

## AP4 Fund Capital Reaches Record level of SEK 310 billion

With a positive net profit of SEK 18 billion, the Fourth Swedish National Pension Fund (AP4) reached SEK 310 billion in Fund capital - a new record level. Total return reached 6.1 percent after expenses. AP4 outperformed the long-term return target.

- **SEK 18 billion net profit increases Fund capital to SEK 310 billion.**  
Net profits for the period amounted to SEK 18.0 (18.7) billion, which increased Fund capital to SEK 310 billion (295 as per December 31, 2014).
- **6.1 percent total return** after expenses (7.2 percent). Total return, before expenses, amounted to 6.1 (7.3) percent. AP4 benefited from its high proportion of equities in general, both global and Swedish.
- **Surpassed long-term target.** AP4 generated an average 7.4 percent, after expenses, in yearly nominal total returns over ten years. This corresponds to a real (inflation-adjusted) average return of 6.2 percent. Since the start of the evaluation<sup>1, page 2</sup>, real return amounts to an average 5.0 percent annually, which exceeds the long-term target. The real rate of return also exceeds the Income Index, which means that AP4 contributed positively to the stability of the pension system.
- **Strategic Management delivered an earnings contribution of SEK 6.4 billion.**  
Active Strategic Management outperformed the benchmark by 2.2 (0.3) percentage points before expenses, which corresponds to SEK 6.4 (0.5) billion. The investment horizon is 3-15 years.
- **Underperformed the index one six-month period, after six positive consecutive years.** Active Tactical Management returned -0.2 (0.3) percentage points before expenses. It was lower than the benchmark and corresponds to -0.3 (0.7) billion in profit contribution before expenses. Over the evaluation horizon of a rolling three year period, the active return amounted to a positive 0.4 percentage points on average per year, corresponding to a profit contribution of SEK 2.3 billion.
- **Low costs of 0.1 %.** AP4's management costs are low and very competitive in both domestic and international comparisons. The management cost ratio, excluding commission costs, amounted to an annualized 0.07 (0.07) percent of assets under management. Including commission costs, expenses amounted to 0.11 (0.11) percent. Management costs amounted to SEK 165 (147) million.
- **Foreign exchange exposure was 27.8 %**(28.1 per 2014-12-31) at the end of the period
- **More than net SEK 2.4 billion paid into the pension system** from the Fund capital to cover the deficit between pension payments and receipts. AP4 has in total, since 2009 when the system's net flows turned negative, paid out more than SEK 27 billion from the Fund capital to the pension system. Despite the payments, AP4's Fund capital has increased.

# 310

billion crowns in Fund capital

# 6.1 %

total return after expenses

# 18

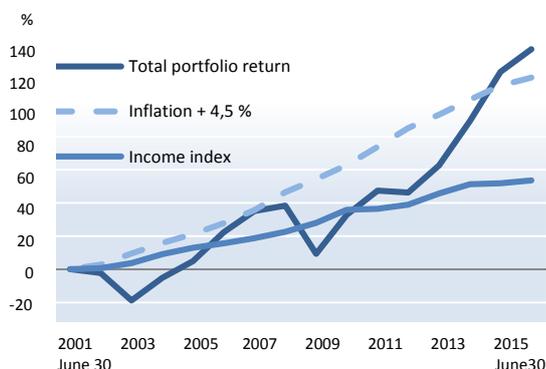
billion crowns total result

## Awards

for AP4's environmental efforts,  
management structure and reporting

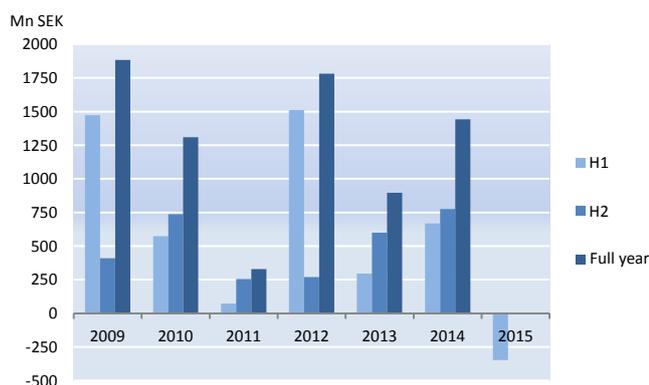
## The positive trend continues

### Total return exceeds both long-term targets and the Income Index



Since the evaluation start<sup>1</sup> AP4's total return, the dark blue line, surpassed the long term target. The return also surpassed the Income Index<sup>2</sup>, which means that AP4 has contributed positively to the stability of the pension system.

### 12 of 13 half-year periods with positive active returns



Since 2009 AP4's active management has delivered a positive additional contribution of a total SEK 7.3 billion.

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### Targets and net profits

AP4's Board of Directors has, based on their mandate, formulated the following overall long-term goals:

- **Total return** over the long term shall on average amount to **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 long-term inflation adjusted target has been surpassed<sup>1</sup>.**

- **The Strategic Management active return** (in addition to the benchmark index) shall average **0.75 percentage points per year**. (For 2013 the target was 0.5 percentage points.) The investment horizon is 3-15 years.

**The contribution to earnings is positive**, measured since the start January 1, 2013, and amounts to SEK 10.8 billion.

- **The Tactical Management's annual active return** (in addition to the benchmark index) shall average 0.5 percentage points over a three-year period.

**The positive active return was 0.4 percentage points** on average over a three-year period, which does not reach the target. The active return represents earnings contribution of SEK 2.3 billion over a three-year period.

### The Government's assessment positive

The Government's latest assessment shows that the AP Funds (buffer capital) contributed positively to the pension system both in 2014 and since the start in 2001. The Government believes that it is positive that the AP Funds are increasingly focused on medium- and long-term results. The government is also in favor of the AP Funds increasingly divergent asset allocation, which contributes to greater risk diversification within the buffer capital in terms of both the management and the asset allocation. The government's assessment also points out the continued sustainability work within the AP Funds that evolved during 2014 and the government expects efforts for the integration of sustainability issues into the AP Funds' management processes to continue to be a priority.

