

Administration Report 2013

AP4 overshot short- and long-term return targets. The positive outcome made a contribution of SEK 37 billion to the pension system, of which SEK 900 million was generated by the Fund's active management. Fund capital increased to SEK 260 billion.

Operations

AP4's assets comprise public funds that have statutorily been allocated to the special asset management stipulated in Chapter 9 § 8 of the Constitution. The Fund is a governmental authority whose operations are regulated by the Swedish National Pension Funds Act (2000:192). The Act entails that AP4's funds may only be utilised by the Government to finance the income-related retirement pension, unless the Riksdag (Swedish Parliament) resolves otherwise.

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.

There is a substantial difference between the AP Funds and other governmental authorities. For example, the Funds are more independent than most other authorities. The operations are governed by law and the Funds have their own Boards of Directors who bear responsibility for the operations. The Funds are reviewed by external auditors. Every year, the Government adopts the Funds' income statements and balance sheets. The Funds are also evaluated each year by assignment of the Government. This evaluation results in a written communication to the Riksdag.

AP4 is thus an authority and the Swedish Code of Corporate Governance is in many respects not applicable to the Fund because the differences between public law and company law are too large. The Administration Report has therefore been limited to the parts that can be deemed relevant for the Fund.

Board of Directors

AP4's Board of Directors shall consist of nine ordinary members without deputies. The members are appointed by the Government, of which one according to proposals from an employer organisation, and two according to proposals from employee organisations. The Government appoints the Chairman and Deputy Chairman from the members who have not been nominated by labour market parties.

Board members

On 30 May 2013, the Government prescribed that all Board members of the Fund be re-elected.

They are Monica Caneman, Chairman, Jakob Grinbaum, Deputy Chairman, Ing-Marie Gren, Sven Hegelund, Stefan Lundbergh, Lena Micko, Roger Mörtvik, Erica Sjölander and Charlotte Strömberg.

Remuneration committee

Since 2010, 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.

Risk committee

At the end of 2012, the Board established a risk committee consisting of three Board members. The committee's task is to further improve communication and understanding of the financial risks of the operations. It was established when the Board delegated an extended mandate to the strategic management.

Fees

Fees paid to Board members are determined by the Government. Full-year remuneration for the Chairman of the Board is SEK 100,000, for the Deputy Chairman SEK 75,000 and for other members SEK 50,000 each. Remuneration for the risk and remuneration committees, respectively, amounts to SEK 50,000, and is equally distributed between the three members.

The Board's mandate applies until the Fund's balance sheet and income statement for 2013 have been adopted. Members of AP4's Board are presented in more detail in the annual report and at www.ap4.se.

Rules of procedure

The Board is responsible for the Fund's organisation and management of its funds. The Board adopts rules of procedure for its work and an instruction for the CEO. These fundamental documents, as well as ethical guidelines for employees and regulations governing their transactions in financial instruments, are reviewed annually.

The work of the Board in 2013

During the financial year, the Board held six meetings at which minutes were recorded. As shown in the table below, attendance remained high, at around 89% on average. In the autumn/winter, the Board performed an evaluation of its work. At the Board meetings, the CEO attended as did employees of the Fund such as persons reporting and secretaries.

The focus of Board work in 2013 was on the implementation of the new portfolio structure and the arrangements for information and feedback pertaining thereto, and also on the work procedures of the risk committee. In addition thereto,

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matters regarding the Fund's reference portfolio (the normal portfolio) and the Fund's work on sustainability matters were highlighted and discussed.

In order to provide the Board with continuous information, the CEO usually writes an information bulletin between the Board members.

In November, the Board adopted an operational plan for the coming year, in accordance with the rules of procedure.

Fund management

The Board of AP4 has delegated responsibility of ongoing administration to the CEO of the Fund. To support him in his decision-making, the CEO has appointed an executive management committee which, at the end of 2013, consisted of four employees. The executive management committee as per 31 December 2013 is presented in the annual report, see www.ap4.se.

