




ANNUAL REPORT 2013



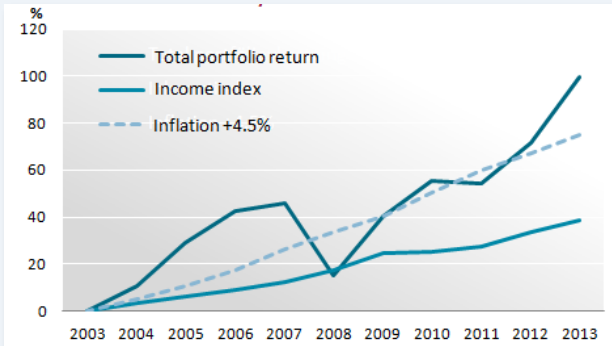
AP4 overshot short- and long-term return targets.

A positive outcome gave a contribution of SEK 37 billion to the pension system, of which SEK 900 billion was generated by AP4's active management.

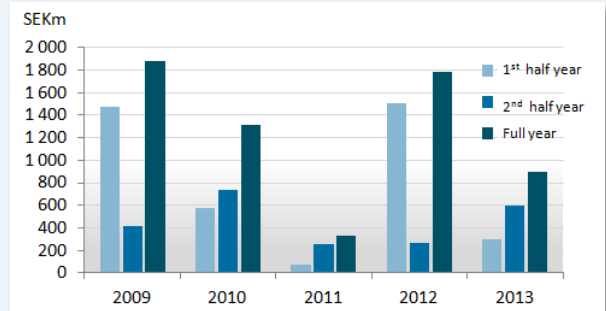
Fund capital increased to SEK 260 billion.

Performance over time

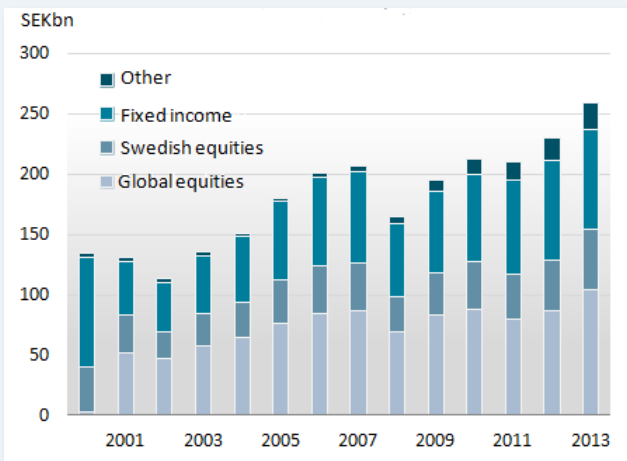
Total return over 10 years



Positive active return over five years



Fund Capital Performance since inception

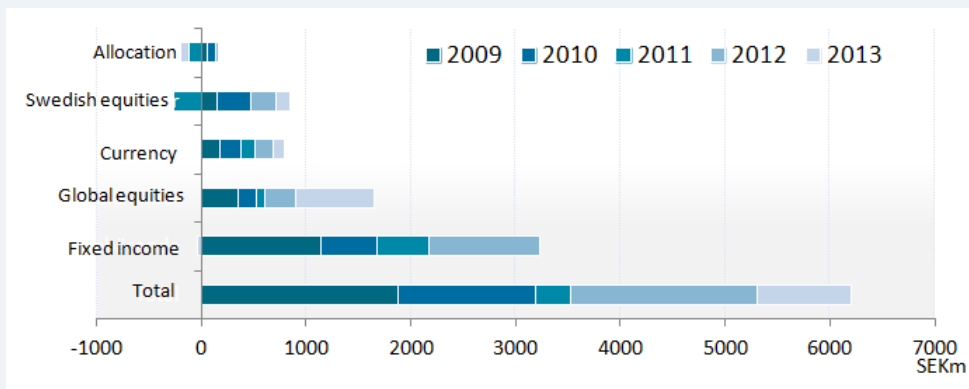


Asset allocation, 31 December 2013



The majority of AP4's capital is invested in global and Swedish listed equities. The assets are found in both tactical and strategic management.

The tactical management's active return, 2009-2013



AP4 carried out a major reorganisation in 2007-2008 to create fundamentals for a higher return. As of 2009, the current tactical management was in place.

Overshot targets

- SEK 260 billion in Fund capital**
 Fund capital increased to SEK 260 (230) billion
 In 2013, AP4 paid out a net amount of SEK 6.9 billion (3.8) from Fund capital to cover the deficit between outgoing and incoming payments in the pension system.
- Total return of 16.4%**
 Total return after expenses was 16.4% (11.2). AP4 benefited from its high proportion of equities. Total return before expenses was 16.5% (11.3).
- 5.9% real average return in ten years**
 AP4 has generated annual nominal return after expenses of 7.2% on average over 10 years, which in real terms (adjusted for inflation) equals 5.9%.
 This has overshot the Board's real return requirement of 4.5% on average annually, and substantially outperformed the income index. Since the outset in 2001, real return has amounted to an average of 3.3% annually.
- SEK 900 million in active result**
 Return from active management outperformed the benchmark index by 0.5 (1.0) percentage points before expenses, equalling SEK 0.9 billion (1.8).
- SEK 37 billion in net profit.**
 Net profit for the year totalled SEK 37.0 billion (23.4), which is AP4's best performance in SEK since the outset in 2001.
- Low expenses**
 The operating expense ratio, excluding commission expenses, was 0.08% (0.08) on an annualised basis. Including commission expenses, the ratio was 0.11% (0.10). Management expenses, including commission expenses, totalled SEK 277 million (218).
- Foreign exchange exposure was 28.6% (27.7) at the close of the year.**

SEK 260

billion in Fund capital

16.4%

in total return after expenses

SEK 900

billion in active resurn

10 consecutive six-month interim periods

with better return than benchmark index

SEK 2,6

billion in active contribution from the new strategic management

SEK 37

billion in net profit

Welcome to the AP4's 2013 annual report

The annual report summarises the past year, focusing on the Fourth National Pension Insurance Fund's management. This annual report is one of three annual reports, which together describe AP4's work. The other two reports are:

AP4's Sustainability and Corporate Governance Report and the **Ethical Council Annual Report**. The reports can be downloaded from www.ap4.se.

Every entry in the tables in the annual report has been correctly rounded, though they may not always sum to the totals shown.

We wish all readers an informative read.

AP4's Sustainability and Corporate Governance Report 2012-2013



www.ap4.se

Ethical Council Annual Report.



www.ap4.se

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In the spotlight



AP4's cornerstones

A good 2013
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Letter from the CEO

A good 2013
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Greenhouse gas-efficient investments

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Green bonds

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Focus on corporate bonds - an interview with Ulf Erlandsson

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Profitable currency management - an interview with Per Berglund and Jacob Bohlin

Read more on page 18



Rikshem – a long-term real estate company

Read more on page 21

A new management structure

Read more on page 25



AP4 at a glance

AP4's brief is to contribute to the stability of the national pension system through managing Fund capital with the aim of generating the best possible return over time.

Goals

Based on the brief, the Board of AP4 has formulated the two following overall goals:

- **Total return** shall **average 4.5% per year in real terms** (adjusted for inflation) over a 10-year period. For 2014 the Board has reformulated the target for total return; for the long term it should amount to an annual rate of 4.5%. The goal of total return is, in the opinion of the Fund, the average return required over a 40-year period for the pension system's assets and liabilities to balance in the long run.
- **Strategic management's active return (in excess of the benchmark index)** is to **average 0.50 percentage points per year**. For 2014 the goal is 0.75 percentage points. In the long-term, the required return should increase with increased risk utilisation.
- **Tactical management's active return** (in excess of the benchmark index) is to **average 0.5 percentage points per year** over a three-year period.

In 2013, AP4 overshot both short- and long-term return targets.

Fund capital

At year-end 2013, Fund capital totalled SEK 260 billion. At the end of the year, tactically managed assets with an investment horizon of 0-3 years constituted 78% (89) of investment assets. Strategically managed assets with an investment horizon of 3-15 years constituted the remaining 22% (11).

During the year AP4 increased the strategic positions, mainly through the greenhouse gas-efficient investments in emerging markets and North America, see pages 12-13, as well as through investments in a Swedish active strategic equities mandate. To finance these investments capital was transferred from the tactical to the strategic management.

At year-end 2013, total Fund capital consisted of 59% listed equities, 32% fixed income securities and 9% other assets such as real estate and unlisted shares.

The Board has decided that the Fund has the best possibility of achieving the real long-term target by holding a large proportion of publicly quoted equities.

Operations

The Fourth National Pension Insurance 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. The Ministry of Finance continually supervises and evaluates AP4's operations. The Fund shall independently formulate its targets and strategies.

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

Investment policy

The investment rules according to the Swedish National Pension Funds Act include the following:

- Investments may be made in all listed and transferable instruments except those that are commodity-based.
- At least 30% of the assets must be invested in fixed income securities with low credit and liquidity risk.
- A maximum of 40% of assets may be exposed to currency risk.
- A maximum of 10% of 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.
- A maximum of 10% of the votes may be owned in an individual listed company
- A maximum of 5% of the assets may be placed in unlisted securities. These investments must be made indirectly through venture capital firms or similar.
- Shares and participations in real estate companies may be directly owned.
- At least 10% of the assets must be managed by external asset managers.

Sustainability

Sustainability (environment, social and governance) contributes to a sustainable good return. Sustainability increases risk awareness and harnesses business opportunities in management.

Active ownership will promote increased return in the long term.

Under the Swedish National Pension Funds Act, corporate governance-related work 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, Board of Directors approves AP4's *ownership policy*, which contains guidelines for how the Fund shall relate to a number of ownership issues and apply its voting rights in individual companies, Swedish as well as foreign.

Active corporate governance can increase return

AP4 works with active corporate governance in both the tactical and the strategic management. In a number of AP4's management strategies, active corporate governance is an effective tool and part of the strategy to create the best possible return over time.

Sustainability is a constant effort

AP4 believes that good regard for ethics and the environment, and sustainable value creation are prerequisites for companies achieving sustainable healthy returns.

AP4's sustainability efforts are adapted based on asset class and management model. Various conditions affect how work is conducted within each management mandate.

Responsibility for integration work in strategies and processes in management lies with each management unit. The head of the management unit reports on the integration work to the Chief Investment Officer and CEO. Integration work is pursued in close collaboration with the Fund's corporate governance unit.

Working with sustainability is a constant effort that evolves all the time. The same applies to AP4's work with environmental, ethical, and corporate governance matters.

AP4's work on environmental and ethical matters includes the Fund's involvement on the *Ethical Council*. Read more about the Ethical Council, www.ap4.se.

AP4's *Sustainability and Corporate Governance Report 2012-2013* presents AP4's sustainability efforts. The report, which is published annually, is available on the Fund's website, www.ap4.se

Prizes and nominations

AP4 received positive attention in many different contexts during 2013, and was awarded the following prizes and nominations.

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

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

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



AP4 was nominated for two different international prizes.

- **aiCIO European Innovation Awards 2013 – Asset Allocation Innovation – Asset Owners**

AP4 was nominated by aiCIO (Asset International's Chief Investment Officer) for the stance it has taken on ESG investing - in particular the low-emission portfolio - and the long-term horizon AP4 has taken on relatively illiquid investments.



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

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



Four cornerstones of AP4's operations

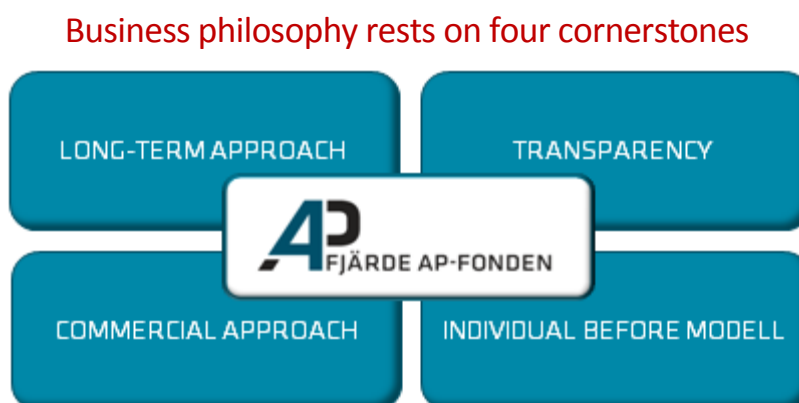
Business philosophy rests on four cornerstones: long-term approach, commercial approach, transparency and individual before model.

Long-term approach

The ability to take harness the benefits of a long-term approach is one of AP4's most important qualities and a cornerstone of the Fund's business philosophy.

Many of today's regulations drive pension funds towards increased short-termism and limit opportunities to act as long-term investors. In this regard the AP funds have an almost unique mandate, with good potential to take a long-term approach and withstand volatility. **AP4 withstands volatility**, which can also be viewed as a measure of the ability to take a long-term approach.

For a long-term investor, **addressing sustainability issues and ranking them high on the shareholder agenda is a given**. No company can achieve long-term success and give its owners a good return unless these key issues receive adequate attention and priority treatment from its board of directors and corporate management.



Commercial approach

A businesslike approach is another cornerstone in the business philosophy.

In each decision and each investment AP4 endeavours to choose the option that is **best for the client**, the Swedish pensioner.

The Fund searches for those options that give the best long-term return at the lowest possible cost. A fundamental requirement for any AP4 investment is that it must be assessed as able to generate solid returns at expected risk. The same applies to all AP4 investments with respect to corporate governance and environmental strategies.

The cost levels for the AP Funds in general and AP4 in particular are among the lowest in the industry, even in an international comparison.

Transparency

AP4 strives for transparency through clear, simple solutions, which is also expressed in its business philosophy.

For example, **return, risk and cost are measured and reported for each investment level**. The transparency surrounding how AP4 conducts business is an important factor in inspiring and maintaining the trust of the public and of Swedish pensioners.

AP4 also strives to choose **simple solutions** wherever possible. The very complexity of asset management activities makes this a desirable objective in itself.

Individual before model

The fourth and final cornerstone of AP4's business philosophy is to try to focus on the individual.

In recent decades, asset management has increasingly been governed by models. Managers often look for a model that has worked historically and then try to adapt to these models. At AP4 we do the opposite. AP4 is convinced that it is individuals who create results and that added value can be found in different places, using different methods.

AP4 works with and searches for individuals who have functioning models and who could benefit from the opportunities that the market offers.

Another conclusion is that there is no "one-size-fits-all" solution. Nevertheless, the requirement for transparency and monitoring remains regardless.

Models can be copied, but not individuals.

A good 2013 and a new management structure

2013 was a good year. While conditions were indeed positive in many regards, the Fourth AP Fund nevertheless presents an exceptionally strong financial performance. As CEO, I am both pleased with and proud of the 2013 results.

In absolute figures, AP4 delivered a contribution of SEK 37 billion last year, a record in itself. The result means that return on capital was more than 16 percent.

This achievement is no less laudable when viewed in light of the return on the bond portfolio, which was just below zero. The law governing the AP funds requires that we must have at least 30 percent of assets invested in what the regulations describe as “safe liquid fixed income securities”, debt securities with low risk. In the extreme low interest rate environment prevailing in 2013, this provision had an inhibitory effect on the performance of the AP funds.

SEK 260 billion.

Following last year's favourable trend, Fund Capital at year-end amounted to SEK 260 billion, to be compared with the roughly SEK 135 billion that formed the nucleus at the start of the pension system in 2001. It should be noted here that based on its role as a buffer in the pension system, AP4 contributed nearly SEK 7 billion to cover the shortfall between pension system contributions and disbursements in 2013.

10 consecutive six-month interim periods = SEK 6 billion in added value

Another cause for celebration for AP4's Board and management is that the tactical management (investment horizon of up to 3 years) in 2013 continued to add value beyond passive management, with nearly SEK 900 million. Thus the active tactical management has contributed a total of more than SEK 6 billion over the past five years.

Over the past ten consecutive six-month interim periods, AP4's talented staff in active management of equities, fixed income and currency delivered positive active earnings of more than SEK six billion. Impressive!

New management structure promotes a long-term approach

This past financial year is the first with AP4's new management structure that the Board had approved. Read more on page 25. The aim is for AP4 to be able to take even better advantage of the opportunities offered a manager who may have a longer-term horizon than traditional investors.

“Over the past ten consecutive six-month interim periods, AP4's talented staff in active management of equities, fixed income and currency delivered positive active earnings of more than SEK six billion.”



A growing portion of AP4's capital and risk mandates have also been allocated to this new "strategic mandate" with an investment horizon of 3-15 years. The investments amounted to over SEK 50 billion at year-end. While it is obviously too early to evaluate this path, it can still be mentioned that the outcome so far whets the appetite with a contribution of more than SEK 2.6 billion to AP4's 2013 earnings.

Sustainability - part of a long-term approach

2013 was the first year for AP4's new management structure and longer-term strategic mandate. Sustainability investments often require a long-term investment horizon, such as AP4's investments in greenhouse gas-efficient equity strategies, see page 12.

By deliberately eliminating those companies that have the greatest negative impact on greenhouse gases such as carbon dioxide, AP4 has created an alternative index in which the impact from carbon dioxide of the selected companies has basically been cut in half, compared with the companies included in the underlying index. And by doing so, financial risk has only marginally increased.

Interestingly, these investments have already made a positive contribution to AP4's earnings in the short term. Moreover, interest in this strategy has attracted attention far beyond Sweden's borders.

I hope that more pension funds join in, and better yet, find other ways to achieve the same effect. AP4's investments in this segment show that sustainability can be combined with reduced risk of adverse environmental factors such as greenhouse gases, while increasing return.

A prerequisite for sustainability investments like those described above is a portfolio structure that facilitates these efforts, as well as a management philosophy that encourages harnessing existing opportunities. AP4's four cornerstones--a long-term approach, transparency, a businesslike approach and the individual, not the model--are excellent guiding principles even in this context, see page 8.

"A prerequisite for sustainability work is a management philosophy that encourages harnessing existing opportunities."

Promising even in a longer perspective

The trend in the capital markets over the past 15 years has been characterised by sudden changes. Although asset management may produce strong figures for individual years, they are no guarantee of the stability and quality of the organisation, nor do they provide a basis for assessments of the future. If evaluations of asset managers are to be meaningful, they must reflect longer time periods.

Fortunately, AP4's outcome is satisfactory, even over an extended time horizon. Average annual return over the past ten years amounts to 7,2%. In real terms, correcting for inflation, the figure is 5.9%. This is well above the Board's target for AP4 of an average real annual return of 4.5%.

Pension system benefits from high proportion of equities in the long term

On several occasions I have pointed out that ten years is really too short a period to be able to fairly evaluate total return for pension management. The starting point for such measurements is often of great importance, and this will

obviously be greater the shorter the evaluation period.

Measurement results can easily reflect "random harvests" rather than a measure of the management's chosen portfolio strategy.

A related example can serve as an illustration: The new AP Funds were launched in 2001, at the top of an overrated stockmarket cycle.

Measured since inception, AP4's annual real return now--13 years later--is 3.3%. Although still slightly below the Board's long-term target, the return figure for the last ten years is clearly well-above target.

It remains my belief that over time, the composition of AP4's portfolio of stocks and bonds will deliver a real return of at least 4.5% annually. However, periods of ten, perhaps even fifteen years, will always pop up and deviate from what can reasonably be expected in the really long term.

Explanatory factors for solid performance in 2013

Behind the AP4 Fund's performance in 2013 is—as always—a combination of skill and luck. Highlights of successful choices the Fund made in 2013 include:

Large proportion of publicly quoted equities

AP4 has always had an explicit strategy to invest a large proportion of its assets in publicly quoted equities. At year-end, the holding was just under 60%. In terms of return, publicly quoted equities were clearly the best asset class in 2013. AP4's equity portfolio—both Swedish and foreign—rose a total of more than 25%!

In recent years an increasing number of pension funds have more or less intentionally chosen to reduce risk in the total portfolio by selling publicly quoted equities. In contrast, AP4 has increased the proportion of publicly quoted equities on the margin, an increase that was based on an already high level.

Active management initiative

Active management, or the ambition to outperform an index, has always been a watchword for AP4. This strategy cannot be taken for granted in an industry where distrust of active management is gradually spreading. Against this background, as noted above, we are pleased that AP4 has been able to report positive active management results over ten consecutive six-month interim periods, which now add up to more than SEK 6 billion. Note that all management units, equities and global macro (fixed income and currency), have contributed to this outcome over time.

Active management also provides a better basis for taking responsibility as owners. Even taking into account the additional cost and extra risk typically associated with active management, I find it easy to defend this strategy.

“Active management provides an opportunity to generate a better outcome and a better basis for taking responsibility as owners”

Focus on SMEs

AP4 believes that small and mid-cap companies provide better returns over time than larger listed companies. The Fund has therefore decided to adopt a strategy of investing 16% of the Swedish stock market portfolio in this segment. In 2013 the return here was more than 40%, which exceeds the corresponding outcome for large companies by almost 15%. In terms of cash, this difference equals a positive contribution to AP4 of more than SEK 800 million.

New management structure

On another positive note from the past financial year, the new management structure has been implemented, including an expanded and broader strategic plan. AP4 can now invest with a horizon beyond the three-year perspective. Few pension managers have actually been granted this possibility. In my opinion, the need for truly long-term risk capital has never been greater.

In summary: 2013 was a great year for AP4.

As CEO, I would like to extend a warm thank you to all of the Fund's loyal employees who always do their job in a highly qualified, dedicated and professional manner.

The favourable outcome last year has given the entire staff a clear signal that AP4's business philosophy works. At the same time, everyone is aware that this philosophy must be further developed and refined. Or as the AP4 Board usually say after a period with good results:

“Last season was last season, this season is this season!”



Mats Andersson
Chief Executive Officer

2 Greenhouse gas-efficient investments

AP4 believes that in the long term, greenhouse gas-efficient investments will be able to provide a positive return, while significantly reducing the risk of AP4's equity portfolio.

During the transition to a more low-carbon society, greenhouse gas emissions will probably be associated with rising costs and companies with high emissions will therefore be adversely affected. Valuations of these companies will also fall in such a scenario.

Reduce risk and increase return

The greenhouse gas-efficient investments are strategic positions with a long investment horizon. They are expected to reduce risk in the portfolio and to contribute positively to returns over the long term.

The results so far, albeit with an extremely short evaluation period, have been positive. The investments should be viewed as steps towards a more carbon-efficient global equity portfolio.

Less CO₂ in AP4's portfolio

AP4's total exposure to greenhouse gas-efficient strategies was SEK 7 billion at the end of 2013, representing just under 7% of the global equity portfolio. At year-end AP4 had greenhouse gas-efficient investments in the emerging markets and in North America.

AP4 continues to work on developing greenhouse gas-efficient strategies for more geographic markets.

2 Emerging Markets

Emerging markets primarily consist of China, Brazil, Russia and other emerging countries. During the year AP4 invested about SEK 3.5 billion in a greenhouse gas-efficient strategy, which excludes companies with high greenhouse gas emissions, as well as companies with large fossil reserves.

2 North America

AP4 invested another SEK 1.7 billion in 2013 in a greenhouse gas-efficient strategy in North America. The total North American investment is just under SEK 3.5 billion.

The North American strategy excludes companies with relatively large greenhouse gas emissions. The environmental strategy is sector-neutral; each branch is evaluated individually. This strategy reduces greenhouse gas emissions in AP4's investments by 50%.

In 2013 the North American greenhouse gas-efficient strategy clearly outperformed the S&P 500, its benchmark index. However, the evaluation period is still only one year, and the investment must be judged over the long term.

Greenhouse gas emissions are expensive

AP4 believes that, in the long term, greenhouse gas emissions will be associated with higher costs. Companies with higher emissions and fossil fuel reserves, which entail future emissions of greenhouse gases, should therefore be valued and priced differently than today. Today's corporate values do not reflect the rising costs of emissions. Companies with lower emissions than competitors should enjoy a financial advantage and a relatively better value performance.

What is greenhouse gas?

Gases which lock heat into the atmosphere are called greenhouse gases because they contribute to global warming through the greenhouse effect.

Why the greenhouse gas effect is harmful

When the natural cycle is in balance – living plants and trees have enough time to absorb greenhouse gas – the greenhouse effect is good. It provides the earth with an atmosphere and climate habitable for humans and animals.

When man tips the balance by increasing the natural amount of greenhouse gas through fossil fuel combustion, the earth's temperature increases and climate changes.

How greenhouse gas emissions are measured

Each gas is set in relation to its effect on global warming. The measure used is the tonne of carbon dioxide equivalent (CO₂e) gas.

A high-profile greenhouse gas is carbon dioxide (CO₂). It is formed through the combustion of e.g. fossil fuels (coal, natural gas and oil), waste and wood. Carbon dioxide disappears from the atmosphere when it is absorbed by trees and plants as a natural part of the biological carbon dioxide cycle.

Fossil reserves - from access to burden

Fossil reserves are deposits of coal, oil and other fossil fuels, which have not yet been extracted. Valuation of fossil reserves depends on expected future revenues compared with the estimated costs of extraction and potential emissions of greenhouse gases. If revenues fall or costs rise, extracting the reserves may no longer be profitable.

Today there are companies whose fossil reserves represent a large portion of the assets of the company. The risk is that it will not be profitable to extract these reserves in the future. Today's positive valuations of fossil reserves, found in these companies' balance sheets, could therefore be adversely affected. They may even become worthless. These companies will be hit hard when the fossil reserves, which are listed as assets, are revalued and decrease in value.

Don't just eliminate the energy sector

Some industries and sectors tend to have higher emissions than others, such as energy and commodities. The goal is not to completely eliminate these companies. The strategy is designed to be sector-neutral; in other words, the least greenhouse gas-efficient companies are eliminated from each sector. Even though several companies are rejected, the greenhouse gas-efficient strategy will still have almost the same risk profile as its broad underlying benchmark index.

Annual evaluation of companies' emissions

The companies are regularly evaluated on the basis of their emissions and for the emerging markets, based on holdings of fossil reserves as well,

Methane - important for climate

Methane is a greenhouse gas that is about 20 times more powerful than carbon dioxide (CO₂). It is emitted by for instance droppings and the melting tundra of the northern hemisphere.

Carbon footprint – what is it?

A carbon footprint is a measure of a company's greenhouse gas emissions. All emissions are included that are directly caused by the activities of the organisation, such as transports. It also includes other emissions, such as from electricity consumption.



