

Interim Report 2019

AP4's mission is to contribute to the financial security of current and future pensioners in Sweden by managing part of the national pension system's buffer capital.



Strong return in continued turbulent market

With a return of 13.0% after costs, total fund capital increased to SEK 391.4 billion at the end of the first half of 2019. The portfolio's active return during the first half of the year exceeded AP4's benchmark portfolio by 1.7 percentage points. The half-year result amounted to SEK 45.2 billion. A net total of SEK 3.0 billion was paid out to the pension system during the first half of the year. Adjusted to a full-year basis, total costs amounted to 0.10% of average assets under management. Currency exposure at the end of the period was 17.6% of fund capital.

AP4 has taken active ownership responsibility by voting at the Annual General Meetings of 80 Swedish and 872 foreign companies during the first half of the year. Ahead of the 2019 AGM season AP4 participated on 39 nomination committees.

391

SEK billion in fund capital

13.0%

return after costs

1.7%

active return

45

SEK billion half-year result

3

SEK billion paid out to the pension system

0.10%

in management costs

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This half-year report has been prepared in accordance with the accounting and valuation principles jointly adopted by the AP Funds. These are described in AP4's 2018 Annual Report. Unless specifically indicated, the same accounting principles and calculation methods have been used as for the 2018 Annual Report.

The figures in the half-year report's tables and charts have been rounded separately, which is why their sum does not always exactly match their constituent parts.

Figures in parentheses refer to the first half of 2018 unless indicated otherwise.

This half-year report has not been reviewed by AP4's auditors.

No significant events have taken place after the end of the reporting period.

AP4's annual report for the 2019 financial year will be published in February 2020.

Strong stock market and active management result contributed to high return

The return of the first half of 2019 after costs was **13.0%**. Key contributors to the return were the substantial exposure to equities – both globally and in Sweden – while fixed income investments and real assets also generated favourable returns during the first half of the year. Active management made a continued significant return contribution of 1.7 percentage points to the portfolio's return. AP4's currency exposure contributed 1.1 percentage points to the return due to the continued weakening of the Swedish krona during the first half of the year.

Asset class	Market value, SEK bn	Portfolio return, %	Exposure ¹ , %
Global equities	156.6	14.5	40.0
Swedish equities	61.3	26.3	15.7
Global fixed income	82.4	4.0	21.0
Swedish fixed income	45.4	2.5	11.6
Real assets	45.3	7.1	11.6
Other assets	0.5	0.1	0.1
Currencies	0.0	1.1	0.0
TOTAL INVESTMENTS	391.5	13.0	100.0

¹ Includes underlying assets' exposure from derivatives in the asset classes global equities, Swedish equities, global fixed income investments and Swedish fixed income investments.

² The market valuations of AP4's unlisted property holdings are based mainly on reporting for the first quarter.

AP4 is exceeding its return targets

AP4's long-term return exceeds both the inflation-adjusted return target and the performance of the income index. AP4's return since the Fund's start in 2001 has averaged 6.3% per year, compared with the required real rate of return (adjusted for inflation), which averaged 5.8% per year during the same period of time. AP4's return also exceeds the performance of the income index, which has averaged 2.9% per year. AP4 has thereby contributed to the funding and stability of the country's pension system.



¹ The performance of the income index is a simplification, where the performance over a full year has been distributed equally over the respective half years.

Continued strong active return

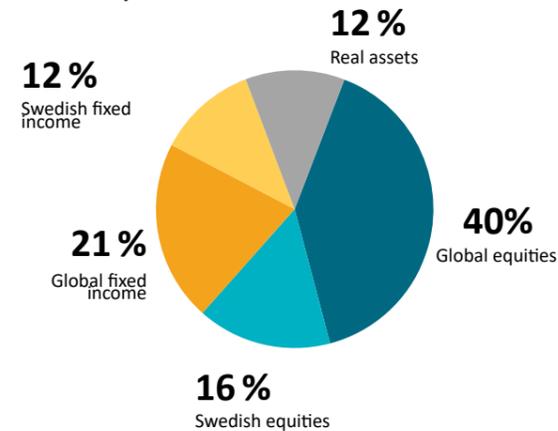
AP4's portfolio return exceeded the performance of the benchmark portfolio by 1.7 percentage points. This corresponds to value added of SEK 5.8 billion in the asset management for the first half of the year. AP4's asset management contributed broadly to the positive active management result for the first half of the

year, with the main contributions coming from Swedish equities management, global fixed income asset management and real assets, which consist mainly of real estate investments.