Source: Government evaluation published spring 2015, Skr. 2014/15:130

Read about the proposed new AP Fund System on page 13.

<sup>1</sup> The evaluation of the AP funds on behalf of the Ministry of Finance uses July 1, 2001 as the start date. The reason is that the First to Fourth AP Funds assumed their roles as buffer funds January 1, 2001, but it was not until later in 2001 that the Pension Funds had implemented their long term investment portfolios.

<sup>2</sup> Assumes that the income index's performance over a year can be distributed equally over each six-month period. This is a simplification as the income index is based on the average real income performance over the last three years, combined with the change in the consumer price index over the past year, calculated between June of the previous year compared with June two years previously.

## Awards and Prizes

AP4's efforts gets positive attention in several different contexts, both in Sweden and internationally. During the first half of 2015, AP4 received several awards in addition to an award for the AP funds' Ethical Council.

**Environmental Finance** presented AP4's CEO an award motivated by that he:

“...has helped drive the Portfolio Decarbonisation Coalition forward ahead of the all-important UN climate talks in Paris.”



**Institutional Investor European Awards 2015 - Scandinavian Public Pension Manager of the year** awarded AP4's Chief Investment Officer and Deputy Chief Executive Officer for AP4's focus on sustainability and the long-term nature of the management structure for the creation of good returns. AP4's Chief Investment Officer and Deputy Chief Executive Officer was also profiled in an article in Institutional Investor.



AP4's Chief Investment Officer and Deputy Chief Executive Officer Magnus Eriksson receives an award for AP4's focus on sustainability and the long-term nature of the management structure in order to create good returns.

**Asset Owners Disclosure Project (AODP) Global Climate 500** awarded AP4 the highest rating of AAA for its management of climate risks in investments, and AP4 ranked 9th of 500 international pension funds.



In January, the **CFA Society Sweden** presented AP4 with the **2014 CFA Sweden ESG Award** for efforts to raise awareness about the importance of including sustainability elements, with a focus on fossil fuels, into the investment process.

Three Swedish institutions shared the award and the justification reads:

“These institutions have demonstrated leadership and commitment to this challenge, each in their own way, as it relates to their fiduciary duty and clients.

All three have incorporated their views on fossil fuels to implement investment strategies to capitalize and generate higher investment returns. They have demonstrated that you do not need to sacrifice short-term goals in order to achieve long-term objectives.

Through their leadership they have invited to an industry dialogue and initiated the development of toolkits for a sustainable approach.”



**2014 CFA Sweden ESG Award**

Yearly, **MiljöAktuellt** ranks **Sweden's** most **environmentally influential people** by highlighting role models and people who set the agenda for environmental and sustainability issues, and drive the development in a more sustainable direction.

**AP4's CEO** is ranked number two with the motivation that:

"The Fourth AP-Fund is one of the initiators behind the "Portfolio Decarbonization Coalition", a coalition where some of Europe's largest institutional investors, together with the UN, will work to influence global financial markets to direct investments towards assets that are more carbon efficient. The initiative sends a clear message to carbon intensive companies: Now is the time to reconsider."



Also **the AP Funds Ethical Council Secretary General** ranks high at **15th place** on MiljöAktuellt's 2015 list of the most environmentally influential people on the grounds that:

" Through their long term and focused efforts, the AP Funds' Ethical Council contributes in influencing companies worldwide to work more sustainably. Since environmental analyst John Howchin became Secretary General of the AP Funds Etikråd, the Funds have strengthened their efforts to enforce environmental and ethical issues in the foreign companies whose shares they own."



The **Responsible Investor (RI) Reporting Awards 2015** presented AP4 with an award for its sustainability and corporate governance reporting. Simplicity, relevance, transparency and process are some of the assessment criteria for which the report is judged.

More than 1,000 pension fund's reports were evaluated and 16 funds were nominated. AP4 was nominated for the second time in three years as one of eight funds in the category of Best Report RI report - Large Fund.

The purpose of the Responsible Investor (RI) prize is to encourage 'best practice' and transparency in the reporting of pension funds sustainability efforts in their investments.



AP4's Senior Manager Information & Corporate Governance, Pia Axelsson, receives the award for AP4's Sustainability and Corporate Governance Report.

## Letter from the CEO

### A reasonable six months on the way towards the long term objectives

By long standing tradition, the AP funds report financial results twice a year. It may seem strange given that the AP funds, by law, have an investment perspective that spans 30-40 years. For transparency purposes the AP Funds are required to report their status on a going basis, preferably centered on the goals that the Boards of Directors established for the long-term perspective.

Since the re-launch of the income pension system almost 15 years ago, the Fourth Swedish National Pension Fund (AP4) has had a clear goal of eventually achieving an average annual return in real terms (adjusted for inflation) of 4.5 percent. The prelude was tough. The new AP-Funds launched at the top of a stock market bubble. Then we experienced a severe global financial crisis as a result of the European debt crisis. Who under these conditions dared to believe that AP4 - even all the AP Funds together - could report that targets have not only been met but also exceeded?

It should also be noted that the law that governs the AP funds stipulates that the AP funds should take into account environmental and ethical issues without compromising the objective of high, long-term returns.

The goal for AP4 is that the management organization's returns should outperform a passively managed index portfolio. This is accomplished via two mandates, a Tactical (evaluated over three years) and a Strategic (evaluated beyond a three year period).

It is gratifying to report that when the first half of 2015 is included, the achievement of objectives is good in terms of target returns:



- Since the evaluation start in 2001<sup>1</sup>, page 2, AP4's capital has grown from SEK 132 billion to SEK 310 billion. This corresponds to an annual real return of 5.0 percent. The very ambitious goal of delivering a real return of 4.5 percent per year has therefore been exceeded.
  - Cost efficiency remains good. AP4 has over the past decade incurred costs equivalent to about 10 basis points - that is, about 1 per thousand - in relation to the Fund's capital. Various comparisons show that this figure stands up very well in an international perspective.
- Efforts to create value through our being a long-term and active investor have also been fruitful.