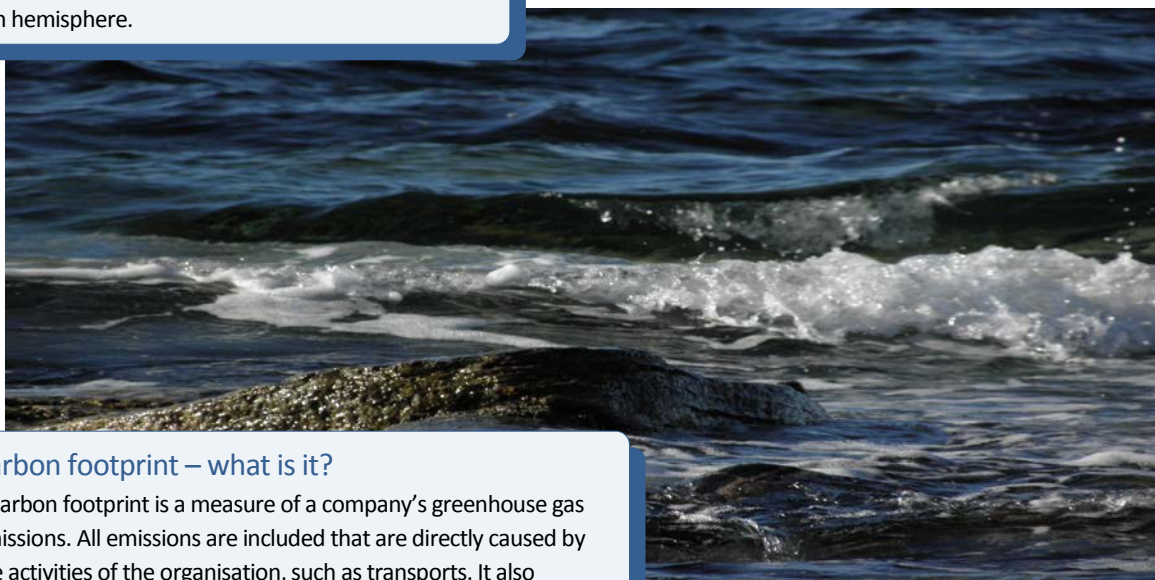
Mikael Johansson and Fredrik Regland, global equities managers at AP4, work on formulating and implementing the greenhouse gas-efficient strategies that AP4 has in several different geographic markets.

which can lead to emissions in the future. Previously excluded companies that reduced their emissions in relative terms can be evaluated and chosen to be included in the strategy. The goal is to eliminate the companies that, at the relevant time, have the largest emissions in relative terms.

An external consultant gathers and analyzes data for companies regarding greenhouse gas emissions and fossil reserves, followed by quality assurance. Data quality is ensured through reconciliation with public records and direct feedback from the companies. The emissions are considered in relation to the company's sales. Companies with the most emissions per krona of sales rank lowest in terms of the harmful greenhouse gas effect.

Are reliable emissions data available?

The availability and quality of data have increased in recent years and are now considered to be high enough to be able to make greenhouse gas-efficient investments in emerging markets. Nevertheless, improved transparency and reliability of information provided by both companies and government agencies would be desirable in the future.



Green bonds – a rapidly growing field

The market for green bonds is rapidly growing. In 2013 a number of new issuers came to market, making it much more attractive for investing. Occasionally the potential to create excess returns has been good, which can benefit AP4 in both the short and long term.

Until about a year ago the market was dominated by “green bonds” from various institutions such as the European Investment Bank (EIB) and the World Bank.

“Unfortunately, this meant there were too few investments and they were frequently mispriced, especially given the higher degree of illiquidity typical for these assets,” says Ulf Erlandsson, who manages this type of bond at AP4.

Why haven't you invested before?

AP4 has had this asset class on the radar since 2008, but we didn't actually make any investments until 2013 for the reasons mentioned above.

Investments in Africa?

“Yes, that's right. We participated in the African Development Bank's issue this year. It's especially exciting to invest in a continent with strong economic growth and where there is an opportunity to make a big difference with relatively little money. Where new energy can be more sustainably developed,” says Ulf. “Moreover, Africa is a region suffering from a shortage of capital, unlike many countries in the developed world today.”

What does “sustainable” sustainability mean?”

“A real danger of the green bond trend is called “greenwashing,” where investors talk the talk, but don't live up to it. In my opinion, it is not uncommon for investors to purchase green bonds solely so they can say that they invested “green”; in such cases, the content, or economic terms take the back seat. This is not financially sustainable for the long term,” says Ulf. It is extremely important for the market to develop in a way that minimises risk. It's the only chance if the market for green bonds is to grow.

Greenwashing

“What can be done to prevent “greenwashing” in bond trading?” Sometimes we see that bonds are priced to be so expensive that the only conceivable buyer is an end-investor, who must buy in order to achieve some sort of quota of green investments. “We never participate in such issues,” says Ulf. I believe that the market for green bonds can only develop to its full potential if it actually works like other bond markets, not as an outlet for some investors to reach predetermined quantitative targets for green investments.

Effective due diligence and transparency of the projects are also important to ensure that green financing actually goes to green

projects. The advantage of the bond market is that issuers tend to return to the market relatively frequently. An investor can then use a strong sanction mechanism: if issuers don't meet their obligations, investors quite simply don't join in the next time they seek financing.

New trend in green bonds?

“I believe the market is going to grow substantially. An interesting innovation in 2013 was green corporate bonds, rather than from fully or partially public issuers. In the past they were almost the only players and dominated the market for green bonds. Green corporate bonds could become a strong trend in the future that I view favourably.

A green trend with an even higher degree of commercial viability could be a very strong combination,” says Ulf. From being a niche market that was more or less driven by the hard work of individual players, today we get almost daily calls from various parties who want to enter the market.

Green bonds

“Green bonds” will ultimately lead to investments in projects that support economically disadvantaged areas. Most either have a pronounced environmental approach, or go to dedicated investment projects in green technology.

One frequent issuer of green bonds is the World Bank. Such bonds are therefore sometimes called supranational bonds. Other examples of issuers are development banks and organisations such as the European Bank for Reconstruction and Development (EBRD), Asia Development Bank (ADB), Inter-American Development Bank (IADB), and so on.

Green bonds were previously issued in relatively small amounts and linked directly to environmental projects. This changed in 2013. The size and structure of green bonds issued today allows more investors to invest in them. Green bonds are still a very small percentage of the overall bond market. At year-end 2013/14, the green bond market amounted to around USD 14 billion, which can be compared with the total market of US government bonds of around USD 9,000 billion.

Commercial approach and analysis yields positive results

Active management of corporate bonds generated SEK 900 million more than passive index management since 2010 when Ulf Erlandsson took over as manager. Last year, the result was close to SEK 290 million.

How do you explain the successful outcome?

“AP4 has taken a strategic position to have a larger holding of corporate bonds – in terms of both size and risk – than in our benchmark index. By constantly minimising risk combined with the successful choice of securities, we have been able to generate high risk-adjusted returns,” says Ulf.

What do you do - that others don't?

“I don't marry any specific holdings or positions,” says Ulf and continues: “Many managers tend to hope and wish that the securities and positions they hold will do well - that prices will rise. It can be difficult to take a step back, rethink and completely reconsider previous decisions and conclusions. My goal is to make money on

corporate bonds both whether the market is going up or going down. This requires a thorough macro-economic analysis, as well as a set of relevant financial instruments, especially to be able to deal with downward markets. AP4 provides me with conditions to achieve that goal, and I strive to take full advantage of this opportunity.

“It's important to be tough in price negotiations and when necessary, to avoid liquidity risk. A common trap is to try to generate excess returns by buying securities or assets with less liquidity. In a good market, they look like excellent investments with excess returns, but in a bad market, you have to pay back the excess return and then some, because liquidating the position can be difficult or even impossible.

“Empirically, it's been shown that we can find ourselves in a 'good' market for four years out of five. With these conditions it's difficult to calibrate the models once the 'fifth year' pops up. For successful management over time you have to create a good return over the entire cycle, not just the good years,” says Ulf.



How is management structured?

We're a total of six individuals, all managers, in global macro management. Our desks are close together and we've become more efficient at forwarding market-driving information to each other.

There are three main segments in global macro management:

- Fixed income management, which actively manages government and corporate bonds
- Foreign exchange management, which actively manages currency and manages AP4's currency risk
- Equity index, which generates active returns through trading in individual equity indices and between different equity indices.

"In the government and corporate bond portfolio, two colleagues and I have a mandate to outperform the benchmark index in their respective currencies," says Ulf.

My colleagues, who trade government bonds, 'own' the interest rate risk in "my" corporate bonds, which means that I trade pure spreads (i.e. the yield spread between corporate bonds and the risk-free interest rate). We are extremely careful that each manager has full performance accountability for his or her own position.

Collaboration makes positive contribution

We try to leverage the skills of each person in global macroeconomic management and to work together. It gives positive synergies and generates business. In times when there is a strong focus on movements in the US interest rate market, for example, it's highly beneficial for a credit trader to sit together with colleagues who are active in that market.

Filtering large amounts of information

"Working close to the market and processing many different information sources simultaneously is crucial. One important function for me as a portfolio manager is to filter the vast amount of information that pours in," says Ulf. It's difficult to consistently make good decisions if you have no or inadequate underlying information. This applies to the economic macroanalysis and microanalysis of individual loans.

Combine models and market data

A major aid in management is the quantitative system that we've built and are continually developing. It's also important to take advantage of the large number of counterparties available in the market and their different specialties," says Ulf.

I spend a relatively large part of my time on building and programming models, as well as talking to market participants about what happens in the specific segments in which they are active. For example, clarifying what a Spanish bank thinks about the domestic bond market, or what an American broker thinks about fund flows in the US are important pieces of the puzzle to be able to see the big picture.

Several strategies with different investment horizons

An important component for achieving well-diversified portfolios is to use the time dimension. "I have a number of different strategies that focus on different investment horizons. Let me give some examples," says Ulf.

Pure bond positions are usually taken with a [medium- to long-term time horizon](#) (3 months -3 years). The reason is that volatility is low and transaction fees are high. The same applies, for example, to positions taken in the belief that the interest

rate curve will be changed or pricing differences for the same risk.

I use the [medium term time window](#) (a few weeks -6 months) for more thematic positions such as relative value between industries; for example, financial against non-financial companies, or dollar against euro credits.

[Trades with a short investment horizon](#) (intra-day-1 month) are best suited for temporary market imperfections, such as trade between equity futures and credit indices which are normally highly correlated, but sometimes diverge for purely technical factors.

"It's important to note that the definition of how long-term a transaction is has to be regularly evaluated," says Ulf. I have nothing against taking profits in the "long term transactions" if they already reach their target levels in the short term." But he also stresses that he is careful not to convert a short-term loss into a "long-term" position.

"My goal is to make money on credits whether the market is going up or going down. AP4 provides me with conditions to achieve that goal, and I strive to take full advantage of this opportunity."

Interesting trade

“As a bond trader the bond issue in the US company Verizon in autumn 2013 was a remarkable event. The company issued USD 50 billion (about SEK 325 billion). It all happened on one afternoon, which was by far the largest issuance of a corporate bond ever. A more typical issue volume is USD 0.5-2 billion.

My analysis of the Verizon issue indicated that it was very attractively priced. I took advantage of my risk mandate accordingly. One month later, these 30-year bonds had gone up 16% in price, a remarkable increase in the value of a bond, which is classed as relatively “safe”, or “investment grade”. This is equivalent to an annualised return of nearly 200%. After this dramatic price increase, I decided to sell off a large portion of our holding and secured a hefty profit.”

What distinguishes AP4 from other managers?

“We’re a relatively small organisation with very short decision-making paths, which is particularly advantageous for a proactive manager. I also believe that we have a stronger focus on increasing the profit contribution irrespective of where the underlying market is going. We often discuss how we can earn more money for Swedish pensioners, far more rarely how to minimise the deviation from our benchmark index.

“Since the AP funds, unlike many other fund managers, don’t charge any fees for our management, we can focus on maximising returns rather than trying to maximise the Fund’s income on various fees. We also have the advantage of not being subjected to unpredictable inflows and outflows to the fund, which many other institutions have.

Some considerations when investing in corporate bonds:

Purchase bonds with short or long time to maturity (positioning in curves)?

The credit curve indicates how much more interest you get for lending money in the long term compared with the short term.

Assume risk in “cash” or derivatives?

The difference in risk compensation, which is obtained by buying the bond compared with using credit default swaps to take the risk, varies over time.

In what currency should bonds be purchased?

Flows on the international capital markets affect how attractive corporate bonds from the same issuer but in different currencies are.

Long-term investment horizon contributes to positive performance

Foreign exchange management at AP4 has generated more than SEK 3 billion in net profit since 2008. Per Berglund and Jacob Bolin, foreign exchange managers at AP4, have built up today's management. 2013 was the sixth consecutive year with a net profit.

The earnings on more than SEK 3 billion over the last six years come from two different portfolios, partly the active earnings from foreign exchange management of SEK 1 billion, and partly earnings from the strategic foreign exchange management of over SEK 2 billion.

Per and Jacob are responsible for AP4's currency trading and are two of the six managers in global macro management, which was built up by Bengt Lindfeldt, head of global macro management. In addition to currency, the managers trade fixed income, credit instruments and equity indices.

What are the factors for success?

"The strong performance is due to several factors, including the structure of the risk mandate. In the active mandate, we take advantage of short-term trends, while in the strategic mandate we have room to take positions with a longer time horizon," says Per.

"A long-term investment horizon of up to five years enables us to tolerate volatility, or larger fluctuations in earnings over time. It also allows a variety of strategies and opportunities to build positions.

"Global macro management is a relatively small group of six individuals with different skills. We sit together and all have different sources of information, which generates both ideas and business. It's a well-functioning group with a focus on "more money for pensioners." These factors together help us to add value.

"We also take advantage of the mandate to use different types of instruments and work with many markets.

"Good business support from AP4's back office and middle office are also important factors for delivering a good performance," say Jacob and Per. "We also know that there's a lot of confidence internally in our work. That gives us a sense of security both when we take proprietary positions or propose strategic positions. Close contact with the CEO and business management also mean that decisions are well-founded, at the same time that decision-making paths are very short.



Two mandates with different management horizons

Foreign exchange management includes both a tactical and a strategic risk mandate.

In the **tactical foreign exchange mandate** we take macro/valuation-related positions across different currencies and trade global interest with up to 2 years maturity. In the short term, about 3-12 months, we try to identify the factors that have the greatest impact on pricing of different currencies, such as interest rate differentials and expected capital flows," says Per.

"We work with a broad portfolio of instruments and take positions such as currency and interest rate futures, as well as currency options. Per and I have individual risk mandates for each instrument and market."

"In the **strategic currency mandate**, with positions in a 3-5 year investment horizon, we focus more on the long-term valuation of currencies and take advantage of AP4's long investment mandate," says Jacob.

The "true value" of a currency can be calculated using theoretical valuation model. Major discrepancies between the current exchange rate and its long-term theoretical value may exist for relatively long periods. The differences between the theoretical value and the listed exchange rate tend to diminish over time. We therefore try to identify currencies with pricing disparities, which together with our short-term analysis serve as the basis for decisions on AP4's strategic currency positions.

The three major differences between strategic and tactical position-taking are that the investment horizon is substantially longer for a strategic position, the positions are larger and finally, the CEO must approve and give the green light for all strategic positions that the Fund takes.

Clear and structured investment model

"We have an established investment model for both short-term and long-term strategies. Per focuses on the currency market and expresses macro views through both currency forwards and options strategies. I focus more on the fixed income market with

0-2 year maturities and currency pricing based on interest rate differentials," says Jacob.

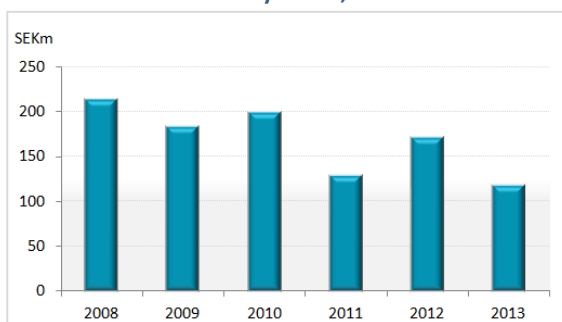
"We both have a mandate to trade all instruments and markets within our overall mandate. We have a clear division of roles and our own areas of focus. This clear division means that we specialise in different segments of the market, but we still share some markets, which contributes to an increased exchange of thoughts, ideas and collaboration," says Jacob.

"It's definitely an advantage to be able to trade currencies and short-term interest rates in the same risk mandate, given the importance of interest rates for how we price different currencies."

Strong focus on implementation

"We focus heavily on **how** we implement strategic positions," says Per. We often build positions over several years. With this approach we're clear about pre-defining levels and the size of the positions. Pricing of volatility and the carry trade (positive or negative interest rate differential) determines whether to use foreign exchange forwards or any form of option structure to implement the position.

Active currency return, 2008-2013



The above graph shows the active return that AP4's foreign exchange management has generated since the current management began

Positions on developments in Japan

"One highly successful strategic position, for example, was when the Japanese Yen (JPY) was overvalued in early 2011," says Per. Japanese government debt was high, and the country had problems managing the demographic consequences of an aging population. These were two of the fundamentals that contributed to Japan being on our radar and got us to go short JPY against EUR and USD when we felt it was appropriate.

The position developed well, but then the major earthquake and the tragic Fukushima nuclear accident occurred. The market reacted similarly as in the Kobe accident 16 years earlier, when JPY strengthened, followed by a sharp weakening. With that in mind, after the earthquake we chose to increase our already short JPY position via USD/JPY options and even sell JPY against the SEK in futures to further increase the short position.

“We had the position for about three years before we closed it with a good return,” says Per. “During that period, we acted on the basis of pre-defined target levels at each time that we had set up.”

Focus on Australia

Ever since the urbanisation of China took off about 15 years ago, the demand for commodities increased sharply and benefitted countries such as Australia with large exports of mainly iron ore. High commodity prices have pushed up the value of the Australian dollar (AUD) to a sharp overvaluation, according to our models.

As the supply of commodities is increasing and China is trying to rebalance its economy from an investment economy to a consumer economy, we felt that Australia was vulnerable and needed a weaker AUD in order to compete in global trade.

“We also take advantage of AP4’s long-term mandates to use different types of instruments and markets. Another strength is the ability to trade both currencies and short-term interest rates in the same risk mandate.”

In early 2013 we decided to build a strategic short AUD position against SEK. We also sold AUD via options in order to reduce the negative carry (interest rate differential) in the position of

Australia, which has a higher key interest rate than Sweden. The position was taken with an investment horizon of 2-3 years, but after only 6 months, the AUD weakened by about 12% against the USD and we chose to close the entire position.

The two transactions described above were carried out under the strategic mandate. We usually try to take advantage of information and analyses to take positions in both the tactical and strategic mandates whenever possible. However, the positions will differ in character because they are different mandates with different conditions.”



Rikshem - a long-term real estate company

In the last few years, AP4 has expanded within real estate in its strategic management. Rikshem is half-owned by AP4 and is a long-term real estate investment for the Fund.

Over the past three years, Rikshem established a clear position as a partner with those Swedish municipalities looking for a player who can work in the long term and take long-term financial responsibility in the real estate market. At year-end Rikshem owned properties with a market value of about SEK 20 billion.

Rikshem is born

It all began three years ago when AP4 acquired the real estate company Dombron, which focused on residential real estate. A new management team was hired and the company changed its name to Rikshem. Since then, the Rikshem management team, along with owners AP4 and AMF, both of which are represented on the Board, have built a company that acquires and develops residential and community properties. The latter are properties with long leases, where tenants often included of tax-funded activities of various kinds.



A long-term partner

All over Sweden there are municipal real estate companies whose existing portfolios largely derive from the 1960s to 1970s. These properties are often in need of extensive renovations, which require considerable investments. Meanwhile, the municipalities also need to build new housing for a growing population. In order to finance both the renovations and new construction of housing, many municipalities have chosen to sell parts of their property portfolio. For the municipalities, it is important to find long-term, financially stable buyers for the properties-- players who are expected to take good care of both the properties and the tenants. It would also be helpful for such players to be long-term partners for the community buildings. Rikshem's strategy is to offer the municipalities just that.

The strategy has been successful and Rikshem now owns real estate in a number of large cities in Sweden.

Swedish housing market

The Swedish housing market, according to AP4's assessment, is facing considerable challenges and changes over the next ten to twenty years. Sweden currently has a population of around 9.5 million that is growing by a rate of almost one percent per year. Migration to urban regions is large, while the population in many smaller communities is declining. Large numbers of young people are entering the workplace and want to move into their own homes, but despite this demand, relatively little housing has been built for the past 20 years. Overall, this situation has led to an accelerating shortage of housing with soaring prices.

Number of completed homes



The graph above shows number of completed homes in thousands from the 1950s onwards.

Large parts of Sweden's existing housing stock were built between the 1950s and 1970s and now face the need for modernisation and energy efficiency measures. There is also a growing demand for smaller homes for households with different income levels and different standards.

Overall, substantial investments in new buildings and renovations of existing buildings will be needed. AP4 believes this paves the way for continued attractive investment opportunities for pension funds with their long-term focus.

Percentage of 1 bedroom flats



The graph above shows the percentage of 1 bedroom flats of all completed homes.

Rikshem and the environment

Implementing energy savings measures is just one way that Rikshem is addressing environmental concerns. In 2013 Rikshem cut energy consumption by about 5% and the goal for 2014 is an additional 5% reduction. The really large energy savings cannot be achieved until the older buildings are extensively modernized. Rikshem also has a policy during renovations of salvaging furnishings, appliances and bathroom fixtures that are still in good condition.

Investing in young people

Rikshem participates in the social sphere by trying to improve the situation for young people in the neighbourhoods where Rikshem has a presence. The company cooperates with various non-profit organisations and associations. For example, Rikshem supports a mentoring programme for young people aged 13 to 17 years, in which a number of Rikshem employees are now trained volunteers working as mentors for young people. Other examples are support for recreation centres and programmes offering help with homework. In the summer of 2013

Rikshem and local partners offered summer jobs to about 80 young people who lived in the company's buildings in several cities. Because of its efforts to accept its social responsibility Rikshem is a well-respected buyer when municipalities want to sell real estate.

Even better renovations with dialogue

Rikshem occasionally acquires housing in need of renovation. When first discussing plans for a major renovation, the tenants often worry that they will face large rent increases. Rent increases that could mean it will be too expensive to continue living there. Engaging in dialogue with the tenants, informing them about the plans and what they may mean, addressing criticisms and concerns are therefore important for Rikshem.



Above is a property in Gränby, Uppsala, which was built during the 1960s and 1970s. Rikshem is renovating the buildings in the area.

One example of this was in Gränby, Uppsala, where the company engaged in dialogue with the tenants to design a low-cost alternative for the renovation that tenants could choose. Ultimately, only about ten percent of the tenants chose the low-cost alternative, but the option to choose a simpler level of renovation and therefore a lower rent increase was well received.

Continued good return on residential property

Investments in residential properties in cities with high population growth have historically produced high returns at relatively low risk. AP4 sees continued high demand for housing in growth areas for the foreseeable future. This trend suggests continued stable rental income that should rise in line with inflation. Consequently, this segment will continue to produce good returns. However, the same high rate of growth in value as over the past 20 years cannot be expected, when falling interest rates contributed to lower returns.



Healthy equity markets despite economic anxiety

With hindsight, it can be concluded that 2013 was a year that few investors could have dreamed of. Many equity markets generated impressive returns of up to 20% to 30%, which is particularly impressive since areas for concern occasionally contributed to a gloomy outlook.

Several of the largest stock markets were among the winners for the year, including the US, Japan and Europe. The Swedish stock market also performed well from an international perspective. In general, small caps outperformed large caps, and developed markets fared much better than emerging markets. One of the poorest performers among the emerging markets is Brazil, which is struggling with structural problems. Information technology and banks were among the best sectors for the year, while energy and commodity companies underperformed.

Large fluctuations in stock markets

The stock markets were off to a flying start for the year with strong gains, partly because anxiety about the financial crisis in Europe eased at this point in time, and partly because the US Congress approved a budget that avoided tax hikes for most households. The strong performance continued all the way until early summer,

at which point the stock markets once again slumped from uncertainty, partly because the US Federal Reserve announced it would possibly scale back the economic stimulus measures. Moreover, it was feared that the Chinese economy is facing a sharp slowdown. In June the stock market dropped a large portion of the earlier gains for the year, in part as a result of this increased uncertainty.

Already in July, when the US Fed chief announced that the Fed did not intend to reduce the stimulus in the near term, the markets bounced back. In addition, better than expected economic data in both the US and Europe once again contributed to an increased appetite for risk and positive stock market performance. In the autumn, the Central Committee of China also announced that it planned to carry out a series of reforms with the aim of improving conditions for the financial markets.

Concerns about the economic crisis in Europe eased during the year, though this did not mean that developments were undramatic; quite the contrary. For example, Italy had major problems forming a government after the elections held at the beginning of the year. A bailout package was crafted for Cyprus during the spring to prevent financial disaster. This package was controversial because it included taxing a portion of bank savers' deposits.

Rising long-term interest rates

Interest rates on long-term government bonds rose during the year in all major markets. In Sweden, the rate climbed about one percentage point on 10-year government bonds, from 1.5 to 2.5 percent. Meanwhile, short-term interest rates fell in Sweden when the Riksbank lowered the repo rate at its September meeting, from 1 to 0.75 percent. The US, the UK and Japan kept interest rates unchanged during the year, while the ECB lowered interest rates twice.

Swedish krona

The SEK weakened against the EUR and the GBP, though it strengthened against the JPY. Exchange rates in emerging countries were generally weak in relation to the rest of the world during the year.

Important events in Japan

In Japan, Prime Minister Abe continued his efforts to try to jump-start the country's economy. The Bank of Japan introduced quantitative easing at its meeting in April. The inflation target was raised from 1% to 2%. The measures were praised and the stock market rose in response.

Falling commodity prices

Commodity prices have fallen during the year. However, oil prices remained largely unchanged in 2013, despite the conflict in Syria and the major tensions that occasionally erupted between Iran and the West. The price of gold, which had previously been very strong, fell by almost 30% in 2013. It is not uncommon for investors to flee to gold during times of great uncertainty, which can sometimes lead to rapid price fluctuations.

Market value and performance of assets

The majority of AP4's capital is invested in global and Swedish listed equities. The assets are found under both tactical and strategic management.

Tactical and strategic investment assets,
31 Dec 2013



Strategically managed assets include listed Swedish companies with more than 7%. The allocation includes underlying values for various derivatives, which are used to continually maintain the asset allocation of the strategic portfolio.

Market value, 31 Dec 2013

Management unit	Market value SEK bn	Exposure 1), %
Global equities	88.4	34.3
Swedish equities	30.7	11.9
Fixed income	83.0	32.0
Total tactically managed assets	202.1	78.3
Strategically managed assets		
Real estate	14.9	5.7
Sustainability	8.4	3.2
Swedish strategic equities	18.3	7.1
Other strategic positions	14.7	5.6
Implementation of the strategic portfolio 2)	1.5	0.1
Total strategically managed assets	57.8	21.7
Total investment assets	259.9	100.0

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

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

Asset allocation and foreign exchange exposure

In order to maintain the desired asset allocation and currency exposure, re-weightings are implemented when changes in the value of different asset classes vary in relation to each other. Expenses to maintain the desired asset allocation for the year totalled SEK 14 (23) million. These expenses can be found under "implementation of the strategic portfolio".

AP4 hedges parts of the foreign assets. At year-end 2013/14, the Fund's foreign currency exposure, that is, the proportion of assets in foreign currencies not neutralised by hedges, equalled 28.6% (27.7) of total assets.

Annual objective evaluation

All asset management undergoes an objective assessment of the possibilities for generating an active return. Important choices that are made include whether management should be conducted internally or externally, actively or passively.

At the end of the year, 58% (50) was actively managed and 42% (50) was passively managed (index management). 28% (22) of assets were managed externally.

