



- The market value of the Fourth National Swedish Pension Fund's investments on 30 June 2005 was SEK 165.8 billion.
- The total return on the Fund's assets was 8.3% in the first half of 2005.
- The net profit for the period amounted to SEK 12.5 billion.

**INTERIM REPORT**  
**January – June**  
**2005**

## Interim Report January – June 2005

### Economic trends

The growth rate within the OECD area slowed during the first half of the year. It is, however, considered to have remained at a good level overall, underpinned by continued strong demand in the American economy. In the US, the growth rate during the second quarter, according to preliminary assessments, amounted to 3.6% compared with the same quarter in the previous year. A continued very favourable trend for private consumption and business investment buoyed the growth rate, while significant inventory depletion had a negative effect. GDP growth in the eurozone and in the Japanese economy amounted to a more modest 1.4% and 1.3%, respectively, during the first quarter. There is every indication that the growth rate in these regions was unchanged or fell slightly during the second quarter of the year.

The OECD's leading indicators for industrial growth and the Purchasing Managers Index (PMI) in the US and Europe fell relatively steeply during the first half of the year. In line with this, the growth rate for industrial production weakened in all regions, but most markedly in the Japanese and European economies where industrial production growth over the past 12 months has been very low. The weaker industrial activity is considered in all regions to be at least partly related to an ongoing inventory depletion. The most recent economic statistics indicate,

however, that the fall in leading indicators may be coming to an end.

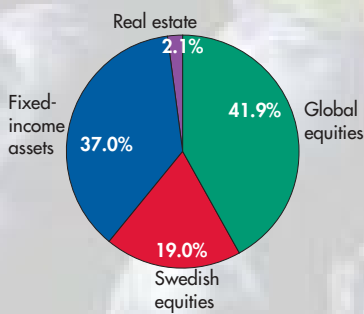
Expectations of a marked weakening in the Chinese economy have so far not materialised. Growth and industrial production continued to develop favourably during the first half of the year.

Oil prices rose sharply during the first six months of 2005. However, rising oil prices have not yet affected growth forecasts to any appreciable extent. Expectations for global growth in the current year were relatively stable during the first half and currently amount to approximately 3.0%.

The Federal Reserve continued its gradual tightening of monetary policy. During the first half of the year the base rate was raised by an additional percentage point from 2.25% to 3.25%. Long-term interest rates in the US fell overall during the period but rose after the end of June and are now at the same level as at the start of the year. In Sweden, the Riksbank cut its repo rate from 2.0% to 1.5% in June. This reduction was caused by considerably weaker inflation than expected and by few signs of an improvement in the labour market. Swedish bond rates fell sharply during the first half of the year. European interest rates also fell significantly and yield curves flattened in both the US and Europe.

The trade-weighted US dollar strengthened during the first half of the year. This

### Strategic portfolio, 30 June 2005



### Breakdown of investments

Asset class	Market value, SEK million 30/06/2005	Exposure <sup>1)</sup> , % 30/06/2005	Exposure <sup>1)</sup> , % 31/12/2004	Exposure <sup>1)</sup> , % 30/06/2004	Strategic portfolio, % 30/06/2005
Global equity portfolio	72,404	43.1	42.8	42.3	41.9
Swedish equity portfolio	31,694	18.9	19.3	19.5	19.0
Fixed-income portfolio	62,276	36.4	35.8	36.1	37.0
Real estate	3,487	2.1	2.1	2.1	2.1
Currency/Tactical allocation <sup>2)</sup>	-4,088	-0.5	-	-	-
<b>Investments</b>	<b>165,773</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>1)</sup> In exposure the underlying value of derivatives is allocated to the respective asset class.

<sup>2)</sup> Market value includes unrealised gains/losses on forward exchange contracts for hedging.

