



The Fourth Swedish National Pension Fund (AP4) is one of five buffer funds in the national pension system. Together with the capital of AP1, AP2, AP3, and AP6, AP4's fund capital shall be available to balance the pension system short-term when disbursements exceed contributions. The Fund shall invest its assets so that the return in the long run most favours stability of pensions.

ANNUAL REPORT 2008  
АИИИОАГ ВЕБОВТ 2008

# CONTENTS

AP4 AT A GLANCE	3
THE YEAR IN BRIEF	4
LETTER FROM THE CEO	6
FIVE-YEAR SUMMARY	9
REPORT OF THE DIRECTORS	10
Fund capital performance	10
Income and expenses	10
A global crisis	10
The Fund's asset allocation	11
Return	13
Performance per management mandate	14
Risks	18
Other activities during the year	19
Significant events after the end of the financial year	19
Administration report	19
INCOME STATEMENT	20
BALANCE SHEET	20
ACCOUNTING AND VALUATION POLICIES	21
NOTES TO THE INCOME STATEMENT AND BALANCE SHEET	22
BOARD OF DIRECTORS' SIGNATURES	26
AUDITORS' REPORT	27
BOARD OF DIRECTORS	28
EXECUTIVE MANAGEMENT	29
GLOSSARY	30

## INFORMATION

For further information, please visit the AP4 website at [www.ap4.se](http://www.ap4.se), where you may find:

- AP4's annual and interim reports for recent years
- AP4's key public documents, including the governance policy

Annual reports and other reports may be also be ordered directly from the Fund on +46 (0)8-787-7500.

Further information about the national pension system is available online from the Swedish Social Insurance Agency, [www.forsakringskassan.se](http://www.forsakringskassan.se)

# AP4 AT A GLANCE

The Fourth Swedish National Pension Fund (AP4) is one of five buffer funds in the national pension system. Together with the capital of AP1, AP2, AP3, and AP6, AP4's fund capital shall be available to finance short-term deficits at times when disbursements of income pensions exceed pension contributions.

The Fund's brief is to invest its fund capital long-term at a high return with low risk, and its operations are regulated by the Swedish National Pension Funds Act (LAP). Neither national business nor other economic policy may influence the operations, and AP4 must take into account environmental and ethical considerations without compromising the objective of high returns.

## Financial security for Swedish pensioners

### VISION

Financial security for Swedish pensioners.

The vision clarifies the mandate of AP4 and the other buffer funds to help safeguard the value of income pensions.

### INVESTMENT GOALS

- The Fund shall generate an average real (inflation-adjusted) return of 4.5% per year over a five-year period.

- The Fund shall achieve an annual active return (return better than index) of 0.5 percentage points. Opportunities to achieve active return vary from year to year. The Fund reduced its risk and thus reduced the target to 0.4 percentage points for 2009.

### STRATEGIES

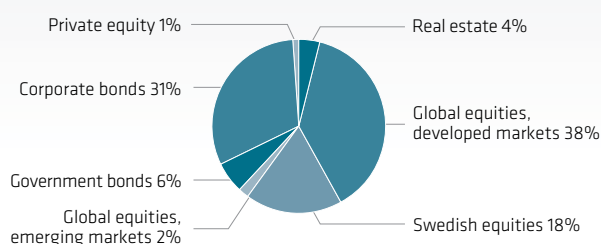
- The Fund will devote greater resources to the allocation function, that is, to the allocation of capital to different asset classes. The Fund will allocate capital based on three time horizons – long-term (40 years), medium-term (3–5 years), and short-term (6–12 months) – increasing the emphasis on the medium-term horizon.
- The Fund shall manage assets actively only when prospects are favourable for achieving a positive active return.

### FUND CAPITAL

Fund capital totalled SEK 164.7 billion at 31 December 2008. Nearly 95% of the Fund's investment assets are listed, more than 60% of which are equities. The Fund has achieved an average annual return of 3.0% for the past five years, corresponding to an average real return after management expenses of 1.1% per year. Thus the Fund has achieved neither its target for absolute return nor its target for active return.

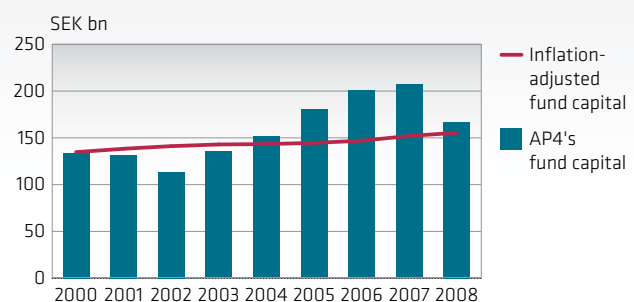
For more information about The Fourth Swedish National Pension Fund, please visit [www.ap4.se](http://www.ap4.se).

### ACTUAL PORTFOLIO, 31 DEC 2008



AP4's assets are dominated by listed equities and interest-bearing corporate bonds.

### FUND CAPITAL AND INFLATION



Despite the sharp drop in 2008, growth in fund capital has exceeded inflation on average since 2000.

# THE YEAR IN BRIEF

2008 was a dramatic year. Despite warning signs at the start of the year few people realised the breadth of the global crisis that was brewing. With the Fund's equity allocation at roughly 60%, 2008 became a difficult year, to say the least.

## NET LOSS: SEK -43.5 BILLION

The net loss for 2008 at market value totalled SEK -43.5 billion (4.8). Poor performance in 2008 resulted primarily from the Fund's negative return on listed equities through value erosion because of the slide in global stock markets.

## OPERATING EXPENSES: SEK 157 MILLION

Operating expenses were SEK 157 million (139). This total corresponded to 0.08% (0.07) of the average value of Fund capital. The increase is attributable to a non-recurring related to organisational changes, services purchased and an upgrade of the IT infrastructure and systems.

## FUND CAPITAL DECREASED TO SEK 164.7 BILLION

Marked to market and after transfers, Fund capital decreased SEK 42.6 billion during the year, from SEK 207.3 billion to SEK 164.7 billion.

## TOTAL RETURN: -20.8% BEFORE EXPENSES

Total return before expenses was -20.8% (2.5). Among the subportfolios, the Swedish listed equity portfolio posted a negative return of -40.3%. The global portfolio also posted an extremely negative return of -39.4%.

In contrast, 2008 was a good year for fixed income management. Major turbulence and steep drops in interest rates enabled high yields. The Fund's fixed income portfolio rose 11.4%, including full hedging of foreign assets.

Total return after expenses was -21.0% (2.4). AP4's objective is to generate a minimum average real (inflation-adjusted) total return of 4.5% per annum over five years. For the most recent five-year period, the Fund's real return before expenses averaged 1.2% (9.8) per annum.

## SLIGHTLY HIGHER FOREIGN EXCHANGE EXPOSURE

At year-end, the foreign exchange exposure was 14.5% (14.2).

## ACTIVE RETURN: -1.1 PERCENTAGE POINTS

The active return before commission expenses for 2008 was -1.1 (-1.0) percentage points. Adjusted for implementation expenses related to the strategic portfolio, the active return totalled -0.5 percentage points (more info on page 14).

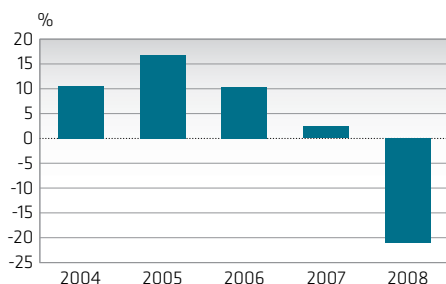
## OTHER SIGNIFICANT DEVELOPMENTS

The Fund pursued its comprehensive change initiative launched almost two years ago to improve conditions for boosting the absolute and active returns. Structures, processes, and staffing have been reassessed. The biggest changes have been made in fixed income management and management of the global equity portfolio. The latter has undergone massive changes to reduce risk, and the portfolio, currently managed largely by external parties, was almost wholly indexed by year-end 2008.

The Fund has also worked intensively to improve the strategically important allocation function. Models and processes have been developed to improve the Fund's strategic positioning, and during the year the Board worked more actively on allocation issues compared to previous years.

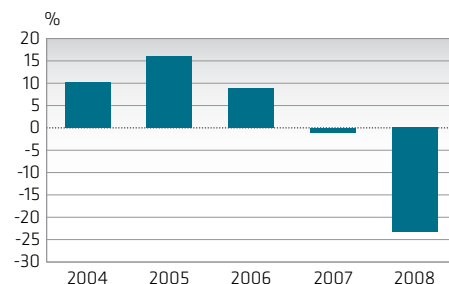
Finally, the Fund was involved in a number of large transactions, of which AP Fastigheter's acquisition of Vasakronan, to date the biggest real estate deal in Sweden, had the most impact on the Fund's holdings. The transaction was announced on 3 July 2008, and at year-end AP4 owned the new Vasakronan together with AP1-AP3 in equal parts..

### TOTAL RETURN AFTER EXPENSES



2008 was an exceptionally tough year. The value of Fund assets dropped 21.0%.

### REAL RETURN



The real return after expenses equalled 1.1% (9.7) during the most recent five-year period, compared to the goal of at least 4.5% per year.

## INVESTMENT ASSETS, ALLOCATION AND RETURNS

Asset class	Return and contributions to Fund performance, Jan–Dec 2008					Asset mix, 31 Dec 2008		
	Portfolio return, %	Active return, %	Contribution to portfolio return, %	Contribution to net profit, SEK bn	Contribution to active return, %	Market value, SEK bn	Exposure <sup>4)</sup> , %	Strategic portfolio, %
Global equities	-39.4	-0.4	-17.7	-36.7	-0.2	671	41.7	41.4
Swedish equities	-40.3	-1.3	-8.6	-17.8	-0.3	30.0	18.0	17.8
Fixed income	11.4	-0.2	4.5	9.4	0.0	68.5	36.8	36.5
Active foreign exchange management <sup>1)</sup>	0.1	0.1	0.1	0.2	0.1	-	-	-
Active tactical asset allocation <sup>1)</sup>	-0.1	-0.1	-0.1	-0.2	-0.1	0.1	-	-
<b>Total actively managed liquid assets</b>	<b>-22.3</b>	<b>-0.5</b>	<b>-21.7</b>	<b>-45.0</b>	<b>-0.5</b>	<b>165.8</b>	<b>96.5</b>	<b>95.7</b>
Private equity	-33.8	1.0	-0.3	-0.7	0.0	1.9	-	-
Real estate	-2.7	0.0	-0.2	-0.4	0.0	6.8	4.1	4.3
<b>Total actively managed assets</b>	<b>-21.9</b>	<b>-0.5</b>	<b>-22.2</b>	<b>-46.2</b>	<b>-0.5</b>	<b>174.6</b>	<b>100.6</b>	<b>100.0</b>
Implementation of the strategic portfolio <sup>1), 2)</sup>	1.5	-0.6	1.5	3.1	-0.6	-9.5	-0.5	-
<b>Total investment assets before extraordinary items</b>	<b>-20.7</b>	<b>-1.1</b>	<b>-20.7</b>	<b>-43.1</b>	<b>-1.1</b>	<b>165.1</b>	<b>100.2</b>	<b>100.0</b>
Other items unrelated to active management <sup>3)</sup>	-0.1	-	-0.1	-0.3	-	-0.3	-0.2	-
<b>Total investment assets</b>	<b>-20.8</b>	<b>-</b>	<b>-20.8</b>	<b>-43.3<sup>5)</sup></b>	<b>-</b>	<b>164.8</b>	<b>100.0</b>	<b>100.0</b>

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

2) Passive tactical asset allocation, strategic foreign exchange, and cash.

3) Refers to expenses related to closed management mandates and securities lending.

4) Exposure includes the underlying value of derivatives in tactical asset allocation for each asset class.