Assets' return and contribution, 1 Jan 2013–31 Dec 2013

Management unit	Portfolio return, %	Contribution to total return %	Contribution to profit/loss for the year SEK bn
Global equities	27.8	10.3	23.3
Swedish equities	26.4	3.8	8.5
Fixed income	-0.2	-0.1	-0.2
Equities index 1)	0.0	0.0	-0.1
Active foreign exchange management 1)	0.1	0.1	0.1
Total tactically managed assets	15.9	14.0	31.6
Strategically managed assets			
Real estate	27.2	1.4	3.2
Sustainability	38.3	0.4	0.9
Swedish strategic equities	42.6	1.3	3.0
Other strategic positions	12.3	0.4	0.8
Implementation of the strategic portfolio 2)	-1.0	-1.0	-2.2
Total investment assets 3)	16.5	16.5	37.3

1) Portfolio return based on total investment assets.

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

3) Return and profit/loss before expenses. Return after expenses was 16.4 percentage points, corresponding to a profit after expenses of SEK 37.0 billion.

A new management structure

The new management structure enables AP4 to leverage the AP funds' long-term mandates and make investments with a longer time horizon.

AP4 believes that the long-term mandate enables additional return, thanks to AP4's somewhat longer investment horizon, than what is common for the average professional investor.

Expanded and broadened strategic management

In November 2012, AP4's Board delegated an expanded mandate for long-term strategic positions and investments with a clear risk mandate to the CEO. This affords more investment strategies and further risk diversification. The investment and evaluation horizon ranges between 3 and 15 years.

The management structure allows high measurability and transparency of return, risk and cost. The Board and other stakeholders can therefore more easily monitor and evaluate the management.



Three investment horizons

1) 40 years in the normal portfolio – proportion of equities in relation to bonds

The proportion of equities in relation to bonds is one of the most important decisions that determines the total long-term return AP4 can achieve. The Board therefore sets the asset allocation each year that research has shown will give the highest total return over the very long term. This decision is reflected in AP4's reference portfolio, the "normal portfolio".

The normal portfolio shows the combination of stocks, government bonds, selected duration and currency exposure that gives the best total return over the long term.

It does not take account of whether the market is at the peak or trough of economic or stock market cycles. The investment horizon for the normal portfolio is very long, up to 40 years. The normal portfolio is fictitious and therefore consists only of indices. The management works in relation to this reference portfolio.

2) 3-15 years - Strategic management

The strategic management capitalises on AP4's long-term mandate. The investment horizons for all asset classes is 3–15 years, because shorter investment horizons than this risk creating restrictions in the management, which can lead to poorer earnings, in part due to lower liquidity. Evaluation is over a rolling five-year period.

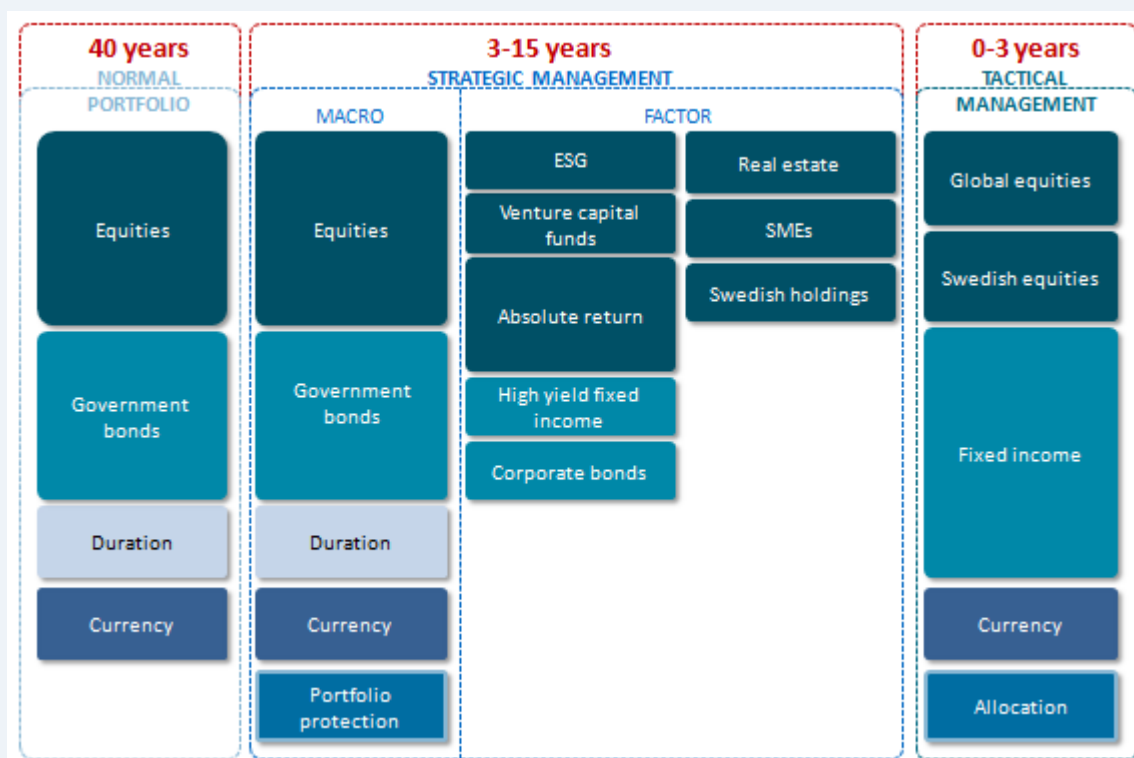
3) 0-3 years - Tactical management

The tactical management's task is to create excess return by capitalising on pricing disparities with a view to outperforming the earnings of passive index management. The investment horizon is up to three years with evaluation over a rolling three-year period.

Quick facts about the management structure

	Normal portfolio	Strategic management	Tactical management
Investment horizon	40 years	3-15 years	0-3 years
Decided by	Board of Directors	CEO	CEO or person appointed by CEO
Evaluated in relation to:	-	Normal portfolio	Strategic portfolio
Consists of	Index	Active investments and strategic macro and factor positions	Active and passive investments
Decision basis:	Liability and asset analyses (ALM analyses)	Long-term market and portfolio analysis	Market analysis for equities, bonds, currencies
Active return target/evaluation horizon:	-	0.5 percentage points on average per year over rolling 5y period For 2014 the goal is 0.75 percentage points.	0.5 percentage points on average over rolling 3y period
Active return 2013		1.2 percentage points	0.5 percentage points
Active return on average over evaluation horizon			0.5 percentage points
Return contribution 2013	14.9%	1.2 percentage points	0.4 percentage points
Risk contribution¹⁾ 2013	6.0%	-0.4%	0.0%
Operating expense ratio 2013	0.04%	0.04%	0.03%

1) Calculated using a 12-month historical standard deviation.



Normal portfolio – best in 40 years

The proportion of equities in the portfolio determines AP4's return. The asset allocation is expected to account for between 80% and 90% of total return in the long term. AP4's asset allocation over a 40-year period is determined in AP4's reference portfolio, the "normal portfolio".

The Fund's brief governs asset allocation

AP4's brief is to contribute to the stability of the national pension system through managing Fund capital with the aim of generating the best possible return over time.

Based on the brief, the Board has established that 4.5% real (i.e. inflation-adjusted) average total return is required over a 40-year period for the assets and liabilities of the pension system to balance in the long term. This governs asset allocation decisions, especially the allocation between equities and fixed income securities.

Content of the normal portfolio

The normal portfolio is a fictitious asset portfolio, a model portfolio, made up of different indices for each asset class. It consists of a combination of equities, government bonds and decisions about duration and foreign exchange exposure. It is the combination of assets which is expected to generate the best return if an investment were made in them today and the investments were then kept for 40 years without being touched except for rebalancing for operations. The normal portfolio also serves as a benchmark for the evaluation of AP4's management performance.

The new normal portfolio, implemented as of 2013, includes only liquid and investable indices and thus enables a clearer evaluation (of strategic and tactical management) based on return, risk and cost.

The decision basis for the normal portfolio

AP4 analyses how the liabilities and assets of the pension system may be expected to perform over the next 40 years. These analyses are known as ALM (Asset Liability Management) analyses of all of the assets and liabilities of the income pension system.

AP4's ALM analyses are made with the help of forecasts of the future contributions and disbursements of the pension system. Factors governing forecasts include the number of pensioners and workers, unemployment, immigration, number of births, and the expected return and risk of different asset classes. The Fund conducts such analyses each year.

Normal portfolio at year-end 2013

At 31 December 2013, the normal portfolio consisted of 67% equities and 33% fixed income assets. In 2013, the normal portfolio generated a return of 14.9% (10.8).

Normal portfolio

Asset class	31 Dec 2013		1 Jan 2013–31 Dec 2013	
	Weight, %	Foreign exchange exposure, %	Return, %	Return contribution, %
Equities	66.7		26.4	16.7
Government bonds	33.3		-2.0	-0.7
Currency	-	28.9	-1.0	-1.0
Total	100.0	28.9	14.9	14.9

Contributions from three different management horizons

The three management horizons, the normal portfolio (AP4's reference portfolio) with a 40-year horizon, strategic management (3-15 years) and tactical management (0-3 years) all contribute to total return, risk and management cost.

Contribution of the three management horizons to return, net profit, risk and cost 1 Jan 2013—31 Dec 2013

Management structure	Contribution to return, %	Contribution to net profit, SEK m	Contribution to risk, %	Operating expense ratio, %
Normal portfolio	14.9	33,825	6.0	0.04
Strategic	1.2	2,622	-0.4	0.04
Tactical	0.4	896	-0.0	0.03
Total portfolio¹⁾	16.5	37,328	5.6	0.11

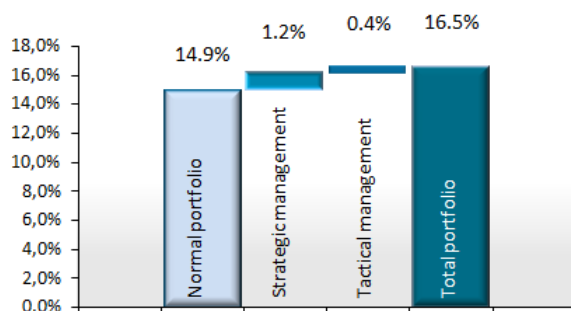
1) Includes return contribution from passive management of -0.0 percentage points, which corresponds to a profit contribution of SEK -14 million.

High proportion of equities crucial

The return contribution for 2013, from various decisions taken on positions and investments within the three different management horizons, is presented in the bar chart below. The Board's decision to maintain a high proportion of equities in the very long term reference portfolio, the normal portfolio, was crucial for the good return. The normal portfolio is very important for the return.

The normal portfolio is a benchmark, or reference, portfolio for the management and sets the asset allocation, including between equities and fixed-income securities, as agreed by the Board. For 2013, the asset allocation was 67% equities and 33% fixed income assets. It generated a return contribution corresponding to 14.9 (10.8) percentage points.

Return contribution 2013

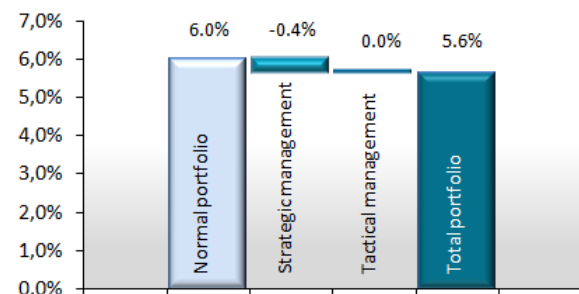


The decision to hold a high proportion of equities in the normal portfolio was important for the total return of 16.5 percent before expenses.

Active management reduces the risk in the total portfolio

The high proportion of equities in the normal portfolio represents the main risk contribution to the total portfolio. Strategic management helped to reduce the risk in AP4's total portfolio. However, both strategic and tactical management contributed to the return. See the risk contribution diagram below.

Risk contribution 2013

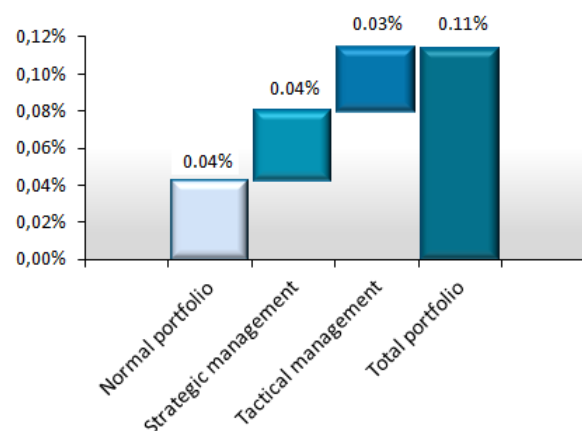


The risk contribution, shown in the bar chart above, is calculated using a 12-month historical standard deviation.

What does management cost?

Strategic and tactical management together account for more than 60% of AP4's expenses, or about SEK 170 million.

Operating expense ratio 2013



The operating expense ratio is measured as operating expenses including commission expenses as a percentage of the average Fund capital

Active management makes positive contribution

AP4 has delivered an additional contribution of more than SEK 6 billion, or around SEK 1.2 billion annually, over the last five-year period. The estimated additional cost incurred by AP4 to pursue active management is just over SEK 60 million annually.

“Is active management, trying to beat the index, worth it?”

AP4 strongly supports active management and this conviction has generated a positive contribution over the past five years. AP4, which is a long-term manager, sees an opportunity to conduct active management in the short-term perspective while maintaining a long-term focus, because the Fund works with different investment horizons in the portfolio.

Many people claim that “no one can be better than the market over time,” based on the theory that all information is available to everybody at the same time, and that current pricing therefore reflects all information.

The violent share price fluctuations and crises of recent years are perhaps arguments to suggest that the financial markets are in fact not “perfect”. For participants with the resources, perseverance and wisdom, being an active manager pays off.

Costs of index management

An internal estimate shows that AP4 could conduct completely passive management, with all assets invested according to a chosen index. This would cost just over SEK 100 million annually, with personnel expenses constituting half that amount. The high level of the cost is attributable to the fact that even (passive) index management requires staffing, administration and investments in systems for monitoring of risk/return.

A good deal

The estimated additional cost incurred by AP4 in the last few years to conduct active management is just over SEK 60 million annually. This should be seen in relation to the additional contribution of just over SEK 6 billion, or more than SEK 1.2 billion annually, which has been delivered in the last five-year period after a reorganisation of the Fund's management.

Looking at the additional risk that AP4 has undertaken, which is a prerequisite for active management, that too is acceptable. The

active risk in the last five years corresponded to volatility of 0.4% expressed as an annual rate. Seen in relation to the active return, which has generated an annual rate of 0.7%, an information ratio of 1.8 for the period is achieved, which is an exceptionally high figure. For each SEK 1 that the Fund has taken in risk, SEK 1.8 has been created.

All in all, based on the last five years, the choice of conducting active management can be justified. Nevertheless, five years is a short period for drawing more far-reaching conclusions. For this reason, AP4 and the Board continually evaluate performance.

Follow-up and evaluation

Based on an allocation key developed in-house, AP4's management costs including commission expenses have been distributed across the Fund's normal portfolio and strategic and tactical allocation. While there is great uncertainty in this distribution, it nevertheless provides reasonable guidance about what each area costs. It is hence possible to monitor and evaluate the management structure more clearly based on return, risk and costs.

Enhances possibilities for owners

One aspect of active management that receives very little attention is that it enhances possibilities to be a knowledgeable and shrewd owner. As one of the largest owners on the Nasdaq OMX Stockholm exchange, AP4 is often contacted by companies regarding various ownership issues. Performing one's own analysis and establishing a view of the company, which is fundamental to active management, increases the chances of responding to the companies' questions wisely and constructively.

Perhaps the conditions for conducting active management have never been better than they are today. Indeed, an increasing number of other asset managers and investors have chosen the passive option of index fund management. At a time when return is often evaluated on a quarterly basis, there is an exciting alternative for a manager with AP4's mandate and long-term investment horizon.

"Perhaps the conditions for pursuing active management have never been better than they are today."

Tactical management – up to three year horizon

Tactical management delivered **almost SEK 900 million in additional profit contribution during the year** for an active return of one half percentage point.

It was the tenth consecutive six-month interim period since the reorganisation of the management in which AP4's tactical management delivered a positive active earnings contribution. The positive additional contribution for the past five years amounts to just over SEK 6 billion.

Tactical management works with AP4's shortest investment horizon, up to three years. The outcome is evaluated over a rolling three-year period. The assets are primarily actively managed; in other words, the goal is to outperform the benchmark index.

Good risk-adjusted return

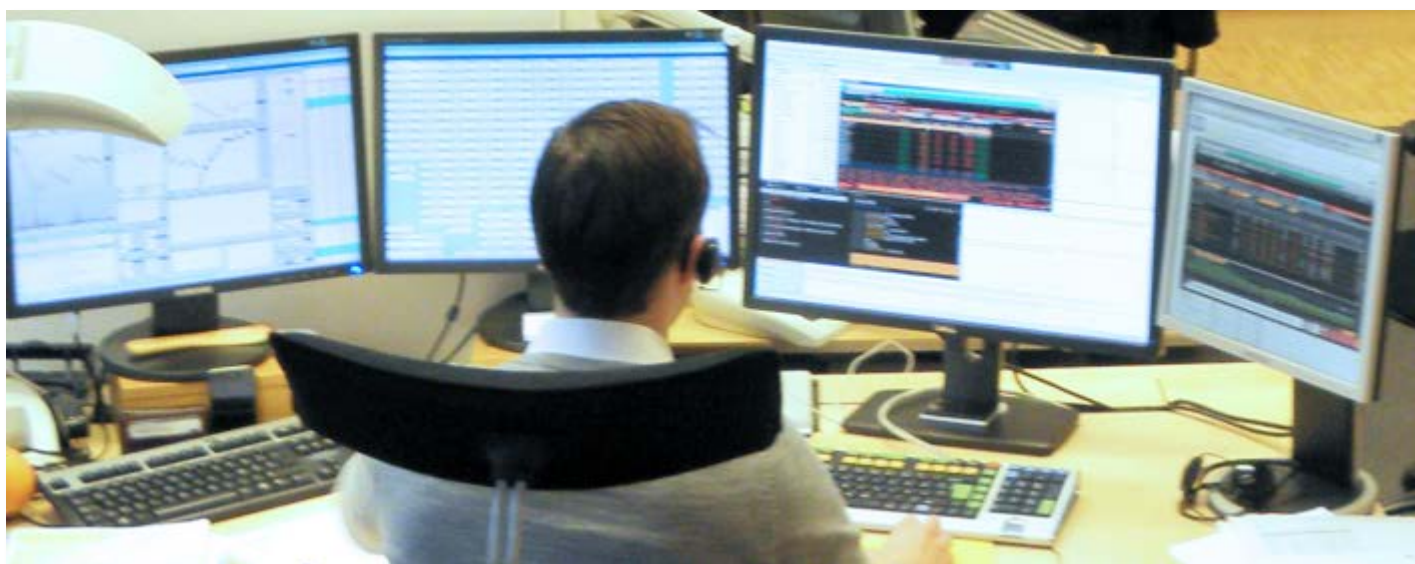
The information ratios of the management units, which show risk-adjusted return, are generally high. See the tables below to the right. Values over 0.5 for individual years are usually considered to be a good result.

This means that AP4's risk-adjusted return is and has been very good since the new management organisation was set up.

Active and risk-adjusted return, 1 Jan 2013–31 Dec 2013

Tactical management units	Active return, %	Information ratio 12-month	Contribution to active return, SEKm
Global equities	1.0	4.1	759
Swedish equities	0.4	2.3	135
Fixed income	-0.1	neg.	-42
Equities index 1)	0.0	neg.	-74
Active foreign-exchange management ¹⁾	0.1	0.9	117
Total tactically managed assets	0.5	2.0	896

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



Equities management

Tactical equities management is divided into global equities management and Swedish equities management.

The market value of the tactical management portfolio was SEK 119 billion at the end of 2013. It comprised 46% of Fund capital of SEK 260 billion; global equities management accounts for 34% of Fund capital and Swedish equities management 12%. The investment horizon for the tactical management is up to three years.

Allocation of market value between Swedish and global equities in the tactical management

31 Dec 2013



Changes in equities management

During the year capital was transferred from AP4's internal Index management (tactical management) to the long-term strategic management. The capital funded the strategic greenhouse gas-efficient positions in emerging markets and North America, as well as the new Swedish strategic active equity mandates, which started in late 2013. Capital in the tactical portfolio management was reduced by an equivalent amount.

Global equities management

The management performed well and contributed to both AP4's total return and the sound active earnings.

The return for the full year was 27.8%, outperforming the benchmark index by 1.0 percentage points. This gave a positive active earnings contribution of SEK 759 million.

At year-end, the market value of the global equity portfolio equalled SEK 88 billion, corresponding to 34% of Fund assets.

	3 years (on annual basis)		
Global tactical equities management	2013	2012	
Market value, SEK bn	88.4	84.8	
Percentage of AP4's assets	34	37.2	
Return, %	27.8	17.4	
Active return, % points	0.5	1.0	0.4
Information ratio	2.2	4.1	1.7
Active earnings contribution, SEK m	759	292	

Healthy risk-adjusted active return

The positive active return of the global equities management is mainly derived from the active management, or alpha management.

By setting the portfolio's active return of 1.0 percentage points against its active average risk of 0.2 percentage points, a risk-adjusted return expressed as an information ratio of 4.1 is obtained based on daily data.

Alpha and beta separated management

Since 2008, global equities management has worked with a portfolio in which active management is separated from index management, known as alpha-beta separation, which allows management to focus on portfolio composition, choice of external manager and index management.

Global equities management

Alpha management with risk diversification in focus

Alpha management (active management) is conducted by external specialists. The mandates are selected to provide great diversification in return sources. The external managers differ in terms of regional exposure, information sources and investment horizons.

The alpha management strategy of well diversified risk makes the portfolio less sensitive to changes in market factors, thereby enabling a sound risk-adjusted return.

The management runs using two specially developed external platforms, one European and one North American. The platforms promote transparency, flexibility and cost efficiency in invested mandates. Global equities management is responsible for selecting and allocating among managers on both platforms. Both platforms focus on the management teams, which are early in their management cycle.

The European platform focuses on management teams very early on in their development. The global equities management monitors the managers through dialogue and rule books. In the rule books, AP4 establishes set terms adapted to the manager's procedures, management style and risk profile. The other

external platform of the management, with exposure chiefly to the American market, focuses on newly established niche managers or strategies that contribute to stable earnings for the overall portfolio.

Sound and stable earnings

The earnings of the alpha management performed well during the year and, since the start in the autumn of 2010, the alpha management has outperformed the index and delivered a stable net profit with just a few minor negative periods.

Cost-efficient internal index management

The index management, or beta management, is chiefly conducted internally with a focus on cost efficiency and sound execution.

The index portfolio is managed with good system infrastructure and low risk. Since the beginning in 2009, it has on average delivered a positive active return.

Swedish equities management

The management performed well and contributed to both AP4's total return and the sound active earnings.

The return for the full year was 26.4%, which was 0.4 percentage points better than the benchmark index. Excess return corresponded to SEK 135 million in active earnings contribution and came from the active Swedish tactical mandates.

The total market value of the Swedish tactical equities management, active and passive (index management), was almost SEK 31 billion at year-end, corresponding to almost 12% of AP4's assets.

Swedish tactical equities management (active and passive)	3 years (on annual basis)	
	2013	2012
Market value, SEK bn	30.7	34.9
Percentage of AP4's assets	11.9	15.7
Return, %	26.4	16.9
Active return, % points	0.1	0.4
Information ratio	0.1	2.3
Active earnings contribution, SEK m	135	240

Swedish tactical equities management

The Swedish tactical equities management consists of an actively managed portfolio with large and medium-sized enterprises, as well as AP4's internal index management. The index mandate's portfolio is managed with very low active risk and the average active risk in the Swedish tactical equities management dropped 0.2% (0.3).

Active Swedish tactical equities management

The actively managed tactical sub-portfolio with large and mid-cap companies is conducted based on fundamental company research, with a focus on the valuation of the share.

Absolute valuation, valuation in relation to the share's history and comparable competitors are key parameters. The main source of information is regular visits to companies, about 100 of which are carried out annually among the majority of the portfolio holdings.

The portfolio consists of about 60-70 shareholdings primarily of large and medium-sized companies. The holding weights in the portfolio are changed regularly based on price performance and information. The weight is greatest when the share valuation is favourable and the manager has a more positive view of the company's future outlook than the market does. The portfolio also has a certain element of small caps and Nordic equities. Sustainability and corporate governance are part of the management process. The investment horizon is up to three years.

Global macro management

New structure and extended mandate.

In 2013 efforts to expand and develop the former Fixed income and foreign exchange management to become the Global macro management were completed. This was done to better reflect the management conducted and the business opportunities with which the group works.

Global macro management consists of three integrated business areas:

- Fixed income management, which actively manages AP4's government and corporate bond portfolio
- Foreign exchange management, which actively manages AP4's currency hedging portfolio
- Equity index management, which generates active returns through trading in individual equity indices and between different equity indices.

Mandate under construction

An additional management mandate was under construction during the year. Its mission is to generate active returns through trading within and between the fixed income, foreign exchange and equity index markets. These three markets are interdependent and differently correlated over time. It allows for an active management strategy by trading them in the same management team over time. This mandate had limited operations and was reported in 2013 as part of equities index management.

The annual report presents the results of the global macro management divided into its three different management areas: fixed income management, foreign exchange management and equity index management.

Fixed income management

The return for the full year was -0.2%, which was -0.1 percentage points worse than the benchmark index. This gave a negative active earnings contribution of SEK -42 million.

At year-end, the market value of the fixed income portfolio equalled SEK 83 billion, corresponding to 32% of Fund assets.

Fixed income management	3 years (on annual basis)		
	2013	2012	
Market value, SEK bn	83.0	82.3	
Percentage of AP4's assets	32.0	36.1	
Return, %	-0.2	6.0	
Active return, % points	0.7	-0.1	1.4
Information ratio	0.9	neg.	1.6
Active earnings contribution, SEK m	-42	1,058	

Substantial stimulus from central banks and governments

In 2013, increased stimulus from central banks and in some cases reduced fiscal austerity, such as in the euro zone, gave effect, especially on financial markets, but even on economies. Fears of storm clouds looming on the horizon such as a sharp economic slowdown in China, budget discussions in the US and parliamentary elections in Italy and Germany, contributed at times to great uncertainty. In the final analysis, however, the impact on markets and economies was relatively minor.

The US economy performed so well that the Federal Reserve began to communicate that it was considering a scaleback of the strong monetary stimulus. Government rates rose sharply in the US; credit spreads and equity markets initially reacted negatively, but later performed well on signals of an improving economy.

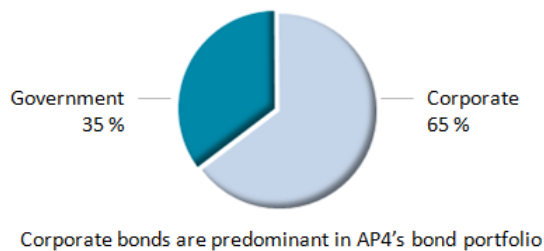
Despite political turmoil in Italy and concerns about financial crises in Cyprus, financial markets in the euro zone performed well during the year, with declining interest rates for the peripheral countries of the euro zone and rising stock markets.

Swedish economic signals varied during the year, causing interest rates to move cyclically up and down. The economy and inflation fell during the second half of the year, causing the Riksbank to cut rates by the end of the year.

