AP4 overshot short- and long-term return targets.

The positive outcome contributed SEK 23 billion to the pension system, of which SEK 1.8 billion came from the Fund’s active management. The Fund’s active earnings were positive for the fourth consecutive year.

Fund capital increased to SEK 230 billion.
Welcome to the Fourth Swedish National Pension Fund’s 2012 annual report

The annual report summarises the past year, focusing on the Fund’s management. The annual report can be downloaded from www.ap4.se. Every entry in the tables in the annual report has been correctly rounded, though they may not always sum to the totals shown.

We wish all readers an informative read.

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Key points of 2012

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

- **SEK 230 billion in Fund capital**
  Fund capital amounted to SEK 229.6 billion (210.0), an increase of SEK 19.6 billion (-2.8).

- **Total return of 11%**
  Total return after expenses was 11.2% (-0.7). Total return before expenses was 11.3% (-0.7). AP4 benefited from its high proportion of equities and the upbeat performance of equity markets globally, including in Sweden.

- **5.8% real average return in ten years**
  AP4’s real (inflation-adjusted) return over a ten-year period was 5.8% annually on average. Thus, the long-term target of 4.5% average real return set by the Board was overshot.

- **SEK 1.8 billion in active return**
  Return from active management outperformed the benchmark index by 1.0 (0.2) percentage points before expenses, equalling SEK 1.8 billion (0.4).

  It was the fourth consecutive year in which the Fund’s active management outperformed the benchmark index, thus delivering a better return than passive management. AP4 also overshot the short-term return target set by the Board.

- **SEK 23 billion in net profit**
  Net profit for the year totalled SEK 23.4 billion (-1.6).

- **Competitive management expenses**
  The Fund’s management expenses were SEK 179 million (179), which equates to an operating expense ratio of 0.082% (0.084). Including commission expenses, the figure was 0.099% (0.095).

- **Foreign exchange exposure was 27.7% (25.7) at the close of the year**

- **During the year AP4 paid out a net amount of SEK 3.8 billion (1.2) to the pension system from Fund capital**
AP4 at a glance

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

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

- **Total return in real terms** – that is, adjusted for inflation – shall average 4.5% per year over a 10-year period. This is, in the opinion of the Fund, the average return required over a 40-year period for the pension system’s assets and liabilities to balance in the long run.

- The tactical management’s active return, that is the return in excess of the benchmark index, is to average 0.5 percentage points over a three-year period.

In 2012, the Fund overshot both short- and long-term return targets. More information can be found on the next page.

Yet another goal as of 2013

- The strategic management’s active return, that is the return in excess of the benchmark index, is to average 0.5 percentage points over a five-year period.

Fund capital
At year-end 2012, Fund capital totalled SEK 230 billion.

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

At the end of the year, tactically managed assets constituted 89% of investment assets, of which 53% were equities and 36% fixed income securities. The remaining 11% of the Fund’s investment assets were invested in so-called strategic assets such as real estate, shares in small and medium-sized enterprises and other strategic investments.

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

Investment policy

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

- Investments may be made in all listed and transferable instruments except those that are commodity-based.
- At least 30% of the assets must be invested in fixed income securities with low credit and liquidity risk.
- A maximum of 40% of assets may be exposed to currency risk.
- A maximum of 10% of assets may be exposed to a single issuer or group of issuers that are interrelated.
- Holdings of equities issued by listed Swedish companies may not exceed 2% of total market capitalisation.
- A maximum of 10% of the votes may be owned in an individual listed company.
- A maximum of 5% of the assets may be placed in unlisted securities. These investments must be made indirectly through venture capital firms or similar.
- Shares and participations in real estate companies may be directly owned.
- At least 10% of the assets must be managed by external asset managers.
AP4 overshot both established short- and long-term return targets. At the end of the year, Fund capital amounted to SEK 230 billion. Total return was just over 11%.

It was gratifying that the Fund’s active management contributed positive earnings for the fourth consecutive year. The contribution for the year was SEK 1.8 billion. On the whole, the Fund has contributed SEK 5.5 billion in active earnings since the management was reorganised four years ago.

Total return was 11.2% (−0.7) after expenses. The strong value performance of the Fund’s assets was largely due to the solid performance of global stock markets during the year. The Fund benefited during the year from its high proportion of equities and its exposure to the Swedish equities market.

Real long-term target overshoot
AP4’s real return during the 10-year period 2003–2012 averaged 5.8% annually. The Fund thus overshot the long-term target of 4.5% on average over a 10-year period.

AP4’s real (inflation-adjusted) total return (the upper dark blue line) overshot both established targets (dotted line) and the income index (pale unbroken line) during the 10-year period 2013–2012.

In real return, 4.5% is the average return required over a 40-year period, according to the Fund’s analysis, for the pension system’s assets and liabilities to balance in the long run. Read more under the heading “The Fund’s long-term brief” on page 35.

The main reason as to why the goal was not achieved earlier is that the pension system started in the midst of an inflated equity bubble, which affected benchmark values negatively, and also the Fund suffered from the sharp slump in stock markets globally during the financial crises of 2000–2002 and 2007–2008.

Positive active earnings – for the fourth consecutive year
The Fund’s active management delivered a net profit for the fourth consecutive year. Active earnings for 2012 were SEK 1.8 billion.

With positive active return of 0.6 percentage points, measured as the average over the last three years, the Fund exceeded its target of 0.5 percentage points in rolling average return over a three-year period.

The positive active return for the year amounted to just over 1.0 percentage points (0.2). It was gratifying that all active management units contributed positively to earnings. As a whole, active management contributed SEK 1.8 billion (0.4).

Enhanced management structure and new processes
During the year, AP4 conducted extensive efforts to develop the Fund’s management in order to better capitalise on identified business opportunities.

AP4’s new management structure, implemented fully as of 2013, has been extended and broadened to better capitalise on the Fund’s long-term mandate and harness business opportunities with an investment horizon exceeding three years. The long-term mandate enables generating an extra return by AP4 having a somewhat longer investment horizon than the market in general. The Board has delegated extended mandates for strategic positions and investments to the CEO. Read more under the heading “Management – AP4 is now taking the next step” on page 17.

Competitive operating expenses
Cost-efficiency is very important to the Fund, and alternative ways of working to achieve this are assessed continually.

The management cost, measured as operating expenses divided by average fund capital, equalled 0.082% (0.084). Including commission expenses, such as fees paid to external managers and for custody accounts, the corresponding figure is 0.099% (0.099). The Fund’s management cost, with and without commission expenses, is low in an international comparison.
Letter from the CEO

A successful 2012 – we’re now taking the next step

2012 was a highly successful financial year for AP4. Total return reached just over 11%, and the Fund thus contributed over SEK 23 billion to the Swedish income pension system.

During the financial year, the Fund’s active management, that is the endeavour to outperform passive index management, generated a surplus of close to SEK 2 billion. The management has thus delivered positive contributions for all half-year periods in the last four consecutive years.

Looking at the performance in a longer perspective is even more important and relevant:

- In the last 10-year period, AP4’s real (i.e. inflation-adjusted) return has been at just over 5.8% per year after expenses.

So, this is the first time the Board’s target of creating an annual real return of 4.5% over a decade has been overshot.

- The target for the active management is that this shall, annually and over a three-year period, outperform passive index management by 0.5 percentage points.

The Fund’s skilled managers have now amply realised these targets.

The main reason for the upbeat performance is the Fund’s overall strategy of having a high proportion of equities over time and managing assets actively.

It should also be noted that AP4’s earnings – both total and active – stand in good stead in an international perspective. Furthermore, the Fund’s cost level remains low, which is virtually unparalleled globally. This can be seen in, for instance, last year’s Government inquiry about the Swedish buffer capital funds – that is, the AP Funds.

“Earnings – both total and active – stand in good stead in an international perspective. Furthermore, the Fund’s cost level remains low, which is virtually unparalleled globally.”

I can now confirm with pride that the efforts the Fund’s staff for many years aimed at creating stable earnings for the active management are now bearing fruit. Earnings in the last four years, with an intact executive team, add up to five and a half billion kronor. Even more impressive perhaps is that the active return has been positive in each half-year period in the last four years.
The Fund’s main ingredient in that strategy is to identify individuals with functioning management models, and not let models take priority over individuals, which is probably more common in the industry.

In the Government’s annual evaluation five years ago, strong doubts were expressed about AP4’s ability to conduct active management. I’m glad the Board never had any doubts.

**In a special position**

I am convinced that, going forward, AP4 can develop the management further with a view to better capitalising on our special position of being able to act as a long-term investor and a long-term shareholder. In light of this, the Board of the Fund decided to alter our management structure last year.

Compared with many pension and equity funds, the AP Funds have an almost unique mandate. For instance, we do not need to take account of solvency requirements. These often force life insurance companies and pension funds to sell and buy assets based on regulations rather than on what is fundamentally justified. We can thus take a more long-term, durable approach in our investments. Used in the right way, this should benefit the people who the AP Funds ultimately serve – Swedish pensioners.

As a new step in this development process, in 2012 AP4’s management team was given an extended mandate for strategic positions and investments. The intention is to take such positions over a period and evaluation horizon extending beyond three years. In order to clarify this change, the Fund’s overall portfolio structure has been changed.

**Three-stage management**

Like before, the Board annually adopts a so-called normal portfolio. It is a “simple” portfolio in terms of content, consisting of equities, government bonds and selected duration and foreign exchange exposure. This is the portfolio which, in the very long term, is expected to generate the best return given AP4’s assignment in the Swedish income pension system. This portfolio does not take account of whether the market is at the peak or trough of economic or stock market cycles, and the normal portfolio thus presupposes a very long evaluation horizon.

The active management of equities, bonds and currencies, and allocation between different asset classes, remain in AP4’s investment process as they did before. Here, the task is to capitalise on pricing disparities with a view to outperforming the earnings of passive index management. The active management is evaluated over rolling three-year periods and comes under the term **tactical management**.

The new and developed feature of the Fund’s management structure is the strategic level. At a time when the need for long-term capital and long-term investors has rarely or indeed never been so high, the management team believes that a longer investment horizon and greater endurance will enable AP4 to generate meaningful additional values over time. The new management structure is described in more detail on pages 17 and 26 of this annual report.

For many years, AP4 has been working with taking strategic positions in allocation, real estate, currencies and venture capital funds. The intention is to extend and expand our investment universe in a more systematic manner.

In the past financial year, AP4 has carried out a number of investments and decisions which fall within the new **strategic management**. Our approach can be highlighted by a couple of examples.

**Making money on carbon dioxide?**

With few exceptions, most would agree these days that carbon dioxide has a negative effect on climate. However, it would seem that this risk is only taken into account to a limited extent in the stock market’s valuation of listed companies. I believe this will be different in ten years’ time. Here, a manager of AP4’s size can attempt to influence the trend without compromising the requirement of sustained high return.

We have developed a strategy for this alongside external experts. The starting point is the large and broad US S&P 500 index. However, we have taken out around 150 companies which are deemed to generate most greenhouse gases, including carbon dioxide. This occurs on a sector-neutral basis. Interestingly, the difference in historical share price performance between our approximate 350 selected companies and the 500 companies in the index is small.
Hopefully, with this investment philosophy, we can also contribute at the margin to bringing the matter of greenhouse gas emissions higher up on companies’ agendas. If in addition AP4 is also right in its belief that greenhouse gases will be valued and priced differently from today in ten years’ time, we will have obtained additional return here, without having taken any particularly high extra risk.

This type of investment can only be evaluated in the long term and hence fits in well with AP4’s new strategic investment management.

In light of this, AP4 has chosen to take a strategic position entailing Sweden constituting one third of the equity portfolio. If we allocated capital based on the composition of the world index, Swedish equities would only account for around 1%.

The decision was made based on the conviction that Sweden will continue to outperform. Once again, however, this must be viewed and evaluated over longer periods than individual years, and is classified as of now as a strategic position at AP4.

Better return through sound corporate governance
A closely related area is corporate governance and active ownership. Since the beginning almost 40 years ago, AP4 has had a rather prominent role in terms of corporate governance of listed Swedish companies. There is a fundamental conviction that a good corporate governance model ultimately contributes to higher return.

Characteristics of the Swedish corporate governance “model” are investor governance, transparency and a clear division of responsibilities between shareholders, board and executive management. In my opinion, the Swedish model, associated with the major feature of controlling shareholders, is a key reason for the Stockholm stock exchange having significantly outperformed comparable markets over time. In the last ten years, for instance, the Swedish stock market has outperformed the world index by over 7 percentage points annually.

“It is important that the changes made in AP4’s management meet our fundamental requirements on measurability and transparency with respect to return, risk and cost.”

It is also important that the changes implemented in the management do not alter our fundamental requirement in terms of measurability and transparency with respect to risk, cost and return.

Finally, I would like to extend great thanks to the Fund’s staff. Market fundamentals have been unusually difficult in the last five years, during which time the Fund has conducted comprehensive improvement work. However, thanks to the commitment, professionalism and excellent teamwork of our staff, long-term return targets have been reached.

Mats Andersson
Chief Executive Officer
AP4 investing for lower greenhouse gas emissions

Most would probably agree that the harmful greenhouse effect needs to be curbed. Emissions of greenhouse gases, including carbon dioxide, must also therefore be reduced.

AP4 believes that, in ten years’ time, greenhouse gas emissions will be valued and priced differently than they are today. Companies with lower emissions than competitors will enjoy a financial advantage and a relatively better value performance.

AP4 has therefore invested in a strategy which picks out the most eco-friendly companies with the lowest carbon dioxide emissions – a “green” equities index.

The low-carbon index is expected to generate a better return over time with largely the same risk as an ordinary index.

The Fund believes that the negative impact of greenhouse gas emissions on the environment is only taken into account to a limited extent in the current valuation of listed companies. This will probably be different in the future. In November 2012, the Fund’s global equities management invested SEK 1.3 billion in a “green” low-carbon equity portfolio.

Companies with high emissions are removed
The strategy follows a Standard & Poors (S&P) index and consists of 350 selected listed American companies with a relatively low greenhouse gas footprint.

The ordinary index contains 500 companies, but the 150 companies which emit most greenhouse gases, including carbon dioxide, compared to peers are removed. This is done on a sector-neutral basis, i.e. the worst companies in each industry are removed.

Improvements are rewarded
The companies are regularly evaluated on the basis of their emissions. Companies which carry out improvements are rewarded by having the possibility of joining the index.

Thus far, the difference in value performance between the 350 selected companies and the 500 companies in the S&P index is small. If the Fund is right in the assessment that greenhouse gases will be valued and priced differently in ten years’ time than they are today, extra return at around the same risk will be generated.

Greenhouse gas – facts

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

Carbon dioxide (CO2) and methane gas
A high-profile greenhouse gas is carbon dioxide (CO2). It is formed through the combustion of e.g. fossil fuels (coal, natural gas and oil), waste and wood. Carbon dioxide disappears from the atmosphere when it is absorbed by plants as a natural part of the biological carbon dioxide cycle. Methane gas, which is another greenhouse gas, is about 20 times more powerful. It is emitted by for instance droppings and the melting tundra of the northern hemisphere.

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

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

How greenhouse gas emissions are measured
Each gas is set in relation to its effect on global warming. The measure used is the tonne of carbon dioxide equivalent (C02) gas. For example, carbon dioxide has a value of 1 while methane gas has a value of 20.
The low-carbon dioxide strategy

“It is inspiring to develop a solid and eco-friendly equity strategy which is in line with the Fund’s brief. In addition, it is expected to generate return which is at least as high at largely the same risk,” say Fredrik Regland and Mikael Johansson, managers of global equities at AP4.

During the year they have worked on starting up the Fund’s “green” global equities mandate for low-carbon companies alongside external experts.

Is a “greener” environmental profile the reason for AP4’s investment?

“It’s great of course that the investment has received such a lot of positive attention. We are delighted and spurred on by it,” says Mikael. “However, an important reason for the investment is that we believe costs of greenhouse gas emissions will increase in the future, and that this is not yet reflected in the current market prices of companies. We see outperformance potential at no significant risk, making the investment attractive.

Working with environmental and ethical matters in the management is a constant effort which evolves all the time. Increased environmental and ethical awareness is good on all fronts. They are important factors to take into account when assessing the risk and return of an investment,” adds Mikael.

Emissions almost halved – is that correct?

“Yes, emissions are basically cut in half. Out of the 500 large caps in question, from which the selection is made, a few companies represent a large proportion of the emissions.

By removing around one fifth of the companies in the benchmark index, there remains a group of companies with around 50% lower emissions than the companies in the benchmark index.”

Which companies are removed?

“A company is removed if it belongs to the one fifth of companies in its industry with the most emissions in relation to turnover. So, it’s industry-neutral,” explains Fredrik.

The strategy capitalises on solid business opportunities while encouraging greater regard for environmental and ethical aspects. It creates incentives for companies to become more effective in their management of greenhouse gases.”

Rewarding companies which make improvements

The low-carbon dioxide index is set up such that excluded companies which make improvements have the possibility of joining the index. If the company, including its suppliers, significantly reduces emissions in relation to competitors, it will be included in the index. “This creates incentives for companies to be more efficient in how they manage greenhouse gases,” says Fredrik.

So, you remove the “environmental culprits” – does that diverge from AP4’s strategy of influencing?

“No, our basic approach is that the Fund will continue to be an active investor which places demands on companies in terms of positive change and encouraging them to address problems and make improvements. This approach will continue.

This strategy capitalises on solid business opportunities while encouraging improved regard for environmental and ethical matters.”
How does it affect return and risk?
20% of the 500 companies in the benchmark index are removed. The company weights of the low-carbon dioxide index is subsequently adjusted to create a return corresponding to the original return in the S&P benchmark index.

“Historically, the deviation in return has been small. The low-carbon dioxide index has even given a positive return in the last two years,” says Mikael. “The risk level increases slightly of course, but it is manageable together with the rest of the Fund’s equity portfolio.”

Are the excluded companies poorer investments?
“Yes, if they don’t get better at reducing their emissions, we believe that this will be reflected in lower valuation and earnings over time,” continues Fredrik. “AP4’s fundamental approach is that sound regard for environmental and ethical aspects are fundamental to the ability of companies to achieve sustainable solid returns, i.e. companies run in a way that is sustainable in the long term are better investments.”

Which factors affect valuation?
Factors which affect the companies’ valuation and value performance include policy decisions regarding the management and reporting of emissions and investments, reputational risks and heightened demands from customers.

Policy decisions can involve direct costs for companies. For example, in Europe and certain states in the US, greenhouse gas emissions are regulated by trade in emission rights or through project investments for emissions compensation. This generates increased costs throughout the entire value chain, from manufacturer to customer, especially in energy-intensive sectors, and also involves higher uncertainty as to what it might cost these companies, which can be reflected in lower market valuation levels.

