

40 YEARS

2014 ANNUAL REPORT

The Fourth Swedish National Pension Fund
overshot both short- and long-term return
targets.

Twelfth consecutive six-month interim period
with better return than benchmark index

With a net profit of SEK 40 billion, fund capital
rose to SEK 295 billion.

Contents

The annual report summarises the past year, focusing on the Fourth Swedish National Pension Fund's (AP4) management. The Annual Report includes the Report of the Directors, financial statements and note disclosures, which can be found on pages 57-78. Every entry in the tables and diagrams in the annual report has been rounded, though they may not always sum to the totals shown. This annual report is one of three annual reports, which 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 at www.ap4.se.

We wish all readers an informative read.



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AP4 at a glance

AP4's brief is to contribute to the stability of the national pension system by 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 long-term goals:

Total return over the long term is to **average 4.5% in real terms (adjusted for inflation) per year**. This goal, according to AP4, is the average total return required for the pension system's assets and liabilities to balance over a 40-year period.

The strategic management's active return (in excess of the benchmark index) is to **average 0.75 percentage points per year**. (The goal through 2013 was 0.5 percentage points.) The investment horizon is between 3 and 15 years.

The Tactical management's annual active return, is to **average 0.5 percentage points** over a three-year period.

**AP4 overshot both
short- and long-term return targets
2014**

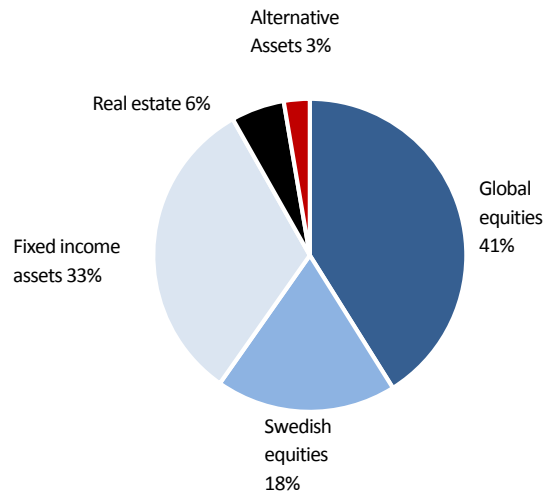
Operations

AP4 is a governmental authority whose operations are regulated in the Swedish National Pension Funds Act (2000:192). The Government appoints all nine of the AP4's Board members. The Swedish Ministry of Finance continually supervises and evaluates operations. By law, AP4's Board of Directors and operations are not to be controlled by Government directives or by national business or other economic policy interests. Environmental and ethical issues must be taken into account without compromising the goal of best possible return.

Investment policy regulated in law

- The Fund may invest 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.
- At least 10% of the assets must be managed by external asset managers.
- 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.

Fund capital of SEK 295 billion



The Board has decided that AP4 has the best possibility of achieving the real long-term target by holding a large proportion of publicly quoted equities. More than half of AP4's assets comprise global and Swedish listed equities. The diagram includes the underlying value of derivatives in passive asset allocation for each asset class.

At year-end 2014, Fund capital totalled SEK 295 billion. Listed shares comprised 59% (59), including global equities 41% (40) and Swedish equities 18% (19). Fixed income securities comprised 33% (32), real estate 6% (6) and alternative assets 3% (3).

In all, 24% (22) of assets are managed with a Strategic investment horizon of 3-15 years and 76% (78) with a Tactical investment horizon of up to three years.

AP4's areas of focus in sustainability are climate change and corporate governance.

Business philosophy builds on four cornerstones

AP4's business philosophy builds on four cornerstones: long-term approach, transparency, businesslike approach and the individual before the model.

Long-term approach

The ability to harness the benefits of a long-term approach is an important quality and a cornerstone in the 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. **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.

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.

Business philosophy builds on four cornerstones



Businesslike 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.

AP4 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 the expected level of 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.

The individual before the 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. Individuals who can search for added value in different places and using different methods. **AP4 works with and looks for individuals with effective investment strategies, who can take advantage of the opportunities the market offers.**

Models can be copied, but not individuals.

The year in brief – AP4 overshot targets

AP4 overshot both short- and long-term targets. The Fund's active management outperformed the index for the twelfth consecutive six-month interim period. With a net profit of more than SEK 40 billion, fund capital rose to SEK 295 billion, a new record high.

- **15.7% in total return** after expenses (16.4) Total return before expenses was 15.8% (16.5). AP4 benefited from its high proportion of equities.
- **Over 6% real average return in ten years.** AP4 has generated an annual nominal total return after expenses of 7.6% on average over ten years, which equals 6.4% in real terms (adjusted for inflation). Since evaluation began on 1 July 2001, real return has amounted to an average of 4.7% annually. AP4 overshot the long-term real return target of an average of 4.5% annually.
- **Outperformed the index twelve consecutive six-month interim periods.** Tactical management outperformed the benchmark index by 0.7 percentage points (0.5) before expenses. This equals SEK 1.4 billion (0.9) in additional profit contribution.
- **SEK 40 in net profit increased fund capital to SEK 295 billion.** Net profit for January–June totalled SEK 40.2 billion (37.0). Fund capital increased to SEK 295 billion (260) Over the past three years, net profit totalled more than SEK 100 billion.
- **Low expenses at 0.11%.** AP4's expenses are low, in both a domestic and international comparison. Management expenses, including commission expenses, totalled SEK 296 million (277), corresponding to a ratio of 0.11% (0.11) on an annualised basis. Excluding commission expenses, the ratio was 0.07% (0.08).
- **A disbursement of more than SEK 5 billion was paid into the pension system.** AP4 paid out a net amount of SEK 5.1 billion (6.9) from Fund capital to cover the deficit between outgoing and incoming payments in the pension system. Since 2009, when the system's net flows became negative, AP4 has paid out a total of SEK 25 billion into the pension system.
- **Foreign exchange exposure was 28.1% (28.6) at the close of the year.**
- **Two areas of focus in sustainability: climate change and corporate governance.**
- **AP4's carbon footprint is 39% lower than the index.**
- **Initiative with the UN to reduce carbon dioxide emissions.** The Portfolio Decarbonization Coalition (PDC) aims to mobilise investors to measure and reduce their carbon footprint. The initiative, which is run by AP4 together with the UN, the Carbon Disclosure Project (CDP) and Amundi, was launched at the UN summit in New York in the autumn of 2014.
- **Awards for AP4 's management structure and environmental work.**

295

billion in Fund capital

15.7%

in total return after expenses

Outperformed the index

12

consecutive
six-month interim
periods.

40

billion in net profit
best net profit since inception

Management, target and net profit

	Normal portfolio	Strategic management	Tactical management
Investment horizon	40 years	3-15 years	Up to three years.
Decided by	Board of Directors	CEO	CEO or person appointed by CEO
Evaluated in relation to	-	Normal portfolio	Strategic portfolio
Consists of	A reference portfolio consisting of different indices	Index, active investments and strategic macro and factor positions	Active and passive investments
Decision-making data	Liability and asset analyses (ALM analyses)	Long-term market and portfolio analysis	Market analysis for equities, bonds and currencies
Active return target/evaluation period	-	0.75 percentage point calculated on five-year average (0.5 percentage points for previous years)	0.5 percentage points calculated on three-year average
Active return ¹ 2014	-	0.7 percentage points	0.7 percentage points
Active return on average over evaluation period	-	Started on 1 January 2013 and has not yet been active an entire evaluation period. To date, the contribution is positive.	0.7 percentage points
Return contribution ² 2014	14.5%	0.7 percentage points	0.6 percentage points
Risk contribution ³ 2014	6.1%	-0.1%	0.0%
Contribution to net profit 2014	SEK 37.2 bn	SEK 1.8 bn	SEK 1.4 bn
Operating expense ratio 2014	0.04%	0.04%	0.03%
Long-term target in real terms	4.5% annualised total return on average in real terms. Read more on page 20.		
Real total return	6.4% annualised total return on average over ten years in real terms. 4.7% annualised total return on average in real terms since evaluation began on 1 July 2001.		

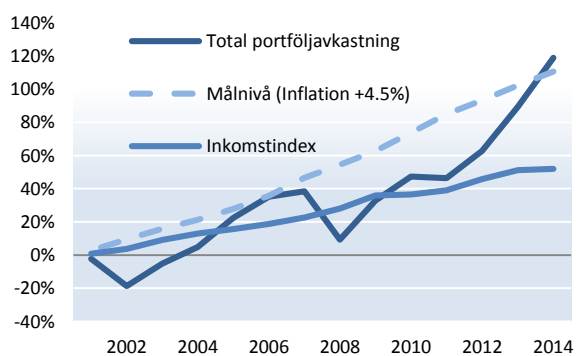
Targets and outcomes, focus areas of climate change and corporate governance. See pages 40-41.

¹ Active return for Tactical management is calculated as active results in relation to tactical managed investment assets. Active return for Strategic management is calculated as active results in relation to total managed investment assets. The calculations are daily.

² Return contribution is calculated as active results for both Tactical and Strategic management in relation to total managed investment assets. The calculations are daily.

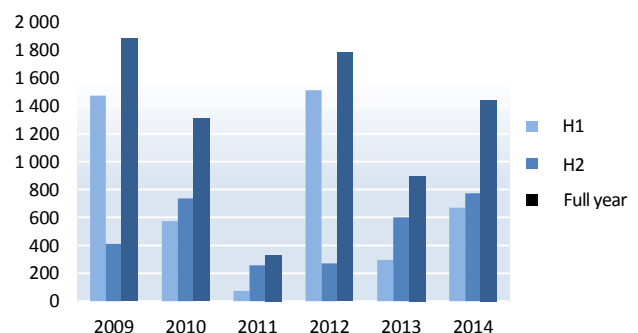
³ Calculated using a 12-month historical standard deviation.

Total return since inception outperformed the target



In McKinsey's report, *Utvärdering av AP-fondernas verksamhet 2013* [Evaluation of the AP funds' operations 2013], which was commissioned by the Ministry of Finance, 1 July 2001 is used as its starting date. The reason is that while AP1-AP4 began to serve as buffer funds on 1 January 2001, they did not implement their long-term investment portfolios until later in 2001.

12 consecutive six month interim periods with positive active return



Over the past six years, AP4's active management has delivered a positive additional contribution of SEK 7.6 billion.

Prizes and awards

AP4 receives positive attention in many different contexts. In 2014 AP4 received two international awards.

The prize from IPE Awards - Best Public Pension Fund was awarded for:

"Remarkable return in the last two years and over the last 10 years, plus a major contributor to government policy goals on SRI, ethics and carbon risk."



AP4's General Counsel Ulrika Malmberg-Livijn (in the middle) accepts the award for Best Public Pension Fund 2014, which AP4 received at IPE's large investor conference for the pension sector in Europe.

During the year, AP4 was nominated for three international awards.

Asset International's Chief Investment Officer (aiCIO) nominated AP4 for an award in the category Governance because:

"Since January 2013, the AP4 board has taken a 40-year time horizon and held strategic control over bonds, equities, currency, and duration. The investment team does the rest. This makes it easier for them to make dynamic allocations and move nimbly to take opportunistic plays on the market."



The Fourth Swedish National Pension Fund 40 years

The final results of forty years of asset management - with record upswings and market crashes - is a return of over SEK 300 billion to support pensions for Swedes.

Text: Bengt Carlsson

The Fourth Swedish National Pension Fund had its inception in the spring of 1974, the result of decades of political battles, inquiries, manoeuvres and negotiations, known as the ATP battle. At stake was the ultimate shape of the Swedish supplementary pension system. Once the supplementary pensions were finally approved and the National Pension Funds, which would manage some of the pension commitments, were in place in the early 1960s, the issue arose as to whether the newly formed AP funds would be permitted to buy equities for some of the money that was managed. In the early 1970s, the Riksdag decided that a newly formed Fourth National Pension Fund would be permitted to invest in Swedish listed shares.

The right side of the political spectrum at the time described a national pension fund that invested in equities as a tool to promote socialism. Meanwhile, the Social Democrats and, even more so, members of the Left Party, viewed such a fund as a way to transfer power and influence from traditional capitalists to trade unions.



The old Stock Exchange Building (börshuset) in Gamla Stan, Stockholm.

In the 1970s, equities are still an investment option that does not appeal to many people. It had taken all the way until the 1950s for prices on the Stockholm Stock Exchange to recover from the price decline following the Great Depression on financial markets worldwide in the 1930s. The stock exchange led a fairly anonymous existence, in terms of both trading, price performance and - perhaps worse - as a source of venture capital for Swedish companies.

The requirements for the new Fourth Swedish National Pension Fund were indeed high. It was essential to build up a fund that would gain trust from both a financial and a political perspective.

From the outset, the Fourth Swedish National Pension Fund's strategy included having its own analysts, which few or hardly any other financial institution had, and selecting the stocks in which it would invest, instead of following the stock market trends in general.

The Fund was an active manager, in other words, AP4 was not an index manager, though this concept was not introduced until a few decades later.

The Fund purchased its first shares in the spring of 1974 and just a few months later, the Fund made an investment that made its name well known in the business world. The Fund subscribed for new shares issued by vehicle manufacturer Volvo, Sweden's largest and most important company at the time, which needed capital to develop new models.



The Fourth Swedish National Pension Fund subscribed for new shares in Volvo during the Fund's first year of operation in 1974. The Volvo 740 estate car, photo above, was produced between 1985 and 1992.

It was the first private placement in Sweden; in other words, Volvo's shareholders did not have preferential rights to subscribe for shares, and the law had to be amended before it could be implemented. It was also the first of many meetings between Volvo and the Fund over the next twenty years. The stake in Volvo was a huge investment for the Fund and at most it accounted for one third of the Fund's portfolio. But the money from the Fund also carried weight for Volvo, which had a market capitalisation of about SEK 1 billion. In early 2015, the market capitalisation of Volvo is about SEK 190 billion.

The history of the Fourth Swedish Pension Fund is also the history of the Swedish stock market and how it goes from being a lethargic gentleman's club to something that affects and attracts millions of Swedes, while providing Swedish companies and owners with access to venture capital.

Optimally safeguarding Swedish pensioners' money is an important role that the Fund must handle. This mission has been the Fund's brief ever since its inception. The Fund's first years, until the end of the 1970s, were mediocre in terms of return because of declining prices on the Stockholm Stock Exchange most years. However, during this period the Fund played a crucial role supplying venture capital to Swedish listed companies and was larger than any other player in the field.

Despite poor returns in the 1970s, the Fund built up a stock portfolio during these years, with an emphasis on several of the largest Swedish listed companies, which skyrocketed in value when the Stockholm Stock Exchange rebounded in the early 1980s. The establishment of a mutual fund could not have been better-timed for Swedish pensioners. In the 1980s, the Stockholm Stock Exchange rose by about 1,000% - and the Fund's portfolio outperformed the market at large.

The Fourth Swedish National Pension Fund has played an important role--in many cases a leading role--with respect to ethics, rules and compliance with them on the Stockholm Stock Exchange since the 1980s.

In the middle of the decade, the Fund became the first Swedish institutional investor to adopt an ownership policy defining how the Fund will act as a major shareholder in a company. And as a major shareholder the Fund had to deal with acute ownership issues - the largest of which was also related to Volvo and arose when the company had no Board of Directors, after the intended merger with French Renault fell through at the end of 1993.

The stock market rally continued in the 1990s, with an upswing during this decade on the Stockholm Stock Exchange of about 1,000%.

So how did the Fourth Swedish National Pension Fund do?

The stock market slump in 1987 was the first of four "stock market crashes" during which prices plummeted by at least 50% for a limited period – which the Fund has had to deal with throughout its forty years. The next crash came at the beginning of the 1990s when the Swedish financial crisis hit, number three arrived when the valuation bubble for the "new economy" burst ten years later and the most recent, though probably not the last, when the global financial crisis struck around 2008.

After the first 25 years, when the Fund was only permitted to invest in equities, the Fund was able to provide more than SEK 145 billion net - after deduction for allocations – the pension fund system was restructured in the early 2000s. The second edition of the Fourth Swedish National Pension Fund has a surplus value of SEK 170 billion almost 15 years later. During this period, investments in fixed-income securities and real estate have had a more leveling effect, contributing to returns particularly during years when the stock market performed poorly.

The final results of forty years of asset management - with record upswings and market crashes - is a return of over SEK 300 billion to support pensions for Swedes. This amount is in addition to the capital the Fund initially received to manage and net the Fund's disbursements to the Swedish pension system to cover deficits in the system.

The old and the new Fourth Swedish National Pension Fund have both had returns that outperformed both target and benchmark index.

In addition to investing and managing pensioners' money, as well as promoting a robust capital market, in recent years the Fund has assumed yet another important role - this time on a global level. The Fund's internally developed model for sustainable investments that do not compromise on returns - by opting out of investments in companies that have the largest carbon dioxide emissions in their respective industries - has received considerable international attention. And the Fund is described as a role model in the field. The difference compared with the controversial newcomer 40 years earlier could hardly be greater.



When the pension system was reformed in 2001, AP4's equities management structure remained intact. Investment regulations changed as a result of the reform and the asset management remit was expanded to include more asset classes. The tradition of active equities management continues to be important in AP4's management activities.

Outcome exceeds both short-term and long-term expectations

It is difficult to make predictions – especially about the future! That old saying describes capital market developments in recent years unusually well.

Because who would have believed that the deep financial and debt crisis of 2008, with the subsequent setback of 2011, would be followed by three rather amazing years of returns on pension assets? But that is what happened. AP4's total earnings for the years 2012 – 2014 totals more than SEK 100 billion! The real return (adjusted for depreciation) for the period corresponds to 50%.

To gain some perspective on the developments of 2012 - 2014, the outcome can be considered in relation to the base of SEK 134 billion allocated to each AP fund by the Riksdag at the beginning of the last decade.

Extending this perspective – which is natural in light of the long-term mandate of the AP funds – AP4's average real return has been 4.7% per year since the measurement point for the re-launch in mid-2001. Given that Sweden's current pension system was launched at the height of the IT bubble, and that the subsequent period contains yet another deep stock market crash (2008), the outcome - average real return of 4.7% per year - appears to be completely satisfactory considering the short (in this context) evaluation period.

The trend also underscores the necessity of a long-term approach when evaluating pension management and formulating external opinions. And a few short years ago, just how many people held the opinion that the AP funds would never be able to achieve their long-term return targets?

Impressive active management results

If I were to briefly comment on AP4's short-term development – the past financial year – 2014 can be described as follows:

- Net profit was almost SEK 40 billion, which means that return on capital was almost 16%. Real return is about the same, since inflation in Sweden over the past year was essentially zero. AP4's financial outcome for 2014 is therefore equivalent to the return requirement for three years.



- The active contribution from AP4's Tactical management – the ability to outperform passive index management – totalled SEK 1.4 billion last year. The second half of 2014 was the twelfth consecutive six-month interim period that AP4 met the challenge of delivering a positive active return. The total contribution from this strategy for the past six years is almost SEK 8 billion. The outcome of the past financial year should also be viewed in relation to 2014, which many observers considered to be the toughest year for active management in more than a decade.
- Net profit for 2014 was achieved accompanied by continued high cost-efficiency. Costs correspond with just a bit over 0.1% – one per thousand - of capital under management, which is highly competitive from an international perspective.
- AP4's choice to increase both resources and risk in its somewhat more long-term and strategic management continues to produce a promising contribution to the whole. Approximately one quarter of the capital is now invested in assets with a horizon of more than three years. The outcome from these investments for the past two years adds up to SEK 4.4 billion, or about 2.1 percentage points.

International attention for environmental work

The strategy AP4 uses to reduce climate risk in the equities portfolio continues to draw international attention. Last year AP4 was invited to about a dozen international conferences to describe its work, including to the General Assembly of the United Nations. More than 10% of AP4's global equities portfolio is currently invested in compliance with its low-carbon dioxide strategy. It is gratifying that as a result of our efforts to reduce our carbon footprint, at the end of last year the footprint of AP4's listed equities portfolio was 39% lower than the footprint in 2012, when AP4 launched its low-carbon strategies.

We all know that year-end is nothing more than one of the 365 days of the year. But the advantage of year-end is that it provides a natural opportunity to summarise and to reflect.

Clear asset manager for 40 years

The past year is AP4's fortieth year of operation. During this period, the capital market, both in Sweden and abroad, has fundamentally transformed, at the same time that developments in information technology have reached unprecedented heights.

Already from 1974, the year of its inception, AP4 became a clear player on its home turf. For example, the Fund was one of the first of the financial institutions at the time to have its own analysts, albeit only two. The fresh venture capital that AP4 could offer the under-capitalised Swedish industry undoubtedly helped to establish its clear role, but it also contributed to an infected political discussion. Government money in the stock market was widely considered not only to be quite negative, but also as a threat of socialism. AP4's first major investment was a private placement to Volvo, which only contributed to the criticism, since private placements that overrode the rights of the old shareholders were new in Sweden at the time.

But under the leadership of the highly experienced Lennart Dahlström, the criticism of AP4 abated and was replaced by a growing confidence in the business community.

With time, AP4 gradually emerged not only as a well-informed, stable and active manager, but also – thanks to its size and the ambitions of its management's – as an actor that promoted an efficient Swedish capital market. Sten Wikander, the Fund's second CEO, possessed the insight, strength and determination to break up "shark cages" and cross-ownership in order to increase the chances of creating long-term favourable conditions for business profitability to the benefit of current and future pensioners.

Occasionally, however, criticism of institutional equity capital returned, albeit in slightly different form than previously. AP4, along with a growing number of institutional investors, was often depicted as a short-term owner, unable to accept the responsibility of long-term ownership for its equity positions. The new book about the Fourth Swedish National Pension Fund's first 40 years tells a different story, a story of an institution that dared to go its own way, an institution that in various ways, and sometimes in fierce conflict with various opposing forces, worked with a long-term approach to promote an efficient capital market with modern rules.

A common thread throughout the postwar history of Swedish business is that there have been periods when the role of the stock market as a source of venture capital has been questioned, or even rejected. Many people surely recall the highly controversial discussions about employee funds that culminated in the early 1980s, to be succeeded by a record-breaking period of IPOs and new issues.

About a year ago, similar voices were heard. Many claimed that the stock market no longer worked. Others argued that the regulations for the Swedish corporate governance model were outdated and had to be changed.

One year later, however, the results prove just the opposite! The number of newcomers to the stock exchange in 2014 increased dramatically. AP4 has been involved in this process of change and has played a leading role in several IPOs. One example is the listing of the family-controlled Lifco, in which AP4 and fund company Didner & Gerge acted as anchor investors. Two financial institutions have "linked arms" with industrial controlling shareholder Carl Bennet and are trying to live up to their role as responsible, long-term owners.

Illustrative examples

Another recent example of how a financial institution can help a business to grow and find paths to long-term capital is AP4's ownership in real estate company Hemfosa. The company was created almost five years ago, with AP4 as one of the backers. Last year Hemfosa was listed on the Stockholm Stock Exchange. With a stake of nearly 10%, AP4 is now one of the company's largest owners. The listing of Hemfosa has contributed to its continued rapid expansion and will hopefully facilitate the continued successful growth of the company.

“The trend also underscores the necessity of a long-term approach when evaluating pension management and formulating external opinions.

The role of active institutional investor is nothing new for AP4. Rather, it has been a part of AP4's DNA for more than thirty years. Another example from the past financial year involves Scania in connection with the buyout offer from German automotive company Volkswagen.

Along with a handful of other institutional owners, AP4 fought for two options: either keep Scania as an independent listed company, or obtain a bid for Scania shares that better reflected the value of the company for a long-term owner. We institutions did not reach the goal this time around. However, we learned many lessons, so that hopefully we will be better prepared the next time a similar situation arises.

The history of AP4 also shows that precisely the Swedish automotive industry, and Volvo in particular, left a strong legacy regarding operational insights about sustainability and experience of corporate governance. It began already with the controversial private placement mentioned above, when newly started AP4 alone had to cover Volvo's needs for new venture capital to finance an investment in a new passenger car model.

The next chapter was the battle over Volvo's 'Norway Agreement' in the late 1970s. At the end of the battle, the head of Volvo lost, the agreement fell through and the CEO of AP4, one of the foremost critics of the agreement, was elected to Volvo's Board of Directors.

The next major shareholder battle at Volvo involved the planned merger with French Renault, an issue that became very difficult for the Board of Directors at AP4. Here, too, the deal fell through, and this time both the head of Volvo and the company's entire Board of Directors resigned. As a result, AP4, headed by CEO Thomas Halvorsen, had the task, as Volvo's largest Swedish shareholder, of working with a handful of other Swedish financial institutions to create a completely new Board for Volvo, the largest industrial enterprise in the Nordic region at the time. This was Sweden's first nominating committee in a large listed company. The result came to be the start of modern Swedish corporate governance.

“Viewed over time, the AP funds have delivered excellent returns across the board at a low, or even very low cost.”

Surprise from the Pension Group

Earlier, I mentioned that 2014 was a financial year full of surprises. For example, who would have thought at the beginning of the year that oil prices would be cut in half? Or that the Swedish Riksbank would cut the key rate to zero? Or that a Swedish two-year government bond could be listed at a negative rate?

Navigating in such an asset management environment has not been an easy task. On the contrary, the risk of taking the wrong decision is unmistakable in such situations.

A surprise of a different nature was the Pension Group proposal to change the current structure of the AP funds. Simply put, the politicians want to close two funds and establish a central administration board for the remaining three funds to interpret the funds' brief, set a joint return target and establish a reference portfolio.

The Pension Group's proposal shares much in common with the highly controversial inquiry proposal presented almost three years ago, which most external observers believed had been filed away to gather dust.