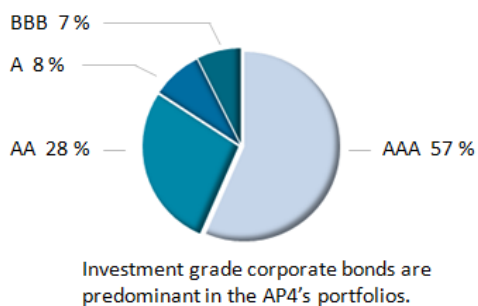
AP4's fixed income management was substantially overweighted in corporate bonds, which contributed very positively to the active result. Trading in government bonds in Europe also contributed positively, while trading in American treasuries had a negative impact.

Global macro management

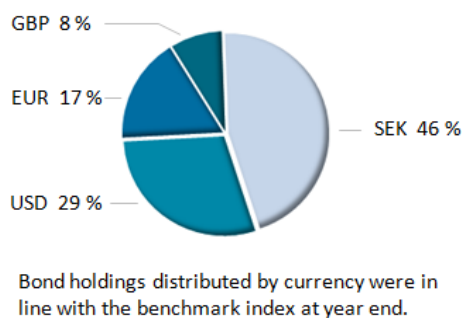
Bond holdings by issuer,
31 Dec 2013



Bond holdings by rating classes
31 Dec 2013



Bond holdings by currency,
31 Dec 2013



Foreign exchange management

The active return totalled 0.1 percentage points, giving a positive active contribution to earnings of SEK 117 million.

	3 years (on annual basis)	2013	2012
Foreign exchange management			
Active return, % points	0.1	0.1	0.1
Information ratio	0.7	0.9	0.7
Active earnings contribution, SEK m		117	171

Currencies – absolute return mandates

The foreign exchange management is divided into two mandates: a foreign exchange mandate and an interest rate risk mandate.

The foreign exchange mandate has an absolute return target related to AP4's total assets. The interest rate risk mandate manages interest rate risk in the portfolio for forward currency contracts, and cost-effectively implements and rebalances AP4's currency exposure.

Positive active earnings – for the sixth consecutive year

The active management of AP4's portfolio for forward currency contracts made the biggest contribution to the positive outcome. This was mainly thanks to positioning in anticipation of the Riksbank cutting the key rate in relation to abroad, combined with reduced financing strains.

Another reason for the outcome for the year is that AP4 had taken long positions in USD against short positions in EUR and AUD.

For the sixth consecutive year, the foreign exchange management delivered a positive return.

Equities index

The active return totalled 0.0 percentage points, corresponding to a negative active contribution to earnings of SEK -74 million.

	3 years (on annual basis)	2013	2012
Equities index			
Active return, % points	-	0.0	-
Information ratio	-	neg.	-
Active earnings contribution, SEK m	-	-74	-

Expanded strategic management – 3 to 15 year horizon

In 2013 AP4 implemented a new strategic plan, which allows for more investment strategies and further diversification.

The investment horizon for strategic positions and investments is 3-15 years, because shorter investment horizons than this risk creating restrictions in the management, which can lead to poorer earnings.

Strategic management is divided into two units: strategic macro management and strategic factor management.

- **Strategic macro management** manages AP4's cashless strategic positions, consisting of agreed differences in relation to the asset allocation of the reference portfolio (AP4's normal portfolio).
- **Strategic factor management** handles AP4's strategic positions and management of assets by capitalising on a longer investment horizon. Strategic management is divided into a number of sub-portfolios including real estate, Swedish equities and sustainability (environment, ethics and corporate governance).

Return on strategic management 2013

Overall, AP4's strategic management contributed 1.2 (-0.4) percentage points in 2013. That equalled an active profit contribution of SEK 2.6 billion.

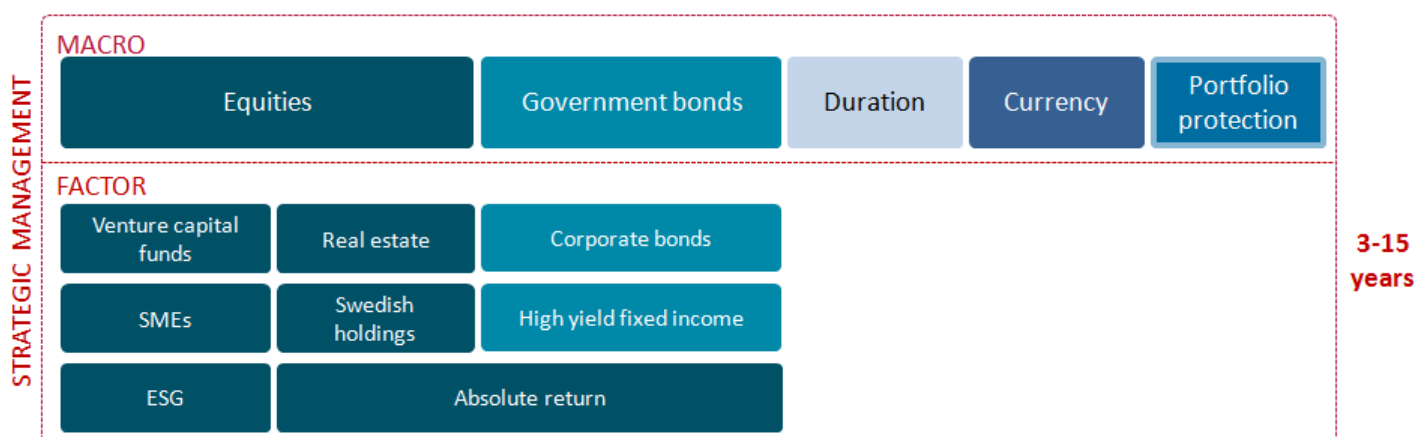
The CEO makes all strategic management investment decisions based on information prepared by the management.

The Board has decided to have an evaluation horizon over a rolling five-year period. Because strategic positions are taken in the medium term, the outcome of individual years should be interpreted with caution.

Strategic management 1 Jan 2013 – 31 Dec 2013

	Contribution to active return, (%)	Contribution to active earnings (SEK m)
Strategic positions		
Macro		
Asset class	-0.2	-465
Currency	-0.1	15
Duration	0.2	503
Total macro positions	-0.1	54
Factor		
Real estate	0.1	171
Sustainability	0.1	159
Swedish strategic equities	0.4	794
Corporate bonds	0.6	1,361
Other strategic positions	0.0	82
Total factor positions	1.2	2,568
Total strategically managed positions	1.2	2,622

Below is an **overview** of positions in **strategic management**.



Strategic macro management

Strategic macro management manages AP4's cashless strategic liquid positions, consisting of agreed differences in relation to the asset allocation of a reference portfolio (AP4's normal portfolio).

Strategic macro positions involve AP4 taking active macro/valuation-related positions between:

- **Asset classes** such as equities and fixed-income securities, but also within a single asset class such as equity markets or equity sectors.
- **Currencies**
- **Duration levels** through choice of interest risk on the return curve.

The macro positions are in the absolute return class. The basis for decisions is prepared by the Allocation unit. Decisions are made by the CEO. The strategic macro management in its new structure began in 2013.

Return for 2013:

The strategic macro positions provided a total active return contribution of -0.1 percentage points (-0.2), which means an active return contribution of SEK 54 million (-489).

Strategic management 1 Jan 2013 – 31 Dec 2013

	Contribution to active return*, (%)	Contribution to active earnings (SEK m)
Strategic positions		
Macro		
Asset class	-0.2	-465
Currency	-0.1	15
Duration	0.2	503
Total macro positions	-0.1	54
Factor		
Real estate	0.1	171
Sustainability	0.1	159
Swedish strategic equities	0.4	794
Corporate bonds	0.6	1,361
Other strategic positions	0.0	82
Total factor positions	1.2	2,568
Total strategically managed positions	1.2	2,622

* A cross effect arises between currency and other assets when the active return contribution is linked over time. This effect occurs only for the active contribution to return, not for the active contribution to profit. The contribution deriving from the cross effect is added to currency. The cross effect could cause a negative active return to arise in the foreign exchange and macro position, but positive active earnings. Please see the glossary for a more detailed description of cross effect.

Strategic positions in 2013

The strategic positions are presented below.

Asset class

- A strategic underweight position in equities and corresponding overweight position in fixed income assets of about 2.3 percentage points in early 2013 generated an active return contribution of -0.2 (-0.5) percentage points, corresponding to SEK -352 million (-986).
- A strategic underweight position in Japanese government bonds of about 1.8 percentage points and corresponding overweight position in US government bonds, along with other minor positions in the asset class, generated an active contribution in 2013 of -0.1 (-0.0) percentage points, corresponding to SEK -115 million (-25).

Currency

- Strategic foreign exchange positions generated an active contribution of -0.1 (0.3) percentage points, corresponding to more than SEK 15 (551) million.

Duration levels

- A strategic duration position returned 0.2 (0.0) percentage points in 2013, corresponding to a positive active contribution of SEK 503 million (27).

Allocation unit

The primary responsibility of the Allocation unit is to contribute to AP4's total return through macro, risk and asset research.

The Allocation unit prepares documentation for making decisions and works with strategic portfolio construction. The unit also formulates proposals for strategic macro positions, handling operations and rebalancing between asset classes in the strategic and tactical portfolios, as well as AP4's portfolio protection. The latter is used to avoid major losses during significant price declines. The allocation unit also has a small absolute return mandate of its own for strategic macro positions, which in 2013 showed a net profit.

Strategic factor management

Strategic factor management manages strategic positions and capitalises on the opportunity to have an investment horizon longer than three years. Short evaluation horizons risk creating restrictions in the management, which could have a negative impact on earnings.

When financial markets tend to increasingly adopt a short-term approach, the ability to invest capital over several years is an advantage. Liquidity in strategic management is often considerably lower.

Strategic factor management, 31 Dec 2013



Five overarching sub-portfolios

The strategic positions in factor management are reported according to the following five overarching sub-portfolios:

- Real estate
- Sustainability (environment, ethics and governance)
- Swedish strategic equities
- Corporate bonds
- Other strategic positions

The market value of assets in strategic factor management together total over SEK 56 billion, corresponding to almost 22% of AP4's assets. A common factor for all strategic positions is that they are evaluated over an investment horizon exceeding three years.

Return for 2013

Overall, strategic factor management for 2013 generated an active return contribution of 1.2 (-0.2) percentage points, corresponding to SEK 2.6 billion (-0.3).

The largest positive contribution came from the strategic positions corporate bonds and Swedish strategic equities. The strategic overweight position for corporate bonds generated an active return contribution of 0.6 (-0.1) percentage points, corresponding to SEK 1.4 billion (-0.1). The strategic position in Swedish strategic equities generated an active return contribution of 0.4 (0.0) percentage points, corresponding to SEK 0.8 billion (0.0).

Strategic management 1 Jan 2013 – 31 Dec 2013

Strategic positions	Contribution to active return, (%)	Contribution to active earnings (SEK m)
Macro		
Asset class	-0.2	-465
Currency	-0.1	15
Duration	0.2	503
Total macro positions	-0.1	54
Factor		
Real estate	0.1	171
Sustainability	0.1	159
Swedish strategic equities	0.4	794
Corporate bonds	0.6	1,361
Other strategic positions	0.0	82
Total factor positions	1.2	2,568
Total strategically managed positions	1.2	2,622

Real estate

At year-end, the market value of AP4's real estate position was almost SEK 15 billion, corresponding to almost 6% of the Fund's total assets.

Return during the year was 27.2%, for an active profit contribution of SEK 3.2 billion. The active real estate position generated an active return contribution of 0.1 percentage points, corresponding to more than SEK 170 million.

Real estate	2013	2012
Market value, SEK bn	14.9	11.8
Percentage of AP4's assets	5.7	5.2
Return, %	27.2	14.2
Earnings contribution, SEK m	3,235	1,496
Active return contribution, %	0.1	0.1
Active earnings contribution, SEK m	171	174

Expansion through direct ownership

In the last few years, AP4 has expanded within the real estate strategic asset class. The Fund has chosen to essentially directly own real estate companies, which offers greater opportunities to exercise active corporate governance. Direct ownership is both cost-effective and transparent and is expected to increase opportunities for good expected returns.

AP4's investment in real estate chiefly comprises the investments in Vasakronan (25% owned) and Rikshem (50% owned).

Real estate portfolio, 31 Dec 2013



Vasakronan

AP4 owns the property management company Vasakronan jointly with AP1, AP2, and AP3, each of which holds a 25% stake. Vasakronan manages commercial properties in Sweden to a value of more than SEK 80 billion and is thus Sweden's largest property owner.

Rikshem

Rikshem, of which AP4 and AMF own 50% each, owned at the turn of the year properties with a market value of about SEK 20 billion. The holdings are geared towards residential properties and what are known as public service properties (properties with long-term rental contracts where the tenant is often a municipality). In 2013 Rikshem carried out several acquisitions, received an A- credit rating from S&P, and issued bonds.

Hemfosa

AP4 owns 15% of the property company Hemfosa. At the end of the year, the company's property holdings had a book value of more than SEK 16 billion. Hemfosa is preparing for listing on the NASDAQ OMX during the first half of 2014.

Other real estate exposure

AP4 invested in Areim Fastigheter II AB, which focuses on Swedish real estate. Moreover, AP4 invested in ASE Holdings, which invests in and develops commercial properties in the UK.

Investments in 2013

During the year, AP4 made follow-on investments of SEK 220 million in existing holdings.

Sustainability – environment, ethics and corporate governance

At year-end, the market value for positions aimed at sustainability was SEK 8.4 billion, corresponding to 3.2% of AP4's total assets. The total active return contribution for 2013 was 0.1 percentage points, corresponding to SEK 159 million.

Sustainability (environment, ethics and governance)	2013	2012
Market value, SEK bn	8.4	1.8
Percentage of AP4's assets	3.2	0.8
Return, %	38.3	15.0
Earnings contribution, SEK m	859	109
Active return contribution, %	0.1	0.0
Active earnings contribution, SEK m	159	-2

Pronounced focus on corporate governance

As a shareholder, AP4 wishes to support the development of increased investor influence and promote improved corporate governance on stock markets both in Sweden and globally. One way of achieving this, while creating the fundamentals for increased return, is to invest with external managers focused on corporate governance. The managers AP4 engages then invest in companies with identified potential for improvement. The external managers actively pursue corporate governance issues in collaboration with the companies. AP4 was already invested in CapMan Public Market Fund and TMAM GO Japan Engagement Fund.

The Fund's external managers have been active in AP4's Japanese strategic investments and have supported the equity ownership reforms under development in Japan. For more information about AP4's Japanese strategic investments please see the Sustainability and Corporate Governance Report 2012-2013.

Greenhouse gas-efficient investments

AP4 believes that the negative impact of greenhouse gas emissions on the environment is only taken into account to a limited extent in the current valuation of listed companies. The Fund finds it probable that this will be different in future, and has therefore invested in greenhouse gas-efficient equity strategies. At year-end the investments comprised 7% of the global equity portfolio.

Investments in 2013

A follow-on investment was made in the TMAM GO Japan Engagement Fund amounting to SEK 50 million.

A commitment was made to invest SEK 1.5 billion in Zeres Public Market Fund.

AP4 invested another SEK 1.7 billion in the greenhouse gas-efficient equity portfolio, which was established in North America in 2012. In addition SEK 3.5 billion were invested in a greenhouse gas-efficient equity strategy specialising in emerging markets. Read more about the investment under "Greenhouse gas-efficient investments" on pages 12-13.

Reforms in Japan

Japanese Prime Minister Shinzo Abe has pursued a reform programme since 2012, known as Abenomics, to promote economic growth in Japan.

A number of reforms are specifically intended to revitalise and the Japanese stock market and make it more attractive to international managers.

New Japanese code for corporate governance

In 2013, a proposal for a first "Japanese corporate governance code" (the Code) has been formulated. The purpose of the Code is to encourage owners to actively work to increase the value of their investments by placing demands on companies through constructive dialogue. The code also places demands on owners, who, among other things, must have an ownership policy that shows how they work in accordance with the Code. The owners must publicly report on how they vote and about their work as owners. The draft Code also includes a "comply or explain" principle, stipulating that if owners do not comply with the Code they must explain why.

Tougher requirements for listed companies

Under the proposal, the Japanese Companies Act will impose stricter requirements on companies. If the proposal is adopted, the Japanese companies must report, if such is the case, why they do not have any independent directors, as well as the company's definition of independent director. The definition of an auditor's independence has been more clearly defined, as have the requirements for disclosing information on private placements.

JPX-Nikkei Index 400: a new index

A new index, the JPX-Nikkei index 400, which takes account of new financial and qualitative requirements, was launched in 2013.

Companies that wish to be included in the index must report the key ratios "return on equity" and "operating earnings for the last three years". The market value of the company must exceed a minimum level to be included in the index. Other requirements include at least two independent directors on the Board and accounting in compliance with IFRS rules. In addition, companies must publish relevant financial information in English.

Swedish strategic equities

AP4 holds a strategic overweight position in Swedish equities. AP4 believes that by reallocating capital from global equities to Swedish equities, the Fund will achieve a better long-term return. The overweight position in Swedish equities is based on the conviction that the Swedish equity market will continue to outperform equity markets abroad.

Besides this strategic overweight position in Swedish equities, the strategic management now has two additional strategic positions: small and mid-cap companies and Swedish companies. These three positions together comprise Swedish strategic equities.

Overweight in Swedish equities – a strategic position

At year-end, the market value of the Fund's Swedish equities position equalled SEK 50 billion, corresponding to more than 19% of AP4's total assets.

The decision to reallocate SEK 50 billion from global equities to Swedish equities has resulted in the largest active position under strategic management in terms of both risk and market value. Of these SEK 50 billion, SEK 19 billion are managed within strategic management, with SEK 18.3 billion allocated to Swedish strategic equities management and SEK 0.8 billion allocated to the sustainability portfolio. SEK 31 billion are managed within tactical equities management.

The reference portfolio includes only 1.1% Swedish equities. The overweight position in Swedish equities in AP4's investment assets in 2013 totalled about 18 percentage points. The position's active return fluctuated over the course of the year in pace with the yield differential between global and Swedish equities, but at year-end, the difference was marginal and generated an active return contribution of -0.1 percentage points, which corresponds to a negative contribution to earnings of just over SEK 80 million.

Strategic overweight position, Swedish equities	2013	2012
Active return contribution, %	-0.1	0.0
Active earnings contribution, SEK m	-81	3

SMEs

Swedish strategic equities position 2013

The Swedish strategic equities position includes both the strategic overweight position in Swedish equities in relation to the reference portfolio's global equity index, and the two sub-portfolios SME equities and Swedish companies. Overall, the Swedish strategic equities position generated an active return contribution of 0.4 percentage points, corresponding to almost SEK 800 million.

The market value was almost SEK 8 billion at the end of 2013, corresponding to 3.0% of assets.

Return during the year was 41.8%, giving an effect on earnings of SEK 2.5 billion.

SMEs	2013	2012
Market value, SEK bn	7.8	6.1
Percentage of AP4's assets	3.0	2.6
Return, %	41.8	13.4
Earnings contribution, SEK m	2,457	194
Active return contribution, %	0.4	0.0
Active earnings contribution, SEK m	843	2

The actively managed sub-portfolio small and mid-cap companies is a position in strategic factor management. The reason is that listed SMEs can occasionally have poor liquidity. Short evaluation horizons risk creating restrictions, which could lead to poorer earnings. At year-end, the sub-portfolio consisted of two different mandates, both a larger internal mandate in terms of assets, and an externally managed small cap mandate. The externally managed mandate is the fund Lannebo MicroCap 2, which focuses on listed Swedish small caps.

The internal portfolio of companies with small and mid-cap companies is actively managed based on fundamental company research and a long-term investment horizon. An important component of the information gathering process includes regular visits to companies. About 200 visits to companies were carried out in 2013. Sustainability and corporate governance are part of the management process. The investment horizon is usually between 3 and 5 years. Holdings that made a positive contribution in 2013 were Sectra, B&B Tools, Swedish Orphan Biovitrum and Intrum Justitia.

Swedish companies

At the end of 2013, the market value was SEK 10.5 billion, corresponding to 4.0% of assets.

Swedish companies made a marginally positive contribution to AP4's active return in 2013.

Swedish companies	2013	2012
Market value, SEK bn	10.5	-
Percentage of AP4's assets	4.0	-
Return, %	5.5	-
Earnings contribution, SEK m	546	-
Active return contribution, %	0.0	-
Active earnings contribution, SEK m	32	-

The actively managed Swedish companies sub-portfolio was started in late 2013 and is under construction. Capital was allocated to Swedish companies from the tactical management's Swedish index portfolio. The assets were transferred in December 2013.

Swedish companies will consist of a concentrated portfolio with about 20 larger positions in listed Swedish large and mid-cap companies. The mandate focuses on companies with strong market positions, good profitability on capital and good growth potential, particularly through positive structural trends that affect demand for their products or services. Sustainability and corporate governance are part of the management process. The investment horizon is between 3 and 5 years.

Corporate bonds - a strategic position

AP4 holds a strategic overweight position in corporate bonds in relation to AP4's reference portfolio, the normal portfolio. AP4 believes that by reallocating capital from government bonds to corporate bonds with good creditworthiness, the Fund will achieve a better long-term return.

At year-end, the market value of the position equalled SEK 42 billion, corresponding to more than 16% of AP4's total assets. The position is managed in the tactical portfolio with corporate bonds within AP4's global macro management.

Strategic positions corporate bonds 2013

The strategic position generated a return contribution of 0.6 percentage points, corresponding to almost SEK 1.4 billion.

Corporate bonds	2013	2012
Active return contribution, %	0.6	-0.1
Active earnings contribution, SEK m	1,361	-134

Other strategic positions

The following are reported under Other strategic investments:

- Absolute return
- Venture capital funds
- High yield fixed income
- Emerging Markets

The market value of other strategic positions was almost SEK 15 billion at year-end, corresponding to almost 6% of AP4's assets.

The total active profit contribution was marginally positive and equalled SEK 82 million.

Other strategic positions	2013	2012
Market value, SEK bn	14.7	5.4
Percentage of AP4's assets	5.6	2.3
Return, %	12.3	4.5
Earnings contribution, SEK m	819	199
Active return contribution, %	0.0	-0.2
Active earnings contribution, SEK m	82	-360

Absolute return

At year-end, the market value of absolute return investments was SEK 1.6 billion, corresponding to 0.6% of AP4's total assets.

Absolute return	2013	2012
Market value, SEK bn	1.6	1.1
Percentage of AP4's assets	0.6	0.5
Return, %	14.9	0.1
Earnings contribution, SEK m	188	1
Active return contribution, %	0.0	0.0
Active earnings contribution, SEK m	-23	-32

Absolute return is a strategic sub-portfolio that capitalises on pricing disparities. Such pricing disparities can arise in the event of e.g. new regulations and investment rules, and/or as a result of investment limitations among different capital owners. This can give rise to situations in which different parts of a company's capital structure are incorrectly priced, providing scope to create a positive return.

Investments in 2013

During the year, a SEK 300 million follow-on investment was made in the hedge fund Carve.

Venture capital funds

At year-end, the market value of venture capital funds was almost SEK 3 billion, corresponding to 1.1% of AP4's total assets.

Venture capital funds	2013	2012
Market value, SEK bn	2.9	2.9
Percentage of AP4's assets	1.1	1.2
Return, %	18.4	-0.1
Earnings contribution, SEK m	499	6
Active return contribution, %	-0.1	-0.2
Active earnings contribution, SEK m	-182	-437

Increased activity

The upbeat performance of the equity market went hand in hand with increased activity among the venture capital funds. This activity contributed to increased fundraising for new funds, purchases of new portfolio companies, and sales of existing holdings—mainly in the US, though higher activity was also noted in Europe. Interest in selling portfolio companies through stock-market floatations increased and several of the Fund's portfolio companies were listed in 2013 or were preparing for listing in 2014.

Sustainability integration into the management continues

AP4's holdings are screened to discover any infringements on international conventions. During the year, no such infringements were noted in the Fund's sub-portfolio.

At the end of the year, a significant number of the Fund's managers had their own internal ESG policies, and had endorsed the UN Principles for Responsible Investment (PRI). Implementation of operational goals, activities and follow-up is under way among the Fund's managers. The Fund welcomes these developments and contributes through its commitment.

Investments in 2013

During the year a new investment was made in Alfvén & Didrikson AB, with a focus on investments in small unlisted companies.

High yield fixed income

At year-end, the market value of high-yield fixed income was SEK 2.5 billion, corresponding to 1.0% of AP4's total assets.

High yield fixed income	2013	2012
Market value, SEK bn	2.5	1.4
Percentage of AP4's assets	1.0	0.6
Return, %	14.4	17.2
Earnings contribution, SEK m	248	193
Active return contribution, %	0.1	0.1
Active earnings contribution, SEK m	282	110

High-yield fixed income performed well in 2013. The position benefitted from the continued upbeat performance on credit markets with in generally falling interest rate differentials in relation to government bonds.

Investments in 2013

During the year follow-on investments were made in Proventus Capital Partners I and II, as well as a new investment in Insight Consumer Debt Recovery Fund II.

Emerging Markets

During the year, emerging markets were transferred from tactical to strategic management in conjunction with AP4's greenhouse gas-efficient investment in emerging markets. At year-end, the market value was almost SEK 8 billion, corresponding to 3.0% of AP4's total assets.

The reason is that strategic management, with a longer investment horizon and a higher risk level, is better equipped to cost-effectively manage the index-managed emerging markets mandate.

Emerging Markets	2013	2012
Market value, SEK bn	7.7	-
Percentage of AP4's assets	3.0	-
Return, %	-1.1	-
Earnings contribution, SEK m	-116	-
Return contribution, active %	0.0	-
Return contribution, active, SEK m	4	-

Focus on risk management

AP4's successful asset management is based on active risk-taking. Asset management is about creating return given a determined risk level, managing risks and taking carefully considered risks. Sound risk management is crucial to successful asset management.

It must be possible to predict risks ahead of an investment, and subsequently control them. Risk management can be divided into three steps:

- risk management
- ongoing risk management
- follow-up and control

Risk management – framework for risk tolerance

Each year, the Board of Directors adopts an investment policy, a credit policy and a risk management plan for AP4's operations. Alongside the Swedish National Pension Funds Act (AP Funds), these steering documents provide a framework for the Fund's risk tolerance.

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

For example, the investment policy describes the Fund's management orientation through the reference portfolio resolved by the Board (AP4's normal portfolio), as well as return targets and risk mandates for strategic and tactical management, which form an overarching framework for the operation.

The credit policy stipulates rules and limits for managing credit risk and credit exposure.

The risk management plan describes the division of responsibilities and authority for the investment operations. The principal operational risks and how these risks shall be controlled and monitored. The principal risks are of a financial and operational nature. A more detailed description of the risks can be found in note 20.

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

Ongoing risk management

Financial risks

The CEO delegates risk mandates assigned by the Board to the various management units where the managers are individually responsible for risk management within their mandates. The executive management committee assists the CEO in the management of the Fund's total risk.

The financial risks, which mainly include market, credit and liquidity risks, are based on the Board's decision regarding the asset allocation of the normal portfolio. Through established risk mandates for the strategic management over the medium term (3-15 years) and for the tactical management over the short-term (0-3 years), risk-taking in the active management is limited.

AP4 uses risk forecasts, which are divided by management area, instrument, risk factor, and more as a basis for its continual efforts to optimise risk-taking. The Fund plans and analyses its strategic risk-taking with the help of stress tests and different scenarios.