**"Sustainability is a challenge, but with a longer evaluation horizon sustainability becomes crucial to the investor returns.**

**Properly managed and with the right perspective, this challenge generates additional returns, or as the Swedish National Pension Funds Act says, the AP funds should take into consideration environmental and ethical issues without compromising returns."**

AP4's ambition in the shorter-term, Tactical mandate (with an evaluation horizon of three years), is to generate an excess return of 0.5 percentage points per year. Since the end of the year 2012/2013, the Board of Directors also decided on a Strategic mandate where the evaluation horizon is up to 15 years. Initially, the idea is that this will give an additional contribution of 0.75 percentage points per year compared with the passive management of assets.

The results so far have been overall satisfactory.

Since 2013, Strategic Management has contributed almost SEK 11 billion, or just over 1.6 percentage points on a yearly basis. This is more than twice as much compared to expectations.

Even AP4's Tactical Management has delivered. The contribution over the past three years is SEK 2.3 billion, or 0.4 percentage points per year.

Together with AP4's long-term mandate comes the commitment to find investments that ultimately lead to better returns.

### An active and committed owner

One of these strategies, which require a longer evaluation horizon, is the ambition to work as an active and committed financial owner. This in itself has been a guiding principle for AP4 ever since its inception over 40 years ago.

It was therefore natural for AP4 to dispute the bid for Scania just over a year ago. Likewise, it was a matter of course to engage, as an active financial owner, last year when the abuses within SCA came to light. These kinds of actions seldom, or never, pay in the short term. But for long-term shareholders it is, or should be, obvious. For us at AP4 the motivation is that better corporate governance leads to higher returns, at least in the long term.

The Swedish stock market has long had a better development than the corresponding result for a global index. A major reason for this is probably the Swedish governance model and ownership structure marked by clarity and commitment. It is against this background that AP4's involvement in these issues should be seen. It is basically about using the long-term mandate that we, the AP funds, have in order to enhance returns for our clients, in the end, the Swedish pensioner. Unfortunately, the number of investors with such opportunities become fewer and fewer. Asset management has in recent decades become a surprisingly short-term industry, both in Sweden and internationally.

### Sustainability is crucial for the long-term

As long-term investors, sustainability issues must also be highlighted and addressed.

In the short term, sustainability appears as something of a random factor for asset managers, but with a longer evaluation horizon sustainability is crucial to the returns of investors. It is against this background that AP4 has been engaged in the climate issue. It is also important to manage the risk associated with climate, something that we as asset managers are expected to do on a daily basis in terms of financial risks.

No one, or at least only a very small minority, would today argue that climate change is not a risk. Instead, the realization

has emerged that this is a very serious global risk to our ability to continue to live in reasonable weather conditions on earth.

AP4 has been one of the driving forces in developing strategies for how pension funds can not only highlight climate risk but also reduce risks.

A capital market participant with a short-term evaluation period typically does not engage in this task. The simple explanation is that these managers do not create returns for such efforts because sustainability in the short term is a random factor. For an AP fund with an investment horizon of 30-40 years, the incentives are different.

Sustainability is a challenge, but if handled correctly and with the right perspective, this challenge generates additional

returns. Or as the Swedish law stipulates, the AP funds should take into account environmental and ethical issues without compromising returns.

For over three years, AP4 has developed and implemented strategies to reduce the carbon footprint of our equity portfolio. The results so far are promising. We create excess returns without taking undue risks.

In order to encourage other pension funds to advocate climate issues, AP4 is one of four organizers of a coalition - Portfolio Decarbonization Coalition, PDC - which tries to engage like-minded pension funds. The goal is to find approximately 15 funds by the end of the year that together have invested USD 100 billion in strategies to reduce the carbon footprint.

As this is first and foremost an interim report, there is reason to conclude by pointing out what AP4 has achieved in the first six months of 2015 in order for us to live up to the goals of a high return, low costs and continued efforts with regard to sustainability.

- With a half-year profit of SEK 18 billion, representing a return on capital of over 6 per cent, we live up to the long-term goal of a real return of 4.5 percent per year.
- Thus far in 2015, the outcome for the Strategic Management is slightly more than SEK 6 billion, or 2.2 percentage points, which obviously contributes to good potential to achieve the long term goal of an additional contribution to the total return of 0.75 percentage points per year.
- Tactical Management can take pleasure in that three of the five units are delivering according to targets. Overall,

**” For over three years, AP4 has developed and implemented strategies to reduce the carbon footprint of our equity portfolio. The results so far are promising. We create excess returns without taking undue risks.”**

however, we are negative for the last six months. Seen over the past three years, which is a more relevant evaluation period, Tactical Management has contributed SEK 2.3 billion.

- The group of international pension funds, PDC (which AP4 has initiated), have reached halfway to the goal of bringing together USD 100 billion in assets invested in strategies to reduce climate risk ahead of the climate meeting in Paris in December this year.
- An additional SEK 2.8 billion of AP4's equity portfolio is invested in so-called low-carbon strategies. The contribution has so far remained positive and is almost one percentage point more than benchmark since the start three years ago.
- Rikshem, AP4's young, jointly owned, real estate company that focuses on residential and community buildings, has continued its successful expansion, emphasizing efforts to gradually raise sustainability.
- During this year's round of general meetings, AP4 worked actively on more than 20 nominating committees in Sweden, including actively taking part in driving corporate governance in the right direction within SCA and in the sphere's constituent companies.

In summary - a reasonable interim result from a pension fund that has long-sightedness sustainability as its guiding principles.

