

2022

Extract from Annual Report

Key ratios

460.5

SEK billion in fund capital
at year-end 2022.

-62.5

SEK billion in
net result for 2022.

4.7

SEK billion, net,
transferred from AP4 to the
pension system in 2022.

7.4

SEK billion in new
thematic sustainability
investments in 2022.

-11.9

% return after costs.
Over a ten-year
measurement horizon,
the return has averaged
9.2% per year.

-3.8

% active return. Over a
five-year measurement
horizon, the active return
has averaged 1.5% per year.

0.08

% in total costs in 2022.
Operating expenses
amounted to 0.05%, and
commission expenses
amounted to 0.03%.

3

% lower carbon footprint
in 2022 than in 2021.
Since 2010 the portfolio's
carbon footprint has
decreased by 61%.

A dramatic year that entailed major financial turbulence

We entered 2022 with hopes for a successive return to a more normal world after two years that were strongly characterised by the pandemic. Unfortunately, these hopes were abruptly taken away from us on 24 February with Russia's full scale invasion of Ukraine.

What we must mainly bear with us is the enormous human suffering that Russia's war on Ukraine has inflicted on the Ukrainian people. Also owing to the war, the global economy was not able to begin a well-needed normalisation following the pandemic; on the contrary, we have seen a marked deepening of several of the problems that the economy was already facing. The consequence is that many countries are now having to deal with macroeconomic challenges of a kind that we have not experienced since the 1970s, through the problematic combination of more or less rampant inflation at the same time that economic growth is flattening.

The financial market's performance is a reflection of what is happening in the world, and the year's dramatic events have consequently given rise to considerable financial turbulence,

with rapidly rising interest rates and sharply falling values for most asset classes. There have been very few places "to hide", which means that 2022 will thus go down in history as one of the most troublesome years ever for broadly diversified pension funds of our type.

AP4's return for 2022 was negative, at -11.9%. This means that in terms of the return, 2022 was the third toughest year for AP4 since the start of the new pension system in 2001. Only 2002, the year of the IT crash, and 2008, the year of the financial crisis, have shown lower returns.

In this context, two things should be kept in mind, however. First, AP4 needs a relatively high share of equities in its asset allocation to best fulfil its mission over the long term as a buffer fund in the income pension system. This means that we also need to be prepared for the

possibility of having comparatively volatility in our result from one year to another, and also to have an acceptance for large, negative results in individual years.

Secondly, AP4 is a very long-term investor that has the ability to bear investment risk in the form of a high equities allocation. Measured over a slightly longer time perspective, to include 2021, AP4's portfolio has generated a positive result of more than SEK 23 billion. Measured over an even longer time horizon, five and ten years, which are more relevant for a long-term investor like AP4, we report favourable portfolio returns of 6.9% and 9.2% per year, respectively.

Active management with long-term perspective

With the type of extraordinary and very uncertain markets that we experienced in 2022, it is of central importance that AP4

manages to maintain a long-term perspective. Having said this, it is equally important to uphold the asset management organisation's flexibility to be able to quickly adapt the portfolio's risk to changed conditions. AP4 has also made significant adaptations of the investment portfolio. .

In fact, this adaptation work was already begun prior to 2022, since for several years we have been working according to a main economic scenario that has entailed a normalisation of interest rate levels and a structurally elevated risk for higher inflation. In short it can be said that the ambition has been to try to maintain the portfolio's return potential as much as possible at the same time that we have strengthened our protection against a normalisation of bond pricing as well as rising inflation. A prime example of the adaptation of our



In very uncertain markets it is important to have the determination to maintain a long-term perspective.

Niklas Ekvall, CEO

portfolio is that we have actively sought and have significantly increased the characteristics in our portfolio of investments with long-term reasonable, stable real cash flows.

Another good example is that, prior to 2022, we introduced a new asset class in AP4's long-term allocation, which we call Defensive equities. More precisely, this asset class is a category of equities that is specially designed to have comparatively favourable qualities in a somewhat tougher economic environment of the character that now exists in our main economic scenario.

The adaptations that we have made of our investment portfolio over the long term have strengthened its robustness against certain characteristics of what happened in 2022. However, it is also the case, of course, that the past year's major turbulence, spread across a number of distinct phases, continuously required a number of significant adjustments of the portfolio. So, for example, we entered 2022 with an overweight of equities which we sharply reduced in a first step in January and in a second step in connection with the outbreak of war, to thereafter actively manage the allocation toward equities in order to parry and try to capitalise on the year's very

large market movements.

During the year we also continued to strengthen the portfolio's characteristics in relation to the economic development by further increasing the allocation to defensive equities and real assets, but additionally also to quality and value companies. In addition, the large, relative price changes between various assets classes during the year presented interesting opportunities to work actively with our currency positioning as well as with the duration of our fixed income portfolio.

Backlash for the climate transition, but with positive undertone

The steps taken in connection with the Climate Change Conference in Glasgow in November 2021 (COP26) gave some hope that the transition work would accelerate in a tangible way and gain considerable momentum in the following years. Unfortunately, 2022 could not live up to this cautiously budding optimism.

The Russian invasion of Ukraine exposed in a concrete way the vulnerability of the European energy system and the fact that many European countries' transition plans were based on unrealistic assumptions. Rather than future-oriented work, the focus during the past year was instead



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on "fixing and patching" the existing energy system in an effort to avoid a total energy collapse. Unfortunately, this has entailed an increased use of, from a climate perspective, worse fossil energy sources than Russian gas, and to some extent also a reversal of previous decisions coupled to the energy transition. All the worse, the climate summit in Sharm el-Sheikh in November 2022 (COP27) must also be regarded as a failure, as most of the discussions during the meeting focused on roadblocks and areas of conflict rather than on finding constructive paths forward to accelerate the necessary climate transition.

Despite the setbacks that we saw in 2022, I nonetheless feel some optimism that the transition going forward will experience renewed vigour. One reason for this is that the realisation in business and the financial sector of the necessity to drive the climate adaptation further

strengthened and became broader during the past year.

Nor are positive signals from the political system lacking. The short-term consequences of the war on Ukraine have thus far been negative, but hopefully the new situation can lead to greater political agreement and realistic consensus which in the next step can accelerate the work on transitioning to a future, fossil-free energy system. In this context I want to point to the gradually increased political understanding of the enormous amount of fossil-free electricity that needs to be produced, stored and distributed in a relatively very near future. The mere ability to quickly and vastly increase the supply and accessibility of fossil-free electricity constitutes the actual precondition for being able to achieve the ambitious and necessary climate goals, and at the same time be able to maintain a satisfactory standard of living to make the transition socially acceptable and thereby also politically feasible.

European Pension Fund of the Year

In addition to handling the day-to-day management of our portfolio in difficult conditions, we also continued to strengthen our operations in very many areas. The fact that our thorough work and

ambition to continuously develop our operations is generating results has been confirmed in an equally tangible and gratifying way in that in 2022 we received the most prestigious award as European Pension Fund of the Year in the award ceremony that is held every year by Investment & Pensions Europe (IPE). This and all the other distinguished awards that we have received over the years give us inspiration and motivation to tirelessly continue developing in order to uphold our position as an internationally leading pension fund.

In closing I want to express great thanks to all of the employees at AP4 for the responsibility you have shown, for your commitment, and for the dedication of purpose with which you have handled your work challenges during the year.

Stockholm, 23 February 2023

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