5) Refers to profit/loss before expenses. The loss after expenses totalled SEK -43.5 billion.

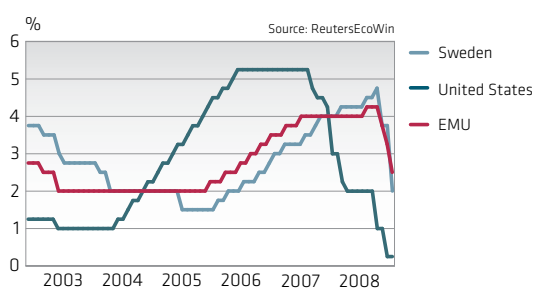
## MANAGEMENT RETURN BY ASSET CLASS

The Fund's negative return of SEK -43.5 billion in 2008 was chiefly attributable to exposure to equities, which fell sharply as a consequence of the dramatic declines on world stock markets.

The global equity portfolio, which represented 41.7% of assets at year-end 2008, produced a negative profit contribution of SEK 36.7 billion. Thus the return was 0.4 percentage points less than its benchmark index. The Swedish equity portfolio produced a negative profit contribution of SEK 17.8 billion, which was 1.3 percentage points less than its benchmark index.

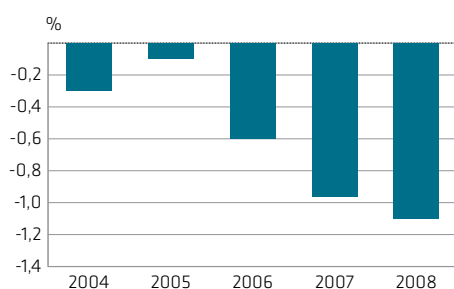
Fortunately, the fixed income portfolio, accounting for 36.8% of assets at year-end 2008, contributed SEK 9.4 billion to profit for the year. The new portfolio management organisation successfully reversed the negative active return in the first six months so it ended the year at -0.2%.

## BENCHMARK INTEREST RATES 2003–2008



2008 brought dramatic turbulence in fixed income markets, with widening interest rate spreads and plummeting benchmark rates worldwide.

## ACTIVE RETURN



The Fund's active return was negatively influenced by the market turbulence.

## EQUITY MARKETS 2003–2008



Steep drops in stock markets around the world reflect greater fear of risk and greater uncertainty concerning the global economic situation.

## FINANCIAL CRISIS WITH SERIOUS REPERCUSSIONS



The financial crisis that began in 2008 evolved into a synchronised, global recession, and industrial activity throughout the OECD area stopped cold. The Fourth Swedish National Pension Fund has also had a tough year. The absolute return was the worst the Fund has ever posted, and the Board of Directors as well as Executive Management have cause to analyse and learn from this profound crisis.

Without a doubt, 2008 will be entered in the annals of economic history as one of the most dramatic years ever. Certainly warning signs appeared more than a year ago, but few could anticipate what was waiting around the corner.

The course of the financial system has been described using terms such as "collapse", "economic tsunami", and "melt-down".

What began with the housing loan bubble in the United States to date has generated credit losses – direct and indirect – far exceeding USD 1,000 billion. That amount is expected to rise. Many extremely well reputed financial institutions the world over have gone under. Most remarkable was the bankruptcy of Lehman Brothers in September, an event that sent shockwaves through the financial system.

Governments and central banks have gradually realised the gravity of the situation. Never before have such efforts been greater or more synchronised. To prevent the total collapse of the financial system, governments have found it necessary to take over several large banks, even in free-market-oriented countries such as the United States and the United Kingdom. Key interest rates have been slashed in quick succession to record-low levels around year-end, even close to zero. The plans include government guarantees and fiscal stimulus packages of historic proportions.

Yet, more than a year into this global crisis, it is still difficult to take in the damage, let alone predict when the world can return to normal economic growth. No one knows how much the crisis will end up costing, either. The only thing we can say is that the crisis will probably lead to profound and far-reaching changes, in financial regulations as well as approaches to risk.

What makes the situation so serious and difficult to gauge is that during 2008 the financial crisis developed into a synchronised global recession. In the autumn months, it appears industrial activity throughout the OECD area stopped cold. In the labour market, layoffs rocketed. Many enterprises announced action programmes, reduced their profit forecasts, and appealed for government subsidies for survival.

Economic statistics also show that one country after another has fallen into recession, with negative GNP growth in two successive quarters.

### A few points from 2008 sum up the turmoil.

- During 2008, the world's collective market capitalisation fell USD 30,000 billion. The MSCI All Country Index plummeted 43.5% measured in US dollars. Stock markets in emerging markets have in many cases collapsed. The Swedish stock market has fallen more than 50% since its all-time high in the middle of July 2007, and during 2008 the stock exchange in Stockholm fell 39% (SIX Return Index), the worst annual performance in a hundred years.
- Commodity markets have also followed a dramatic course, with sharp falls in prices from record-high levels. For example, around mid-2008 the price of oil passed USD 140 a barrel, and some forecasts indicated it would soon reach USD 200. Less than six months later, the price of oil had plummeted more than 70% from its high for the year.
- During the spring of 2008, central banks – not the least Swedish Riksbank – worried about inflation, but before the year ended, fear of deflation topped their agendas. Long-term government bond rates have never in modern times been as low as they were at year-end 2008.

One explanation for the extreme volatility in financial markets is that many investors, whether companies, banks, hedge funds, or private individuals, have been forced to sell assets to reduce excessive indebtedness. In such cases, they must sell whatever they can, at almost any price. This has battered the prices of all types of asset. We still find ourselves at a stage where debt needs to be further reduced and/or shareholders' equity needs to be bolstered through new issues.

In cases where price drops are not as dramatic, it is primarily a case of statistical lag. This is true primarily for real estate and investments in private equity.

## TOUGH YEAR FOR AP4

With the picture painted above, it is easy to understand why 2008 was a particularly tough year even for AP4. The absolute return was the worst that the Fund has ever delivered (though returns in 1990 and 2002 ended in the same region). Overall assets fell 21.0% in value. In absolute numbers, the depreciation was more than SEK 43 billion. This year's miserable performance naturally had a strong negative impact on the Fund's long-term performance, too. As recently as 2008, the outlook was reasonable, and the fund's return had surpassed inflation by a healthy margin. One year later, the Fund had an average annual return of only 3.0% for its most recent five-year period.

For the Swedish income pension system, AP4's performance during its most recent financial year – together with the performance of AP1, AP2, AP3, and AP6 – will have tangible and negative consequences. With the current regulations, in 2010 the brake will be applied for the first time. Consequently, income pensions will not be adjusted upwards by the index and may even be reduced.

This year's performance is likely to spark a discussion about the equity exposure in the AP Funds. In a 40-year perspective, though, one must conclude that a pension manager

uted to the bubble inflating to enormous proportions this time. Too many people wanted to seize the last dollar of return by carrying more risk and investing in ever more complicated products. When growing sums of capital chase the same type of investment, the return drops quickly, and more often than not the cycle ends in a crash. Unfortunately, that happened this time, too. Perhaps a short valuation horizon by portfolio managers also encourages this type of conduct.

- In many cases, the ability of actors in the market to assess risk has proved inadequate or insufficient. Some of these failures can be explained by the fact that new financial products have often been both complex and poorly analysed. In hindsight, it is easy to see that in recent years common sense has usually been in short supply in the world's financial system.
- Financial players who have dared to go against the grain have been rewarded in the past 18 months. A large, long-term portfolio manager such as AP4 would do well to deliberate this conclusion when determining its strategies for tomorrow.
- As an institutional investor, AP4 has a vital role to play

## “ An asset manager such as AP4 has good reason to analyse the course of events and internal decision making

should allocate a large proportion of assets to equities in the long run. The four AP Funds together correspond to only about 10% of the combined assets in the Swedish pension system. The remaining 90% of the assets are almost the equivalent of a bond.

One must bear in mind that 2008 was a year of extremes in every respect. Dramatically altering our strategies or approach in long-term portfolio management based on last year could easily lead us astray.

All the same, the Board of Directors and Executive Management at our own Fund have reason to revisit how we can better identify and handle the business opportunities that occur in our market economy from time to time.

A portfolio manager such as AP4 does well to analyse the course of events and its own internal decision making, to learn lessons for the future from this profound crisis. Because the crisis is far from over, we must postpone our final conclusions. However, a few reflections are worth recording here now.

- The herd mentality in capital markets has likely contrib-

through participation in nominating committees. In hindsight, it is easy to see that some corporate boards needed outside expertise and experience that could have better assessed the risks and tackled events as they occurred in our increasingly global markets.

### INTERNAL CHANGE INITIATIVE

AP4 has been criticised by the Government for producing a negative active return and for the Fund's management thus failing to add any value compared to passive indexing. The negative return is unacceptable in a long-term perspective, and almost two years ago a comprehensive change initiative was launched that continued in 2008. Structures, processes, and staffing have been reassessed.

In fixed income management, these efforts have led to a largely new staff and a new management strategy. The immediate results have been quite promising.

Management of the global equity portfolio is undergoing the biggest changes. Initially the portfolio was more or less

indexed and is currently managed by outside parties. This is not an ideal situation in the long run, but I believe it is necessary for us to refrain from active management until our structure and other prerequisites are in place. I remain convinced that an asset manager such as AP4 has the wherewithal to generate value added over time through active management. Under new leaders and a new strategy, our management of global equities will become progressively active.

Efforts concerning the Fund's critical allocation tasks were also redoubled in 2008. Models and processes were developed not the least for our strategic positions, investments made with a horizon of three to five years.

Considering the actions taken, it is both my hope and my certainty that 2009 will constitute a positive reversal in the trend of AP4's active performance.

## “ For long-term asset managers willing to take the long view, opportunities will emerge

### ACTIVE RETURN FOR THE YEAR

In general, 2008 was a difficult year for all active management, and the Fund's active return for 2008 was again negative, or -1.1%. The return was disappointing but reflects in part that, because of turbulence, in 2008 we had uncommonly high expenses maintaining the actual portfolio in agreement with the Board's guidelines on allocations among various types of asset. The return for the actively managed portfolio equalled -0.5 (-1.1), clearly an improvement though insufficient. Here it is also worth mentioning that the change in direction of the global equity portfolio incurred non-negligible transaction costs charged to 2008 income.

One distinctly bright spot in 2008 was the turnaround in the Fund's fixed income management. Likewise foreign exchange management performed quite adequately.

In times like these, the choice between different asset types, the allocation task, is especially critical, of course. The decisions made by the Board concerning the Fund's strategic allocation, which targets pricing irregularities with a horizon of three to five years, once again contributed positively in 2008 to the Fund's return compared to the normal portfolio, that is, the portfolio with a very long investment horizon. In 2008, the strategic positions contributed 1.3 percentage points.

The positive outcome was primarily attributable to underweighting in equities and corporate bonds. In retrospect, however, we must say that though the decisions themselves were correct, they were insufficient; that is, the underweighting in equities and corporate bonds ought to have been significantly greater at the onset of the global financial crisis.

### MAJOR TRANSACTIONS OF INTEREST

A hallmark event for the Fund in 2008 was AP Fastigheter's acquisition of Vasakronan, to date the biggest real estate deal in Sweden. AP4 owns AP Fastigheter in equal parts with AP1, AP2, and AP3. AP Fastigheter, which changed its name to Vasakronan after closing the deal, manages properties with a total market value of roughly SEK 75 billion. For AP4, the deal has increased the weighting of real estate in the Fund's asset portfolio, from 2.4% to 4.1%, since the preceding year-end.

During the past year, AP4, together with EQT and Investor, also took part in bidding on Vin & Sprit when the Government was divesting that company. The price that the group bid was not enough to close the deal, but the process itself yielded important know-how and insight. I am hopeful these lessons can be applied in the future.