Heightened demands
“Demands on increased transparency and environmental and ethical reporting are on the rise. AP4 is by no means the first to have this focus, but the investment in itself sends the message that capital owners can also help to reduce greenhouse gases in their operations,” says Fredrik.

How do you know which companies have the highest emissions?
The strategy is based on transparency and information about greenhouse gas emissions. An external consultant gathers and analyses data from companies to calculate greenhouse gas emissions. The model is validated by public records and by direct feedback from the companies.

The emissions of each company are measured against its turnover. This means that the company with the lowest emissions in relation to its turnover is considered to take the most account of the harmful greenhouse gas effect.

Why was an index strategy chosen?
“Managing an equity portfolio according to an index is a cost-efficient yet transparent, process-oriented method. It fits in well with the Fund’s global equities management,” explains Fredrik.

“An index also enables objective monitoring, which is a good fit for this long-term strategic investment.

Using a reputed index provider also helps enable other managers to invest in the strategy. S&P is a global leader which constructs and provides equities indices. They calculate the company weights in the low-carbon index.”

Will AP4 apply this strategy to the entire equities portfolio?
“Initially, it is a part of AP4’s American equities exposure. The US market is suitable because qualitative information is available about companies’ greenhouse gas emissions, which can’t be taken for granted in the rest of the world today,” says Mikael.

“We will gradually evaluate how the strategy unfolds. It is one of several equity strategies. AP4 focuses on several different equity strategies in order to minimise risks and create the best possible return for Swedish pensioners.”

“We see outperformance potential at no significant risk, making the investment attractive.”
Japan in focus

AP4 invests in many different asset classes and also in many parts of the world.

Arne Lööw, Head of Corporate Governance, describes how the Fund conducts active corporate governance in Sweden and abroad to safeguard and develop investment value. Successful corporate governance often requires the Fund to use various corporate governance tools, often in combination, for optimal effect.

“Each country is unique with its own traditions, customs laws and regulations which affect how the Fund conducts corporate governance in each country” says Arne.

Many ways of enhancing shareholder value
During the year, AP4 embarked on two initiatives in Japan. One was an investment in a fund of listed Japanese small and medium-sized enterprises, and the other was reaching an agreement with a consortium which conducts active corporate governance in Japan.

Why Japan?
Japan is the third largest economy globally and also the third largest country in the MSCI World index, accounting for almost 9%. It is thus a large and important market.

At the same time, Japan is a “distant” country which differs greatly from Sweden in both culture and language. This also affects the possibilities of the Fund to conduct corporate governance.

“It’s hard for a non-Japanese person, who is not familiar with the language or social codes and who does not have the right local networks to conduct solid, efficient corporate governance,” says Arne. “Not least bearing in mind our own negligible size in the Japanese market.”

Learning and influencing
The Fund views the commitments as a sound complement to its other corporate governance tools in Japan – voting at AGMs and holding dialogues with companies.

“Many corporate governance tools
The Fund is open to the concept of there being different ways and tools to increase shareholder value on investments in different countries.

Corporate governance is an area undergoing rapid change, for instance through heightened legal requirements and more active investors. It has long been important for the Fund to be at the cutting edge of this area.

A Japanese fund for SMEs
During the year, AP4 chose to invest in TMAM-Go Japan Engagement Fund (JEF). JEF conducts corporate governance dialogues and works to act as a catalyst for change, which can enhance long-term company and shareholder value through sound corporate governance.
Listed Japanese small and medium-sized enterprises are in focus. JEF owns shares in around 12–15 companies with specially identified potential for increased shareholder value. They work according to a structured process for active corporate governance which enables monitoring and transparency.

Company dialogue Japanese style
JEF is run by an experienced group of Japanese managers and analysts. JEF is affiliated with one of Japan’s largest discretionary pension managers, Tokio Marine Asset Management (TMAM).

The fact that it is clearly affiliated with a large Japanese corporate group is crucial to in terms of trust and the possibilities of influencing and holding dialogues with company management teams in Japan. “The fact that JEF is not perceived as a hostile foreign shareholder activist, which has a bad reputation in Japan, has been important to its successes so far,” says Arne.

Support of Japanese senior managers
The fact that JEF is affiliated with a large and respected company group also means that it has associated itself with several Japanese senior managers of companies and organisations of varying size. They constitute a council which helps JEF by acting as a sounding board and door-opener to the management teams of the companies in question.

Japanese corporate governance commitment
During the year, AP4 also engaged in GO Japan Engagement Consortium, JEC. Other members of the consortium are TMAM and UK pension funds Railpen (Railway Pension Investment) and USS (University Superannuation Scheme). Via GO – Japan and TMAM, the consortium conducts corporate governance dialogues with 15–20 large Japanese companies. Efforts are basically structured in the same way as for JEF, but in contacts with the companies, the names of the consortium members are presented.

Just like in JEF, JEC enjoys the support of a council of senior Japanese managers. Commitments are in companies in which the members have relatively large shareholdings. The aim is to achieve, through active commitment, improvements in the ESG\textsuperscript{1} area, which the fund believes contributes positively to the companies’ value performance and, in the long term, to the Fund’s return.

\textsuperscript{1} ESG (Environment, Social and Governance) is often the term used for issues pertaining to the environment, ethics and corporate governance.

JAPAN
Like the rest of Asia, Japan differs a lot from the US and Europe in matters of tradition, history, language barriers and indeed in how corporate governance is exercised.

Similar to western companies – in theory
The legal structure of Japanese companies resembles the western equivalent. In theory, it is even easier for shareholders in Japan to nominate board members and also decide on remuneration for company management than in the US, for instance.

In practice, however, small shareholders have limited possibilities of conveying and garnering support for their views. The boards are usually large and characterised by Japanese companies’ cross-ownership in each other. Governance of companies is based on very long-term relationships. Also, thus far there are few non-Japanese board members in major Japanese international companies.

Cross-ownership common in Japan
Cross-ownership is common in Japan. “Everybody owns everybody” in ownership structures which are often complicated, known as keiretsu. The major Japanese banks are often key in this system of cross-ownership typical to Japanese companies.

Japanese corporate governance
In recent decades, developments in Japan have helped improve the possibilities of small shareholders to exercise active corporate governance in Japan. However, gaining support for views as a foreign institutional investor can still prove difficult.

Proposals at AGMs – controversial
In Japan, the risk is often considered high that a shareholder proposal to the AGM will have the effect opposite to that desired. It can result in faith in dialogue between the shareholder and company being deemed exhausted for a long time afterwards, and a decline in the probability of implementing the desired improvement.

Short AGM season
Most Japanese companies close their books on 31 March. The AGM must then be held within three months of that date. In practice, this means that most AGMs are held in the last week in June. On the most AGM-intensive day of 2012, over 700 companies listed on the Tokyo stock exchange held their AGMs on the same day. This intensity makes it hard for shareholders to physically participate in most meetings, and most vote by proxy.
AP4’s starting point is that committed and demanding investors can make a difference and influence to achieve positive change. Pursuing a dialogue with a company to achieve a change can take a long time and requires discipline, patience and trust. However, there are many positive examples showing how it is possible to influence a company to improve, even as a relatively small shareholder.

The Ethical Council of the AP Funds has been in an investor dialogue with mining company Goldcorp since 2008 regarding the Marlin mine in Guatemala. The investor dialogue has helped lead the company to make major improvements in many previous problem areas. Not all the problems have been resolved of course, but we can ascertain that it is much better today than when the dialogue with the company was initiated.

Surprisingly, Goldcorp also believes that the efforts of the Ethical Council have helped to influence and also raise the standard of the industry, because other mining companies have followed the work and investor dialogue. Some of them now contact Goldcorp to find out how they work, what their procedures are and how they were drawn up.

Goldcorp constantly carries out what are known as Golden Eye Reviews (GER) – internal reviews at the company at its different mines. The primary aim is for the employees at the different mines to exchange experiences about matters such as health and safety and see and learn on site with the aim of improving. The advantage of having people from other mines present is that they view the operations with an open mind.

For the Ethical Council of the AP Funds, the 2012 visit was the second at the Marlin mine. The first took place in 2008 when the investor dialogue with the company commenced. GER 2012 participants were employees of other Goldcorp mines, area managers at the Marlin mine and, for the first time, two external participants – Arne Lööw of the Ethical Council (head of corporate governance at AP4) and a mining analyst from the Ethical Council’s consulting company for environmental and ethical matters, GES.

GER participants looked at many different parts of the operations in the mining area. They met and spoke to the local population, studied the various water and environmental solutions and got to hear on site about the management’s plans for what would happen “after the mine”.

It was an intensive programme with systematic reviews, evaluations and presentations of what the GER participants had verified and scored, all in accordance with check lists and documentation with notes and photos. GER’s focus was to highlight both the worst and best aspects of their findings in each day of the review. GER took place over five days.
There was a major difference in 2012 compared to 2008 when the Ethical Council last visited the area. In particular, water management was better. The company constantly measures water quality using automatic stations inside the area, fixed measuring stations read off two or three times a month, and water tests analysed in laboratories. Water recycle rate has been improving for the last years and is now up to 97% and is still improving. The amount of freshwater used by the mine has thus been drastically reduced.

Goldcorp has, since the Ethical Council and other investors started to conduct an investor dialogue, completed a HRIA (Human Rights Impact Assessment) and prepared an action plan. The most important changes have now enabled the company and local population to keep in regular dialogue. In encounters with different representatives of the local population, it was pointed out that a major difference now compared with before is the exchange of information. Problems can be discussed and resolved before they grow. Not everything is good, of course, but the situation is much better than before. Today the company’s higher degree of transparency allows a better assessment of outstanding ESG-issues.

There is still opposition to the mine from various sources, which is often the case for most mines.

The mining company’s plans for how mining operations are to be concluded and the area restored, and what the population will then live on, are important matters which require long-term plans. This is a factor which the Ethical Council likes to see companies making plans for as early as in the projecting phase of a mine. Goldcorp has, for example, worked on planting different types of trees and setting up plantations to see which fruits and vegetables would be worth putting into large-scale cultivation.

The company has also built a barn for cattle farming. It is going to prepare documentation about which type of cattle is best suited for rearing and milk production for the refinement of dairy products, and what return can be expected. The project has generated a great deal of interest.
**Active management – a profitable business**

The estimated additional cost for AP4 to conduct active tactical management has been just over SEK 60 million annually. This should be seen in relation to the additional contribution of just over SEK 5.5 billion, or around SEK 1.4 billion annually, delivered by AP4 over the last four-year period.

A subject of almost eternal debate is the question of whether it is worth conducting active management, in other words trying to outperform the index. Many have championed the view that all information is available to everybody at the same time, and that everything is thus priced into the current price of an asset. Some claim that nobody can be better than “the market” over time.

The Fund is a long-term manager that sees an opportunity to conduct active management in the short-term perspective while maintaining a long-term focus, because the Fund works with different investment horizons in the portfolio. Since the beginning, the Fund has advocated active management, and this strategy contributes positively over time.

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

The next question is, of course, “Is the additional expense incurred by active management justifiable?”

Active management costs more. On that point, the view is unanimous. It is not just a matter of costs for individuals. Active return also requires major investments in systems for monitoring risk/return, and general administration.

**Costs of passive management**

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

**Active earnings of just over SEK 5.5 billion**

The estimated additional cost incurred by AP4 in the last few years to conduct active management is just over SEK 60 million annually. This should be seen in relation to the additional contribution of just over SEK 5.5 billion, or almost SEK 1.4 billion annually, which has been delivered in the last four-year period after a reorganisation of the Fund’s management.

Looking at the additional risk taken by the Fund, which is a prerequisite for active management, that too is acceptable. The active risk in the last four 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 1.1%, an information ratio of 2.6 for the period is achieved, which is an exceptionally high figure. For each SEK 1 that the Fund has taken in risk, SEK 2.6 has been created.

All in all, the choice of conducting active management, based on the last four years, is justifiable. At the same time, four years is a short period for drawing more far-reaching conclusions. For this reason, the Fund and Board continually evaluate performance.

Based on an allocation key developed in-house, AP4’s management costs including commission expenses have been distributed across the Fund’s normal portfolio and strategic and tactical allocation. While there is great uncertainty in this distribution, it nevertheless provides decent guidance about what each area costs. It is hence possible to monitor and evaluate the management structure more clearly based on return, risk and costs. Read more under the heading “Three-stage management structure” on page 18.

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

Perhaps the conditions for conducting active management have never been better than they are today.
The management – the Fund is now taking the next step

Evolving management structure

During the year, AP4 conducted extensive efforts to develop the management structure in order to better capitalise on the Fund’s unique mandate.

The management structure has been extended and broadened to better capitalise on the Fund’s long-term mandate and harness business opportunities afforded by a long investment horizon. AP4 believes that the long-term mandate enables additional return thanks to AP4’s somewhat longer investment horizon than the market at large.

The new feature is the broadening and extension of the strategic management. The Board of the Fund has delegated a broadened mandate for strategic positions and investments with a clear risk mandate. The period and evaluation horizon for these extend beyond three years.

The management units’ structure and mandates have also been developed to better capitalise on identified business opportunities.

Important changes

- A “simpler” 40-year Normal portfolio, containing equities, government bonds and decisions about duration and foreign exchange exposure, providing a more transparent and measurable structure.
- The Board has delegated further responsibility to the management for the strategic portfolio, which has a medium-term investment horizon of 3–15 years. This affords more investment strategies and further risk diversification with a clear risk mandate.
- The new structure enables the management to better capitalise on the Fund’s long-term mandate and harness business opportunities with a longer investment horizon.
- The structure also enables better follow-up and evaluation of return, risk and cost.

AP4’s new overall asset allocation structure, which will be fully implemented as of 2013, is presented below.
Three-stage management structure

The advantage of AP4’s management structure is the measurability of the three key factors – return, risk and cost. The Board can therefore monitor and evaluate the management transparently.

1. The normal portfolio – proportion of shares/bonds
Like before, the Board annually adopts a so-called “normal portfolio”. It is a “simple” portfolio in terms of content, consisting of equities, government bonds and selected duration and foreign exchange exposure. It does not take account of whether the market is at the peak or trough of economic or stock market cycles, and the normal portfolio thus presupposes a very long investment horizon in the region of 30–40 years.

2. Strategic management – capitalising on the long-term mandate
The strategic management capitalises on the Fund’s long-term mandate and harnesses business opportunities with an investment horizon exceeding three years. The investment horizons for the strategic positions and investments is 3–15 years, because shorter investment horizons than this risk creating restrictions in the management, which can lead to poorer earnings. The strategic management is divided into strategic macro management and strategic factor management.

The strategic macro management takes active strategic macro/valuation related positions with respect to equities, fixed income securities, duration, equity markets and equity market sectors and currencies.

The strategic factor management makes strategic investments chiefly in low-liquidity assets. The investments are divided into sub-portfolios such as real estate, SME equities management, ESG (environment, social and governance) and venture capital funds.

3. Tactical allocation – creating additional return
AP4’s active management of equities, bonds and currencies, and the allocation between different asset classes, remain in place in the tactical allocation. The management’s task is to capitalise on pricing disparities with a view to outperforming the earnings of passive index management. The active tactical management is evaluated over rolling three-year periods.

The proportion of equities determines return and risk
The bar chart for the return and risk contributions for the year show the significance of the Board’s decision on asset allocation in the normal portfolio (see the dark blue bar at the far left). A high proportion of shares in the normal portfolio has been the determining factor for AP4’s total portfolio return and risk.

![Return contribution](image1)

The bar chart above shows that the strategic management (red bar) contributed negative return during the year, while the tactical management made a positive return contribution of close to one percentage point.

![Risk contribution](image2)

Active management reduced the risk in the total portfolio
Both strategic and tactical management contributed to risk diversification, hence reducing the risk in the Fund’s total portfolio, as shown in the risk contribution diagram above.

![Operating expense ratio](image3)

The operating expense ratio is measured as operating expenses including commission expenses as a percentage of the average Fund capital AP4’s strategic and tactical management together constitute around 60% of the Fund’s expenses, equalling just over SEK 100 million.
Global stock markets, including in emerging markets, performed positively in 2012 despite lacklustre economic growth on all major markets.

On average, world stock markets returned around 16%, of which dividends accounted for just over 3%. The Stockholm stock exchange performed slightly better, with the large caps performing absolute best.

One of the absolute best markets in the world was the Indian stock market, which surged by around 30% in 2012. With an upswing of just over 20%, the Hong Kong stock market was also one of the best markets. The Chinese stock market ended the year with a positive return, but was one of the weaker markets for the year.

Weaker demand from the US and Europe
Weaker demand from the US and Europe had negative economic effects globally. Protectionism gradually increased around the world, dealing a harsh blow to export-dependent countries.

Throughout the year, the debt crisis in the euro zone characterised market participants, who have been tossed between hope and despair. In turn, this resulted in shake-ups on financial markets.

The US avoided the fiscal cliff again
Tax breaks initiated to curb the economic decline in the US were supposed to end at the end of 2012 if no new political decisions were taken. The US was facing a fiscal cliff. Obama won the US election and at the end of the year, democrats and republicans were, in spite of everything, in agreement to a certain extent. The negotiations are continuing in 2013.

China under new leadership
China changed leadership in the autumn and Xi Jinping was appointed secretary general of the communist party. There is no lack of challenges. China’s growth has declined as its overheated real estate market has cooled off. The country is also struggling with a rapidly ageing population. The question now is whether the country’s new leadership can avoid a crash landing for the economy. Positive indicators signalled a subdued rate of slowdown at the end of the year.

Stimulus measures keep economies going
The stimulus measures of central banks were an important reason for the upbeat stock market trend in 2012.

During the first months of the year, the ECB contributed to creating a liquidity flow which helped reduce market rates, even for the EU’s crisis-stricken countries.

In the second half of the year, Spain was promised EU support to restructure its banking system. Together, authorities in the EU and Spain prepared a programme of reforms and a budget for 2013.

Lacklustre economic data at the beginning of the autumn led to new stimulus measures from many central banks in an attempt to halt the weak economic trend and set economic growth in motion.

The Federal Reserve launched its third stimulus package and announced that the interest rate would be kept at an exceptionally low level until at least mid-2015, which is one year longer than previously stated.

The ECB promised to do what it takes to save the euro, stating that it is prepared to make unlimited bond purchases. The Japanese central bank also undertook stimulus measures.

Key rates lowered
The ECB also cut the key rate, as did the Chinese, Swedish, Australian and Norwegian central banks. Key rates in the US, the UK and Japan have, however, been kept unchanged.

Long-term rates dropped on all major markets during the year, but were unchanged in Sweden.

Positive economic statistics
In the latter part of the autumn, economic statistics, particularly in the US, started to improve.
Market performance of AP4’s assets in 2012

The Fund’s assets are found in both the tactical and strategic management. The majority of Fund capital is invested in global and Swedish equities, and in bonds.

