

AD

2023

Extract from Annual Report

The Year 2023

499.6

SEK billion in fund capital.

43.9

SEK billion in net result.

4.8

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

7.6

SEK billion in new thematic sustainability investments. Since 2020, SEK 36.8 billion has been invested on the basis of sustainability themes.

9.6%

return after costs. Over a ten-year measurement horizon, the return has averaged 8.5% per year.

-3.4%

active return. Over a five-year measurement horizon, the active return has averaged 0.3% per year.

0.08%

in total costs. Operating expenses amounted to 0.06% and commission expenses amounted to 0.02%.

11%

lower carbon footprint in 2023. Since 2010 the portfolio's carbon footprint has decreased by 65%.

56

nomination committees AP4 has worked in at listed Swedish companies.

1,347

annual general meetings of Swedish and foreign listed companies at which AP4 has voted.



“
Since its start in 1974, AP4 has delivered an average annual return of 13 per cent over 50 years, which is something that gives us great pride.”
Niklas Ekvall, CEO

Good return in uncertain times

AP4 reports a good return for the full year 2023 of 9.6 per cent after costs. With a net result of SEK 43.9 billion, the fund capital increased to SEK 499.6 billion at year-end. Taking into account net payments from AP4 to the pension system over the past two years of SEK 9.5 billion, this means that AP4 has now largely recovered the fall in value from the very weak year of 2022.

A varied year and ongoing global turmoil

Following a very weak performance in 2022, the year began with a certain amount of optimism in the financial markets. Combined with an even stronger finish to the year, this meant that, overall, 2023 was a year of good returns in many financial assets. In the meantime, however, the unpredictable global situation led to major fluctuations in the global equity markets, and perhaps to an even greater extent on the fixed income and currency markets.

Although the year has generally seen a fall in the high rate of inflation, central banks are still facing a difficult balancing act between trying to avoid recession on the one hand and the need to contain and moreover stabilise inflation on the other. We are also seeing growing geopolitical tensions and conflicts of interest, and when

it comes to conflicts resulting in great human suffering, we must now sadly add the attack by Hamas on Israel and the subsequent military intervention in Gaza to Russia's invasion of Ukraine. This reflects a world that appears to be increasingly polarised, putting even greater focus on the many important elections taking place over the next few years, prominent among which are the upcoming US presidential elections.

Taking the above uncertainty and everything that is happening in the world around us into account in our everyday work as a pension fund manager, our conclusion is that 2024 is highly likely to be another intense year.

The importance of a robust portfolio

One important lesson learned from the uncertain economic situation and the major fluctuations in

the financial markets in recent years is the importance of taking a long-term view with the aim of building up a robust and diversified portfolio. The key to establishing a well-diversified portfolio is not the number of assets in the portfolio, but realising that diversification is achieved by the assets in the portfolio each having fundamentally different characteristics. On the one hand, this means that a good level of diversification can be achieved with relatively few assets. On the other, it also means that a portfolio with a large number of assets, which at first glance looks highly diversified, may contain significant concentration risks. This is something I believe many investors have also realised, at their own great expense, during the turbulence of recent years.

As a basis for our strategic allocation, AP4 uses long-term economic scenario analysis, and we

have been working for several years to gradually adapt and improve the portfolio based on this approach. Our aim is to maintain the portfolio's return potential as much as possible while also offering better characteristics, even in the more negative scenarios that we have identified in our economic analysis.

This year's significant movements in the financial markets have provided several good opportunities to make more tactical reallocations in the investment portfolio, as the pricing of financial assets has sometimes deviated considerably from the levels that we believe are justified in the longer term. The good return delivered by our portfolio is of course a result of the favourable financial markets and the ongoing management work during the year, but the good outcome is also due, to a significant extent, to the work we have done over many years to continuously improve the portfolio's return and risk characteristics.

A successful half-century

AP4 was founded in 1974 and can now look back on a successful half-century in the service of Swedish pensioners. Until the 2001 pension reform, AP4 was in principle dedicated to asset management in Swedish equities and at times was the single

largest institutional investor on the Stockholm Stock Exchange.