I am convinced that a long-term investor such as AP4 will encounter many interesting investment opportunities during the next few years. Today it is hard to predict when the economy and stock market will rebound, but for long-term asset managers willing to take the long view, opportunities will emerge. With a new organisation and staffing, we shall do our best to make the most of the opportunities and gradually regain the capital lost as a result of the financial crisis and the current global recession.

In closing, I would like to quote a column from the *New York Times* of October 2008, signed by the legendary investor Warren Buffett. He claims that equities will be a good investment over time. As evidence of this, he points to progress in the 1900s. Despite two world wars, the Great Depression of the 1930s, a dozen recessions, oil shocks, and other misfortunes, during the 20th century the Dow Jones Index rose from 66 to 11,497. The time horizon is key when assessing strategies. This is also true of asset management.



Mats Andersson  
CEO



# FIVE-YEAR SUMMARY\*

SEK bn	2008	2007	2006	2005	2004
<b>Fund capital, flows and net profit/loss, SEK bn</b>					
Fund capital at 31 December	164.7	207.3	200.5	180.1	151.4
Net inflows from the pension system and special asset management funds	0.9	2.0	1.7	2.9	1.7
Net profit/loss for the year	-43.5	4.8	18.8	25.8	14.3
<b>Return, %</b>					
Return on total portfolio excluding expenses	-20.8	2.5	10.5	16.9	10.6
Return on total portfolio including expenses	-21.0	2.4	10.4	16.8	10.5
Active return on total portfolio, excluding expenses	-1.1	-1.0	-0.6	-0.1	-0.3
Active return on listed assets, excluding expenses <sup>1)</sup>	-0.5	-1.2	-0.5	-0.1	-0.3
Inflation (year-on-year change, Swedish CPI)	2.3	3.5	1.6	0.9	0.3
Real return after expenses	-23.2	-1.0	8.8	15.9	10.2
<b>Management costs as a percentage of assets under management</b>					
Operating expenses	0.08	0.07	0.07	0.08	0.09
Operating expenses and commission expenses	0.11	0.10	0.11	0.13	0.15
<b>Risk in total portfolio, %</b>					
Portfolio, ex-post	17.1	8.6	7.1	4.7	6.0
Active risk, ex-post	0.7	0.7	0.8	0.8	1.0
Sharpe ratio	-1.5	-0.2	1.0	3.1	1.4
<b>Foreign exchange exposure at 31 December, %</b>					
	<b>14.5</b>	<b>14.2</b>	<b>15.1</b>	<b>10.1</b>	<b>20.4</b>
<b>Share of active management including enhanced at 31 December, %</b>					
	<b>59.7</b>	<b>93.5</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Share of external management including investments in venture capital firms at 31 December, %</b>					
	<b>41.9</b>	<b>17.8</b>	<b>17.3</b>	<b>18.8</b>	<b>20.6</b>
<b>Number of employees at 31 December</b>					
	<b>50</b>	<b>45</b>	<b>46</b>	<b>50</b>	<b>50</b>
<b>Allocation of investment assets, % <sup>2)</sup></b>					
Global equity portfolio	41.7	42.0	42.2	42.2	42.8
Internally managed	0.0	24.2	25.1	23.6	22.4
Externally managed	41.7	17.8	17.1	18.6	20.4
Swedish equity portfolio	18.0	18.8	19.9	20.0	19.3
Fixed income portfolio	36.8	36.9	36.3	36.4	35.8
Real estate	4.1	2.4	2.3	2.1	2.1
Foreign exchange/Tactical asset allocation/Cash <sup>3)</sup>	-0.6	-0.2	-0.7	-0.7	0.0
Total investment assets	100.0	100.0	100.0	100.0	100.0

<sup>1)</sup> For 2008, the return versus index on actively managed listed assets, including implementation expenses related to the strategic portfolio, was -1.0 percentage points.

<sup>2)</sup> Exposure by asset class; underlying values for derivatives have been distributed by asset class. Global and Swedish equities include private equity.

<sup>3)</sup> These items were included in the equity and fixed income portfolios in 2001-2003.

\*Included in the Fund's 2008 Annual Report

# REPORT OF THE DIRECTORS

The Board of Directors and CEO of the Fourth Swedish National Pension Fund (AP4) present the annual report for the financial year 2008, the Fund's 35th year of operation and the eighth since the reorganisation of the Swedish pension system.

## FUND CAPITAL PERFORMANCE

2008 was a trying year for asset managers the world over. AP4 also suffered severely from falling stock prices, financial crises, and volatile markets. Fund capital shed SEK 42.6 billion, to end the year at SEK 164.7 billion (207.3).

Fund capital suffered primarily from dramatic drops in stock markets around the world. Net income from asset management decreased the capital under management by SEK 43.5 billion, while net payments to the pension system contributed SEK 0.8 billion (1.0) and transfers from the special asset management funds contributed SEK 0.1 billion (1.0).

## CHANGE IN FUND CAPITAL

SEK bn	2008	2007
Fund capital, opening balance	207.3	200.5
Net payments from the pension system	0.8	1.0
Transferred from special management funds	0.1	1.0
Net profit/loss for the period	-43.5	4.8
<b>Fund capital, closing balance</b>	<b>164.7</b>	<b>207.3</b>

## INCOME AND EXPENSES

Operating income consisted of net interest income, dividends received, net commission expenses, and management returns, for a total of SEK -43.3 billion (4.9). The main cause of the sharp year-on-year decline was the net loss of SEK -54.4 billion (-0.1) on listed shares and investments.

Operating expenses, equivalent to management expenses excluding commissions, totalled SEK 157 (139) million. Personnel costs of SEK 88 million (87) included a charge of SEK 16.9 million (3.7) arising from staff cutbacks. Other administrative expenses totalled SEK 69 (52) million. The increase is attributable to non-recurring expenses related to organisational

changes, services purchased and an upgrade of the IT infrastructure and systems.

The management cost ratio (operating expenses divided by total average fund capital) was 0.08% (0.07). Including commission expenses, for example, fixed fees paid to external managers and custody account fees, the ratio was 0.11% (0.10).

## A GLOBAL CRISIS

2008 is likely to go down in economic history as one of the most dramatic years ever. Certainly warning signs appeared at the start of 2008, when market trends strongly reflected the financial crisis triggered by the fragile condition of the US housing market. At that time, few were predicting the dramatic unfolding and global ripple effects that would ensue. The following is a brief description of the course of events this past year.

Housing loans were packaged in large lots and sold as securities in capital markets, which spread the poor performance of the US housing market to the banking system and to investors. Heightened risk aversion and anxiety about prospects for the economy pulled down stock markets and increased the difference between the risk-free interest rate and interest on corporate bonds (interest-rate spreads).

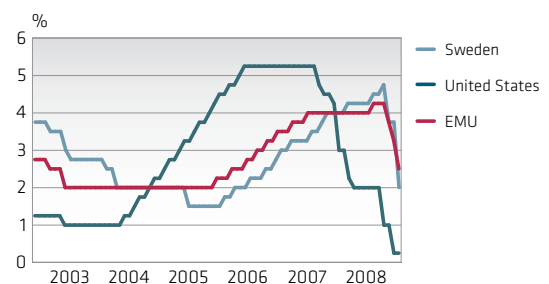
During the summer, it became clear that the scope of the financial crisis was substantial. Many financial actors were carrying a high level of risk, and a growing number of financial institutions struggled to survive.

The US investment bank Lehman Brothers filed for bankruptcy in September, causing a massive loss of confidence in the financial system. Risk aversion grew into panic, and an acute liquidity crisis occurred in the banking system when banks finally did not dare to lend money even to other banks.

## EQUITY MARKETS 2003-2008



## BENCHMARK INTEREST RATES 2003-2008



The winding down of risk in the financial system as a whole accelerated, causing world stock markets to plummet in the latter part of the autumn. Interest rate spreads (the difference between interest on government borrowing and the financing costs of other banks and borrowers) widened, in some cases to spreads not seen since the Depression of the 1930s. Bond rates fell to extremely low levels.

The impact on the real economy was massive. This had a negative impact on the expectations of consumers as well as business, which – paired with the severe credit crunch – boosted savings and stymied capital investment plans. The drop in demand and production during the fourth quarter became dramatic, and global market prices on just about all commodities fell from all-time highs to all-time lows. The ensuing economic slowdown is considered the most extensive and synchronised in postwar times.

Financial unrest and the severely weaker economy also influenced the relationships between prices for different currencies. Movements in exchange rates are greatly affected by the capital markets as risk positions are wound down. The Japanese yen appreciated as a consequence of reduced borrowing in that currency. The US dollar strengthened as capital was “repatriated”, while the currencies of chiefly emerging markets weakened because of corresponding capital outflows. The Swedish krona also weakened because of the winding down of risk.

During the latter part of the year, sizeable stimulus packages combining fiscal and monetary policy were adopted. The acute liquidity crisis in the banking system has eased, and interest rate spreads have narrowed, while volatility in stock markets has decreased though it remains at a historically high level. However, growth is forecast to be extremely weak, and the drop in earnings substantial during the next 12 months.

## THE FUND'S ASSET ALLOCATION

The AP4's asset management works with three investment horizons: long-term, medium-term, and short-term.

Each horizon is applied by the Fund through three different portfolios: the normal portfolio, the strategic portfolio, and the actual portfolio. The first two are model portfolios that consist of different indexes, while the last contains the Fund's investments.

### Normal portfolio

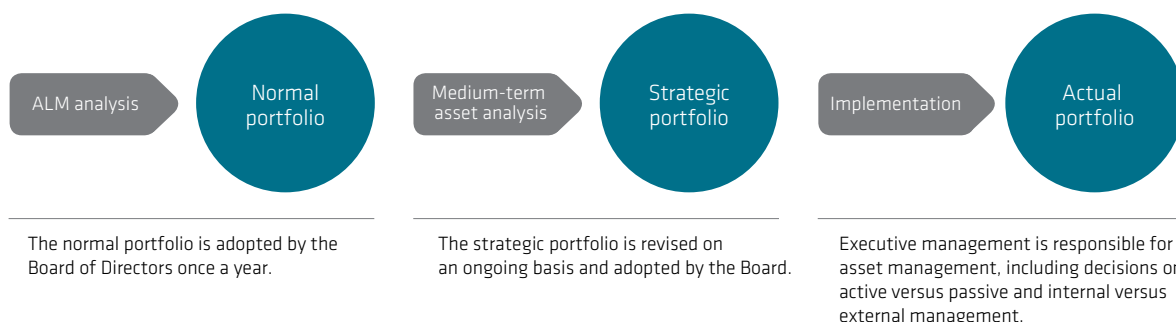
AP4's management is based on a long-term model portfolio, the **normal portfolio**, describing the asset mix in terms of broad asset classes, the duration of the fixed income portfolio, and the Fund's foreign exchange exposure. The composition of the normal portfolio is decisive to the Fund's return and risk.

The normal portfolio is based on an asset liability modelling (ALM) analysis (long-term analyses of the public pension system's assets and liabilities) and on the expected returns and risks of different asset types. The goal of this analytical work is to find the portfolio of assets that provides the highest possible pensions for Sweden's current and future pensioners. At the same time, the risk should be low so that the pensions do not lose purchasing power in the long run.

A general conclusion of the ALM analysis is that, given the extremely long investment horizon, the Fund should invest in assets with healthy expected returns, even if this may entail higher risk. The pension system's undertakings put few restrictions on the Fund's investment opportunities, and the model rewards riskier assets because they are expected to deliver higher returns in the long run. Thus the Fund still concludes that a large proportion of the normal portfolio should be allocated to equities. Likewise, fixed income assets should have a small proportion of government bonds and a high proportion of investment-grade corporate bonds. The Fund's fixed income portfolio should also have a long duration.