## Return and risk

Asset class	Return, %									Volatility, % Active risk, %	
	2005			2004			2004			12 months	12 months
	Portfolio	Index	Relative	Portfolio	Index	Relative	Portfolio	Index	Relative		
Global equity portfolio <sup>1)</sup>	3.3	3.2	0.2	8.7	8.1	0.6	6.7	5.8	0.9	7.6	1.2
Swedish equity portfolio	14.7	15.1	-0.3	10.8	12.3	-1.5	18.1	20.8	-2.7	12.5	2.1
Fixed-income portfolio <sup>2)</sup>	4.3	4.3	0.0	2.3	1.6	0.7	7.0	6.1	0.9	2.0	0.6
Real estate	34.0	34.0	0.0	8.7	8.7	0.0	13.6	13.6	0.0	–	–
Investments <sup>3)</sup>	8.3	8.2	0.1	5.5	5.5	0.0	10.6	10.9	-0.3	4.9	0.8

<sup>1)</sup> Including full currency hedging 2005, excluding currency hedging 2004.

<sup>2)</sup> Including currency hedging.

<sup>3)</sup> Including currency asset class.

Since percentages in the above table are correctly rounded off individually, the totals do not always correspond to the parts.

strengthening can be seen in the light of the fact that the Federal Reserve continued to raise the American base rate, while the ECB kept the European key interest rate unchanged. The trade-weighted Swedish krona weakened, mainly driven by the interest rate cut carried out by the Riksbank in June.

The Chinese currency was revalued against the US dollar by 2% in July. A change in the Chinese currency system was initiated at the same time, which means that in future the Chinese renminbin will be pegged to a currency basket. The general interpretation is that this is designed to create conditions for a more effective monetary policy and thus marks a first step on a long road towards a floating currency.

The first half of 2005 was characterised by some weakening in global growth. The American economy, however, continued to grow at a good rate. Raised key interest rates and rising oil prices are not yet considered to have dampened demand in the US. It appears likely, however, that the global growth rate will decline further during the second half of the year.

## Investments

In order for the strategic portfolio to better reflect the Fund's actual portfolio with its holdings in AP Fastigheter, it was decided that the weighting for real estate in the strategic portfolio should be the same as for real estate in the managed portfolio. The real estate weighting in the strategic portfolio will therefore be adjusted when the managed portfolio is rebalanced. The weighting for the large

est asset class, global equities, will be adjusted to a corresponding extent. Such an adjustment of the real estate weighting in the strategic portfolio was carried out during the period. Real estate thus comprised 2.1% of the portfolio at the end of June. The proportion of global equities in the Fund's strategic portfolio amounted to 41.9%. The proportion of Swedish equities was unchanged at 19.0% and the proportion of fixed-income assets comprised 37.0% of the strategic portfolio.

With effect from the start of 2005, currency is managed as a separate asset class in the Fourth National Swedish Pension Fund's asset management.

Both the global bond and stock markets generated a positive return during the first half of the year. Return for a global fixed-income portfolio developed in line with a global equity portfolio. The Swedish equity market, however, performed considerably better than a global equity market index measured in local currency.

The year started with relatively hesitant development in the global equity markets, despite continued favourable profit trends. Raised key interest rates, sharply rising oil prices and falling leading indicators led to concern about future economic development. Bond rates therefore fell to an unexpected and significant extent. The fall in interest rates provided equity markets with some support, and as the weakening in industrial activity became increasingly clear and with rising expectations that leading indicators had approached their lowest point, uncertainty in the stock markets lessened.

Stock markets therefore started to show a more stable upturn during the second quarter.

The net market value of the Fund's total investments was SEK 165,773 million at 30 June.

## Total return

The return on the investments amounted to 8.3% (5.5) during the period, which was 0.1 percentage points higher than the benchmark index. The table below shows a contribution analysis of both absolute and relative return.

## Global equity portfolio

The market value of the global equity portfolio amounted to SEK 72,404 million at 30 June, including private equity at a value of SEK 308 million. Of this, SEK 19,647 million was externally managed funds under semi-active mandates and SEK 16,207 million was externally managed under active mandates.