The Fund’s investment assets, 31 Dec 2012

Strategic investments include listed Swedish SMEs to around 3%. The allocation includes underlying values for various derivatives, which are used to continually maintain the asset allocation of the strategic portfolio.

AP4’s asset allocation and foreign exchange exposure

In order to maintain the desired asset allocation and currency exposure, re-weightings are implemented when the value changes of different asset classes have varied from each other. Costs to maintain the desired asset allocation, excluding the strategic positions, were negligible.

Market value, 31 Dec 2012

<table>
<thead>
<tr>
<th>Management unit</th>
<th>Market value, SEK bn</th>
<th>Exposure, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global equities</td>
<td>84.8</td>
<td>37.2</td>
</tr>
<tr>
<td>Swedish equities</td>
<td>34.9</td>
<td>15.7</td>
</tr>
<tr>
<td>Fixed income</td>
<td>82.3</td>
<td>36.1</td>
</tr>
<tr>
<td><strong>Total tactically managed assets</strong></td>
<td><strong>201.9</strong></td>
<td><strong>89.0</strong></td>
</tr>
<tr>
<td>Real estate</td>
<td>11.8</td>
<td>5.2</td>
</tr>
<tr>
<td>SMEs</td>
<td>6.1</td>
<td>2.6</td>
</tr>
<tr>
<td>Other strategic investments</td>
<td>7.2</td>
<td>3.1</td>
</tr>
<tr>
<td>Implementation of the strategic portfolio 2)</td>
<td>2.7</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Total investment assets</strong></td>
<td><strong>229.7</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

1) Exposure includes the underlying value of derivatives in tactical asset allocation for each asset class.
2) Strategic asset allocation, strategic foreign exchange exposure and cash.

Foreign exchange exposure

Asset allocation and foreign exchange exposure reflect the strategic portfolio excluding the strategic positions.

AP4 hedges parts of the foreign assets in accordance with the foreign exchange exposure set by the CEO.

At year-end 2012/13, the Fund’s foreign exchange exposure, that is, the proportion of assets in foreign currencies not neutralised by hedges, equalled 27.7% (25.7) of total assets.

Annual objective evaluation

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

At the end of the year, 50% (64) was actively managed and 50% (36) was passively managed (index management). 22% (18) of assets were managed externally.

Return and contribution of assets, 1 Jan 2012 – 31 Dec 2012

<table>
<thead>
<tr>
<th>Management unit</th>
<th>Portfolio return, %</th>
<th>Contribution to total profit/loss for the year, %</th>
<th>Contribution to total profit/loss for the year, SEK bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global equities</td>
<td>17.4</td>
<td>6.5</td>
<td>13.6</td>
</tr>
<tr>
<td>Swedish equities</td>
<td>16.9</td>
<td>2.9</td>
<td>6.0</td>
</tr>
<tr>
<td>Fixed income</td>
<td>6.0</td>
<td>2.2</td>
<td>4.6</td>
</tr>
<tr>
<td>Allocation 1)</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Currencies 1)</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Total tactically managed assets</strong></td>
<td>12.0</td>
<td>11.7</td>
<td>24.4</td>
</tr>
<tr>
<td>Real estate</td>
<td>14.2</td>
<td>0.7</td>
<td>1.5</td>
</tr>
<tr>
<td>SMEs</td>
<td>13.4</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Other strategic investments</td>
<td>5.1</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Implementation of the strategic portfolio 2)</td>
<td>-1.3</td>
<td>-1.3</td>
<td>-2.7</td>
</tr>
<tr>
<td><strong>Total investment assets 3)</strong></td>
<td><strong>11.3</strong></td>
<td><strong>11.3</strong></td>
<td><strong>23.6</strong></td>
</tr>
</tbody>
</table>

1) Portfolio return based on total investment assets.
2) Strategic asset allocation, strategic foreign exchange exposure and cash.
3) Return and profit/loss before expenses. Return after expenses was 11.2 percentage points, corresponding to a profit after expenses of SEK 23.4 billion.
Tactical allocation

AP4’s active return, in the tactical management, amounted to one percentage point. That equalled an additional profit contribution of SEK 1.8 billion.

It was the fourth consecutive year since the reorganisation of the management in which AP4’s tactical management delivered a positive active earnings contribution. In total, the positive additional contribution amounts to just over SEK 5.5 billion for the last four years.

The tactical management works with the Fund’s shortest investment horizon, up to one year. The outcome is evaluated over a rolling three-year period. The assets are actively managed, in other words the goal is to outperform the index.

Equities management

The equities management performed well with both index management and active equities management contributing to the Fund’s positive total return and to the solid active earnings.

New structure in 2012

During the year, the structure of the equities management was changed in connection with the overhaul of AP4’s entire management structure. The equities management’s internal index management was given a new mandate – Sweden. The earlier Swedish large cap portfolio is still managed as an active mandate, but the portfolio is concentrated to fewer and larger positions and thus has a clearer risk profile. The SME portfolio is found, as a strategic investment, in the Fund’s new strategic management.

The exposure and earnings of the equities management are still divided into the Fund’s two overall equity market exposures – global and Swedish.

Global equities management

The return for the full year was 17.4% (-6.1), outperforming the benchmark index by 0.4 percentage points (0.2). This gave a positive active earnings contribution of SEK 292 million (198).

At year-end, the market value of the global equity portfolio equalled SEK 84.8 billion (80.5), corresponding to 37.2% (37.9) of Fund assets.

Healthy risk-adjusted active return

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

By placing the portfolio’s active return at 0.4 percentage points in relation to its active average risk of 0.2 percentage points, a risk-adjusted return is obtained, expressed as an information ratio of 1.7 based on daily data.

Active and risk-adjusted return, 1 Jan 2012 – 31 Dec 2012

<table>
<thead>
<tr>
<th>Management unit</th>
<th>Active return, %</th>
<th>Information ratio 12-month</th>
<th>Contribution to active return, SEKm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global equities</td>
<td>0.40</td>
<td>1.7</td>
<td>292</td>
</tr>
<tr>
<td>Swedish equities</td>
<td>0.67</td>
<td>2.2</td>
<td>240</td>
</tr>
<tr>
<td>Fixed income</td>
<td>1.42</td>
<td>1.6</td>
<td>1,058</td>
</tr>
<tr>
<td>Allocation 1)</td>
<td>0.01</td>
<td>0.4</td>
<td>22</td>
</tr>
<tr>
<td>Currencies 1)</td>
<td>0.07</td>
<td>0.7</td>
<td>171</td>
</tr>
<tr>
<td><strong>Total tactically managed assets</strong></td>
<td><strong>1.02</strong></td>
<td><strong>2.3</strong></td>
<td><strong>1,782</strong></td>
</tr>
</tbody>
</table>

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

Good risk-adjusted return

The information ratios of the management units are high overall, as shown in the table above. Values over 0.5 for individual years are usually considered to be a good result.

This means that the Fund’s risk-adjusted return is and has been good since the new management organisation was set up.
### Active and risk-adjusted return

<table>
<thead>
<tr>
<th></th>
<th>3 years (on annual basis)</th>
<th>2012</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information ratio</td>
<td>1.7</td>
<td>1.7</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Active return, % points</td>
<td>0.3</td>
<td>0.4</td>
<td>0.2</td>
<td></td>
</tr>
</tbody>
</table>

### The management is conducted at low risk

The index portfolio of the global equities management is managed with very low active risk. Together with the risk contribution from the global equities management’s active management (the external alpha mandates), average active risk amounted to an unchanged 0.2% (0.2).

### Alpha and beta separated management

Global equities management is alpha and beta separated and focuses on portfolio composition, choice of external manager and index management.

### Alpha management with risk diversification in focus

The alpha management (active management) is conducted by external specialists. The mandates are selected to provide great diversification in return sources. The external managers differ in terms of regional exposure, information sources and investment horizons. The alpha management’s strategy of well diversified risk gives less sensitivity to changes in market factors, and has enabled a sound risk-adjusted return.

The management uses two specially developed external platforms in order to obtain optimal breadth in invested mandates – one European and one North American.

The European platform focuses on management teams early on in their development with the aim of designing a well-diversified portfolio with external managers. The management monitors managers through dialogue and rule books. In the rule books, the Fund establishes set terms adapted to the manager’s procedures, management style and risk profile.

The other external platform of the management, with exposure chiefly to the American market, focuses on newly established niche managers.

### Sound and stable earnings

The earnings of the alpha management performed well during the year and, since the start in the autumn of 2010, the alpha management has outperformed the index and delivered a stable net profit, as shown in a high information ratio. 2012 has demonstrated the strength of the alpha management’s allocation strategy, with great variation in investment styles and with a focus on absolute return. The majority of managers enjoyed a strong year, outperforming expected expected return, all with strategies independent of each other. In cases where managers failed to achieve set goals, the design of the rule books minimised a negative performance and encouraged a durable investment procedure.

### Cost-efficient internal index management

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

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

The Fund’s internal index management has major advantages over external. Besides cost benefits, including transaction costs, there are efficiency gains in portfolio composition and a noticeable relative advantage in index rebalancing, for example.

### Swedish equities management

The return for the full year ended at 16.9% (-14.2), which was 0.7 percentage points (-0.7) higher than the benchmark index. This gave an active earnings contribution of SEK 240 million (-267).

At year-end, the market value of the Swedish equity portfolio (the internal index portfolio and the active large cap portfolio) was SEK 34.9 billion (37.4), corresponding to 15.7% (17.8) of Fund assets.

### Changed structure and mandate

In the first half of 2012, the Swedish equities management was restructured and now comprises two internal mandates, one index mandate and one actively managed large cap mandate. The active large cap mandate is implemented based on fundamental analysis, and is also able to invest a certain proportion in Nordic equities.

The Swedish SME portfolio constituted a sub-portfolio and made a positive contribution to active earnings in Swedish equities through the spring of 2012. The portfolio was subsequently included in the Fund’s strategic investments together with other SMEs, and is recognised under a different subheading. The reason for this change is that liquidity in this type of management is much poorer, and short-term evaluation horizons risk creating restrictions that could lead to poorer earnings.
Risk-adjusted return

The positive active return of the Swedish equities management is mainly derived from the active large cap management.

The index portfolio of the Swedish equities management is managed with very low active risk. Together with the risk contribution from the active large cap portfolio, average active risk decreased to 0.3% (0.6).

Active and risk-adjusted return

<table>
<thead>
<tr>
<th>Swedish equities</th>
<th>3 years (on annual basis)</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information ratio</td>
<td>0.4</td>
<td>2.2</td>
<td>neg.</td>
</tr>
<tr>
<td>Active return, % points</td>
<td>0.2</td>
<td>0.7</td>
<td>-0.7</td>
</tr>
</tbody>
</table>

Fixed income and foreign exchange management

The fixed income and foreign exchange management once again performed very well indeed and contributed both the Fund’s positive total return and the sound active earnings.

New structure and extended mandate

At the end of the 2012, what was previously the fixed income and foreign exchange management changed orientation and names to the global macro management. This was done to better reflect the management conducted and the business opportunities with which the group works.

The management was extended at the end of the year to include a global macro allocation mandate. The global macro management has three management areas – fixed income, foreign exchange and equity index. During the year, the organisation was extended to include two more people, one fixed income and one equity index manager.

The management’s exposure and earnings for 2012 are reported below, divided into the two overall mandates – fixed income management and foreign exchange management.

Fixed income management

The return for the full year was 6.0% (9.2), outperforming the benchmark index by a full 1.4 percentage points (0.7). This gave a positive active earnings contribution of SEK 1,058 million (501).

At year-end, the market value of the fixed income portfolio equalled SEK 82.3 billion (77.5), corresponding to 36.1% (37.3) of Fund assets.

High active return for the fourth consecutive year

The high active return for the year is chiefly explained by trade in rate movements in the US, Germany, Sweden, the UK and Australia, and a high proportion of corporate bonds in all benchmark index currencies.

Active and risk-adjusted return

<table>
<thead>
<tr>
<th>Fixed income</th>
<th>3 years (on annual basis)</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information ratio</td>
<td>1.2</td>
<td>1.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Active return, % points</td>
<td>1.0</td>
<td>1.4</td>
<td>0.7</td>
</tr>
</tbody>
</table>
Focus on expertise and earnings responsibility
The fixed income management is divided into a number of mandates, managed by specialists with their own defined areas of accountability and earnings responsibility. The asset portfolio is divided according to the expertise of each individual.

Sharp market fluctuations benefited earnings
2012 was the year in which problems in the eurozone escalated despite extended and unconventional support measures from the ECB.

Greece’s creditors were forced into voluntary write-downs of their Greek bonds, and countries such as Spain and Italy saw sharply increased borrowing costs. The negative trend was accentuated in the summer despite support measures from European politicians. In order to halt the negative trend, the ECB stepped in and promised to support-buys bonds from countries in need of reducing their borrowing costs. This measure bucked the trend and stock markets and borrowing costs in the eurozone started to return to less extreme levels.

In the US, the Federal Reserve had to promise unlimited buying of housing and government bonds to stimulate the weak economy.

In the western world, the policy measures of 2012 featured the budgetary trend swinging from fiscal austerity to financial stimulus, financed by direct purchases or support from central banks.

The weak economies of Asia and South America were buoyed and stimulated by budgetary measures, in China for example, and by expansive monetary policy such as reduced interest rates.

Swedish growth was negatively affected by the global slowdown and by the Riksbank’s rate hikes in 2011. This led the Riksbank to start cutting the key rate in 2012.

The state of world economies led to sharp fluctuations during the year in yields in states with investment-grade bonds, but they ended the year on pretty much unchanged levels. Yields on corporate bond and government bonds from states with poorer credit quality, for instance southern European states, also fluctuated sharply during the year but ended the year on a lower level.

The Fund’s fixed income management managed to utilise these fluctuations to create a high active return, for the fourth consecutive year.

AP4’s bond holdings distributed by different bond types, rating and currency distribution are shown below.

[Pie chart showing bond holdings by issuer, 31 Dec 2012]

[Pie chart showing bond holdings by rating, 31 Dec 2012]

[Pie chart showing bond holdings by currency, 31 Dec 2012]

Bond holdings distributed by currency were in line with the benchmark index at year-end.
Foreign exchange

The active return totalled 0.07 percentage points (0.06), giving a positive active contribution to earnings of SEK 171 million (128).

Active and risk-adjusted return

<table>
<thead>
<tr>
<th>Currencies</th>
<th>3 years (on annual basis)</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information ratio</td>
<td>0.8</td>
<td>0.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Active return, % points</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Currencies – absolute return mandates

The 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 the Fund’s total assets. The interest rate risk mandate actively manages interest rate risk in the portfolio for forward currency contracts and implements and rebalances the Fund’s currency exposure in a cost-effective manner.

Positive active earnings – for the sixth consecutive year

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

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

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

Allocation

In 2012, the active return totalled 0.01 percentage points (-0.06), corresponding to an active contribution to earnings of SEK 22 million (-119).

Active and risk-adjusted return

<table>
<thead>
<tr>
<th>Tactical asset allocation</th>
<th>3 years (on annual basis)</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information ratio</td>
<td>neg.</td>
<td>0.4</td>
<td>neg.</td>
</tr>
<tr>
<td>Active return, % points</td>
<td>0.0</td>
<td>0.0</td>
<td>-0.1</td>
</tr>
</tbody>
</table>

More focus on strategic management

In 2012, the Tactical Allocation unit changed names to Allocation. The group will, like before, work with the Fund’s strategic management with a focus on macro positions. The tactical mandate for trade in equity indices with a short investment horizon, which used to form part of the group’s assignment, was transferred to the Global Macro Management in 2012.

As of 2013, Allocation will be responsible for contributing to the Fund’s return through macro, asset and risk analysis, and through proposal’s for the Fund’s strategic portfolio design and macro positions. The unit will continue to bear responsibility for managing rebalancing and operation between the asset classes, and for the Fund’s portfolio protection in order to avoid major losses in the event of major slumps in share prices.

As of 2013, Allocation will manage an absolute return mandate for strategic macro positions with a relatively long investment horizon.

Tactical allocation in 2012

In 2012, the unit took positions in different asset class indices to achieve the highest possible return, given a carefully structured level of risk. It was an independent management mandate with an absolute return target related to the Fund’s total assets.

Positive active earnings

Tactical allocation made a positive contribution to earnings during the year. A relatively negative view of the economic trend and valuation levels prompted an underweight position in equities during the year, which contributed negatively to earnings. The negative expectations prevailing in Europe contributed to valuation differences between Europe and the rest of the world. In line with this, an overweight position was taken in European equities in relation to American equities, which made a positive contribution to return in the second half of the year.
Strategic management

In order to better capitalise on the Fund’s long-term mandate and harness business opportunities with an investment horizon exceeding three years, the Fund’s strategic management structure was enhanced during the year.

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

The strategic management is divided into strategic macro management and strategic factor management.

Strategic macro management
Strategic macro positions involve the Fund taking active macro/valuation-related positions between:

- Equities and fixed income
- Stock markets or sectors
- Currencies

The basis for decisions is prepared by the Allocation unit. Decisions about macro positions are taken by the CEO of the Fund.

The strategic macro management in its new structure applies as of 2013.

Strategic positions in 2012
During the year, the Fund’s strategic positions were decided differences between the normal portfolio and strategic portfolio. The strategic positions contributed a total of -0.3 percentage points (-0.2) to return.

In the second half of the year, AP4 was strategically underweight in equities and correspondingly overweight in fixed income securities equalling around 3.5%. On the whole, the Fund’s strategic underweight position in equities and corresponding overweight position in fixed income securities generated a return contribution of -0.5 percentage points. AP4 also held strategic positions in fixed income assets during the year, which returned -0.1 percentage points. Strategic foreign exchange positions during the year contributed 0.3 percentage points.

Strategic factor management
The strategic factor management makes investments which capitalise on AP4’s long-term mandate.

The strategic investments are chiefly low-liquidity assets. They are divided into sub-portfolios such as Real estate, SME equities management, Absolute return, ESG (environment, social and governance), Venture capital funds and High yield fixed income. A common factor for all strategic investments is that they are evaluated over an investment horizon exceeding three years.

Sweden – a strategic position
The Fund has a strategic position in Swedish equities. It is based on the conviction that Sweden will continue to outperform equity markets abroad. The position is managed partly in the strategic management and partly in the tactical management.

Corporate bonds – a strategic position
The Fund also has a strategic position in corporate bonds. By allocating capital from government bonds to corporate bonds with good credit quality, the Fund expects to obtain a slightly better return in the long term. The corporate bond portfolio is managed internally by AP4’s managers of fixed income assets.

For 2012 the strategic investments in the factor management will be reported divided into three overall mandates – real estate, SME equities management and other strategic investments.