The Fund's long-term foreign exchange exposure should offset the effects of exchange rate fluctuations on inflation and thus on the liabilities of the public pension system. In the Fund's judgement, this will be achieved if total foreign ex-

## AP4'S ALLOCATION FUNCTION



change exposure is 20% and the currency basket corresponds to the currency mix for Sweden's imports.

At the start of 2008, the Fund's Board of Directors decided that the normal portfolio would consist of 65% equities, 33% fixed income assets, and 2% real estate. The normal portfolio has been revised twice since then. The first time was in conjunction with AP Fastigheter's takeover of Vasakronan, when the Board decided that the weighting for real estate in the normal portfolio effective September 2008 should equal the weighting for real estate in the actual portfolio. In December, the Board also decided to reduce the allocation of corporate bonds in the normal portfolio's fixed income assets from 60% to 50%. The change will be implemented in the beginning of 2009.

At the close of 2008, the normal portfolio consisted of 62.5% equities, 33% fixed income assets, and 4.5% real estate. During 2008, the normal portfolio delivered a return of -20.9%.

**Strategic portfolio and strategic positions**

Assuming the Fund was forced to maintain the composition of the portfolio constant during the next 40 years, the normal portfolio would be the best choice. However, with a medium-term horizon the Fund can achieve even better returns by adapting its asset allocation to fluctuations in capital markets and medium-term forecasts of returns on different assets. To handle the medium-term horizon, the Fund uses another model portfolio, the **strategic portfolio**, which is

derived using portfolio selection models based on the Fund's forecasts of risk and return on various assets for the next three to five years. Differences in asset allocation and foreign exchange exposure between the normal portfolio and the strategic portfolio represent the Fund's strategic positions.

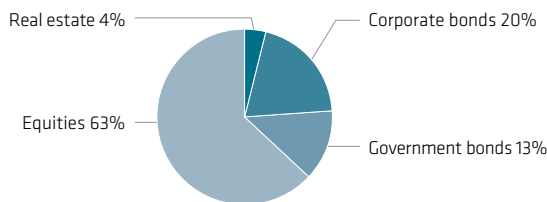
The strategic return on the portfolio was -19.7% for the year, so the Fund's strategic positions, deviations from the normal portfolio, produced a total return contribution of 1.3 percentage points (rounded down).

The strategic portfolio has been underweight in equities and correspondingly overweight in fixed income assets. At the start of the year, the underweighting in equities was 4.0 percentage points, but a decision in the spring reduced the underweighting to 3.0 percentage points. In September, the underweighting was further reduced to 1.5 percentage points. Overall the Fund's strategic underweighting in equities and corresponding overweighting in fixed income assets produced a return contribution of 1.4 percentage points.

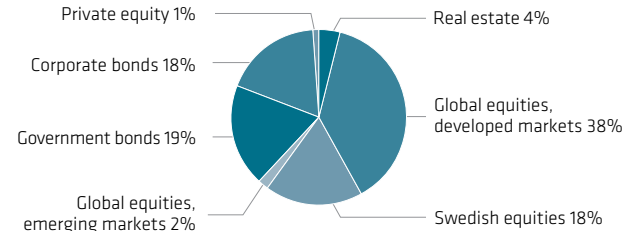
If one considers the Fund's strategic positions in the fixed income portfolio instead, these have primarily consisted of underweight positions in corporate bonds. Overall the Fund's strategic fixed income positions produced a return contribution of an additional 0.7 percentage points.

The Fund's strategic foreign exchange exposure was adjusted during the year. Exposure to the US dollar has gone from an underweighting of 0.4 percentage points to an overweighting of 1.0 percentage points. The underweighting in euro increased, from 3.4 to 4.4 percentage points, while underweighting in pounds sterling was unchanged at 1.0

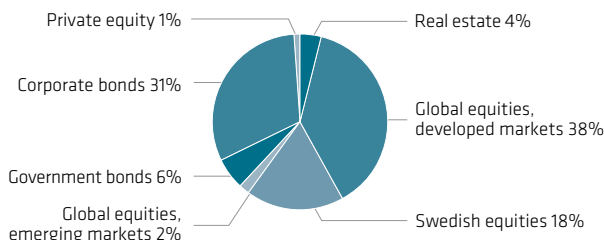
**NORMAL PORTFOLIO, 31 DEC 2008**



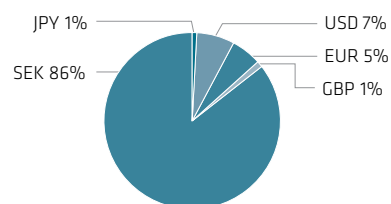
**STRATEGIC PORTFOLIO, 31 DEC 2008**



**ACTUAL PORTFOLIO, 31 DEC 2008**



**FOREIGN EXCHANGE EXPOSURE IN THE ACTUAL PORTFOLIO**



percentage point, and overweighting in Japanese yen was wound up. At year-end, the foreign exchange exposure in the strategic portfolio was 4.4 (3.8) percentage points less than the normal portfolio's 20.0% (20.0). The strategic foreign exchange positions produced a slightly negative contribution to return overall.

Other differences between the normal portfolio and the strategic portfolio produced a return contribution of -0.8 percentage points.

To sum up, the Fund's strategic positions for 2008 led to a return contribution of 1.3 percentage points.

### Actual portfolio

The normal portfolio and the strategic portfolio are model portfolios, while the **actual portfolio** contains the assets currently held by the Fund. The actual portfolio's allocation by asset type and market is determined chiefly by the composition of the strategic portfolio, which also serves as the Fund's benchmark index. Differences between the strategic and actual portfolios depend on the Fund's choices between active and passive management, between different markets, and between various underlying assets. In addition, the actual portfolio contains two "overlay mandates": tactical active allocation and active foreign exchange management. These independent management mandates work principally with forward contracts to achieve a particular absolute return in relation to the Fund's total assets.

The Fund's target for management of the actual portfolio is a return that, over a two-year period, outperforms the benchmark index, that is, the strategic portfolio, by one percentage point.

The Fund's actual portfolio had a market value of SEK 164.8 billion (207.4) at year-end. The composition of in-

vestment assets was: global listed equities 40.5% (41.2), with equities in emerging markets accounting for 2.4 (3.0) percentage points; Swedish equities 18.0% (18.7); fixed income assets 36.8% (36.9); real estate 4.1% (2.4); private equity 1.2% (1.0); and cash, unrealised gains/losses on foreign exchange hedges, and the like -0.6% (-0.2). This breakdown includes underlying values for various derivatives and forward contracts used to continuously maintain the strategic portfolio's asset allocation.

At year-end, 60% (85) of the Fund's investments were managed actively, while 40% (15) were managed passively. In terms of internal/external management, 42% (18) of assets were managed externally. Excepting active tactical asset allocation and active foreign exchange management, the bulk of AP4's active asset management tracks an index. This means that risk and return targets are set, measured, and assessed against a benchmark index.

### RETURN

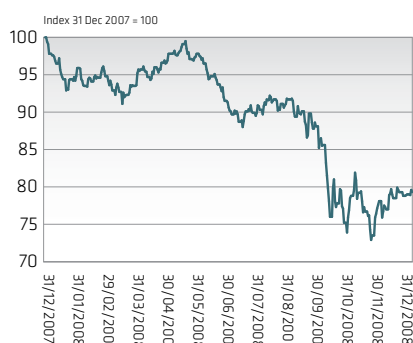
AP4's objective is to generate a real return (inflation-adjusted) averaging at least 4.5% per year over five years. For the most recent five-year period, 2004-2008, the Fund's real return averaged 1.1% per year after expenses.

For the most recent financial year, the Fund's total return was -20.8% (2.5) before expenses and -21.0% (2.4) after expenses, corresponding to a management return of SEK -43.5 (4.8) billion.

The negative return resulted from the Fund's 60%-plus exposure to equities in a sharply declining stock market. For the full year, the return on the Fund's benchmark index was -39.0% (4.1) for global equities and -39.0% (-2.6) for Swedish equities.

Fixed income management delivered weak positive returns

### ABSOLUTE RETURN 2008

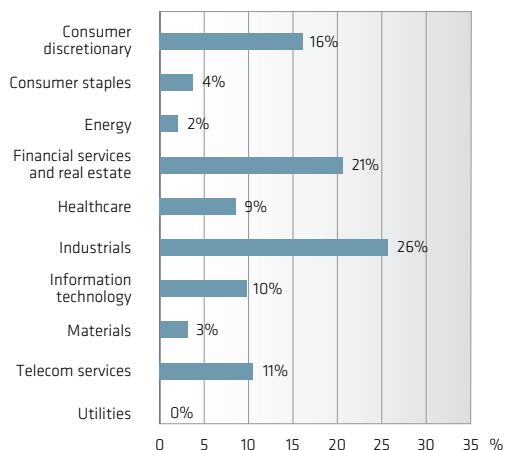


The extremely negative return resulted from the Fund's exposure to equities in a sharply declining stock market.

### ACTIVE RETURN 2008



The return for the Fund's active management versus the benchmark index was -0.5 percentage points.

**SECTOR BREAKDOWN OF THE SWEDISH EQUITY PORTFOLIO, 31 DEC 2008**


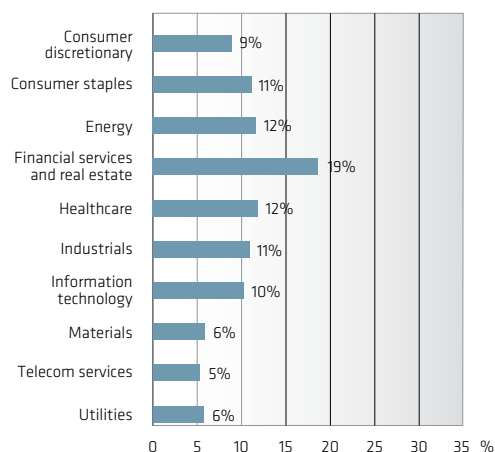
Industrials accounted for the lion's share of the Swedish equity portfolio at year-end. The exposure to financial services and real estate was less than in 2007.

during the first six months and thereafter rose sharply. For the full year 2008, the Fund's benchmark index returned 11.6% (3.4).

Of the sub-portfolios, the Swedish listed equity portfolio posted a return of -40.3% (-1.6), the global listed equity portfolio -39.4% (2.1), and the fixed income portfolio 11.4% (1.3), in all cases with foreign assets fully hedged.

The return for total investment assets versus the benchmark index was poor, at -1.1 (-1.0) percentage points. The table of return contributions on page five shows the majority of the negative return, -0.6 percentage points, as attributable to passive foreign exchange management, passive tactical asset allocation, and cash. These components of management are passive, because they are governed by the Board of Directors' decision to maintain strategic asset allocations and foreign exchange exposure and thus not take any active positions against the benchmark index. The extreme turbulence in financial markets has driven up the cost of passive management, in part because asset allocation and foreign exchange exposure have fluctuated widely, in part because transaction costs have increased. In an attempt to curb the Fund's costs for maintaining its strategic foreign exchange exposure, a new rebalancing procedure was introduced in November for the strategic foreign exchange management's benchmark index.

The active return for the Fund's active management was -0.5 percentage points. Active foreign exchange management contributed 0.1 (0.2) percentage points to the Fund's active return, while active tactical asset allocation contributed -0.1 (0.0) percentage points. The active return for listed global equities was -0.4 (-2.0) percentage points, for Swedish equities -1.3

**SECTOR BREAKDOWN OF THE GLOBAL EQUITY PORTFOLIO BENCHMARK, 31 DEC 2008**


Currently 99% of the capital in the global equity portfolio is indexed, and only one external mandate is actively managed.

(1.0) percentage points, and for fixed income assets -0.2 (-2.1) percentage points.