Operational risks

All of the Fund's units are responsible for ensuring that day-to-day operations meet the requirements set for good internal control and assigning sufficient resources for this purpose. This includes monitoring of compliance with the Fund's regulations.

Follow-up and control

The financial and operational risks are monitored and controlled by the independent unit – performance and risk control. The unit reports directly to the CEO and Board.

The task of performance and risk control is to ensure operational compliance with statutory investment regulations, the investment policy, the credit policy and the risk management plan, as well as compliance with CEO decisions in the operation. This work includes careful measurement and analysis as well as daily reporting of return and risk, in absolute terms and in relation to benchmarks, as well as reporting any infringements on prevailing regulations.

Performance and risk control is divided into a compliance function and a risk analysis function.

The compliance function is responsible for complying to rules with monitoring and control of financial risks such as credit risk and liquidity risks

The compliance function is also responsible for monitoring the operational risks in the investment operations, and ensuring compliance with regulations relating to these risks. Operational risks are specifically evaluated in connection with the implementation of new products, and system and organisational changes.

In accordance with the risk management plan, and with the purpose of minimising operational risks and ensuring quality internal control, documented written instructions clearly allocate responsibility and authority. Procedures and routines are regularly reviewed to identify weak points in transaction chains or other procedures. What is known as the duality principle is consistently applied.

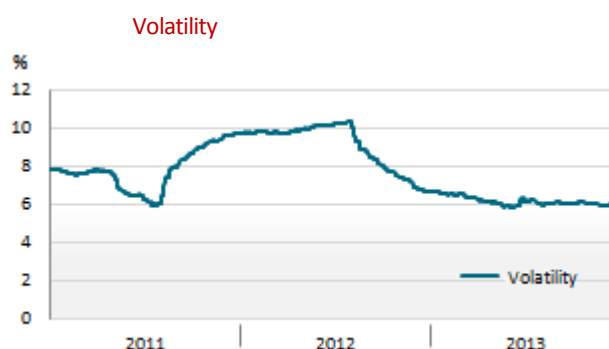
The risk analysis function is responsible for analysis, control and reporting of chiefly market risks. Market risks are defined partly as risk in relation to the benchmark (active risk in the short and medium term), and partly in absolute terms as a contribution to total portfolio risk. The risks are broken down into different investment horizons and analysed with the help of risk contribution based on the investment procedure of each mandate. Stress tests and scenario analyses are also used.

The risk analysis involves daily monitoring of return and the risk of the tactical management, as well as monthly monitoring of the strategic management. This gives AP4 access to forecasts of the aggregate risks in the Fund's investments, both in absolute numbers and relative to their benchmarks.

Market risk decreased during the year

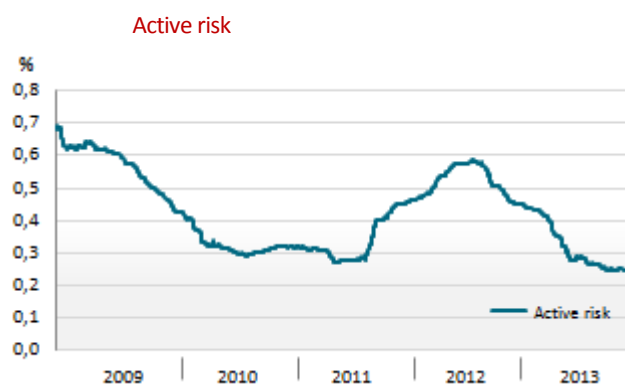
At year-end, the market risk for AP4's liquid assets, measured over a 12-month historical period, dropped to 6.0 (6.6). On average, volatility for the Fund's liquid assets during the year was 6.2% (9.1). For Swedish equities, volatility decreased at year-end to 12.7% (18.4), and for global equities to 9.3% (10.8).

The graph below shows the market risk of liquid assets measured using a 12-month historical standard deviation.



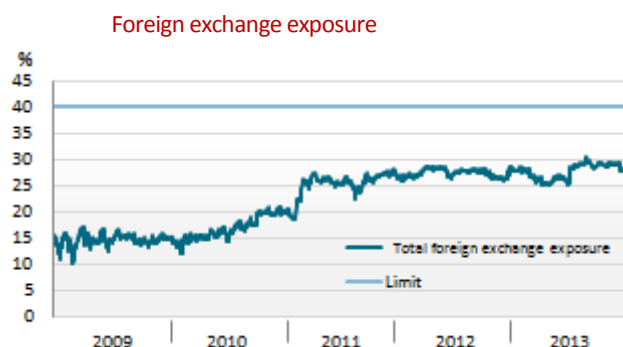
Active risk in tactical management

The active risk for AP4's tactical management, measured over a 12-month historical period, declined during the year to 0.2% (0.4). The main explanation is reduced active risk-taking within the fixed income portfolio. Please see the graph below.



Foreign exchange exposure

Total open currency exposure fluctuated during the year between 25% and 30%. AP4 had the greatest exposure in relation to the USD, which had stable currency movements during the year compared with the JPY. The JPY weakened sharply against the SEK during the year and demonstrated major fluctuations. Please see the graph below.



Solid information ratio for the past five years

The information ratio for the tactical management fell somewhat during the year to 2.0 (2.3), and has now shown positive values over 0.5 for the last five years. An average information ratio of 1.8 over the past five years, since the management’s reorganisation, can thus be deemed satisfactory.

Credit risks remain high

During the year, the ratings for several European countries were lowered, but the year was free of major economic crises. However, the high indebtedness of many countries suggests continued uncertainty with relatively high credit risks.

Exposure to sovereigns

AP4’s exposure to sovereigns with a rating below AAA in the eurozone increased somewhat during the year, but remained low. Exposure at 31 December is shown in the table below.

Exposure to sovereigns in the eurozone with a rating below AAA, 31 Dec 2013

Country	31 Dec 2013 SEK m	31 Dec 2012 SEK m
UK*	2,676	**
Italy	1,626	526
France	1,473	972
Belgium	553	418
Austria	275	281
Total	6,604	2,198

* The UK is not part of the Euro cooperation, but has been chosen to be included in the compilation.

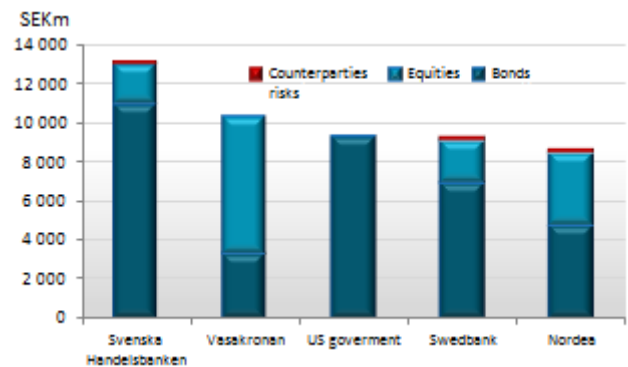
**The UK had a AAA rating in 2012.

Exposure to issuers

AP4’s exposure to the banking and financial sector is large, and the 15 biggest holdings collectively correspond to total exposure of SEK 56 billion (48), of which SEK 40 billion (37) is from exposure to the Swedish banking and financial sector.

The AP4’s five largest issuer exposures collectively account for around SEK 50 (41) billion. Exposure by issuer is presented in the graph below.

Total exposure to the five largest issuer groups, 31 Dec 2013

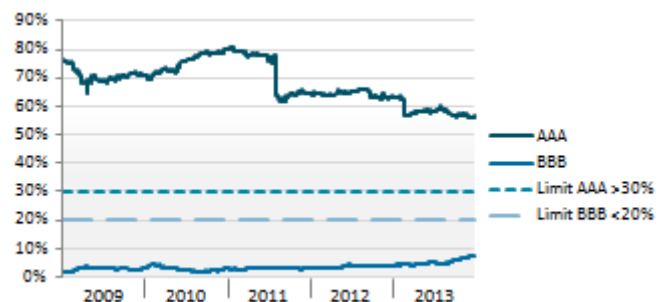


Breakdown of bondholdings

The majority of bonds in AP4’s fixed income portfolio during the year have been AAA-rated. The percentage of BBB rated bonds, which was the lowest rating in the fixed income portfolio, was limited and well above the internal limits.

The graph below shows the distribution between listed AAA and BBB rated bonds, as well as internal limits.

Bond holdings within the fixed income portfolio



Employees at AP4

Competition for employees is growing and it is important for AP4 to retain, develop and attract talented employees.

AP4 is constantly working to develop and strengthen the organisational culture, which involves initiatives to promote leadership, professional development and internal communication, as well as employee surveys.

For AP4 it is crucial for everyone, regardless of where they work in the organisation, to feel involved in the business. Every cog must work if a retirement fund is to succeed. This has been fundamental, enabling AP4 to deliver a high yield at low cost for many years.

Employee survey

AP4's objectives are based partly on pure return targets, and partly on targets related to employee satisfaction and whether AP4 is considered to be an attractive workplace. The Fund evaluates the latter objectives by conducting an annual employee survey. It tries to capture the issues that matter most for employees to enjoy their jobs, feel motivated and continue to develop in the business.

In 2013, the Employee Satisfaction Index (ESI) improved from 69% to 76%, which is considered a satisfactory level. The signals that the employee survey captures regarding areas for improvement are addressed using a systematic process.

Each unit in the organisation discusses the survey results and an employee group is formed with representatives from the various units. The employee group has the task of planning concrete activities for continued quality improvement within the areas that were identified in the employee survey.

AP4's work rests on four core values

Professionalism

We always ask: – What is best for the pensioner?
We dare to act, but if we make a mistake we learn from it.
We show respect for money.
We demonstrate business skills and take personal responsibility.

Cooperativeness

We act as a team, helping and supporting each other.

Respect

We treat each other with respect.
We demonstrate understanding of each other's duties and responsibilities.

Openness

All opinions are welcome.
We listen to each other.

These core values are by no means unique, but rather something that most people can support. The important part about core values is to "live them."

Core values are part of the long-term objective to build a stronger corporate culture. The employee survey shows that AP4's core values have become increasingly important and that employees perceive them as meaningful and a support at work.

Good internal communication and support

AP4 wants its employees to feel commitment and to be willing to accept responsibility and actively participate in the business.

The management team is convinced that this can be achieved through regular and clear internal communication and well-supported decision-making processes. The result is a good understanding of how and why the various parts of AP4 must be developed to achieve the set objectives.

Clear leadership

AP4's leaders have a responsibility to their employees to thoroughly understand the goals and strategies of the organisation, as well as how everyone must contribute to implement these strategies and achieve these goals. AP4 invests in leadership development so that existing department heads can develop their leadership skills. Leadership initiatives should also ensure that tomorrow's leaders have the opportunity to advance in the organisation.

Committed to professional development

AP4 is a typical knowledge organisation where it is important to develop employee skills. Consequently the Fund invests in professional development for its employees through both internal knowledge transfer and relevant external courses.

Gender equality and diversity

AP4 encourages gender equality and diversity. The ambition is for all units to strive for a better gender balance when the Fund hires new employees. The salary survey conducted in 2013 also showed that AP4 has no discrimination in its salary structuring.

AP4 encourages employees to combine work and family by offering a job with personal responsibility, with flexible hours and the opportunity to work from home on certain occasions. As part of its gender equality initiative, AP4 also offers enhanced parental benefits during parental leave.

Health

To promote wellness and minimise absenteeism, AP4 encourages wellness activities. AP4's employees are therefore given the opportunity for regular health check-ups and exercise/wellness subsidy. The Fund continued to have low absenteeism.

	2013	2012	2011	2010	2009	2008	2007
Number of employees	54	51	52	51	48	41	42
Women	18	15	16	16	16	14	14
Men	36	36	36	35	32	27	28
Average age	43.2	42.2	42.1	41.8	41.1	40.4	43.3
Number of executive management committee members	5	5	4	9	9	9	6
Women	2	2	1	3	3	3	2
Men	3	3	3	6	6	6	4
Staff turnover, %	1.9	7.8	13.5	5.9	14.6	34.1	14.3
Absenteeism, %	1.3	2.6	1.7	2.8	2.4	0.9	1.8



Remuneration at AP4

AP4's role as manager of national pension funds requires the level of remuneration to the Fund's employees, including the CEO, to be reasonable, justifiable and understandable.

AP4 generally strives to ensure that, overall, levels of remuneration are in line with the market and enable the Fund to attract and keep talented employees. However, the Fund shall not be a wage leader.

AP4's Board of Directors

AP4's Board of Directors has a responsibility to address remuneration issues in an aware, responsible and transparent way. The Board of Directors annually determines the policies governing remuneration and other terms of employment for employees of AP4.

Furthermore, the Board conducts an annual follow-up of how these policies have been applied within the Fund over the preceding year. It also verifies and establishes that government guidelines on terms of employment for senior executives in AP4 have been adhered to. As part of this work, the Board compares, regularly and with the support of external consultants, AP4's levels of remuneration for both executive management committee and other employees, using salary statistics from relevant and comparable employers in the market.

Remuneration Committee

The Remuneration Committee is a Board-appointed body comprising three members of the Board. The Committee's remit is to serve in a consultative, monitoring and preparatory role on behalf of the Board of Directors as regards remuneration to the CEO and the Fund's senior executives. "Senior executives" is defined as the AP4's executive management committee and other managers reporting directly to the CEO or the Fund's Chief Investment Officer.

The Remuneration Committee prepares important decisions on remuneration and attends to other tasks in the area, as directed by the Board. The Committee also prepares matters relating to AP4's policies regarding remuneration and other employment terms for all employees and is responsible for ensuring compliance with these policies. Finally, the Committee prepares the assessment of AP4's compliance with Government guidelines for employment for senior executives in the AP funds.

Policies

In 2012, AP1, AP2, AP3, and AP4, AP6 and AP7 formulated a common overarching policy for remuneration terms, staff benefits, entertainment and business travel, which was adopted by AP4's Board. The common overarching policy is supplemented by the Fund's more detailed internal staff-related policies and guidelines, including AP4's remuneration policy. The above policies and guidelines are subject to annual review.

Remuneration

According to AP4's remuneration policy, total remuneration consists of fixed salary, incentive-based salary, pension and other benefits. No incentive-based salary is paid to senior executives.

Fixed salary - Fixed salaries shall be in line with the market and competitive, but not market-leading. Salaries are determined on an individual basis, taking into account the level of responsibility and degree of difficulty of the duties involved, as well as the competence and capacity for work of the respective employee.

Incentive-based salary - the Board of Directors approve annually a plan for incentive-based remuneration for all the Fund's employees. No incentive-based salaries are paid to the CEO, senior executives or the compliance officer. The plan provides for a capped incentive-based salary amounting to no more than two months' salary, conditional on the attainment of goals established in advance on objective criteria. The goals incorporated into the plan shall balance a collective orientation with the individual employee's contribution to and responsibility for the overall outcome over a rolling three-year period. Incentive-based remuneration is paid only if the Fund, in the year to which the incentive-based remuneration pertains, reports an absolute profit.

Pension - AP4 complies with the "BTP" plan, in accordance with the relevant collective bargaining agreement (BAO, the Employers' Organisation of the Swedish Banking Institutions/ SACO, the Swedish Confederation of Professional Associations), for all employees except for the CEO. Employees joining the AP4 after 1 April 2008, with a salary exceeding 10 income base amounts, will be eligible for alternative BTP, a pension plan based on defined contributions, in which a premium corresponding to 30% of the salary component exceeding 7.5 income base amounts is paid. Other employees are covered - unless otherwise agreed - by a retirement pension mainly based on defined benefits in accordance with the BTP plan. The CEO is entitled to a pension at the age of 65 years and a pension allocation corresponding to 30% of salary.

Substitution of pension for salary/increased retirement pension All employees are entitled to substitute pension premium payments for part of their gross salary in a way that is cost-neutral to the Fund.

Other benefits - The aggregate value of other benefits amounts to a limited proportion of the total remuneration paid. Other benefits include health insurance, group insurance and fitness subsidies. AP4 also has four parking spaces that employees can use, which are taxable as a fringe benefit.

Notice of termination/Severance payments - Notice of termination for all employees except the CEO is subject to the rules established in the collective bargaining agreement between BAO and SACO. A mutual period of notice of termination of six months applies for the CEO. If employment is terminated by the Fund, a severance payment amounting to no more than 18 months' salary may also be paid. In the case of new employment or income from business activity, remuneration paid during the period of notice or severance payment will be reduced by an amount corresponding to the new income.

Board of Directors' follow-up of remuneration

Board of Directors' follow-up in 2013

A comparative analysis of companies in the financial sector

The Board has decided that a comparative analysis of the remuneration level of all Fund employees must be carried out every other year.

Against this background, in 2013 an external consultant, Towers Watson, was commissioned by the Board and the Remuneration Committee to conduct a comparative analysis in which AP4's remuneration rates were compared with a group of 16 companies in the financial sector in Sweden that work with long-term asset management.

These companies compete for staff with similar responsibilities, experience and skills, as are required for AP4 to fulfill its brief.

As a starting point in the comparative analysis, Towers Watson initially held meetings with each of AP4's senior executives. The aim was to gather information about each position, its main purpose and responsibilities, as well as the skills and experience deemed necessary to perform the duties of the position as expected.

Towers Watson's skills and job evaluation methodology for companies active in the financial sector essentially served as the basis for evaluating and classifying AP4's comparable positions. The evaluations were validated together with representatives of AP4.

Remuneration at AP4 was compared with the remuneration levels for equivalent positions active within the established competing market.

Results of the comparative analysis

The analysis showed that the relative pay for the base salary is 99 percent of the comparative market median, and 106 percent of the total salary (base salary and incentive-based salary). The combined results showed that AP4 applies remuneration levels that are deemed to be within the established guidelines.

The Board's evaluation

The Board concludes that remuneration levels for AP4 employees are reasonable, justifiable, carefully-considered and definable. On the whole, remuneration is in line with the market but not market-leading. Moreover, the Board concludes that the amounts of remuneration and terms of employment in general fall well within the framework of the Government's guidelines on terms of employment for senior executives at the AP Funds, and of AP4's remuneration policy.

Remuneration to the companies' management teams

A priority matter

Remuneration matters have always been part of AP4's corporate governance work, and they have gained importance both as a matter of corporate governance in general, and in light of the public debate in recent years about remuneration at listed companies. In this movement, the norms upheld in the Government's guidelines regarding terms of employment for senior executives at the AP Funds have played a key role. In the guidelines, the Government has established that total remuneration for senior executives at the AP Funds shall be reasonable and well-balanced. It shall also be competitive, appropriate and have a ceiling, and contribute to sound ethics and culture at the organisation. Incentive-based salary shall not be payable to senior executives of the AP Funds, although it is possible to pay a variable salary to other employees.

In these guidelines the Government also writes: "In companies in which the AP Funds are shareholders directly or through a firm, the AP Funds and the firm, respectively, should, in a dialogue with other shareholders, act to ensure that the guidelines are applied to the extent possible."

In AP4's ownership policy for the Fund adopted by the Board of the Fund in 2009, just after the Government's guidelines were announced, the Board of the Fund clarified and tightened up the requirements regarding remuneration programmes featuring variable pay. This was confirmed in the subsequently adopted ownership policies.

The ownership policy guides the way

AP4's corporate governance efforts are guided by the ownership policy adopted annually by the Fund's Board of Directors. The ownership policy summarises the guidelines for corporate governance in Swedish and foreign companies. Ownership issues are dealt with by AP4's CEO or other employees at the Fund, as delegated by the CEO.

The ownership policy guidelines aim to promote the AP4's overall aim to generate the best possible return over time and thus support the stability of the pension system. AP4's ownership policy is available at www.ap4.se

In the best interests of the company and its shareholders

The ownership policy shall safeguard the best interests of shareholders and individual companies. It shall take into account the unique circumstances and needs of each company and strive to contribute in the long run to maximising return. In light of AP4's brief and possibility of being a long-term investor, matters of long-term value creation are the primary focus.

Systematic follow-up of remuneration

As a national pension fund, it is crucial that AP4's actions in these matters instil confidence. Therefore, AP4's evaluation of proposed remuneration programmes has consequently been further systematised and tightened since 2009. Each remuneration programme on which AP4 votes is evaluated in detail with reference to the requirements of the Fund's ownership policy. The dialogues of AP4 and other institutions with companies regarding remuneration matters have led to an improvement in submitted proposals.

Harmonisation with the long-term interests of shareholders

AP4's view is that incentive-based remuneration programmes aimed at senior executives are to be in harmony with the long-term interests of shareholders. They are to reward positive, long-term achievements, but also work in the opposite direction. If the desired level of achievement has not been reached, total remuneration shall be lower. Incentive-based remuneration shall therefore require clear-cut and measurable achievement. The remuneration shall also have a ceiling. AP4 therefore puts stringent demands on the structure, evaluation, and transparency of the programmes. They should be both "definable and defensible". The company's board should be able to explain to shareholders how remuneration programmes work and what evaluations thereof show.

In the Ownership policy, the Board of AP4 decides what should be paid special attention for the Fund to be able to vote in favour of proposals at an AGM.

Dialogue on remuneration

As a result of years of involvement and extensive discussions, which AP4 and other financial owners have held with many companies in recent years, both prior to mailing the notices and prior to the AGMs, incentive programmes have gradually improved in terms of transparency and linkage to performance.

In the vast majority of cases, these discussions between the board and shareholders contribute to improving the design of the programmes. One evident trend is that the proportion of programmes with individual contributions and/or conditions on performance has increased notably.

2013 Season

Ahead of the year's AGMs, AP4 was in dialogue concerning these matters with fewer companies than in earlier years. There were also fewer questions per company to discuss. Most companies are responsive and take on board shareholders' views. Consequently AP4 has not voted against any proposed remuneration programmes this AGM season

The AP funds one tenth of the pension system

AP4's long-term brief is to support the stability of the pension system through managing Fund capital with the goal of generating the best possible return over time.

Asset allocation and the proportion of equities in the portfolio determine the return.

AP4's proportion of equities – high or low?

The only equities in the income pension system are those owned by the AP Funds. And, the collective assets of the AP Funds constitute just over one tenth of the income pension system.

The Swedish income pension system overall has, in the opinion of the Fund, a modest exposure to stock market risk, of around 7%.

AP1, AP2, AP3 and AP4 have, in order to have the possibility of fulfilling their brief from the Swedish Parliament, invested a high proportion of their investment assets in equities.

A proportion of shares of around 60% means that the AP4's return is largely determined by global stock market performance. The equities exposure can be expected to generate higher return in the long term, but also might lead to the Fund's return varying from year to year.

The AP Funds – one tenth of the pension system

The AP Funds only constitute one tenth of the pension system's assets. Combined, the AP Funds work partly as a buffer, with the purpose of covering future pension disbursements, and their returns partly contribute to the long-term financing of the pension system.

The pension system's largest asset, representing around 90%, is what is known as the contribution value. The contribution value is the expected value of future pension contributions from the gainfully employed.

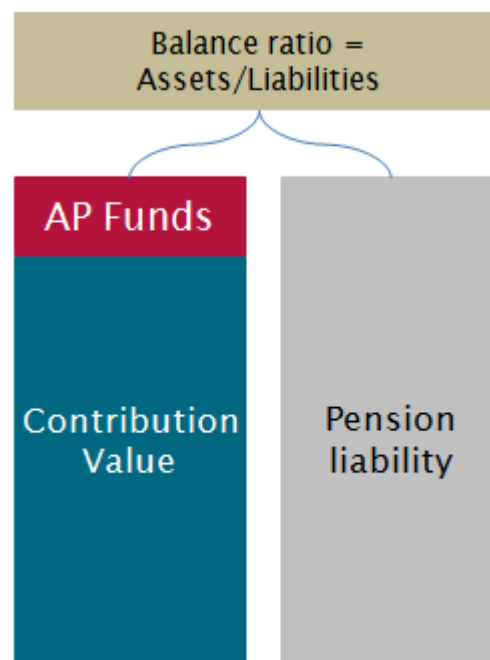
The size of the pension system's contribution value is mainly affected by how long a person is gainfully employed (retirement age, for instance), wage increases and the number of people in employment.

Pension system largely unfunded

The pension system is unfunded on the whole.

If a large number of people retire without the inflow of a fresh workforce, an imbalance arises in the system. This imbalance

affects both the contribution value and the AP Funds – the buffer – negatively. Having fewer people in employment reduces paid-in pension contributions (the contribution value). Concurrently, negative net flows arise; the paid-in pension contributions for the year do not cover disbursed pensions. This affects the AP Funds, the buffer, because money is withdrawn from the AP Funds in the event of negative net flows.



The AP Funds - an intergenerational buffer

With the large post-war generation of people born in the 1940s now retiring, the amount of pensioners is increasing compared with the number of people employed in the economy. When these "boomers" leave gainful employment, their pension contributions will cease and they will start to draw their pensions instead.

Net flows have been negative since 2009. In other words, paid-in contributions are lower than disbursed pensions, and funds are withdrawn from the AP Funds to cope with the pension disbursements to today's pensioners. In 2013, AP4 paid out a net amount of SEK 6.9 billion (3.8) to the pension system. This money is taken from the Fund capital.

According to forecasts by the Swedish Pensions Agency, the net outflows will remain negative each year until the mid-2040s. The AP Funds, from which the funds will be drawn to cover the deficit, thus act as an intergenerational buffer in the pension system.

Large proportion of equities required to balance the system

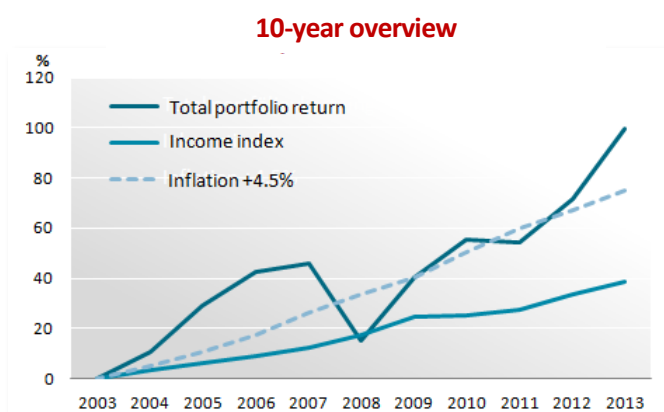
Income index - minimum level for AP Funds' returns

The liability side of the pension system (accrued pension rights) is as a rule increased to the income index – the average income trend. The asset side of the pension system – the AP funds and contribution value – must also increase by at least as much as the income index for the system to be in balance. When the assets of the pension system are equal to its liabilities the system is in balance.

During the 10-year period 2004 - 2013, the income index increased by 3.3% annually.

AP4 overshooting targets and the income index

AP4's return for the same 10-year period, 2004-2013, was higher at 7.2%. The Fund has therefore made a positive contribution to the stability of the pension system.



AP4's real (inflation-adjusted) total return (the upper dark blue line) overshoot both established targets (dotted line) and the income index (pale unbroken line) during the 10-year period beginning the turn of 2003/2004 to the turn of 2013/2014.

Demographic imbalances require higher returns

To maintain long-term stability in the pension system, it does not suffice for the AP Funds to deliver returns on a par with the income index. Forecasts regarding the performance of the pension system show demographic imbalances in the future.

Imbalances arise now that the 1940s "boomers" are coming to the end of their working lives and are instead drawing their pensions. Because of these changes, the AP Funds must deliver a higher return than the income index.