Since 2001, AP4 has established a successful global management business in virtually all asset classes. Our strong and extensive history of managing Swedish equities remains very much alive in our culture, however, we contributed to a strong focus on corporate governance and on being a driving force to establish good



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rules, ethics and conduct in the Swedish stock market.

Since its start in 1974, AP4 has delivered an average annual return of 13 per cent, which is something that gives us great pride. We are also proud of our sustainability work and how it has been developed over time. I can say without any doubt that for many years AP4 has been an international role model when it comes to integrating sustainability

into the investment process. A more detailed description of AP4's first 50 years and the milestones reached along the way can be found in the Annual Report 2023 which will be available at our website in the beginning of March.

COP28 – just a lot of talk?

There was plenty of scepticism ahead of the UN's COP28 climate summit hosted by oil-producing nation Dubai. The reasons for this included the overall failure of COP27 and the appointment of the CEO of UAE oil company Adnoc as president of the summit. For a long time, COP28 also looked like being a major disappointment. However, a last-minute agreement was reached to include the words "transitioning away from fossil fuels" in the 11,000-page final document. This generated optimism as it was the first time after thirty years of negotiations at climate summits that it had been possible to agree to explicitly state the need to transition away from fossil fuels in order to enable a successful climate transition.

Despite this success, however, COP28 still left a lot to be desired in terms of specific actions. One positive aspect was the strong and growing commitment to the climate transition from the business

and financial sectors. Another positive aspect is the increased understanding among politicians and industry alike of the need for rapid change to the current energy system. Over the coming decades, access to fossil-free electricity needs to be expanded severalfold in order to meet the ambitious but necessary climate targets of the Paris Agreement, while at the same time maintaining a satisfactory standard of living to make the transition socially acceptable and thereby also politically feasible. It is therefore pleasing to see that several important commitments were also made at COP28 to significantly increase the supply of fossil-free energy.

Death of the Chair of the Board, Britta Bureau

In September, Britta Bureau, Chair of the Board, passed away too soon, following a short illness. Britta became Chair of AP4 in 2021. I knew Britta personally for much longer than that, as we were colleagues in the financial sector in various ways for many years. In that time, I came to appreciate Britta more and more as a person, particularly her great courage and positive energy.

Britta made a very significant contribution to the development and success of AP4. For that

I would like to thank Britta personally and also on behalf of the Board and employees of AP4, as well as the entire Swedish public pension system.

I would also like to take a moment to thank all the members of the Board of AP4. You are always a great source of support, and this was particularly evident on Britta's death.

Awards for AP4

The year has certainly brought its challenges at times, but my main feeling as an employee of AP4 is that we have a lot to be pleased about. One reason for this is that we have managed to advance our positions in many key areas. I would particularly like to highlight the successful procurement of portfolio systems that was concluded in the autumn. Much work remains to be done throughout 2024 and into 2025, however, before the portfolio system is fully implemented and operational.

In 2023, we also launched a new fund strategy for the next few years and it is satisfying to see how well it has been received within the organisation. This new strategy has increased the momentum in our development work by enhancing both the focus and the quality of our objectives.

As a result of our constant endeavour to "be at the forefront", AP4 was pleased to receive the

"Sovereign Wealth Fund of the Year" award at the Sustainable Investment Awards for our work with climate strategies in the asset management. AP4 also received a total of three awards at the IPE Conference & Awards in the categories of "Portfolio Construction & Diversification", "Public Pension Fund" and "Long-Term Investment Strategy". In addition, AP4 was nominated in the categories "Commitment to Diversity" and "Pension Fund of the Year". These are awards that make us proud and which spur us on to continue to develop our business.

Finally, I would like to thank all the employees of AP4 for the determination and commitment that you always show and for the ambitious work you have contributed during the year. It is an honour to have you as colleagues and to manage money in the public pension system together with you. It's the best job in the world.

Stockholm, 22 February 2024
Niklas Ekvall, CEO