On 22 August 2013, Chief Investment Officer of the Fund, Magnus Eriksson, was appointed Deputy CEO.

Remuneration for employees

The Board sets the terms of employment for the CEO based on recommendations from the remuneration committee. All employees have individual employment contracts. The Board has adopted a policy for remuneration and other employment terms.

Total remuneration for an employee of AP4 consists of fixed salary, any incentive-based remuneration, pension and other benefits.

Incentive-based remuneration is only payable if AP4 posts positive total earnings for the financial year. For employees, incentive-based remuneration is payable to a maximum of two monthly salaries. It is payable when clear and measurable goals have been achieved. Incentive-based remuneration is 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 not payable to the CEO, senior executives or the compliance officer.

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, in which case they are taxable as a fringe benefit.

Information regarding remuneration levels for the CEO, executive management committee and other employees, as well as the outcome of incentive-based remuneration in 2013, is provided in detail in note 6 of the Fund's annual report. Furthermore, the Fund's work on remuneration matters is presented in the section "Remuneration at AP4" in the annual report.

Policies

AP1, AP2, AP3, and AP4, AP6 and AP7 have, since 2012, had a common policy for remuneration terms, staff benefits, entertainment and business travel, which has been adopted by the Board of each Fund. The overarching common policy is supplemented by the Fund's more detailed internal staff-related policies and guidelines.

Auditing

AP4's auditors are appointed by the Government. The current audit mandate for 2013 is held by Jan Birgeron and Peter Strandh of Ernst & Young AB. The assignment is in place until the Fund's income statement and balance sheet for 2013 have been adopted, and also involves a special mandate for Ernst & Young AB to co-ordinate the audits of the AP Funds. The auditors submit an auditors' report on their review. They report directly to the Board, partly by means of a written audit memorandum, and partly by verbal presentation. The auditors attend at least one Board meeting per year. The auditors also provide a verbal report to the Ministry of Finance annually.

Internal control

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

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

- For example, the investment policy describes the Fund's management orientation through the reference portfolio resolved by the Board (the normal portfolio), return targets and risk mandates for strategic and tactical management. This involves an overarching framework for the operations.
- 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 risks in the operations and monitoring and control thereof. The principal risks are of a financial and operational nature.

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

The financial and operational risks are monitored and controlled in an independent unit – **Performance and Risk Control**. The unit reports directly to the CEO and Board.

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The task of performance and risk control is to ensure operational compliance with statutory investment regulations, the investment policy, credit policy, the requirements of the risk management plan and other decisions by the CEO. This work includes measuring, analysing and daily reporting of return and risk, in absolute terms and in relation to benchmarks, and reporting any breaches of prevailing regulations.

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

The **compliance function** is responsible for compliance with 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.

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

Other information

In the section Risk Management and in note 20 of the Fund's 2013 annual report, a more detailed overview is provided of different financial and operational risks. The annual report is available at www.ap4.se.

BOARD MEETINGS 2013

	19 Feb	16 Apr	17 June	21–22 Aug	10 Oct	21 Nov	Fee received, SEK '000
Monica Caneman, Chairman ¹⁾	x	x	x	x	x	x	117
Jakob Grinbaum, Deputy Chairman ²⁾	x	x	x	x	x	x	91
Ing-Marie Gren, member of the Board ²⁾	x	x	x	x	x	x	67
Stefan Lundbergh, member of the Board ²⁾	x	x	x	-	x	x	67
Lena Micko, member of the Board	x	x	x	-	x	x	50
Roger Mörtvik, member of the Board ¹⁾	x	x	x	x	x	x	67
Charlotte Strömberg, member of the Board ¹⁾	x	x	x	x	x	x	67
Sven Hegelund, member of the Board	-	-	x	x	-	x	50
Erica Sjölander, member of the Board	x	-	x	x	x	x	50

1) The fee received includes the fee from the remuneration committee.

2) The fee received includes the fee from the risk committee.