Long-term perspective warrants substantial equities allocation

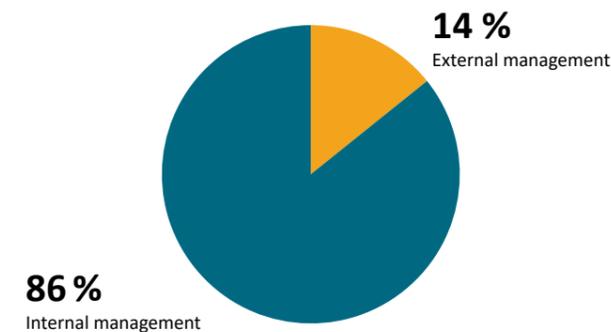
AP4's long-term assignment and a higher expected return for equities compared to other asset classes warrants a higher equities allocation, despite the relatively higher risks. Substantial exposure to Swedish equities and fixed income investments is warranted by an anticipated higher return relative to many other markets as well as by favourable opportunities for AP4 to generate excess returns through active management and lower currency hedging costs.

A diversified portfolio



Reduced share of external management

At the end of the first half of 2019, 86% of assets were managed internally and 14% were managed externally, compared with 16% under external management at the start of the year. AP4 manages assets internally when an aggregate assessment shows that internal management can achieve equal or better returns after costs. The legal requirement that a minimum of 10% of the portfolio must be managed externally was eliminated in connection with the changed rules for the AP Funds, which took effect on 1 January 2019.



Government's evaluation for 2018 positive

The government's annual evaluation of the AP Funds for 2018 affirms that AP1-AP4 achieved their long-term return targets and made a positive contribution to the funding of the income pension system. The government also commended the work with sustainability that has been conducted among AP1-AP4 ahead of the new legal requirement for exemplary management that took effect on 1 January 2019. Further, the government noted the generally closer cooperation between AP1-AP4 and that AP7 has now also joined this cooperation.

Continued net payments to the pension system

AP4's net payment to the pension system during the first half of 2019 amounted to SEK 3.0 billion.

Since 2009, when net disbursements from the pension system were begun, through the first half of 2019, AP4 have paid out a combined total of SEK 53.7 billion to the pension system. These disbursements have been made mainly as a result of demographic factors, such as the generationally large number of people who are now pensioners. The pension system is designed to withstand this, and net disbursements from the AP Funds are expected to continue until around 2040.

Certain other changes in investment rules for the AP Funds

During the spring the government circulated a memorandum for feedback regarding certain other changes in the AP Funds' investment rules. AP4 has submitted a statement in response to this memorandum recommending greater flexibility with respect to illiquid investments compared to what is proposed in the memorandum.

Henrik Rättzén new board member

During the spring of 2019 the government appointed Henrik Rättzén as a new director on AP4's board. He replaces Stefan Lundbergh, who left the Board after eight years of service.



Letter from the CEO

Strong market performance, but concerns remain

The fourth quarter of 2018 was characterised by strong market concerns and falling asset prices. The growing concern and pessimism was the result of an unfortunate combination of mounting fears for a sharp slowdown of the global economy, concerns about more restrictive monetary policies among the world's central banks, a feared escalation of trade conflicts and anxiety over significantly falling corporate earnings.

In strong contrast to this, in early 2019 these worries abated step by step. One by one, each of the concerns that had overshadowed the markets toward the end of 2018 dissipated. Only a few weeks into January the US Federal Reserve Bank completely reversed its position with a significantly changed message on

the market movements in 2018 and start of 2019. And these uncertainties still essentially remain, which means that we can expect a market with periodically large movements also during the remainder of 2019.

Strong portfolio return for AP4

During the first half of 2019 AP4's portfolio generated a return of 13.0% after costs. A large share of the return is attributable to AP4's allocation to equities and real assets. Our allocation to fixed income instruments also made a significant contribution to the absolute return during the first six months of the year due to the sharply falling interest rates.

The return during the first half of 2019 was the highest return that AP4 has had for a single first half-year since the start of the new pension system in 2001. This is of course very gratifying, but it illustrates perhaps above all the volatile market environment that we currently find ourselves in. Measured since the start of 2018, the return has averaged 8.3% per year, but as the illustration below shows, the return has shown both ups and downs. This also clearly underscores the fact that evaluation of a pension fund must be done over a long period of time in order to be meaningful.

"The return during the first half of 2019 was the highest return that AP4 has had for a single first half-year since the start of the new pension system in 2001."

future monetary policy. Trade negotiations also developed in a positive direction at the same time that the year's first reporting period overall gave encouraging signs about corporate performance. All in all this helped reduce concerns over global growth, leading to greater optimism and strong performance for the financial markets, with rising share prices and falling interest rates.