As I see it, this reinvented proposal at least needs to be supplemented with some key arguments and justifications. For example, there is still no analysis of what is expected to be achieved in terms of lower costs and/or higher returns. Viewed over time, the AP funds have delivered excellent returns across the board at a low, or even very low cost.

Given these conditions of both questioning and external economic uncertainty, I must conclude by expressing my admiration for the Fund's employees, who tenaciously continue to deliver – High returns at a low cost.

This achievement is worthy of all respect!



Mats Andersson
Chief Executive Officer

Initiative with the UN to reduce carbon dioxide emissions

The Portfolio Decarbonization Coalition (PDC) is run by AP4 along with the United Nations Economic Programme (UNEP), Amundi and the Carbon Decarbonization Project (CDP). The aim is to get investors worldwide to:

Measure and disclose their carbon footprint...

...and to reduce their carbon footprint.



Mobilizing financial markets to catalyze economic decarbonization

The carbon footprint indicates an investor's indirect emissions; in other words, how much carbon dioxide emissions the assets generate. It is a snapshot of the investor's share of the carbon dioxide emissions generated by companies in the equities portfolio.

AP4 has worked with the PDC throughout 2014 and the coalition was launched during the UN Climate Summit in New York in the autumn of 2014. The PDC has two goals to be achieved by the December 2015 climate summit in Paris.

The PDC's first goal – **measure and disclose the carbon footprint** refers to transparency. The goal has been set with the conviction that 'what gets measured is also managed'. The goal is for institutional investors, who together manage assets of at least USD 500 billion, measure and disclose their carbon footprint.

The PDC's second goal - to **reduce the carbon footprint** entails gathering investors who use different strategies to undertake to reduce the indirect emissions the assets generate. For example, this can be achieved through low-carbon "decarbonization" strategies in which capital is withdrawn from particularly carbon-intensive companies. Another strategy involves investing in

relatively carbon-efficient companies, projects or technologies. Reduced emissions can also be achieved by engaging in advocacy dialogues about emissions with companies. The goal is to achieve assets under management, using various decarbonization strategies, of at least USD 100 billion.

Strong signal to politicians, industries and companies

If a critical mass of institutional investors, owners of parts of the global economy, review their assets to reduce the carbon footprint of these assets, a strong signal will be sent to politicians and the carbon-intensive industries and companies that this issue is center-stage and on the agenda.

The PDC wants to make it easier for investors to quickly and easily decarbonize their portfolios and develop "best practices" for how to accomplish this objective. The PDC is therefore advocating transparency and the exchange of knowledge.

AP4 is an ambassador for PDC

AP4 runs the PDC together with the other founders and is also working on behalf of the United Nations Environmental Programme (UNEP) as an ambassador for the PDC. The objective is to gather and support other institutional investors who join the PDC, who will begin to measure their carbon footprint and apply various strategies to decrease their carbon footprint.



AP4's CEO Mats Andersson at the launch of the PDC in New York at the UN Climate Summit in September 2014.

Carbon footprint 39% lower than 2012

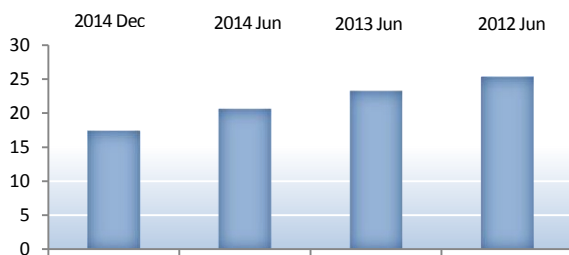
Reducing greenhouse gas emissions is urgent

According to the International Energy Agency's (IEA) World Energy Outlook 2013, several measures are necessary to reduce the risk of a permanent global temperature increase of more than two degrees. Initiatives will be required from all industries as well as from pension funds like AP4. The main measures that can be taken is to improve the energy-efficiency of industrial motors, appliances and heating and cooling systems.

39% lower carbon dioxide emissions

From 2012 to 2014 have AP4 reduced the carbon footprint (indirect greenhouse gas emissions per invested krona), of the listed equities portfolio by 39%. This achievement is the result of AP4's efforts to reduce the carbon footprint of its equities portfolio, at the same time that companies in AP4's investment universe have become less emissions-intensive, which is a positive development.

Carbon footprint



AP4's carbon footprint has decreased by 39% since 2012. The bars above show the amount of greenhouse gas emissions per invested krona in the equities portfolio

On 31 December 2014 AP4's carbon footprint in the listed equities portfolio was 28% lower than the benchmark index (see the index in the glossary). AP4's high percentage of Swedish equities helps to reduce the carbon footprint by 20%. Equity investments with relatively lower emissions, as in AP4's low-carbon strategies (see page 25), reduce the carbon footprint by an additional 8%.

Footprint measures indirect emissions

Investing in equities entails participation, an indirect exposure, in companies' emissions of greenhouse gases such as carbon dioxide. The indirect exposure of the equities portfolio can be measured through a carbon footprint. The carbon footprint for an individual equity investment is calculated based on AP4's ownership stake in the company's emissions. In other words, if AP4 holds a 3% stake in a company, AP4 is assigned 3% of the company's total emissions. The carbon footprint includes both direct emissions from operations (wholly owned or controlled by the company) and indirect emissions resulting from the purchase of electricity and district heating.



84% of companies disclose their carbon emissions

In all, 84% of the company value and 63% of companies in AP4's listed equities portfolio report their carbon emissions through annual reports or sustainability reports, or via the Carbon Disclosure Project (CDP). Such disclosure makes it easier to obtain a fair carbon footprint. For the companies that make up the remaining 16% of the equities portfolio, AP4 engaged the consulting firm South Pole Group to estimate carbon dioxide emissions.

High percentage of Swedish equities reduces the footprint

The Swedish stock market has a relatively low carbon footprint by international standards. One reason for this difference is that emission-intensive industries, such as energy and commodity companies, are relatively few on the Swedish stock exchange.

AP4's investments in low-carbon strategies have helped to substantially reduce emissions in the global equities portfolio during the most recent measurement period. A secondary objective of the low-carbon strategies is to achieve global coverage. In the long term, when transitioning to an economy that is less dependent on greenhouse gas emissions, these low-carbon strategies are expected to contribute to a better return on AP4's assets.

	2014				Number of companies	GHG emissions
	31 Dec	2014 30 June	2013 30 June	2012 30 June		
AP4's emissions and carbon footprint						
GHG emissions, listed global equities portfolio i tCO2e/SEKm	20.7	24.5	29.8	35.4	2,408	2,470,853
GHG emissions, listed Swedish equities portfolio i tCO2e/SEKm	6.1	5.3	7.9	7.8	163	331,132
GHG emissions, listed total equities portfolio i tCO2e/SEKm	16.2	18.5	23.1	26.5	2,571	2,801,985
Global equities, compared with global index %	-7.6	-5.0	-0.1	1.2		
Swedish equities, compared with Swedish index %	1.0	-21.4	-14.4	7.8		
Carbon footprint listed equities portfolio, compared with global index	-28.0	-28.2	-22.7	-24.0		

AP4's ownership stake in a company is the share of greenhouse gas (GHG) emissions calculated to belong to AP4. GHG emissions include Scope 1 (emissions from the company's operations, wholly owned or controlled by the company) and Scope 2 (indirect emissions resulting from the purchase of energy). As yet no standardised methodology is available for calculating the carbon footprint of financial holdings. Consequently the calculated carbon footprint is not always comparable between different suppliers. Source: The South Pole Group has analysed AP4's listed holdings and calculated AP4's indirect GHG emissions and carbon footprint. Historical figures are revised compared to AP4's Sustainability and Corporate Governance Report 2013/2014.

Market trend 2014

Overall, the return on the global equity market was satisfactory. Bond markets performed very well as a result of sharply falling interest rates. Large currency movements strengthened regional differences in returns.

The US stock market performed well during the year, supported by stable and accelerating growth in the region. However, stock market performance in the eurozone was relatively weak, as the European economy slowed down and the market failed to meet earnings expectations. The Swedish stock market performed well from an international perspective.

Emerging markets overall had a return in line with developed markets, but regional differences were large. A strong upswing in the Indian and Chinese stock markets in particular contributed to a good return, while the Russian market lost considerable ground.

Split global economy

A number of events during the first quarter of the year increased risks associated with political and economic developments. The growth rate in the Chinese economy declined and GDP forecasts were adjusted downwards. The conflict between Russia and Ukraine escalated. Meanwhile, in the US expectations intensified that the key rate would be raised in 2015. As a result, bond yields fell and the stock markets mainly moved sideways.

Weak growth and falling inflation caused sharp reductions in interest rates in both the EMU and Sweden during the summer. Bond yields fell sharply in response to growing expectations that interest rates would remain low for a long time. The stock market performed relatively well in the second quarter as a result of the policy. The US labor market continued to strengthen and the bond market once again began to expect the Fed to raise interest rates earlier in the US, contributing to rising risk aversion in late summer and autumn, with new lows on bond yields in Europe.

The stock markets became increasingly volatile during the second half of the year. Surprisingly weak economic statistics caused investors to fear further worsening of the already low growth in the global economy. The US economy continued to perform well, but needed help from the rest of the world in order to maintain the growth rate. Nevertheless, rising growth expectations towards year-end, including as a result of the sharp drop in oil prices, resulted in a satisfactory return on the global stock markets in 2014. For the world's bond markets, the return was the best since the 2008 recession.

Strong USD

Interest rate cuts in Europe and growing expectations of relatively rapid rate hikes from the Fed caused the USD to rise significantly during the year, about 13%, which generally favored investments denominated in USD.

Falling oil prices

Oil prices fell sharply during the year, which contributed to falling inflation as well as increased uncertainty on commodity markets. Overall, however, the fall in oil prices had a positive effect on demand in the global economy, which to some extent could already be seen in the economic statistics at the end of 2014.



Market value and return on asset classes

The asset classes are managed in different sub-portfolios with different investment horizons under Strategic management (3-15 years) and Tactical management (up to three years).

Asset class	Market value, SEK bn	Portfolio return, %	Exposure ¹ %	Contribution to total return, %	Contribution to profit/loss for the year, SEK bn
Equities, total	176.2	11.9	59.0	7.0	18.3
Global equities	121.2	10.0	40.5	4.0	10.6
Strategically managed	22.9	5.0	7.8	0.4	1.1
Tactically managed	98.3	10.9	32.8	3.6	9.5
Swedish equities	55.0	15.7	18.5	3.0	7.7
Strategically managed	22.7	18.1	7.7	1.3	3.4
Tactically managed	32.3	14.1	10.8	1.7	4.3
Fixed income assets	100.2	7.8	33.0	2.6	6.8
Tactically managed	100.2	7.8	33.0	2.6	6.8
Real estate	16.3	16.0	5.5	0.9	2.3
Strategically managed	16.3	16.0	5.5	0.9	2.3
Alternative assets	7.9	18.8	2.7	0.5	1.3
Strategically managed	7.9	18.8	2.7	0.5	1.3
Currency	0.0	4.9	0.0	4.9	12.1
Other ²	-5.6	-0.2	-0.2	-0.1	-0.3
Total investment assets³	295.0	15.8	100.0	15.8	40.5

¹ Underlying value of derivatives in passive asset allocation for each asset class.

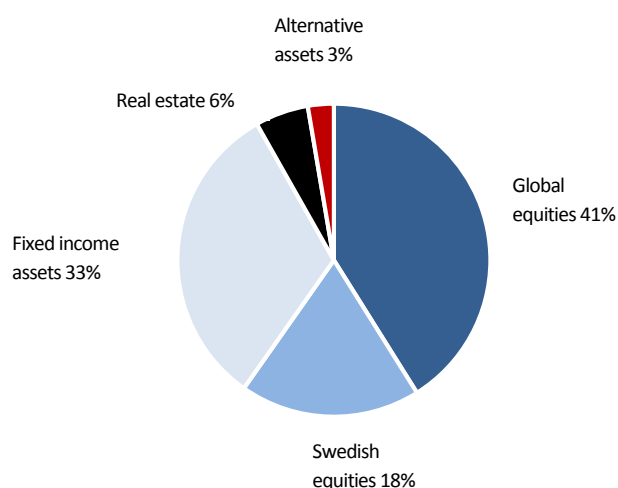
² Other consists of cash as well as strategic and tactical asset allocation.

³ Return and profit/loss before expenses. Return after expenses was 15.7 percentage points, corresponding to a profit after expenses of SEK 40.2 billion.

SEK 295 billion

Assets of SEK 295 billion comprise Swedish and global equities, fixed income assets, real estate and alternative investments. The majority of AP4's capital, 59%, is managed in listed equities.

Total assets, 31 Dec 2014



More than half of AP4's assets comprise global and Swedish listed equities. The diagram includes the underlying value of derivatives in passive asset allocation for each asset class.

Assets managed Strategically and Tactically

AP4's assets are divided into Strategic management with an investment horizon of 3-15 years and Tactical management with an investment horizon of up to three years.

Strategic management assets amount to over SEK 70 billion, corresponding to almost 24% of total assets. In all, 15 percentage points comprise Swedish and global equities, while the remaining 9 percentage points comprise real estate and alternative assets.

Annual objective evaluation

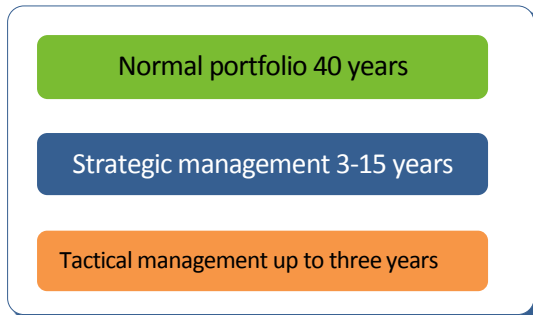
Each year, all asset management undergoes an objective assessment of the possibilities for generating an active return. Important choices that are made include whether management should be conducted strategically or tactically, internally or externally, actively or passively. At the end of the year, 63% (58) was actively managed and 37% (42) was passively managed (index management). 31% (28) of assets were managed externally, including 13% (13) in external indexing.

Foreign exchange exposure

AP4 hedges parts of the foreign assets. At year-end 2014/15, AP4's foreign exchange exposure, that is, the proportion of assets denominated in foreign currencies not neutralised by hedges, equalled 28.1% (28.6) of total assets.

Return, risk and cost per investment horizon

Assets are managed in sub-portfolios with different investment horizons



The Normal portfolio is AP4's reference portfolio for which the Board of Directors decides on the asset allocation. The Normal portfolio is fictitious and consists of a number of different indices. The investment horizon is 40 years.

The assets are managed in Strategic and Tactical management. Strategic management has an investment horizon of 3-15 years and Tactical management has an investment horizon of up to three years.

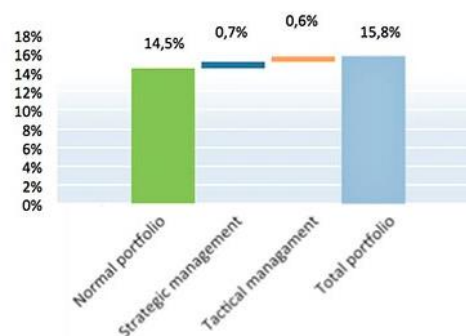
AP4 believes that the Fund's long-term mandate enables additional return, thanks to AP4's somewhat longer investment horizon, than what is common for the average professional investor. Since 2013 AP4 has worked with a management structure that has an additional investment horizon, Strategic management. This affords more investment strategies and further risk diversification. The investment and evaluation horizon for Strategic management ranges between 3 and 15 years. The 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. The new structure has a rolling five-year evaluation period starting in 2013, which means that 2017 will be the first year with a complete evaluation period.

High proportion of equities crucial

The decision on asset allocation is determined annually by the Board of Directors. At year-end 2014/15, asset allocation in the Normal portfolio was 66% equities and 34% fixed income, with an open currency exposure to foreign currencies of 29%. This asset allocation generated a return contribution corresponding to 14.5 (14.9) percentage points. Since the new management structure was introduced in 2013, the Normal portfolio has generated a return corresponding to 14.7% on an annualised basis.

The decision to maintain a high proportion of equities in the very long term Normal portfolio, was of great significance for the return over the long term. In 2014, the return on government bonds was on a par with equities, even slightly better, for which reason the size of the proportion of equities was less critical for the return. Because of sharp currency movements, the open currency exposure was very important for the positive return. Both Strategic and Tactical management made a positive contribution to the Total portfolio's return of 15.8% (16.5) before expenses.

Return contribution 2014



Return contribution for 2014, from various decisions taken on positions and investments within the three different management horizons.

Contribution of the management horizons to return, net profit, risk and cost¹

	Normal portfolio 40 years			Strategic management 3-15 years			Tactical management up to three years			Total portfolio ²		
	2 years	2014	2013	2 years	2014	2013	2 years	2014	2013	2 years	2014	2013
Return contribution ³ , %	14.7	14.5	14.9	0.9	0.7	1.2	0.5	0.6	0.4	16.1	15.8	16.5
Contribution to net profit ³ , SEK bn	71.1	37.2	33.8	4.4	1.8	2.6	2.3	1.4	0.9	77.8	40.5	37.3
Risk contribution ⁴ , %	6.0	6.1	6.0	-0.2	-0.1	-0.4	0.0	0.0	-0.0	5.8	6.0	5.6
Operating expense ratio, %	0.04	0.04	0.04	0.04	0.04	0.04	0.03	0.03	0.03	0.11	0.11	0.11

¹ All values in the table are expressed as an annual rate with the exception of Contribution to net profit, which presents the total net profit for the period.

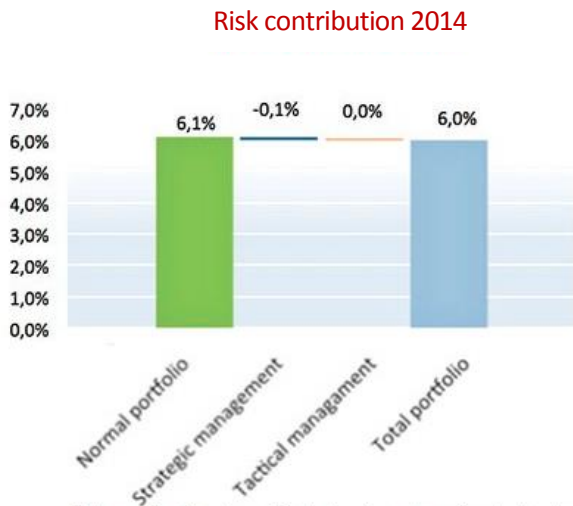
² Includes return contribution 2014 (2013) from passive management of 0.0 (0.0) percentage points, which corresponds to a contribution to earnings of SEK 48 million (-14).

³ Return and profit/loss before expenses.

⁴ Risk contribution is calculated using a 12-month historical standard deviation.

Strategic management lowers risk

The high proportion of equities in the Normal portfolio represents the main risk contribution to the Total portfolio. AP4 forecasts and measures the outcome of the risk contributions that Strategic and Tactical management, together with the Normal portfolio, add to the Total portfolio. Strategic management helped to reduce the risk in AP4's total portfolio. Please see the chart below and Note 20 for a more detailed description.

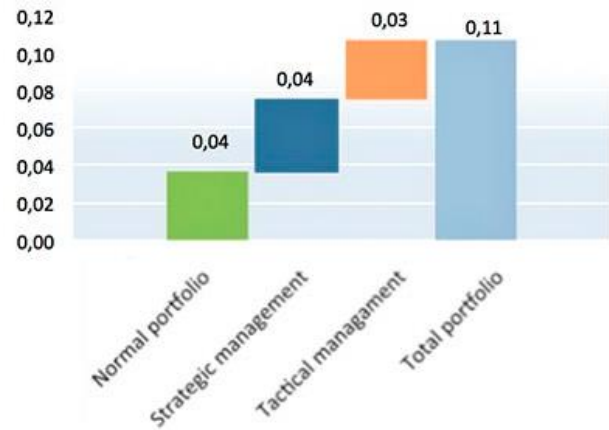


Risk contribution, shown in the bar chart above, is calculated using a 12-month historical standard deviation.

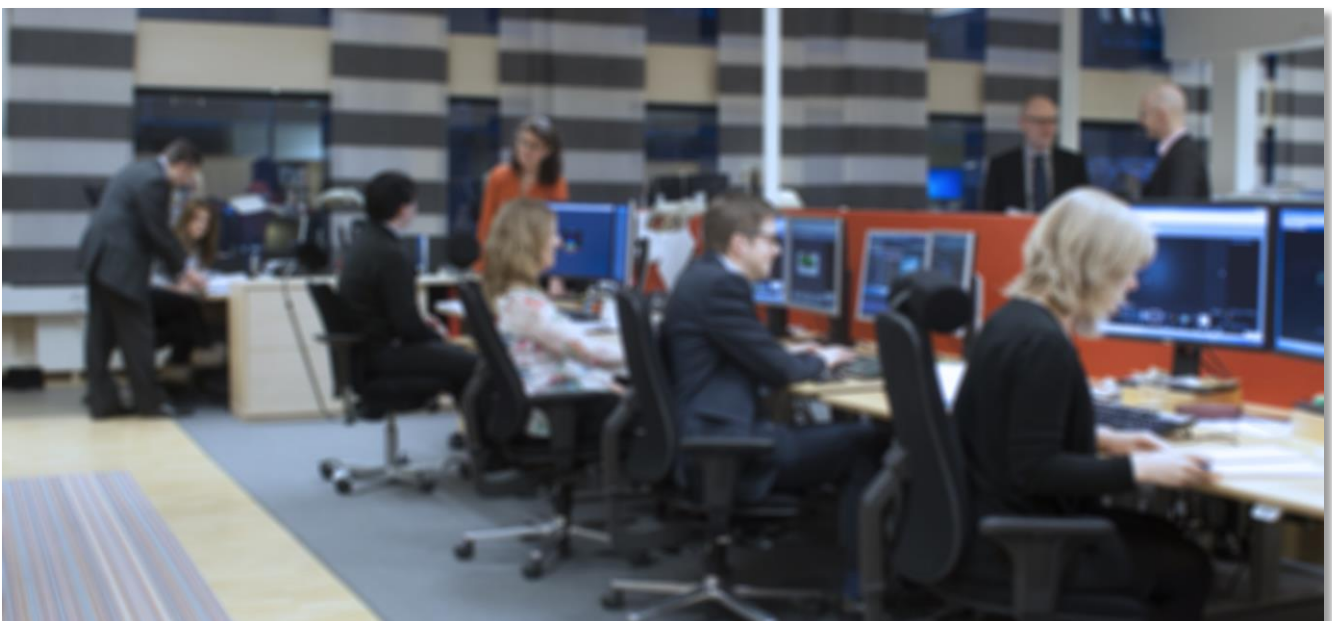
What does management cost?

Strategic and Tactical management together account for more than 60% of AP4's expenses, or about SEK 195 million.

Operating expense ratio 2014



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



Costs of index management

An internal estimate shows that if AP4 conducted completely passive management, with all assets invested according to a chosen index, management would cost just over SEK 100 million annually, with personnel expenses constituting half that amount. These costs relate to the staffing, administration and investments in systems for monitoring of risk/return that (passive) index management requires.

Costs of active management

The estimated additional cost incurred by AP4 to pursue active management is about SEK 90 million annually. This should be seen in relation to the additional contribution of SEK 7.6 billion, or just over SEK 1.2 billion annually, delivered by AP4's active management over the past six years since the introduction of the current management organisation in 2009.

High information ratio

Analysis of the additional risk that AP4 has undertaken, which is a prerequisite for active management, shows that it has been acceptable. The active risk in the last six 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 0.8%, an information ratio of 2.0 for the period is achieved, which is an exceptionally high figure. Values over 0.5 for individual years are usually considered to be a good result. For each SEK 1 that the AP4 has taken in risk, a positive return corresponding to SEK 2 has been created.

Active management supports the ownership role

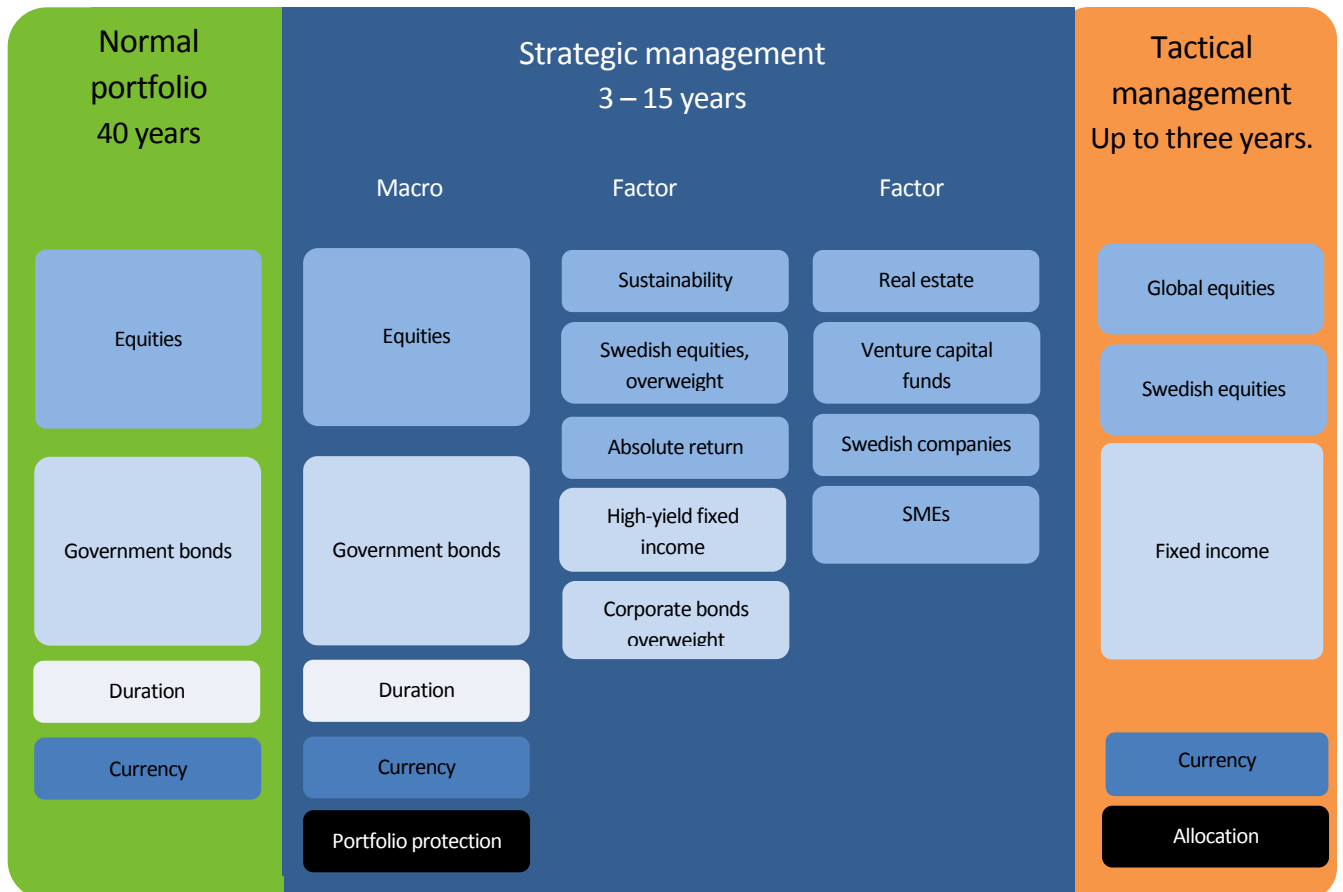
One aspect of active management that receives very little attention is that it enhances possibilities to be a knowledgeable and shrewd owner. As one of the largest owners on the Stockholm Stock Exchange, AP4 is often contacted by companies regarding various ownership issues. Performing one's own analysis 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.