Requirements for the AP Funds to offset the imbalances

AP4's Board has established a long-term goal entailing that the Fund is to reach an average real (inflation-adjusted) total return of 4.5% annually. This, according to the Fund, is the average return required over a 40-year period for the pension system's assets and liabilities to balance.

The long-term return target has been calculated using analyses regarding how the assets and liabilities of the entire pension system are expected to perform in the long term, for periods of up to 40 years. The analyses are produced with the help of various assumptions, for instance expected trends in the number of gainfully employed people and pensioners, retirement age, the number of births, life span and immigration over the next 40 years.

AP4's average real return over the long term is evaluated in light of the long-term return target.

High return target requires high proportion of equities

In order for the AP Funds to deliver high returns in line with the estimated requirement, the AP Funds invest a large proportion of capital in equities.

Equities are the class of asset that has historically given the best return over long periods, and that can still be expected to give higher returns than fixed income assets in the long term. Equities are also associated with higher risk – the risk of higher volatility, i.e. share price fluctuations, in the short term.

Proportion of equities in the pension system of 7%

Of the pension system's total assets, the system's proportion of equities is about 7%. These equities are in the AP Funds. Overall, in the context of the entire pension system, 7% is a relatively low proportion of shares in relation to the long period of time during which pension assets are managed.

Since the AP Funds collectively constitute just over a tenth of the pension system, this 7% of the total pension system means a relatively high proportion of equities in each Fund. One of the reasons for there being five buffer funds was to ensure risk diversification. AP4's proportion of equities, including listed SMEs, was around 60% at the end of 2013.

Long-term outlook in the context of pensions: 30–40 years¹

The real (inflation-adjusted) return of equities has varied greatly over the past 90 years or so. The average real return on global equities between 1918 and 2012 was around 6% annually.

Real returns on equities have, in various 10-year periods, varied sharply, from over 20% annually (1980s) to negative figures for other periods. Major differences between consecutive 10-year periods are common.

Historically, real returns on equities have been much more stable during 35-year periods. It is only in a 35-year perspective that the real value performance for equities is reasonably comparable in terms of stability with the real wage trend in a 10-year perspective.

The real wage trend is what largely governs the value performance of income pensions. During the period 1918–2012, the real wage trend was 2.1% annually. The difference between the real trend for equities and wages has been largest in the last two to three decades.

30–40 years – a fairer time frame?

When evaluating returns on equities, very long time periods should therefore be used. In terms of pensions, 30–40 years might be a fair time frame.

AP Funds – high returns in the long term

Equities are assets with expected high returns in the long term, but also high risk. The returns of the AP Funds can therefore be expected to vary relatively sharply between individual years.

With hindsight, 2001, the start for the current pension system, can be described as the peak of a financial bubble. Taking that point as the start of the measurement period, shares have therefore generated returns far below expectations.

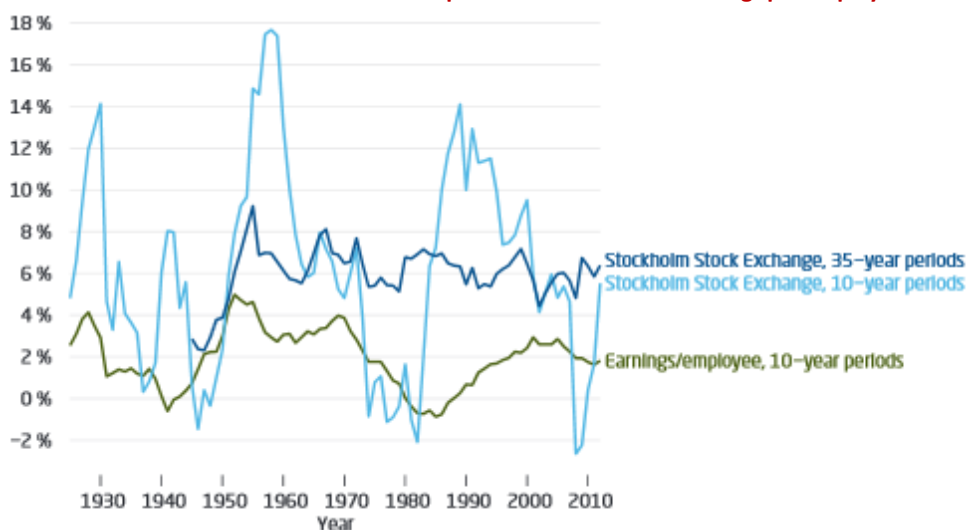
Overshot the long-term real return target

During the 10-year period 2004 – 2013, the AP4's real return averaged 5.9% per year, which was significantly higher than the target of 4.5%. The main reason for meeting the target is that the steep market downturn of 2001–2002 is no longer included in the evaluation period.

More information about the pension system

More detailed information about the pension system and balancing pensions is available at www.pensionsmyndigheten.se and www.minpension.se

Real World-Wide Rate of Return and Development of Swedish Real Earnings per Employee



For each year the curves show the average real total return per year (including dividends) over the preceding 10 and 35 years, respectively, and the percentage change per year in real earnings per employee over the preceding 10 years.. Source: Orange report 2012, Swedish Pension Agency

¹Source: Orange report 2012, Swedish Pension Agency

The role of AP4 in the pension system

Provide stability and return for the long term

AP4 constitutes part of the Swedish income pension system. AP4's brief is to contribute to the stability of the national pension system through managing Fund capital with the aim of generating the best possible return over time.

Together with AP1, AP2 and AP3, AP4 has two important roles in the national pension system. The four Funds work partly as a buffer, with the purpose of covering future pension disbursements, and their returns partly contribute to the long-term financing of the pension system. AP6 is also a buffer fund, but is not part of the regular flows of the pension system.

Income pension

The income pension 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 income is thus completely independent of the national budget, and financing is linked to the contributions paid in by employers each month as part of the pension income of employees.

The size of the income pension depends on the income of the individual throughout their entire working life, in other words how many pension rights have been accumulated during gainful employment.

Guarantee pension provides a safety net

The guarantee pension is a safety net for people who are entitled to a pension but who do not have sufficient income. It is financed through the national budget and is independent of the income and premium pension system.

Occupational pensions add a little more

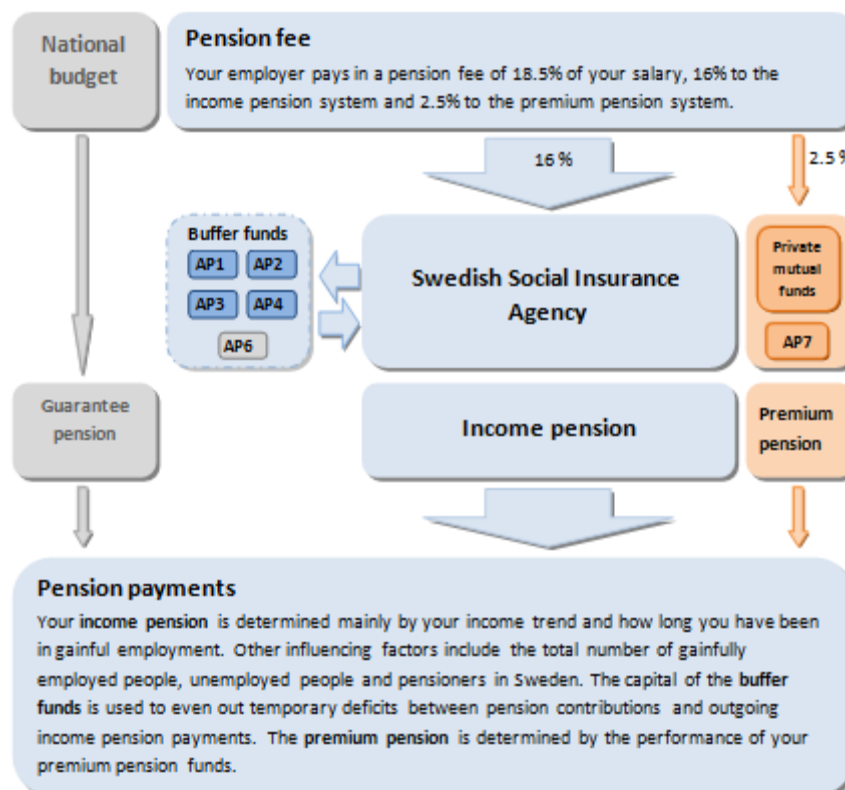
In addition to this are occupational pensions or contractual pensions, arranged for employees by employers, often through a collective agreement, as well as voluntary pensions, which are pension schemes entered on a voluntary basis.

You can influence the premium pension

The premium pension is the part of the national pension that individuals can themselves influence through investment choices.

Each month, employers pay in 18.5% of the pensionable income of employees to income pension (16 percentage points) and to premium pension (2.5 percentage points).

The size of the premium pension depends on the performance of the securities funds containing the invested capital until the individual retires.



A stable pension system

Assets must equal liabilities

Because the income pension system is constructed as a distribution system, this means that assets must be as large as liabilities. In other words, the funds that are to suffice for pensions to be disbursed must be as large as the pensions to which pensioners are entitled.

Pension paid out

Assets in the income pension system consist of two parts. In simple terms, close to nine tenths consist of what is known as the contribution value, which is the value of future contributions to the income pension system; in other words, the funds that are to account for pension disbursements.

Salary, low unemployment and pension age are important

The contribution value is affected mainly by salaries, the rate of employment in the economy and retirement age. The remaining portion of just over one tenth consists of the AP Funds' assets including AP6, and comprises the buffer that is to ensure that the income pension system is in balance across the generations. The total assets of an individual AP Fund of around SEK 260 million thus constitute around 3% of all assets in the pension system.

Pensions and wage trend

Income pension disbursements are increased annually, taking the average wage trend into consideration. For maximum indexing of the pensions, the income pension system must be in balance. In other words, the assets must be as large as, or larger than, the liabilities.

AP fund buffer necessary

There is currently a net outflow from the AP Funds to pensioners. Since 2009, disbursements to current pensioners have been larger than contributions to the pension system from current wage earners.

According to forecasts by the Swedish Pensions Agency, disbursements to pensioners will be higher than contributions until the mid-2040s. One important reason for this is that the post-war generation has now largely reached retirement age. When these "boomers" leave the labour force, they will stop paying income pension contributions and start drawing their pensions.

The brake or automatic balancing

The value contribution and the AP Funds' assets should therefore always correspond to the pension liability created. The income pension system therefore has a built-in mechanism to ensure the financial stability of the system. The mechanism is called automatic balancing (or "the brake") and is to prevent disbursements in the system being higher than what it can cope with in the long term. This is achieved by slowing down indexing of the value of the pensions, with this process continuing until the system regains balance.

The AP Funds and "the brake"

The automatic balancing ("the brake") which occurs when liabilities in the system are greater than assets, has come close to being triggered on two occasions in the 2000s – in 2004 and 2007. This was avoided because the AP Funds' capital has grown, thus balancing the system.

After 2008, automatic balancing was activated for the first time, which had the effect of pensions not being increased to the maximum during 2010. Also in the following year, 2009, the balance ratio (Balance ratio = Assets/Liabilities) was still below one, which meant that balancing was also activated in 2011. During the years thereafter the balance ratio fluctuated both above and below one, so pensions were increased with the balance index instead of the income index. For years when the balance ratio exceeds one, this has meant an increase that matched the income index plus the excess of the balance ratio. The forecast from the Swedish Pensions Agency is that it will take more than five years before the balance index is at the same level as the income index.

A stable pension system

The composition of the Swedish pension system was one of the first of its kind when it emerged at the end of the 1990s, and is, from a financial point of view, deemed stable. As the challenge of a growing ageing population is similar in all parts of the world, many countries have taken an interest in the Swedish income pension system and the brief of the AP Funds.

Report of the Directors 2013

AP4 overshot both long- and short-term targets. Total return was 16.5%, mainly because of the upbeat performance of stock markets globally.

It was gratifying that the active tactical management delivered a positive additional return for the fifth consecutive year. The active contribution for the year was SEK 0.9 billion.

Fund capital of SEK 260 billion

Fund capital increased SEK 30.1 billion to SEK 259.7 (229.6) billion. The 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 payments to the pension system. The latter were SEK 6.9 billion (3.8), which reduced Fund capital by the same amount. For the fifth consecutive year the buffer funds had to transfer capital to the pension system. Over the past five years AP4 has paid out a total of almost SEK 20 billion to the pension system.

Change in Fund capital

SEK bn	2013	2012
Fund capital, opening balance	229.6	210.0
Net payments to the pension system	-6.9	-3.8
Profit/Loss for the period	37.0	23.4
Fund capital, closing balance	259.7	229.6

Market value, 31 Dec 2013

Management unit	Market value SEK bn	Exposure 1), %
Global equities	88.4	34.3
Swedish equities	30.7	11.9
Fixed income	83.0	32.0
Total tactically managed assets	202.1	78.3
Strategically managed assets		
Real estate	14.9	5.7
Sustainability	8.4	3.2
Swedish strategic equities	18.3	7.1
Other strategic investments	14.7	5.6
Implementation of the strategic portfolio 2)	1.5	0.1
Total strategically managed assets	57.8	21.7
Total investment assets	259.9	100.0

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

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

Total return more than 16%

Total return for 2013 reached 16.5% (11.3) before expenses and 16.4% (11.2) after expenses. The return corresponded to a management outcome after expenses of SEK 37.0 billion (23.4), which in absolute terms is the highest profit in AP4's history.

High proportion of equities gave a positive total return

The performance of global stock markets, both in Sweden and abroad, was very good. In total, the equities management contributed positively in the amount of 14.1 percentage points (9.4) to the Fund's total return. Total return for AP4's global equity portfolio was 27.8% (17.4), and the Swedish equity portfolio returned 26.4% (16.9).

Weak performance for fixed income

Long-term interest rates in the major markets rose during the year, resulting in falling bond prices. The fixed income portfolio returned -0.2% (6.0). This gave a negative contribution of -0.1 percentage points (2.2) to the Fund's total return.

Strategic investments performed well

A strong upswing in value for small and mid-cap companies generated a return of 41.8 (13.4). Once again, real estate produced a healthy return of 27.2% (14.2). This strategic active Swedish equities mandate, which was formed in December 2013, delivered a return of 5.5% for the short period. Other strategic positions returned 12.3% (5.1).

Foreign exchange exposure

AP4's currency exposure, which is determined in AP4's reference portfolio, the normal portfolio, generated a negative return contribution of -1.0 percentage points.

Assets' return and contribution, 1 Jan 2013–31 Dec 2013

Management unit	Portfolio return, %	Contribution to	
		to total return, %	profit/loss for the year SEK bn
Global equities	27.8	10.3	23.3
Swedish equities	26.4	3.8	8.5
Fixed income	-0.2	-0.1	-0.2
Equities index	0.0	0.0	-0.1
Active foreign exchange management 1)	0.1	0.1	0.1
Total tactically managed assets	15.9	14.0	31.6
Strategically managed assets			
Real estate	27.2	1.4	3.2
Sustainability	38.3	0.4	0.9
Swedish strategic equities	42.6	1.3	3.0
Other strategic positions	12.3	0.4	0.8
Implementation of the strategic portfolio 2)	-1.0	-1.0	-2.2
Total investment assets 3)	16.5	16.5	37.3

1) Portfolio return based on total investment assets.

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

3) Return and profit/loss before expenses. Return after expenses was 16.4 percentage points, corresponding to a profit after expenses of SEK 37.0 billion.

Positive active earnings – for the fifth consecutive year

The tactical management made a positive contribution to earnings of SEK 0.9 billion (1.8). Over the last five-year period, since the management's reorganisation, the active tactical management has made a positive contribution to earnings of SEK 6.2 billion.

Active return within tactical management for the year was 0.5 percentage points (1.0), in line with the Fund's target of 0.5 percentage points. For the evaluation period, which is three years rolling, the target was exceeded by 0.0 percentage points (0.1).

Active return, 1 Jan 2013–31 Dec 2013

Management unit	Active return, %	Contribution to	
		active return, SEKm	
Global equities	1.0	759	
Swedish equities	0.4	135	
Fixed income	-0.1	-42	
Equities index 1)	0.0	-74	
Currency 1)	0.1	117	
Total tactically managed assets	0.5	896	

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

Positive contribution from three out of five tactical sub-portfolios

Swedish and global equities management as well as foreign exchange management made a positive contribution to the active return.

- **Global equities management** delivered a positive active return of 1.0 percentage points (0.4). The alpha management (the active management) which was started in the autumn of 2010, has generated a positive outcome each year since the start.
- **Swedish equities management** delivered a positive active return of 0.4 percentage points (0.7).
- **Fixed income management** delivered, for the first time since 2008, a negative active return of -0.1 percentage point (1.4).
- **Foreign exchange management** also achieved a positive active return of 0.1 percentage point (0.1). This is the seventh consecutive year that foreign exchange management delivered a positive active return.
- **Equities index** also made a weakly negative contribution for the year to total active return, with an active return of 0.0 percentage point (-).

Good risk-adjusted return

The risk-adjusted return is and has been good since the current management organisation was set up. The information ratios of the management units are generally high. Values over 0.5 for individual years are usually considered to be a good result.

Information ratios

Management unit	3 years (on annual basis)			
	2013	2012	2011	
Global equities	2.2	4.1	1.7	1.0
Swedish equities	0.1	2.3	2.2	neg.
Fixed income	0.9	neg.	1.6	0.8
Equities index	-	neg.	-	-
Currency	0.7	0.9	0.7	0.5
Total tactically managed assets	1.4	2.0	2.3	0.5

The information ratio is used to measure risk-adjusted return. The measure describes how much additional annual return has been achieved in relation to the active risk taken. Daily data has been used in calculating the AP4's risk-adjusted return, which gives a lower information ratio compared with weekly or monthly data.

Strategic management made a positive contribution

The strategic management, which is divided into strategic macro management and strategic factor management, generated overall a positive active contribution to AP4's total return of 1.2 percentage points (-0.4), equalling a positive contribution of SEK 2.6 billion. Strategic macro contributed -0.1 percentage points (-0.2) and strategic factor 1.2 percentage points (-0.2).

The largest active contribution came from the strategic factor position corporate bonds, as well as from strategic Swedish equities.

Strategic management 1 Jan 2013–31 Dec 2013

	Contribution to active return, (%)	Contribution to active earnings (SEK m)
Strategic positions		
Macro		
Asset class	-0.2	-465
Currency	-0.1	15
Duration	0.2	503
Total macro positions	-0.1	54
Factor		
Real estate	0.1	171
Sustainability	0.1	159
Swedish strategic equities	0.4	794
Corporate bonds	0.6	1,361
Other strategic positions	0.0	82
Total factor positions	1.2	2,568
Total strategically managed positions	1.2	2,622

In summary, both tactical and strategic management contributed to the Fund's positive earnings. The high proportion of equities in AP4's reference portfolio, the normal portfolio, is the main reason for the healthy earnings.

Low operating costs

Cost-efficiency is important to AP4, and alternative ways of working and generating value added are assessed continually.

The management cost, measured as operating expenses divided by average fund capital, equalled 0.08% (0.08).

The management cost, including commission expenses such as fees for external managers and custody accounts, amounted to 0.11% (0.10), measured as operating expenses as a percentage of the average Fund capital.

AP4's management cost, with and without commission expenses, is low and highly competitive in domestic as well as international comparisons with other pension managers.

Management costs

	2013	2012
Operating expenses, SEKm	187	179
Commission expenses, SEKm	90	39
Operating expense ratio, % 1)	0.08	0.08
Operating expense ratio, % 2)	0.11	0.10

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

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

Enhanced management structure and new processes

A new management structure was fully implemented beginning 1 January 2013. The new structure provides better conditions for AP4 to capitalise on the Fund's long-term mandate and thereby harnesses business opportunities with an investment horizon exceeding three years. The long-term mandate enables additional return because AP4 can have a somewhat longer investment horizon than the market at large.

In November 2012, as part of the new management structure, the Board delegated extended mandates for strategic positions and investments. The management units' structure and mandates developed according to the new structure to better capitalise on identified business opportunities.

6.2 billion kronor in added value

The positive active earnings of the last five years (2009-2013) are a promising sign that the asset management, which was reorganised during 2007-2008, remains on the right track. In the last five years, since the organisation was set up, it has outperformed the benchmark index, delivering a positive active earnings contribution of just over SEK 6.2 billion.

AP4's organisation features broadly accepted procedures, explicit targets and division of responsibilities as well as sound cost efficiency, risk and return measurement.

Changes in staffing

After a period of few new hires, this year the Fund recruited a number of employees and at year-end AP4 had 55 (49) employees.

Remuneration

For a pension manager of public funds, it is obvious that employee remuneration levels must be reasonable, defensible and definable. AP4 endeavours to ensure that remuneration is at market rates and enables the Fund to attract and keep skilled staff. AP4 shall not be a wage leader.

The Board bears ultimate responsibility for remuneration matters being dealt with responsibly, wisely and transparently. It annually determines principles regarding remuneration and other employment terms. The Board also ensures compliance with the Government's guidelines regarding terms of employment for senior executives at the AP Funds.

With the help of external consultants, the Board of the Fund follows up to ensure compliance with the remuneration principles. For the past three years, the Board has had a Remuneration Committee consisting of three Board members. The committee has the task of advising the Board and preparing matters regarding remuneration made to the CEO and other senior executives. The remuneration committee also prepares matters relating to the Fund's policies regarding remuneration and other employment terms for all employees.

Total remuneration for an employee of AP4 consists of fixed salary, incentive-based remuneration, pension and other benefits. Incentive-based remuneration is not payable to the CEO, senior executives or the compliance officer.

For other employees, incentive-based remuneration is payable to a maximum of two monthly salaries. It is payable when clear and measurable goals have been achieved. Such salaries are based on group-oriented quantitative goals and the quantitative contribution of the individual employee measured over a rolling three-year period. Incentive-based remuneration is only payable if AP4 posts positive total earnings for the financial year.

Other benefits only constitute a limited value and are offered to all employees. Examples of such are healthcare coverage, group insurance and wellness contribution. AP4 also has four parking spaces that employees can use, which are taxable as a fringe benefit.

More information can be found on pages 50-51 or in note 6. Information about the Fund's remuneration policies and compliance therewith is available on AP4's website, www.ap4.se.

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.

Since the pension system was restructured in 2001, the AP Funds – including AP6 and AP7 – have worked closely with each other in different areas. The purpose of the collaboration is to achieve transparency and cost-efficiency without compromising competition possibilities between the AP Funds.

The Funds mainly work together in the following areas:

- environment and ethics,
- corporate governance,
- legal affairs
- accounting and HR

They work most closely with each other in the Ethical Council, a collaborative body formed in 2007 by AP1, AP2, AP3 and AP4. The Ethical Council consists of a representative from each Fund and a jointly appointed secretary general. The purpose of the Ethical Council is to jointly pursue positive change in foreign companies – both proactively and reactively. The latter occurs when a company is linked to violations of international environmental and human rights conventions. Working together with the combined capital of the AP Funds increases the possibility of influencing a company compared to sole initiatives. The Ethical Council is also an attractive partner for other international investors with similar environmental and ethical agendas, further increasing possibilities of influence. This cooperation also means that the Fund's work is more efficient and cost-effective. Increased efficiency emerges, for example, through more dialogues with companies and international investor initiatives, and conferences at which the Ethical Council is represented.

In order to vote global shareholdings at AGMs in a cost-efficient manner, AP4 uses an electronic voting platform common to AP1, AP2, AP3 and AP4. The Funds vote their respective holdings independently of each other.

Another example of the working relationship is the document jointly prepared by AP1, AP2, AP3 and AP4 "Accounting and valuation policies of the AP Funds", which aims to ensure that the AP Funds apply joint policies and that their annual reports are hence comparable. The document is updated regularly and is reviewed by the Funds' auditors annually.

Significant events after the end of the financial year

AP4'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

Multi-year summary	2013	2012	2011	2010	2009
Fund capital, flows and net profit/loss, SEK bn					
Fund capital	259.7	229.6	210.0	212.8	195.7
Net flows to the pension system and special asset management	-6.9	-3.8	-1.2	-4.0	-3.9
Profit for the year	37.0	23.4	-1.6	21.2	34.9
Return, %					
Return on total portfolio before expenses	16.5	11.3	-0.7	11.0	21.6
Return on total portfolio after expenses	16.4	11.2	-0.7	10.9	21.5
Return on total portfolio after expenses, annualised 5 years	11.6	3.3	1.6	3.8	4.9
Return on total portfolio after expenses, annualised 10 years	7.2	7.2	4.1	3.6	-
Operating expense ratio as a % of assets under management (annualised)					
Operating expenses	0.08	0.08	0.08	0.09	0.10
Operating expenses and commission expenses	0.11	0.10	0.10	0.10	0.11
Risk, %					
Standard deviation, total portfolio ex post	5.6	5.6	9.2	7.5	11.0
Standard deviation, liquidity portfolio ex-post 1)	6.0	6.0	9.8	7.8	11.6
Standard deviation over 10 years, liquidity portfolio ex-post 2)	8.6	-	-	-	-
Sharpe ratio total portfolio ex post	2.8	1.8	neg.	1.4	1.9
Sharpe ratio liquidity portfolio ex-post 1)	2.5	1.7	neg.	1.3	1.8

1) Refers to liquid assets (investment assets excluding real estate, venture capital funds and high-yield fixed income).

2) Refers to quarterly data for liquid assets (investment assets excluding real estate, venture capital funds and high-yield fixed income).

Other key ratios	2013	2012	2011	2010	2009
Active return, strategic management before expenses 1)	1.2	-0.4	-	-	-
Active return, tactical management before expenses 2)	0.5	1.0	0.2	0.8	1.4
Inflation	0.1	-0.1	2.0	2.3	0.9
Real total return after expenses	16.2	11.2	-2.7	8.6	20.6
Active risk ex post, tactical management	0.2	0.4	0.5	0.3	0.4
Foreign exchange exposure, %	28.6	27.7	25.7	19.8	14.6
Proportion under active management, including enhanced, %	58.2	50.2	63.6	61.2	57.7
Proportion under external management, including investments in venture capital firms, %	28.4	21.7	18.4	22.6	21.1
Number of employees at end of accounting period	55	49	52	51	53
Allocation of investment assets, % 3)					
Global equity portfolio	34.3	37.2	37.9	41.0	42.4
Internally managed	20.7	23.6	26.5	24.3	25.8
Externally managed	13.6	13.6	11.4	16.7	16.6
Swedish equity portfolio	11.9	15.7	17.8	18.9	18.0
Fixed income portfolio	32.0	36.1	37.3	34.0	34.9
Real estate	5.7	5.2	4.5	3.9	3.2
Sustainability 4)	3.2				
Swedish strategic equities 5)	7.1	2.6			
Other strategic positions 6)	5.6	3.1	2.5	2.0	1.3
Implementation of the strategic portfolio 7)	0.1	0.1	0.0	0.2	0.3
Total investment assets, %	100	100	100	100	100

1) Active return, strategic management evaluated in relation to the normal portfolio

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

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

4) Refers to strategic sustainability investments in environment, ethics and corporate governance. Previous investments before 2013 were found under Other strategic investments.

5) Refers to Swedish small and mid-cap companies which before 2013 were a separate line item, as well as Swedish strategic companies, which represent a new mandate for 2013 and were previously managed under the Swedish equities portfolio.

6) Other strategic positions correspond to what was previously called alternative investments.