The markets have thereafter more or less moved sideways, with relatively large fluctuations depending on the change in sentiment regarding the areas of concern that characterised



Key ratios for AP4's operations	June 30, 2019	June 30, 2018	2018
Fund capital at end of period, SEK bn	391.4	366.9	349.3
Net result for the period, SEK bn	45.2	13.7	-0.5
Net disbursements to pension system, SEK bn	-3.0	-3.3	-6.8
Fund capital at beginning of period, SEK bn	349.3	356.6	356.6
Asset management costs, operating expenses, %	0.06	0.06	0.06
Asset management costs, commission expenses, %	0.04	0.04	0.04
Total asset management costs, %	0.10	0.10	0.10
Return, total portfolio, before costs, %	13.0	3.9	-0.1
Return, total portfolio, after costs, % ¹	13.0	3.8	-0.2
Real return on total portfolio, net of asset management costs, % ²	11.7	2.9	-2.2
Annualized total return after asset management costs, average 5 years, %	9.3	11.0	8.1
Annualized total return after asset management costs, average 10 years, %	10.4	8.7	9.9
Real annualized return after asset management costs, 10 years, % ¹	9.1	7.8	8.7

¹ The return after costs for 2019 is correctly rounded to 13.0 percent as the management cost share for the period amounts to just under 0.05 percent.

² The KPI for June 2019 is an estimate, since this figure was not yet available at the time of publication of this report.



The active return from our asset management, i.e., the return in excess of AP4's reference portfolio, has remained strong and was 1.7 percentage points for the first half of the year. The positive profit contribution was thus SEK 5.8 billion. With this I can proudly say that AP4 has extended the already long period of positive, active returns that we have historically shown. Moreover, this further underscores the value of broad and high-quality active management that AP4 conducts.

Continued development work

The work on identifying investment themes in sustainability is continuing with good momentum. The aim of this work is to allow us to identify investments that can generate favourable returns while contributing to the shift to a sustainable society. The major challenge is not in finding the overarching areas in which changes are taking place or need to be made, but rather first in ensuring that the analysis reaches such a level of detail that it becomes possible to understand the often highly complex interconnections that allow us to distinguish value chains or parts of value chains that are of interest from an investment perspective. After this, secondarily it is often not unproblematic to find investment opportunities that offer the desired exposure, and often the most interesting opportunities can be found in the unlisted market.

"The AP Funds should be given expanded opportunities for direct investments in unlisted assets such as co-investments and side investments."

We have also continued to develop our organisation and competence surrounding illiquid and unlisted investments. This is an important area for AP4 in order to be able to further enhance the return potential and robustness of our investment portfolio. As I mentioned above, often the most interesting sustainable investment opportunities are found in the unlisted part of the market.

An exciting and promising example of such a sustainable and unlisted investment that AP4 made during the first half of the year is Meridiam Infrastructure Africa Fund, which focuses on infrastructure investments in renewable energy, the environment and transport in selected countries in Africa. The fund thus aims to contribute to societal development and the build-up of sustainable infrastructure and is expected to generate a favourable return for AP4.

Important changes in the AP Funds' investment rules

A memorandum regarding the second step in the modernisation of the AP Funds' investment guidelines has been sent out for a circulation review. The memorandum mainly addresses the way in which the AP Funds will be allowed to invest in illiquid assets. The stated purpose of the legislative change is first to give the AP Funds the best possible conditions to increase cost effectiveness, return potential and long-term perspective regarding investments in illiquid assets, and second to give the AP Funds equal conditions as other, comparable institutional investors.

Unfortunately, the proposals set forth in the memorandum entail continued significant limitations for the AP Funds on investments in illiquid assets. Thus the conditions for achieving the purpose of the legislative change would not be achieved. We have therefore in our response to the memorandum's review once again asserted that the AP Funds should be given expanded opportunities for direct investments in unlisted assets such as co-investments and side investments in unlisted companies, investments in unlisted infrastructure companies, and investments in unlisted credits.

This would complement the first step of the changed rules that took effect at the start of the year and also enable long-term and cost-effective unlisted investments with the same conditions that apply for other large pension funds. It is urgent to now create a

set of rules that give the AP Funds sufficient flexibility to be able to operate in a rapidly changing financial market for many years into the future.

In closing I want to thank all of AP4's employees, who in their various roles together have contributed in part to the very strong asset management result and in part to our work on continuously developing our operations so that we can perform our important mission in the Swedish national pension system in the best way possible.