Contribution to net profit 2014

+ SEK 37.2 bn

+ SEK 1.8 bn

+ SEK 1.4 bn



Normal portfolio

The Normal portfolio, AP4's reference portfolio, consisted of 66% equities and 34% fixed income assets at 31 December 2014.

The Normal portfolio returned 14.5% (14.9) during the year.

Normal portfolio

Asset class	31 Dec 2014		1 Jan 2014–31 Dec 2014	
	Weight, %	Foreign exchange exposure, %	Return, %	Return contribution, %
Equities	66.1		9.6	6.4
Government bonds	33.9		9.9	3.4
Currency	-	28.9	4.7	4.7
Total	100.0	28.9	14.5	14.5

Proportion of equities in relation to bonds crucial

The proportion of equities in relation to bonds in the Normal portfolio determines AP4's return. Asset allocation is expected to account for between 80% and 90% of total return in the long term.

The Board of Directors annually determines the asset allocation, foreign exchange exposure and duration with an expected investment horizon of 40 years. The decision is reflected in the

Normal portfolio, which is fictitious and only consists of indices. The Normal portfolio shows the combination of equities, government bonds, selected duration and foreign exchange exposure that gives the best total return over a 40-year horizon based on the investment rules that AP4 follows. The Normal portfolio does not take account of whether the market is at the peak or trough of current economic or stock market cycles.

High percentage of equities to succeed with the brief

The brief from the Riksdag, according to AP4, is to achieve an average real return of 4.5% of the pension system's assets over a 40-year period in order to balance the system's assets and liabilities.

Equities are assets with expected high returns in the long term, but also high volatility. The returns of the equity investments can therefore be expected to vary relatively sharply between individual years, but in the long term they will contribute to the stability of the pension system and achieve a balance between the assets and liabilities of the system.

In order to fulfil the brief from the Riksdag, AP4 has chosen to invest a high proportion of its assets in equities. A proportion of shares of around 65% 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 cause AP4's return to vary from year to year.

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

When evaluating the value performance of an asset class, long periods must be used. In terms of pensions, 30–40 years might be a fair time frame.

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. The real wage trend between 1918 and 2012 was 2.1% annually. The difference between the real trend for equities and wages has been largest in the last two to three decades.

Real World Wide Rate of Return and Development of Swedish Real Earnings per Employee¹



The graph shows the real total return per year (including dividends) since 10 or 35 years back in time and the percentage change per year in the real wage per employee since 10 years back in time.

¹ Source: Orange report 2013, Swedish Pension Agency

Strategic management

Strategic management capitalises on AP4's long-term mandate with active positions and investments in a number of business areas

Strategic management delivered a positive active contribution of 0.7 percentage points (1.2) in 2014, corresponding to an active earnings contribution of SEK 1.8 billion (2.6).

Investment horizon of 3-15 years

The investment horizon is between 3 and 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 and the outcome of individual years should be interpreted with caution since strategic positions are taken in the medium term.

Since Strategic management was introduced in 2013 it has generated a positive active return contribution of more than 0.9 percentage points on an annualised basis, which overshoot the target of more than 0.6 percentage points on average for the two-year period 2013-2014. Because evaluation is over a rolling five-year period, the outcome of individual years should be interpreted with caution since strategic positions are taken in the medium term.

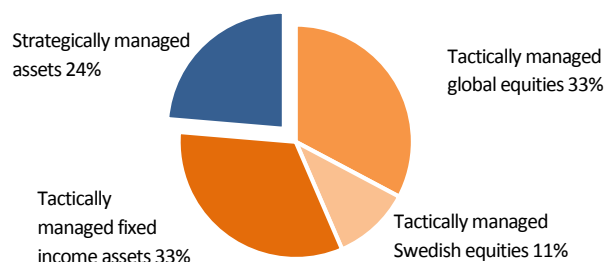
Strategic management, active positions 1 Jan 2014 - 31 Dec 2014

	Return contribution, active %	Active earnings contribution SEK m
Strategic management		
Factor positions:		
Swedish equities	1.2	2,984
Corporate bonds	0.0	-32
Sustainability*	0.0	-38
Real estate	0.4	916
Other strategic positions	0.2	528
Total factor positions	1.8	4,358
Macro positions:		
Asset class	-0.1	-137
Currency		0.2 470
Duration		-1.2 -2,916
Total macro positions	-1.1	-2,583
Total strategically managed positions	0.7	1,775

*Sustainability includes a number of sub-portfolios such as low-carbon strategies and strategies focused on corporate governance.

SEK 70 bn under Strategic management

The market value of Strategic management assets is SEK 70 billion, corresponding to 24% of AP4's assets.



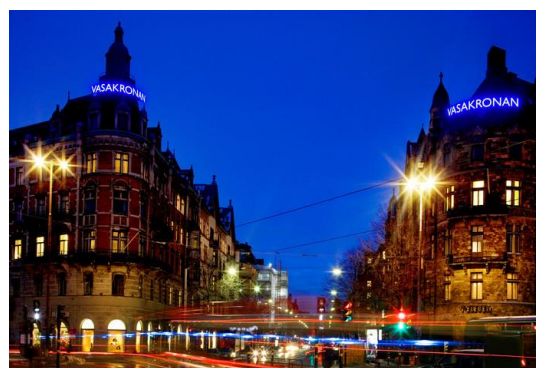
Strategic management's factor positions include real estate, Swedish equities, low-carbon strategies and strategies focused on corporate governance. The diagram includes the underlying value of derivatives in passive asset allocation for each asset class.

Strategic factor management

Strategic factor management consists of a number of mandates divided into the following positions and sub-portfolios:

- Swedish equities
- Corporate bonds
- Sustainability*
- Real estate
- Other strategic positions

Strategic factor management delivered a positive active return contribution of 1.8 percentage points. This gave an active earnings contribution of SEK 4,358 million. The largest contribution came from the strategic overweight in Swedish equities, which gave an active return contribution of 1.0 percentage points. This gave an active earnings contribution of SEK 2,451 million. The strategic overweight in Swedish equities is included, together with the Swedish companies and SMEs sub-portfolios, under the Swedish equities factor position.



Strategic management includes the Real estate sub-portfolio with the property management company Vasakronan. The photo above shows two of Vasakronan's properties on Birger Jarlsgatan in Stockholm.

• Swedish equities

Swedish equities under Strategic management comprise a strategic overweight in Swedish equities, as well as two sub-portfolios with Swedish equities (Swedish companies and SMEs).

Strategic overweight of SEK 54 bn in Swedish equities

AP4 had a strategic overweight in Swedish equities of about 18 percentage points in relation to the Normal portfolio at year-end. The Normal portfolio included only 1.1% Swedish equities. The overweight position was based on the conviction that the Swedish stock market will continue to outperform stock markets abroad.

AP4 believed that by reallocating capital from global equities to Swedish equities, the Fund will achieve a better long-term return. This overweight holding was Strategic management's largest active position.

At year-end, the strategic overweight in Swedish equities equalled SEK 54 billion, corresponding to more than 18% of AP4's total assets.

The overweight position in Swedish equities generated a large positive active return contribution of 1.0 percentage points. This gave an active earnings contribution of SEK 2,451 million.

The decisions to maintain a strategic overweight in Swedish equities have contributed SEK 2,370 million since the introduction of the new management structure in 2013.

Of this strategic overweight position in Swedish equities of SEK 54 billion, SEK 22.7 billion are managed within Strategic management, with SEK 20.4 billion allocated to Swedish strategic equities management, SEK 1.2 billion to the Sustainability sub-portfolio and SEK 1.2 billion to the Listed properties sub-portfolio. SEK 31.7 billion of the overweight position in Swedish equities are managed under Tactical management.

Strategic overweight Swedish equities	2014	2013	2013
Active return contribution, %	1.0	-0.1	0.0
Active earnings contribution, SEK m	2,451	-81	3

Swedish companies sub-portfolio

The actively managed Swedish companies sub-portfolio has a target of 20-30 holdings with a market capitalization in excess of SEK 1 billion.

The Swedish companies sub-portfolio had a positive rate of growth in value of 14.7%. At year-end, the market value was SEK 12.1 billion, corresponding to 4.1% of assets.

The Swedish companies sub-portfolio made a positive contribution to AP4's active return in 2014. The results for the sub-portfolio to date, albeit with an extremely short evaluation period, have been positive. However, the evaluation horizon is still much too short for investments made with a long-term investment horizon.

Swedish companies	2014	2013	2012 ¹
Market value, SEK bn	12.1	10.5	-
Percentage of AP4's assets	4.1	4.0	-
Return, %	14.7	5.5	-
Earnings contribution, SEK m	1,548	546	-
Active return contribution, %	0.0	0.0	-
Active earnings contribution, SEK m	16	32	-

¹The Swedish companies sub-portfolio was started in late 2013.

Management is pursued based on fundamental company analysis. Visits to the companies are the primary source of information and AP4's management meets regularly with corporate management for the majority of the portfolio holdings. Management met with about 200 companies in 2014. The investment strategy 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 companies' work with sustainability (environment, ethics and governance) are therefore included in management's assessment of the company as well as its share price risk and price potential. The investment horizon is between 3 and 5 years.

SMEs sub-portfolio

Small and mid-cap companies (SMEs) is an actively managed sub-portfolio under Strategic management. The reason is that listed SMEs can occasionally have poor liquidity. Short evaluation horizons risk creating restrictions, which could lead to poorer earnings.

The SMEs sub-portfolio had a positive rate of growth in value of 21.6%. At year-end, the market value was SEK 8.3 billion, corresponding to 2.8% of Fund assets.

The SMEs sub-portfolio made a positive contribution to AP4's active return. The active return totalled 0.2 percentage points, giving a positive active contribution to earnings of SEK 518 million above the index.

Over a rolling three-year evaluation horizon, active management of the SMEs sub-portfolio generated an active earnings contribution of SEK 1,362 million. The sub-portfolio has generated positive earnings ever since the start of the new management structure.

At year-end, the sub-portfolio consisted of two different mandates, both an internal mandate, which is larger in terms of assets, and an externally managed small cap mandate.

SMEs	2014	2013	2012
Market value, SEK bn	8.3	7.8	6.1
Percentage of AP4's assets	2.8	3.0	2.6
Return, %	21.6	41.8	13.4
Earnings contribution, SEK m	1,563	2,457	194
Active return contribution, %	0.2	0.4	0.0
Active earnings contribution, SEK m	518	843	2

The internal Small and mid-cap sub-portfolio is managed based on fundamental company analysis. Meetings with the companies are the primary source of information and AP4's management meets regularly with corporate management for the majority of the portfolio holdings. Management held meetings with about 200 companies in 2014. The portfolio contains several different investment strategies. Companies are selected based on factors such as growth opportunities, stability of cash flows and dividends, megatrends and structural industrial trends. The economic and stock market cycles are considered when selecting equities. Sustainability and corporate governance are part of the management process. The companies' work with sustainability (environment, ethics and governance) are therefore included in management's assessment of the company as well as its share price risk and price potential. The investment horizon is between 3 and 5 years.

The external small cap mandate comprises Lannebo MicroCap 2 fund, which focuses on listed Swedish small caps.





“Our long investment horizon allows us to be a stable long-term owner, capable of handling short-term volatility. This also applies when the stock market is weak, as long as the company is developing well based on its own circumstances.”

Interview with Per Colleen, manager of Swedish equities at AP4.

What does AP4’s long-term approach mean?

“AP4 has the opportunity to take advantage of its extremely long-term mandate on the Stockholm Stock Exchange, which is increasingly dominated by institutions,” says Per Colleen. By creating Strategic management with the option of a long evaluation horizon—longer than most competitors—we become more credible as long-term shareholders and partners in relation to all of our counterparties, as could be seen in particular in several IPOs in which AP4 was involved in 2014.

“In a couple of the introductions we asked for and received a large ownership stake, including the listing of the industrial and commercial conglomerate Lifco. In that case the deal was settled prior to the IPO and AP4 was deeply involved in negotiating the conditions, especially the price, at the introduction,” says Per.

Why is AP4 considered to be an attractive owner?

“Well, we can credibly say that we will remain as shareholders in the company for a very long time. We’re happy to assist with corporate governance issues and we want to pursue a close dialogue with the companies in which we have major stakes. We don’t have to take short term volatility into account; we retain our ownership stake even when the stock market is weak, as long as the company is developing according to its potential. Consequently the fundamental analysis of the company becomes extra important.

“We participate in far from all introductions and we are cautious about taking on the role of anchor investor,” says Per. “But given the right company, we are more than willing to do so and so far, it has served the Swedish pensioner well.”

Which companies do you invest in?

“We like companies with a good track record in terms of stability in earnings and profitability. Preferably, these companies don’t require much capital and they operate in industries that are under consolidation, or have already consolidated. We also value good market potential and that the companies protect their market positions well. Often, these companies have a strong cash flow so they can more easily take advantage of growth opportunities that arise, either organically or through acquisitions. If members of management are shareholders in the company, we view it as an added advantage and if there is also another clear principal owner, we see that as highly positive.

“Lifco is a good example of a company that meets most of these criteria,” says Per. The company liked AP4’s view of management and long-term approach, and we had the opportunity to become a new major shareholder in the company at a good price.

• Strategic overweight of SEK 48 bn in corporate bonds

During the year AP4 had a strategic overweight in corporate bonds in relation to the Normal portfolio. AP4 believes that by reallocating capital from government bonds to corporate bonds with good creditworthiness in the long term, the Fund will achieve a better long-term return.

At year-end the strategic overweight in corporate bonds totalled SEK 48 billion, corresponding to more than 16% of AP4's assets.

The overweight position generated an active return contribution of 0.0 percentage points, corresponding to SEK -32 billion.

The overweight position in corporate bonds is managed under Tactical management in the corporate bonds sub-portfolio.

Strategic overweight position, corporate bonds	2014	2013	2012
Active return contribution, %	0.0	0.6	-0.1
Active earnings contribution, SEK m	-32	1,361	-134

• Sustainability sub-portfolio

Sustainability is an actively managed sub-portfolio under Strategic management, which in turn consists of a number of sub-portfolios aimed at AP4's focus areas of climate change and corporate governance.

At year-end, the market value of the Sustainability sub-portfolio was SEK 15.8 billion, corresponding to 5.4% of AP4's total assets.

The total active return contribution was 0.0 percentage points, corresponding to SEK -38 billion. However, the evaluation horizon is still much too short for investments made with a long-term investment horizon.

Sustainability, including low-carbon strategies and strategies focused on corporate governance	2014	2013	2012
Market value, SEK bn	15.8	8.4	1.8
Percentage of AP4's assets	5.4	3.2	0.8
Return, %	9.0	38.3	15.0
Earnings contribution, SEK m	1,092	859	109
Active return contribution, %	0.0	0.1	0.0
Active earnings contribution, SEK m	-38	159	-2

2 low-carbon strategies

For several years AP4 has been trying to reduce climate risk in its equity investments by reducing exposure to companies with relatively high carbon emissions and/or fossil fuel reserves.

The background is that emissions of carbon dioxide and other greenhouse gases have a negative impact on the earth's climate, which over time causes the average temperature to rise. AP4 believes that the cost of the impact on the environment is only taken into account to a limited extent in the current valuation of listed companies and finds it probable that this will be different in future.

When converting to a climate-neutral society, AP4 believes that emissions of carbon dioxide and other greenhouse gases will lead to rising costs that will have a negative impact on companies with high emissions and/or fossil fuel reserves; such companies will then be valued and priced differently than today. AP4 believes that today's corporate values do not reflect the rising costs of emissions. Companies with lower emissions than competitors should enjoy a financial advantage and in the long term a relatively better value performance.

The purpose of AP4's long-term low-carbon strategies is – under limited risk-taking – to opt out of investments in companies that have the largest and most negative impact on the environment in terms of carbon dioxide. The companies in AP4's investments are regularly evaluated based on the amount of their emissions and fossil fuel reserves.

Low-carbon strategies are strategic positions with a long-term investment horizon. These investments are expected to significantly reduce climate risk in AP4's equities portfolio and provide the opportunity for positive returns in the long term.

Investments in low-carbon strategies in North America, Europe and Emerging Markets totalled more than 10% of AP4's global equity investments at year-end.

The strategies have delivered a performance in line with their benchmark index, while emissions are more than 50% lower. However, at two years so far, the evaluation horizon is still much too short for investments made with a long-term investment horizon.



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

2 North America

The North American environmental strategy is sector-neutral; each branch is evaluated individually. This strategy reduces exposure to emissions of carbon dioxide and other greenhouse gases by 50%.

At year-end the North American decarbonization strategy had delivered a positive performance compared with its index, the S&P 500.

2 Emerging markets

Under its decarbonization strategy, AP4 opts out of emerging-market companies with high greenhouse gas emissions and companies with large fossil fuel reserves. Emerging markets include China, Brazil, Russia and other emerging countries.

During the short investment period of just over a year, the strategy has performed close to its index, MSCI Emerging Markets.

2 Europe

AP4 invested in a decarbonization strategy in Europe at the end of 2014. The decarbonization strategy excludes companies with high greenhouse gas emissions and companies with large fossil fuel reserves.

AP4 continues to work on developing strategies to reduce climate risk in the equities portfolio for more geographic markets. The goal is to further increase the proportion of equity investments that meet low-carbon strategy criteria in 2015 to include all regions in which AP4 has equity investments.

Strategies focused on corporate governance

One way of achieving better corporate governance and increased investor influence, while creating conditions that generate increased returns, is to invest with external managers focused on corporate governance. The managers AP4 engages then invest in companies with identified potential for improvement, while actively pursuing corporate governance issues in collaboration with the companies.

Japan. AP4 has invested in Japanese strategic investments with a focus on corporate governance, TMAM GO Japan Engagement Fund and GO Japan Engagement Consortium.

The Japanese strategies with a focus on active corporate governance have performed well and made a positive contribution to both total return and active return.

The qualitative improvements achieved to strengthen investor influence are satisfactory. However, the evaluation horizon is still much too short for an investment made with a long-term investment horizon.

Japan is one of the world's largest economies and one of the largest countries in the MSCI World Equity Index. At the same time, Japan is a "distant" country which differs greatly from Sweden in both culture and language. This also affects the AP4's ability to conduct corporate governance. It is difficult for a non-Japanese person, who is unfamiliar with the language and social codes, or who does not have the right local networks to conduct solid, efficient corporate governance.

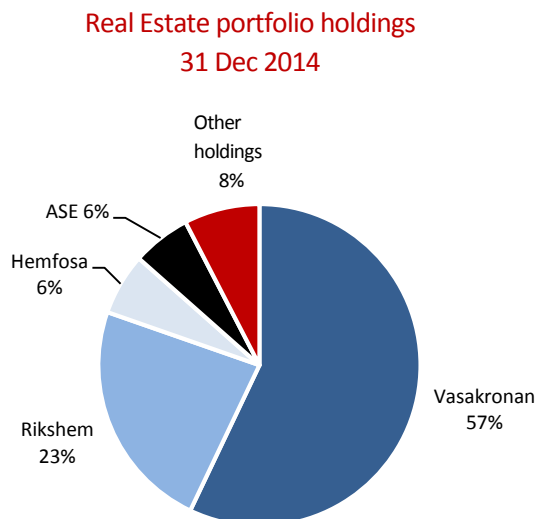
AP4's investments in mandates with corporate governance in Japan are examples of a sound complement to the Fund's other corporate governance tools in Japan – voting at AGMs and holding dialogues with companies.

The first Japanese corporate governance code was adopted in 2014. AP4 and its external managers have supported the equity ownership reforms under development in Japan. AP4 participated by providing input during the consultation on the first Japanese Corporate Governance Code (the Code) and signed the Code in 2014. 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.

Europe. In 2014 AP4 invested in a fund that invests in and actively works with a small number of small and medium-sized enterprises in Europe. **Sweden.** AP4's investments include CapMan Public Market Fund and Zeres Public Market Fund (Zeres), which are managed with a clear focus on active corporate governance. A commitment was made to Zeres in 2013 to invest SEK 1.5 billion. At year-end, SEK 800 million were invested.

• Real estate

The Real Estate portfolio mainly comprises directly-held real estate companies. Construction of an actively managed sub-portfolio of listed real estate shares began at the end of the year.



At year-end, the market value of the Real Estate portfolio was SEK 17.4 billion, corresponding to 5.9% of AP4's assets.

Return during the year was 16.1%, for a positive active earnings contribution of SEK 2,418 million.

The active real estate position delivered a positive active return contribution of 0.4 percentage points. This gave a positive active earnings contribution of SEK 916 million above the index.

Real estate	2014	2013	2012
Market value, SEK bn	17.4	14.9	11.8
Percentage of AP4's assets	5.9	5.7	5.2
Return, %	16.1	27.2	14.2
Earnings contribution, SEK m	2,418	3,235	1,496
Active return contribution, %	0.4	0.1	0.1
Active earnings contribution, SEK m	916	171	174

Directly-held real estate companies

In the last few years, AP4 has expanded within the real estate strategic asset class. The Fund has chiefly opted to own real estate companies directly, because this is deemed to be the most cost-effective and transparent method, thereby increasing the potential to provide a solid expected return. The holdings are managed under Strategic management.



Vasakronan's property Kista Science Tower in Stockholm.

AP4 co-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 90 billion and is thus Sweden's largest property owner. Total return on the Vasakronan holding in the real estate portfolio remained strong in 2014.

VASAKRONAN

The property management company **Rikshem**, of which AP4 and AMF own 50% each, owned at the 2014/15 turn of the year properties with a market value of about SEK 25 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). During the year Rikshem invested SEK 4 billion and total return on the properties continues to be solid.



AP4 is one of the founders of **Hemfosa Fastigheter** (Hemfosa), which was established in 2009 and in 2014 was listed on the NASDAQ OMX, Stockholm. The listing was positively received by the market and the value of the IPO amounted to SEK 3.6 billion. For regulatory reasons AP4 reduced its stake to just under 10% of votes and capital, but was still the company's largest shareholder at the end of the period.

Areim Fastigheter II AB specialising in Swedish properties, and **ASE Holdings** (ASE), which invests in and develops commercial properties in the UK, are additional investments in the property portfolio.

Listed Real Estate portfolio

There are a number of listed real estate companies on the Stockholm Stock Exchange, which over time have achieved good profit growth and total return. AP4 believes that the prospects for continued strong profit growth are favourable. Therefore at the end of the year AP4 began to build a strategic portfolio with investments in listed real estate companies, primarily in Sweden. Even though construction of the portfolio did not begin until late in the year, its contribution to active earnings was almost SEK 60 million. However, the evaluation horizon is still much too short for an investment made with a long-term investment horizon.

Sustainability and corporate governance are part of the management process of AP4's strategic Real Estate portfolio. As an active owner, AP4 wants to contribute to systematically sustainable environmental work within the property companies. All of AP4's directly-held real estate investments have policies in place today regarding attention to sustainability in real estate management. AP4 uses the Global Real Estate Sustainability Benchmark (GRESB) monitoring and comparison of sustainability criteria in property management.

In 2014 both Vasakronan and Rikshem issued "green bonds". Vasakronan expanded the volume of issued green bonds during the year by SEK 2.5 billion to SEK 3.8 billion. Rikshem issued its first green bonds for SEK 550 million in 2014. The purpose of green bonds includes financing energy-saving measures, usually in conjunction with major renovations, but also in new construction that achieves high standards for environmental certification.



Rikshem's property Svärdslijan in Gideonsberg, Västerås, was built in the 1950s and renovated in the mid-1980s. The 254 flats in the area all have a balcony.

Other strategic positions

Other strategic positions include the sub-portfolios:

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

Positions are taken with a strategic investment horizon of 3 to 5 years.

The market value of other strategic positions was almost SEK 16 billion at year-end, corresponding to almost 5.5% of AP4's assets.