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

Income statement

SEK m	Note	2013	2012
OPERATING INCOME			
Net interest income	2	2,967	3,467
Dividends received		3,717	3,479
Net income, listed shares and participations	3	29,520	13,399
Net income, unlisted shares and participations	4	3,510	1,222
Net income, fixed income assets		-2,389	2,057
Net income, derivatives		2,316	2,617
Net income, changes in exchange rates		-2,367	-2,603
Commission expenses	5	-90	-39
Total operating income		37,184	23,599
OPERATING EXPENSES			
Employee benefits expense	6	-116	-109
Other administrative expenses	7	-71	-70
Total operating expenses		-187	-179
PROFIT/LOSS FOR THE YEAR		36,997	23,420

Balance sheet

SEK m	Note	31 Dec 2013	31 Dec 2013
ASSETS			
Shares and participations, listed	8	150,173	117,974
Shares and participations, unlisted	9	13,782	9,963
Bonds and other fixed income securities	10	87,254	86,530
Derivatives	11	6,185	12,869
Cash and bank balances		2,342	1,467
Other assets	12	167	332
Prepaid expenses and accrued income	13	1,719	1,986
TOTAL ASSETS		261,622	231,121
LIABILITIES AND FUND CAPITAL			
Liabilities			
Derivatives	11	1,755	1,205
Other liabilities	14	38	138
Deferred income and accrued expenses	15	81	147
Total Liabilities		1,874	1,490
Fund capital			
	16		
Fund capital, opening balance		229,631	209,999
Net payments to the pension system		-6,880	-3,788
Profit for the year		36,997	23,420
Total fund capital		259,748	229,631
TOTAL LIABILITIES AND FUND CAPITAL		261,622	231,121

Pledged assets, contingent liabilities, and commitments

17

Notes to the income statement and balance sheet

AP4, corporate identity number 802005-1952, is one of the buffer funds in the Swedish pension system and is headquartered in Stockholm. The annual report for the 2013 financial year was approved by the Board on 20 February 2014. The income statement and balance sheet will be adopted by the Government.

Note 1. 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. For an overview of determination of fair value for unlisted real estate shares, see below in the section Unlisted shares and participations.

The Fund's accounting and valuation policies are being gradually adapted to comply with International Financial Reporting Standards (IFRS). The IFRS are undergoing extensive revision, so thus far compliance focused on disclosure requirements under IFRS 7 and IFRS 13. Complete compliance with IFRS would not materially affect reported earnings or capital. Compared with the current IFRS, the only major difference is that consolidated financial statements and cash flow 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 legal right to offset transactions is established and the intent is to wind them up simultaneously.

Translation of foreign currencies

Transactions in foreign currency are translated into Swedish kronor at the exchange rate on the transaction day. At year-end, assets and liabilities in foreign currencies are translated to SEK at the exchange rates on the balance sheet date. 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. The exchange gain/loss arising from exchange rate changes is recognised in the income statement on the line Net income, changes in exchange rates.

Shares in subsidiaries and associated companies

According to the Swedish National Pension Funds Act, shares in subsidiaries and associated companies are recognised at fair value. Fair value is determined according to the same methods applied for unlisted shares and participations. There is no requirement 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. The lines Net profit/loss per asset class thus include

realised and unrealised gains. Where the following refers to designated index providers, please see the glossary on pages 82-83 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 participations

For shares and participations traded on a regulated market or trading platform, fair value is determined based on official public quotation at year-end according to the Fund's designated index, 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 participations

For shares and participations not traded on a regulated market or trading platform, fair value is determined based on a valuation obtained from the counterparty 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 is adjusted.

Stated values regarding unlisted shares 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 such as discounted cash flow, net worth or multiples based valuation.

Valuation relating to unlisted real estate shares is based on a valuation according to the net worth method to the extent that the share has not been subject to transactions on a secondary market. A method for valuation of holdings in unlisted property has been developed to ensure valuation at fair value. Thus from 2013 onwards, deferred tax liabilities are valued at the value used in real estate transactions, which differs from the valuation in the accounts of the real estate companies. This revised method of calculating fair value has had an effect on the outcome for the year; see the note Net income, unlisted shares and participations.

Bonds and other fixed income securities

For bonds and other fixed income securities, 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.

In terms of interest income, interest recognised is calculated according to the effective interest rate method based on amortised cost. The amortised cost is the discounted present value of future payments, where the discount rate corresponds to the effective interest rate at the time of purchase. Thus, premiums or discounts on acquisition are accrued to maturity or until the coupon changes and are included in recognised interest income.

Derivatives

For derivatives, fair value is calculated 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 in the balance sheet at fair value, while payment received for the loan is recognised as interest income in the income statement. Collateral received for securities on loan can consist of securities and/or 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. In other cases the received collateral is not recognised on the balance sheet, but is specified separately under the heading "Pledged assets, contingent liabilities and commitments". Under this heading the value of the securities on loan and collateral received for them are also recognised.

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 participations, for which repayment is granted prior to profit-sharing and for which repayment is deemed probable, are recognised at cost price and are thus 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.

As of 2012, the Fund is registered for value added tax and is thus liable to pay VAT for acquisitions from abroad. The Fund is not entitled to recover paid VAT. Expensed VAT is included in the expense item to which it belongs.

Amounts in SEKm, unless otherwise specified.

Note 2. Net interest income

	2013	2012
Interest income		
Bonds and other fixed income securities	2,421	2,608
Derivatives	1,051	1,744
Other interest income	57	65
Total interest income	3,529	4,417
Interest expense		
Derivatives	-562	-942
Other interest expense	0	-8
Total interest expense	-562	-950
Net interest income	2,967	3,467

Note 3. Net income, listed shares and participations

	2013	2012
Net income, listed shares and participations	29,612	13,436
Less brokers' commissions	-34	-31
Less performance-based fees	-58	-6
Net income, listed shares and participations	29,520	13,399

Note 4. Net income, unlisted shares and participations

	2013	2012
Realised gains	644	399
Unrealised changes in value	2,877	827
Less performance-based fees	-11	-4
Net income, unlisted shares and participations	3,510	1,222

A method for valuation of holdings in unlisted property has been developed to ensure valuation at fair value. Thus from 2013 onwards, deferred tax liabilities are valued at the value used in real estate transactions, which differs from the valuation in the accounts of the real estate companies. This revised method of calculating fair value has had an effect on the outcome for 2013 of SEK 1,063 million, of which SEK 853 million is deemed attributable to previous years. The effect on profit is mainly attributable to the fund's holdings in Vasakronan.

Note 5. Commission expenses

	2013	2012
External management fees, listed assets	-76	-25
External management fees, unlisted assets	-4	-3
Other commission expenses, including custody account fees	-10	-11
Commission expenses	-90	-39

Performance-based fees are not included in commission expenses. Such fees totalled SEK 69 million (10) for the year, and reduce net income for each asset class. 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 60 million (56) in management fees related to unlisted assets was paid. Of this total, SEK 56 million (53) referred to agreements that permit repayment of fees paid prior to profit-sharing upon divestment. These are recognised as part of the purchase cost of the asset.

Note 6. Personnel

Number of employees	2013		2012	
	Total	Women	Total	Women
Average number of employees	54	18	51	15
Number of employees at 31 December	55	20	49	14
Number of executive management committee members at 31 December	5	2	5	2

Employee benefits expense, SEK '000, 2013	Salaries and remuneration	Incentive-based remuneration	Pension expenses	Social security expenses	Total
Chairman of the Board Monica Caneman	117	-	-	37	154
Other Members of the Board 1)	507	-	-	149	656
Chief Executive Officer Mats Andersson 2)	3,098	-	1,787	1,407	6,292
Other executive management committee members					
Deputy CEO and Chief Investment Officer Magnus Eriksson 3)	1,834	-	2,502	1,183	5,519
Director of Administration Agneta Wilhelmson Kåremar 4)	1,397	-	1,402	779	3,578
Head of Performance and Risk Control Nicklas Wikström 5)	1,463	-	617	609	2,689
General Counsel Ulrika Malmberg Livijn 6)	1,311	-	780	601	2,692
Other employees 7)	48,653	4,701	16,396	20,467	90,218
Total	58,380	4,701	23,484	25,233	111,798
Other employee benefits expense					3,731
Total employee benefits expense					115 529

1) Remuneration to individual board members is set forth in the administration report

2) Substitution of pension for salary 711

3) Substitution of pension for salary 1,485

4) Substitution of pension for salary 384

5) Substitution of pension for salary 111

6) Substitution of pension for salary 254

7) Substitution of pension for salary, other employees 1,001

Amount related to substitution of pension for salary included in pension costs

Employee benefits expense, SEK '000, 2012	Salaries and remuneration	Incentive-based remuneration	Pension expenses	Social security expenses	Total
Chairman of the Board Monica Caneman	117	-	-	37	154
Other Members of the Board 1)	469	-	-	142	611
Chief Executive Officer Mats Andersson 2)	3,283	-	1,431	1,379	6,093
Other executive management committee members					
Chief Investment Officer Magnus Eriksson 3)	1,531	-	2,430	1,071	5,032
Director of Administration Agneta Wilhelmson Kåremar 4)	1,528	-	1,108	749	3,385
Head of Performance and Risk Control Nicklas Wikström 5)	1,352	-	530	553	2,435
General Counsel Ulrika Malmberg Livijn 6)	1,354	-	623	577	2,554
Other employees 7, 8)	46,038	3,476	15,882	19,011	84,407
Total	55,672	3,476	22,004	23,519	104,671
Other employee benefits expense					4,664
Total employee benefits expense					109 335

1) Remuneration to individual board members is set forth in the administration report

2) Substitution of pension for salary 355

3) Substitution of pension for salary 1,485

4) Substitution of pension for salary 352

5) Substitution of pension for salary 64

6) Substitution of pension for salary 138

7) Substitution of pension for salary, other employees 1,271

8) Costs of employee cutbacks, other employees 1,325

Amount related to substitution of pension for salary included in pension costs

Costs of employee cutbacks

For 2013 the cost for employee cutbacks was SEK - thousand (1,325).

Salaries and remuneration

Remuneration for the Board of Directors, set by the Government, is unchanged in relation to the previous year. The Board sets the terms of employment for the CEO based on recommendations from the remuneration committee. Remuneration to the CEO, senior executives and compliance officer consists of base salary. By assignment of the Board and remuneration committee, an external consultant annually performs an investigation of remuneration levels for senior executives at the Fund, and the Board can thereby ascertain that AP4 complies with the Government's guidelines for senior executives at the AP Funds. Read more under the heading Remuneration on page 50-51 and at www.ap4.se

Incentive-based remuneration

The incentive-based remuneration plan constitutes part of the Fund's remuneration policy and is adopted annually by the Board. The plan covers all employees employed for over six months, apart from the CEO, senior executives and compliance officer. The basic principle is that employees earn incentive-based remuneration when the Fund outperforms the benchmark and reference indices, provided that the Fund posts a profit for the financial year. The maximum incentive-based entitlement for a full-year employee is two months' salary. For 2013, SEK 4,701 thousand (3,476) was expensed for incentive-based remuneration, excluding social security contributions.

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.

The severance package is paid out monthly and is reduced by any other income from salary, assignments or own business.

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 pension policy specifying a pension contribution of 30% on remuneration exceeding 7.5 basic amounts.

All employees are entitled to substitute pension contributions for gross salary. In such cases, the pension contribution is increased by 5.8%, corresponding to the difference between the Fund's costs for payroll tax and social security contributions. The procedure is neutral in terms of costs for the Fund.

All employees 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 from

the Swedish Social Insurance Agency, 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.

Note 7. Other administrative expenses

	2013	2012
Costs of premises	12	11
Information and IT expenses	40	35
Services purchased	11	17
Other administrative expenses	8	7
Total other administrative expenses	71	70

Services purchased includes fees to accounting firms as follows:

Audit services, Ernst & Young	0.8	1.1
Other audit services, Ernst & Young	0.3	0.1
Total fees to accounting firms	1.1	1.2

Note 8. Shares and participations, listed

	31 Dec 2013 Fair value	31 Dec 2013 Fair value
Swedish equities	48,785	40,921
Foreign equities	77,674	63,784
Participations in Swedish mutual funds	3,272	1,750
Participations in foreign mutual funds	20,442	11,519
Total shares and participations, listed	150,173	117,974

The scope of securities on loan as well as collateral received for them are presented in note 17.

A detailed list of holdings is published on the AP4 website, www.ap4.se.

Note 8. Shares and participations, listed, cont.

Five largest holdings in Swedish and foreign equities, 31 Dec 2013

	Quantity	Fair	Participation in %	
	equities	value	equity	equities
Hennes & Mauritz	15,128,116	4,481	0,9%	0,4%
Nordea	42,244,216	3,660	1,0%	1,0%
Atlas Copco	13,503,833	2,329	1,1%	1,0%
Ericsson	29,318,157	2,299	0,9%	0,6%
TeliaSonera	41,227,869	2,208	1,0%	1,0%
Apple	326,289	1,176		
Exxon Mobil Corp	1,577,709	1,025		
Google	97,659	703		
Nestlé	1,468,079	692		
Microsoft	2,852,438	686		

Five largest holdings in Swedish and foreign equities, 31 Dec 2012

	Quantity	Fair	Participation in %	
	equities	value	equity	equities
Hennes & Mauritz	15,837,655	3,556	1,0 %	0,5 %
Nordea	44,735,773	2,778	1,1 %	1,1 %
Atlas Copco	13,719,525	2,353	1,1 %	1,1 %
Ericsson	32,636,749	2,124	1,0 %	0,7 %
Volvo	23,772,521	2,118	1,1 %	1,7 %
Apple	350,372	1,215		
Exxon Mobil Corp	1,724,588	971		
Royal Dutch Shell	2,864,571	649		
Nestlé	1,455,697	617		
HSBC Holdings	8,270,731	566		

Note 9. Shares and participations, unlisted

	31 Dec 2013	31 Dec 2012
	Fair value	Fair value
Shares in Swedish associated companies	8,986	6,161
Shares in foreign associated companies	269	99
Shares and participations in other Swedish unlisted companies	1,370	814
Shares and participations in other foreign unlisted companies	3,157	2,889
Total shares and participations, unlisted	13,782	9,963

A method for valuation of holdings in unlisted real estate companies was developed in 2013 to ensure valuation at fair value. This revised method of calculating fair value has had an effect on the outcome for 2013 of SEK 1,063 million, of which SEK 853 million is deemed attributable to previous years. The effect on profit is mainly attributable to the fund's holdings in Vasakronan Holding AB. See note 4 for more information.

Shares in associated companies, 31 Dec 2013	Corp. id		Quantity equities	Participation in % equity	votes	Fair value	Shareholders' equity	Profit/Loss
	no.	Domiciliation						
<i>Shares in Swedish associated companies:</i>								
Vasakronan Holding AB	556650-4196	Stockholm	1,000,000	25	25	7,010	24,357	3,844
Rikshem Intressenter AB	556806-2466	Stockholm	250	50	50	1,976	3,666	1,445
Total shares in Swedish associated companies						8,986		
<i>Shares in foreign associated companies:</i>								
ASE Holdings S.à.r.l.		Luxembourg	37,780	38	33	269	Not disclosed	Not disclosed
Total shares in foreign associated companies						269		

Note 9. Shares and participations, unlisted, cont.

Other holdings, 31 Dec 2013	Corp. id		No. shares	Participation in %		Acquisition value
	no.	Domiciliation		equity	votes	
Five largest holdings in other shares and participations in Swedish unlisted companies 1)						
PCP Debenture IIB	556805-6310	Stockholm		48	-	703
Hemfosa Fastigheter AB (name changed from Hemfosa Holding AB, previously Hemfosa Fastigheter AB and Hemfosa Tetis AB)	556917-4377	Stockholm	3,846,677	15	15	390
Priveq Investment Fund III KB	969704-1524	Stockholm		31	31	139
HealthCap Annex Fund I - II KB	969690-2049	Stockholm		20	20	77
Accent Equity 2003 KB	969694-7739	Stockholm		19	19	63
Five largest holdings in other shares and participations in foreign unlisted companies 1)						
EQT IV (No 1) LP		Guernsey		4		511
EQT V (No 1) LP		Guernsey		2		347
Private Equity Multi-Strategy (AP) Offshore L.P. (name changed from Goldman Sachs Multi-strategy Fund Offshore LP)		Cayman Islands		95		313
TMAM-GO Japan Engagement Fund LP		UK		49		291
EQT Infrastructure (No 1) LP		Guernsey		3		218

1) Refers to AP4's holdings in limited partnership structures, and other similar structures in which AP4 does not have a significant influence.

Shares in associated companies,, 31 Dec 2012	Corp. id		Quantity equities	Participation in %		Fair value	Shareholders' equity	Profit/Loss
	no.	Domiciliation		equity	votes			
<i>Shares in Swedish associated companies:</i>								
Vasakronan Holding AB	556650-4196	Stockholm	1,000,000	25	25	5,131	20,518	3,018
Rikshem Intressenter AB 1)	556806-2466	Stockholm	250	50	50	1,030	2,214	291
Total shares in Swedish associated companies						6,161		
<i>Shares in foreign associated companies:</i>								
ASE Holdings S.à.r.l.		Luxembourg	37,780	38	38	99	Not disclosed	Not disclosed
Total shares in foreign associated companies						99		

1) Rikshem Intressenter AB switched to IFRS in 2013, whereby the company's equity and results for 2012 were restated..

Other holdings, 31 Dec 2012	Corp. id		No. shares	Participation in %		Acquisition value
	no.	Domiciliation		equity	votes	
Five largest holdings in other shares and participations in Swedish unlisted companies 1)						
Priveq Investment Fund III KB	969704-1524	Stockholm		31	31	159
Brainheart Capital KB	969674-4102	Stockholm		21	21	103
HealthCap Annex Fund I - II KB	969690-2049	Stockholm		20	20	77
Accent Equity 2003 KB	969694-7739	Stockholm		19	19	61
HealthCap III Sifund KB	969699-4830	Stockholm		20	20	43
Five largest holdings in other shares and participations in foreign unlisted companies 1)						
EQT IV (No 1) LP		Guernsey		4		648
EQT V (No 1) LP		Guernsey		2		401
Goldman Sachs Multi-strategy Fund Offshore LP		Cayman Islands		95		365
TMAM-GO Japan Engagement Fund LP		UK		48		241
EQT Infrastructure (No 1) LP		Guernsey		3		214

1) Refers to AP4's holdings in limited partnership structures, and other similar structures in which AP4 does not have a significant influence.

A detailed list of holdings is published on the AP4 website, www.ap4.se.

Note 10. Bonds and other fixed income securities

	31 Dec 2013	31 Dec 2012
	Fair value	Fair value
Issuer category		
Kingdom of Sweden	7,613	6,844
Swedish municipalities	543	560
Swedish housing institutions	21,234	18,700
Other Swedish financial services companies	9,526	11,738
Swedish non-financial companies	6,149	6,623
Foreign governments	18,325	19,961
Other foreign issuers	23,864	22,104
Total fixed income assets	87,254	86,530
Type of instrument		
Bonds	79,185	80,670
Treasury bills	530	0
Subordinated debentures	2,194	623
Unlisted promissory note loans	3,000	3,000
Unlisted shareholder loans	2,345	2,237
Total fixed income assets	87,254	86,530

The scope of securities on loan as well as collateral received for them are presented in note 17

Note 11. Derivatives

	31 Dec 2013			31 Dec 2012		
	Nominal amount	Fair value		Nominal amount	Fair value	
		Positive	Negative		Positive	Negative
Equity-based instruments:						
Stock options, held	3,957	3,957	-	9,850	9,850	-
Options, issued	2	-	2	-	-	-
Stock futures	15,149	-	-	11,716	-	-
Total equity-based instruments	19,108	3,957	2	21,566	9,850	-
of that total, cleared	15,149	-	-	11,716	-	-
Interest-based instruments:						
FRAs / Forward contracts	447,980	-	-	25,852	-	-
Swaps	21,992	91	229	15,836	70	121
Total interest-based instruments	469,972	91	229	41,688	70	121
of that total, cleared	447,980	-	-	25,852	-	-
Instruments based on foreign exchange:						
Stock options	90,789	864	833	52,759	95	65
Stock futures	109,635	1,273	691	143,327	2,854	1,019
Total instruments based on foreign exchange	200,424	2,137	1,524	196,086	2,949	1,084
Total derivative instruments	689,504	6,185	1,755	259,340	12,869	1,205
of that total, cleared	463,129	-	-	37,568	-	-

For details about derivative instruments' areas of use and risk management, see note 20 Risks, page 74.

Maturity analysis per 31 Dec 2013

The majority of the Fund's derivatives have a maturity of less than a year. Only a handful of foreign exchange options have a longer maturity, and of these 40 (6) contracts have a negative fair value. These are presented in the table to the below.

Written foreign exchange options 31 Dec 2013

Currency pair	Time until maturity (years)	Fair value
USD/JPY	1.2	-138
USD/JPY	1.2	-52
USD/JPY	1.9	-28
USD/JPY	2.7	-27
USD/JPY	1.2	-20
USD/JPY	1.2	-19
EUR/USD	1.2	-16
EUR/USD	1.2	-16
USD/JPY	2.3	-15
USD/JPY	2.3	-15
USD/JPY	1.2	-9
USD/JPY	1.9	-6
EUR/SEK	1.1	-1
USD/JPY	1.2	-1
EUR/USD	1.2	0
EUR/USD	1.2	0
EUR/USD	1.2	0
EUR/USD	1.2	0
EUR/USD	1.2	0
Total		-363

Credit Default Swaps 31 Dec 2013

Currency pair	Time until maturity (years)	Fair value
CDS Index	2.5	-24
CDS Index	2.5	-24
CDS Index	5.0	-23
CDS Index	5.0	-23
CDS Index	5.0	-19
CDS Index	5.0	-17
CDS Index	5.0	-17
CDS Index	5.0	-17
CDS Index	2.0	-14
CDS Index	5.0	-13
CDS Index	7.6	-10
CDS Index	7.6	-10
CDS Single	3.3	-6
CDS Single	3.5	-3
CDS Single	3.3	-3
CDS Single	5.0	-2
CDS Single	5.0	-1
CDS Single	1.5	0
CDS Single	5.0	0
CDS Single	4.3	0
CDS Single	4.7	0
Total		-228

Written foreign exchange options 31 Dec 2012

Currency pair	Time until maturity (years)	Fair value
AUD/USD	1.1	-1
USD/JPY	1.9	-3
USD/JPY	2.2	-3
USD/JPY	1.9	-5
USD/JPY	1.9	-5
USD/JPY	2.2	-9
Total		-26

Note 12. Other assets

	31 Dec 2013	31 Dec 2012
Receivables on unsettled transactions	165	330
Other assets	2	2
Total other assets	167	332

Note 13. Prepaid expenses and accrued income

	31 Dec 2013	31 Dec 2012
Accrued interest income	1,588	1,876
Accrued dividends and repayments	124	102
Other prepaid expenses and accrued income	7	8
Total prepaid expenses and accrued income	1,719	1,986

Note 14. Other liabilities

	31 Dec 2013	31 Dec 2012
Trade payables	7	9
Payables for unsettled transactions	25	124
Other liabilities	6	5
Total other liabilities	38	138

All liabilities have a maturity of less than a year

Note 15. Deferred income and accrued expenses

	31 Dec 2013	31 Dec 2012
Accrued interest expense	34	112
Accrued employee benefits expense	14	13
Accrued external management fees	27	18
Other accrued expenses	6	4
Total deferred income and accrued expenses	81	147

All deferred income and accrued expenses have a maturity of less than one year.

Note 16. Fund capital

	31 Dec 2013	31 Dec 2012
Fund capital, opening balance	229,631	209,999
Net payments to/from the pension system:		
Paid-in pension contributions	56,839	55,441
Pension funds disbursed to the Swedish Pensions Agency	-63,490	-59,005
Transfer of pension entitlements to the EU	-2	-5
Settlement of pension entitlements	3	1
Administration fee paid to the Swedish Pensions Agency	-230	-220
Total net payments to the pension system	-6,880	-3,788
Profit/loss for the year	36,997	23,420
Fund capital, closing balance	259,748	229,631

Note 17. Pledged assets, contingent liabilities and commitments

	31 Dec 2013	31 Dec 2012
Other pledged assets and equivalent collateral:		
Securities on loan for securities received 1)	13,277	16,786
Collateral pledged for exchange-traded derivative contracts	1,419	1,550
Collateral pledged for OTC derivative contracts 2)	1,060	69
Commitments:		
Investment commitments for future payments for alternative and strategic investments	4,042	4,602
Subscription commitments, see Note 18	3,500	-

1) Collateral received for securities on loan totalled SEK 13,882 million (17,588).

2) Collateral received for OTC derivatives totalled SEK 4,419 million (12,426).

Note 18. Related parties

Rikshem Intressenter AB, in which AP4 holds a 50 per cent stake, and Vasakronan Holding AB, in which AP4 holds a 25 per cent stake, have received shareholder contributions and shareholder loans.

	31 Dec 2013	31 Dec 2012
Rikshem Intressenter AB		
Shareholder contribution	1,976	1,030
Shareholder loan	1,419	1,419
Total	3,395	2,449
Vasakronan Holding AB		
Shareholder contribution	6,910	5,031
Shareholder loan	3,000	3,000
Total	9,910	8,031

	2013	2012
Interest income		
Rikshem Intressenter AB	99	93
Vasakronan Holding AB	244	294

AP4 rents its office premises from Vasakronan Holding AB at market rates. Rent expense total SEK 11 million (11). AP4 has undertaken, at Rikshem's request, to buy commercial paper in the company for a maximum total settlement amount, on each occasion, of SEK 3,500 million.

For details about salaries and benefits to the Board of Directors and senior executives, see note 6.

Note 19. Financial instruments, price and valuation hierarchy

Fair value, SEKm	31 Dec 2013			
	Level 1	Level 2	Level 3	Total
Financial assets				
Shares and participations, listed	148,772	1,401	-	150,173
Shares and participations, unlisted	-	-	13,782	13,782
Bonds and other fixed income securities	81,252	291	5,711	87,254
Derivatives	4,001	2,185	-	6,185
Total financial assets	234,024	3,877	19,493	257,395
Financial liabilities				
Derivatives	-217	-1,538	-	-1,755
Total financial liabilities	-217	-1,538	-	-1,755
Net financial assets and liabilities 1)	233,807	2,339	19,493	255,640
	31 Dec 2012			
Fair value, SEKm	Level 1	Level 2	Level 3	Total
Financial assets				
Shares and participations, listed	117,974	-	-	117,974
Shares and participations, unlisted	-	-	9,963	9,963
Bonds and other fixed income securities	81,281	11	5,237	86,530
Derivatives	9,897	2,972	-	12,869
Total financial assets	209,153	2,982	15,201	227,336
Financial liabilities				
Derivatives	-106	-1,099	-	-1,205
Total financial liabilities	-106	-1,099	-	-1,205
Net financial assets and liabilities 1)	209,047	1,883	15,201	226,131

1) Total amounts differ from the balance sheet since the table does not include accrued interest and cash.

Level 1. Instruments with publicly quoted prices

Financial instruments traded in an active market. A market is deemed active if quoted prices are regularly updated and if the prices are used unaltered to settle trades in the market. More than 90 per cent of the fund's investment assets within the asset classes equities, bonds and derivatives can be found here.