**PERFORMANCE PER MANAGEMENT MANDATE**
**Swedish equity portfolio**

At year-end, the market value of the Swedish equity portfolio (excluding private equity) was SEK 30.0 billion (38.1), representing 18.2% (18.4) of Fund assets. The five largest holdings in the portfolio were H&M, TeliSonera, Ericsson, Nordea, and AstraZeneca, together comprising almost 40% of the portfolio. The return for the full year was -40.3%, 1.3 percentage points worse than the reference index. Active risk was slightly less than 2% during the year, in line with budget.

Swedish equity management was divided into two portfolios, with the large-cap portfolio invested primarily in companies that benefit from healthy demand for capital goods, energy, and commodities. The portfolio developed favourably during the first six months, despite the otherwise slack stock market. As the latter half of the year began, major changes were made in the stock mix though these were insufficient to withstand the financial crisis and collapse of the stock market in October and November. Overweight positions in Vostok Gas, Vostok Nafta, Metro, and Tradedoubler and underweight positions in Investor and Ericsson were the chief contributors to the negative active return. On the other hand, overweight positions in AstraZeneca and Ratos made the greatest positive contributions. Starting in 2009, 10% of the large-cap portfolio's capital may be invested outside Sweden but only in the Nordic countries.

## LARGEST ACTIVE POSITIONS IN THE SWEDISH EQUITY PORTFOLIO, 31 DECEMBER 2008

Company	Active weight, %	Portfolio weight, %	Index weight, %
<b>Largest overweight positions, Sweden</b>			
NOKIA	1.5%	1.5%	0.0%
ASTRAZENECA	1.4%	4.8%	3.5%
TANGANYIKA OIL	0.8%	0.8%	0.0%
ORIFLAME	0.7%	1.3%	0.5%
SEB	0.7%	2.5%	1.8%
<b>Largest underweight positions, Sweden</b>			
INVESTOR	-1.4%	2.6%	3.9%
SCA	-1.1%	1.0%	2.0%
ERICSSON	-1.0%	7.3%	8.3%
ASSA ABLOY	-0.8%	0.6%	1.4%
NORDEA	-0.7%	5.4%	6.2%

In the small and mid-cap portfolio, several Finnish holdings had a negative impact on the return. Underweighting in B&B Tools, Retail and Brands, and Hufvudstaden also had a negative impact on the active return. The overweight positions in Statoil and G4S and underweighting in Axis and oil-related companies boosted the return. Holdings outside Sweden (but within the Nordic countries) totalled 38.0% at year-end.

### Global equity portfolio – massive change

The management of global equities underwent massive change during the year, and a new asset management organisation was constructed from the organisation that handled the management of external mandates.

In the autumn, the Fund thoroughly reviewed the management of global equities. The conclusions from this work resulted in an organisation that focuses on selecting external fund managers with outstanding expertise in stock picking. The active management mandates are thus contracted to external managers with cutting-edge expertise in discrete asset management areas. The procurement and ongoing monitoring of these external mandates will be handled internally, and the proportion of internally managed index mandates will increase.

The Fund has also decided that global equities management should be split into passive (beta) and active management (alfa), referred to as an alpha-beta separation. By separating active management from indexing, the Fund achieves flexible risk management in which risk is allocated to the areas with the greatest potential at the same time as management fees are minimised.

These changes in the management strategy have led to massive changes in the portfolio, and internal active man-

## FIVE LARGEST HOLDINGS IN THE SWEDISH EQUITY PORTFOLIO

Largest holdings	Market value 31 Dec 2008, SEK mn	Percentage of Swedish portfolio
H&M	3,203	10.7%
TELIASONERA	2,378	7.9%
ERICSSON	2,200	7.3%
NORDEA	1,636	5.4%
ASTRAZENECA	1,450	4.8%
<b>Total</b>	<b>10,866</b>	<b>36.2%</b>

## FIVE LARGEST HOLDINGS IN THE GLOBAL EQUITY PORTFOLIO

Largest holdings	Market value 31 Dec 2008, SEK mn	Percentage of global portfolio
EXXON MOBIL CORP	1,567	2.5%
PROCTER & GAMBLE	688	1.1%
GENERAL ELECTRIC CO	638	1.0%
JOHNSON & JOHNSON	631	1.0%
AT&T	631	1.0%
<b>Total</b>	<b>4,155</b>	<b>6.6%</b>

agement was closed in 2008, and the portfolio was indexed. All passive management was temporarily outsourced to an external party.

Currently 99% of the capital is indexed, and only one external mandate is actively managed. The latter refers to a portfolio in the Far East.

The emphasis of global equity management with regard to external managers will increasingly be on allocation of risk and, to a lesser extent, capital. The elimination of the market component from performance reduces the need for asset allocation without foregoing the potential for generating returns. This demands that the Fund formulate risk mandates, containing risk limits, gross and net exposure targets, and rules and scenarios for handling any deviations from the envisioned objectives.

To allocate risk and select suitable managers, the Fund systematically surveys the areas and market segments where active management has the best prospects for success. This surveillance provides data for risk budgeting and for how the risk mandate will be allocated among external managers. Each individual mandate represents a certain risk but, taken with the entire management portfolio, contributes diversification effects so as to minimise risk in relation to the Fund's required return.

Following-up risk and performance demands both resources and skills, where the assessment of the manager's risk-taking is key. The Fund systematically tracks all mandates in their exploitation of risk and contribution to return. This feeds back experience and information to the management organisation.

The market value of the global equity portfolio (excluding private equity) was SEK 67.1 billion (84.7) at year-end, correspond-

ing to 40.7% of Fund assets. The return was -39.4%. The active return was -0.4%. The portfolio incurred substantial expenses in its realignment from active to passive management.

### Fixed income portfolio

The Fund's fixed income portfolio had a market value of SEK 68.5 billion (76.3) at year-end. In 2008, the return, including full hedging, totalled 11.4% (1.3). Thus the fixed income portfolio posted an active return of -0.2 percentage points (-2.1).

The first half of 2008 was marked by ongoing financial uncertainty and rising inflationary pressure, while business conditions in the United States remained detached from those of the rest of the world. At the start of the year, the Fund's portfolio was positioned for reduced interest rate spreads based on an anticipated narrowing of the gap between interest rates on corporate bonds and government bonds. However, the fixed income market moved in the opposite direction, and these positions delivered negative contributions.

Weak performance in the first six months led to an assessment and changes in the organisation and processes for fixed income management. Staffing was revitalised, and the division of responsibilities clarified with more straightforward monitoring of risk and performance. Asset management also changed course, and the focus shifted to fixed income markets in the United States, Europe, the United Kingdom, and Sweden. Exposure to other markets as well as the management of individual corporate loans outside Sweden was cut back.

Changes in fixed income management had an immediate effect on earnings, despite the exacerbation of the financial crisis in the second half of 2008. A synchronised global recession and cooling inflation led to a sharp drop in short-term interest rates. In all respects, turbulence was great and volatility (price fluctuations) extremely high, but through the Fund's new management strategy and repositioning, the negative active return was limited to a total of -0.2% for the full year 2008.

At year-end 2008/2009, the fixed income portfolio was distinguished by shorter duration than the reference index (4.5

years) and overweighting in corporate bonds. The position reflected the Fund's belief in narrower interest rate spreads and steeper yield curves worldwide. Bond holdings are described by type of bond and rating class in the diagram below.

### Foreign exchange

Foreign exchange management is divided into active and strategic management. Active foreign exchange management is an independent management mandate that strives for an absolute return target based on the Fund's total assets. Active foreign exchange management contributed 0.11 (0.16) percentage points to Fund income in 2008. This represented earnings of SEK 0.2 billion (0.3). Favourable earnings were chiefly attributable to long positions in the US dollar, Japanese yen, and Swiss franc vis-à-vis emerging market currencies and the euro.

Strategic foreign exchange management implements the foreign exchange exposure adopted by the Board to for the strategic portfolio. This means that parts of the Fund's foreign assets are hedged. In 2008, strategic foreign exchange management incurred a cost of SEK 0.7 billion, corresponding to a contribution to return of -0.4 percentage points. Strategic foreign exchange management is not intended to produce an active return but merely to protect the assets from undesired foreign exchange risk.

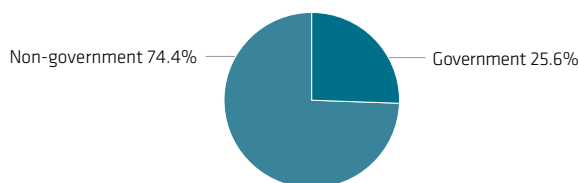
The rebalancing procedures for strategic foreign exchange management, that is, the rules and guidelines that govern the actual portfolio's asset allocation so that it reflects the Fund's strategic portfolio, were adjusted during the year. The aim is to implement additional changes in 2009.

Foreign exchange exposure was 14.5% of total assets at 31 December 2008, compared to 14.2% at 31 December 2007.

### Tactical asset allocation

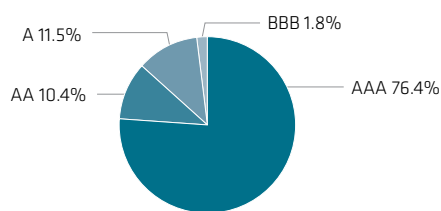
In tactical asset allocation, the Fund takes various positions in different asset classes to outperform the benchmark. The Fund's tactical asset allocation is divided into active and passive tactical allocation.

FIXED INCOME PORTFOLIO BY ISSUER TYPE, 31 DEC 2008



Overweight in corporate bonds.

BOND HOLDINGS BY RATING CLASS, 31 DEC 2008



Concentration in investment-grade corporate bonds remains high.



The active tactical asset allocation is an independent overlay mandate that strives for an absolute return based on the Fund's total assets. This management works with forward contracts and derivatives and produced a negative contribution of -0.08 percentage points to the Fund's return for 2008. A short position in Asian equities paired with a long position in US and European equities early in the year as well as a long position in European bonds contributed favourably to income, while a long position in equities during the latter part of the year made a negative contribution.

Passive tactical asset allocation aims - with reasonable transaction costs - to minimise the differences in allocations by asset class between the Fund's investment assets and the strategic portfolio. The portfolio contributed -0.17 percentage points to the Fund's performance in 2008. Underperformance was attributable to transaction costs and deviations in return between the indexes in the strategic portfolio and the forward contracts used in passive tactical asset allocation.

At 31 December, the active tactical asset allocation portfolio had a long position in European bonds and a short position in the US bonds.

### Real estate

Along with AP1, AP2, and AP3, AP4 is an equal partner in AP Fastigheter Holding AB, one of Sweden's largest owners of commercial real estate. In 2008, the Fund invested SEK 2.7 billion net in the holding company, of which SEK 2.2 billion referred to promissory note loans and SEK 0.5 billion shareholders' contributions. The market value of the Fund's assets in real estate totalled SEK 6.8 billion (5.0).

AP Fastigheter acquired the property company Vasakronan

in 2008. This transaction doubled AP Fastigheter, so it now manages property holdings worth about SEK 75 billion. The Swedish real estate and rentals market gradually slowed in 2008. The number of deals closed in the real estate market was limited, with the exception of the AP Fastigheter-Vasakronan transaction. Thus it is difficult to say with any certainty how far property prices have fallen. However, we have reason to believe that lags in the system will result in further drops in prices during 2009, in addition to those already reported.

For financial year 2008, the Fund's holdings in Vasakronan produced a return of -2.7%. Vasakronan's return was applied as the reference index for the real estate asset class.