The total positive active return contribution was 0.2 percentage points, corresponding to SEK 528 billion.

Other strategic positions	2014	2013	2012
Market value, SEK bn	16.2	14.7	5.4
Percentage of AP4's assets	5.5	5.6	2.3
Return, %	9.9	12.3	4.5
Earnings contribution, SEK m	1,461	819	200
Active return contribution, %	0.2	0.0	-0.2
Active earnings contribution, SEK m	528	82	-360

Venture capital funds

At year-end, the market value of the venture capital funds was SEK 3.2 billion, corresponding to 1.1% of AP4's assets.

Investments in venture capital funds performed well, with a return of 27.7%.

They generated an active return contribution of 0.2 percentage points, corresponding to SEK 454 million.

Venture capital funds	2014	2013	2012
Market value, SEK bn	3.2	2.9	2.9
Percentage of AP4's assets	1.1	1.1	1.2
Return, %	27.7	18.4	-0.1
Earnings contribution, SEK m	730	499	6
Active return contribution, %	0.2	-0.1	-0.2
Active earnings contribution, SEK m	454	-182	-437

During the year AP4 invested in AB Max Sievert, a company specialising in investments in small unlisted companies.

The venture capital funds continued to deliver a favourable performance in 2014. The activity level was high, especially regarding sales of portfolio companies. Several portfolio companies went public during the year. The venture capital funds made new investments of SEK 0.5 billion and repaid SEK 1.0 billion to AP4 from sales of portfolio companies.

AP4's investments are made indirectly via venture capital funds or venture capital firms. Regarding sustainability, AP4 focuses on evaluating and monitoring how well the concept is integrated in the investment activities of the external managers. The management of the venture capital funds apply the UN Principles for Responsible Investment (PRI), which aim to enhance responsible behaviour among both companies and investors with respect to ethical and environmental issues. Internal ESG policies have now essentially evolved into a standard among venture capital funds, many of which have also adopted the PRI.

To further develop integration of sustainability, venture capital funds now focus on implementing operational sustainability goals, activities and follow-up within portfolio companies. AP4 welcomes these developments and contributes through its commitment.

AP4 engages a consultant to regularly screen its holdings to discover any breaches of international conventions. No such breaches were noted in the portfolio during the year.

High-yield fixed income

At year-end, the market value of High-Yield Fixed Income sub-portfolio was SEK 2.9 billion, corresponding to 1.0% of AP4's total assets.

High-yield fixed income performed well, with a return of 14.0%.

Active management of High-Yield Fixed Income delivered a positive active return contribution of 0.0 percentage points, corresponding to SEK 101 million.

High-yield fixed income	2014	2013	2012
Market value, SEK bn	2.9	2.5	1.4
Percentage of AP4's assets	1.0	1.0	0.6
Return, %	14.0	14.4	17.2
Earnings contribution, SEK m	355	248	193
Active return contribution, %	0.0	0.1	0.1
Active earnings contribution, SEK m	101	282	110

High-yield fixed income benefited from relatively high interest rates in the portfolio and new investments at relatively high interest rates, as well as a lack of credit losses in the portfolio. During the year, the Fund invested in Proventus Capital Partners III.

Absolute return

At year-end, the market value of the Absolute return sub-portfolio was SEK 1.8 billion, corresponding to 0.6% of the AP4's total assets.

The Absolute return sub-portfolio performed well, with a return of 11.9%.

Management of Absolute return delivered a positive active return contribution of 0.0 percentage points, corresponding to SEK 24 million.

Absolute return	2014	2013	2012
Market value, SEK bn	1.8	1.6	1.1
Percentage of AP4's assets	0.6	0.6	0.5
Return, %	11.9	14.9	0.1
Earnings contribution, SEK m	190	188	1
Active return contribution, %	0.0	0.0	0.0
Active earnings contribution, SEK m	24	-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.

Emerging Markets sub-portfolio

At year-end, the market value of the externally indexed emerging markets position was SEK 8.3 billion, corresponding to 2.8% of the AP4's total assets.

The geographic exposure Emerging Markets is managed under Strategic management with a long-term investment horizon, which allows more scope to cost-effectively handle the externally indexed position.

Emerging Markets	2014	2013
Market value, SEK bn	8.3	7.7
Percentage of AP4's assets	2.8	3.0
Return, %	2.3	-1.1
Earnings contribution, SEK m	186	-116
Active return contribution, %	0.0	0.0
Active earnings contribution, SEK m	-51	4

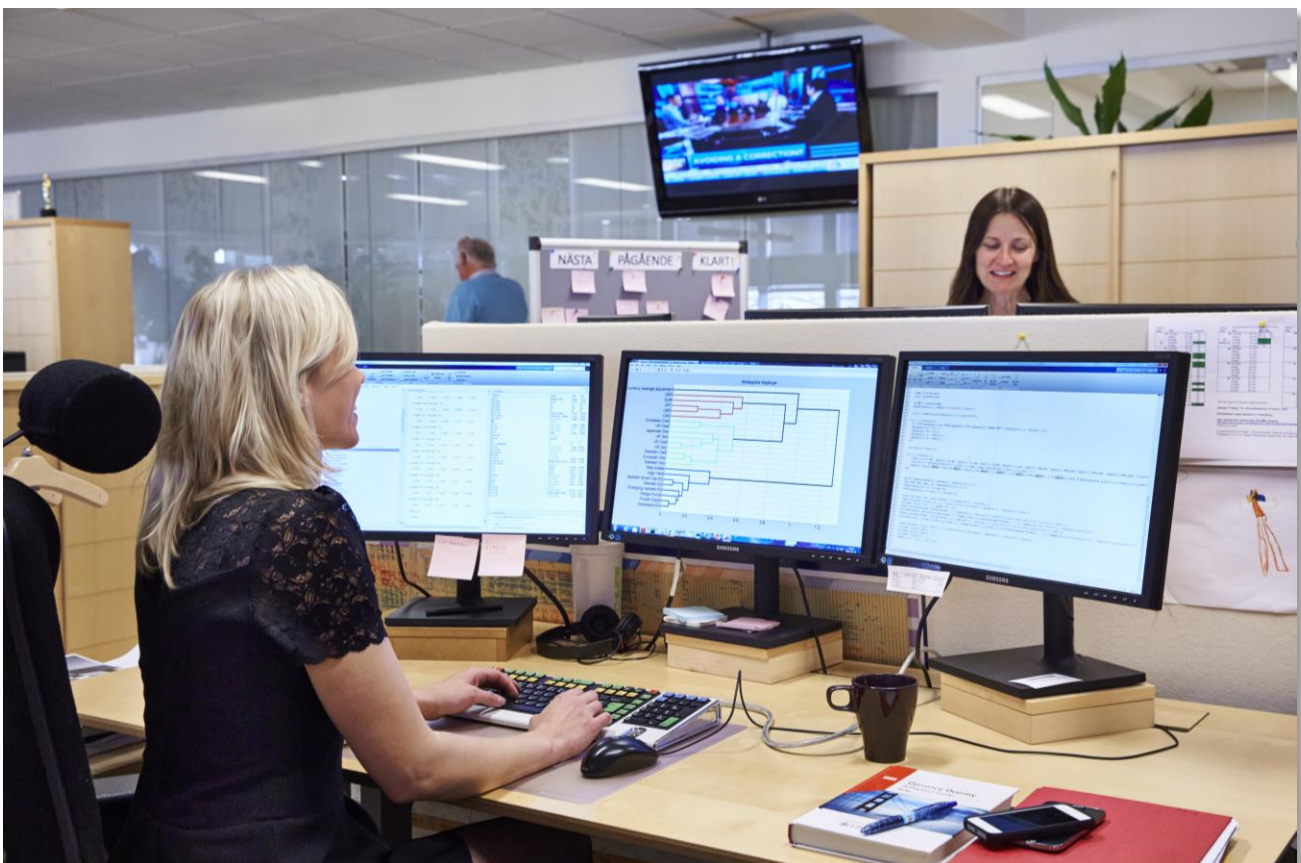
Strategic macro management

Strategic macro management consists of resolved discrepancies between the asset allocation of the Strategic portfolio and the Normal portfolio. Positions can be taken between asset classes, currencies and with regard to duration levels in the fixed income portfolio. Positions may also be taken to hedge the Strategic portfolio against price drops. The investments are based on AP4's analyses of discrepancies from fundamentally justifiable values.

The strategic macro positions gave a negative active return contribution of -1.1 percentage points (-0.1), which means an active earnings contribution of SEK -2,634 million (54).

Strategic macro positions in 2014:

- **Asset class** Overall, strategic asset allocation generated a weakly negative active return contribution of -0.1 (-0.2), which corresponds to an earnings contribution of SEK -188 (-465) million. An overweight position in European equities in relation to US equities was the main factor underlying the negative contribution to earnings.
- **Currencies** The strategic currency positions generated an active contribution of 0.2 (-0.1) percentage points, corresponding with SEK 470 (15) million. An overweight in USD in relation to EUR, JPY and SEK was the main factor underlying the positive outcome.
- **Duration** AP4's decision to have a shorter duration in the Strategic portfolio in relation to the Fund's Normal portfolio generated an active contribution of -1.2 (0.2) percentage points, corresponding to SEK -2,916 million (503). Sharply falling interest rates in 2014 produced the negative result.



Tactical management

Tactical management delivered SEK 1.4 billion in additional profit contribution during the year for a positive active return of 0.7 percentage points, thereby overshooting the target.

Positive active return for 12 consecutive six-month interim periods

It was the twelfth consecutive six-month interim period since the introduction of the new management organisation, that AP4's tactical management delivered a positive active earnings contribution. The positive additional contribution for the past six years amounts to nearly SEK 8 billion.

Tactical management's remit is to create excess return by capitalising on pricing disparities with a view to outperforming the earnings of passive index management.

Tactical management works with AP4's shortest investment horizon, up to three years. The outcome is evaluated over a rolling three-year period.

Good risk-adjusted return

The information ratios of the management units, which show risk-adjusted return, are generally high. See the table below. Values

over 0.5 for individual years are usually considered to be a good result. This means that AP4's risk-adjusted return has been very good since the new management organisation was set up.

Active and risk-adjusted return, 1 Jan 2014–31 Dec 2014

Tactical management	Active return, %	Information ratio 12-month	Active return contribution ² , %	Active earnings contribution, SEK m
Global equities	0.6	1.7	0.2	496
Swedish equities	-0.6	neg.	-0.1	-156
Fixed income	1.3	3.2	0.4	1,120
Equities index ¹	-0.0	neg.	0.0	3
Currency ¹	-0.0	neg.	0.0	-35
Total tactically managed assets	0.7	2.9	0.6	1,427

¹ Active return based on total investment assets.

² Total active return contribution deviates from total active return because the basis (the denominator in the calculation) for the total active return contribution is total investment assets compared with total active return, in which tactical managed assets serve as the basis.



• Global equities sub-portfolio

The Global equities sub-portfolio performed well during the year. At year-end, the market value equalled SEK 98 billion, corresponding to 33% of AP4's total assets.

The return for the full year was 10.9%, outperforming the benchmark index by 0.6 percentage points. This gave a positive active earnings contribution of SEK 496 million.

Over a rolling three-year evaluation horizon, the sub-portfolio generated a positive active earnings contribution of SEK 1,547 million.

Global equities	3 years (on annual basis)			201
	2014	2013	2	
Market value, SEK bn	98	88	85	
Percentage of AP4's assets	32.8	34.3	37.2	
Return, %	18.5	10.9	27.8	17.4
Active return, % points	0.7	0.6	1.0	0.4
Information ratio	2.4	1.7	4.1	1.7
Active earnings contribution, SEK m	1,547	496	759	292

The Global equities portfolio focuses on selecting external managers, portfolio composition and index management.

The active management is conducted in a number of portfolios by external managers. The managers are selected to provide great diversification in return sources. They differ in terms of region, information sources and investment strategies. The active management's total portfolio is thereby less sensitive to changes in market factors, enabling a sound risk-adjusted return over time.

The Global equities management is responsible for selection of and allocation to external managers who are considered to be highly likely to successfully pursue active management. The external management is monitored through a structured evaluation process based on both qualitative and quantitative methods that is made possible through a high degree of transparency.

Since the start in the autumn of 2010, the active management has outperformed the index and delivered stable, positive active earnings with just a few minor periods of negative return. The internal index management is conducted with a focus on cost efficiency, sound execution and low risk. Since the beginning in 2009, it has on average delivered a positive return.

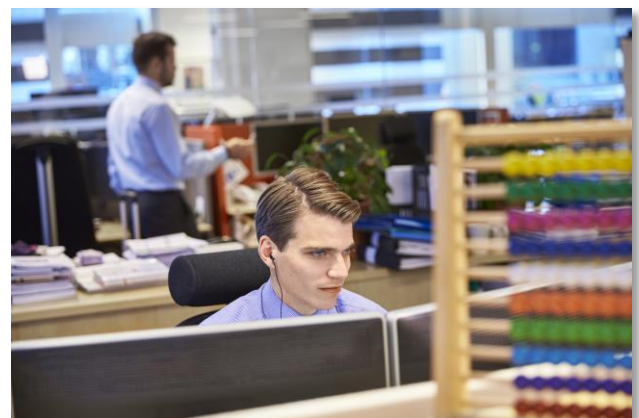
Sustainability integration into management continues. An external consultant screens all holdings twice a year, with regular reporting in between these analyses. The consultant gathers and verifies information from a large number of sources, including various UN sources, media and reports from different voluntary organisations and interest groups, and matches AP4's holdings against this database. The intention is to pick up on any violations by the companies of international conventions regarding, for instance, the environment, human rights and corruption and include this information in the management analysis and corporate governance work.

AP4's index management is chiefly run in-house and has long met PRI index management requirements on:

- voting
- dialogue with companies regarding any incidents and improvements
- activities of a more long-term nature, such as proactive industry projects through the Ethical Council of the AP Funds

These efforts are conducted through AP4's corporate governance unit and the Ethical Council.

Global equities management holds regular with the corporate governance unit, which also serves as AP4's representatives in the Ethical Council of the AP Funds. Meeting participants share relevant information about developments concerning the various companies' sustainability initiatives, the Ethical Council's activities, and the investment activities of the global equities management.



• Swedish equities sub-portfolio

At year-end, the Swedish equities sub-portfolio, both active and passive (index management), equalled SEK 32 billion, corresponding 11% of AP4's total assets.

The return for the full year was 14.1%, falling short of the benchmark index by 0.6 percentage points. This gave a negative active earnings contribution of SEK -156 million.

Over the rolling three-year evaluation horizon, the sub-portfolio gave a positive active earnings contribution of SEK 219 million.

Swedish equities (active and passive management)	3 years (on annual basis)	2014	2013	2012
Market value, SEK bn		32	31	35
Percentage of AP4's assets		10.8	11.9	15.7
Return, %	19.0	14.1	26.4	16.9
Active return, % points	0.2	-0.6	0.4	0.7
Information ratio	0.4	neg.	2.3	2.2
Active earnings contribution, SEK m	219	-156	135	240

The active sub-portfolio with Swedish equities is pursued based on fundamental company analysis. The investment strategy focuses on companies with attractive valuation in relation to anticipated future prospects. Visits to the companies are the primary source of information and AP4's management meets regularly with corporate management for the majority of the portfolio holdings. Sustainability and corporate governance are part of the management process. Companies' work with sustainability (environment, ethics and governance) are therefore included in management's assessment of the company as well as its share price risk and price potential. Corporate governance is part of the management strategy.

The internal index management is conducted with a focus on cost efficiency, sound execution and low risk.

Sustainability is integrated into the management in the process through which an external consultant screens all holdings twice a year, with regular reporting in between these analyses. The consultant gathers and verifies information from a large number of sources, including various UN sources, media and reports from different voluntary organisations and interest groups, and matches AP4's holdings against this database. The intention is to pick up on any violations by the companies of international conventions regarding, for instance, the environment, human rights and corruption and include this information in the management analysis and corporate governance work.

Weekly meetings are held between Swedish equities management and the corporate governance unit. The units meet twice a week at which relevant sustainability issues are reported and discussed in a structured way, concerning both the ongoing management and AP4's nominating committee. The units sit next to each other and also hold regular reconciliation checks regarding various matters related to sustainability and other ownership issues.

Swedish and Nordic listed companies are on the whole well managed enterprises that nurture their brand and work to conduct their business in a sustainable manner. Nevertheless, environmental or ethical incidents can occur. When such instances or suspicions of an unsatisfactory state of affairs come to the attention of AP4, the management and corporate governance unit check with each other regarding the situation and contact the company's management to verify facts. AP4 requests information about the actions the company is taking to solve the problem and what is being done to minimise the risk of anything similar occurring again. If the problem cannot be resolved immediately, AP4 follows up on the issue to ensure that the company is following an action plan with measures to remedy the unsatisfactory state of affairs. The companies generally take care to provide pertinent information and to solve any problems.



• Global macro management

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**, which generates active returns through trading in and between different indices.

Global economies are developing in different directions

In 2014, five years after the stock market crash of 2008, the major economies around the world began to develop in different directions. Europe and Japan began to weaken to almost recession, while the US pulled even further away with strong growth. Consequently, the central banks acted in different directions. In the US, the FED completed its bond purchasing programme and flagged for rate hikes in 2015. The ECB cut interest rates to negative and flagged that it would start buying government bonds in the eurozone. The Bank of Japan further expanded its asset purchase programme to become the largest purchase programme ever worldwide. The Swedish central bank surprised markets during the year by not raising interest rates, but instead, cutting rates to zero.

Meanwhile, geopolitical risks increased sharply during the year. The major events were Russia's conflict and partial annexation of Ukraine and ISIS in the Middle East. These events had the greatest impact on the local markets where the conflicts are taking place. The major global markets were relatively unaffected by the turmoil, mainly because of the gigantic stimulus programmes and liquidity that the major central banks were providing to the world.

The financial markets saw hefty fluctuations during the year. Stock markets rose during the year due to additional stimulus measures or deferred austerity from central banks.

Interest rates fell sharply during the year in all major markets, including the Swedish market. Most markets traded at new "all time low" levels and even negative levels. The sharply declining interest rates were a big surprise for markets, which in early 2014 expected rising interest rates during the year. Commodities, especially oil, fell sharply in 2014 as a result of a combination of falling demand and rising supply. The falling commodity prices compounded the declining global interest rate as they reinforced the negative inflationary pressures.

Currencies moved substantially during the year as a result of diverging economies and central bank policies. The large fluctuations resulted in a stronger USD and weaker EUR and JPY. Most other currencies also weakened against the USD.

Fixed income management

At year-end, the market value of the fixed income portfolio equalled SEK 100 billion, corresponding to 33% of AP4's assets.

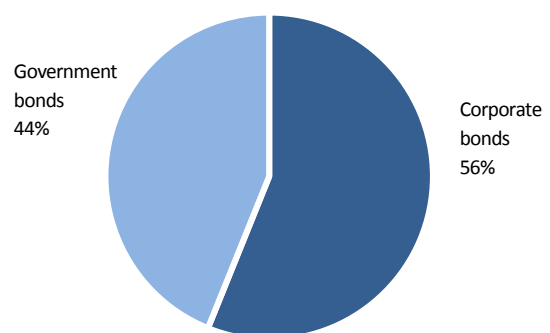
The return for the full year was 7.8%, outperforming the benchmark index by 1.3 percentage points. This gave a positive active earnings contribution of SEK 1,120 million.

Over the rolling three-year evaluation horizon, the sub-portfolio generated a positive active earnings contribution of SEK 2,136 million.

	3 years (on annual basis)		
	2014	2013	2012
Fixed income management			
Market value, SEK bn	100	83	82
Percentage of AP4's assets	33.0	32.0	36.1
Return, %	4.5	7.8	-0.2
Active return, % points	0.9	1.3	-0.1
Information ratio	1.4	3.2	neg.
Active earnings contribution, SEK m	2,136	0	-42

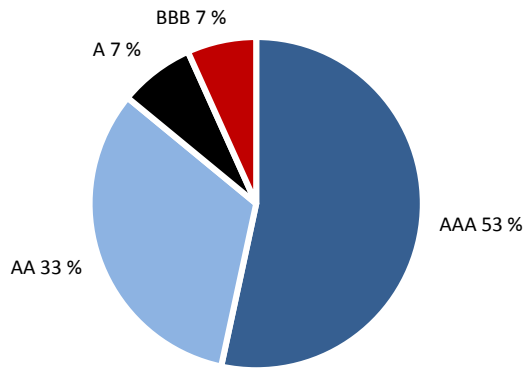
AP4's fixed income management was substantially overweighted in corporate bonds, which along with an actively managed credit portfolio, contributed very positively to active earnings. The largest contributions come from trading in government bonds from the US, Australia and Sweden.

Bond holdings by issuer 31 Dec 2014



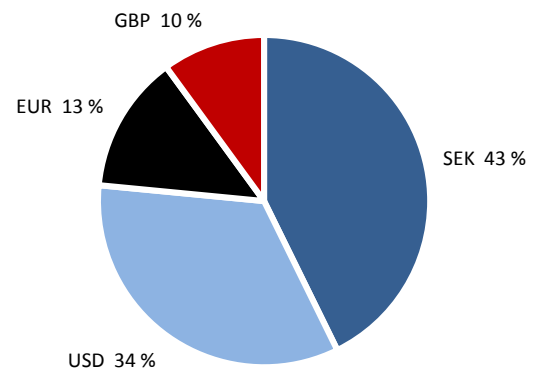
Corporate bonds account for more than half of the bond holdings.

**Bond holdings by rating class
31 Dec 2014**



AAA-rated bonds account for more than half of AP4's bond holdings.

**Bond holdings by currency
31 Dec 2014**



Bonds denominated in SEK and USD account for more than three quarters of AP4's bond holdings.



Green bonds

The market for green bonds is rapidly growing, as is the number of issuers. Occasionally the potential to create excess returns has been good, which can benefit AP4 in both the short and long term.

The sustainability target for fixed income management, within AP4's focus area of climate change, is to provide financing for more green projects by:

- being active in the primary market for the issue of green bonds.
- participating in trading of green bonds on the secondary market in order to help the asset class to become liquid and more attractive.

Management continually evaluates the green bonds and invests in them when they meet AP4's sustainability and profitability criteria.

The green bonds have made a positive contribution to the return and earnings of the tactical fixed income portfolio.

During the year AP4 participated in 14 issuances of green bonds for a total investment value of SEK 2.9 billion, corresponding to about 1% of the total volume of green bonds in the primary market globally.

AP4's green bonds make a positive contribution



“When we buy and sell green bonds, they have to meet the same criteria for rate of return and trading strategies as ‘regular’ bonds. In this way, we contribute to the emergence of an efficient secondary market for green bonds.”

Interview with Ulf Erlandsson, senior portfolio manager, who has built and manages AP4's green bond portfolio.

Why is the secondary market important?

“Our internal goal is to promote the emergence of an efficient secondary market; in other words, a liquid market where people can buy and sell green bonds. As a result, more people have the opportunity to invest in green bonds and the asset class is growing,” says Ulf.

“There is always a risk that some investors may simply buy green bonds to meet an in-house target, without considering the profitability of the investment, just to be able to say that they invest ‘green’. I don’t think this promotes the growth of green projects with financing via green bonds. You could call it a modern form of indulgence, to exaggerate just a bit. I believe that long-term financially sustainable measures that improve the environment should be integral to any business, rather than just an opinion or a hat that you put on when it’s convenient.

Are green bonds a guarantee for environmentally responsible behaviour?

“No, calling a bond a ‘green bond’ is no guarantee that it is green. It isn’t a protected classification. There is an industry standard from banks and third-party organisations that provide certification according to certain standards, such as setting criteria for the process of selecting investment projects. But as an investor, you are still responsible for investigating whether the borrower lives up to a standard,” says Ulf. That’s why when I meet companies I usually ask “What’s the dirtiest project you have?” Those who have an answer have usually carefully thought things through. It’s a simple rule of thumb.”

Foreign exchange management

Foreign exchange management's active return totalled 0.0 percentage points, corresponding to a negative active contribution to earnings of SEK -35 million.

Over a rolling three-year evaluation horizon, the sub-portfolio generated a positive active earnings contribution of SEK 252 million.

Foreign exchange management	3 years (on annual basis)	2014	2013	2012
Active return, % points	0.0	0.0	0.1	0.1
Information ratio	0.5	neg.	0.9	0.7
Active earnings contribution, SEK m	252	-35	117	171

Foreign exchange management is divided into two mandates: one foreign exchange mandate and one 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 implements and rebalances AP4's currency exposure.

The negative result can mainly be attributed to short positions in the EUR against the NOK and short positions in the AUD against the

USD, as well as the positions for higher short-term interest rates in Sweden and the US. Short positions in the EUR against the USD made a positive contribution to the result.

Equities index

The active return in the equities index totalled 0.0 percentage points, corresponding to a positive active earnings contribution of SEK 3 million.

Equities index	3 years (on annual basis)	2014	2013	2012
Active return, % points	-	0.0	0.0	-
Information ratio	-	neg.	neg.	-
Active earnings contribution, SEK m	-	3	-74	-

*The Equities index sub-portfolio was started in 2013.

Equities index trading made a positive contribution by taking positions in equities indices in the US and Europe, as well as between different subindices. Trading between bond and equity indices in the US and Europe gave a positive contribution.



Overview sustainability and corporate governance work

- **Two focus areas - climate change and corporate governance.** These areas were selected because they have a major financial impact on all of AP4's investments. Moreover, AP4 believes that the Fund's knowledge and experience in these focus areas provides an opportunity to contribute to creation of sustainable values over the long term.

Climate change as a focus area entails helping to stop global warming, which has enormous consequences for the earth, its natural resources and its inhabitants. Climate change will affect all investments and is extremely expensive for governments, companies and individuals to address. With that insight AP4 promotes policies to reduce carbon emissions.