Capitalising on the long-term mandate
With financial markets increasingly adopting a short-term approach, the ability to invest capital in one and the same investment over several years, when this is deemed to generate a higher return for pensioners, is an advantage. Liquidity in this type of management is often much lower, and short evaluation horizons risk creating restrictions in the management which could lead to poorer earnings.

The strategic management’s return in 2012
The strategic investments have an investment horizon spanning many years – between three and fifteen. The basis for decisions is prepared by the management. Investment decisions are taken by the Fund’s CEO. Overall the Fund’s strategic management contributed -0.4 (0.0\(^2\)) percentage points in 2012.

\[\text{For comparability with 2012, the additional return from alternative investments in 2011 is included. This contribution amounted to SEK 0.5 billion, corresponding to 0.2 percentage points. The strategic positions of 2011 contributed -0.2 percentage points to the return. Together, they contributed 0.0 percentage points for 2011.}\]
Return for 2008–2012
Because strategic positions and investments are taken in the medium term, the outcome of individual years should be interpreted with caution. The Fund has chosen to have an evaluation horizon over a rolling five-year period, i.e. 2008–2012.

During this period, the Fund’s strategic management generated a return of SEK 1.4 billion, equalling 0.1 percentage points annually on average over a five-year period.

Real estate
At year-end, the book value of the real estate investments amounted to SEK 11.8 billion (9.4), corresponding to 5.2% (4.5) of the Fund’s total assets.

Return during the year was 14.2% (17.6), giving an effect on earnings of SEK 1,496 million (1,355).

Expansion through direct ownership
In the last few years, AP4 has expanded within real estate – a strategic asset class. The Fund has chosen the main strategy of direct ownership in real estate companies. Direct ownership of real estate companies better enables exercising active corporate governance, and is also both cost-efficient and transparent. On the whole, this is expected to increase the possibilities of a better expected return.

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

Vasakronan
The Fund owns the property management company Vasakronan jointly with AP1, AP2, and AP3. Vasakronan, which manages commercial properties in Sweden to a value of just of SEK 80 billion, is Sweden’s largest property owner.

Rikshem
Rikshem, of which AP4 and AMF own 50% each, owned at the turn of the year properties with a market value just shy of SEK 15 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).

Hemfosa
Besides Vasakronan and Rikshem, the Fund owns 15% of the property company Hemfosa. At the end of the year, the company’s property holdings had a book value of close to SEK 15 billion.

Investments in 2012
In 2012, the Fund decided to invest around SEK 430 million in ASE Holdings, which invests in and develops commercial properties in the UK. A commitment of SEK 250 million has also been made in Areim 2 AB, which focuses on Swedish real estate.

SMEs (Small and Mediumsized Enterprises)
At the end of 2012, the market value of listed SMEs was SEK 6.1 billion (5.0), corresponding to 2.6% (2.4) of assets.

Return amounted to 13.4% (-20.4), giving an earnings impact of SEK 194 million (-1,193).

Equities management of Swedish and Nordic SMEs has been included in the Fund’s strategic factor management since the spring of 2012. The reason for the change is that liquidity in this type of management is much poorer, and short-term evaluation horizons risk creating restrictions in the management which can lead to poorer earnings.
At the end of the year, SME equities management consisted of a large internal mandate and an external Swedish small cap mandate which was a new feature in the period.

Investments in 2012
The external Swedish mandate is a SEK 600 million investment in the fund Lannebo MicroCap 2, which focuses on listed Swedish small caps.
Other strategic investments

The following strategic investments are reported under Other strategic investments:

- Absolute return
- ESG (environment, social and governance)
- Venture capital funds
- High yield fixed income

At year-end, the market value of Other strategic investments equalled SEK 7.2 billion, corresponding to 3.1% of Fund assets. The return for Other strategic investments was 5.1%, giving an earnings contribution of SEK 267 million.

Absolute return

At year-end, the market value of Absolute return investments was SEK 1.1 billion (-), corresponding to 0.5% (-) of the Fund’s total assets.

An absolute return strategic investment, with a return target which is to give a positive return over time irrespective of the market trend, was made in the strategic factor management during the year.

Pricing disparities can arise in the event of e.g. new regulations and investment rules, and in investment limitations among different capital owners. This can give rise to situations in which different parts of a company’s capital structure are incorrectly priced, providing scope to create a positive return.

Investments in 2012

During the year, a SEK 1.1 billion investment was made in the hedge fund Carve.

ESG (Environment, Social and Governance)

The market value of ESG investments was SEK 1.8 billion (0.2) at year-end, corresponding to 0.7% (0.0) of total Fund assets.

As a major global shareholder, AP4 wishes to support the development of increased investor influence and promote improved corporate governance on different stock markets. One way of achieving this, while at the same time creating the fundamentals to outperform indices over time, is by appointing managers focused on influencing companies to make value-enhancing changes through corporate governance. AP4’s ESG managers invest in companies with identified potential for improvement, and pursue these matters as an active investor alongside the companies.

AP4 was already invested in CapMan Public Market Fund.

AP4 believes that the negative impact of greenhouse gas emissions on the environment is only taken into account to a limited extent in the current valuation of listed companies. The Fund finds it probable that this will be different in future, and has therefore worked on establishing a low-carbon mandate.

Investments in 2012

Towards the end of 2012, the Fund invested SEK 1.3 billion in a “green” low-carbon equity portfolio. Read more about the investment under the heading “AP4 investing for lower greenhouse gas emissions” on pages 9–11.

In 2012 a SEK 241 million investment was made in Japan Engagement Fund (JEF). Read more about the investment under the heading “Japan in focus” on page 12.

Venture capital funds

The market value of Venture capital funds was SEK 2.9 billion (3.2) at year-end, corresponding to 1.2% (1.5) of total Fund assets.

Generally low activity for venture capital funds

Market turbulence and fears about the economy in the second half of 2011 put a damper on the activity level of venture capital funds into 2012. The activity level for transactions was relatively low, so hence too opportunities for floating companies on the stock market. Loan financing remained limited and relatively expensive.

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3 ESG (Environment, Social and Governance) is often the term used for issues pertaining to the environment, ethics and corporate governance.
ESG integration into the management continues
Work on integrating ESG in unlisted asset management continued. With the help of a consultant, screening is performed of the holdings to discover any infringements on international conventions. During the year, no such infringements were noted in the Fund’s portfolio.

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

Investments in 2012
During the year, new investments were made in EQT Infrastructure II, Keyhaven Secondary Fund, Keyhaven Growth Partners and Scope Growth III. The total committed amount in 2012 was SEK 0.9 billion.

Environmental and ethical issues in asset management

The Fund pursues ESG integration in both tactical and strategic asset management, because this both ensures risk awareness and capitalises on business opportunities in the area of ESG.

The Fund believes that good regard for ethics and the environment, and sustainable value creation, are fundamental for companies to achieve sustainable healthy returns. It also believes that active responsible owners are needed to drive change for the better and induce companies to become more responsible. This applies to both Swedish and foreign companies.

Fund’s ESG-related work pursued on several fronts
The Fund’s work on environmental and ethical matters is pursued in asset management within the different asset classes by the Fund’s corporate governance unit and through the Fund’s commitments in the Ethical Council. Read more about the Ethical Council on the Fund’s website, www.ap4.se.

The Fund’s corporate governance unit pursues and coordinates its work relating to ethics, the environment and corporate governance. This work includes holding dialogues with companies regarding ESG and exercising corporate governance by voting the Fund’s shareholdings at shareholder meetings. The Fund’s representatives on the Ethical Council work in the corporate governance unit.

Integrating ESG into asset management
The Fund’s different asset classes and management models provide different conditions for how work relating to sustainable value creation (ESG) can be pursued in the context of each management mandate.

Responsibility for integration work, with the goal of fully integrating ESG into management, lies with each management unit. The management unit reports on the integration work to the Chief Investment Officer and CEO. Integration work is pursued in close collaboration with the corporate governance unit, which is responsible, for instance, for conducting dialogues with companies regarding ESG.

Ongoing efforts
In the past year, the different management units continued to develop how environmental and ethical matters are to be integrated into the management. In the autumn of 2012, the work of the asset management in this area was presented in the Fund’s Corporate Governance Report 2012. The corporate governance report is available on the Fund’s website, www.ap4.se.

High yield fixed income

The market value of high yield fixed income investments was SEK 1.4 billion (1.0) at year-end, corresponding to 0.6% (0.5) of total Fund assets.

High yield fixed income investments were relatively unaffected by market fluctuations during the year. A few cases of loan renegotiation and capital injections among the borrowers were noted.

Investments in 2012
During the year, investments were made in Proventus Capital Partners 2B, EQT Credit II SICAV and in a Bayport bond maturing in 2017. The total committed amount in 2012 was SEK 1.6 billion.
The normal portfolio – best over 40 years

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

The Fund’s brief governs asset allocation
The Fund’s brief is to contribute to the stability of the national pension system through managing Fund capital with the aim of generating the best possible return over time.

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

Content of the normal portfolio
The normal portfolio consists of a combination of equities, government bonds and decisions about duration and foreign exchange exposure. It is the combination of assets which is expected to generate the best return if an investment were made in them today and the investments were then kept for 40 years without being touched.

The normal portfolio is a fictitious asset portfolio, a model portfolio, made up of different indices for each asset class. It serves as a reference portfolio in the evaluation of the Fund’s management outcome.

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

The decision basis for the normal portfolio
The Fund analyses how the liabilities and assets of the pension system may be expected to perform over the next 40 years. These analyses are known as ALM (Asset Liability Management) analyses of all of the assets and liabilities of the income pension system.

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

The normal portfolio at the turn of the year 2012/13
At 31 December 2012, the normal portfolio consisted of 65% equities and 35% fixed income assets. In 2012, the normal portfolio generated a return of 10.8%.

Quick facts – management structure

<table>
<thead>
<tr>
<th></th>
<th>Normal portfolio</th>
<th>Strategic management</th>
<th>Tactical management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment horizon</td>
<td>40 years</td>
<td>3-15 years</td>
<td>0-1 years</td>
</tr>
<tr>
<td>Decided by</td>
<td>Board of Directors</td>
<td>CEO</td>
<td>CEO or person appointed by CEO</td>
</tr>
<tr>
<td>Evaluated in relation to:</td>
<td>-</td>
<td>Normal portfolio</td>
<td>Strategic portfolio</td>
</tr>
<tr>
<td>Consists of</td>
<td>Index</td>
<td>Index and strategic positions and investments</td>
<td>Tactical and passive investments</td>
</tr>
<tr>
<td>Decision basis:</td>
<td>Liability and asset analyses (ALM analyses)</td>
<td>Medium-term market and portfolio analysis</td>
<td>Market analysis for equities, fixed income, foreign exchange, etc.</td>
</tr>
<tr>
<td>Active return target/evaluation horizon:</td>
<td>-</td>
<td>0.5 percentage points on average over rolling 5y period</td>
<td>0.5 percentage points on average over rolling 3y period</td>
</tr>
<tr>
<td>Active return 2012 /over 3y evaluation horizon</td>
<td>10.8%</td>
<td>-0.4 percentage points</td>
<td>0.9 percentage points</td>
</tr>
<tr>
<td>Return contribution 2012</td>
<td>6.4%</td>
<td>-0.5%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Risk contribution¹ 2012</td>
<td>0.4%</td>
<td>0.3%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Operating expense ratio 2012</td>
<td>0.4%</td>
<td>0.3%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

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

Asset management is about creating return given a determined risk level, managing risks and taking carefully considered risks. Sound risk management is crucial to successful asset management.

It must be possible to predict risks ahead of an investment, and subsequently control them.

Each year, the Board of Directors adopts an investment policy, a credit policy and a risk management plan for the Fund’s operations.

- The investment policy describes, for instance, the Fund’s management orientation and goals in terms of return and risk.
- 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.

How risks are monitored
The financial risks are monitored and controlled by an independent Performance and Risk Control department that reports directly to the CEO and Board.

AP4’s performance and risk control
The task of performance and risk control is to ensure operational compliance with statutory investment regulations, the investment and credit policy and the risk management plan. This work includes careful measurement and analysis as well as daily reporting of return and risk, in absolute terms and in relation to benchmarks.

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

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

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

- The risk analysis function is responsible for analysis, control and reporting of chiefly market risks.

The legal unit
The Fund’s legal unit is responsible for e.g. legal aspects pertaining to risk in agreements and such. The unit is also responsible for monitoring and control of employees’ own transactions in securities.

The Board appoints a risk committee
In connection with the Board delegating an extended mandate to the strategic management, it established a risk committee to further improve communication about and understanding of the financial risks of the operations. The work of the risk committee commenced at the end of 2012.

Daily risk measurement and monitoring
The risk management involves daily risk measurement and monitoring of the tactical management, and monthly monitoring of the strategic management. This gives the Fund access to forecasts of the aggregate risks in the Fund’s investments, both in absolute numbers and relative to their benchmarks.

Risk optimisation for the best return
Risk forecasts can be broken down by management area, instrument, risk factor, etc. and serve as input data for the Fund’s ongoing efforts to optimise its risk-taking. The Fund plans and analyses its strategic risk-taking with the help of stress tests and different scenarios.

Market risk decreased during the year
During the year, price fluctuations on the majority of equity markets decreased, hence so too the market risk, measured over a 12-month historical period. On average, volatility of the Fund’s listed assets was 6.0% (9.8). For Swedish equities, volatility decreased to 18.4% (26.8), and for global equities to 10.8% (18.1).

The active risk for the Fund’s tactical management, measured over a 12-month historical period, declined slightly during the year to 0.4% (0.5), mainly because a large part of the Swedish equities management was indexed in the first half of the year. The active risk for the Swedish equities management dropped to 0.3% (0.6).

Solid information ratio for the past four years
The information ratio for the tactical management increased sharply during the year to 2.3 (0.5), and has now shown positive values over 0.5 for the last four years. An average information
ratio of 2.6 over the last four years, since the management’s reorganisation, can be deemed satisfactory.

**Liquidity and credit risks remain high**

In light of the uncertain economic state of Europe, resulting in high liquidity and credit risks, the Fund maintains its intense monitoring of counterpart exposure and counterpart rating levels in Europe.

**Exposure to sovereigns and other issuers**

The Fund’s exposure to sovereigns with a rating below AAA in the eurozone was still low at the turn of the year. Exposure at 31 December is shown in the table below.

**Exposure to sovereigns in the eurozone with a rating below AAA**

<table>
<thead>
<tr>
<th>Country</th>
<th>SEKm</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>972</td>
</tr>
<tr>
<td>Italy</td>
<td>526</td>
</tr>
<tr>
<td>Belgium</td>
<td>418</td>
</tr>
<tr>
<td>Austria</td>
<td>281</td>
</tr>
<tr>
<td>Total</td>
<td>2,198</td>
</tr>
</tbody>
</table>

The Fund’s exposure to the banking and financial sector is large, and the 15 biggest holdings collectively correspond to total exposure of around SEK 48 billion, of which SEK 37 billion is from exposure to the Swedish banking and financial sector.

The Fund’s five largest issuer exposures collectively account for around SEK 41 billion. Exposure by issuer is presented in the graph below.
Corporate governance

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

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

By law, corporate governance related work is not to be controlled by Government directives or by national business or other economic policy interests. Environmental and ethical issues must be taken into account without compromising the goal of best possible return.

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

Remuneration to be reasonable, definable and definable
Remuneration matters have always been a matter of priority in the Fund’s corporate governance work, and 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 the ownership policy for the Fund adopted by the Board in 2009, the Board of the Fund clarified and tightened up, observing the Government’s guidelines, New guidelines for terms of employment for senior executives at state-owned companies, the requirements regarding remuneration programmes featuring incentive-based remuneration. As a national pension fund, it is crucial that the Fund’s actions in these matters instil confidence.

AP4’s requirements lead to improvements
Therefore, the Fund’s evaluation of proposed remuneration programmes has consequently been systematised and tightened up further. Each remuneration programme on which the Fund votes is evaluated with reference to the requirements of the Fund’s ownership policy. The dialogues of the Fund and other institutions with companies regarding remuneration matters have led to an improvement in submitted proposals.

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 shall reward positive, long-term achievement. 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.

The Fund therefore puts stringent demands on the structure, evaluation, and transparency of the programmes. They should be “definable and defensible”. In the Ownership policy, the Board of the Fund decides what should be paid special attention for the Fund to be able to vote in favour of proposals at an AGM.

Regard for environmental and ethical matters in asset management
AP4’s work with environmental and ethical matters is pursued in the management within the different asset classes and by the Fund’s corporate governance unit.

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

More information about the Ethical Council is available at www.etikradetapfonderna.se

AP4’s 2012 corporate governance report
More information about the Fund’s corporate governance work is available in AP4’s 2012 Corporate Governance report. That and the Fund’s Ownership Policy are available on AP4’s website, www.ap4.se.
Corporate governance in Sweden

In Sweden, particular emphasis is placed on companies in which AP4 has a significant shareholding or is one of the largest shareholders. The Fund conducts dialogues with the boards and management of companies, and other shareholders. In addition, the Fund strives to play an active role in significant issues of principle.

59 Swedish AGMs

- The annual general meeting (AGM) is the shareholders’ principal forum, and voting rights are one of the most important means a shareholder has to influence a company. AP4 strives primarily to attend and exercise its voting rights at AGMs of companies in which the Fund has a significant shareholding or AGMs deemed important for some matter of principle. In 2012, AP4 attended and voted at 59 Swedish AGMs.

10 Swedish nominating committees

- The primary task of a nominating committee is to propose candidates for the board of directors to the AGM. One of the Fund’s most important tasks as an owner is to ensure that each company has the best possible board. AP4 participates in nominating committees in companies as justified by the Fund’s holding. In 2012, AP4 participated in 10 Swedish nominating committees.

- AP4 also participates in processes preparatory to AGMs of companies in which the Fund has a significant shareholding even if the Fund is not among the shareholders with the most votes. AP4 takes the initiative for dialogue with other shareholders on issues of common interest.

- AP4 also actively attempts to drive the development of quality and practices in corporate governance and to promote a smoothly functioning Swedish securities market. Direct contact with companies on ownership issues is normally taken via the company’s chairman of the board, observing the general regulations that apply to disclosure by listed companies.

Corporate governance abroad

Outside Sweden AP4 also uses several means to exercise corporate governance. Important tools include exercising the Fund’s voting rights at AGMs, work through the Ethical Council and cooperating with other institutional investors to put more weight behind the pursuit of key questions of principle.

506 foreign AGMs

The Fund’s opportunities for exercising its ownership role abroad in the way it does in Sweden are limited. AP4 is one of Sweden’s largest institutional investors. Internationally, the picture is completely different, because the Fund’s ownership is more widely spread and holdings are relatively smaller. Thus the Fund may have limited opportunities for pursuing ownership issues on its own or participating in nominating committees. In 2012, AP4 voted at 506 foreign AGMs.