### Private equity, excluding real estate

At year-end, the market value of the Fund's private equity portfolio was SEK 1.9 billion (2.0), corresponding to 1.2% (1.0) of Fund assets. Private equity posted a total return of -33.8%, 1.0 percentage points better than the benchmark index (MCI World, plus 4 percentage points). Private equity

### NET CONTRIBUTIONS FROM EXTERNAL MANAGEMENT OF UNLISTED ASSETS (EXCLUDING REAL ESTATE), 2008

SEK mn	Unlisted assets
Gross income	-768
Management fees recognised as commission expenses	-2
<b>Net contribution</b>	<b>-770</b>
Assets under management, 31 Dec 2008	1,944
Invested capital, 31 Dec 2008	2,591
Investment commitments, 31 Dec 2008	2,237

### FOREIGN EXCHANGE EXPOSURE, 31 DEC 2008, SEK MN

	USD	EUR	GBP	JPY	Other	Total
Shares and investments	36,177	12,770	5,829	7,274	7,076	69,126
Bonds and other fixed income assets	21,578	10,782	5,936	0	0	38,295
Derivatives, excluding foreign exchange derivatives	126	-47	249	-1	114	442
Other receivables and liabilities, net	959	66	115	129	-551	718
Foreign exchange derivatives	-47,458	-14,563	-10,476	-5,574	-6,613	-84,685
<b>Foreign exchange exposure, net</b>	<b>11,382</b>	<b>9,008</b>	<b>1,653</b>	<b>1,828</b>	<b>26</b>	<b>23,896</b>

### FOREIGN EXCHANGE EXPOSURE, 31 DEC 2008, SEK MN

	USD	EUR	GBP	JPY	Other	Total
Shares and investments	44,341	16,624	7,732	7,634	7,810	84,142
Bonds and other fixed income assets	23,227	11,364	7,621	-	-	42,213
Derivatives, excluding foreign exchange derivatives	152	127	-89	-36	-488	-334
Other receivables and liabilities, net	222	200	51	173	541	1,187
Foreign exchange derivatives	-56,111	-16,148	-13,685	-3,874	-7,936	-97,754
<b>Foreign exchange exposure, net</b>	<b>11,832</b>	<b>12,167</b>	<b>1,631</b>	<b>3,897</b>	<b>-72</b>	<b>29,454</b>

## RISK AND RETURN FOR INVESTMENT ASSETS

Asset class	Portfolio return %	Active return %	Volatility % 12-month portfolio	Active risk % 12 months	Sharpe ratio, 12-month portfolio	Information ratio, 12 months
Global equities	-39.4	-0.4	31.4	0.8	-1.4	-0.5
Swedish equities	-40.3	-1.3	38.0	1.9	-1.2	-0.7
Fixed income	11.4	-0.2	4.3	1.2	1.7	-0.1
Active foreign exchange management <sup>1)</sup>	0.1	0.1	0.1	0.1	-43.6	1.2
Active tactical asset allocation <sup>1)</sup>	-0.1	-0.1	0.1	0.1	-34.2	-0.6
<b>Total actively managed liquid assets</b>	<b>-22.3</b>	<b>-0.5</b>	<b>18.0</b>	<b>0.7</b>	<b>-1.5</b>	<b>-0.7</b>
Private equity	-33.8	1.0	31.9	45.3	-1.2	
Real estate	-2.7	0.0	11.5	0	-0.6	
<b>Total actively managed assets</b>	<b>-21.9</b>	<b>-0.5</b>	<b>17.1</b>	<b>1.0</b>	<b>-1.5</b>	<b>-0.5</b>
Implementation of the strategic portfolio <sup>1), 2)</sup>	1.5	-0.6	1.5	0.6	-1.7	-1.1
<b>Total investment assets before extraordinary items</b>	<b>-20.7</b>	<b>-1.1</b>	<b>17.1</b>	<b>1.6</b>	<b>-1.5</b>	<b>-0.7</b>
Other items unrelated to active management	-0.1					
<b>Total investment assets</b>	<b>-20.8</b>		<b>17.1</b>			

1) Returns, risk, and ratios based on total investment assets.

2) Passive tactical asset allocation, strategic foreign exchange, and cash.

performance is not assessed annually but over a period of five years.

The massive drop in stock markets during the year also adversely affected the value of the Fund's unlisted investments. In cases where the Fund did not receive a year-end valuation, the third quarter assessment was written down by a percentage corresponding to the fall in the benchmark index for listed equities.

During the year, the Fund made commitments amounting to SEK 0.6 billion to two unlisted funds: EQT Infrastructure I and Goldman Sachs Vintage V. The Fund also purchased the remaining holdings in the Special Asset Management Fund, the liquidation fund for unlisted investments that the Fund has managed since 2001 on assignment from AP1-AP4. The Special Asset Management Fund will be wound up in early 2009.

## RISKS

Each year, the Board of Directors adopts a risk management plan for the Fund's activities. The plan describes the principal operational risks and how these risks shall be managed. The principal risks are of a financial and operational nature. For the latter, AP4 managers are responsible for identifying, limiting, and controlling their departments' operational risks in accordance with the risk management plan.

For financial risks, the Fund has set up an independent department for Performance and Risk Control that reports directly to the CEO and Board. Its task is to ensure compliance with legal regulations on investment and the risk management plan throughout the Fund. The chief means are careful measurement and analysis as well as daily reporting of return and risk in absolute terms and in relation to indexes.

In the current organisation, the CEO of the Fund has operational responsibility for investment operations. Rules in the organisation aimed at securing the principle of duality include that the CEO may not independently carry out transactions

and all limit adjustments must be reviewed and approved in advance by Performance and Risk Control. Moreover, the head of Performance and Risk Control is entitled at any time to submit any questions that arise within the department's remit directly to the Board.

## Financial risks

AP4's active management shall generate an active return in relation to the benchmark and reference indexes. Thus, risk is primarily determined in relation to the appropriate index (active risk).

Foreign exchange, fixed income, and equity risks in active management are managed by means including limitation of active risk, duration, and permissible deviations from index weights. The use of derivatives is limited with respect to both nominal underlying value and market risk. All derivative positions and associated risks are covered by daily position and risk monitoring. Credit and counterparty risks consist of the risk that individual counterparties will be unable to fulfil their commitments to the Fund. AP4 has established individual, continuously monitored counterparty limits to manage credit risks. Credit risk is also limited by a rule that permits investment only in securities rated BBB or higher. Liquidity risk is limited by special rules for investment in fixed income assets and careful monitoring of cash balances.

During the financial year, day-to-day risk management has included intensified monitoring of the Fund's credit exposure, in the form of primary risk as well as third-party risk. To reduce third-party exposure, the Fund reallocated cash funds and requested collateral from several counterparties. In addition, the reduction of active risk in global equities continued. Almost all (99%) of the global portfolio has been indexed since autumn 2008. The other areas of active management – Swedish equities, active foreign exchange management, and active tactical asset allocation – were also

cautious in taking positions.

2008 was a year when volatility in financial markets surged, and on average the volatility of investment assets was 17.1% (8.6).

In stock markets, the situation was extreme, as volatility reached 31.4% (13.5) for global equities and 38.0% (18.7) for Swedish equities. Because the global equity portfolio was largely indexed during the year, the active risk fell to 0.8% (1.0) on average. This has more or less eliminated the risk that the global equity portfolio will deviate from the benchmark index.

On the other hand, the active risk in Swedish equity management as well as fixed income management has risen owing to the extreme volatility. On the whole, the active risk equalled 0.7% (0.7) for listed assets.

During the year, the Fund had significant exposure to corporate bonds and, to a limited extent, suffered indirectly from the bankruptcies of issuers. Uncertainty in the credit market has led to certain holdings being forcefully marked down.

Since 2007, AP4 has participated in a programme to lend foreign bonds and equities administered by the Fund's custodian bank, Northern Trust. In 2008, the programme generated revenue of about SEK 150 million. The custodian bank has received cash funds as security for the securities on loan. In compliance with the programme rules, the collateral has then been invested in a pool of short-term fixed income securities, in which AP4 has become one of the partners through this lending programme. In the autumn, the custodian bank announced that the carrying amount of the pool would be written down as a consequence of credit losses. At year-end 2008, AP4's unrealized loss totalled SEK 171 million.

## OTHER ACTIVITIES DURING THE YEAR

For almost two years, the Fund has carried out a comprehensive change initiative with the help of a "Lots" process. The purpose has been to create a transparent and broadly accepted management process.

All asset management has undergone objective analysis to assess the possibilities for generating an active return (return better than index/average). In addition, internal and external management alternatives have been explored.

In some cases, these efforts were spurred by a poor return on management. A crucial part of this review has been to reconsider staffing. In 2008, new heads were appointed to the Fund's fixed income, foreign exchange, and global equity management groups.

An assessment of the Fund's ability to generate active returns in the long run also led to the global equity portfolio since the most recent year-end being almost wholly under passive management externally. Work building a new structure based on completely different prerequisites has been

under way for six months.

The Fund's internal "traffic light system" advanced in 2008. The purpose is to deal with severe deviations in performance and positions in a better, more predictable manner. The Pearl system for risk and performance was also enhanced, for example in fixed income management.

A governance report for 2008 has been published and a report regarding the Fund's ethics and environmental work will be published on the Fund's website [www.ap4.se](http://www.ap4.se).

## Organisational changes and employees

Major changes in staffing continued in 2008. The change initiative that the organisation has carried out and is still under way resulted in significant organisational changes especially in global equity management and fixed income management. Several colleagues have changed assignments within the organisation, while others have left and thus enabled a series of new recruitments to adapt and bolster the management organisation in accordance with the Fund's new direction in management.

The Fund has even outsourced its IT operations and system maintenance to an external vendor to reduce costs and boost flexibility for the 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.

## 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 regular members, is appointed by the Government and is responsible for the organisation and the management of AP4's funds. Members of the Board are presented on page 28.

The Board of Directors has delegated responsibility for day-to-day management to AP4's CEO, who has an executive management committee of eight employees to support him in the decision process. The Executive Management Committee is presented on page 29.

AP4's auditors are appointed by the Government. The current audit mandate took effect in 2008 and is valid until the income statement and balance sheet is adopted for 2008. The auditors report to the Fund's Board and to the Ministry of Finance.

The full Administration Report and the main Board documents it refers to are public documents and may be accessed through the AP4 website at [www.ap4.se](http://www.ap4.se).

## INCOME STATEMENT

SEK mn	Notes	2008	2007
<b>OPERATING INCOME</b>			
Net interest income	1	4,205	1,972
Dividends received		3,454	2,800
Net income, listed shares and investments	2	-54,407	-138
Net income, unlisted shares and investments	3	-1,621	963
Net income, fixed income assets		2,418	21
Net income, derivatives		-2,738	-1,138
Net income, foreign exchange		5,388	519
Net commission expenses	4	-44	-72
<b>Total operating income</b>		<b>-43,345</b>	<b>4,927</b>
<b>OPERATING EXPENSES</b>			
Personnel costs	5	-88	-87
Other administrative expenses	6	-69	-52
<b>Total operating expenses</b>		<b>-157</b>	<b>-139</b>
<b>PROFIT/LOSS FOR THE YEAR</b>		<b>-43,502</b>	<b>4,788</b>

## BALANCE SHEET

SEK mn	Notes	31 Dec 2008	31 Dec 2007
<b>ASSETS</b>			
Shares and investments, listed	7	93,032	116,280
Shares and investments, unlisted	8	4,427	4,859
Bonds and other fixed income assets	9	72,841	77,020
Derivatives	10	7,636	8,526
Cash and bank balances		1,971	1,727
Other assets	11	492	957
Prepaid expenses and accrued income	12	2,461	2,527
<b>Total assets</b>		<b>182,860</b>	<b>211,896</b>
<b>LIABILITIES AND FUND CAPITAL</b>			
<b>Liabilities</b>			
Derivatives	10	14,148	2,374
Other liabilities	13	3,562	1,119
Deferred income and accrued expenses	14	424	1,058
<b>Total liabilities</b>		<b>18,134</b>	<b>4,551</b>
<b>Fund capital</b>			
Fund capital, opening balance		207,345	200,537
Net payments from the pension system		831	991
Transfers from Liquidation Fund/ Special Asset Management Fund		52	1,029
Net profit/loss for the year		-43,502	4,788
<b>Total fund capital</b>		<b>164,726</b>	<b>207,345</b>
<b>TOTAL LIABILITIES AND FUND CAPITAL</b>		<b>182,860</b>	<b>211,896</b>
<b>MEMORANDUM ITEMS</b>	16		

# 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 policies and valuation principles as summarised below.

## Changes in classification

Effective 1 January 2008, management fees for unlisted shares and investments, for which repayment is permitted prior to profit-sharing and where repayment is assessed as likely, are recognised as part of the assets' purchase cost. In previous years, this item was posted under other assets in the balance sheet. The figures for comparison have been changed.