## Proposed new Swedish National Pension Fund System

In light of this background, it is disappointing to once again regard proposals of how our business should be transformed. I regret that even this time the proposers, apart from the massive criticism made against the proposals arguments, analysis and impact assessment, disregarded the achievements of the current AP funds.

The fact that all the AP funds achieved a good, or very good, goal fulfillment in relation to the long-term return requirements are neglected, as is the fact that the management is run in a highly cost effective manner.

Should parliament resolve to implement the Pension Group's proposal, there is an obvious risk that it will destroy an effective organization that has successfully grown the pension capital of SEK 1 200 billion. The Swedish pensioner is definitely worthy of a better fate.

Finally, thanks to all of the talented and dedicated employees who, despite the turbulence created by recurrent questionable organizational proposals, continue to deliver. We should take pleasure in that during the first half 2015, AP4 once again received international recognition and awards for our work.



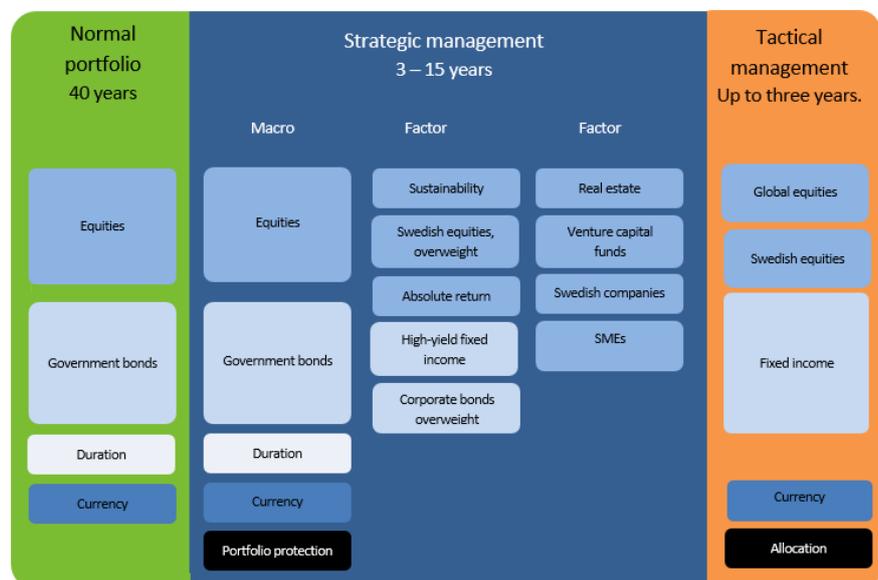
Mats Andersson, VD

## Management, targets and results

	Normal Portfolio	Strategic management	Tactical management
Investment horizon	40 years	3-15 years	0-3 years
Mandated 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	Indices, active investments and strategic macro and factor positions	Active and passive investments
Decision basis	Liability and asset analyses (ALM analyses)	Long-term market and portfolio analysis	Market analysis for equities, bonds and currencies
Target for active return / evaluation period	-	0.75 percentage points for 2014 and 0.5 percentage points for previous years. Calculated on a rolling five-year average.	0.5 percentage points on average over rolling 3-year period
Turn out Active return <sup>1</sup> , Jan-Jun 2015	-	2.2 percentage points	-0.2 percentage points
Turn out Active return in average over the evaluation period	-	Launched Jan 1, 2013. Not yet active an entire evaluation period. Contribution to date positive.	0.4 percentage points
Management horizons contribution to total return:			
Return contribution <sup>2</sup> , Jan-Jun 2015	4.1 %	2.2 percentage points	-0.1 percentage points
Risk contribution <sup>3</sup> , Jan-Jun 2015	7.4 %	+0.1 %	+0.1 %
Result contribution, Jan-Jun 2015	SEK 12.1 bn	SEK 6.4 bn	SEK -0.3 bn
Operating expense ratio annual rate, Jan-Jun 2015	0.04 %	0.04 %	0.03 %
Long-term goal	4.5% real (inflation-adjusted) return on average for the total. See page 2.		
Turn-out total return	6.2 % real return on a rolling ten-year average. 5.0 % real return in average since the evaluation start Jul 1, 2001.		
The work with our focus areas <a href="#">Climate Change</a> and <a href="#">Governance</a> during the period is described briefly on pages 11-12.			
<sup>1</sup> 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.			
<sup>2</sup> Return contribution is calculated as active results for both Tactical and Strategic management in relation to total investment assets. The calculations are daily.			
<sup>3</sup> Calculated using a six-month historical standard deviation.			

AP4's management structure consists of three investment horizons. The long-term Normal Portfolio is a reference portfolio. Assets are managed in the Strategic Management (3-15 year investment horizon) and in the Tactical Management (up to three years of investment horizon).

Investments in each of the management horizons have different asset classes and management strategies.



## Fund capital and total return developed positively

Fund capital increased to SEK 310 billion and AP4 surpassed the Income Index. Earnings for the first six months amounted to SEK 18 billion.

### Fund capital increased to SEK 310 billion

Fund capital increased by SEK 15.6 (16.2) billion to 310.4 (294.9) billion. The change to the Fund capital comprises SEK 18.0 (18.7) billion of net profits, in other words the period's returns less management expenses and net payments to the pension system. The latter amounted to SEK 2.4 (2.5) billion, which reduces the Fund's net assets by the same amount. For the seventh year in succession, the buffer funds injected capital into the pension system to cover the system's deficit. AP4 has cumulatively, since 2009, paid out nearly SEK 27 billion to the pension system. Despite the payments, AP4's Fund capital has increased.

#### Changes to the Fund capital

SEK bn	Jan-Jun 2015	Jan-Jun 2014
Fund capital, opening balance	294.9	259.7
Net payments to the pension system	-2.4	-2.5
Profit/Loss for the period	18.0	18.7
<b>Fund capital, closing balance</b>	<b>310.4</b>	<b>276.0</b>

Of the SEK 310 billion in Fund capital, listed shares accounted for 58 (58) percent, of which global equities accounts for 40 (40) percent and Swedish equities 18 (18) percent. Fixed-income securities accounted for 34 (34) percent, real estate 6 (5) percent and alternative assets 3 (3) percent.