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

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

Ethical Council

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

More information about the Ethical Council available on www.ethicalcouncil.com

AP4’s 2012 corporate governance report

More information about the Fund’s corporate governance work is available in AP4’s 2012 Corporate Governance report. That and the Fund’s Ownership Policy are available on AP4’s website, www.ap4.se.
AP4’s long-term brief

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

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

AP4’s proportion of equities – high or low?
The only equities in the income pension system are those owned by the AP Funds. And, the collective assets of the AP Funds constitute just over one tenth of the income pension system.

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

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

A proportion of shares of around 56% means that the AP4’s return is largely determined by global stock market performance. The equities exposure can be expected to generate higher return in the long term, but also might lead to the Fund’s return varying from year to year.

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

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

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

Pension system largely unfunded
The pension system is unfunded on the whole. If a large number of people retire without the inflow of a fresh workforce, an imbalance arises in the system. This imbalance affects both the contribution value and the AP Funds – the buffer – negatively. Having fewer people in employment reduces paid-in pension contributions (the contribution value). Concurrently, negative net flows arise; the paid-in pension contributions for the year do not cover disbursed pensions. This affects the AP Funds, the buffer, because money is withdrawn from the AP Funds in the event of negative net flows.

The AP Funds - an intergenerational buffer
As the large post-war generation of people born in the 1940s now retires, the amount of pensioners will increase compared with the number of people employed in the economy. When these “boomers” leave gainful employment, their pension contributions will cease and they will start to draw their pensions instead. Net flows have been negative since 2009. In other words, paid-in contributions are lower than disbursed pensions, and funds are withdrawn from the AP Funds to cope with the pension disbursements. In 2012, AP4 paid out a net amount of SEK 3.8 billion to the pension system. This money is taken from the Fund capital.

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

Income index - minimum level for AP Funds’ returns
The liability side of the pension system (accrued pension rights) is as a rule increased to the income index – the average income trend. To keep in pace, the asset side of the pension system – the
AP funds and contribution value – must increase by at least as much as the income index, in order for the assets of the pension system to be as large as its liabilities.

During the 10-year period 2003–2012, the income index increased by 3.5% annually.

**AP4 overshooting targets and the income index**

AP4’s return for the same 10-year period, 2003–2012, was higher at 7.2%. The Fund has therefore made a positive contribution to the stability of the pension system.

**Demographic imbalances require higher returns**

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

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

**Requirements for the AP Funds to offset the imbalances**

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

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

The Fund’s average real return over a ten-year period is evaluated in light of the long-term return target.

**High return target requires high proportion of equities**

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

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

**Proportion of equities in the pension system of 7%**

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

Since the AP Funds collectively constitute just over a tenth of the pension system, this 7% of the total pension system means a relatively high proportion of equities in each Fund. One of the reasons for there being five buffer funds was to ensure risk diversification. AP4’s proportion of equities, including listed SMEs, was around 56% at the end of 2012.

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

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 2011 was around 6% annually.

Major differences in equity returns between different

10-year periods

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

4 Source: Orange report 2011, Swedish Pension Agency
terms of stability with the real wage trend in a 10-year perspective.

The real wage trend is what largely governs the value performance of income pensions. During the period 1918-2011, the real wage trend was 2.4% annually. The difference between the real trend for equities and wages has been largest in the last two to three decades.

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

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

This has also been the case for the present pension system since it was launched in 2001. With hindsight, 2001 can be described as the peak of a financial bubble. Taking that point as the start of the measurement period, shares have therefore generated returns far below expectations.

Overshot the long-term real return target
During the 10-year period 2003–2012, the Fund’s real return averaged 5.8% per year, which was significantly higher than the target of 4.5%. The main reason for meeting the target is that the steep market downturn of 2001–2002 is no longer included in the evaluation period.

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

The role of AP4 in the pension system

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

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

The national pension system
The national pension system consists of the income pension and the premium pension. The income and premium pensions are 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.

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

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

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

Because the income pension is constructed as a distribution system, this means that assets must be as large as liabilities. In other words, the funds that are to suffice for pensions to be disbursed must be as large as the pensions to which pensioners are entitled. This must be ensured in order for the income pension system to work in a stable manner over several generations.

AP4’s role in the income pension system
Assets in the income pension system consist of two parts. In simple terms, close to nine tenths consist of what is known as the
contribution value, which is the value of future contributions to the income pension system; in other words, the funds that are to account for pension disbursements. The contribution value is affected mainly by salaries, the rate of employment in the economy and retirement age. The remaining portion of just over one tenth consists of the AP Funds’ assets including AP6, and comprises the buffer that is to ensure that the income pension system is in balance across the generations. The total assets of an individual AP Fund of around SEK 230 million thus constitute around 2.5% of all assets in the pension system.

Income pension disbursements are increased annually, taking the average wage trend into consideration. For maximum indexing of the pensions, the income pension system must be in balance. In other words, the assets must be as large as, or larger than, the liabilities. The value contribution and the AP Funds’ assets should therefore always correspond to the pension liability created.

The income pension system therefore has a built-in mechanism to ensure the financial stability of the system. The mechanism is called automatic balancing (or “the brake”) and is to prevent disbursements in the system being higher than what it can cope with in the long term. This is achieved by slowing down indexing of the value of the pensions, with this process continuing until the system regains balance. This means that the income pension system is self-financing and that the Government therefore does not need to increase pension contributions or borrow money to disburse pensions.

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

After 2008, automatic balancing was activated for the first time, which had the effect of pensions not being increased to the maximum during 2010. Also in the following year, 2009, the balance ratio (Balance ratio = Assets/Liabilities) was still below one, which meant that balancing was also activated in 2011. In 2010 and 2011, the balance ratio was above one, so pensions for 2012 and 2013 are increased to the income index plus the surplus in the balance ratio.

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

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

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

The Fund overshot both long- and short-term targets. Total return was 11.2%, mainly because of the upbeat performance of stock markets globally.

It was gratifying that the active tactical management delivered a positive additional return for the fourth consecutive year. The additional contribution for the year was SEK 1.8 billion.

Fund capital of SEK 230 billion
Fund capital increased SEK 19.6 billion to SEK 229.6 (210.0) billion. The change in fund capital consists of profit/loss for the year, in other words the return for the year less management expenses, as well as the net payments to the pension system. The latter were SEK 3.8 billion (1.2), which reduced Fund capital by the same amount.

<table>
<thead>
<tr>
<th>Change in Fund capital</th>
<th>SEK bn</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund capital, opening balance</td>
<td>210.0</td>
<td>212.8</td>
<td></td>
</tr>
<tr>
<td>Net payments to the pension system</td>
<td>-3.8</td>
<td>-1.2</td>
<td></td>
</tr>
<tr>
<td>Profit/Loss for the period</td>
<td>23.4</td>
<td>-1.6</td>
<td></td>
</tr>
<tr>
<td><strong>Fund capital, closing balance</strong></td>
<td>229.6</td>
<td>210.0</td>
<td></td>
</tr>
</tbody>
</table>

Market value, 31 Dec 2012

<table>
<thead>
<tr>
<th>Management unit</th>
<th>Market value, SEK bn</th>
<th>Exposure, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1), %</td>
</tr>
<tr>
<td>Global equities</td>
<td>84.8</td>
<td>37.2</td>
</tr>
<tr>
<td>Swedish equities</td>
<td>34.9</td>
<td>15.7</td>
</tr>
<tr>
<td>Fixed income</td>
<td>82.3</td>
<td>36.1</td>
</tr>
<tr>
<td><strong>Total tactically managed assets</strong></td>
<td>201.9</td>
<td>89.0</td>
</tr>
<tr>
<td>Real estate</td>
<td>11.8</td>
<td>5.2</td>
</tr>
<tr>
<td>SMEs</td>
<td>6.1</td>
<td>2.6</td>
</tr>
<tr>
<td>Other strategic investments</td>
<td>7.2</td>
<td>3.1</td>
</tr>
<tr>
<td>Implementation of the strategic portfolio 2)</td>
<td>2.7</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Total investment assets</strong></td>
<td>229.7</td>
<td>100.0</td>
</tr>
</tbody>
</table>

1) Exposure includes the underlying value of derivatives in tactical asset allocation for each asset class.
2) Strategic asset allocation, strategic foreign exchange exposure and cash.

Total return of just over 11%
Total return for 2012 reached 11.3% (-0.7) before expenses and 11.2% (-0.7) after expenses. The return corresponded to a management outcome after expenses of SEK 23.4 billion (-1.6).

High proportion of equities gave a positive total return
The performance of stock markets globally was good. In total, the equities management contributed positively in the amount of 9.4 percentage points (-5.0) to the Fund’s total return. Total return for the global equity portfolio was 17.4% (-6.1), and the Swedish equity portfolio returned 16.9% (-14.2).

Positive contribution from fixed income
The fixed income portfolio returned 6.0% (9.2). This gave a positive contribution of 2.2 percentage points (3.1) to the Fund’s total return.

Strategic investments
Once again, real estate produced a healthy return of 14.2% (17.6), as did SMEs, returning 13.4% (-20.4). Other strategic investments returned 5.1% (15.2).

Return and contribution of assets, 1 Jan 2012 – 31 Dec 2012

<table>
<thead>
<tr>
<th>Management unit</th>
<th>Portfolio return, %</th>
<th>Contribution to total return, %</th>
<th>Contribution to profit/loss for the year, SEK bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global equities</td>
<td>17.4</td>
<td>6.5</td>
<td>13.6</td>
</tr>
<tr>
<td>Swedish equities</td>
<td>16.9</td>
<td>2.9</td>
<td>6.0</td>
</tr>
<tr>
<td>Fixed income</td>
<td>6.0</td>
<td>2.2</td>
<td>4.6</td>
</tr>
<tr>
<td>Allocation 1)</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Currencies 1)</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Total tactically managed assets</strong></td>
<td><strong>12.8</strong></td>
<td><strong>11.7</strong></td>
<td><strong>24.4</strong></td>
</tr>
<tr>
<td>Real estate</td>
<td>14.2</td>
<td>0.7</td>
<td>1.5</td>
</tr>
<tr>
<td>SMEs</td>
<td>13.4</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Other strategic investments</td>
<td>5.1</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Implementation of the strategic portfolio 2)</td>
<td>-1.3</td>
<td>-1.3</td>
<td>-2.7</td>
</tr>
<tr>
<td><strong>Total investment assets 3)</strong></td>
<td><strong>11.3</strong></td>
<td><strong>11.3</strong></td>
<td><strong>23.6</strong></td>
</tr>
</tbody>
</table>

1) Portfolio return based on total investment assets.
2) Strategic asset allocation, strategic foreign exchange exposure and cash.
3) Return and profit/loss before expenses. Return after expenses was 11.2 percentage points, corresponding to a profit after expenses of SEK 23.4 billion.
Active earnings – positive for the fourth consecutive year

The tactical management made a positive contribution to earnings of SEK 1.8 billion (0.4). Over the last four-year period, since the management’s reorganisation, the active tactical management has made a positive contribution to earnings of just over SEK 5.5 billion.

Active return within tactical management for the year was 1.0 percentage points (0.2), outperforming the Fund’s target of 0.5 percentage points. For the evaluation period, which is three years rolling, the target was exceeded by 0.1 percentage points.

All sub-portfolios made a positive contribution

All five of the five sub-portfolios made a positive contribution to active return.

- For the fourth consecutive year, the fixed income management delivered very strong active earnings. Active return was 1.4 percentage points (0.7).
- The global equity portfolio delivered a positive active return of 0.4 percentage points (0.2). The alpha management (the active management) which was started in the autumn of 2010, has generated a positive outcome each year since the start.
- Swedish equities management delivered a positive active return of 0.7 percentage points (-0.7).
- Foreign exchange management also achieved a positive active return of 0.1 percentage points (0.1). For the sixth consecutive year, the foreign exchange management delivered a positive return.
- Tactical allocation also made a positive contribution for the year to total active return, with an active return of 0.01 percentage points (-0.06).

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.

<table>
<thead>
<tr>
<th>Management unit</th>
<th>3 years, (on annual basis)</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global equities</td>
<td>1.7</td>
<td>1.7</td>
<td>1.0</td>
</tr>
<tr>
<td>Swedish equities</td>
<td>0.4</td>
<td>2.2</td>
<td>neg.</td>
</tr>
<tr>
<td>Fixed income</td>
<td>1.2</td>
<td>1.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Allocation</td>
<td>neg.</td>
<td>0.4</td>
<td>neg.</td>
</tr>
<tr>
<td>Currencies</td>
<td>0.8</td>
<td>0.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Total tactically managed assets</td>
<td>1.5</td>
<td>2.3</td>
<td>0.5</td>
</tr>
</tbody>
</table>

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 Fund’s risk-adjusted return, which gives a lower information ratio compared with weekly or monthly data.

Low operating costs

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

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

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

The Fund’s management cost, with and without commission expenses, is low and competitive in domestic as well as international comparisons with other pension managers.

<table>
<thead>
<tr>
<th>Management costs</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating expenses, SEKm</td>
<td>179</td>
<td>179</td>
</tr>
<tr>
<td>Commission expenses, SEKm</td>
<td>39</td>
<td>24</td>
</tr>
<tr>
<td>Operating expense ratio, % 1)</td>
<td>0.08</td>
<td>0.08</td>
</tr>
<tr>
<td>Operating expense ratio, % 2)</td>
<td>0.10</td>
<td>0.10</td>
</tr>
</tbody>
</table>

1) Operating expenses as a percentage of the average Fund capital.
2) Operating expenses including commission expenses as a percentage of the average Fund capital.
Developed management structure and new processes

During the year, AP4 conducted comprehensive work to develop the structure of the Fund’s asset allocation.

The management structure, implemented fully as of 2013, has been extended and broadened to be able to better capitalise on the Fund’s long-term mandate and harness business opportunities with an investment horizon exceeding three years. The long-term mandate enables additional return thanks to AP4’s somewhat longer investment horizon than the market at large.

The Board has delegated extended mandates for strategic positions and investments. The investment and evaluation horizon for the strategic investments extend beyond three years.

The management units’ structure and mandates have been developed to better capitalise on identified business opportunities. Read more under the heading “Management – AP4 now taking the next step” on page 17.

A sound organisation which has generated SEK 5.5 billion in value added

The healthy active earnings of the last four years (2009–2012) are a positive sign that the asset management, which was reorganised during 2007–2008, remains on the right track. In the last four years, since the organisation was set up, it has outperformed the benchmark index, delivering a positive active earnings contribution of just over SEK 5.5 billion.

The Fund’s organisation features broadly accepted procedures, explicit targets and division of responsibilities and sound risk and return measurement.

Changes in staffing

Following a period of high staff turnover, in the last three years including 2012, the level has been low. At year-end, the Fund had 49 (52) employees.

Remuneration

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

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

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

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

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

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

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

Policies

In 2012, AP1, AP2, AP3, AP4, AP6 and AP7 drew up a common policy for remuneration terms, staff benefits, entertainment and business travel, which was adopted by the Board of each Fund. The overall common policy is supplemented by the Fund’s more detailed internal staff-related policies and guidelines.

Collaboration between the AP Funds

One of the basic ideas behind managing assets in an income pension system was that several buffer funds would diversify risk and performance would benefit from creative competition among the Funds. At the same time, it was feared that, because of its size, an extremely large fund might have a negative impact on the way the Swedish capital markets work.
Since the pension system was restructured in 2001, the AP Funds – including AP6 and AP7 – have worked closely with each other in different areas. The purpose of the collaboration is to achieve transparency and cost-efficiency without compromising competition possibilities between the AP Funds.

The Funds mainly work together in the following areas:

- ethics and environment
- corporate governance
- risk management and legal
- accounting, IT, HR and business and office administration

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

In order to vote global shareholdings at AGMs in a cost-efficient manner, the Fund 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 Funds apply joint policies and that their annual reports are hence comparable. The document is updated regularly and is reviewed by the Funds’ auditors annually.

In 2012, AP1, AP2, AP3, AP4, AP6 and AP7 prepared a common policy for remuneration, staff benefits, entertainment and business travel. The policy was adopted by the Board of each Fund.

Significant events after the end of the financial year
The Fund’s work is progressing according to plan, and there are no significant events to report that have occurred since year-end.
### Financial information

#### Five-year summary

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund capital, flows and net profit/loss, SEK bn</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund capital</td>
<td>229.6</td>
<td>210.0</td>
<td>212.8</td>
<td>195.7</td>
<td>164.7</td>
</tr>
<tr>
<td>Net inflows from the pension system and special asset management funds</td>
<td>-3.8</td>
<td>-1.2</td>
<td>-4.0</td>
<td>-3.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Profit/ loss for the year</td>
<td>23.4</td>
<td>-1.6</td>
<td>21.2</td>
<td>34.9</td>
<td>-43.5</td>
</tr>
</tbody>
</table>

**Return, %**

Return on total portfolio before expenses | 11.3 | -0.7 | 11.0 | 21.6 | -20.8 |
Return total portfolio after expenses | 11.2 | -0.7 | 10.9 | 21.5 | -21.0 |

**Management costs as a % of assets under management (annually)**

Operating expenses | 0.08 | 0.08 | 0.09 | 0.10 | 0.08 |
Operating expenses and commission expenses | 0.10 | 0.10 | 0.10 | 0.11 | 0.11 |

**Risk, %**

Total portfolio ex post | 5.6 | 9.2 | 7.5 | 11.0 | 17.1 |
Liquidity portfolio ex post | 6.0 | 9.8 | 7.8 | 11.6 | 17.1 |
Sharpe ratio total portfolio ex post | 1.8 | neg. | 1.4 | 1.9 | neg. |
Sharpe ratio liquidity portfolio ex post | 1.7 | neg. | 1.3 | 1.8 | neg. |

1) Annualised return after expenses amounts to 3.3% for the last five-year period and 7.2% for the last ten years.
2) Refers to liquid assets (investment assets ex alternative investments and real estate); prior to 2009 refers to all investment assets.