## 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 on 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. Net accounting is applied when permitted.

Other transactions, primarily transactions in private equity, are recognised in the balance sheet at the settlement date, conforming to market practices.

## Foreign currency

Assets and liabilities denominated in foreign currencies are stated at year-end exchange rates. 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. Realised and unrealised changes in value arising from exchange rate fluctuations are recognised in the income statement under net income, foreign exchange.

## Shares and investments

Shares and investments are stated at fair value. Shares and investments traded in an active market are valued primarily at the last price paid in local currency on the last trading day of the year or secondarily at the most recent available bid rate.

Holdings in private equity funds are stated at AP4's share of the valuation determined by the fund administrator based on the fund's total holdings. The stated value is normally updated upon receipt of a new valuation and is adjusted for any cash flows up to the accounting year-end. Stated values comply with guidelines from the European Private Equity and Venture Capital Association (EVCA) or equivalent principles and should primarily be based on transactions with third parties, though other valuation methods may be used. In general, holdings shall be recognised at their fair value, having been assessed with due prudence and consistency.

## Bonds and other fixed income assets

Bonds and other fixed income assets are stated at fair value. Fair value is determined primarily by the closing bid rate on the last trading day of the year or secondarily by the bid rate on the day preceding the last trading day. When instruments are not traded in an active market and reliable market prices are not available, the instrument is valued using generally accepted valuation models, by which cash flows are discounted using a yield curve relevant for the instrument.

Net income is the difference between average amortised cost and sale value or fair value. The amortised cost is the discounted present value of future payments where the discount rate corresponds to the effective interest rate at time of purchase. Thus, premiums or discounts on acquisition are accrued to maturity or until the coupon changes. These premiums and discounts are recognised as interest income.

## 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.

## Derivatives

Derivatives are valued at fair value based on year-end market rates. When instruments are not traded in an active market and reliable market prices are not available, the instrument is valued using generally accepted valuation models, for which the input data consists exclusively of observable market 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 recognised as interest.

## Securities on loan

Securities on loan are recognised in the balance sheet at fair value. Collateral received for securities on loan consists of securities and cash. The value of securities on loan as well as their collateral is posted among memorandum items. Payments received for securities on loan are recognised as interest income. If AP4 is entitled to exercise control over collateral received, the collateral is recognised in the balance sheet as an asset, and an offsetting liability is posted.

## Items recognised directly in fund capital

Transfers to and from the national pension system as well as transfers from the special asset management funds owned jointly by AP1-AP4 are recognised directly in fund capital.

## Performance-based fees to external managers

Performance-based fees, paid only if the manager produces returns above the agreed level, are recognised in the income statement in net income per asset class.

## 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. Brokerage fees and fees paid for external management of unlisted assets, for which repayment is granted prior to profit-sharing and for which repayment is deemed probable, are recognised in the balance sheet as part of the purchase cost for each asset class.

## 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 software, whether developed in-house or purchased, are customarily expensed as they are incurred.

AP4 is exempt from value-added tax (VAT), because the Fund is not regarded as an entity conducting business activities. Consequently, the Fund is not entitled to reimbursement of input VAT. VAT that has been paid or reserved for payment is recognised with the expense item to which it belongs.

## Income taxes

AP4 is exempt from income tax on investments in Sweden. The tax liability on investments outside Sweden varies from country to country.

# NOTES TO THE INCOME STATEMENT AND BALANCE SHEET

(SEK million unless otherwise stated.)

## NOTE 1 Net interest income

	2008	2007
<b>Interest income</b>		
Bonds and other fixed income securities	3,489	3,475
Derivatives	3,622	3,968
Other interest income	360	154
<b>Total interest income</b>	<b>7,471</b>	<b>7,597</b>
<b>Interest expense</b>		
Derivatives	-3,110	-5,611
Other interest expense	-156	-14
<b>Total interest expense</b>	<b>-3,266</b>	<b>-5,625</b>
<b>Net interest income</b>	<b>4,205</b>	<b>1,972</b>

## NOTE 2 Net income, listed shares and investments

	2008	2007
Net income, listed shares and investments	-54,285	12
Less brokers' commissions	-122	-149
Less performance-based fees	0	-1
<b>Net income, listed shares and investments</b>	<b>-54,407</b>	<b>-138</b>

## NOTE 3 Net income, unlisted shares and investments

	2008	2007
Capital gain	234	400
Unrealised changes in value	-1,855	563
<b>Net income, unlisted shares and investments</b>	<b>-1,621</b>	<b>963</b>

## NOTE 4 Net commission expenses

	2008	2007
External management fees, listed assets	-31	-55
External management fees, unlisted assets	-2	-8
Other commission expenses, including custody account fees	-11	-9
<b>Net commission expenses</b>	<b>-44</b>	<b>-72</b>

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 65 million (51) in management fees related to unlisted assets were paid. Of this total, SEK 64 million (48) 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. Performance-based fees, SEK 0 million (1), are recognised in net income by asset class.

## NOTE 5 Personnel

	2008 Total	2008 Women	2007 Total	2007 Women
<b>NUMBER OF EMPLOYEES</b>				
Average number of employees	41	14	42	14
Number of employees at 31 December	50	16	45	17
Number of executive management committee members at 31 December	9	3	6	2

	2008	2007
<b>PERSONNEL COSTS, SEK '000</b>		
<b>Salaries and remuneration</b>		
Chairman of the Board	100	100
Other directors	425	438
CEO	2,621	2,891
Other executive management committee members <sup>1)</sup>	12,508	8,057
Other employees <sup>2)</sup>	34,573	36,182
<b>Total salaries and remuneration</b>	<b>50,227</b>	<b>47,668</b>

<sup>1)</sup> Costs of employee cutbacks, other exec. mgmt., included 1,431 0  
<sup>2)</sup> Costs of employee cutbacks, other employees, included 8,382 2,239

	2008	2007
<b>Incentive-based pay</b>		
CEO	0	0
Other executive management committee members	80	695
Other employees	156	2,137
<b>Total incentive-based pay</b>	<b>236</b>	<b>2,832</b>

	2008	2007
<b>Pension expenses</b>		
CEO	705	560
Other executive management committee members <sup>3)</sup>	3,644	3,253
Other employees <sup>4)</sup>	10,251	9,932
<b>Total pension expenses</b>	<b>14,600</b>	<b>13,745</b>

<sup>3)</sup> Costs of employee cutbacks, other exec. mgmt., included 1,853 0  
<sup>4)</sup> Costs of employee cutbacks, other employees, included 1,315 556

	2008	2007
<b>Social security expenses</b>		
Chairman of the Board	32	10
Other directors	127	136
CEO	1,021	1,073
Other executive management committee members <sup>5)</sup>	4,965	3,627
Other employees <sup>6)</sup>	13,487	14,553
<b>Total social security expenses</b>	<b>19,632</b>	<b>19,399</b>

<sup>5)</sup> Costs of employee cutbacks, other exec. mgmt., included 914 0  
<sup>6)</sup> Costs of employee cutbacks, other employees, included 3,036 906

	2008	2007
<b>Other personnel costs</b>	<b>3,776</b>	<b>3,354</b>
<b>Total personnel costs</b>	<b>88,471</b>	<b>86,998</b>
Costs of employee cutbacks included	16,931	3,701

Note 5, cont'd.

#### Costs of employee cutbacks

The costs total SEK 16.931 million and relate to compensation for pension expenses, salary, and severance pay in connection with employee cutbacks in investment operations.

All costs of employee cutbacks were recognised as an expense in the 2008 accounts but will be disbursed in part in 2009.

#### Salaries and remuneration

The Government sets remuneration for the Board of Directors. The Board determines the terms of employment of the CEO based on the recommendations of the Chairman and Deputy Chairman. Remuneration to the CEO is limited to base salary. Remuneration to other members of the executive management committee consists of base salary plus incentive-based pay.

#### Incentive-based pay

The Board determines the plan for incentive-based pay. The plan covers all employees, except for the CEO, employed more than six months. The basic principle is that employees earn incentive-based pay if the Fund outperforms the benchmark and reference indexes. The maximum incentive-based entitlement for a full-year employee is two months' salary. No incentive-based pay entitlements were earned for 2008. In addition, particularly deserving efforts may be rewarded with bonuses, set by the CEO. The maximum bonus paid to an individual employee is two months' salary.

#### Pensions and similar benefits

The CEO's pension benefits and severance package are specified in his employment contract. The provisions of the agreement include pension entitlement at age 65, with a pension provision of 20% of salary. The CEO is also entitled to a severance package equal to 18 months' salary.

Other executive management committee members have individual employment contracts including pension entitlements and severance notice as required by the relevant collective agreement.

#### Sickness absence

The sickness absence rate in 2008 was 0.9% (1.8) of normal working hours. The figures were 1.9% (1.6) for female staff and 0.4% (1.9) for male staff. 0.0% (0.4) of absences lasted 60 days or longer. The sickness absence rate was 1.3% (1.2) for employees aged 29 or younger, 0.6% (1.6) for employees aged 30–49, and 1.9% (2.5) for employees over 50.

#### NOTE 6 Other administrative expenses

	2008	2007
Costs of premises	8	8
Information and IT expenses	41	28
Services purchased	13	9
Other administrative expenses	7	7
<b>Total other administrative expenses</b>	<b>69</b>	<b>52</b>

Services purchased includes fees to accounting firms as follows:

Audit services, Ernst & Young	1.0	0.0
Other services, Ernst & Young	0.2	0.0
Audit services, Öhrlings PwC	0.2	1.0
Audit services, KPMG	0.1	0.3
Other services, KPMG	0.2	0.5
<b>Total fees to accounting firms</b>	<b>1.7</b>	<b>1.8</b>

#### NOTE 7 Listed shares and investments

	31 Dec 2008		31 Dec 2007	
	Fair value	Purchase cost	Fair value	Purchase cost
Swedish equities	29,338	42,900	39,778	37,427
Foreign equities	61,584	70,416	55,583	55,843
Investments in foreign mutual funds	2,110	2,650	20,919	17,051
<b>Total listed shares and investments</b>	<b>93,032</b>	<b>115,966</b>	<b>116,280</b>	<b>110,321</b>

A detailed list of holdings is published on the AP4 website, [www.ap4.se](http://www.ap4.se), and printed copies may be ordered from the Fund.

