Other board assignments: Chairman of the boards of the foundations Övralidsstiftelsen, Risbergiska donationsfonden, Tåkerfonden, and Slotts- och Domkyrkomuseet i Linköping (Castle and Cathedral Museum Linköping). Member of the boards of Sveaskog AB, Swerea AB, and the Royal Swedish Academy of Engineering Sciences.



### **ILMAR REEPALU**

Member of the Board since 2000. Born 1943. Member of the Malmö City Executive Board. Other board assignments: Deputy chairman of the boards of the Swedish Association of Local Authorities and Regions (SALAR) and SKL Företag AB. Member of the boards of KPA AB, the Nanometer Structure Consortium at Lund University, and the Advisory Board for E.ON Sverige AB.



### **CHARLOTTE STRÖMBERG**

Member of the Board since 2007. Born 1959. CEO of Jones Lang LaSalle, the Nordics. Other board assignments: Member of the boards of Intrum Justitia AB, Skanska AB, and Gant Company AB.

Executive management Committee

## EXECUTIVE MANAGEMENT COMMITTEE



### **MATS ANDERSSON**

Born 1954. Chief Executive Officer and Chief Investment Officer.

Employed by AP4 since 2006. B.Sc. Economics.

Previously employed by Deutsche Bank, AP3, Skandia Liv, and other companies.

Other board assignments:

AB Dombron, the Association for Generally Accepted Principles in the Securities Market, Svolder AB, and Vasakronan AB.



### **ANNIKA ANDERSSON**

Born 1958. Head of Corporate Governance and Information.

Employed by AP4 since 1994. B.Sc. Economics.

Previously employed by Aktiv Placering, Bohusbanken, Swedish Society of Financial Analysts, and other companies.

Other board assignments: Karolinska Institutet (KI).



### **TOBIAS FRANSSON**

Born 1968. Head of Alternative Investments.

Employed by AP4 since 2003. B.Sc. Economics.

Previously employed by ABB, SEB, Capto Financial Consulting, and other companies.



### **BJÖRN KVARNSKOG**

Born 1965. Head of Global Equities.

Employed by AP4 since 2008. B.Sc. Business and Economics.

Previously employed by Handelsbanken Liv (RKA), Alfred Berg Asset Management, AP3, DnB NOR, and other companies.



### **AGNETA WILHELMSON KÅREMAR**

Born 1952. Director of Administration.

Employed by AP4 since 2001. Bachelor of Laws and DIHM Diploma in Business Finance.

Previously employed by Nordnet, Swedbank Markets, and Handelsbanken.



**BENGT LINDEFELDT**

Born 1962. Head of Fixed Interest and Foreign Exchange Management.

Employed by AP4 since 2008. M.Sc. Engineering. Previously employed by Investor, Nordea, Carnegie, AFA insurance, and other companies.

**CATRIN ABRAHAMSSON POHJANEN**

Born 1961. Head of Tactical Asset Allocation.

Employed by AP4 since 1999. B.Sc. Economics. Previously employed by LF, AMF pension, ABB IM, and SEB.

**NICKLAS WIKSTRÖM**

Born 1968. Head of Performance and Risk Control.

Employed by AP4 since 2008. B.Sc. Economics. Previously employed by AFA Försäkring and other companies.

**THOMAS WUOLIKAINEN**

Born 1966. Head of Swedish Equities.

Employed by AP4 since 1998. B.Sc. Economics. Previously employed by KP Pension & Försäkring and Myrberg Fondkommission.

## GLOSSARY

### GLOSSARY

#### **Absolute return target**

A targeted return intended to produce over time a positive return regardless of market trends. Contrast with a relative return target, for which the target is to outperform a specific index.

#### **Active management**

Asset management using a portfolio with a composition that differs from the index in an effort to achieve a higher return.

#### **Active return**

Difference between the return on a portfolio and the return on its benchmark index. The active return is disclosed in the Fund's annual and interim reports for the actively managed portfolios with liquid assets. The term is used synonymously with return versus index, relative return, and outperformance.

#### **Active risk**

Risk that results from active management. Defined as the standard deviation of the difference between actual performance and index performance (that is, the standard deviation of the active return). Also known as tracking error.

#### **Benchmark index**

Index against which a portfolio's return and risk are compared. Also called reference index.

#### **Brake**

Automatic rebalancing, also called "the brake", is triggered when liabilities exceed assets in the pension system. This reduces the indexing of pensions until the pension system is once again in balance.

#### **Corporate bond**

Bond that carries a higher credit risk than a government bond.

#### **Credit risk**

Risk that a counterpart cannot perform all or part of their obligations as a result of financial incapacity.

#### **Derivative**

Collective term for many different instruments. The value of a derivative is linked to the value of an underlying instrument. A government bond future is an example of a derivative that has as its underlying instrument a government bond.