#### Other key ratios

<table>
<thead>
<tr>
<th>Other key ratios</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active return, tactical allocation before expenses</td>
<td>1.0</td>
<td>0.2</td>
<td>0.8</td>
<td>1.4</td>
<td>-0.5</td>
</tr>
<tr>
<td>Inflation</td>
<td>0.0</td>
<td>2.0</td>
<td>2.3</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Real total return after expenses</td>
<td>11.2</td>
<td>-2.7</td>
<td>8.6</td>
<td>20.6</td>
<td>-21.9</td>
</tr>
<tr>
<td>Active risk ex post, tactical management</td>
<td>0.4</td>
<td>0.5</td>
<td>0.3</td>
<td>0.4</td>
<td>0.7</td>
</tr>
<tr>
<td>Foreign exchange exposure, %</td>
<td>27.7</td>
<td>25.7</td>
<td>19.8</td>
<td>14.6</td>
<td>14.5</td>
</tr>
<tr>
<td>Proportion under active management, including enhanced, %</td>
<td>50.2</td>
<td>63.6</td>
<td>61.2</td>
<td>57.7</td>
<td>59.7</td>
</tr>
<tr>
<td>Proportion under external management, including investments in venture capital firms, %</td>
<td>21.7</td>
<td>18.4</td>
<td>22.6</td>
<td>21.1</td>
<td>41.9</td>
</tr>
<tr>
<td>Number of employees at end of accounting period</td>
<td>49</td>
<td>52</td>
<td>51</td>
<td>53</td>
<td>50</td>
</tr>
</tbody>
</table>

#### Allocation of investment assets, %

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Global equity portfolio</td>
<td>37.2</td>
<td>37.9</td>
<td>41.0</td>
<td>42.4</td>
<td>41.7</td>
</tr>
<tr>
<td>Internally managed</td>
<td>23.6</td>
<td>26.6</td>
<td>24.3</td>
<td>25.8</td>
<td>0.0</td>
</tr>
<tr>
<td>Externally managed</td>
<td>13.6</td>
<td>11.3</td>
<td>16.7</td>
<td>16.6</td>
<td>41.7</td>
</tr>
<tr>
<td>Swedish equity portfolio</td>
<td>15.7</td>
<td>17.8</td>
<td>18.9</td>
<td>18.0</td>
<td>18.0</td>
</tr>
<tr>
<td>Fixed income portfolio</td>
<td>36.1</td>
<td>37.3</td>
<td>34.0</td>
<td>34.9</td>
<td>36.8</td>
</tr>
<tr>
<td>Real estate</td>
<td>5.2</td>
<td>4.5</td>
<td>3.9</td>
<td>3.2</td>
<td>4.1</td>
</tr>
<tr>
<td>SMEs</td>
<td>2.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other strategic investments</td>
<td>3.1</td>
<td>2.5</td>
<td>2.0</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>Implementation of the strategic portfolio</td>
<td>0.1</td>
<td>0.0</td>
<td>0.2</td>
<td>0.3</td>
<td>-0.6</td>
</tr>
</tbody>
</table>

Total investment assets | 100 | 100 | 100 | 100 | 100 |

1) Tactical allocation 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.
2) Refers to exposure; underlying values for derivatives have been distributed by asset class.
3) Before 2012, SMEs were included in Swedish equities. As of the spring of 2012, SME management is included in strategic management.
4) Other strategic investments correspond, in 2009–2011, to what was previously called alternative investments. Before 2009, this was included in global and Swedish equities respectively.
5) Implementation of the strategic portfolio corresponds before 2012 to what was previously called foreign exchange/tactical allocation/cash.
Income statement

<table>
<thead>
<tr>
<th>SEKm</th>
<th>Note</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPERATING INCOME</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net interest income</td>
<td>2</td>
<td>3,467</td>
<td>3,189</td>
</tr>
<tr>
<td>Dividends received</td>
<td></td>
<td>3,479</td>
<td>3,200</td>
</tr>
<tr>
<td>Net income, listed shares and participations</td>
<td>3</td>
<td>13,399</td>
<td>-12,739</td>
</tr>
<tr>
<td>Net income, unlisted shares and participations</td>
<td>4</td>
<td>1,222</td>
<td>1,554</td>
</tr>
<tr>
<td>Net income, fixed income assets</td>
<td></td>
<td>2,057</td>
<td>3,848</td>
</tr>
<tr>
<td>Net income, derivatives</td>
<td></td>
<td>2,617</td>
<td>-3,030</td>
</tr>
<tr>
<td>Net income, changes in exchange rates</td>
<td></td>
<td>-2,603</td>
<td>2,584</td>
</tr>
<tr>
<td>Net commission expenses</td>
<td>5</td>
<td>-39</td>
<td>-24</td>
</tr>
<tr>
<td>Total operating income</td>
<td></td>
<td>23,599</td>
<td>-1,418</td>
</tr>
</tbody>
</table>

| OPERATING EXPENSES |      |       |       |
| Employee benefits expense | 6    | -109  | -101  |
| Other administrative expenses | 7    | -70   | -78   |
| Total operating expenses |      | -179  | -179  |

| PROFIT/LOSS FOR THE YEAR |      |       |
| 23,420 | -1,597 |

Balance sheet

<table>
<thead>
<tr>
<th>SEKm</th>
<th>Note</th>
<th>31 Dec 2012</th>
<th>31 Dec 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares and participations, listed</td>
<td>8</td>
<td>117,974</td>
<td>108,872</td>
</tr>
<tr>
<td>Shares and participations, unlisted</td>
<td>9</td>
<td>9,963</td>
<td>8,100</td>
</tr>
<tr>
<td>Bonds and other fixed income securities</td>
<td>10</td>
<td>86,530</td>
<td>81,555</td>
</tr>
<tr>
<td>Derivatives</td>
<td>11</td>
<td>12,869</td>
<td>11,581</td>
</tr>
<tr>
<td>Cash and bank balances</td>
<td></td>
<td>1,467</td>
<td>1,226</td>
</tr>
<tr>
<td>Other assets</td>
<td>12</td>
<td>332</td>
<td>105</td>
</tr>
<tr>
<td>Prepaid expenses and accrued income</td>
<td>13</td>
<td>1,986</td>
<td>2,307</td>
</tr>
<tr>
<td>Total assets</td>
<td></td>
<td>231,121</td>
<td>213,746</td>
</tr>
</tbody>
</table>

| LIABILITIES AND FUND CAPITAL |      |             |             |
| Liabilities |      |             |             |
| Derivatives | 11   | 1,205       | 3,393       |
| Other liabilities | 14  | 138         | 83          |
| Deferred income and accrued expenses | 15  | 147         | 271         |
| Total Liabilities |      | 1,490       | 3,747       |

| Fund capital |      |             |             |
| 209,999 | 212,836 |

| Profit for the year |      | -3,788 | -1,240 |
| 23,420 | -1,597 |

| Total fund capital |      | 229,631 | 209,999 |

| TOTAL LIABILITIES AND FUND CAPITAL |      | 231,121 | 213,746 |

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 2012 financial year was approved by the Board on 19 February 2013. The income statement and balance sheet shall be adopted by the Government.

Note 1. Accounting and valuation policies

According to the Swedish National Pension Funds Act (2000:192), the annual report shall be prepared according to generally accepted accounting principles, such that the assets in which AP4’s funds are invested shall be recognised at fair value. Based on this premise, AP1–AP4 have developed and put into practice a set of common accounting and valuation policies as summarised below.

The accounting and valuation policies have not changed since the preceding year.

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. Complete compliance with IFRS would not materially affect reported earnings or capital. The following major discrepancies with current IFRS have been identified.

- The Funds do not measure financial instruments using purchase or sale prices but using the market prices applied in each designated index (often average prices).
- Transaction costs, such as brokers’ commissions, are recognised as part of the purchase cost of financial instruments recognised at fair value through the profit/loss.
- Consolidated financial statements and cash flow statements are not prepared.

Transaction date accounting

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

Net accounting

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

Translation of foreign currencies

Transactions in foreign currency are translated into Swedish kronor at the exchange rate on the transaction day. At year-end, assets and liabilities in foreign currencies are translated to SEK at the exchange rates on the balance sheet date. Changes in the values of foreign-currency-denominated assets are divided into changes attributable to changes in the value of the asset or liability in local currency and changes stemming from fluctuations in exchange rates. The exchange gain/loss arising from exchange rate changes is recognised in the income statement on the line Net income, changes in exchange rates.

Shares in subsidiaries and associated companies

According to the Swedish National Pension Funds Act, shares in subsidiaries and associated companies are recognised at fair value. Fair value is determined according to the same methods applied for unlisted shares and participations. There is no requirement to prepare consolidated financial statements.

Valuation of financial instruments

All of the Fund’s investments are stated at fair value such that realised and unrealised changes in value are recognised over the income statement. The lines Net profit/loss per asset class thus include realised and unrealised gains. Where the following refers to designated index providers, please see the glossary on pages 61–62 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 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 of 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.

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 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.

**Net 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.

**Note 2. Net interest income**

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds and other fixed income securities</td>
<td>2,608</td>
<td>2,784</td>
</tr>
<tr>
<td>Derivatives</td>
<td>1,744</td>
<td>2,194</td>
</tr>
<tr>
<td>Other interest income</td>
<td>65</td>
<td>62</td>
</tr>
<tr>
<td><strong>Total interest income</strong></td>
<td>4,417</td>
<td>5,040</td>
</tr>
<tr>
<td><strong>Interest expense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives</td>
<td>-942</td>
<td>-1,843</td>
</tr>
<tr>
<td>Other interest expense</td>
<td>-8</td>
<td>-8</td>
</tr>
<tr>
<td><strong>Total interest expense</strong></td>
<td>-950</td>
<td>-1,851</td>
</tr>
<tr>
<td><strong>Net interest income</strong></td>
<td>3,467</td>
<td>3,189</td>
</tr>
</tbody>
</table>

**Note 3. Net income, listed shares and participations**

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income, listed shares and participations</td>
<td>13,399</td>
<td>-12,739</td>
</tr>
<tr>
<td>Less brokers’ commissions</td>
<td>-31</td>
<td>-30</td>
</tr>
<tr>
<td>Less performance-based fees</td>
<td>-6</td>
<td>0</td>
</tr>
<tr>
<td><strong>Net income, listed shares and participations</strong></td>
<td>13,399</td>
<td>-12,739</td>
</tr>
</tbody>
</table>

**Note 4. Net income, unlisted shares and participations**

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Realised gains</td>
<td>399</td>
<td>498</td>
</tr>
<tr>
<td>Unrealised changes in value</td>
<td>827</td>
<td>1,056</td>
</tr>
<tr>
<td>Less performance-based fees</td>
<td>-4</td>
<td>0</td>
</tr>
<tr>
<td><strong>Net income, unlisted shares and participations</strong></td>
<td>1,222</td>
<td>1,554</td>
</tr>
</tbody>
</table>

**Note 5. Net commission expenses**

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>External management fees, listed assets</td>
<td>-25</td>
<td>-15</td>
</tr>
<tr>
<td>External management fees, unlisted assets</td>
<td>-3</td>
<td>0</td>
</tr>
<tr>
<td>Other commission expenses, including custody account fees</td>
<td>-11</td>
<td>-9</td>
</tr>
<tr>
<td><strong>Net commission expenses</strong></td>
<td>-39</td>
<td>-24</td>
</tr>
</tbody>
</table>

Performance-based fees are not included in commission expenses. Such fees totalled SEK 10 million (0) 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 56 million (62) in management fees related to unlisted assets was paid. Of this total, SEK 53 million (62) referred to agreements that permit repayment of fees paid prior to profit-sharing upon divestment. These are recognised as part of the purchase cost of the asset.
### Note 6. Personnel

#### Number of employees

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th></th>
<th>2011</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Women</td>
<td>Total</td>
<td>Women</td>
</tr>
<tr>
<td>Average number of employees</td>
<td>51</td>
<td>15</td>
<td>52</td>
<td>16</td>
</tr>
<tr>
<td>Number of employees at 31 December</td>
<td>49</td>
<td>14</td>
<td>52</td>
<td>15</td>
</tr>
<tr>
<td>Number of executive management committee members at 31 December</td>
<td>5</td>
<td>2</td>
<td>4</td>
<td>1</td>
</tr>
</tbody>
</table>

#### Employee benefits expense, SEK ’000, 2012

<table>
<thead>
<tr>
<th>Employee benefits expense, SEK ’000, 2012</th>
<th>Salaries and remuneration</th>
<th>Incentive-based remuneration</th>
<th>Pension expenses</th>
<th>Social security expenses</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman of the Board Monica Caneman</td>
<td>117</td>
<td>-</td>
<td>-</td>
<td>37</td>
<td>154</td>
</tr>
<tr>
<td>Other Members of the Board 1)</td>
<td>469</td>
<td>-</td>
<td>-</td>
<td>142</td>
<td>611</td>
</tr>
<tr>
<td>Chief Executive Officer Mats Andersson 2)</td>
<td>3,283</td>
<td>-</td>
<td>1,431</td>
<td>1,379</td>
<td>6,093</td>
</tr>
</tbody>
</table>

#### Other executive management committee members

- Chief Investment Officer Magnus Eriksson 3) | 1,531 | - | 2,430 | 1,071 | 5,032 |
- Director of Administration Agneta Wilhelmson Käremar 4) | 1,528 | - | 1,108 | 749 | 3,385 |
- Head of Performance and Risk Control Nicklas Wikström 5) | 1,352 | - | 530 | 553 | 2,435 |
- General Counsel Ulrika Malmberg Livijn 6, 9) | 1,354 | - | 623 | 577 | 2,554 |

| Other employees 7, 8) | 46,038 | 3,476 | 15,882 | 19,011 | 84,407 |

| Total                  | 55,672 | 3,476 | 22,004 | 23,519 | 104,671 |

#### Other executive management committee members

1) Remuneration to individual board members is set forth in the administration report
2) Substitution of pension for salary
3) Substitution of pension for salary
4) Substitution of pension for salary
5) Substitution of pension for salary
6) Substitution of pension for salary, other employees
7) Costs of employee cutbacks, other employees
8) Not included in the executive management 2011

#### Employee benefits expense, SEK ’000, 2011

<table>
<thead>
<tr>
<th>Employee benefits expense, SEK ’000, 2011</th>
<th>Salaries and remuneration</th>
<th>Incentive-based remuneration</th>
<th>Pension expenses</th>
<th>Social security expenses</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman of the Board Monica Caneman</td>
<td>117</td>
<td>-</td>
<td>-</td>
<td>37</td>
<td>154</td>
</tr>
<tr>
<td>Other Members of the Board 1)</td>
<td>458</td>
<td>-</td>
<td>-</td>
<td>128</td>
<td>586</td>
</tr>
<tr>
<td>Chief Executive Officer Mats Andersson 2)</td>
<td>3,384</td>
<td>-</td>
<td>1,096</td>
<td>1,329</td>
<td>5,809</td>
</tr>
</tbody>
</table>

#### Other executive management committee members

- Chief Investment Officer Magnus Eriksson 3) | 2,798 | - | 1,137 | 1,155 | 5,090 |
- Director of Administration Agneta Wilhelmson Käremar 4) | 1,677 | - | 950 | 757 | 3,384 |
- Head of Performance and Risk Control Nicklas Wikström 5) | 1,145 | - | 486 | 478 | 2,109 |

| Other employees 6, 7) | 46,687 | - | 14,955 | 17,917 | 79,559 |

| Total                  | 56,266 | - | 18,624 | 21,801 | 96,691 |

#### Other employee benefits expense

<table>
<thead>
<tr>
<th>Total employee benefits expense</th>
<th>109,335</th>
</tr>
</thead>
</table>

1) Remuneration to individual board members is set forth in the administration report
2) Substitution of pension for salary
3) Substitution of pension for salary
4) Substitution of pension for salary
5) Substitution of pension for salary
6) Substitution of pension for salary, other employees
7) Costs of employee cutbacks, other employees
8) Not included in the executive management 2011

#### Total employee benefits expense

<table>
<thead>
<tr>
<th>Total employee benefits expense</th>
<th>100,572</th>
</tr>
</thead>
</table>

1) Remuneration to individual board members is set forth in the administration report
2) Substitution of pension for salary
3) Substitution of pension for salary
4) Substitution of pension for salary
5) Substitution of pension for salary
6) Substitution of pension for salary, other employees
7) Costs of employee cutbacks, other employees
8) Not included in the executive management 2011
Costs of employee cutbacks
For 2012, the cost was SEK 3,125 thousand (2,605) and related to compensation for salary in connection with employee cutbacks.

Salaries and remuneration
Remuneration for the Board of Directors, set by the Government, is unchanged. 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 and investigation of remuneration levels for senior executives at the Fund, and the Board can thereby ascertain that AP4 complies with the Government’s guidelines for senior executives at the AP Funds. Read more under the heading Remuneration on page 41 and at www.ap4.se

Incentive-based remuneration
The CEO, senior executives and the compliance officer do not have 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 2012, SEK 3,476 thousand (-) was expensed for incentive-based remuneration, excluding social security contributions.

Pensions and similar benefits
The CEO’s pension benefits and severance package are specified in his employment contract. The provisions of the contract include pension entitlement at age 65, with a pension provision of 30% (30) of salary. A mutual period of notice of termination of six months applies for the CEO. If the Fund gives notice, the CEO is also entitled to a severance package equal to 18 months’ salary.

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

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

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

Note 7. Other administrative expenses

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs of premises</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Information and IT expenses</td>
<td>35</td>
<td>37</td>
</tr>
<tr>
<td>Services purchased</td>
<td>17</td>
<td>22</td>
</tr>
<tr>
<td>Other administrative expenses</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total other administrative expenses</strong></td>
<td><strong>70</strong></td>
<td><strong>78</strong></td>
</tr>
</tbody>
</table>

Services purchased includes fees to accounting firms as follows:
- Audit services, Ernst & Young: 1.1 (0.9)
- Other audit services, Ernst & Young: 0.1 (0.3)

**Total fees to accounting firms**: 1.2 (1.2)

Note 8. Shares and participations, listed

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2012</th>
<th>31 Dec 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair value</td>
<td>Fair value</td>
</tr>
<tr>
<td>Swedish equities</td>
<td>40,921</td>
<td>37,444</td>
</tr>
<tr>
<td>Foreign equities</td>
<td>63,784</td>
<td>65,697</td>
</tr>
<tr>
<td>Participations in Swedish mutual funds</td>
<td>1,750</td>
<td>-</td>
</tr>
<tr>
<td>Participations in foreign mutual funds</td>
<td>11,519</td>
<td>5,731</td>
</tr>
<tr>
<td><strong>Total shares and participations, listed</strong></td>
<td><strong>117,974</strong></td>
<td><strong>108,872</strong></td>
</tr>
</tbody>
</table>

A detailed list of holdings is published on the AP4 website, www.ap4.se.
Note 8. Shares and participations, listed cont.