Corporate governance as a focus area entails owners actively taking responsibility, influencing and contributing to creation of long-term sustainable values in companies. Corporate governance encompasses the various opportunities and tools AP4 has as an owner to manage risks and opportunities in its investments by e.g. engaging in dialogue, participating on nominating committees and exercising voting rights at general meetings.

Climate change – contribute to reduced carbon emissions

Below is a summary of AP4's work in the focus area of climate change.

- **Goals** for climate change focus area adopted.
- **Low-carbon investments** to reduce exposure to companies with large emissions of carbon dioxide and fossil fuel reserves; comprised more than 10% of the global equities portfolio at year-end.
- **Initiative to reduce carbon emissions with UN support – Portfolio Decarbonization Coalition, PDC**, was started and is run by AP4 together with the United Nations Environment Programme (FN UNEP), Carbon Disclosure Project (CDP) and French pension administrator Amundi. The PDC urges investors to measure and disclose their indirect emissions in their asset portfolios, the carbon footprint, as well as to help to reduce their carbon footprint through various strategies. The PDC was launched during the UN Climate Summit in New York in the autumn of 2014.
- **AP4 is one of the ambassadors for the PDC** which is being run with a view to the Paris climate meeting in December 2015.



Mobilizing financial markets to catalyze economic decarbonization

- **AP4's indirect carbon dioxide emissions, carbon footprint**, is 29% lower than the benchmark index. The carbon footprint is a representation of the indirect carbon emissions that AP4 has through investments in listed companies in the equities portfolio.
- **Montreal Carbon Pledge**, is part of the UN Principles for Responsible Investments (PRI) initiative, which AP4 supports. This means that AP4 is one of several international investors that has publicly pledged to annually measure and disclose their indirect carbon emissions, or carbon footprint.
- **Green bonds** is an asset class that is growing and during the year AP4 has continued to participate in issuances and contribute to an active secondary market.

Corporate governance

Below is a summary of AP4's work in the focus area of corporate governance.

- **Goals** for corporate governance focus area adopted.
- **Dialogues** held regularly with companies, especially with Swedish companies. AP4 has had one or more contacts with about 150 Swedish companies during the period.
- **Nominating committees** During the period, AP4 participated in 11 nominating committees for Swedish companies, chairing one of them.
- **Increasing the proportion of female directors** is an initiative that AP4 has pursued for many years. In companies where AP4 served on the nominating committee and which held annual general meetings in the spring of 2014, six out of a total of eleven newly elected directors were women, corresponding to 54%. This proportion of newly elected women directors is higher than for the stock market at large, where the corresponding proportion is around 42%.

AP4 supports the Swedish Corporate Governance Board's clarified recommendations in the Swedish Code of Corporate Governance (the Code) to promote an increased proportion of women on company boards in Sweden.

- **Prior to the spring AGMs** AP4 conducted **more than 20 shareholder dialogues** with Swedish companies. These dialogues produced positive effects, in many cases with better motivated terms for resolutions to be proposed at the AGM and improved information dissemination from the companies.
- AP4 participated at **71 Swedish AGMs**.
- AP4 exercised its voting rights at **481 shareholder meetings outside Sweden**.
- **AP4's equities strategies in Japan and Europe** with explicit **focus on corporate governance** have developed well during the period.
- AP4 supported **Japan's first Stewardship Code**, which was adopted in Japan in the spring. AP4 was one of the foreign pension funds that provided comments and suggestions on the Japanese Code in the "public consultations" that preceded the final draft.
- AP4 works in the **Ethical Council** of the AP Funds to achieve positive change in foreign companies regarding the environment and ethics. The Ethical Council conducted about 300 dialogues--both preventive and what are known as incident dialogues--with foreign companies in 2014. In the autumn of 2014 the Ethical Council held a seminar for companies with the theme of *How to implement the UN Guiding Principles for Business and Human Rights*. The 2013 annual report of the Ethical Council was published in the spring of 2014.



More information is available at www.ap4.se.



Targets and outcomes – climate change focus area

Climate change focus area - contribute to reduced carbon emissions, safeguard AP4's assets and returns from an expected revaluation of carbon emissions and fossil fuel reserves, and contribute to the transition to a climate-neutral society.

Objective, overarching	Objective / Time	Outcome / comments
Increase the proportion of low-carbon strategies in AP4's Listed equities portfolio.	Interim objective 2014 <ul style="list-style-type: none"> formulate a low-carbon strategy for Europe. 10% of global equities portfolio in low-carbon strategies. 	Achieved.
	Interim objective 2015 <ul style="list-style-type: none"> formulate a global platform for low-carbon strategies. 25% of global equities portfolio in low-carbon strategies. 	In progress.
	Interim objective 2020 <ul style="list-style-type: none"> 100% of global equities portfolio in low-carbon strategies. 	In progress.
Measure AP4's carbon footprint in listed shareholdings.	Achieved in 2014	Achieved in autumn 2014
Analyse how the carbon footprint of other asset classes can best be measured.	Achieved in 2015	In progress.
Encourage investors worldwide to measure their carbon footprint and invest in low-carbon strategies.	A global initiative/collaboration achieved in 2014	In progress. The Portfolio Decarbonization Coalition (PDC) was started in 2014, together with Amundi, CDP and FN UNEP. The PDC was launched at the UN Climate Summit in New York in the autumn of 2014.
AP4 is an ambassador for the UN-supported Portfolio Decarbonization Coalition (PDC) initiative to encourage investors to commit through their actions to ensuring that emission reductions end up on the agendas of politicians, industries and companies.	AP4 will contribute to ensuring that, in the run-up to the Paris climate meeting in December 2015, global investors will: <ul style="list-style-type: none"> measure the carbon footprint of assets worth USD 500 billion. invest capital in low-carbon strategies for USD 100 billion. 	In progress.
Contribute with knowledge about low-carbon strategies and green bonds. Management is allocating time to share their knowledge and experiences with other institutional investors	2014: Upon request. 2015: Upon request.	In progress. In 2014 AP4 held 30 presentations upon request, including conferences and in other official contexts, to share knowledge and experiences.
Contribute capital to more green projects by: <ul style="list-style-type: none"> being active during issuance of green bonds. participating in trading of green bonds and helping to make the class attractive, so that it grows. 	Annually: <ul style="list-style-type: none"> Continually evaluate and invest in green bonds when they meet AP4's sustainability and profitability criteria. 	In 2014 <ul style="list-style-type: none"> Participated in 14 issuances with an investment value of SEK 2.9 billion. This corresponds to about 1% of the total volume of green bonds in the primary market globally. AP4 has been active in the secondary market. Positive active return during the year for the sub-portfolio.

Targets and outcomes – corporate governance focus area

Corporate governance involves, for AP4 as an active owner, taking responsibility and influencing the development of companies to become successful and deliver long-term sustainable returns, which in turn can contribute to safe and secure pensions.

Good corporate governance is essential to generate value in companies and is exercised through practices such as closely monitoring corporate development, analysing various issues and communicating a clear picture to corporate boards and managements about what owners expect.

Objective, overarching	Objective / Time	Outcome / comments
Agree to participate on nominating committees when asked.	Nomination season 2013/2014: Asked to participate on 11 nominating committees.	Agreed to all requests.
Work to achieve a good board composition at those companies where AP4 participates on nominating committees.	Annually. As part of the board review, to interview all or part of the Board of Directors of companies in which AP4 is a member of the nominating committee.	Interviews with directors were carried out at all companies.
When serving on the nominating committee, strive to increase diversity on boards, especially regarding gender balance. Help companies to live up to Code requirements.	Annually. When serving on the nominating committee, ensure that <ul style="list-style-type: none"> at least one woman is on the shortlist when appointing new directors. efforts are made to meet the Code's recommendations on the proportion of female directors. 	<ul style="list-style-type: none"> In the nominating committees where AP4 participated in 2013/14, all shortlists included at least one woman for new appointments. Of proposed new directors during the 2014 AGM season, 6 of 11 were women, equivalent to 54%.
Exercise voting rights at Swedish AGMs, in companies in which AP4 has large holdings, holds among the most votes and/or for fundamentally important issues.	2014: Objective to be represented and address issues raised at about 60 meetings during the spring 2014 AGM season.	AP4 participated at 71 meetings, was present at 63 and by proxy at 8 AGMs.
Increase diversity on boards in terms of gender balance and help companies live up to Code requirements.	2014/2015: Identify and contact a number of nominating committees at companies in which AP4 has significant holdings and that are deemed to require extra effort to increase the proportion of women on the board. Provide support and suggestions of directors.	In progress.
Exercise voting rights at AGMs for foreign companies in which AP4 has large holdings and / or pursue a dialogue with the company regarding certain issues that may be appropriate for the shareholders' meeting to address.	2013/2014: Objective to assess issues addressed and vote at a total of 500 AGMs in the US, Japan, Canada, the UK, Australia, France, Germany, Switzerland, the Netherlands, Spain, Ireland and Belgium. 2014/2015: Increase the number of AGMs to 550 in the same countries as above	2014: Exercised voting rights at 481 AGMs. The target of 500 companies was not achieved because of problems with the supplier of the voting platform. AP4's votes cast for AGMs in Japan were not recorded. The problem has been corrected.
Promote development of good corporate governance in Japan.	2013/2014: Support development of a Japanese Stewardship Code. 2014/2015: Continue to support the Japanese version of the stewardship code and support development of a Japanese corporate governance code.	<ul style="list-style-type: none"> AP4 was one of the international investors that provided input during the public consultation round in 2014 on the draft of the Japanese version of Japan's Stewardship Code. In 2014 AP4 signed a pledge to support the Japanese code and published the announcement at www.ap4.se in compliance with the requirements of the Japanese Code.
Invest additional capital in funds that actively work to promote better stewardship and corporate governance in markets and companies.	2014: Invest additional capital in Japan and a European fund. 2015: Evaluate and look for more funds.	Additional capital invested in Japan. Invested capital in a fund that works with European companies.

Materiality and stakeholders

Under the materiality principle, AP4 is focusing on integrating sustainability in asset management, an initiative that has been underway for many years.

AP4 is constantly working to address risks and opportunities in management, including those arising from sustainability (environment, ethics and governance). Including sustainability in investment analyses is a necessity to conduct successful long-term management.

Organisation and responsibility for sustainability in management

Each year AP4's Board of Directors adopts an ownership policy that summarises the guidelines for corporate governance in Swedish and foreign companies. The CEO leads sustainability initiatives and delegates responsibility for integration of sustainability to the head of each management unit, who reports to the Chief Investment Officer and the CEO about the work. The corporate governance unit reports directly to the CEO and also supports integration of sustainability into management units. AP4's representatives on the Ethical Council of the AP Funds work in the corporate governance unit. AP4's ownership policy is available at www.ap4.se

Guiding principles of AP4's ownership

- AP4's fundamental values, which are based on the Fundamental values of the Swedish state and international Conventions.
- AP4's ownership policy
- Swedish Code of Corporate Governance (Code)
- Principles for Responsible Investment (PRI), a United Nations initiative for responsible investments.
- United Nations Global Compact
- OECD Guidelines for Multinational Enterprises
- ILO fundamental rights conventions

AP4's ongoing sustainability initiatives include work with dialogues and AP4's focus areas, as well as the focus areas and initiatives pursued by the Ethical Council of the AP Funds. These issues include anti-corruption, human rights, labour rights, health and safety, pollution, biodiversity, etc., in foreign companies.

Focus areas in sustainability

In addition to its ongoing sustainability initiative, during the year AP4 chose two focus areas: **corporate governance** and **climate change - reduce CO2 emissions**. AP4 chose these focus areas because:

- they are considered to be important for return and the performance of all assets.

- AP4's knowledge, commitment and potential for impact can make a difference and have a positive influence on return on assets over the long term.

Corporate governance entails how AP4 as an owner actively takes responsibility and influences conditions with the funds AP4 has at its disposal as owner to help companies become successful and provide long-term sustainable return. This means that AP4 monitors companies' activities and development, takes a stance, conducts dialogues and communicates views and expectations to the board of directors and corporate management on various issues, including those related to the environment and ethics. This applies to both Swedish and foreign companies. AP4 believes that companies that work with the environment, ethics and corporate governance are better positioned to create sustainable positive value performance. Such companies are also usually good long-term investments.

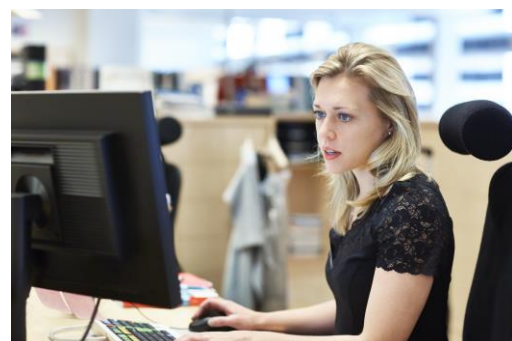
AP4's work with corporate governance and sustainability aims to:

- contribute to good long-term sustainable return.
- safeguard the best interests of shareholders and individual companies.
- take into account the unique circumstances and needs of each individual company.
- exercise the rights and obligations of ownership responsibly and sustainably.
- promote the development of good practice in the securities markets.

Climate change affects our world, living environment and society and consequently the profitability of all of AP4's investments. According to AP4's analysis, climate change is the imminent global threat to future performance and secure pensions. Several reports have highlighted the predicted effects of climate change, along with assessments of how the earth will suffer at various expected temperature increases.

AP4's direct environmental impact and employees

AP4's direct impact on the environment with about 50 employees in an office environment in Sweden is relatively low. Business travel and electricity consumption have the greatest impact on the environment. AP4's employees are the Fund's most important resource. The focus is on offering education, wellness activities, job satisfaction and the opportunity for professional development.



Stakeholders

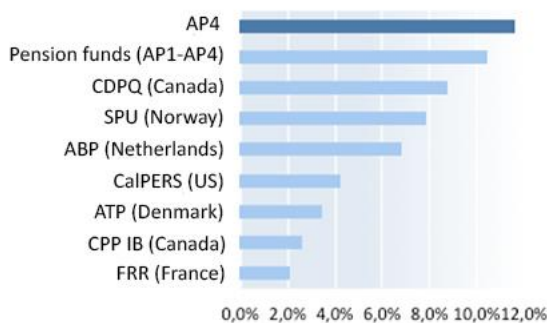
As a Swedish National Pension Fund, AP4 has many stakeholders. From the individual Swede—i.e., current and future pensioners—to the Riksdag, which established and enacted the Swedish National Pension Funds Act, and to the principal, the Government, which appoints the AP funds’ boards and evaluates the work. Other important stakeholders include AP4’s employees, whose commitment and expertise are critical success factors for managing the fund capital. Additional stakeholders are Swedish and foreign companies in which AP4 owns shares or has claims, service providers, including financial services, as well as the media and various interest groups, which monitor and address various issues. Key stakeholders also include other institutional pension funds in Sweden and globally with which AP4 collaborates and/or competes.

AP4 regularly meets a large number of these different stakeholders in private meetings and provides information about the Fund’s activities, while listening to views and opinions about its work.

Principal’s evaluation and review

The AP Funds’ work is reviewed annually by auditors and by the Government, which has a special review conducted each year that results in a report to the Riksdag. The Government’s most recent evaluation, which was published in the spring of 2014, compared the AP funds to other international pension funds. AP funds demonstrated the highest return in a comparison denominated in SEK over the past five years.

Average return of international pension funds, 2009-2013



The graph shows the average nominal return after expenses in SEK on an annualised basis, 2009-2013. AP4’s return is competitive compared with other international pension funds.

Source: Annual reports and McKinsey & Company’s report, *Evaluation of the AP funds in 2013*, from which the sample of funds was also taken.

In 2014, the Government ordered a review of the AP funds’ work on sustainability. The assessment was that the AP funds “... perform well in an international comparison with other pension funds chosen because they have come a long way in the integration of sustainability in management”, while underscoring the importance of continued development in the area.

The report also found that the AP funds have well-developed guidelines for ownership and ownership reporting, though they could be clearer in highlighting the main issues pursued as well as results of the work, etc. The Government review also included remuneration matters and the result shows that the funds follow their internal guidelines on remuneration, staff benefits, entertainment and business travel.



View of the East Wing and the West Wing of the Riksdag building. Photo: Melker Dahlstrand. /Riksdag Administration

Stakeholder	Expectations	Dialogue
Brief from: Riksdag and government	<ul style="list-style-type: none"> Contribute to long-term financing of the pension system and act as a buffer fund. Return target, cost efficiency and transparency. Compliance with policies, legislation and rules. Systematic effort to include ethical and environmental considerations in investment analyses, 	<ul style="list-style-type: none"> Meetings, individual and in groups. Annual Government review and evaluation. External audit by auditors appointed by the Government. Reports, ownership policy and website serve as a basis for dialogue.
The pensioner (present and future)	<ul style="list-style-type: none"> Help to ensure that automatic balancing is not activated. Help to cover the deficit in the pension system. Return target, cost efficiency, transparency. Compliance with policies, legislation and rules. Systematic effort to include ethical and environmental considerations in investment analyses, 	<ul style="list-style-type: none"> Dialogue initiated at seminars and meetings. Dialogue by telephone and email, with active outreach, current and future pensioners. Participation at seminars and conferences. Reports and website serve as a basis for dialogue.
Society (representatives from various organisations, government agencies, NGOs, students etc.)	<ul style="list-style-type: none"> Contribute to long-term financing of the pension system. Help to ensure that automatic balancing is not activated. Help to cover the deficit in the pension system. Return target, cost efficiency, transparency. Compliance with policies, legislation and rules. Systematic effort to include ethical and environmental considerations in investment analyses, Responsible investments and transparency regarding corporate impact and sustainability risks in investments. Knowledge transfer. 	<ul style="list-style-type: none"> Individual meetings. Roundtables. Dialogue initiated when participating at seminars. Contacts with the academic world, including interviews and questionnaires. Contacts with organisations, government agencies and nonprofit organisations (NGOs). Reports and website serve as a basis for dialogue.
Employees	<ul style="list-style-type: none"> Interesting tasks, skills development, job satisfaction and compensation. Gender equality, diversity and openness. Long-term approach, clear objectives, delegated responsibilities and authorities, businesslike approach, transparency and cooperation. 	<ul style="list-style-type: none"> Daily dialogues. Meetings. Employee surveys,
Suppliers.	<ul style="list-style-type: none"> Business. Long-term relationships. 	<ul style="list-style-type: none"> Dialogues and negotiations Meetings.
Media	<ul style="list-style-type: none"> Transparency. Accessibility. 	<ul style="list-style-type: none"> Individual meetings. Dialogue by telephone and email. Reports and website serve as a basis for dialogue.
Other investors	<ul style="list-style-type: none"> Collaboration on corporate influence. Knowledge transfer. Long-term, dedicated and professional owners. 	<ul style="list-style-type: none"> Individual meetings and group meetings. Roundtables. Joint dialogues with companies. Collaboration through various initiative and organisations. Dialogue initiated at seminars, conferences and meetings. Reports, ownership policy and website serve as a basis for dialogue.
Company	<ul style="list-style-type: none"> Long-term, dedicated and professional owners. 	<ul style="list-style-type: none"> Individual meetings, and group meetings. Dialogues with companies. Nominating process. Roundtables Reports, ownership policy and website serve as a basis for dialogue.

UN PRI

AP4 has signed a United Nations initiative for responsible investment, the Principles for Responsible Investment (PRI).



The purpose of the PRI is to bolster responsible behaviour among companies and investors regarding ethical and environmental issues. The PRI serves as a framework for investors in their daily tasks of integrating sustainability into both asset management and their own organisations. The PRI drives developments in sustainability and also helps to increase contacts and knowledge exchange on sustainability between responsible investors around the world.

More information is available at www.unpri.org.

PRI's principles

Examples of AP4's activities

<p>1 AP4 includes sustainability in investment analyses and decision-making</p>	<ul style="list-style-type: none"> • Integrates sustainability in investment analysis and decision-making • Screens portfolios, as part of the analysis process. • Monitors academic studies in the field of sustainability. • Includes sustainability criteria in procurement and due diligence processes. • Part of ongoing dialogues with external managers. • Invests "thematically" in sustainability, such as carbon portfolio, green bonds, activist investments.
<p>2 AP4 is an active owner and sustainability is an integral component of the ownership policy</p>	<ul style="list-style-type: none"> • AP4's first ownership policy was written in the mid-1980s. AP4 engages in active dialogues with companies. • Participates at meetings, on nominating committees, and has direct contact with companies prior to meetings regarding ownership issues, including remuneration and the Board of Directors. • The ownership policy provides guidance for how AP4 takes decisions and votes. • Collaborates with other owners in sustainability issues. • Active dialogues with companies on sustainability issues. • Active dialogues with external managers, urging them to work with sustainability issues and comply with the PRI. • Participates in development of self-regulating system and maintain relations with decision-makers.
<p>3 AP4 openly reports its work on sustainability and encourages greater openness in companies</p>	<ul style="list-style-type: none"> • Engages in dialogues with companies on sustainability issues, and calls on companies to be transparent in reports, presentations and online. • Supports initiatives and resolutions aimed at: <ul style="list-style-type: none"> ○ increased transparency and ○ improved reporting of e.g. environmental issues. • Supports companies to work responsibly with environmental and social issues.
<p>4 AP4 supports and promotes acceptance and implementation of PRI's principles by other investors</p>	<ul style="list-style-type: none"> • Engages in dialogues with other investors and stakeholders regarding sustainability issues. • Participates in general and industry-specific roundtables to share AP4's knowledge and experience on sustainability issues. • Encourages external managers to sign the PRI. • Includes sustainability criteria in procurement processes. • Supports academic studies in sustainability issues.
<p>5 AP4 cooperates with others to facilitate implementation of PRI's principles</p>	<ul style="list-style-type: none"> • Ethical Council of the AP Funds, a collaboration involving AP1, AP2, AP3 and AP4. • Cooperates with Swedish and international investors, both independently and through the Ethical Council, as well as with other stakeholders. • Uses the PRI to learn about "best practices" and to support investment initiatives. • The Secretary General of the Ethical Council chairs the PRI Clearinghouse.
<p>6 AP4 reports on progress implementing PRI principles</p>	<ul style="list-style-type: none"> • Regular reporting on sustainability issues in the Sustainability and Corporate Governance Report, annual report, semiannual report, the Ethical Council's annual report and at www.ap4.se. • AP4's responses to the PRI's annual survey are publicly accessible on the PRI website.

Risk management in three steps

In order to achieve its return target, AP4 must take risks. Well-balanced active risk-taking, based on an established risk level, is a central component of AP4's successful asset management.

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:

1. Risk management
2. Ongoing risk management
3. Follow-up and control

Step 1. 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 AP4'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 management orientation through the Normal (reference) portfolio resolved by the Board, 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.

Step 2. 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 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 (up to 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. AP4 plans and analyses its strategic risk-taking with the help of stress tests and different scenarios.

[Operational risks](#) All 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.

Step 3. 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 risk analysis function and a compliance 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 AP4's three investment horizons--up to three years, 3-15 years and 40 years--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 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, increased to 6.4 (6.0). On average during the year, volatility of the AP4's liquid assets was 5.9% (5.9). In Swedish equities volatility also increased during the year and at year-end was 13.3% (12.7), and in global equities to 9.7% (9.3).

Volatility liquid assets



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



Active risk in Tactical management

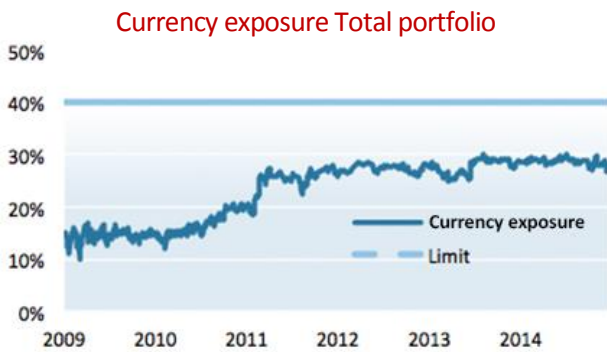
The active risk for AP4's Tactical management, measured over a 12-month historical period, was unchanged during the year at 0.2% (0.2). Please see the graph below.

Active risk in Tactical management



Foreign exchange exposure

Total open currency exposure fluctuated during the year between 26% and 31%. AP4 had the greatest exposure to the USD, which appreciated sharply during the year against the SEK. Please see graph.