## Contribution analysis January – June 2005

Asset class	Contribution to absolute return, percentage points	Contribution to relative return, percentage points
Global equity portfolio <sup>1)</sup>	1.5	0.1
Swedish equity portfolio	2.7	-0.1
Fixed-income portfolio <sup>1)</sup>	1.6	0.0
Real estate	0.6	0.0
Currency	1.9	0.1
Tactical allocation	0.0	0.0
<b>Total return</b>	<b>8.3</b>	<b>0.1</b>

<sup>1)</sup> Including currency hedging.

The return on the global equity portfolio, including full currency hedging, amounted to 3.3%, which outperformed the benchmark by 0.2 percentage points. Due to changed accounting principles, this year's return figure for the global equity portfolio is not comparable with figures for previous years (see table Return and risk). The internally managed portfolio generated a return of 3.8% and outperformed its benchmark by 0.4 percentage points. The excess return is attributable to the selection of shares, primarily within the Consumer Discretionary sector. The external mandates made all in all a negative contribution to the relative return.

### Swedish equity portfolio

The market value of the Swedish equity portfolio amounted to SEK 31,694 million on 30 June, including private equity with a value of SEK 418 million.

The return on the Swedish equity portfolio amounted to 14.7% during the period, which was 0.3 percentage points lower than the SIX Return Index. The negative relative return was mainly attributable to positions within the Finance and Property and Energy sectors.

Private equity provided a return of 3.3% and had a 0.1 percentage point negative impact on the relative return in the Swedish equity portfolio.

### Fixed-income portfolio

The market value of the fixed-income portfolio amounted to SEK 62,276 million on 30 June. The return on the portfolio during the first half of 2005 was 4.3% which was in line with the portfolio's benchmark. A breakdown of bond holdings by rating category is provided in the diagram below.

### Real estate

The real estate asset class consists of shares and notes receivable in AP Fastigheter Holding AB. The market value of the portfolio amounted to SEK 3,487 million at the end of the first half (of which, SEK 1,397 million in shares and SEK 2,090 million in notes receivable). Return during the period amounted to 34.0%.

Almost two-thirds of this high return is an effect of a changed accounting principle when calculating the company's net worth.

### Currency

The total currency result contributed 1.9 percentage points to the Fund's absolute return. The Fund's active currency management performed well and made a positive contribution of 0.1 percentage points to the Fund's relative return during the first six months of the year. The main explanation for the relative return was that the Fund was overweight in Japanese yen against euro and overweight in US dollars against pounds sterling.

At the end of the first half, currency exposure was 19.7% of total assets compared with 20.4% at the start of the year.

### Other

At 30 June, fund capital amounted to SEK 165,686 million and had increased by SEK 14,252 million since the start of the year. During the period, fund capital was increased by the net profit for the period of SEK 12,504 million, net payments from the pension system SEK 1,533 million, and SEK 215 million transferred from the Liquidation Fund

administered by the First Swedish National Pension Fund on behalf of all the Swedish National Pension Funds.

Operating expenses, excluding commissions paid, fell to SEK 63 million compared with SEK 64 million in the same period last year. Total expenses, including commissions paid, amounted to SEK 131 million compared with SEK 134 million on 30 June 2004. The assets management cost quotient, excluding commissions paid (measured on an annual basis) amounted to 0.08% (0.09). Including commissions paid, this quotient was 0.17% (0.19). The number of employees during the period was unchanged at 50 people.

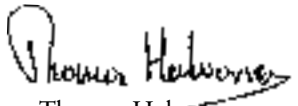
The Special Asset Management Unit, which is managing the Funds' phasing out of its private equity holdings, held investments valued at SEK 1,296 million on 30 June.