27 (22) percent of assets are managed with a Strategic investment horizon of 3-15 years and 73 (78) percent are managed with a Tactical investment horizon of up to three years.

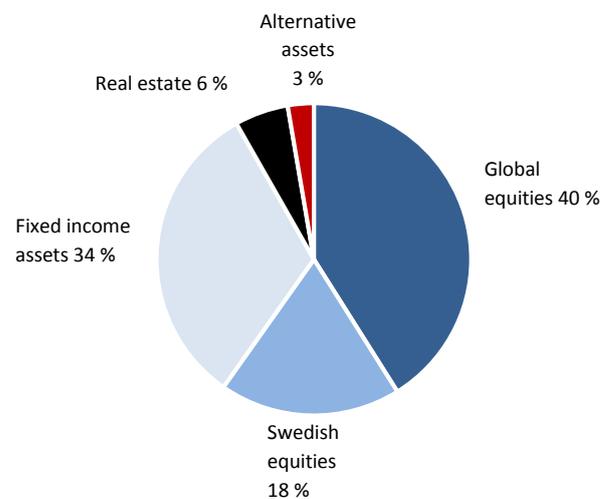
### Total return of 6.1%, equivalent to SEK 18 billion

The total return for the period amounted to 6.1 (7.3) percent before expenses, and 6.1 (7.2) percent after expenses. Total return corresponds to earnings after expenses of SEK 18.0 (18.7) billion.

### Outperforms long-term objectives and the Income Index

AP4 has over the past ten years returned 105 percent after expenses. This equates to an average return of 7.4 percent per year, which corresponds to, net of inflation, an average annual real return of 6.2 percent. Since the evaluation start <sup>1, see page 2</sup>, real return has amounted to an average 5.0 percent annually and exceeds AP4's long-term target. The return since the evaluation start is also better than the Income Index, which amounted to 3.1 percent (refer to chart on page 2). Therefore, AP4 has contributed positively to the pension system's stability.

### Listed shares more than half of total assets



The graph above shows the asset allocation, June 30, 2015. The Board of Directors has resolved that AP4 has the best chance to achieve the real long-term goal by having a high proportion of publically listed shares. Listed shares, both global and Swedish, represents more than half of total assets. In the diagram, the underlying value of derivatives in the passive allocation has been allocated to the respective asset classes.

## Asset class market values and development

### Continued positive market development

Despite turbulent markets in June, global and Swedish equity markets ended positively for the first half of 2015. At the same time, long-term government interest rates increased in major bond markets, which was negative for bond valuations. The Swedish crown weakened against, among others, the US dollar, British pound and Japanese yen, which benefited the valuation of AP4's foreign assets.

### Positive contribution from listed equities

Listed shares, both Swedish and foreign, delivered good returns. Overall, listed shares contributed positively with 4.0 (4.2) percentage points of the total return. Highest returns resulted from the sub-portfolio Strategically Managed SME's which returned 15.2 (17.6) percent.

### Fixed income assets performed poorly

During the period government bond valuations developed slightly negative, while AP4's credit bonds provided a small positive contribution. Overall, the return on AP4's interest-bearing assets was -0.7 (3.9) percent.

### Positive returns from real estate

AP4's real estate performed well and returned 13.7 (5.6) percent.

### Rising US dollar resulted in a positive contribution

A naked currency exposure, primarily in US dollars, resulted in a positive contribution of 1.6 (1.3) percentage.

Market value, portfolio return and contribution to profit/loss, 30 June 2015

Asset class	Market value, SEK bn	Portfolio return, %	Contribution to profit/loss for the period, SEK bn
Equities, total	180.2	6.6	12.0
Global equities	123.1	4.7	6.0
Strategically managed	27.8	5.4	1.3
Tactically managed	95.3	4.5	4.7
Swedish equities	57.1	11.0	6.0
Strategically managed	30.8	12.3	2.7
Tactically managed	26.3	9.8	3.4
Fixed income assets	104.7	-0.7	-0.7
Tactically managed	104.7	-0.7	-0.7
Real estate	17.3	13.7	2.1
Strategically managed	17.3	13.7	2.1
Alternative assets	8.3	3.0	0.2
Strategically managed	8.3	3.0	0.2
Currency	0.0	1.6	4.6
Other <sup>2</sup>	0.0	0.0	-0.1
<b>Total investment assets<sup>3</sup></b>	<b>310.5</b>	<b>6.1</b>	<b>18.1</b>

<sup>1</sup> Underlying value of derivatives in passive asset allocation for each asset class

<sup>2</sup> Other consists of cash as well as strategic and tactical asset allocation

## AP4's three management horizons

AP4's management structure consists of three investment horizons. The Board of Directors resolves on the composition of the Normal portfolio, the most long-term management horizon, and establishes the mandate and goals for the Strategic and Tactical management.

### Positive contributions over time

Since the start of AP4's management structure in 2013, the three management horizons contributed positively to earnings. The evaluation period for all investment horizons are rolling three years or more.

The table below shows the trend for the past 2.5 years, i.e. from the start point for the introduction of the management structure.

AP4's investment horizons' contribution to return, risk and costs <sup>1</sup>

	Normal portfolio 40 years	Strategic management 3-15 years	Tactical management up to three years	Total portfolio
Time from start, Jan 1, 2013	2.5 years	2.5 years	2.5 years	2.5 years
Return contribution <sup>2</sup> , %	13.4	1.6	0.4	15.4
Contribution to net profit <sup>2</sup> , SEK bn	83.2	10.8	2.0	95.9
Risk contribution <sup>3</sup> , %	5.2	-0.4	0.1	4.9
Operating expense ratio, %	0.04	0.04	0.03	0.11

<sup>1</sup> All values in the table are annualized, except for Earnings Contribution, which represents the total result for the period.