Interest rate risk

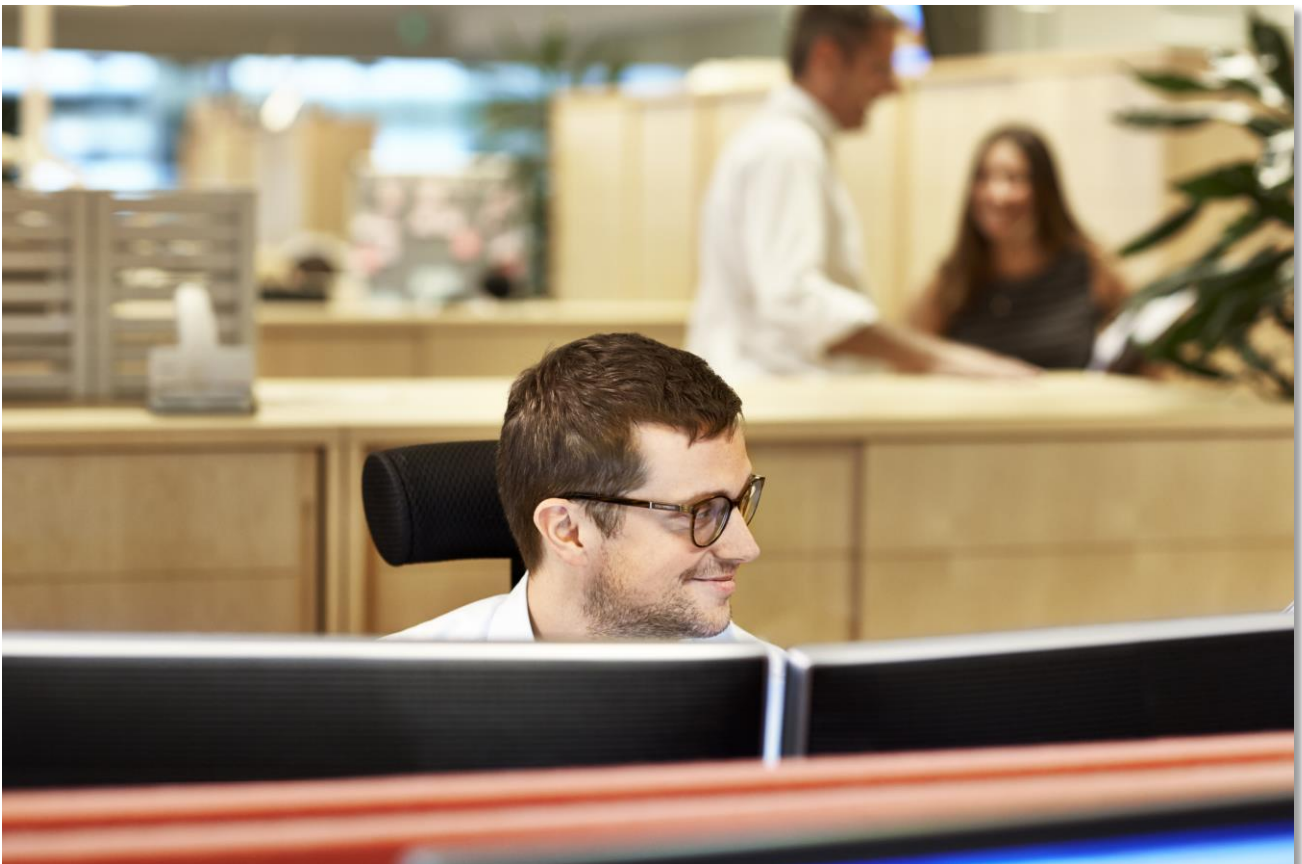
Interest rate risk, which is usually measured by using Modified Duration, fluctuated in 2014 within the range limit set for the fixed income portfolio.

Solid information ratio for the past five years

The information ratio for Tactical management fell somewhat during the year to 2.9 (2.0). Values over 0.5 for individual years are usually considered to be a good result, which management has now shown for the past six years. The average information ratio of 2.0 over the past six years, since management was reorganised, can thus be deemed satisfactory.

High risk of financial stress

Promised monetary easing via the printing presses and lower/negative interest rates in 2015 argue against falling credit risk, but in favour of heightened risk of increased leverage among investors. These conditions, combined with uncertain political stability in countries such as Greece and Portugal and continued high indebtedness in many countries, suggest that financial uncertainty will continue.



Exposure to sovereigns

Exposure to sovereigns with a rating below AAA in the eurozone increased somewhat during the year. Exposure at 31 December 2014 is shown in the table below.

Exposure to sovereigns in the eurozone with a rating below AAA, 31 Dec 2014

Country	31 Dec 2014, SEK m	31 Dec 2013, SEK m	31 Dec 2014, SEK m
UK*	5,298	2,676	**
Italy	2,286	1,626	526
Belgium	850	553	418
France	843	1,473	972
Austria	322	275	281
Finland	288	**	**
Total	9,886	6,604	2,198

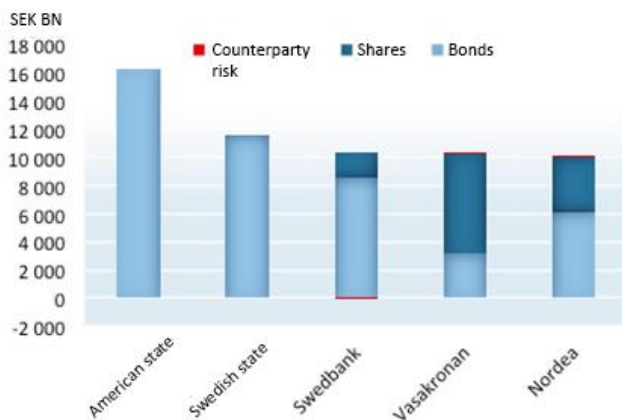
* The UK is not part of the Euro cooperation, but has still been included in the compilation.
 **The UK had a AAA rating in the relevant year.

Exposure to issuers

AP4 had substantial exposure to the banking and financial sector. The 15 biggest holdings collectively correspond to total exposure of SEK 55 billion (56), of which SEK 42 billion (40) is from exposure to the Swedish banking and financial sector.

AP4's five largest issuer exposures collectively account for around SEK 58 billion (50). Exposure by issuer is presented in the graph below.

Total exposure to the five largest issuer groups 31 Dec 2014

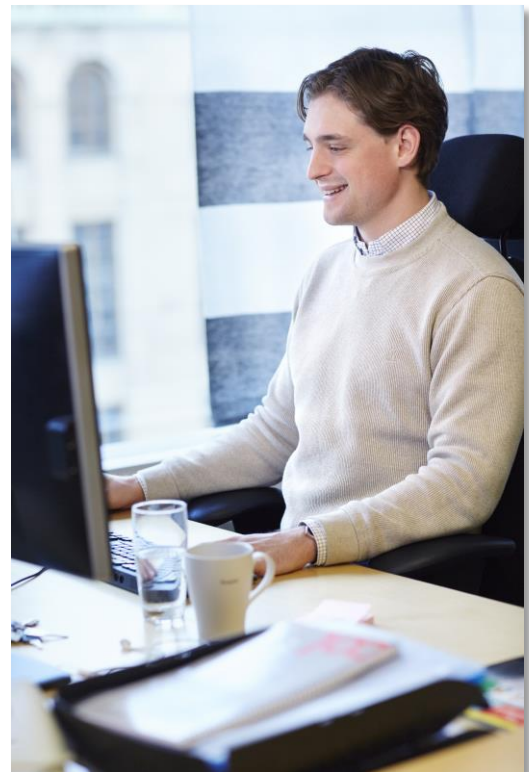
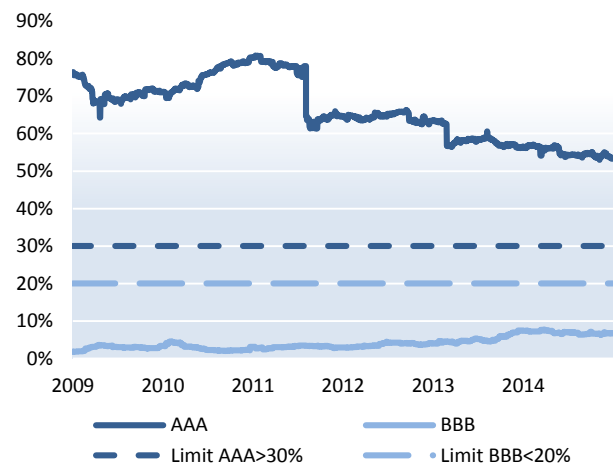


Breakdown of bond holdings

The proportion of AAA-rated bonds continued to decline during the year, but was still above 50% in the fixed income portfolio. The percentage of BBB-rated bonds, which was the lowest rating in the fixed income portfolio, was 7% on average, with a good margin to 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



The employee

At year-end 54 people worked at AP4 and it is important 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 return at low cost for many years.

At year-end 54 people worked at AP4, 25 in asset management and 29 in business support, control and staff functions.

Executive Management Committee

The Board of AP4 has delegated responsibility for day-to-day management to the CEO, who has an executive management committee consisting of five people who provide decision-making support: CEO, Deputy CEO/ Chief Investment Officer, the Head of Performance and Risk Control, the Chief General Counsel and the Administrative Director. The executive management committee takes Fund-wide decisions on annual plans, prioritisation of projects, policy documents, budget follow-up and personnel issues.

In addition there are two different management bodies. The business management consists of representatives from the different management units, the Deputy CEO/Chief Investment Officer and the CEO. The business management holds discussions to gain support for strategies and business decisions.

The other management body is responsible for AP4's development initiatives and consists of the executive management committee and representatives from business management.

Organisation

Asset management is organized in six units: Global equities, Swedish equities, Global macro (fixed income securities, currency and equities index), Alternative investments, Allocation and Strategic investments & Real Estate.

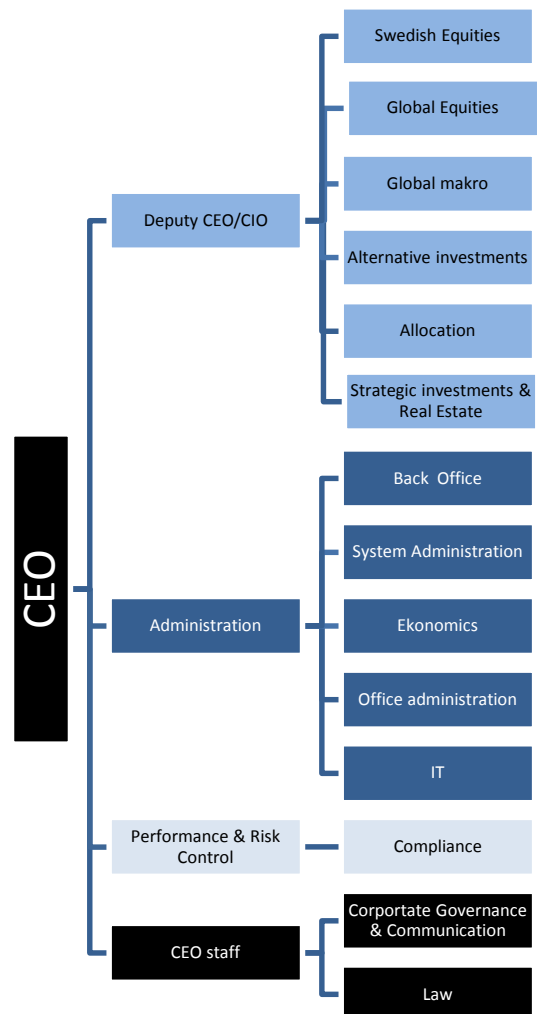
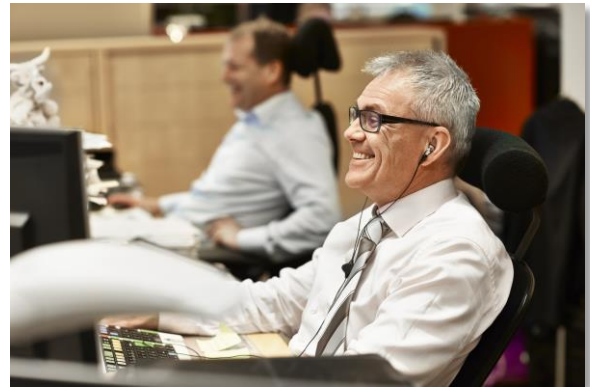
Administration is organized into the units back office, system administration, accounting, office administration and IT.

Performance and Risk Control handles risk and return analyses, and also includes the compliance unit.

CEO staff Consists of the units legal affairs, corporate governance and information.

Please see page 42 for information about the organisation and responsibility for sustainability in management.

Each year AP4 submits an Administration Report containing those parts of the Swedish Code of Corporate Governance appropriate for AP4. The 2014 Administration Report can be read and downloaded at www.ap4.se.



Key employees	2014	2013	2012	2011	2010
Number of employees, average	56	54	51	52	51
Women, %	36	33	29	31	31
Men, %	64	67	71	69	69
Number of full-time employees, average	54	52	50	51	50
Number of part-time employees, average	2	2	1	1	1
Percentage of employees covered by collective agreement	98	98	98	98	98
Average age	43.7	43.2	42.2	42.1	41.8
0-29 years, number of employees, %	5	9	10	10	8
30-44 years, number of employees, %	39	43	50	54	57
45-59 years, number of employees, %	52	46	37	37	35
60+ years, number of employees, %	4	2	3	0	0
Number of executive management committee members	5	5	5	4	9
Women, %	40	40	40	25	33
Men, %	60	60	60	75	67
Number of people in business support, control and staff functions	30	30	27	26	25
Women, %	50	43	37	38	40
Men, %	50	57	63	62	60
Number of people in asset management	26	24	24	26	26
Women, %	19	21	21	23	23
Men, %	81	79	79	77	77
Staff turnover, %	8.9	1.9	7.8	13.5	5.9
Number who started during the year	4	4	2	8	2
Number who left during the year	5	1	4	7	3
Changed position in-house during the year	1	1	2	0	0
Absenteeism, %	0.9	1.3	2.6	1.7	2.8

In 2014, 3.3% (1.75) of annual working hours were taken as parental leave, of which men accounted for 61% (62).

Employee survey

AP4's employees are the Fund's most important resource. Their commitment and expertise are critical success factors for managing the fund capital. The objective is to create an attractive workplace with opportunities for education, wellness activities, job satisfaction and professional development at work.

Each year AP4 conducts an 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.

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 each year 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.

In 2014 AP4 called for bids for a new employee survey provider. A new employee survey will be conducted in February 2015.

The employee

To promote long-term good health, all employees are offered regular physical examinations and a wellness allowance.

AP4 regularly conducts a market salary survey to ensure that wage levels and compensation packages are competitive and reasonable. More information is presented under the Remuneration heading at AP4.

Personnel and ethics-related rules

Each year AP4's Board adopts a personnel and ethics-related policy based on both statutory regulations and an unwritten code of ethics. The CEO also formulates a number of internal guidelines that are added to the policy each year. The policy and guidelines include rules on public procurement, compensation and benefits, business travel, entertainment, employees' personal trading in securities, insider information and ancillary activities. AP4's policy also includes regulations regarding bribery and conflict of interest. No incidents involving corruption, bribery or conflict of interest were identified during the year.

Each employee at AP4 is responsible for personally complying with the rules laid down in the above-mentioned policy and their underlying guidelines, which also state that moral or complex dilemmas should be investigated in consultation with the employee's immediate supervisor. Personnel and ethics-related regulations as described above form part of AP4's introductory training for new employees.

All employees are encouraged to contact their immediate supervisor, the CEO, Head of Compliance or the General Counsel if they are unsure of how to handle a situation that arises, or if they suspect irregularities, or that the internal ethical guidelines are being violated. Employees also have the opportunity to express opinions anonymously in the annual employee survey.

In 2014 training was provided to all employees regarding current procurement rules.

AP4's direct environmental impact

AP4's direct impact on the environment with about 50 employees in an office environment in Sweden is relatively low. Business travel, electricity consumption (heating and cooling of offices) and waste management have the greatest impact on the environment.

Most business travel involves visiting companies and their facilities and partners outside Sweden. Telephone and video-conferencing are used when possible as an alternative to business travel.

The building in which AP4's office is located has been awarded LEED Gold certification. LEED is a comprehensive international system in which the property is assessed on a number of points, including energy consumption, waste management, infrastructure and ongoing management. AP4 has a green electricity contract.

AP4 recycles paper and electronic waste, and also sorts cardboard, metal, plastic, batteries, light bulbs and household waste for recycling. Where possible, AP4 uses eco-labelled office supplies and recycled paper for office activities and works to reduce paper consumption.

AP4's direct environmental impact	2014	2013
Total energy consumption in own offices kWh/m ²	70.3	77.6
District cooling consumption in own offices kWh/m ²	67.4	58.1
Heat consumption in own offices kWh/m ²	70.3	77.6
Water consumption m ³ /m ²	0.4	0.4
Paper consumption kg/employee	20.2	23.1
Percentage of eco-labelled paper of total paper consumption	100	100
Business travel by air, km	571,980	72 269
Business travel by air, emissions tons CO ₂	64.2	78.2

Suppliers and purchasing

As a financial player with relatively few office workers, AP4's suppliers are mainly service providers. Such services include computer systems and management services, which are required for the Fund to be able to conduct competitive asset management. Procurement of services and equipment complies with the Swedish Act (2007:1091) on public procurement. Wherever possible AP4 purchases office equipment and consumables that are eco-labelled and organic.



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 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 the AP funds 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**.

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 as regards remuneration to the CEO and the Fund's executive management committee, as well as those managers who are directly subordinate to the 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.

A common **policy** for remuneration terms, staff benefits, entertainment and business travel for AP1, AP2, AP3, AP4, AP6 and AP7 was formulated in 2012, 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.

According to AP4's **remuneration policy**, total remuneration consists of fixed salary, incentive-based salary, pension and other benefits. No incentive-based salaries are paid to the CEO, senior executives or the compliance officer.

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 hired 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 is subject to the rules established in the collective bargaining agreement between BAO and SACO for all employees except the CEO. A mutual period of notice of termination of six (6) months applies for the CEO. If employment is terminated by AP4, 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

The Board has decided that a comparative analysis of the remuneration level for the executive management committee and managers directly subordinate to the Chief Investment Officer must be carried out annually. The Board commissioned a comparison with companies in the financial sector for all employees, which was presented in the 2013 Annual Report. The next planned comparative analysis of remuneration levels for all employees will cover 2015 salaries.

Remuneration to the companies' management team

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 remuneration shall not be payable to senior executives of the AP Funds, but 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."

The ownership policy guides the way

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 AP4's Board clarified and tightened up the requirements regarding remuneration programmes featuring variable pay. This was confirmed in the subsequently adopted ownership policies.

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 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. AP4's ownership policy is available at www.ap4.se

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 before the companies mail out 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.

General meetings spring 2014

Prior to the spring 2014 Annual General Meetings, AP4 conducted about 20 shareholder dialogues with companies regarding issues such as remuneration; this number was somewhat higher than in 2013.

No proposed remuneration packages were of such a nature that AP4 had reason to vote against them. There were also fewer issues per company to discuss. Most companies are usually responsive and take on board shareholders' views. Transparency from companies has also improved, probably because of many years of commitment from AP4 and other institutional owners on remuneration issues.

The Swedish 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 income pension are occupational pensions or contractual pensions, often through a collective agreement, arranged for employees by employers, as well as private 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.

Buffer funds

Funds held by the AP funds--AP1-- AP4 and AP6, constitute about 13% of the pension system's assets. They are to serve as a buffer and ensure that the pension system is in balance over the generations. The total assets of an individual AP Fund of around SEK 290 billion thus constitute around 4% of all assets in the 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 assets that are to suffice for pensions to be disbursed must be as large as the pensions to which pensioners are entitled. 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 (e.g., retirement age), wage increases and the number of people in employment.

Pensions and wage trend

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; in other words, the assets must be as large as, or larger than, the liabilities. AP4's average nominal return after expenses since 1 July 2001 is 6.0%, which is higher than the income index that increased during the same period by an average of 3.1%.

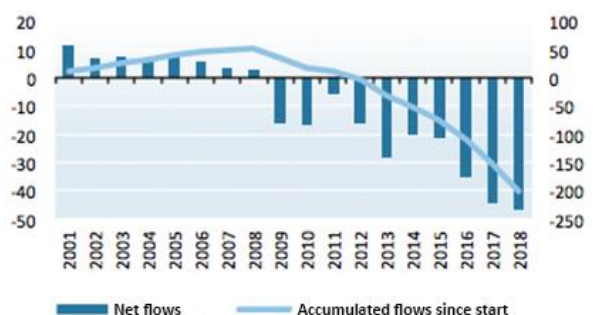
Pension system largely unfunded

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' fund capital, the buffer, because money is withdrawn from the AP Funds in the event of negative net flows.

Net outflow from the AP Funds to pensions

Since 2009 net flows have been negative, which means that disbursements to current pensioners have been larger than contributions to the pension system from current wage earners. Funds are therefore taken from the AP funds annually to meet pension payments to current pensioners. In 2014, AP4 paid out a net amount of SEK 5.1 billion (6.9) to the pension system and since 2009 AP4 has paid out a net amount of SEK 25 billion.

AP funds and net flows in the pension system



Figures for 2014 onwards are forecasts. The data are taken from Government notice 2013/14:130, Disclosure of AP funds' operating activities up to and including 2013.

According to forecasts by the Swedish Pensions Agency, disbursements to pensioners will be higher than contributions until the mid-2040s.

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. The brake is applied if the liabilities in the system are greater than the assets; that is, if the "balance ratio" (balance ratio = assets/liabilities) is less than one. This is achieved by slowing down indexing of the value of the pensions, with this process continuing until the system regains balance.

A stable pension system

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.

Proposal to change the pension system

In March 2014 the Pension Group—consisting of representatives from the Social Democratic Party, Moderate Party, Liberal People's Party, Centre Party, Christian Democrats and now the Green Party as well—presented a proposal to change certain aspects of the current pension agreement. The proposed changes are extensive and will affect the current pension system. They are divided into four areas, one of which has a major impact on the AP funds.

The current five AP funds, which belong to the income pension system, will be converted into three government agencies responsible for asset management, one of which will be based in Gothenburg. A newly created principal will set goals and devise a reference portfolio, which is currently managed by each AP fund's board of directors. The investment rules, which currently include comprehensive quantitative restrictions, will change and become more relaxed.

The other three areas concern changes in the calculation rules to achieve a smoother and more timely development of income pensions, a change in the premium pension system to reduce the spread of the final premium pension, and a change in the retirement age to better cope with the pension and welfare systems.

Several risks associated with the proposal have not yet been explored

The proposal entails a **risk for standardisation** of the AP funds, since the intention is for the funds to have **one** identical reference portfolio. Furthermore, they will have the same return target and risk mandate. Today the Board of Directors of each Fund decides on a reference portfolio, return target and risk level, which increases the likelihood that the AP funds' investments are diversified in relation to one another and lowers the overall risk in the financial buffer system.

The Reference portfolio accounts for 80-90% of the total management's return and risk. The proposal therefore means that the most important decision is moved from the five different boards of the AP funds to **one** single board. In all likelihood this will result in increased risk and in time could lead to lower returns and lower pensions.

The risk of a reduced proportion of Swedish equities for the AP funds is obvious, since the reference portfolio is likely to be a "global portfolio" in which Sweden weighs about 1%. AP4 in particular has historically had a relatively high proportion of Swedish equities. At year-end Swedish equities corresponded to one third of the total equities portfolio. The reason is that AP4 has assessed and believes that over time, Swedish equities will provide a relatively higher return compared with a global equities portfolio.

The proposal entails **an increased risk of political influence**, since there will only be a single board for the authority or decision-making body, that will control nearly 80-90% of the focus of investment assets.

The proposal entails **an increased risk of short-termism**. The Pension Authority is the entity that has oversight of the total liability and asset side of the income pension system and, according to the proposal, will participate in the task of formulating the only reference portfolio. There is then a risk of increased consideration to be taken to future stock market crashes that could cause the brake to be applied in the system. The reason for this is that the Pension Authority also has responsibility for operating the pension system and on several occasions public criticism has been directed against the brake that has been applied far more times than had been expected when the system was launched. This is also a political concern. By focusing more on achieving the income index over time and thus a short investment horizon, there is a risk that the reference portfolio will have a more defensive asset allocation with lower long-term return and thus lower growth of pensions, which affects future generations of pensioners.

To date, no analysis or impact assessment addressing these different risks has been developed or presented. Nor has any analysis been carried out to show how the pension group's proposals for changes to the pension system will benefit current and future pensioners.

Report of the Directors 2014

Fund capital increased to SEK 295 billion and AP4 overshot both short- and long-term targets. Net profit for the year totalled SEK 40 billion. The total return was 15.8% with positive contributions from all asset classes. The active earnings contribution for the year was SEK 1.4 billion. Active Tactical management thereby delivered for the sixth consecutive six-month interim period a positive return above the index.

Fund capital of SEK 295 billion

Fund capital increased by SEK 35.1 billion (30.1) to SEK 294.9 billion (259.7). The change in fund capital consists of net profit for the year of SEK 40.2 billion; in other words, the return for the year less management expenses, as well as the net payments to the pension system. The latter totalled SEK 5.1 billion (6.9), which reduced Fund capital by the same amount. For the sixth consecutive year the buffer funds had to transfer capital to the pension system. AP4 has paid out a total of almost SEK 25 billion to the pension system.

Change in Fund capital

SEK bn	2014	2013
Fund capital, opening balance	259.7	229.6
Net payments to the pension system	-5.1	-6.9
Profit/Loss for the period	40.2	37.0
Fund capital, closing balance	294.9	259.7

Total return 16%

Total return for 2014 reached 15.8% (16.5) before expenses and 15.7% (16.4) after expenses. The return corresponded to a management outcome after expenses of SEK 40.2 billion (37.0), which in absolute terms is the highest profit in AP4's history since the reorganisation in 2001.

SEK 7.6 billion in added value

Over the past three years, management outcome totalled more than SEK 100 billion. The positive active earnings of the last six years are a promising sign that the asset management, which was reorganised during 2007-2008, remains on the right track. Since 2009 AP4 has delivered a positive active earnings contribution of SEK 7.6 billion above the benchmark index.

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

Asset class performance

All asset classes demonstrated positive returns

Both Swedish and foreign listed equities delivered good returns. Overall, listed equities made a positive contribution of 7.0 (15.7) percentage points to total return. AP4's global equities returned 10.0% (27.5)* and Swedish equities returned 15.7% (29.0)*. The highest return in listed equities was delivered by Swedish small and mid-cap companies, which generated a return of 21.6% (42.3).