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

<table>
<thead>
<tr>
<th></th>
<th>Quantity</th>
<th>Fair value</th>
<th>Participation in %</th>
<th>Participation in %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>equities</td>
<td></td>
<td>equity</td>
<td>votes</td>
</tr>
<tr>
<td>Hennes &amp; Mauritz</td>
<td>15,837,655</td>
<td>3,556</td>
<td>1.0 %</td>
<td>0.5 %</td>
</tr>
<tr>
<td>Nordea Bank</td>
<td>44,735,773</td>
<td>2,778</td>
<td>1.1 %</td>
<td>1.1 %</td>
</tr>
<tr>
<td>Atlas Copco</td>
<td>13,719,525</td>
<td>2,353</td>
<td>1.1 %</td>
<td>1.1 %</td>
</tr>
<tr>
<td>Ericsson</td>
<td>32,636,749</td>
<td>2,124</td>
<td>1.0 %</td>
<td>0.7 %</td>
</tr>
<tr>
<td>Volvo</td>
<td>23,772,521</td>
<td>2,118</td>
<td>1.1 %</td>
<td>1.7 %</td>
</tr>
<tr>
<td>Apple</td>
<td>350,372</td>
<td>1,215</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXXON MOBIL CORP</td>
<td>1,724,588</td>
<td>971</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Royal Dutch Shell</td>
<td>2,864,571</td>
<td>649</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nestlé</td>
<td>1,455,697</td>
<td>617</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HSBC Holdings</td>
<td>8,270,731</td>
<td>566</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Five largest holdings in Swedish and foreign equities, 31 Dec 2011

<table>
<thead>
<tr>
<th></th>
<th>Quantity</th>
<th>Fair value</th>
<th>Participation in %</th>
<th>Participation in %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>equities</td>
<td></td>
<td>equity</td>
<td>votes</td>
</tr>
<tr>
<td>Hennes &amp; Mauritz</td>
<td>16,290,160</td>
<td>3,605</td>
<td>1.0 %</td>
<td>0.5 %</td>
</tr>
<tr>
<td>Nordea</td>
<td>47,285,705</td>
<td>2,518</td>
<td>1.2 %</td>
<td>1.2 %</td>
</tr>
<tr>
<td>Ericsson</td>
<td>33,216,045</td>
<td>2,338</td>
<td>1.0 %</td>
<td>0.1 %</td>
</tr>
<tr>
<td>TeliaSonera</td>
<td>47,586,908</td>
<td>2,226</td>
<td>1.1 %</td>
<td>1.1 %</td>
</tr>
<tr>
<td>Atlas Copco</td>
<td>14,523,276</td>
<td>2,069</td>
<td>1.2 %</td>
<td>1.1 %</td>
</tr>
<tr>
<td>Exxon Mobil Corp</td>
<td>2,110,559</td>
<td>1,226</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apple</td>
<td>401,098</td>
<td>1,114</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Royal Dutch Shell</td>
<td>2,890,471</td>
<td>741</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IBM Corp</td>
<td>518,369</td>
<td>653</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chevron Corp</td>
<td>867,905</td>
<td>633</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note 9. Shares and participations, unlisted

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2012</th>
<th>31 Dec 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair value</td>
<td>Fair value</td>
</tr>
<tr>
<td>Shares in Swedish associated companies</td>
<td>6,161</td>
<td>4,539</td>
</tr>
<tr>
<td>Shares in foreign associated companies</td>
<td>99</td>
<td>-</td>
</tr>
<tr>
<td>Shares in other Swedish companies</td>
<td>371</td>
<td>218</td>
</tr>
<tr>
<td>Participations in Swedish venture capital firms and funds</td>
<td>443</td>
<td>482</td>
</tr>
<tr>
<td>Participations in foreign venture capital firms and funds</td>
<td>2,889</td>
<td>2,861</td>
</tr>
<tr>
<td><strong>Total shares and participations, unlisted</strong></td>
<td><strong>9,963</strong></td>
<td><strong>8,100</strong></td>
</tr>
</tbody>
</table>

Shares in associated companies, 31 Dec 2012

<table>
<thead>
<tr>
<th>Shares in Swedish associated companies:</th>
<th>Corp. id no.</th>
<th>Domiciliation</th>
<th>Quantity</th>
<th>Participation in %</th>
<th>Fair value</th>
<th>Shareholders’ equity</th>
<th>Profit/ Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vasakronan Holding AB</td>
<td>556650-4196</td>
<td>Stockholm</td>
<td>1,000,000</td>
<td>25</td>
<td>25</td>
<td>5,131</td>
<td>20,524</td>
</tr>
<tr>
<td>Rikshem Intressenter AB</td>
<td>556806-2466</td>
<td>Stockholm</td>
<td>250</td>
<td>50</td>
<td>50</td>
<td>1,030</td>
<td>1,757</td>
</tr>
</tbody>
</table>

Shares in foreign associated companies:

<table>
<thead>
<tr>
<th>Shares in foreign associated companies:</th>
<th>Corp. id no.</th>
<th>Domiciliation</th>
<th>Quantity</th>
<th>Participation in %</th>
<th>Fair value</th>
<th>Shareholders’ equity</th>
<th>Profit/ Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASE Holdings S.à.r.l.</td>
<td></td>
<td>Luxembourg</td>
<td>37,780</td>
<td>38</td>
<td>38</td>
<td>99</td>
<td>Not disclosed</td>
</tr>
</tbody>
</table>


### Note 9. Shares and participations, unlisted, cont.

#### Shares in other companies:

<table>
<thead>
<tr>
<th>Corp. id no.</th>
<th>Domiciliation</th>
<th>No. shares</th>
<th>Participation in %</th>
<th>Acquisition value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Areim Fastigheter 2 AB</td>
<td>Stockholm</td>
<td>439,710</td>
<td>13 13 1</td>
<td>1</td>
</tr>
<tr>
<td>Hemfosa Fastigheter AB</td>
<td>Stockholm</td>
<td>1,500,000</td>
<td>15 15 26</td>
<td></td>
</tr>
<tr>
<td>Hemfosa Tetis AB</td>
<td>Stockholm</td>
<td>2,160,000</td>
<td>18 18 14</td>
<td></td>
</tr>
<tr>
<td>Innovoetus AB</td>
<td>Stockholm</td>
<td>2,334</td>
<td>17 17 2</td>
<td></td>
</tr>
</tbody>
</table>

#### Five largest holdings in Swedish venture capital firms and mutual funds:

<table>
<thead>
<tr>
<th>Corp. id no.</th>
<th>Domiciliation</th>
<th>No. shares</th>
<th>Participation in %</th>
<th>Fair Shareholders' equity value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priveq Investment Fund III KB</td>
<td>Stockholm</td>
<td>31 31 159</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brainheart Capital KB</td>
<td>Stockholm</td>
<td>21 21 103</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HealthCap Annex Fund I - II KB</td>
<td>Stockholm</td>
<td>20 20 77</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accent Equity 2003 KB</td>
<td>Stockholm</td>
<td>19 19 61</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HealthCap III Sidefund KB</td>
<td>Stockholm</td>
<td>20 20 43</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Five largest holdings in foreign venture capital firms and mutual funds:

<table>
<thead>
<tr>
<th>Corp. id no.</th>
<th>Domiciliation</th>
<th>No. shares</th>
<th>Participation in %</th>
<th>Fair Shareholders' equity value</th>
</tr>
</thead>
<tbody>
<tr>
<td>EQT IV (No 1) LP</td>
<td>Guernsey</td>
<td>4 648</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EQT V (No 1) LP</td>
<td>Guernsey</td>
<td>2 401</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goldman Sachs Multi-strategy Fund Offshore LP</td>
<td>Cayman Islands</td>
<td>95 365</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TMAM-GO Japan Engagement Fund LP</td>
<td>UK</td>
<td>48 241</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EQT Infrastructure (No 1) Fund LP</td>
<td>Guernsey</td>
<td>3 214</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Shares in associated companies, 31 Dec 2011

#### Shares in Swedish associated companies:

<table>
<thead>
<tr>
<th>Corp. id no.</th>
<th>Domiciliation</th>
<th>Quantity equities</th>
<th>Participation in %</th>
<th>Fair Shareholders' equity value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vasakronan Holding AB</td>
<td>Stockholm</td>
<td>1,000,000 25 25 3,725 15,004 2,712</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rikshem Intressenter AB</td>
<td>Stockholm</td>
<td>250 50 50 814 1,354 83</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Shares in other companies:

<table>
<thead>
<tr>
<th>Corp. id no.</th>
<th>Domiciliation</th>
<th>No. shares</th>
<th>Participation in %</th>
<th>Acquisition value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hemfosa Fastigheter AB</td>
<td>Stockholm</td>
<td>1,500,000 15 15 26</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hemfosa Tetis AB</td>
<td>Stockholm</td>
<td>2,160,000 18 18 14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovoetus AB</td>
<td>Stockholm</td>
<td>2,334 17 17 2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovoetus Project AB</td>
<td>Stockholm</td>
<td>31,032 9 9 83</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Five largest holdings in Swedish venture capital firms and mutual funds:

<table>
<thead>
<tr>
<th>Corp. id no.</th>
<th>Domiciliation</th>
<th>No. shares</th>
<th>Participation in %</th>
<th>Fair Shareholders' equity value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priveq Investment Fund III KB</td>
<td>Stockholm</td>
<td>31 31 154</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brainheart Capital KB</td>
<td>Stockholm</td>
<td>21 21 103</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HealthCap Annex Fund I - II KB</td>
<td>Stockholm</td>
<td>20 20 77</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Priveq Investment Fund II KB</td>
<td>Stockholm</td>
<td>60 60 68</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accent Equity 2003 KB</td>
<td>Stockholm</td>
<td>19 19 68</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Five largest holdings in foreign venture capital firms and mutual funds:

<table>
<thead>
<tr>
<th>Corp. id no.</th>
<th>Domiciliation</th>
<th>No. shares</th>
<th>Participation in %</th>
<th>Fair Shareholders' equity value</th>
</tr>
</thead>
<tbody>
<tr>
<td>EQT IV (No 1) LP</td>
<td>Guernsey</td>
<td>4 629</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EQT V (No 1), P</td>
<td>Guernsey</td>
<td>2 452</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goldman Sachs Multi-strategy Fund Offshore LP</td>
<td>Cayman Islands</td>
<td>95 387</td>
<td></td>
<td></td>
</tr>
<tr>
<td>European Strategic Partners II &quot;D&quot;</td>
<td>UK</td>
<td>4 207</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EQT Infrastructure (No 1) Fund LP</td>
<td>Guernsey</td>
<td>3 165</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A detailed list of holdings is published on the AP4 website, [www.ap4.se](http://www.ap4.se).
Note 10. Bonds and other fixed income securities

<table>
<thead>
<tr>
<th>Issuer category</th>
<th>31 Dec 2012 Fair value</th>
<th>31 Dec 2012 Fair value</th>
<th>31 Dec 2011 Fair value</th>
<th>31 Dec 2011 Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kingdom of Sweden</td>
<td>6,844</td>
<td>10,178</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Swedish municipalities</td>
<td>560</td>
<td>541</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Swedish housing institutions</td>
<td>18,700</td>
<td>19,271</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Swedish financial services companies</td>
<td>11,738</td>
<td>4,366</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Swedish non-financial companies</td>
<td>6,623</td>
<td>9,090</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign governments</td>
<td>19,961</td>
<td>17,872</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other foreign issuers</td>
<td>22,104</td>
<td>20,237</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total fixed income assets</strong></td>
<td><strong>86,530</strong></td>
<td><strong>81,555</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note 11. Derivatives

<table>
<thead>
<tr>
<th>Equity-based instruments:</th>
<th>31 Dec 2012 Nominal amount</th>
<th>31 Dec 2012 Fair value</th>
<th>31 Dec 2011 Nominal amount</th>
<th>31 Dec 2011 Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock options</td>
<td>9,850</td>
<td>9,850</td>
<td>8,778</td>
<td>8,778</td>
</tr>
<tr>
<td>Stock futures</td>
<td>11,716</td>
<td>-</td>
<td>7,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total equity-based instruments</strong></td>
<td><strong>21,566</strong></td>
<td><strong>9,850</strong></td>
<td><strong>15,778</strong></td>
<td><strong>8778</strong></td>
</tr>
<tr>
<td>of that total, cleared</td>
<td>11,716</td>
<td>-</td>
<td>7,000</td>
<td>-</td>
</tr>
<tr>
<td>Interest-based instruments:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FRAs / Forward contracts</td>
<td>25,852</td>
<td>-</td>
<td>25,175</td>
<td>-</td>
</tr>
<tr>
<td>Swaps</td>
<td>15,836</td>
<td>70</td>
<td>121</td>
<td>16,377</td>
</tr>
<tr>
<td><strong>Total interest-based instruments</strong></td>
<td><strong>41,688</strong></td>
<td><strong>70</strong></td>
<td><strong>121</strong></td>
<td><strong>41,552</strong></td>
</tr>
<tr>
<td>of that total, cleared</td>
<td>25,852</td>
<td>-</td>
<td>25,175</td>
<td>-</td>
</tr>
<tr>
<td>Instruments based on foreign exchange:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock options</td>
<td>52,759</td>
<td>95</td>
<td>65</td>
<td>29,328</td>
</tr>
<tr>
<td>Stock futures</td>
<td>143,327</td>
<td>2,854</td>
<td>1,019</td>
<td>185,782</td>
</tr>
<tr>
<td><strong>Total instruments based on foreign exchange</strong></td>
<td><strong>196,086</strong></td>
<td><strong>2,949</strong></td>
<td><strong>1,084</strong></td>
<td><strong>215,110</strong></td>
</tr>
<tr>
<td><strong>Total derivative instruments</strong></td>
<td><strong>259,340</strong></td>
<td><strong>12,869</strong></td>
<td><strong>1,205</strong></td>
<td><strong>272,440</strong></td>
</tr>
<tr>
<td>of that total, cleared</td>
<td>37,568</td>
<td>-</td>
<td>32,175</td>
<td>-</td>
</tr>
</tbody>
</table>

The Fund had no put options written either at 31 Dec 2012 or 31 Dec 2011.

Maturity analysis

The majority of the Fund’s derivatives have a maturity of less than a year. Only a handful of foreign exchange options have a longer maturity, and of these only six contracts have a negative fair value. These are reported in the table to the right.

<table>
<thead>
<tr>
<th>Written foreign exchange options</th>
<th>Time until maturity (years)</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency pair</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AUD/USD</td>
<td>1.1</td>
<td>-1</td>
</tr>
<tr>
<td>USD/JPY</td>
<td>1.9</td>
<td>-3</td>
</tr>
<tr>
<td>USD/JPY</td>
<td>2.2</td>
<td>-3</td>
</tr>
<tr>
<td>USD/JPY</td>
<td>1.9</td>
<td>-5</td>
</tr>
<tr>
<td>USD/JPY</td>
<td>2.2</td>
<td>-9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>-26</strong></td>
</tr>
</tbody>
</table>
Note 12. Other assets

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2012</th>
<th>31 Dec 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables on unsettled</td>
<td>330</td>
<td>103</td>
</tr>
<tr>
<td>transactions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Received securities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other assets</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Total other assets</td>
<td>332</td>
<td>105</td>
</tr>
</tbody>
</table>

Note 13. Prepaid expenses and accrued income

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2012</th>
<th>31 Dec 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued interest income</td>
<td>1,876</td>
<td>2,177</td>
</tr>
<tr>
<td>Accrued dividends and repayments</td>
<td>102</td>
<td>123</td>
</tr>
<tr>
<td>Other prepaid expenses and accrued income</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Total prepaid expenses and accrued income</td>
<td>1,986</td>
<td>2,307</td>
</tr>
</tbody>
</table>

Note 14. Other liabilities

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2012</th>
<th>31 Dec 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payables</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Payables for unsettled</td>
<td>124</td>
<td>71</td>
</tr>
<tr>
<td>transactions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables for collateral</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>received</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other liabilities</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Total other liabilities</td>
<td>138</td>
<td>83</td>
</tr>
</tbody>
</table>

All liabilities have a maturity of less than a year.

Note 15. Deferred income and accrued expenses

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2012</th>
<th>31 Dec 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued interest expense</td>
<td>112</td>
<td>233</td>
</tr>
<tr>
<td>Accrued employee benefits</td>
<td>13</td>
<td>7</td>
</tr>
<tr>
<td>expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued external management</td>
<td>18</td>
<td>26</td>
</tr>
<tr>
<td>expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other accrued expenses</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Total deferred income and</td>
<td>147</td>
<td>271</td>
</tr>
<tr>
<td>accrued expenses</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

Note 16. Fund capital

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2012</th>
<th>31 Dec 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund capital, opening balance</td>
<td>209,999</td>
<td>212,836</td>
</tr>
</tbody>
</table>

Net payments to/from the pension system

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2012</th>
<th>31 Dec 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid-in pension contributions</td>
<td>55,441</td>
<td>53,895</td>
</tr>
<tr>
<td>Pension funds disbursed to the Swedish</td>
<td>-58,005</td>
<td>-54,919</td>
</tr>
<tr>
<td>Pensions Agency</td>
<td>-59,005</td>
<td>-54,919</td>
</tr>
<tr>
<td>Transfer of pension entitlements</td>
<td>-5</td>
<td>-2</td>
</tr>
<tr>
<td>Settlement of pension</td>
<td>1</td>
<td>-1</td>
</tr>
<tr>
<td>entitlements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration fee paid to the Swedish</td>
<td>-220</td>
<td>-213</td>
</tr>
<tr>
<td>Pensions Agency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total net payments to the pension system</td>
<td>-3,788</td>
<td>-1,240</td>
</tr>
</tbody>
</table>

Net contribution 1,201 1,589

Profit for the year 23,420 -1,597

Fund capital, closing balance 229,631 209,999

Note 17. Pledged assets, contingent liabilities, and commitments

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2012</th>
<th>31 Dec 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collateral pledged for AP4's liabilities and equivalent collateral:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities on loan for cash received</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other pledged assets and equivalent collateral:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities on loan for securities received</td>
<td>16,786</td>
<td>20,640</td>
</tr>
<tr>
<td>Collateral pledged for exchange-traded derivative contracts</td>
<td>1,550</td>
<td>1,423</td>
</tr>
<tr>
<td>Collateral pledged for OTC derivative contracts 2)</td>
<td>69</td>
<td>578</td>
</tr>
</tbody>
</table>

Commitments

Investment commitments for future payments for alternative and strategic investments 4,602 2,354

1) Collateral received for securities on loan totalled SEK 17,588 million (21,696).
2) Collateral received for OTC derivatives totalled SEK 12,426 million (10,205).