<sup>2</sup> Return and earnings before expenses.

<sup>3</sup> Risk premium is calculated with 30-month historical standard deviation.

## Two of the three investment horizons contributed positively

During the period the Normal portfolio (40 years) and the Strategic Management (3-15 years) contributed positively to returns. Tactical Management, for the first time since 2008, underperformed compared to the benchmark index for the period.

### Normal portfolio contributed positively

A high proportion of equities, together with a naked currency exposure yielded a positive contribution to the Normal portfolio.

#### Normal portfolio, 40 years

Asset class	30 June 2015		1 Jan 2015 – 30 Jun 2015	
	Weight %	Foreign exchange exposure, %	Return, %	Return contribution SEK bn
Equities	65.3		2.9	8 815
Government bonds	34.7		-0.1	-256
Currency	-	28.9	1.3	3 538
<b>Total</b>	<b>100.0</b>	<b>28.9</b>	<b>4.1</b>	<b>12 097</b>

### Strategic Management contributed positively

Strategic Management yielded an overall positive active contribution for a total return of 2.2 (0.3) percentage points. This corresponds to SEK 6.4 (0.5) billion in active profit contribution. The biggest positive active contribution stemmed from decisions on the Strategic allocation to Swedish equity from real estate.

Since the start in 2013, the Strategic Management has contributed SEK 10.8 billion in active earnings contribution, or 5 percentage points.

#### Strategic management, 3-15 years

	1 Jan 2015 – 30 Jun 2015	
	Return contribution, active, %	Active earnings contribution SEK m
<b>Strategic management</b>		
<b>Factor positions:</b>		
Swedish equities	1.1	3 228
Corporate bonds	0.0	141
Sustainability	0.1	301
Real estate	0.5	1 340
Other strategic positions	0.0	59
<b>Total factor positions</b>	<b>1.7</b>	<b>5 068</b>
<b>Macro positions:</b>		
Asset class	0.1	443
Currency	0.3	925
Duration	0.0	-65
<b>Total macro positions</b>	<b>0.4</b>	<b>1 303</b>
<b>Total strategically managed positions</b>	<b>2.2</b>	<b>6 371</b>

## Tactical Management - three of the five sub-portfolios contributed positively

Tactical Management's profit contribution amounted to SEK -347 (685) million. Since the management reorganization in 2009, the active Tactical Management has, in total, delivered a positive contribution to earnings of SEK 7.3 billion.

The six-month interim active return in Tactical Management amounted to -0.2 (0.3) percentage points and did not meet the goal of 0.5 percentage points per year. The sub-portfolios Global equities, Swedish equities and currencies showed positive active earnings, which surpassed the index.

The return was positive for the evaluation period of a rolling three-year period and amounted to 0.4 percentage points, but was lower than the target by -0.1 (0.1) percentage points.

#### Tactical management, 0-3 years, 1 Jan 2015 – 30 Jun 2015

Tactical management	Active return contribution, %	Active earnings contribution, SEK m
Global equities	0.1	267
Swedish equities	0.0	144
Fixed income	-0.2	-758
Equities index <sup>1</sup>	-0.1	-147
Currency <sup>1</sup>	0,0	147
<b>Total tactically managed assets</b>	<b>-0.1</b>	<b>-347</b>

<sup>1</sup> Active return based on total investment assets.

## Active management advances the ownership role

One aspect of active management, which should be given more importance, is that it increases the opportunities to be a knowledgeable and sensible owner. A separate analysis and therefore own view of the company, which active management presupposes, increases the chances of being an effective owner and to hold discussions with companies in a sensible and constructive way.

### Long term efforts for sustainable value creation

AP4 drives integration of the environment, ethics and corporate governance in both Tactical and Strategic Management. Within sustainability, AP4's focus areas are corporate governance and climate change, which are deemed essential for the performance and development of all assets. AP4's knowledge, commitment and potential for impact are also expected to make a difference and contribute positively to the assets' long-term returns.

The following summarizes elements of AP4's achievements in these focus areas during the first six months.

**Governance as a focus area** is about AP4 being an active owner that takes responsibility and influences a company's development so that they are successful and deliver long-term sustainable returns. This can in turn contribute to secure pensions.

- AP4 have been asked and participated in 21 nominating committees for listed Swedish companies, including as chair of two of these nominating committees.
- Over many years AP4 has advocated for an **increase in the proportion of female directors**. Of the companies that had their General Meeting during the spring, and in which AP4 participated in the company's nomination committee, eight of the 23 newly elected members were women. This corresponds to 35 percent newly elected female members.

After the General Meetings during the spring, the proportion of women on company boards increased to 29 percent for the Nasdaq OMX Stockholm's main list. This means an increase of more than 3 percentage points. The increase shows that systematic work is carried out by the owners to meet the Swedish Corporate Governance Board's intermediate targets of 35 percent in 2017 and 40 percent in 2020.

- AP4 conducted more than 20 **dialogues** with Swedish companies prior to the Annual General Meetings in the spring, which yielded a positive effect in several cases, better motivated conditions of general meeting proposals and enhanced disclosure from the companies.
- AP4 has participated in 72 **Swedish AGMs**.
- **Dialogues** are conducted on an ongoing basis with companies, primarily Swedish, consisting of both in-depth dialogues where specific issues are addressed and recurring continuous dialogues in on-going management. AP4 has had one or several contacts with approximately 150 Swedish companies during the period.
- AP4 voted at the **AGMs** of 644 **international companies**. This is an increase compared to last year and is in line with AP4's objective to vote at even more foreign AGMs.
- **Success for shareholder proposals regarding enhanced climate reporting**. Shareholder proposals had been put forward by AP4 and other investors at the Annual General Meetings of Shell, BP and Statoil. Corporate boards recommended that shareholders support the proposals, which the meetings approved.
- **Equity strategies with a focus on corporate governance**. During the period the Japanese strategy outperformed the benchmark index while the European strategy developed somewhat poorer. The management works continuously to evaluate and look for additional funds.