Market value, portfolio return and exposure, 31 Dec 2014

Asset class	Market value, SEK m	Portfolio return, %	Exposure ¹ , %
Equities, total	176.2	11.9	59.0
Global equities	121.2	10.0	40.5
Strategically managed	22.9	5.0	7.8
Tactically managed	98.3	10.9	32.8
Swedish equities	55.0	15.7	18.5
Strategically managed	22.7	18.1	7.7
Tactically managed	32.3	14.1	10.8
Fixed income assets	100.2	7.8	33.0
Tactically managed	100.2	7.8	33.0
Real estate	16.3	16.0	5.5
Strategically managed	16.3	16.0	5.5
Alternative assets	7.9	18.8	2.7
Strategically managed	7.9	18.8	2.7
Currency	0.0	4.9	0.0
Other ²	-5.6	-0.2	-0.2
Total investment assets	295.0	15.8	100.0

¹ Underlying value of derivatives in passive asset allocation for each asset class.

² Consists of cash as well as strategic and tactical asset allocation.

³ Return before expenses. Return after expenses was 15.7%.

Falling interest rates made a positive contribution

During the year, long rates fell in all major markets where AP4 is active. A particularly sharp fall was recorded for the Swedish 10-year treasury rate. Overall, fixed income returned 7.8% (-0.2).

Real estate and alternative assets

Real estate benefited from low interest rates and returned 16.0% (27.2). Of all asset classes, venture capital funds in alternative assets generated the highest return with 27.7% (18.4).

Strong currency fluctuations gave a positive contribution

The open currency exposure, which is determined in AP4's reference portfolio, the Normal portfolio, generated a positive contribution of 4.9 (-1.0) percentage points. The reason is the strong depreciation of the SEK against all major currencies, especially against the USD where AP4 had an open currency exposure of 20% at 31 December 2014.

*Comparative figures above for 2013 for return on global and Swedish equities deviate from AP4's 2013 Annual Report, where they were 27.8% and 26.4%, respectively. The reason is that return in the 2013 Annual Report only related to Tactically managed assets.

AP4's management horizons

Positive contribution from all management horizons

AP4's management structure consists of three management horizons where the Board decides on the composition of the longest of these horizons, and sets mandates and targets for the other two management horizons. During the year all horizons made a positive contribution to the Total portfolio.

Positive contribution from Normal portfolio

All decisions in the Normal portfolio generated positive contributions to the Total portfolio. Since equities and government bonds generated relatively similar returns, the asset allocation between them was of less importance for the Normal portfolio's return.

Normal portfolio

Asset class	31 Dec 2014		1 Jan 2014–31 Dec 2014	
	Weight, %	Foreign exchange exposure, %	Return contribution, %	Earnings contribution, SEK m
Equities	66.1		6.4	16,725
Government bonds	33.9		3.4	8,875
Currency	-	28.9	4.7	11,629
Total	100.0	28.9	14.5	37,229

Positive contribution from strategic management

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 0.7 percentage points (1.2). This gave an active earnings contribution of SEK 1,775 million. Strategic macro contributed -1.1 percentage points (-0.1) and strategic factor 1.8 percentage points (1.2).

The largest positive active contribution came from the strategic factor positions Swedish equities and Real estate.

Strategic management, 1 Jan 2014–31 Dec 2014

1 Jan 2014 - 31 Dec 2014	Active return contribution, %	Active earnings contribution, SEK m
Factor positions:		
Swedish equities	1.2	2,984
Corporate bonds	0.0	-32
Sustainability	0.0	-38
Real estate	0.4	916
Other strategic positions	0.2	528
Total factor positions	1.8	4,358
Macro positions:		
Asset class	-0.1	-137
Currency	0.2	470
Duration	-1.2	-2,916
Total macro positions	-1.1	-2,583
Total strategically managed positions	0.7	1,775

Tactical management - positive active earnings

Tactical management made a positive contribution to earnings of SEK 1,427 million (896). Over the last six-year period, since the management's reorganisation, the active Tactical management has made a positive contribution to earnings of SEK 7,627 million.

Active return within Tactical management for the year was 0.7 percentage points (0.5) and exceeded the target of 0.5 percentage points. For the evaluation period, which is three years rolling, the target was exceeded by 0.2 percentage points (0.0).

Tactical management, 1 Jan 2014–31 Dec 2014

Tactical management	Active return contribution, %	Active earnings contribution, SEK m
Global equities	0.2	496
Swedish equities	-0.1	-156
Fixed income	0.4	1,120
Equities index ¹	-0.0	3
Currency ¹	-0.0	-35
Total tactically managed assets	0.6	1,427

¹ Active return based on total investment assets.

Positive contribution from two out of five tactical sub-portfolios

Global equities and fixed income demonstrated positive active earnings.

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

Tactical management	3 years (on annual basis)			
	2014	2013	2012	
Global equities	2.4	1.7	4.1	1.7
Swedish equities	0.4	neg.	2.3	2.2
Fixed income	1.4	3.2	neg.	1.6
Equities index	-	0.0	neg.	-
Currency	0.5	neg.	0.9	0.7
Total tactically managed assets	2.3	2.9	2.0	2.3

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 than if, for example, weekly or monthly data had been used.

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 0.07% (0.08).

The management cost, including commission expenses such as fees for external managers and custody accounts, amounted to 0.11% (0.11), 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

	2014	2013
Operating expenses, SEKm	195	187
Commission expenses, SEKm	101	90
Operating expense ratio, % ¹	0.07	0.08
Operating expense ratio, % ²	0.11	0.11

¹ Operating expenses as a percentage of average Fund capital.

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

Two years with new management structure

The management structure, with three different investment horizons and a clear strategic mandate, has now been active for two years.

This is a relatively short period to evaluate the results and draw conclusions. In summary, the new structure provides better conditions for AP4 to capitalise on the Fund's long-term mandate.

Strategic management harnesses business opportunities with a longer investment horizon of 3 to 15 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.

Focus areas in sustainability

Corporate governance and climate change - reduce CO2 emissions, are AP4's two areas of focus. AP4 chose these focus areas because:

- they are considered to be important for return and the performance of all assets
- AP4's knowledge, commitment and potential for impact can make a difference and have a positive influence on return on assets over the long term.

Changes in staffing

AP4 had the usual staff turnover during the year and at year-end, the Fund had 54 (55) 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 in line with the market 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 AP4'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 allocation 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 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.

Read more under the heading Remuneration at AP4 or in Note 6.

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 AP Funds. At the same time, it was feared that, because of its size, an extremely large AP 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 opportunities 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 of the AP Funds, a collaborative body formed in 2007 by AP1, AP2, AP3 and AP4. The Ethical Council consists of a representative from each AP 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 AP Funds' 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 continually updated and is reviewed annually by the AP funds' auditors.

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 statements and note disclosures

Five-year summary

Key ratios, end of accounting period	2014	2013	2012	2011	2010
Fund capital, flows and net profit/loss, SEK bn					
Fund capital	294.9	259.7	229.6	210.0	212.8
Net flows to the pension system	-5.1	-6.9	-3.8	-1.2	-4.0
Profit/loss for the year	40.2	37.0	23.4	-1.6	21.2
Return, %					
Return on total portfolio before expenses	15.8	16.5	11.3	-0.7	11.0
Return on total portfolio after expenses	15.7	16.4	11.2	-0.7	10.9
Return on total portfolio after expenses, annualised 5 years	10.5	11.6	3.3	1.6	3.8
Return on total portfolio after expenses, annualised 10 years	7.6	7.2	7.2	4.1	3.6
Operating expense ratio as a % of assets under management (annualised)					
Operating expenses	0.07	0.08	0.08	0.08	0.09
Operating expenses and commission expenses	0.11	0.11	0.10	0.10	0.10
Risk, %					
Standard deviation, total portfolio ex post	6.0	5.6	5.6	9.2	7.5
Standard deviation, liquidity portfolio ex-post ¹	6.4	6.0	6.0	9.8	7.8
Standard deviation over 10 years, liquidity portfolio ex-post ²	8.9	8.6	-	-	-
Sharpe ratio total portfolio ex post	2.5	2.8	1.8	neg.	1.4
Sharpe ratio liquidity portfolio ex post ¹	2.3	2.5	1.7	neg.	1.3

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, end of accounting period	2014	2013	2012	2011	2010
Active return, Strategic management before expenses ¹	0.7	1.2	-0.4	-	-
Active return, Tactical management before expenses ²	0.7	0.5	1.0	0.2	0.8
Inflation	-0.3	0.1	-0.1	2.0	2.3
Real total return after expenses	16.0	16.2	11.2	-2.7	8.6
Active risk ex post, Tactical management	0.2	0.2	0.4	0.5	0.3
Foreign exchange exposure, %	28.1	28.6	27.7	25.7	19.8
Proportion under active management, including semi-active, %	62.9	58.2	50.2	63.6	61.2
Proportion under external management, including investments in venture capital firms, %	30.9	28.4	21.7	18.4	22.6
Number of employees at end of accounting period	54	55	49	52	51
Allocation of investment assets, %³					
Equities	59.0	59.5	55.5	55.7	59.9
Global equities	40.5	40.1	37.2	37.9	41.0
Swedish equities	18.5	19.3	18.3	17.8	18.9
Fixed income assets	33.0	32.0	36.1	37.3	34.0
Real estate	5.5	5.7	5.2	4.5	3.9
Alternative assets ⁴	2.7	2.7	3.1	2.5	2.0
Other ⁵	-0.2	0.1	0.1	0.0	0.2
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 in the passive allocation have been distributed by asset class.

⁴ Refers to venture capital funds, high yield fixed income and absolute return investments.

⁵ Consists of cash as well as strategic and tactical asset allocation.

Income statement

SEK m	Note	2014	2013
OPERATING INCOME			
Net interest income	2	2,736	2,967
Dividends received		4,555	3,717
Net income, listed shares and participations	3	13,295	29,520
Net income, unlisted shares and participations	4	1,109	3,510
Net income, fixed income assets		4,978	-2,389
Net income, derivatives		459	2,316
Net income, changes in exchange rates		13,390	-2,367
Commission expenses	5	-101	-90
Total operating income		40,421	37,184
OPERATING EXPENSES			
Employee benefits expense	6	-125	-116
Other administrative expenses	7	-70	-71
Total operating expenses		-195	-187
PROFIT/LOSS FOR THE YEAR		40,226	36,997

Balance sheet

SEK m	Note	31 Dec 2014	31 Dec 2013
ASSETS			
Shares and participations, listed	8	177,065	150,173
Shares and participations, unlisted	9	14,696	13,782
Bonds and other fixed income securities	10	104,030	87,254
Derivatives	11	4,135	6,185
Liquid assets		3,892	2,342
Other assets	12	252	338
Prepaid expenses and accrued income	13	1,605	1,719
TOTAL ASSETS		305,675	261,793
LIABILITIES AND FUND CAPITAL			
Liabilities			
Derivatives	11	10,166	1,755
Other liabilities	14	566	209
Deferred income and accrued expenses	15	89	81
Total liabilities		10,821	2,045
Fund capital			
Fund capital, opening balance	16	259,748	229,631
Net payments to the pension system		-5,120	-6,880
Profit/loss for the year		40,226	36,997
Total fund capital		294,854	259,748
TOTAL LIABILITIES AND FUND CAPITAL		305,675	261,793
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 2014 financial year was approved by the Board on 18 February 2015. 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 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. The accounting principles for net accounting of receivables on unsettled transactions and payables on unsettled transactions, as well as repos and derivatives, have been adapted to IFRS (IAS 32) rules. The change in principle affects only the items "Other assets" and "Other liabilities" on the balance sheet. The comparative figures for the previous year have been restated. Other accounting and valuation policies have not changed compared with the preceding year.

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

Financial assets and liabilities are recognised in the balance sheet when there is a legally enforceable right to recognise transactions and there is an intention to settle net or realise the asset and settle the liability 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 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 relating to unlisted participations 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.

The 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 real estate companies was developed in 2013 to ensure valuation at fair value. 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; 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

	2014	2013
Interest income		
Bonds and other fixed income securities	2,514	2,421
Derivatives	797	1,051
Other interest income	63	57
Total interest income	3,374	3,529
Interest expense		
Derivatives	-638	-562
Other interest expense	0	0
Total interest expense	-638	-562
Net interest income	2,736	2,967

Note 3. Net income, listed shares and participations

	2014	2013
Net income, listed shares and participations	13,395	29,612
Less brokers' commissions	-36	-34
Less performance-based fees	-64	-58
Net income, listed shares and participations	13,295	29,520

Note 4. Net income, unlisted shares and participations

	2014	2013
Realised gains	574	644
Unrealised changes in value	535	2,877
Less performance-based fees	0	-11
Net income, unlisted shares and participations	1,109	3,510

A method for valuation of holdings in unlisted real estate companies was developed in 2013 to ensure valuation at fair value. 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 was deemed attributable to previous years. The effect on profit is mainly attributable to the fund's holdings in Vasakronan Holding AB.

Note 5. Commission expenses

	2014	2013
External management fees, listed assets	-90	-76
External management fees, unlisted assets	0	-4
Other commission expenses, including custody account fees	-11	-10
Commission expenses	-101	-90

Performance-based fees are not included in commission expenses. Such fees totalled SEK 64 million (69) 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 48 million (60) in management fees related to unlisted assets was paid. Of this total, SEK 48 million (56) referred to agreements that permit repayment of management fees paid prior to profit-sharing upon divestment. These are recognised as part of the purchase cost of the asset.

Note 6. Employees

Number of employees	2014		2013	
	Total	Women	Total	Women
Average number of employees	56	20	54	18
Number of employees at 31 December	54	19	55	20
Number of executive management committee members at 31 December	5	2	5	2

Employee benefits expense, SEK '000, 2014	Salaries and remuneration	Incentive-based remuneration	Pension expenses	Substitution of pension for salary	Social security expenses ³	Total
Chairman of the Board Monica Caneman ¹	117	-	-		37	154
Other Members of the Board ²	478				139	617
Chief Executive Officer Mats Andersson	3,284	-	1,807	731	1,470	6,561
Other executive management committee members						
Deputy CEO and Chief Investment Officer Magnus Eriksson	1,744	-	2,525	1,485	1,161	5,430
Director of Administration Susan Lindkvist	1,541	-	870	261	695	3,106
Head of Performance and Risk Control Nicklas Wikström	1,582	-	672	127	660	2,914
General Counsel Ulrika Malmberg Livijn	1,358	-	794	254	619	2,771
Other employees	54,324	4,809	19,046	1,754	22,821	101,000
Total	64,428	4,809	25,714	4,612	27,602	122,553
Other employee benefits expense						3,003
Total employee benefits expense						125,557

¹ SEK 50 thousand was paid to Monica Caneman's company for nominating committee work on behalf of the Fund. This item is recognised under Other administrative expenses.

² Remuneration to individual board members is set forth in the administration report

³ Social security expenses also include costs for payroll tax.

Employee benefits expense, SEK '000, 2013	Salaries and remuneration	Incentive-based remuneration	Pension expenses	Substitution of pension for salary	Social security expenses ²	Total
Chairman of the Board Monica Caneman	117	-	-		37	154
Other Members of the Board ¹	507				149	656
Chief Executive Officer Mats Andersson	3,098	-	1,787	711	1,407	6,292
Other executive management committee members						
Deputy CEO and Chief Investment Officer Magnus Eriksson	1,834	-	2,502	1,485	1,183	5,519
Director of Administration Agneta Wilhelmson Kåremer	1,397	-	1,402	384	779	3,578
Head of Performance and Risk Control Nicklas Wikström	1,463	-	617	111	609	2,689
General Counsel Ulrika Malmberg Livijn	1,311	-	780	254	601	2,692
Other employees	48,653	4,701	16,396	1,001	20,467	90,218
Total	58,380	4,701	23,484	3,946	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 Social security expenses also include costs for payroll tax.

Costs of employee cutbacks

For 2014, the cost for employee cutbacks was SEK 1,787 thousand (-) and related to compensation for salary and social security contributions in connection with employee cutbacks.

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 about remuneration under the heading Remuneration at AP4 in the annual report.

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 2014, SEK 4,809 thousand (4,701) 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 (6) 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. A mutual period of notice of termination of six (6) months applies for the Deputy CEO according to the employment contract. If the Fund gives notice, the Deputy CEO is also entitled to a severance package equal to 12 months' salary. The severance package is paid out monthly and is reduced by any other income from salary, assignments or own business. The Deputy CEO is entitled to a pension in accordance with the Fund's pension policy.

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 (3) 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. The value of the benefits in 2014 totalled SEK 170 thousand (159).

Note 7. Other administrative expenses

	2014	2013
Costs of premises	12	12
Information and IT expenses	41	40
Services purchased	9	11
Other administrative expenses	8	8
Total other administrative expenses	70	71

Services purchased includes fees to accounting firms as follows:

Audit services, Ernst & Young	0.9	0.8
Other audit services, Ernst & Young	0.2	0.3
Total fees to accounting firms	1.1	1.1

Note 8. Shares and participations, listed

	31 Dec 2014 Fair value	31 Dec 2013 Fair value
Swedish equities	54,619	48,785
Foreign equities	87,450	77,674
Participations in Swedish mutual funds	3,925	3,272
Participations in foreign mutual funds	31,071	20,442
Total shares and participations, listed	177,065	150,173

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

A complete list of holdings can be found at www.ap4.se.

Note 8. Cont'd shares and participations, listed

Five largest holdings in Swedish and foreign equities, 31 Dec 2014

	No. shares	Fair value	Participation in %	
			equity	votes
<i>Swedish equities:</i>				
Hennes & Mauritz	15,498,436	5,046	0.9%	0.5%
Nordea	43,505,395	3,955	1.1%	1.1%
Atlas Copco	14,720,513	3,091	1.2%	1.0%
SEB	22,312,271	2,221	1.0%	1.0%
Investor	7,599,295	2,154	1.0%	1.0%
<i>Foreign equities:</i>				
Apple	1,907,642	1,648		
Exxon Mobil Corp	1,359,097	984		
Microsoft	2,464,285	896		
Google	181,831	752		
Johnson & Johnson	898,642	736		

Five largest holdings in Swedish and foreign equities, 31 Dec 2014

	No. shares	Fair value	Participation in %	
			equity	votes
<i>Swedish equities:</i>				
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%
<i>Foreign equities:</i>				
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		

Note 9. Shares and participations, unlisted

	31 Dec 2014 Fair value	31 Dec 2013 Fair value
Shares in Swedish associated companies	9,413	8,986
Shares in foreign associated companies	579	269
Shares and participations in other Swedish unlisted companies	1,747	1,370
Shares and participations in other foreign unlisted companies	2,956	3,157
Total shares and participations, unlisted	14,696	13,782

A method for valuation of holdings in unlisted real estate companies was developed in 2013 to ensure valuation at fair value. 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 was 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 2014	Corp. id no.	Domiciliation	Participation in %			Fair value	Shareholders' equity	Profit/Loss
			No. shares	Equity	Votes			
<i>Shares in Swedish associated companies:</i>								
Vasakronan Holding AB	556650-4196	Stockholm	1,000,000	25	25	6,949	23,094	1,797
Rikshem Intressenter AB	556806-2466	Stockholm	250	50	50	2,464	4,594	948
Rikshem Stakeholders Holding AB	556924-0715	Stockholm	50	100	100	0	0	0
Total shares in Swedish associated companies						9,413		
<i>Shares in foreign associated companies:</i>								
			1,609,214				Not disclosed	Not disclosed
ASE Holdings S.à.r.l.		Luxembourg	1,059,085,50	38	33	436	Not disclosed	Not disclosed
ASE Holdings II S.à.r.l.		Luxembourg	0	45	33	143	disclosed	disclosed
Total shares in foreign associated companies						579		

Note 9. Shares and participations, unlisted, cont.

Other holdings, 31 Dec 2014	Corp. id no.	Domiciliation	No. shares	Participation in % equity	votes	Cost
Five largest holdings in other shares and participations in Swedish unlisted companies¹						
PCP Debenture IIB	556805-6310	Stockholm		48	-	774
PCP Debenture III	556926-8021	Stockholm		21	-	380
HealthCap Annex Fund I-II KB	969690-2049	Stockholm		20	20	202
Areim Property Holding 5 AB	556963-0261	Stockholm		33	6	140
Priveq Investment Fund III KB	969704-1524	Stockholm		31	31	128
Five largest holdings in other shares and participations in foreign unlisted companies 1)						
EQT V (No. 1) L.P.		Guernsey		2	-	357
EQT IV (No. 1) L.P.		Guernsey		4	-	319
Private Equity Multi-Strategy (AP) Offshore L.P.		Cayman Islands		95	-	275
EQT Infrastructure (No. 1) L.P.		Guernsey		3	-	217
Vintage V Offshore L.P.		Cayman Islands		1	-	151

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 2013	Corp. id no.	Domiciliation	Quantity equities	Participation in % equity	votes	Shareholders' Fair value	equity	Profit/Loss
<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	3,646	1,432
Rikshem Stakeholders Holding AB	556924-0715	Stockholm	50	100	100	0	0	0
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		

Other holdings, 31 Dec 2013	Corp. id no.	Domiciliation	No. shares	Participation in % equity	votes	Cost
Five largest holdings in other shares and participations in Swedish unlisted companies¹						
PCP Debenture IIB	556805-6310	Stockholm		48	-	703
Hemfosa Fastigheter 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) L.P.		Guernsey		4	-	511
EQT V (No 1) L.P.		Guernsey		2	-	347
Private Equity Multi-Strategy (AP) Offshore L.P.		Cayman Islands		95	-	313
TMAM-GO Japan Engagement Fund L.P.		UK		49	-	291
EQT Infrastructure (No. 1) L.P.		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.

A detailed list of holdings is published at www.ap4.se.

Note 10. Bonds and other fixed income securities

	31 Dec 2014	31 Dec 2013
	Fair value	Fair value
Issuer category		
Kingdom of Sweden	11,412	7,613
Swedish municipalities	0	543
Swedish mortgage institutions	22,290	21,234
Other Swedish financial services companies	9,606	9,526
Swedish non-financial companies	5,353	6,149
Foreign governments	17,798	18,325
Other foreign issuers	37,571	23,864
Total fixed income assets	104,030	87,254
Type of instrument		
Inflation-linked bonds	169	-
Other bonds	95,433	79,185
Treasury bills	0	530
Subordinated debentures	3,281	2,194
Unlisted promissory note loans	3,000	3,000
Unlisted shareholder loans	2,146	2,345
Total fixed income assets	104,030	87,254

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

Note 11. Derivatives

	31 Dec 2014			31 Dec 2013		
	Nominal amount	Fair value		Nominal amount	Fair value	
		Positive	Negative		Positive	Negative
<i>Equity-based instruments:</i>						
Stock options, held	-	-	-	3,957	3,957	-
Options, issued	-	-	-	2	-	2
Futures	18,542	-	-	15,149	-	-
Total equity-based instruments	18,542	-	-	19,108	3,957	2
of that total, cleared	18,542			15,149		
<i>Interest-based instruments:</i>						
FRAs / Forward contracts	421,063	-	-	447,980	-	-
Swaps	26,464	136	287	21,992	91	229
Total interest-based instruments	447,527	136	287	469,972	91	229
of that total, cleared	421,063			447,980		
<i>Instruments based on foreign exchange:</i>						
Stock options	155,655	3,487	3,298	90,789	864	833
Futures	131,336	512	6,470	109,635	1,273	691
Swaps	773	0	110	-	-	-
Total instruments based on foreign exchange	287,764	3,999	9,879	200,424	2,137	1,524
Total derivative instruments	753,833	4,135	10,166	689,504	6,185	1,755
of that total, cleared	439,605			463,129		

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

Maturity analysis

The majority of the Fund's derivatives have a maturity of less than a year. Only a handful of foreign exchange options, cross currency basis swaps and credit default swaps have a longer maturity, and of these 22 contracts (40) have a negative fair value. These are presented in the table to the below.

Written foreign exchange options 31 Dec 2014

Currency pair	Time until maturity, years	Fair value, SEKm
USD/JPY	1.7	-128
USD/JPY	1.3	-84
USD/JPY	1.3	-84
USD/JPY	1.7	-60
USD/JPY	1.3	-34
USD/JPY	1.3	-34
EUR/USD	2.0	-16
EUR/USD	2.0	-16
EUR/USD	2.0	-16
Total		-471

Cross Currency Basis Swaps, 31 Dec 2014

Currency pair	Time until maturity, years	Fair value, SEKm
USD/SEK	2.5	-97
USD/EUR	1.7	-13
Total		-110

Credit Default Swaps 31 Dec 2014

Currency pair	Time until maturity, years	Fair value, SEKm
CDS ITRAX	5.0	-88
CDS ITRAX	5.0	-88
CDS ITRAX	5.0	-88
CDS Single	4.7	-4
CDS Single	2.2	-3
CDS Single	4.3	-2
CDS Single	4.0	-2
CDS Single	5.0	-2
CDS Single	4.8	-2
CDS Single	2.5	-2
CDS Single	2.2	-2
Total		-284

Written foreign exchange options 31 Dec 2013

Currency pair	Time until maturity, years	Fair value, SEKm
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, SEKm
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

Note 12. Other assets

	31 Dec 2014	31 Dec 2013
Receivables on unsettled transactions	250	336
Other assets	2	2
Total other assets	252	338

Note 13. Prepaid expenses and accrued income

	31 Dec 2014	31 Dec 2013
Accrued interest income	1,427	1,588
Accrued dividends and repayments	170	124
Other prepaid expenses and accrued income	8	7
Total prepaid expenses and accrued income	1,605	1,719

Note 14. Other liabilities

	31 Dec 2014	31 Dec 2013
Trade payables	12	7
Payables on unsettled transactions	546	196
Other liabilities	8	6
Total other liabilities	566	209

All liabilities have a maturity of less than a year.