### President's comments

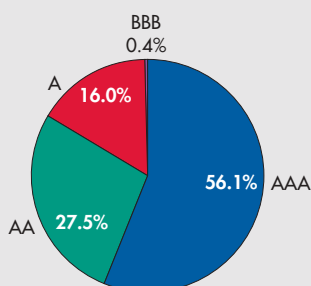
It is gratifying to report that the return on the Fund's investments during the first half amounted to 8.3%, which slightly outperformed the Fund's benchmark index. The good absolute return, which mainly benefited from a high proportion of Swedish equities in the strategic portfolio and exchange rate development, further strengthened the accumulated surplus for the Fourth Swedish National Pension Fund since the re-start at year-end 2000.

The Fund's active currency management during the period generated a return on a par with the excess return target for the year, representing a very strong performance. It is also pleasing that internally managed global equities can report a return that exceeds the excess return target for the period.

Stockholm, 25 August 2005

  
Thomas Halvorsen  
President

**Bond holdings by rating class at 30 June 2005**



## Income Statement

SEK million	30 June 2005	30 June 2004	31 Dec 2004
<b>Operating income</b>			
Net interest	799	1,337	2,398
Dividends received	1,681	1,273	1,667
Net profit, listed shares and participations	4,646	4,639	11,143
Net profit, unlisted shares and participations	484	168	223
Net profit/loss, fixed-income assets	1,348	-281	991
Net profit/loss derivative instruments	56	-15	19
Net profit/loss, exchange rate fluctuations	3,621	418	-1,918
Commissions paid	-68	-70	-120
<b>Total operating income</b>	<b>12,567</b>	<b>7,469</b>	<b>14,403</b>
<b>Operating expenses</b>			
Personnel costs	-41	-40	-79
Other administrative expenses	-22	-24	-47
<b>Total operating expenses</b>	<b>-63</b>	<b>-64</b>	<b>-126</b>
<b>Net profit for the period</b>	<b>12,504</b>	<b>7,405</b>	<b>14,277</b>

## Balance Sheet

SEK million	30 June 2005	30 June 2004	31 Dec 2004
<b>ASSETS</b>			
Shares and participations, listed	102,942	89,250	90,776
Shares and participations, unlisted	2,123	1,249	1,333
Bonds and other fixed-income assets	63,725	51,896	54,689
Derivatives	763	1,039	3,893
Cash and bank balances	843	378	385
Other assets	410	68	678
Prepaid expenses and accrued income	1,667	1,473	1,579
<b>Total assets</b>	<b>172,473</b>	<b>145,353</b>	<b>153,333</b>
<b>LIABILITIES AND FUND CAPITAL</b>			
<b>Liabilities</b>			
Derivatives	5,793	779	584
Other liabilities	283	144	864
Deferred income and accrued expenses	711	325	451
<b>Total liabilities</b>	<b>6,787</b>	<b>1,248</b>	<b>1,899</b>
<b>Fund capital</b>			
Fund capital, opening balance	151,434	135,506	135,506
Net payments within the national pension system	1,533	1,035	1,397
Transferred from Liquidation Fund/Special Asset Management Unit	215	159	254
Net profit for the period	12,504	7,405	14,277
<b>Total fund capital</b>	<b>165,686</b>	<b>144,105</b>	<b>151,434</b>
<b>Total fund capital and liabilities</b>	<b>172,473</b>	<b>145,353</b>	<b>153,333</b>

### Changed accounting principles

With effect from 2005, the First – Fourth National Swedish Pension Funds have adjusted their income statement format to the principles that apply to comparable organisations in Sweden and internationally. Comparative figures have been restated in accordance with this adjustment. Costs for external management assignments and custodian bank fees are therefore reported under the heading Commissions paid.

With effect from 2005 investments in equipment are normally recognised as an expense on a running basis.

Other accounting and valuation principles and definitions are provided in the Fund's 2004 Annual Report.

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



A specification of listed shares at 30 June 2005 is available on the Fund's website or may be ordered from:

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