During the spring of 2015, AP4 participated in talks with Management Investor Forum (MIF), a group led by the Japanese Ministry of Economy, Trade and Industry (METI) in Tokyo to discuss how the Japanese stock market and Japanese companies can best evolve in the medium to long term.

Another aspect of AP4's work regarding Japanese corporate governance has been in supporting the development of a Japanese corporate governance code, which was introduced June 1, 2015.

**Climate change as a focus area** is about AP4's contribution to reduced carbon emissions, the protection of AP4's assets and income from the expected revaluation of carbon emissions and fossil reserves and AP4's contribution to the transition to a climate-neutral society.

- **Low carbon dioxide investments**, to reduce AP4's exposure to companies with significant emissions of carbon dioxide and fossil reserves, increased to nearly 14 percent of the global equity portfolio. Investments during the period developed in line with/slightly better than its benchmark. Efforts continue to further develop strategies to include additional geographic markets for the global equity portfolios.

- AP4 drives, together with the UN, an initiative to reduce carbon emissions - **Portfolio Decarbonization Coalition, PDC**



#### Mobilizing financial markets to catalyze economic decarbonization

AP4 is one of the founders of the PDC, which targets investors globally to measure their carbon footprint and to decrease equivalently. PDC's objectives for the climate meeting in Paris this fall is to gather investors from around the world in order to reach assets under management of at least USD 500 billion of investors who measure their carbon footprint, and to reach at least USD 100 billion of investments in carbon-efficient strategies. The work to achieve the goals continued during the period.

- During the period AP4 has been active in the **green bonds** market. During the period, AP4 invested over two billion crowns in new issues of green bonds. Green bonds currently represent less than ten per cent of the corporate bond portfolio.
- **Sharing experiences and knowledge** regarding both low carbon strategies and green bonds is one of AP4's sustainability goals. During the period AP4, on request, gave presentations at approximately 20 conferences and other official events including Stranded Assets Programme, Smith School, University of Oxford; Decarbonization Conference, Columbia University, New York; World Bank, Washington; Sovereign Wealth Fund Institutet, South Korea; Climate Conference Paris Climat 2015 (COP 21) and the UN meeting in Dubai.
- Influencing foreign companies towards a positive change with regard to the environment and ethics is partly managed through the AP funds' Ethical Council, a collaboration between First - Fourth AP Funds. The Ethical Council's Annual Report 2014 was published during the period. The Ethical Council's new website, [www.etikradet.se](http://www.etikradet.se), was also published during the spring.

Read more at [www.ap4.se](http://www.ap4.se)



## Low costs of 0.1 percent

AP4's management cost is by comparison, both domestically as well as internationally, low and very competitive.

### Management expenses

	Jan-Jun 2015	Jan-Jun 2014
Operating expenses, SEK mn	103	97
Commission expenses, SEK mn	62	50
Operating expense ratio, % <sup>1</sup>	0.07	0.07
Operating expense ratio, % <sup>2</sup>	0.11	0.11

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

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

## Personnel

The number of employees as of the end of the period was 56, which is an increase of two by comparison to the number of employees at the beginning of the year.

## Proposed new Swedish National Pension Fund System

On Thursday June 18 the Pension Group proposed a new Swedish AP Fund system. The proposal builds on the five-party agreement made public on March 12, 2014 and involves major changes of the current pension funds system including a new structure, authority and governance of the AP funds.

There are **a number of unresolved risks** in the Pension group's proposal, including **greater risk of standardization, shortsightedness and political influence** of the AP funds. The purpose of the proposal is to establish a principal National Pension Fund Board that determines a **common reference portfolio** for the AP funds. The reference portfolio accounts for 80-90 percent of the management's total return and risk. The proposal means that the most important decision is moved from the five AP funds different boards to **one single board**, a newly created authority, National Pension Fund Board, within the Sweden Pensions Agency (Pensionsmyndigheten). With only a single reference portfolio there is an increased probability of standardization of the management, which in time could lead to the risk of lower returns and lower pensions.

The proposal means an **increased risk of shortsightedness**. With an annual evaluation of the AP funds' performance to that of the reference portfolio, together with that the planning process of the reference portfolio and its asset allocation moves from the AP funds to the Sweden Pensions Agency which increasingly focuses on the Income Index and constraints in the pension system, increases the risk of shortsightedness and consequently nearly passive index management.

**Lack of analysis and impact assessment** So far, no analysis or impact assessment have been developed or presented that addresses these various risks. There has not either been any analysis done that shows how the Pension Group's proposals on changes to the pension system will benefit current and future pensioners.

## Accounting and valuation policies

This interim report was prepared in accordance with the accounting and valuation policies jointly prepared by the AP Funds. Due to changes in accounting principles, comparative balance sheet figures for June 2014 have changed the with regards to "Other assets" and "Other liabilities". These are presented in AP4's 2014 annual report, available at [www.ap4.se](http://www.ap4.se).

Figures contained in the tables and charts have each been individually rounded correctly, and hence may not always sum to the totals. Figures in parentheses refer to the interim report for the first half 2014 if not otherwise stated.

This interim report has not been audited by AP4's auditors.

## Next reporting date

The complete year-end accounts for the 2015 financial year will be released in February 2016.