Note 15. Deferred income and accrued expenses

	31 Dec 2014	31 Dec 2013
Accrued interest expense	62	34
Accrued employee benefits expense	14	14
Accrued external management fees	9	27
Other accrued expenses	4	6
Total deferred income and accrued expenses	89	81

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

Note 16. Fund capital

	31 Dec 2014	31 Dec 2013
Fund capital, opening balance	259,748	229,631
Net payments to/from the pension system		
Paid-in pension contributions	58,880	56,839
Pension funds disbursed to the Swedish Pensions Agency	-63,775	-63,490
Transfer of pension entitlements to the EU	-2	-2
Settlement of pension entitlements	1	3
Administration fee paid to the Swedish Pensions Agency	-224	-230
Total net payments to the pension system	-5,120	-6,880
PROFIT/LOSS FOR THE YEAR	40,226	36,997
Fund capital, closing balance	294,854	259,748

Note 17. Pledged assets, contingent liabilities, and commitments

	31 Dec 2014	31 Dec 2013
Other pledged assets and equivalent collateral:		
Securities on loan for securities received ¹	16,252	13,277
Collateral pledged for exchange-traded derivative contracts	1,640	1,419
Collateral pledged for OTC derivative contracts ²	5,755	1,060
Commitments:		
Investment commitments for future payments for alternative and strategic investments	5,932	4,042
Subscription commitments, see Note 18	8,000	3,500

¹Collateral received for securities on loan totalled SEK 16,899 million (13,882).

²Collateral received for OTC derivatives totalled SEK 22 million (4,419).

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 2014	31 Dec 2013
<i>Rikshem Intressenter AB</i>		
Shareholder contribution	2,464	1,976
Shareholder loan	1,569	1,419
Total	4,033	3,395
<i>Vasakronan Holding AB</i>		
Shareholder contribution	6,849	6,910
Shareholder loan	3,000	3,000
Total	9,849	9,910

	2014	2013
<i>Interest income</i>		
Rikshem Intressenter AB	105	99
Vasakronan Holding AB	233	244

AP4 rents its office premises from Vasakronan 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 (3,500).

AP4 has undertaken, at Vasakronan's request, to buy commercial paper in the company for a maximum total settlement amount, on each occasion, of SEK 4,500 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 2014			
	Level 1	Level 2	Level 3	Total
Financial assets				
Shares and participations, listed	141,892	33,896	1,278	177,065
Shares and participations, unlisted	0	0	14,696	14,696
Bonds and other fixed income securities	98,375	160	5,495	104,030
Derivatives	0	4,135	0	4,135
Total financial assets	240,266	38,191	21,469	299,926
Financial liabilities				
Derivatives	0	-10,166	0	-10,166
Total financial liabilities	0	-10,166	0	-10,166
Net financial assets and liabilities ¹	240,266	28,025	21,469	289,760
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

¹Total 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 more frequently than once a week and if the prices are used unaltered to settle trades in the market. More than 80% 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 deemed active, but where there are quoted prices that are used uncorrected for trades, or observable input data for indirect valuation, which is updated regularly. In addition, there may not be any lock-in effects that have significant impact on the valuation in the event of liquidation. This category at AP4 mainly includes publicly quoted equity funds with few trades, but with observable input data for indirect valuation, as well as OTC derivatives such as forward exchange contracts and interest rate swaps, as well as fixed income instruments and funds, containing interest rate instruments, with low liquidity. OTC derivatives 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 cannot be classified as level 1 or level 2. 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.

Sensitivity analyses of AP4's largest real estate holdings, Vasakronan, with an equity value of SEK 7 5.8 billion, and Rikshem, with an equity value of SEK 2.3 billion—more than 50% of unlisted shares in Level 3—was carried out by the real estate companies. According to the analyses, a change in the yield requirement of +/- 0.25 percentage points, would change the value of the shareholding in Vasakronan by approximately SEK -0.6/+0.7 billion and in Rikshem by approximately SEK -1.1/+1.3 billion.

For valuation of AP4's investments in venture capital firms under unlisted shares, corresponding to SEK 3.2 billion, significant assumptions are made about valuation multiples and future cash flows. If these assumptions are changed by +/- 10% the valuation of these investments changes by SEK +/- 0.3 billion.

Regarding AP4's high-yield fixed-income assets under listed shares, valuation is based essentially on discount rates for interest income and repayment of loans. A change in the discount rates of +/- 1 percentage point for all maturities would mean valuation changes of SEK +/- 40 million.

Changes in level 3

	Bonds and other fixed income securities	Shares and participations, listed	Shares and participations, unlisted
Opening balance 1 Jan 2014 ¹	5,711	1,401	13,782
Realised and unrealised gains (+) or losses (-) in the income statement*	-18	208	655
Purchase	488	338	1,139
Sale	-686	-669	-880
Closing balance 31 Dec 2014	5,495	1,278	14,696
*Unrealised gains	-18	117	314

¹ Opening balance for shares and participations, listed, was adjusted due to reclassification of listed venture capital funds from level 2 to level 3.

	Bonds and other fixed income securities	Shares and participations, listed	Shares and participations, unlisted
Opening balance 1 Jan 2013 ¹	5,588	-	9,963
Realised and unrealised gains (+) or losses (-) in the income statement*	26	-	2,797
Purchase	795	-	1,634
Sale	-697	-	-613
Closing balance 31 Dec 2013	5,711	-	13,782
*Unrealised gains	26	-	2,223

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.

Note 20. Risks

Please see under the heading “Risk management in three steps” in the Annual Report for a 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 the 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 purpose. 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.

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. The Fund 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 the Fund'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.

Foreign-exchange 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 2014

Management horizons	31 Dec 2014			31 Dec 2013 ³			VaR, holdings period 1 day ²
	VaR, ex-ante Holding period 10 days	Contribution volatility % 12-month portfolio	VaR, holdings period 1 day ²	VaR, ex-ante Holding period 10 days	Contribution volatility % 12-month portfolio	VaR, holdings period 1 day ²	
Equities	7,132	7.51	1,682	6,987	8.36	1,432	
Fixed income	-211	-0.22	-61	-229	-0.27	13	
Currency	-333	-0.35	201	-451	-0.54	132	
Total Normal portfolio	6,589	6.94	1,822	6,307	7.54	1,576	
Strategic management ¹	390	0.41	-27	264	0.32	-103	
Tactical management	126	0.13	3	224	0.27	7	
Total investment assets	7,087	7.46	1,797	6,817	8.15	1,481	
Passive management	-18	-0.02		22	0.03		

¹ Some of the Fund's strategic assets lack asset prices quoted periodically, or lack underlying holdings to an index. This makes it difficult to forecast the risk of these assets in a satisfactory manner using the Fund's BarraOne risk management system. The Fund has therefore chosen to use alternative listed securities as approximations of the risk in these holdings. Approximations are used for a total of 15.4% of strategic assets. Of this amount, property holdings account for 5.4% and Swedish listed real estate shares are used for approximation purposes. Furthermore, the low-carbon mandate accounts for 4.3% and the corresponding regional MSCI index is used for approximation purposes. An additional 2.7% comprises an externally managed equities mandate in emerging Markets, which is approximated with MSCI Emerging Markets.

² 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.

³ For comparison, risk data for 2013 are also displayed according to this year's new set up. Since the risk for 2013 is now forecast in AP4's BarraOne risk management system slightly different values are obtained compared with the values presented in the note in the 2013 annual report. One reason is that the risk model, the covariance matrix, in BarraOne has been updated since then. VaR forecasts for 2013, which are based on one year of daily data with equal weight, also differ slightly from the previous annual report because a different forecast model, which classifies assets differently, is used now compared with last year.

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 28.1% (28.6). The following table shows the Fund's foreign exchange exposure.

Foreign exchange exposure

31 Dec 2014	USD	EUR	GBP	JPY	Other	Total
Shares and participations	74,636	18,620	8,995	9,063	10,763	122,078
Bonds and other fixed income securities	33,629	13,536	10,432	0	0	57,598
Derivatives, excluding foreign exchange derivatives	-767	-65	0	0	0	-832
Other receivables and liabilities, net	2,118	802	195	42	527	3,683
Foreign exchange derivatives	-50,602	-21,708	-10,532	-3,186	-13,600	-99,628
Foreign exchange exposure, net	59,014	11,186	9,089	5,918	-2,309	82,898

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

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.

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.

Credit risks

31 Dec 2014	Bonds exposure ²	Fair value ²	Non-standard derivatives Collateral/security	Residual risk
Ratings				
AAA	53,106			
AA	32,422	-1,097	1,033	-63
A	7,275	-4,704	4,766	62
BBB	6,691	-224	233	9
Lacks rating ¹	5,387			
Total credit risk exposure	104,881	-6,024	6,032	8

31 Dec 2013	Bonds exposure ²	Fair value ²	Non-standard derivatives Collateral/security	Residual risk
Ratings				
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

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

²Fair 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 fixed income 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 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% 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 investments 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 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 2014						
Maturity	< 1 year	1 < 3 years	3 < 5 years	5 < 10 years	> 10 years	Total
Nominal government	561	6,721	5,453	16,614	14,263	43,612
Nominal corporate	1,672	23,691	27,293	6,612	2,001	61,269
Total	2,233	30,412	32,746	23,226	16,264	104,881

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

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 are:

- 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, International Swaps and Derivatives Association Credit Support Annex (ISDA), and Credit Support Annex (CSA) 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.

Note 21. Financial assets and liabilities that are netted in the balance sheet or subject to netting agreements

31 Dec 2014	Gross amount	Netted amount in balance sheet	Net amount in balance sheet	Amounts not netted in the balance sheet				Total in balance sheet
				Offsetting of financial instrument according to agreement	Received securities	Net amount after offsetting	Other ¹	
ASSETS								
Derivatives	4,135	0	4,135	3,799	16	320	-	4,135
Receivables on unsettled transactions	1,035	1,033	1	-	-	1	249	250
Total	5,170	1,033	4,136	3,799	16	321	249	4,385
Liabilities								
Derivatives	10,166	0	10,166	3,799	5,664	703	-	10,166
Payables on unsettled transactions	1,035	1,033	2	-	-	2	544	546
Total	11,201	1,033	10,168	3,799	5,664	705	544	10,712

31 Dec 2013	Gross amount	Netted amount in balance sheet	Net amount in balance sheet	Amounts not netted in the balance sheet				Total in balance sheet
				Offsetting of financial instrument according to agreement	Received securities	Net amount after offsetting	Other ¹	
ASSETS								
Derivatives	6,185	0	6,185	1,471	3,974	740	-	6,185
Receivables on unsettled transactions	260	259	1	-	-	1	335	336
Total	6,445	259	6,186	1,471	3,974	741	335	6,521
Liabilities								
Derivatives	1,755	0	1,755	1,471	221	63	-	1,755
Payables on unsettled transactions	260	259	1	-	-	1	195	196
Total	2,015	259	1,756	1,471	221	64	195	1,951

¹ Other instruments in the balance sheet not under agreement that allows offsetting.

The above table shows financial assets and liabilities presented net in the balance sheet or that have rights associated with legally binding framework agreements on offsetting or similar agreements. Financial assets and liabilities are recognised in the balance sheet when the Fund has a legally enforceable right to net under normal business conditions and in the event of insolvency, and if there is an intention to settle net or realise the asset and settle the liability simultaneously. Financial assets and liabilities subject to legally binding framework agreements on offsetting or similar agreements that are not presented net in the balance sheet are arrangements that usually come into force in the event of insolvency, but not under normal business conditions or arrangements in which the Fund does not have the intention to liquidate positions at the same time.

Board of Directors' signatures

Stockholm, 18 February 2015

Monica Caneman
CHAIRMAN OF THE BOARD

Jakob Grinbaum
EPUTY DEPUTY CHAIRMAN

Ing-Marie Gren

Sven Hegelund

Heléne Fritzon

Stefan Lundbergh

Erica Sjölander

Maj-Charlotte Wallin

Göran Zettergren

Mats Andersson
CHIEF EXECUTIVE OFFICER

Our auditors' report was submitted on 19 February 2015

Jan Birgeron
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 2014. The Fund's annual accounts are found under the headings Report of the Directors and Financial Statements, pages 57-78.

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 2014 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 2014.

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 or 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, 19 February 2015

Jan Birgersson
AUTHORISED PUBLIC ACCOUNTANT
Appointed by the Government

Peter Strand
AUTHORISED PUBLIC ACCOUNTANT
Appointed by the Government

Board of Directors



Monica Caneman

Chair since 2008.

Born 1954.

Other board assignments:

Board Chair: Arion Bank hf and Big Bag AB.

Member of the Board: Poolia AB, My Safety AB, SAS AB, Storebrand ASA, Intermail AS, ComHem AB and Schibsted Sverige AB.



Jakob Grinbaum

Deputy Chair since 2011.

Member of the Board since 2010.

Born 1949.

Other board assignments:

Board Chair: Oscar Properties Holding AB.

Deputy Chair: SBAB

Member of the Board: IK Sirius, Jernhusen AB and Stiftelsen Östgötågården Uppsala.



Heléne Fritzon

Member of the Board since 2015.

Born 1960.

Local Government Commissioner and Chair of Municipal Board, Kristianstad Municipality

Other board assignments:

Chair: group company KKF

Member of the Board: SKL, Förhandlingsdelegation, KPA Pensionsförsäkring AB, Regionkommittén – EU and Sparbanksstiftelsen 1826.



Ing-Marie Gren

Member of the Board since 2011.

Professor

Born 1951.



Sven Hegelund

Member of the Board since 2012.

Master of politics

Born 1947.

Other board assignments:

Member of the Board: Nordic Investment Bank (NIB).



Stefan Lundbergh

Member of the Board since 2011.

Ph. D

Born 1968.

Head of Innovation, Cardano



Erica Sjölander

Member of the Board since 2012.

Finance manager, IF Metall.

Born 1971.



Maj-Charlotte Wallin

Member of the Board since 2014.

Degree in business administration

Born 1953.

Other board assignments:

Member of the Board: Kammarkollegiets

Fonddelegation, Swedish Heart-Lung Foundation and Swedbank.



Göran Zettergren

Member of the Board since 2015.

MBA

Born 1958.

CFO Confederation of Professional Employees

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: Svolder AB and Hammarby Damfotboll.



Magnus Eriksson

Deputy CEO and Chief Investment Officer

Employed by AP4 since 2008.

Born 1959.

CEFA.

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

Other board assignments:

Member of the Board: Rikshem AB and Rikshem Intressenter AB, Hemfosa Fastigheter AB and Vasakronan.



Ulrika Malmberg Livijn

General Counsel.

Employed by AP4 since 2009.

Born 1968.

Bachelor of Laws

Previously employed by law firms

Lindahl/Setterwall, Försäkringsaktiebolaget Skandia and other companies.

Other board assignments:

Member of the Board: Rikshem AB and Rikshem Intressenter AB.



Nicklas Wikström

Head of Performance and Risk Control.

Employed by AP4 since 2008.

Born 1968.

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

Previously employed by AFA

Försäkring and other companies



Susan Lindkvist

Director of Administration.

Employed by AP4 since 2013.

Born 1960.

B.Sc. Economics

Previously employe by Avanza, Erik Penser, RAM

Rational Asset Management and others.

Global Reporting Initiative

This sustainability report complies with Global Reporting Initiative (GRI) guidelines Version G4 level “Core” and the sector-specific addition for Financial Services. The tables on pages 82-84 list the GRI indicators that AP4 reports as well as references to where the information can be found.

The GRI publishes international guidelines for sustainability reporting that are used by companies and organisations all over the world. The report includes AP4's operations and no limitations have been applied. 2014 is the first year that AP4 is reporting according to GRI.

This GRI report has not been audited by a third party.

Abbreviations used in the GRI table

AR = 2014 ANNUAL REPORT

I14 = Holdings specification 2014

HAR = Sustainability and corporate governance report 2013/2014

ER13 = Ethical Council of the AP Funds annual report 2013

F = Full application

P = Partial Application

Standard disclosure	Description	Page reference	Application
Strategy and Analysis			
G4-1	Statement from the organisation's most senior decision-maker about the relevance of sustainability to the organization and its strategy.	HAR13/14: 8-9. AR14 10-12	F
Organisational Profile			
G4-3	Name of organisation	AR14: 1	F
G4-4	Most important brands, products, and services.	AR14: 3	F
G4-5	Location of organisation's headquarters	AR14: 88	F
G4-6	Countries where the organisation operates	AR14; I14	F
G4-7	Nature of ownership and legal form	AR14: 3	F
G4-8	Markets	AR14: 67-69; I14:	F
G4-9	Scale of the organisation	AR14: 61, 50-51	F
G4-10	Employee data	AR14: 50-52	F
G4-11	Percentage of employees covered by collective bargaining agreements.	AR14: 51	F
G4-12	Organisation's supply chain	AR14: 52	F
G4-13	Significant changes during the period regarding the organisation, size, structure, value chain, ownership	AR14: 5, 63-64	F
G4-14	Whether and how the organisation addresses the precautionary principle	AR14: 46-49	F
G4-15	External regulations, standards, principles to which the organisation subscribes/endorse	AR14: 3, 42, 45, 63-64;	F
G4-16	Membership in organizations and associations	HAR13/14: 17, 18, 34, 37	F
Identified material aspects and boundaries			
G4-17	Entities included in reporting and those that are not included.	AR14: 63-64	F
G4-18	Process for defining report content and how reporting principles implemented.	AR14: 42-44, 82	F
G4-19	Identify material aspects.	AR14: 42-44	F
G4-20	Each aspect's boundaries within the organisation.	AR14: 42-44, 52, 63- 64, 82	F
G4-21	Each aspect's boundaries outside the organisation.	AR14: 42-44, 82	F
G4-22	Effect of and reason for restatements from previous reports.	AR14: 5, 42-44, 52, 63- 64, 82	F
G4-23	Significant changes from previous reporting regarding focus and boundaries.	AR14: 5, 42-44, 52, 63- 64, 82	F
Stakeholder Engagement			
G4-24	Stakeholder groups	AR14: 42-44	F
G4-25	Identification and selection of stakeholder groups	AR14: 42-44	F
G4-26	Approach to stakeholder engagement	AR14: 42-44; HAR14: 14-34; ER13: 6-20	F
G4-27	Significant issues raised by stakeholders in dialogue and initiatives taken	AR14: 40-41, 43-44; ; HAR20-34; ER13: 6-20	F

Standard disclosure	Description	Page reference	Application
Report Profile			
G4-28	Reporting period	AR14: 2	F
G4-29	Most recent previous report	AR14: 82	F
G4-30	Reporting cycle	AR14: 2	F
G4-31	Contact data	AR14: 88	F
G4-32	GRI content and index, as well as selection of reporting level	AR14: 82	F
G4-33	Policy for external assurance	AR14: 82	F
Corporate governance			
G4-34	Governance structure and responsibility for finance, environment, and social impact	AR14: 3, 42-44, 50, 52, 54, 88	F
G4-35	Process of delegating authority for economic, environmental and social topics.	AR14: 42	F
G4-36	Responsible for economic, environmental and social issues at executive level or not.	AR14: 3, 42	F
Remuneration			
G4-51	Remuneration policies for Board of Directors and Executive Management Committee.	AR14: 53-54, 65-66	F
G4-52	The process for determining remuneration	AR14: 53-54, 65-66	F
Ethics and integrity			
G4-56	Values, principles and codes of conduct and ethics	AR14: 4, 42, 51, 52	F
G4-57	Advice on ethical and lawful behaviour.	AR14: 42, 51-52	F
G4-58	Mechanism for reporting unethical and unlawful behaviour	AR14: 51-52	F
Specific information			
	Description	Page reference	Application
G4-DMA	Why the issues are material and how they are managed and assessed	AR14: 17-19, 72-77; I14	F
Economic			
DMA	Organisation's approach to social investments	AR14: 13, 14, 17-19, 36, 38-42	F
G4-EC1	Generated and delivered direct economic value	AR14: 5-6	F
G4-EC2	Financial risks and opportunities with investments related to climate change	AR14: 13-14, 25, 36, 38	F
Environmental			
Energy			
G4-EN3	Energy consumption within the organisation.	AR14: 52	F
G4-EN6	Reduction of energy consumption	AR14: 52	F
Waste			
G4-EN16	Indirect greenhouse gas emissions (Scope 2)	AR14:14, 36	F
Social			
Labour practices			
G4-LA1	New employee hires and employee turnover	AR14: 51	F
G4-LA2	Benefits provided to full-time employees	AR14:53, 65-66	F
GA-LA3	Parental leave	AR14: 51	F
Health and safety			
G4-LA5	Injuries, absence, etc	AR14: 51	F
Training and Education			
G4-LA11	Evaluation and training	AR14: 51-52	D
Diversity and equal opportunity			
G4-LA12	Composition of decision-making bodies	AR14: 50, 65-66	F
Human rights			
Investments			
G4-HR1	Investment agreements that include human rights	AR14: 42	F
Non-discrimination			
G4-HR3	Discrimination	AR14: 51-52	F
Child labour			
G4-HR5	Operations with risk for child labour	Not applicable to AP4	F
Forced labour			
G4-HR6	Operations with risk for forced labour	Not applicable to AP4	F

Specific information	Description	Page reference	Application
Social			
Labour practices			
G4-LA1	New employee hires and employee turnover	AR14: 51	F
G4-LA2	Benefits provided to full-time employees	AR14:53, 65-66	F
GA-LA3	Parental leave	AR14: 51	F
Health and safety			
G4-LA5	Injuries, absence, etc	AR14: 51	F
Training and Education			
G4-LA11	Evaluation and training	AR14: 51-52	D
Diversity and equal opportunity			
G4-LA12	Composition of decision-making bodies	AR14: 50, 65-66	F
Human rights			
Investments			
G4-HR1	Investment agreements that include human rights	AR14: 42	F
Non-discrimination			
G4-HR3	Discrimination	AR14: 51-52	F
Child labour			
G4-HR5	Operations with risk for child labour	Not applicable to AP4	F
Forced labour			
G4-HR6	Operations with risk for forced labour	Not applicable to AP4	F
Society			
Local communities			
G4-FS13	Access in low-populated or economically disadvantaged areas	AR14: 88	F
Anti-corruption			
G4-SO4	Communication and training	AR14: 51-52.	D
G4-SO5	Incidents of corruption	AR14: 52	F
Product responsibility			
G4-DMA	Guidelines, processes and evaluations relating to environmental and social impacts for employees, as well as their interaction in the investments	AR14: 51-52	F
G4-FS6	Product portfolio	AR 14 16-19, 57	F
G4-FS8	Value of products and services with environmental value.	AR14: 25-26, 36	
Revisions			
G4-DMA	Revisions to evaluate environmental and social policies	AR 14 38-39	D
Active ownership			
G4-DMA	Voting policy applied to environmental or social issues.	AR 14 38-39, 42; HAR 14-34	F
G4-FS10	Proportion of companies in which the Fund collaborated in environmental and social issues.	AR 14 38-39, 40-41	F
G4-FS11	Assets subject to environmental or social evaluation criteria.	AR 14 25-26, 36, 38-39, 40-41	F

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 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 management

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

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.

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.

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.

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.

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.

CSA agreement

Credit Support Annex. CSA agreements relate to an annex to ISDA agreements. CSA agreements regulate how collateral is posted for outstanding liabilities in the form of cash or securities.

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.

Global equities portfolio in tactical management

Consists of equities and equity-based instruments listed on stock exchanges included in the MSCI World. (Note that an equity listed on a Swedish stock exchange can be included in the global as well as the Swedish equities portfolio. At the time of purchase, the holding is assigned to the intended portfolio.) Foreign exchange derivatives are also managed in this portfolio. The benchmark indexes were MSCI North America, MSCI Europe and MSCI Pacific, adjusted for the Fund's current tax rate for each market and by excluding non-US REITs and currency-hedged to SEK. The index has also been adjusted from an ethical standpoint through exclusion of companies in accordance with the recommendations of the Ethical Council.

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.

ISDA agreement

International Swaps and Derivatives Association. ISDA agreements relate to a standard agreement to regulate trading of derivatives between two counterparties.

Benchmark index

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

Short position

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

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.

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 asset class. 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.

Duration

Measure of interest rate risk. Defined as the percentage change in value of a fixed-income securities as a result of a 1% parallel shift in the yield curve. Calculated by dividing the duration (see above) by one plus the market rate.

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. Index choices for the asset class equities are MSCI North America, MSCI Europe, MSCI Pacific and MSCI Emerging Markets, adjusted for the Fund's current tax rate for each market as well as by excluding non-US REITs and currency-hedged to SEK. The index has also been adjusted from an ethical standpoint through exclusion of companies in accordance with the recommendations of the Ethical Council. 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.

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.

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.

Real return

Return minus inflation.

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.

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.

Fixed income portfolio in tactical management

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.

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.

Swedish equities portfolio in tactical management

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.

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.

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.

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.

Volatility

Measure of risk equal to the standard deviation of the return on an asset. It shows how much the return varies. Unless stated otherwise, standard deviation is measured using the 12-month daily history.

Outperformance

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

Administration report

Each year AP4 submits an Administration Report containing those parts of the Swedish Code of Corporate Governance appropriate for AP4.

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 2014, the Government prescribed that all Board members of AP4 be re-elected, with the exception of Charlotte Strömberg and Lena Micko, who submitted a request to step down in the spring of 2014. They were replaced by the appointment of Maj-Charlotte Wallin and Helene Hellmark Knutsson on 30 May 2014. In the autumn Helene Hellmark Knutsson and Roger Mörtvik submitted a request to step down from office. On 22 January 2015 Göran Zettergren and Heléne Fritzon were appointed to be new members of the board to succeed Helene Hellmark Knutsson and Roger Mörtvik.

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

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.

AP4's auditors are appointed by the Government. The current audit mandate for 2014 is valid until the income statement and balance sheet for 2014 are adopted. The auditors report to the AP4's Board and to the Ministry of Finance. The Administration Report has not been examined by the Fund's auditors.

The 2014 Administration Report can be read and downloaded at www.ap4.se.



Fourth Swedish National Pension Fund

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