Stockholm, 12 July 2019

Niklas Ekvall, CEO

Sustainability

Together with AP1–AP3, AP4 participated in a number of sustainability engagements during the first half of 2019 through the Council on Ethics of the AP Funds and other international pension funds.

International investment collaboration focusing on safety surrounding tailings dams

Following the collapse of the Vale tailings dam in Brumadinho in January 2019 and its tragic consequences entailing the loss of life, impact on the local economy and devastating environmental damage, the Council on Ethics – together with the Church of England’s pension fund and investors around the world – initiated a collaboration and are putting demands on and working for safety improvements at tailings dams at mines. Demands have been raised for the creation of an accessible, global, public database of all tailings dams worldwide, which could be used by communities, governments, civil organisations and investors. Letters have been sent to 680 mining companies urging them to publish technical information for every tailings dam that they own or are part-owners of. The investors, where the Council on Ethics and the Church of England’s pension fund are PRI’s (the Principles for Responsible Investments) representatives in an international working group, are also working for the creation of a global safety standard for tailings dams used at mines. Such a standard would help ensure that such dam accidents do not occur in the future.

Investor initiatives for publication responsibility for social platforms

AP4 and the Council on Ethics of the AP Funds are supporting an investor initiative that would require Facebook, Alphabet (Google) and Twitter to take greater responsibility for protecting their users and society regarding what is published and spread via their respective social platforms. This initiative was sparked after the tragedy in Christchurch, New Zealand, in March 2019. The initiative supports the Council on Ethics’ ongoing dialogues with these companies regarding their security systems surrounding the processing of personal data.

AP4 has taken active ownership responsibility

AP4 has taken active ownership responsibility by voting at the Annual General meetings of 80 Swedish and 872 foreign companies during the first half of the year. Ahead of the 2019 AGM season, AP4 participated on the nomination committees of 39 Swedish companies.

Ensuring that companies have the best possible boards that are suited for their respective, unique needs is one of AP4’s most important tasks as an owner. AP4 is a strong advocate of greater diversity on company boards, as this creates better conditions for value creation. For example, for a number of years now AP4 has been a driver of the demand that at least one person of each gender should be on the short list of nominations for new board members.



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Income statement

SEK million	Jan-Jun 2019	Jan-Jun 2018	2018
OPERATING INCOME			
Net interest income ¹	1 084	945	1 978
Dividends received	4 299	4 387	6 583
Net income, listed shares and participations	30 139	4 100	-11 862
Net income, unlisted shares and participations	162	823	4 976
Net income, fixed income assets	3 684	-487	-566
Net income, derivative instruments ¹	1 708	-1 312	-4 484
Nett income/loss, changes in exchange rates	4 256	5 374	3 196
Commission expenses	-66	-71	-135
Total operating income	45 266	13 759	-314
OPERATING EXPENSES			
Personnel costs	-66	-63	-126
Other administrative expenses	-47	-41	-85
Total operating expenses	-113	-104	-211
NET RESULTS FOR THE PERIOD	45 153	13 655	-525

Balance statement

SEK million	Jan-Jun 2019	June 30, 2018	December 31, 2018
ASSETS			
Shares and participations, listed	228 018	217 940	190 635
Shares and participations, unlisted ¹	37 258	31 582	36 077
Bonds and other fixed income assets	118 210	120 264	115 163
Derivative instruments	3 479	1 519	4 806
Cash and cash equivalents	3 767	4 083	3 484
Other assets	1 885	277	1 020
Prepaid expenses and accrued income	1 270	1 258	1 338
TOTAL ASSETS	393 887	376 923	352 523
LIABILITIES AND FUND CAPITAL			
LIABILITIES			
Derivative instruments	1 245	8 757	1 659
Other liabilities	622	540	487
Prepaid income and accrued expenses	595	682	1 065
Total liabilities	2 462	9 979	3 211
FUND CAPITAL			
Fund capital, opening balance	349 312	356 609	356 609
Net payment to the pension system	-3 040	-3 320	-6 772
Net result for the period	45 153	13 655	-525
Total fund capital	391 425	366 944	349 312
TOTAL LIABILITIES AND FUND CAPITAL	393 887	376 923	352 523

¹ The market valuations of AP4's unlisted property holdings are based mainly on reporting for the first quarter.