#### **Diversification**

Diversification means the spreading of risks. In other words, if there is little or no correlation between the performance of assets in a portfolio, the total risk in that portfolio is reduced.

#### **Duration**

Measure of interest rate risk. Measures the average time to maturity of all future cash flows (coupons and final redemption) for a bond or bond portfolio. Also known as Macaulay duration. See also Modified duration.

**Fixed income portfolio**

Comprises fixed income assets including interest rate derivatives. The foreign portion of the fixed income portfolio's reference index is hedged in Swedish kronor. The benchmarks in 2010 was Svenska Handelsbanken's government and housing bond index as well as Merrill Lynch's government and corporate bond index hedged in Swedish kronor.

**Foreign exchange exposure**

Denotes the proportion of the portfolio denominated in a currency other than the Swedish krona and for which foreign exchange risk has not been neutralised by hedging.

**Global equity portfolio**

Consists of equities and equity-based instruments listed on stock exchanges included in the MSCI All Country Index. (Note that an equity listed on a Swedish stock exchange can be included in the global as well as the Swedish equity portfolio. At the time of purchase, the holding is assigned to the intended portfolio.) Foreign exchange derivatives are also managed in this portfolio. The benchmark in 2010 was the MSCI Global Investable Market Index, hedged.

**Hedging**

Neutralisation of foreign exchange risk by changing the currency exposure, from a foreign currency to Swedish krona, using foreign exchange forward contracts, for example.

**Index management**

Also referred to as passive management. Management of a portfolio so that the holdings mirror the composition of a designated index so the portfolio achieves the same returns as the index.

**Investment assets**

Used in this annual report to denote the Fund's total capital under management. In the balance sheet, however, investment assets are defined in accordance with generally accepted accounting principles. The principles require that buybacks, cash and equivalents, and derivatives with negative market value are recognised on the balance sheet but not as investment assets.

**Liquidity risk**

Risk that a financial instrument cannot be divested within a reasonable time without significantly affecting its price.

**Long position**

Positive exposure to a market or type of asset. For example, a positive exposure to a foreign currency using derivatives.

**Market risk**

Risk of a change in the value of a financial instrument as a result of variations in equity prices, exchange rates, or interest rates.

**Operational risk**

Collective term for risk of loss resulting from disruptions in business operations, for reasons such as human error, deficient systems, or shortcomings in instructions or procedures.

**Outperformance**

Achieved when a portfolio produces a higher return than its benchmark or reference index. Earning an active return greater than zero.

**Passive management**

Management of a portfolio so that the holdings mirror the composition of a designated index so the portfolio achieves the same returns as the index. Also known as indexing.

**Portfolio risk, ex post**

The standard deviation of the return on the portfolio during the period. Indicates the extent of fluctuations in the value of the portfolio and reflects the portfolio's risk level. See also Volatility.

**Real return**

Return minus inflation.

**Rebalancing**

Restoring the composition of assets in a portfolio or a benchmark index to a desired allocation, such as 50% equities and 50% fixed income.

**Reference index**

Index against which a portfolio's return and risk are compared. Also called benchmark index.

**Return contribution**

Shows how large a part of the return is attributable to a particular portfolio or decision. Return contributions are usually measured in percentage points. The sum of all return contributions equals the total percentage return for asset management overall or for a specific area.

**Semi-active asset management**

Portfolio management carrying somewhat higher active risk than passive management; that is, indexed management with limited intervention. Also known as enhanced indexing.

**Sharpe ratio**

A measure of risk-adjusted return. Calculated as the portfolio's return minus risk-free interest, divided by the standard deviation of the portfolio. A high Sharpe ratio indicates a good trade-off between risk and return.

**Short position**

Negative exposure to a market or type of asset. For example, a negative exposure to a foreign currency by using derivatives.

**Strategic allocation**

Medium-term deviations from the normal portfolio's asset allocation, foreign exchange exposure, duration, and so forth aimed at enhancing the returns on and risk characteristics of the strategic portfolio. Strategic allocations are decided by the Board of Directors based on the normal portfolio and medium-term forecasts of risk and return.

**Swedish equity portfolio**

For 2010, the portfolio consists of equities and equity-based instruments listed on a stock exchange in Sweden or another Nordic country. The benchmark in 2010 was SIX 60 for the large cap portfolio and OMX smallcap for the portfolio with small and mid-cap companies.

**Tactical asset allocation**

Active position-taking between different asset categories or regions, for example, to outperform an index.

**Time-weighted return**

Time-weighted return, calculated on a daily basis and based on the assumption that all transactions occur at the end of the day. This concept is always used in reporting the financial performance of a portfolio or sub-portfolio and refers to the performance before expenses unless stated otherwise.

**Value at Risk (VaR)**

A measure of risk that indicates the maximum loss a portfolio risks during a specific period given a certain statistical confidence level.

**Volatility**

Measure of risk equal to the measured standard deviation of the return on an asset. It shows how much the return varies.



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