Note 18. Related parties

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

Note 19. Income and expense external management of unlisted shares and participations

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2012</th>
<th>31 Dec 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross income (interest income, dividends, realised and unrealised gains/losses)</td>
<td>1,261</td>
<td>1,651</td>
</tr>
<tr>
<td>Performance-based fees</td>
<td>-4</td>
<td>-</td>
</tr>
<tr>
<td>Management fees paid and posted on the balance sheet</td>
<td>-53</td>
<td>-62</td>
</tr>
<tr>
<td>Management fees paid and recognised as commission expenses</td>
<td>-3</td>
<td>-</td>
</tr>
</tbody>
</table>

Net contribution 1,201 1,589

Capital under management, fair value 9,963 8,100
Invested capital 6,784 5,635
Commitments for future investments 3,207 1,493
Note 20. Financial instruments, price and valuation hierarchy

<table>
<thead>
<tr>
<th>Fair value, SEKm</th>
<th>31 Dec 2012</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
<td>Level 3</td>
<td>Total</td>
</tr>
<tr>
<td>Financial assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares and participations</td>
<td>117,974</td>
<td>-</td>
<td>9,963</td>
<td>127,937</td>
</tr>
<tr>
<td>Bonds and other fixed income securities</td>
<td>81,281</td>
<td>11</td>
<td>5,237</td>
<td>86,530</td>
</tr>
<tr>
<td>Derivatives</td>
<td>9,897</td>
<td>2,972</td>
<td>-</td>
<td>12,869</td>
</tr>
<tr>
<td>Total financial assets</td>
<td>209,153</td>
<td>2,982</td>
<td>15,201</td>
<td>227,336</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives</td>
<td>-106</td>
<td>-1,099</td>
<td>-</td>
<td>-1,205</td>
</tr>
<tr>
<td>Total financial liabilities</td>
<td>-106</td>
<td>-1,099</td>
<td>-</td>
<td>-1,205</td>
</tr>
<tr>
<td>Net financial assets and liabilities</td>
<td>209,047</td>
<td>1,883</td>
<td>15,201</td>
<td>226,131</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fair value, SEKm</th>
<th>31 Dec 2011</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
<td>Level 3</td>
<td>Total</td>
</tr>
<tr>
<td>Financial assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares and participations</td>
<td>108,872</td>
<td>-</td>
<td>8,100</td>
<td>116,972</td>
</tr>
<tr>
<td>Bonds and other fixed income securities</td>
<td>74,651</td>
<td>1,360</td>
<td>5,544</td>
<td>81,555</td>
</tr>
<tr>
<td>Derivatives</td>
<td>9,122</td>
<td>2,459</td>
<td>-</td>
<td>11,581</td>
</tr>
<tr>
<td>Total financial assets</td>
<td>192,645</td>
<td>3,819</td>
<td>13,644</td>
<td>210,108</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives</td>
<td>-110</td>
<td>-3,283</td>
<td>-</td>
<td>-3,393</td>
</tr>
<tr>
<td>Total financial liabilities</td>
<td>-110</td>
<td>-3,283</td>
<td>-</td>
<td>-3,393</td>
</tr>
<tr>
<td>Net financial assets and liabilities</td>
<td>192,535</td>
<td>536</td>
<td>13,644</td>
<td>206,715</td>
</tr>
</tbody>
</table>

**Level 1. Instruments with publicly quoted prices**
Financial instruments traded in an active market. A market is deemed active if quoted prices are regularly updated and if the prices are used unaltered to settle trades in the market.

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

**Level 3. Valuation methods based on non-observable market data**
Financial instruments that lack an active market and for which the input data for valuation is not observable are classified as level 3.

**Changes in level 3**

<table>
<thead>
<tr>
<th>Shares and participations</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance 1 Jan 2012</td>
<td>8,100</td>
</tr>
<tr>
<td>Realised and unrealised gains (+) or losses (-) in the income statement</td>
<td>771</td>
</tr>
<tr>
<td>Purchase</td>
<td>1,393</td>
</tr>
<tr>
<td>Sale</td>
<td>-301</td>
</tr>
<tr>
<td><strong>Closing balance 31 Dec 2012</strong></td>
<td><strong>9,963</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bonds and other fixed income instruments</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance 1 Jan 2012</td>
<td>5,544</td>
</tr>
<tr>
<td>Realised and unrealised gains (+) or losses (-) in the income statement</td>
<td>-2</td>
</tr>
<tr>
<td>Purchase</td>
<td>335</td>
</tr>
<tr>
<td>Sale</td>
<td>-639</td>
</tr>
<tr>
<td><strong>Closing balance 31 Dec 2012</strong></td>
<td><strong>5,237</strong></td>
</tr>
</tbody>
</table>

Level 3 pertains mainly to investments in alternative investments and real estate. According to IFRS, a sensitivity analysis shall be presented using an alternative valuation of these assets. In terms of valuation methodology, an alternative valuation of these assets is associated with tremendous difficulties. A standard premium valuation of 10% on these assets affects the total value of the portfolio by just over SEK 1.5 billion.
Note 21. Risks

Each year, the Board of Directors adopts an investment policy, a credit policy and a risk management plan for the Fund’s operations. The investment policy describes, for instance, the Fund’s management orientation and goals in terms of return and risk. The credit policy stipulates rules and limitations regarding management of credit risk and credit risk exposure. The risk management plan clarifies the allocation of responsibility and authority for the investment operations. The risk management plan also describes the principal operational risks and how these risks shall be controlled and monitored. The principal risks are of a financial and operational nature.

Risk management

Operational risks

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

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.

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

The Fund’s legal unit is responsible for e.g. legal aspects pertaining to risk in agreements and such. The unit is also responsible for monitoring and control of employees’ own transactions in securities.

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.

The task of the unit is to ensure operational compliance with statutory investment regulations, the investment and credit policy and the risk management plan. This includes careful measurement and analysis as well as daily reporting of return and risk, in absolute terms and in relation to benchmarks. The unit is divided into a compliance function and a risk analysis function. The compliance function is responsible for complying to rules with monitoring and control of, for instance, credit risk and liquidity risk. The risk analysis function is responsible for analysis, control and reporting of chiefly market risks.

Financial risks

Market risks

Market risk is the risk of the value of an instrument changing due to variations in share prices, foreign exchange rates or market rates.

The asset management’s 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 actual portfolio risk. The risks are broken down into different investment horizons and analysed with the help of risk contribution based on the investment procedure of each mandate. Stress tests and scenario analyses are also used. Foreign exchange, fixed income, and equity risks in active management are managed by means including limitation of active risk and duration.

Risk in investment assets

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

<table>
<thead>
<tr>
<th>Management unit 1)</th>
<th>VaR ex-ante</th>
<th>Volatility %</th>
<th>Active risk %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global equities</td>
<td>4,667</td>
<td>10.8</td>
<td>0.2</td>
</tr>
<tr>
<td>Swedish equities</td>
<td>2,331</td>
<td>18.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Fixed income</td>
<td>720</td>
<td>2.6</td>
<td>0.9</td>
</tr>
<tr>
<td>Allocation 2)</td>
<td>16</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Currencies 2)</td>
<td>7</td>
<td>0.1</td>
<td>0.1</td>
</tr>
</tbody>
</table>

**Total tactically managed assets** | 6,517 | 6.7 | 0.4 |

1) All management units are appraised 100% currency-hedged except for active foreign exchange management. Thus the majority of the Fund’s currency risk is found on the “Total investment assets” line in the table above.

2) Based on total investment assets.

3) The Fund’s strategic assets, real estate, SMEs and other strategic investments partly lack asset prices quoted periodically. The Fund has therefore chosen to use listed shares in Swedish real estate companies as an approximation of the risk in its property holdings. For an approximation of the risk in SMEs, a Swedish small cap index has been used and, for other strategic assets, a combination of a Japanese equities index, a European companies index and a European high yield index has been used.

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

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

As a comparison, AP4 has also estimated VaR for the total portfolio 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. This estimation generates a result equalling just over SEK 1,510 million.
Credit risks
Credit risk consists of the risk of individual counterparties being unable to fulfil their commitments to the Fund.

AP4 has established individual counterparty limits to manage credit risks. The limits are continually monitored. Credit risk is also limited by a rule that permits investment only in securities with a rating of BBB or better. The following table summarises the Fund’s credit exposure broken down by credit rating.

### Credit risks

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

<table>
<thead>
<tr>
<th>Ratings</th>
<th>31 Dec 2011</th>
<th>Bond exposure 2)</th>
<th>Non-standard derivatives</th>
<th>Residual risk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Fair value 2)</td>
<td>Collateral/security</td>
<td></td>
</tr>
<tr>
<td>AAA</td>
<td>49,798</td>
<td>-253</td>
<td>89</td>
<td>-164</td>
</tr>
<tr>
<td>AA</td>
<td>18,980</td>
<td>8,789</td>
<td>-9,719</td>
<td>-929</td>
</tr>
<tr>
<td>A</td>
<td>6,066</td>
<td>2,265</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BBB</td>
<td>5,761</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lacks rating 1)</td>
<td>5,761</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total credit risk exposure</strong></td>
<td><strong>82,871</strong></td>
<td><strong>8,537</strong></td>
<td><strong>-9,630</strong></td>
<td><strong>-1,093</strong></td>
</tr>
</tbody>
</table>

1) Relates to subordinated debentures, bonds and shareholder loans in alternative investments and real estate.
2) Fair value, including accrued interest.

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

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

### Liquidity risk maturity structure

<table>
<thead>
<tr>
<th>Liquidity risk Maturity structure 31 Dec 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maturity</td>
</tr>
<tr>
<td>Nominal government</td>
</tr>
<tr>
<td>Nominal corporate</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liquidity risk Maturity structure 31 Dec 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maturity</td>
</tr>
<tr>
<td>Nominal government</td>
</tr>
<tr>
<td>Nominal corporate</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

All liabilities have a maturity below a year except a handful of foreign exchange options; see note 11.
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 27.7% (25.7%). The following table shows the Fund’s foreign exchange exposure.

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2012</th>
<th>USD</th>
<th>EUR</th>
<th>GBP</th>
<th>JPY</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares and participations</td>
<td>51,946</td>
<td>13,690</td>
<td>7,250</td>
<td>6,543</td>
<td>9,011</td>
<td>88,440</td>
<td></td>
</tr>
<tr>
<td>Bonds and other fixed income securities</td>
<td>23,327</td>
<td>12,315</td>
<td>10,053</td>
<td>0</td>
<td>0</td>
<td>45,695</td>
<td></td>
</tr>
<tr>
<td>Derivatives, excluding foreign exchange derivatives</td>
<td>-25</td>
<td>-29</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-53</td>
<td></td>
</tr>
<tr>
<td>Other receivables and liabilities, net</td>
<td>525</td>
<td>330</td>
<td>42</td>
<td>57</td>
<td>591</td>
<td>1,546</td>
<td></td>
</tr>
<tr>
<td>Foreign exchange derivatives</td>
<td>-32,889</td>
<td>-16,666</td>
<td>-10,475</td>
<td>-5,038</td>
<td>-6,850</td>
<td>-71,918</td>
<td></td>
</tr>
<tr>
<td><strong>Foreign exchange exposure, net</strong></td>
<td><strong>42,885</strong></td>
<td><strong>9,640</strong></td>
<td><strong>6,870</strong></td>
<td><strong>1,562</strong></td>
<td><strong>2,751</strong></td>
<td><strong>63,709</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2011</th>
<th>USD</th>
<th>EUR</th>
<th>GBP</th>
<th>JPY</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares and participations</td>
<td>47,748</td>
<td>13,924</td>
<td>6,875</td>
<td>6,321</td>
<td>8,623</td>
<td>83,491</td>
<td></td>
</tr>
<tr>
<td>Bonds and other fixed income securities</td>
<td>22,813</td>
<td>10,073</td>
<td>7,615</td>
<td>0</td>
<td>0</td>
<td>40,501</td>
<td></td>
</tr>
<tr>
<td>Derivatives, excluding foreign exchange derivatives</td>
<td>-22</td>
<td>244</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>222</td>
<td></td>
</tr>
<tr>
<td>Other receivables and liabilities, net</td>
<td>352</td>
<td>363</td>
<td>187</td>
<td>112</td>
<td>242</td>
<td>1,255</td>
<td></td>
</tr>
<tr>
<td>Foreign exchange derivatives</td>
<td>-28,566</td>
<td>-21,493</td>
<td>-7,434</td>
<td>-7,898</td>
<td>-6,109</td>
<td>-71,500</td>
<td></td>
</tr>
<tr>
<td><strong>Foreign exchange exposure, net</strong></td>
<td><strong>42,324</strong></td>
<td><strong>3,110</strong></td>
<td><strong>7,243</strong></td>
<td><strong>-1,465</strong></td>
<td><strong>2,756</strong></td>
<td><strong>53,968</strong></td>
<td></td>
</tr>
</tbody>
</table>

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

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

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

Stockholm, 19 February 2013

Monica Caneman
CHAIRMAN OF THE BOARD

Jakob Grinbaum
DEPUTY CHAIR

Ing-Marie Gren

Sven Hegelund

Stefan Lundbergh

Lena Micko

Roger Mörtvik

Erica Sjölander

Charlotte Strömberg

Mats Andersson
CHIEF EXECUTIVE OFFICER

Our auditors’ report was submitted on 19 February 2013

Jan Birgerson
AUTHORISED PUBLIC ACCOUNTANT
Appointed by the Government

Peter Strandh
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 2012. The Fund’s annual accounts are found under the headings Report of the Directors and Financial Statements, pages 39–57.

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.

Stockholm, 19 February 2013

Jan Birgeron
AUTHORISED PUBLIC ACCOUNTANT
Appointed by the Government

Peter Strandh
AUTHORISED PUBLIC ACCOUNTANT
Appointed by the Government

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 2012 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 audited and drawn up an inventory of the 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 2012.

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

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

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

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

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

Opinions
The audit has given us no reason for qualification with regard to the inventory of assets or of the administration in general.
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, Internmail AS and Schibsted Sverige ASA.

Jakob Grinbaum
Deputy Chair since 2011.
Member of the Board since 2010. Born 1949.
Senior Advisor
Other board assignments:
Board Chair: Oscar Properties Holding AB.
Member of the Board: SBAB, IK Sirius and Stiftelsen Östgötagården Uppsala.

Ing-Marie Gren
Member of the Board since 2011. Born 1951.
Professor

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

Stefan Lundbergh
Member of the Board since 2011. Born 1968.
Ph. D
Other board assignments:
Board Chair: Rotman ICPM Research Committee.

Lena Micko
Member of the Board since 2011. Born 1955.
Local Government Commissioner
Other board assignments:
Board Chair: Föreningen Svenskt Flyg.
Deputy Chair: Linköping Municipal Board and Stadshus AB.
Member of the Board: The Swedish Association of Local Authorities and Regions, SKL Företag AB, KPA Pensionservice AB and Norrköpings Hamn och Stuveri AB.

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

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

Charlotte Strömberg
Member of the Board since 2007. Born 1959.
Other board assignments:
Board Chair: Castellum AB.
Member of the Board: Skanska AB, Intrum Justitia AB, Swedbank AB and Boomerang AB.
Executive Management Committee

Mats Andersson  
Chief Executive Officer Employed by AP4 since 2006.  
Born 1954.  
B. Sc. Economics  
Previously employed by Deutsche Bank,  
AP3, Skandia Liv, and other companies.  
Other board assignments:  
Member of the Board: Rikshem AB, Svolder AB and the Association for Generally Accepted Principles in the Securities Market.

Magnus Eriksson  
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 Hemfosa fastigheter AB.

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.

Nicklas Wikström  
Head of Performance and Risk Control. Employed by AP4 since 2008.  
Born 1968.  
Master’s Accounting and Financing, CEFA, AFA  
Previously employed by AFA Försäkring and other companies.

Agneta Wilhelmson Kåremar  
Director of Administration. Employed by AP4 since 2001.  
Born 1952.  
Bachelor of Laws and DIHM Diploma in Business Finance  
Previously employed by Nordnet, Swedbank Markets and Handelsbanken.
**Glossary**

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

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

### Active return
Difference between the return on a portfolio and the return on its benchmark index. Active return is reported in the Fund’s full-year and six-month reports. The term is used synonymously with return versus index, relative return, and outperformance.

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

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

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

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

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

### Credit risk
Risk that counterparties cannot meet all or part of their obligations as a result of financial incapacity.

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

### Diversification
Diversification means the spreading of risks. In other words, assets having varying correlation with each other, thereby reducing the total risk in the portfolio.

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

### Fixed income portfolio
Consists of fixed income assets including interest rate derivatives. The foreign portion of the fixed income portfolio’s reference index is hedged in Swedish krona. 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 krona.

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

### Global equity portfolio
Consists of equities and equity-based instruments listed on stock exchanges included in the MSCI All Country Index. (Note that an equity listed on a Swedish stock exchange can be included in the global as well as the Swedish equity portfolio. At the time of purchase, the holding is assigned to the intended portfolio.) Foreign exchange derivatives are also managed in this portfolio. Reference indices were MSCI North America, MSCI Europe, MSCI Japan, MSCI Pacific ex Japan and MSCI Emerging Markets, adjusted for the Fund’s current tax rate for each market and currency-hedged to SEK. The index has been adjusted by excluding companies in accordance with the recommendations of the Ethical Council and by excluding non-US REITs.

### Hedging
Neutralisation of foreign exchange risk by changing the foreign currency exposure to Swedish krona, using foreign exchange derivatives such as foreign exchange forward contracts.

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

### Information ratio
A measure of risk-adjusted return. Measured as a portfolio’s active return in relation to its active risk. The measure describes the amount of annual additional return that has been measured in relation to the active risk taken. Values over 0.5 for individual years are considered to be a good result.

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

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

### Long position
Positive exposure to a market or type of asset. For example, a positive exposure to a foreign currency using derivatives.
Market risk
Risk of a change in the value of a financial instrument as a result of variations in equity prices, exchange rates, or interest rates.

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

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

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

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

Real return
Return minus inflation.

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

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

REITs
A Real Estate Investment Trust is an investment fund with the purpose of investing in real estate, real estate bonds or other real estate related credit.

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

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

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

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

Strategic allocation
Medium-term deviations from the normal portfolio’s asset allocation, foreign exchange exposure, duration, and so forth aimed at enhancing the returns on and risk characteristics of the strategic portfolio.

Swedish equity portfolio
Consists of equities and equity-based instruments listed on a stock exchange in Sweden or another Nordic country. The reference index was SIX 60.

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

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

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

Value at Risk (VaR)
A measure of risk that indicates the maximum loss a portfolio risks during a specific period given a certain statistical confidence level.

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

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

AP4’s Board of Directors, comprising nine ordinary members, is appointed by the Government and is responsible for the organisation and the management of AP4’s funds. On 1 June 2012, the Government appointed Sven Hegelund and Erica Sjölander new members of the Board of the Fund. They replaced Kajsa Lindståhl and Håkan Arnelid, who declined re-election.

Other members of the Board were re-elected. These were Monica Caneman, Chairman, Jakob Grinbaum, Vice Chairman, Roger Mörvtik, Ing-Marie Gren, Stefan Lundbergh, Lena Micko and Charlotte Strömberg.

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 2012 is valid until the income statement and balance sheet for 2012 are adopted. The auditors report to the Fund’s Board and to the Ministry of Finance. The Administration Report has not been examined by the Fund’s auditors.

The 2012 Administration Report can be downloaded here [Administration report](#). It is also available on the Fund’s website, [www.ap4.se](http://www.ap4.se).

Contact

If you have any questions about AP4, please contact Mats Andersson, CEO.

**Mats Andersson**  
CEO  
tel.: + 46 8 787 75 00  
E-mail: mats.a.andersson@ap4.se

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