Multi-year summary

Key ratios	June 30, 2019	2018	2017	2016	2015
FUND CAPITAL, FLOWS AND RESULT, SEK BILLION					
Fund capital	391.4	349.3	356.6	333.9	310.0
Net flows to the pension system	-3.0	-6.8	-7.4	-6.6	-4.9
Net result for the period	45.2	-0.5	30.1	30.5	20.1
RETURN, %					
Return, total portfolio before costs	13.0	-0.1	9.2	10.1	6.9
Return, total portfolio after costs ¹	13.0	-0.2	9.1	10.0	6.8
Return, total portfolio after costs, annualised 5 yrs	9.3	8.1	11.5	12.0	9.7
Return, total portfolio after costs, annualised 10 yrs	10.4	9.9	7.3	6.7	6.7
OPERATING EXPENSE RATIO AS % OF AuM (ANNUALISED)					
Operating expenses	0.06	0.06	0.06	0.06	0.06
Operating expenses and commission expenses	0.10	0.10	0.10	0.10	0.11
RISK, %²					
Standard deviation ex-post, Total portfolio	5.3	6.4	4.1	7.3	8.8
Standard deviation ex-post, Liquid portfolio ³	5.9	7.0	4.5	7.8	9.4
Standard deviation ex-post, Liquid portfolio, 10 yrs ⁴	6.9	7.5	8.6	8.8	9.0
Sharpe ratio, total portfolio ex-post	5.3	0.1	2.5	1.5	0.8
Sharpe ratio, liquidity portfolio ex-post ³	5.2	neg	2.0	1.2	0.6

¹ The return after costs for 2019 is correctly rounded to 13.0 percent as the management cost share for the period amounts to just under 0.05 percent.

² Refers to return data, unless otherwise indicated.

³ Refers to liquid assets excluding unlisted real estate, private equity funds and high-yield fixed income assets.

⁴ Refers to quarterly data for total assets.

Other key ratios, as per closing date	June 30, 2019	2018	2017	2016	2015
Active return, strategic management before costs, % ^{1, 2}	1.7	2.3	-1.1	1.0	4.8
Inflation, % ³	1.2	2.0	1.7	1.7	0.1
Real return after costs, % ³	11.7	-2.3	7.4	8.3	6.8
Active risk ex-post, active management, % ⁴	0.9	1.5	1.7	2.7	2.8
Currency exposure, %	17.6	18.4	18.4	26.9	27.0
Proportion external management incl. Investments in private equity companies, % ⁵	14.2	16.2	17.0	22.7	22.4
Number of employees on balance sheet date	62	54	53	54	55
ALLOCATION OF INVESTMENT ASSETS, %^{6, 7}					
Global equities	40.0	38.9	40.8	40.2	39.4
Swedish equities	15.7	14.6	16.6	17.6	17.8
Global fixed income	21.0	22.0	21.1	22.7	20.5
Swedish fixed income	11.6	12.2	11.6	10.6	14.5
Real assets	11.6	12.1	9.6	8.6	7.3
Other	0.1	0.3	0.3	0.3	0.5
TOTAL INVESTMENT ASSETS, %	100.0	100.0	100.0	100.0	100.0

¹ The Fund's operative portfolio is evaluated against a reference portfolio made up of a number of market indexes with set asset weights. In connection with the adoption of a new asset management structure in 2018, the reference portfolio's market index, which was previously adjusted for the Fund's tax status, ethical aspects through exclusion of companies, and exclusions of non-US REITs, has been updated with a standardised index hedged to SEK in order to simplify and increase transparency. For the first half of 2019 the contribution from the Fund's active utilisation of its tax status as a state-owned pension fund was 0.12 percentage points.

² Active return, calculated as the difference in return between the operative portfolio and the reference portfolio.

³ The KPI for June 2019 is an estimate, since this figure was not yet available at the time of this report's publication.

⁴ Active risk, calculated as standard deviation, measured on an annualised basis, in the difference between the operative portfolio and the reference portfolio.

⁵ Wholly or partly owned property companies are reported as internally managed.

⁶ Refers to exposure, where the underlying assets' exposures from derivatives in the asset classes global equities, Swedish equities, global fixed income investments and Swedish fixed income investments are included.

⁷ In connection with a new asset management structure, minor changes have been made in the asset classes as well as in the assets in the respective asset classes. "Other" includes mainly non-capital mandates. For comparison purposes, previous years' figures are presented in accordance with the new asset management structure.

⁸ The market valuations of AP4's unlisted property holdings are based mainly on reporting for the first quarter.



AP4's long-term perspective, responsibility as owner and great commitment to sustainability create opportunities for high returns at a low cost. In this way AP4 works for more secure pensions.