Level 2. Valuation methods based on observable market data

Financial instruments traded in a market that is not active and does not periodically update quoted prices; values are determined using valuation methods. These instruments are classified as level 2. In this category AP4 mainly holds OTC derivatives such as foreign exchange forward contracts and interest rate swaps, but also publicly quoted interest rate instruments and funds containing interest-based instruments, with low liquidity. These are valued using discount curves indirectly based on observable cash input data that are interpolated or extrapolated to calculate non-observable interest rates. Input data for these interest rates used to discount the future cash flows of the instrument for valuation are liquid and observable, though this does not apply for interest rates. These instruments are therefore classified as level 2.

Level 3. Valuation methods based on non-observable market data

Financial instruments that lack an active market and for which the input data for valuation is not observable are classified as level 3. Unlisted shares and shareholder loans in directly held real estate companies and unlisted shares in venture capital firms are mainly found here. For venture capital firms, IPEV's principles are mainly used as a framework comprising several valuation methods such as valuation based on actual transactions, multiple valuation, net asset valuation and discounted cash flow. For holdings in directly-held real estate companies the principles of the IPD Swedish Property Index are mainly used as a framework using two basic approaches. These are the comparable market evidence approach and the net present value

approach. The comparable market evidence approach compares real estate holdings with similar objects sold on the open market, while in the net present value approach, future cash flows are discounted.

Sensitivity analysis

According to IFRS, a sensitivity analysis shall be presented using an alternative valuation for **Level 3** assets. In terms of valuation methodology, an alternative valuation of these assets is associated with tremendous difficulties. Generally speaking, for unlisted real estate the yield requirement is crucial, but assumptions about factors such as vacancies, operating costs, marketing and profit growth are also of great importance. For venture capital firms, profit growth and the stock exchange valuation multiple are important. Level 3 valuations usually include a delay that in a positive trending market entail a cautious valuation.

A sensitivity analysis of AP4's largest real estate holding, Vasakronan, with an equity value of SEK 7 billion--more than 40 percent of unlisted shares in Level 3--was carried out by the real estate company. According to the analysis, a change in the yield requirement of +/- 0.25 percentage points would change the value of the holdings in the real estate company by about +/- SEK 0.6 billion.

Other holdings under Shares and participations, unlisted, primarily include unlisted shares in the real estate company Rikshem, as well as unlisted shares in venture capital firms. AP4 does not have the information necessary to conduct a sensitivity analysis for Rikshem, but since the value of this investment is a bit over one percent of assets, an alternative valuation would not have a significant impact on the result. For AP4's investments in venture capital firms the assessment is that a sensitivity analysis, which assumes that a stock market change is reflected in a corresponding change in the value of the venture capital companies, gives a reasonable result. A change in value in the stock market (MSCI World) of +/-10 percentage points would correspond to a change in the value of AP4's holdings of venture capital funds of about +/- SEK 0.3 billion.

Changes in level 3

	Bonds and other fixed income instruments	Shares and participations unlisted
Opening balance 1 Jan 2013 1)	5,588	9,963
Realised and unrealised gains (+) or losses (-) in the income statement 2)	26	2,797
Purchase	795	1,634
Sale	-697	-613
Closing balance 31 Dec 2013	5,711	13,782

1) Opening balance for bonds and other second fixed income instruments was adjusted due to a reclassification of two holdings from level 1 to level 3.

2) Unrealised gains

	26	2,178
--	----	-------

	Bonds and other fixed income instruments	Shares and participations unlisted
Opening balance 1 Jan 2012	5,544	8,100
Realised and unrealised gains (+) or losses (-) in the income statement 3)	-2	771
Purchase	335	1,393
Sale	-639	-301
Closing balance 31 Dec 2012	5,237	9,963

3) Realised gains

	-2	609
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Note 20. Risks

See page 45- 57 for a more detailed description of the fund's risk management.

Risk

Below is a description of the principal risks, which are of a financial and operational nature.

Operational risks

Operational risk is the "risk of loss resulting from inadequate or failed processes, people and systems or from external events." This definition includes legal risk.

All of AP4's units are responsible for ensuring that day-to-day operations meet the requirements set for good internal control and assigning sufficient resources for this. This covers issues such as control of compliance with all regulations that apply to the Fund. It is incumbent upon everyone within AP4's organisation to perform their work duties in line with objectives and operational plans and with regard to external and internal restrictions.

The compliance function is responsible for monitoring the operational risks in the investment operations, and ensuring compliance with regulations relating to these risks. Operational risks are specifically evaluated in connection with the implementation of new products, and system and organisational changes.

AP4's legal unit is responsible for e.g. legal aspects pertaining to risk in agreements and such.

Financial risks

The financial risks, which mainly comprise market, credit and liquidity risk, are monitored and controlled by an independent Performance and Risk Control department that reports directly to the CEO and Board. Management's goal is to only take positions that are expected to generate good returns within established risk mandates. Therefore, the main risks to which the Fund is exposed consist of transparent financial risks, which are mainly market risks with good opportunities for risk premiums to be forecast.

Changes between the levels in 2013

Holdings in four different funds with a total market value as of 31 December 2012 of approximately SEK 1 billion were reclassified from "Shares and participations, listed" level 1 to level 2. Two bond holdings with a total market value per 31 December 2012 of just under SEK 0.4 billion were reclassified from "Bonds and fixed income assets" level 1 to level 3.

Market risks

Market risk is the risk that the value of an instrument is adversely affected due to fluctuations in share prices, foreign exchange rates or interest rates. Since AP4's holdings mainly consist of listed instruments with daily pricing on liquid markets, opportunities are good to regularly measure and report on market risk through both forecast and realised risk figures. AP4 aims to maintain a high proportion of listed equities and fixed income instruments.

Equity price risk

Equity price risk refers to the expected variation in the market value of shares. Equity price risk is managed through diversification across regions, countries and sectors.

Interest rate risk

Only fixed-income assets are included in the measurement of interest rate risk relating to expected variation in the market value of AP4's fixed income assets caused by nominal interest rate movements in bond markets. AP4 manages interest rate risk by diversifying across different regions and yield curves, as well as by limiting the deviation in duration between the tactical and strategic management.

Currency risk

Currency risk arises in connection with investments denominated in foreign currencies. The Swedish National Pension Funds Act limits the total currency exposure of the Fund to a maximum of 40 percentage points. AP4's investment policy establishes the final currency exposure for each major currency in the normal portfolio.

Risk in investment assets

One method to calculate financial risk is the Value at Risk (VaR) metric. Value at Risk is defined as the maximum loss that can occur with a given probability and a given time horizon. The table below applies an analytical factor model for a time horizon of 10 days and a confidence level of 95%.

Risk in investment assets 31 December 2013

	31 Dec 2013				31 Dec 2012			
	VaR, ex-ante Holding period	Volatility % 12-month portfolio	Active risk % 12-month	VaR, ex-ante Holding period 1 day. 6)	VaR, ex-ante Holding period 10 days	Volatility % 12-month portfolio	Active risk % 12-month	VaR, ex-ante Holding period 1 day. 6)
Management unit 1)	10 days				10 days			
Global equities	4,076	9.4	0.2	851	4,657	10.8	0.2	
Swedish equities	1,628	12.6	0.2	401	2,331	18.4	0.3	
Fixed income	648	2.3	0.5	197	720	2.6	0.9	
Equities index 2)	47	0.0	0.0	0	16	0.0	0.0	
Active foreign exchange management 2)	0	0.1	0.1	12	7	0.1	0.1	
Total tactically managed assets	6,450	6.0	0.2	1,195	6,517	6.7	0.4	
Real estate 3)	712			190	694			
Swedish strategic equities 3)	941			192	408			
Sustainability 3)	331			94	-			
Other strategic investments 3)	589			148	279			
Implementation of the strategic portfolio 4)	2,249			730	129			
Total strategically managed assets	2,610			949	1,286			
Diversification effect 5)	-3,696			-1,095	-1,721			
Total investment assets	7,525			1,721	7,521			1,510

1) All management units are appraised 100% currency-hedged except for Implementation of strategic management and Active foreign exchange management where the fund's active strategic foreign exchange management are reported.

2) Based on total investment assets.

3) The Fund's strategic investments, real estate, Swedish strategic equities, sustainability and other strategic investments partly lack asset prices quoted periodically. The Fund has therefore chosen to use listed securities and indices as approximations of the risk for these holdings when forecasting the risk in Barra, as follows. For real estate holdings, Swedish noted real estate shares are used. For SMEs included in Swedish strategic equities, a Swedish small cap index is used. For assets in sustainability, a combination that includes a Japanese equity index, a Swedish small cap index, an equity index for the US, as well as an equity index for emerging markets is used. Finally, for other strategic assets a combination that includes a European equity index, a European high-yield index and an equity index for emerging markets is used.

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

5) The management units' reported risks refer to the management units individually including diversification effects within the management unit. Risks cannot be added up because of diversification effects resulting from the imperfect correlation between management units.

6) To facilitate comparison with AP1, AP2, and AP3, AP4 has also estimated VaR based on a one-day holding period, 95% confidence level and a data term of one year, in which the observations are equally weighted. A simulation method with historical return allocation was used in the calculation.

Foreign exchange exposure

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 28.6% (27.7). The following table shows the Fund's foreign exchange exposure.

Foreign exchange exposure

31 Dec 2013	USD	EUR	GBP	JPY	Other	Total
Shares and participations	61,372	17,594	8,673	8,376	9,697	105,712
Bonds and other fixed income securities	24,184	14,046	7,062	0	0	45,292
Derivatives, excluding foreign exchange derivatives	-99	-31	0	2	0	-127
Other receivables and liabilities, net	992	492	225	186	276	2,171
Foreign exchange derivatives	-34,027	-23,416	-7,584	-3,410	-10,238	-78,675
Foreign exchange exposure, net	52,422	8,685	8,376	5,154	-265	74,373
31 Dec 2012	USD	EUR	GBP	JPY	Other	Total
Shares and participations	51,946	13,690	7,250	6,543	9,011	88,440
Bonds and other fixed income securities	23,327	12,315	10,053	0	0	45,695
Derivatives, excluding foreign exchange derivatives	-25	-29	0	0	0	-53
Other receivables and liabilities, net	525	330	42	57	591	1,546
Foreign exchange derivatives	-32,889	-16,666	-10,475	-5,038	-6,850	-71,918
Foreign exchange exposure, net	42,885	9,640	6,870	1,562	2,751	63,709

Credit risks

Credit risk refers to the risk of an issuer or counterparty being unable to meet its payment obligations.

Credit exposure refers to the value that is exposed to credit risk through agreements with counterparties or issuers; i.e., credit exposure includes both issuer and counterparty exposure.

Total credit risk is limited through choice of interest rate index in the normal portfolio and limits per rating category. Credit risk per issuer group/issuer is limited by limits that include both issuer and counterparty risk.

Credit risks

31 Dec 2013	Bonds	Non-standard derivatives		
Ratings	exposure 2)	Fair value 2)	Collateral/security	Residual risk
AAA	46,807			
AA	22,893	172	-15	157
A	6,952	4,394	-4,145	249
BBB	6,096	13	49	62
Lacks rating 1)	5,729			
Total credit risk exposure	88,477	4,579	-4,111	468

31 Dec 2012	Bonds	Non-standard derivatives		
Ratings	exposure 2)	Fair value 2)	Collateral/security	Residual risk
AAA	52,204			
AA	20,223	536	-288	247
A	6,495	11,160	-11,817	-657
BBB	3,303	175	-105	71
Lacks rating 1)	5,578			
Total credit risk exposure	87,803	11,871	-12,210	-339

1) Relates to subordinated debentures, bonds and shareholder loans in alternative investments and real estate.

2) Fair value, including accrued interest.

Liquidity risks

Liquidity risks cover both liquidity risks relating to cash flow and liquidity risks in financial instruments.

Liquidity risk in a financial instrument consists of the risk that the instrument cannot be sold or can only be sold at a significantly lower price than the publicly quoted price.

A large proportion of AP4's securities are able to be lent at short notice. Any losses on currency futures and stock index futures may, however, be of significant amounts and daily estimates of liquidity in SEK and currencies must be drawn up.

The Fund's liquidity risk in financial instruments is limited by the investment universe and the choice of reference indices for interest-bearing securities and listed equities. Illiquid financial instruments primarily arise in the form of assets in unlisted companies and real estate. OTC derivatives and credit instruments may from time to time also become illiquid and/or show significant differences between bid and ask prices.

Liquidity risk can also be high if large net payments are needed from the liability side since the Fund has a payment obligation to the Swedish Pensions Agency. It is then necessary to keep a large proportion of liquid instruments. In the current situation, the Fund

The CEO approves all counterparties with which the Fund may do business (regarding both standard and non-standard instruments). Furthermore, when trading in OTC derivatives, ISDA and CSA must be included with all large counterparties.

makes monthly payments to the Pensions Agency, which are relatively small in relation to existing capital.

Through the Swedish National Pension Funds Act liquidity risk is also limited because at least 30 percent of the Fund's total market value must be invested in debt instruments with low credit and liquidity risk.

The Board of Directors' regulations limit liquidity risk through special rules for investment in fixed income assets and by careful monitoring of cash balances. The Fund invests a large proportion of the portfolio in listed equities and government bonds with good liquidity.

Overall, liquidity risk in the Fund is therefore considered to be low.

The table below shows a summary of the Fund's liquidity risk in line with the maturity structure. Bonds and fixed income instruments recognised at fair value, including accrued interest.

Liquidity risk maturity structure

Liquidity risk Maturity structure 31 Dec 2013						
Maturity	< 1 year	1 < 3 years	3 < 5 years	5 < 10 years	> 10 years	Total
Nominal government	760	2,476	3,925	16,810	5,126	29,097
Nominal corporate	1,582	24,557	23,848	8,192	1,201	59,380
Total	2,342	27,033	27,773	25,001	6,327	88,477

Liquidity risk Maturity structure 31 Dec 2012						
Maturity	< 1 year	1 < 3 years	3 < 5 years	5 < 10 years	> 10 years	Total
Nominal government	138	3,811	5,543	15,300	4,815	29,607
Nominal corporate	2,292	18,510	27,196	9,135	1,063	58,196
Total	2,430	22,321	32,739	24,435	5,878	87,803

All liabilities have a maturity below a year except a handful of foreign exchange options and credit derivatives (“credit default swaps”); see note 11. However, the aggregate market value of these contracts is limited and they have therefore been omitted from the above table.

Managing derivatives

The Fund uses derivatives in most of its management mandates. Derivatives have several areas of usage and purposes, the most important being:

- 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.

The CEO approves all counterparties with which the Fund may do business regarding both standard and non-standard instruments.

Furthermore, when trading in OTC derivatives, ISDA International Swaps and Derivatives Association Credit Support Annex, and CSA, Credit Support Annex must be included with all large counterparties. ISDA agreements relate to a standard agreement to regulate trading of derivatives between two counterparties. CSA agreements relate to an annex to an ISDA agreement. CSA agreements regulate how collateral is posted for outstanding liabilities in the form of cash or securities.

Board of Directors' signatures

Stockholm, 20 February 2014

Monica Caneman
CHAIRMAN OF THE BOARD

Jakob Grinbaum
DEPUTY CHAIRMAN

Ing-Marie Gren

Sven Hegelund

Stefan Lundbergh

Lena Micko

Roger Mörtvik

Erica Sjölander

Charlotte Strömberg

Mats Andersson
CHIEF EXECUTIVE OFFICER

Our auditors' report was submitted on 21 February 2014

Jan Birgersson
AUTHORISED PUBLIC ACCOUNTANT
Appointed by the Government

Peter Strand
AUTHORISED PUBLIC ACCOUNTANT
Appointed by the Government

Auditors' report

On behalf of AP4, corporate identity number 802005-1952

Report on the annual accounts

We have performed an audit of the annual accounts of AP4 for 2013. The Fund's annual accounts are found under the headings Report of the Directors and Financial Statements, pages 58-78.

The responsibility of the Board and CEO for the annual accounts

The Board of Directors and CEO bear responsibility for preparing annual accounts that provide a true and fair presentation according to the Swedish National Pension Funds Act, and for such internal controls that the Board and CEO deem necessary to prepare annual accounts that are free from material misstatement, whether due to fraud or error.

The responsibility of the auditors

Our responsibility is to express our opinion on the annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board and CEO, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Swedish National Pension Funds Act (2000:192) for the AP Funds, and present fairly, in all material respects, the financial position of AP4 as of 31 December 2013 and of its financial performance for the year then ended according to the Swedish National Pension Funds Act.

The Report of the Directors is compatible with the other sections of the annual accounts.

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

Report regarding other legislated and statutory requirements

In addition to our audit of the annual accounts, we have also examined the inventory of assets managed by AP4. We have also reviewed whether there is any qualification otherwise regarding the Board's and CEO's administration of AP4 for 2013.

The responsibility of the Board and CEO

The Board and CEO bear responsibility for these accounting documents and the administration of the Fund's assets in accordance with the Swedish National Pension Funds Act.

The responsibility of the auditors

Our responsibility is to express, with reasonable assurance, our opinion on the results of our examination and inventory of the assets managed by the Fund, and on the administration in general on the basis of our audit. We conducted our audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion regarding the inventory of assets, we have examined the Fund's holdings register and, on a test basis, supporting evidence thereof.

As a basis for our opinion regarding the administration in general we have, in addition to our audit of the annual accounts, examined material decisions, measures and circumstances in the Fund in order to assess whether a Board member of the CEO has acted in violation of the Swedish National Pension Funds Act.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

The audit has given us no reason for qualification with regard to the inventory of assets or of the administration in general.

Stockholm, 21 February 2014

Jan Birgeron

AUTHORISED PUBLIC ACCOUNTANT
Appointed by the Government

Peter Strand

AUTHORISED PUBLIC ACCOUNTANT
Appointed by the Government

Board of Directors



Monica Caneman

Chairman of the Board since 2008. Born 1954.
Other board assignments:
Chairman of the Board: Arion Bank hf and Big Bag AB.
Member of the Board: Poolia AB, My Safety AB, SAS AB, Storebrand ASA, Intermail AS and Schibsted Sverige ASA.



Jakob Grinbaum

Deputy Chairman since 2011.
Member of the Board since 2010. Born 1949.
Other board assignments:
Chairman of the Board: Oscar Properties Holding AB.
Deputy Chairman: SBAB
Member of the Board: IK Sirius, Järnhusen AB and Foundation of Östgötagarde Uppsala.



Ing-Marie Gren

Member of the Board since 2011. Born 1951.
Professor



Sven Hegelund

Member of the Board since 2012. Born 1947.
Master of politics
Other board assignments:
Member of the Board: Nordic Investment Bank (NIB).



Stefan Lundbergh

Member of the Board since 2011. Born 1968.
Ph.D.
Head of Innovation, Cardano
Other board assignments:
Chairman of the Board: Rotman ICPM Research Committee.



Lena Micko

Member of the Board since 2011. Born 1955.
City Commissioner
Other board assignments:
Chairman of the Board: Social Democratic Party in Östergötaland.
Deputy Chairman: Municipal executive board in Linköping and Stadshus AB.
Member of the Board: Swedish Association of Local Authorities and Regions (SALAR), SKL Företag AB, KPA Pensionservice AB and Norrköpings Hamn och Stuveri AB.
Deputy: Executive committee of the Swedish Social Democratic Party



Roger Mörtvik

Member of the Board since 2009. Born 1960.
Head of the Swedish Confederation of Professional Employees' social policy department.
Other board assignments:
Member of the Board: KPA Pensionsförsäkring AB.



Erica Sjölander

Member of the Board since 2012. Born 1971.
Economist IF Metall.



Charlotte Strömberg

Member of the Board since 2007. Born 1959.
Other board assignments:
Chairman of the Board : Castellum AB.
Member of the Board: Skanska AB, Intrum Justitia AB, Swedbank AB, Karolinska Institutet and Boomerang AB.

Executive Management Committee



Mats Andersson

Chief Executive Officer

Employed by AP4 since 2006. Born 1954.

B.Sc. Economics.

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

Other board assignments:

Member of the Board: Rikshem AB, Svolder AB and Foundation of Streber Cup.



Magnus Eriksson

Chief Investment Officer.

Employed by AP4 since 2008. Born 1959.

CEFA

Previously employed by Catella, AP3, MGA and other companies.

Other assignments:

Member of the Board: Rikshem AB and Hemfosa fastigheter AB.



Ulrika Malmberg Livijn

General Counsel

Employed by AP4 since 2009. Born 1968.

Bachelor of Laws

Previously employed by law firms

Lindahl, Setterwalls and Skandia Insurance Company.



Nicklas Wikström

Head of Performance and Risk Control.

Employed by AP4 since 2008. Born 1968.

Master's in Accounting and Financing, CEFA, AFA.

Previously employment by AFA Insurance.



Agneta Wilhelmson Kåremar

Director of Administration.

Employed by AP4 since 2001. Born 1952.

Bachelor of Laws and DIHM Diploma in Business Finance

Previously employed by Nordnet, Swedbank Markets and Handelsbanken.

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. Active return is reported in the Fund's full-year and six-month reports. 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.

Alpha management

Portfolio management can be divided up into alpha and beta management. The beta management is the part of the portfolio which relies on the return of the financial market at large. The beta value of an asset or portfolio describes how its return tracks market fluctuations. The alpha management is the part of the portfolio where return is created through the ability of an active manager to outperform the benchmark index.

Benchmark index

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

Beta management

Portfolio management can be divided up into alpha and beta management. The beta management is the part of the portfolio which relies on the return of the financial market at large. The beta value of an asset or portfolio describes how its return tracks market fluctuations. The alpha management is the part of the portfolio where return is created through the ability of an active manager to outperform the benchmark index.

Corporate bond

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

Credit risk

Credit risk refers to the risk of an issuer or counterparty being unable to meet its payment obligations.

Cross effect

During a period the portfolio's return, R_p , is explained by the contribution from currency, C_c , plus the contribution from market assets, C_m , that is, $R_p = C_c + C_m$. However, the portfolio's return over several periods, R_p^T , is not calculated as a sum of single period outcomes, but as a product of single period outcomes, that is, $R_p^T = \prod_{n=1}^T R_p^n$ and $R_p^T = \prod_{n=1}^T (R_p^n + 1) - 1$. Thus the portfolio's return over multiple periods is not the sum of contributions from multiple period contributions from currency or market assets, $R_p^T \neq C_c^T + C_m^T$, respectively either. A third term, $f(C_c^n, C_m^n)$, the cross effect between currency and market, is needed to explain portfolio return. Portfolio return over multiple periods can thus be explained by the contribution from currency, the contribution from market assets and the cross effect between currency and market, $R_p^T = C_c^T + C_m^T + f(C_c^n, C_m^n)$. We have chosen to report the cross effect as a contribution under currency.

CSA agreements

Credit Support Annex. A CSA agreement refers to an annex to an ISDA agreement. CSA agreements regulate how collateral is posted for outstanding liabilities in the form of cash or securities.

Derivatives

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 a government bond as its underlying instrument.

Diversification

Diversification means the spreading of risks. In other words, assets having varying correlation with each other, thereby reducing the total risk in the portfolio.

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.

Fixed income portfolio in pace maintenance

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 were 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 in pace maintenance

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. Reference indices were MSCI North America, MSCI Europe, MSCI Japan, MSCI Pacific ex Japan and MSCI Emerging Markets, adjusted for the Fund's current tax rate for each market and currency-hedged to SEK. The index has been adjusted by excluding companies in accordance with the recommendations of the Ethical Council and by excluding non-US REITs. When the holdings in the emerging markets were transferred to strategic management in December the reference index was also corrected so the global equity portfolio does not include MSCI Emerging Markets.

Hedging

Neutralisation of foreign exchange risk by changing the foreign currency exposure to Swedish krona, using foreign exchange derivatives such as foreign exchange forward contracts.

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.

Information ratio

A measure of risk-adjusted return. Measured as a portfolio's active return in relation to its active risk. The measure describes the amount of annual additional return that has been measured in relation to the active risk taken. Values over 0.5 for individual years are considered to be a good result.

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.

ISDA agreement

International Swaps and Derivatives Association. ISDA agreements relate to a standard agreement to regulate trading of derivatives between two counterparties.

Liquidity risk

Liquidity risks cover both liquidity risks relating to cash flow and liquidity risks in financial instruments.

Liquidity risk in a financial instrument consists of the risk that the instrument cannot be sold or can only be sold at a significantly lower price than the publicly quoted 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

Market risk is the risk that the value of an instrument is adversely affected due to fluctuations in share prices, foreign exchange rates or interest rates.

Normal portfolio

The normal portfolio is a fictitious asset portfolio, a model portfolio, made up of different indices for each asset class. The normal portfolio consists of a combination of equities, government bonds and decisions about duration and foreign exchange exposure. The indices chosen for the asset class equities are MSCI North America, MSCI Europe, MSCI Japan, MSCI Pacific ex Japan and MSCI Emerging Markets, adjusted for the Fund's current tax rate for each market and currency-hedged to SEK. The index has been adjusted by excluding companies in accordance with the recommendations of the Ethical Council and by excluding non-US REITs. The index for the access class treasuries relates to Handelsbanken's treasury index and Merrill Lynch treasury index currency-hedged to SEK.

Operational risks

Operational risk is the "risk of loss resulting from inadequate or failed processes, people and systems or from external events." This definition includes legal risk.

Outperformance

Achieved when a portfolio produces a higher return than its benchmark or reference index. Equal to 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.

REITs

A Real Estate Investment Trust is an investment fund with the purpose of investing in real estate, real estate bonds or other real estate related credit.

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 management

Portfolio management carrying somewhat higher active risk than passive management; that is, indexed management with limited active 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, negative exposure to a foreign currency 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.

Swedish equity portfolio in pace maintenance

Consists of equities and equity-based instruments listed on a stock exchange in Sweden or another Nordic country. The reference index was SIX 60

Swedish SMEs in strategic management

Consists of equities and equity-based instruments listed on a stock exchange in Sweden or another Nordic country. The reference index was NASDAQ OMX Small Cap Sweden.

Tactical asset allocation

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

The 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.

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 standard deviation of the return on an asset. It shows how much the return varies. Unless otherwise stated, the standard deviation is measured using 12-month daily history.

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 ordinary members, is appointed by the Government and is responsible for the organisation and the management of AP4's funds. On 30 May 2013, the Government prescribed that all Board members of the Fund be re-elected. These were Monica Caneman, Chairman, Jakob Grinbaum, Vice Chairman, Ing-Marie Gren, Sven Hegelund, Stefan Lundbergh, Lena Micko, Roger Mörtvik, Erica Sjölander and Charlotte Strömberg.
[>Board member presentations.](#)

The Board has delegated responsibility for day-to-day management to AP4's CEO, who has an executive management committee of four 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 2013 is valid until the income statement and balance sheet for 2013 are adopted. The auditors' report to the Fund's Board and to the Ministry of Finance. The Administration Report has not been examined by the Fund's auditors.

The 2013 Administration Report can be downloaded here [>Administration report](#)
It is also available on the Fund's website, www.ap4.se

Contact

If you have any questions about AP4, please contact

Mats Andersson, CEO

tel: + 46 8 787 75 00

Email: mats.a.andersson@ap4.se

Photos: Magnus Fond, Rafet Erskin and Emma Cramér

AP4 / Fourth Swedish National Pension Fund

P.O. Box 3069, S-103 61 Stockholm, Sweden. Phone: +46 (0)8-787-7500. info@ap4.se www.ap4.se