## Multi-year summary

Multi-year summary, as per closing date	30 Jun						
	2015	2014	2013	2012	2011	2010	2009
<b>Fund capital, flows and net profit/loss, SEK bn</b>							
Fund capital	310.4	294.9	259.7	229.6	210.0	212.8	195.7
Net flows to the pension system and special asset management	-2.4	-5.1	-6.9	-3.8	-1.2	-4.0	-3.9
Profit for the year	18.0	40.2	37.0	23.4	-1.6	21.2	34.9
<b>Return, %</b>							
Return on total portfolio before expenses	6.1	15.8	16.5	11.3	-0.7	11.0	21.6
Return on total portfolio after expenses	6.1	15.7	16.4	11.2	-0.7	10.9	21.5
Return on total portfolio after expenses, annualised 5 years	11.6	10.5	11.6	3.3	1.6	3.8	4.9
Return on total portfolio after expenses, annualised 10 years	7.4	7.6	7.2	7.2	4.1	3.6	-
<b>Operating expense ratio as a % of assets under management (annualised)</b>							
Operating expenses	0.07	0.08	0.08	0.08	0.08	0.09	0.10
Operating expenses and commission expenses	0.11	0.11	0.11	0.10	0.10	0.10	0.11
<b>Risk, %</b>							
Standard deviation, total portfolio ex post	7.6	6.0	5.6	5.6	9.2	7.5	11.0
Standard deviation, liquidity portfolio ex-post <sup>1</sup>	8.1	6.4	6.0	6.0	9.8	7.8	11.6
Standard deviation over 10 years, liquidity portfolio ex-post <sup>2</sup>	9.1	8.9	8.9	-	-	-	-
Sharpe ratio total portfolio ex post	1.7	2.5	2.8	1.8	neg	1.4	1.9
Sharpe ratio liquidity portfolio ex-post <sup>1</sup>	1.5	2.3	2.5	1.7	neg	1.3	1.8

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

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

Other key ratios, as per closing date	30 Jun						
	2015	2014	2013	2012	2011	2010	2009
Active return, strategic management before expenses <sup>1</sup>	2.2	0.7	1.2	-0.4	-	-	-
Active return, tactical management before expenses <sup>2</sup>	-0.2	0.7	0.5	1.0	0.2	0.8	1.4
Inflation	0.1	-0.3	0.1	-0.1	2.0	2.3	0.9
Real total return after expenses	6.0	16.0	16.2	11.2	-2.7	8.6	20.6
Active risk ex post, tactical management	0.4	0.2	0.2	0.4	0.5	0.3	0.4
Foreign exchange exposure, %	27.8	28.1	28.6	27.7	25.7	19.8	14.6
Proportion under active management, including enhanced, %	63.3	62.9	58.2	50.2	63.6	61.2	57.7
Proportion under external management, including investments in venture capital firms, %	29.7	30.9	28.4	21.7	18.4	22.6	21.1
Number of employees at end of accounting period	56	54	55	49	52	51	53
<b>Allocation of investment assets, %<sup>3</sup></b>							
Equity portfolio	58.0	59.0	59.5	55.5	55.7	59.9	60.3
Global equity portfolio	39.6	40.5	40.1	37.2	37.9	41.0	42.4
Swedish equity portfolio	18.4	18.5	19.3	18.3	17.8	18.9	18.0
Fixed income portfolio	33.7	33.0	32.0	36.1	37.3	34.0	34.9
Real estate	5.6	5.5	5.7	5.2	4.5	3.9	3.2
Alternative assets <sup>4</sup>	2.7	2.7	2.7	3.1	2.5	2.0	1.3
Other <sup>5</sup>	0.0	-0.2	0.1	0.1	0.0	0.2	0.3
<b>Total investment assets, %</b>	<b>100,0</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

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) Refers to cash as well as strategic and tactical asset allocation.

## Income statement and Balance sheet

### Income statement

SEKm	Jan-Jun 2015	Jan-Jun 2014	Jan-Dec 2014
<b>OPERATING INCOME</b>			
Net interest income	1 199	1 432	2 736
Dividends received	4 230	3 531	4 555
Net income, listed shares and participations	8 913	7 843	13 295
Net income, unlisted shares and participations	805	-103	1 109
Net income, fixed income assets	-1 305	2 492	4 978
Net income, derivatives	-297	346	459
Net income, changes in exchange rates	4 600	3 292	13 390
Commission expenses	-62	-50	-101
<b>Total operating income</b>	<b>18 083</b>	<b>18 783</b>	<b>40 421</b>
<b>OPERATING EXPENSES</b>			
Employee benefits expense	-66	-61	-125
Information and IT expenses	-21	-19	-41
Services purchased	-4	-6	-9
Costs of premises	-6	-6	-12
Other administrative expenses	-6	-5	-8
<b>Total operating expenses</b>	<b>-103</b>	<b>-97</b>	<b>-195</b>
<b>PROFIT/LOSS FOR THE PERIOD</b>	<b>17 980</b>	<b>18 686</b>	<b>40 226</b>

### Balance sheet

SEKm	30 Jun 2015	30 Jun 2014	31 Dec 2014
<b>ASSETS</b>			
Shares and participations, listed	181 685	163 676	177 065
Shares and participations, unlisted	16 464	13 095	14 696
Bonds and other fixed income securities	106 007	98 195	104 030
Derivatives	3 945	626	4 135
Liquid assets	4 049	2 346	3 892
Other assets	915	750	252
Prepaid expenses and accrued income	1 257	1 413	1 605
<b>Total assets</b>	<b>314 322</b>	<b>280 101</b>	<b>305 675</b>
<b>LIABILITIES AND FUND CAPITAL</b>			
<b>Liabilities</b>			
Derivatives	2 421	3 157	10 166
Other liabilities	1 348	926	566
Deferred income and accrued expenses	136	52	89
<b>Total Liabilities</b>	<b>3 905</b>	<b>4 135</b>	<b>10 821</b>
<b>Fund capital</b>			
Fund capital, opening balance	294 854	259 748	259 748
Net payments to the pension system	-2 417	-2 468	-5 120
Profit/Loss for the period	17 980	18 686	40 226
<b>Total fund capital</b>	<b>310 417</b>	<b>275 966</b>	<b>294 854</b>
<b>TOTAL LIABILITIES AND FUND CAPITAL</b>	<b>314 322</b>	<b>280 101</b>	<b>305 675</b>

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