**NOTE 8 Unlisted shares and investments**

Holding at 31 Dec 2008	Corp. ID no.	Quantity	Pctg. voting capital	Pctg. equity capital	Pctg. equity in total fund	Purchase cost
<i>Swedish shares and investments:</i>						
AP Fastigheter Holding AB	556650-4196	1,000,000	25	25		1,221
Innoventus AB	556602-2728	2,334	17	17		1
Innoventus Project AB	556616-8356	31,032	9	9		13
Accent Equity 2003 KB	969694-7739			19	6	70
BrainHeart Capital KB	969674-4102			21	19	107
Företagskapital Kompanjonfond KB	969625-6537			24	24	2
HealthCap KB	969614-4162			16	16	16
HealthCap ColInvest KB	969625-6255			24	24	23
HealthCap 1999 KB	969656-1647			8	8	33
HealthCap III Sidefund KB	969699-4830			20	20	41
HealthCap Annex Fund I-II KB	969690-2049			20	20	51
HealthCap IV KB	969683-6650			41	2	36
Industrial Development & Inv. Equity KB	969640-9631			15	15	0
Innoventus Life Science I KB	969677-8530			16	16	27
Northern Europe Private Equity KB (EQT III)	969670-3405			10	1	29
Priveq Investment Fund III KB	969704-1524			19	12	60
Skandia Investment KB	969654-5046			10	10	50
<b>Total Swedish shares and investments</b>						<b>1,780</b>
<i>Foreign investments:</i>						
EQT IV LP				4	3	592
EQT V LP				2	1	262
EQT Opportunity LP				12	7	107
EQT Infrastructure LP				3	3	6
European Strategic Partners II				4	4	204
Goldman Sachs Multi-Strategy Fund Offshore LP				95	*	358
Goldman Sachs Vintage Fund IV Offshore LP				1	1	102
Goldman Sachs Distressed Opportunities Fund III Offshore LP				5	3	143
Goldman Sachs Private Equity U.S. Focused II Offshore LP				21	21	63
Goldman Sachs Vintage Fund V Offshore LP				1	1	69
HealthCap V LP				12	12	38
Scope Growth II LP				10	10	36
Accent Equity 2008 LP				6	6	52
<b>Total foreign investments</b>						<b>2,032</b>
<b>Total purchase cost, unlisted shares and investments</b>						<b>3,812</b>
Total fair value, Swedish shares and investments						2,867
Total fair value, foreign investments						1,560
<b>Total fair value, unlisted shares and investments</b>						<b>4,427</b>

\* AP4's shares of the underlying funds are 2% (GS Vintage III) and 4% (GS PEP 2004).

**NOTE 9 Bonds and other fixed income assets**

Issuer category	31 Dec 2008		31 Dec 2007	
	Fair value	Accrued purchase cost	Fair value	Accrued purchase cost
Kingdom of Sweden	4,266	3,850	7,455	7,467
Swedish housing institutions	17,362	16,686	17,628	17,831
Other Swedish financial services companies	5,455	5,388	6,500	6,540
Swedish non-financial companies	5,261	5,235	2,614	2,628
Foreign governments	13,595	11,975	16,863	17,754
Other foreign issuers	26,902	24,707	25,960	27,764
<b>Total fixed income assets *</b>	<b>72,841</b>	<b>67,841</b>	<b>77,020</b>	<b>79,984</b>

Type of instrument	31 Dec 2008		31 Dec 2007	
	Fair value	Accrued purchase cost	Fair value	Accrued purchase cost
Bonds	68,018	62,983	72,561	75,518
Promissory note loans	4,250	4,250	2,000	2,000
Subordinated debentures	573	608	378	385
Overnight loans	0	0	2,081	2,081
<b>Total fixed income assets *</b>	<b>72,841</b>	<b>67,841</b>	<b>77,020</b>	<b>79,984</b>
* Amount valued using a theoretical valuation model	3,940	3,776	551	579



**NOTE 10 Derivatives**

	31 Dec 2008		
	Nominal amounts	Fair value	
		Positive	Negative
<i>Equity-based instruments:</i>			
Stock options held	3,876	3,876	0
Stock futures	630	0	10
<b>Total equity-based instruments</b>	<b>4,506</b>	<b>3,876</b>	<b>10</b>
of that total, cleared	630	0	10
<i>Interest-based instruments:</i>			
Swaps	29,319	597	347
FRAs / Forward contracts	64,243	344	312
<b>Total interest-based instruments</b>	<b>93,562</b>	<b>941</b>	<b>659</b>
of that total, cleared	64,243	344	312
<i>Instruments based on foreign exchange:</i>			
Foreign currency options held	845	38	45
Foreign currency options issued	19,849	187	182
Foreign exchange forward contracts	106,535	2,594	13,252
<b>Total instruments based on foreign exchange</b>	<b>127,229</b>	<b>2,819</b>	<b>13,479</b>
<b>Total derivative instruments *</b>	<b>225,297</b>	<b>7,636</b>	<b>14,148</b>
of that total, cleared	64,873	344	322
* Amount valued using a theoretical valuation model	156,548	3,416	13,826

**NOTE 11 Other assets**

	31 Dec 2008	31 Dec 2007
Receivables on unsettled transactions	488	953
Other assets	4	4
<b>Total other assets</b>	<b>492</b>	<b>957</b>

**NOTE 12 Prepaid expenses and accrued income**

	31 Dec 2008	31 Dec 2007
Accrued interest income	2,322	2,449
Accrued dividends and repayments	133	73
Other	6	5
<b>Total</b>	<b>2,461</b>	<b>2,527</b>

**NOTE 13 Other liabilities**

	31 Dec 2008	31 Dec 2007
Trade payables	12	7
Pension provisions	0	3
Payables for unsettled transactions	286	1,106
Reinvested collateral received	2,951	0
Other liabilities	313	3
<b>Total other liabilities</b>	<b>3,562</b>	<b>1,119</b>

**NOTE 14 Deferred income and accrued expenses**

	31 Dec 2008	31 Dec 2007
Accrued interest expense	363	1,004
Accrued personnel costs	15	16
Accrued external management expenses	29	33
Other accrued expenses	17	5
<b>Total</b>	<b>424</b>	<b>1,058</b>

**NOTE 15 Fund capital**

	31 Dec 2008	31 Dec 2007
<b>Fund capital, opening balance</b>	<b>207,345</b>	<b>200,537</b>
<i>Net payments from the pension system</i>		
Paid-in pension contributions	50,783	47,603
Pension moneys disbursed to the Swedish Social Insurance Agency	-49,796	-46,405
Transfer of pension entitlements to the EU	-6	-8
Settlement of pension entitlements for previous years	2	1
Administration fee paid to the Swedish Social Insurance Agency	-152	-200
<b>Total net payments from the pension system</b>	<b>831</b>	<b>991</b>
Transfer from AP1's liquidation fund	0	961
Transfer from AP4's special asset management fund	52	68
<b>Total transfers</b>	<b>52</b>	<b>1,029</b>
<b>Net profit/loss for the year</b>	<b>-43,502</b>	<b>4,788</b>
<b>Fund capital, closing balance</b>	<b>164,726</b>	<b>207,345</b>
Assets under management, AP1's liquidation fund	0	0
Assets under management, AP4's special asset management fund <sup>1)</sup>	2	305

<sup>1)</sup> Annual reports may be ordered from AP1 and AP4.

**NOTE 16 Memorandum items**

	31 Dec 2008	31 Dec 2007
<i>Securities on loan for which collateral has been received</i>		
Securities on loan	18,992	28,822
Collateral received for securities on loan	19,634	29,651
<i>Collateral received for trading in derivatives</i>		
Collateral for stock options	0 <sup>1)</sup>	6,087
<i>Collateral pledged for trading in derivatives</i>		
Collateral for stock and interest rate futures (cleared)	2,034	1,823
Collateral for OTC derivatives	3,944	0
<i>Commitments</i>		
Investment commitments, private equity holdings	2,237	1,954

<sup>1)</sup> Collateral received as of 31 December 2008, SEK 2,951 million, has been reinvested and so is posted in the balance sheet as other liabilities.

**NOTE 17 Related parties**

AP4 rents its office premises from Vasakronan Fastigheter AB (previously AP Fastigheter) at market rates.

# BOARD OF DIRECTORS' SIGNATURES

Stockholm, 17 February 2009

*Monica Caneman*  
CHAIRMAN OF THE BOARD

*Lars Frithiof*  
DEPUTY CHAIRMAN

*Sture Nordh*

*Ulrik Wehtje*

*Kajsa Lindståhl*

*Charlotte Strömberg*

*Inga Persson*

*Ilmar Reepalu*

*Stefan Löfven*

*Mats Andersson*  
CHIEF EXECUTIVE OFFICER

Our auditors' report has been submitted.

Stockholm, 17 February 2009

*Anna Peyron*  
AUTHORISED PUBLIC ACCOUNTANT  
Appointed by the Government

*Lars Bonnevier*  
AUTHORISED PUBLIC ACCOUNTANT  
Appointed by the Government

# AUDITORS' REPORT

*for the Fourth Swedish National Pension Fund*  
(Corporate identity number 802005-1952)

We have examined the annual accounts, the accounting records, and the administration of the Fourth Swedish National Pension Fund by the Board of Directors for the financial year 2008. The Fund's annual accounts are included in the printed version of this document on pages 9–26. These accounts and the administration as well as the application of the Swedish National Pension Funds Act in conjunction with the annual accounts are the responsibility of the Board of Directors. Our responsibility is to express our opinion on the annual accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. These standards require that we plan and perform the audit to obtain high but not absolute assurance that the annual accounts are free from material misstatement. An audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting policies used and their application by the Board of Directors, the significant estimates made by the Board when compiling the annual accounts, and the overall presentation of information in the annual accounts. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Swedish National Pension Funds Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting standards in Sweden. The Report of the Directors is compatible with the other sections of the annual accounts.

The audit has given us no reason for qualification with regard to the annual accounts, the income statement and balance sheet, the accounting records, the inventory of assets, or the administration of the company in general.

We recommend that the income statement and balance sheet be adopted.

Stockholm, 17 February 2009

*Anna Peyron*  
AUTHORISED PUBLIC ACCOUNTANT  
Appointed by the Government

*Lars Bonnevier*  
AUTHORISED PUBLIC ACCOUNTANT  
Appointed by the Government

# BOARD OF DIRECTORS



## MONICA CANEMAN

Chairman since 2008. Born 1954.  
Other board assignments:  
Chairman of Point International AB, Linkmed AB, and SOS International A/S.  
Member of the board of Investment AB Öresund, Orexo AB, Poolia AB, SJ AB, Securia AB, Schibsted ASA, EDB Business Partner ASA, and Nordisk Energiförvaltning ASA.



## LARS FRITHIOF

Deputy Chairman since 2008. Born 1946.  
Other board assignments:  
Chairman of the Chamber of Commerce and Industry of Southern Sweden and Comsys AB.  
Deputy chairman of Scandinavian International Management Institute.  
Member of the board of Midway Holding AB, AH Industries A/S, board of trustees of the Swedish Center for Business and Policy Studies (SNS), and the Advisory Board at the Lund University School of Economics and Management.



## KAJSA LINDSTÅHL

Member of the Board since 2004. Born 1943.  
Director.  
Other board assignments:  
Chairman of Vectura Consulting AB and Stiftelsen Tumba Bruk  
Member of the board of Pensionsgaranti (FPG, an insurance company), Swedish National Road Consulting AB (SWEROAD), Institute for Financial Research (SIFR), Södersjukhuset AB (Stockholm South General Hospital).



## STEFAN LÖFVEN

Member of the board since 2008. Born 1957.  
Chairman of IF Metall.  
Other board assignments:  
Chairman of Nordic IN trade union federation.  
Deputy chairman of Swedish Trade Council.  
Member of the board of Industrikommittén, the Executive Committee of the International Metalworkers' Federation (IMF), and the European Metalworkers' Federation (EMF).



## STURE NORDH

Member of the board since 1999. Born 1952.  
Chairman of the Swedish Confederation of Professional Employees.  
Other board assignments:  
Chairman of Karlstad University.  
Deputy chairman of Folksam Liv.  
Member of the board of Riva del Sole Spa and the European Trade Union Confederation.



## INGA PERSSON

Member of the board since 2000. Born 1945.  
Professor.  
Other board assignments:  
Member of the Research Board, the Department for Research Cooperation of the Swedish International Development Cooperation Agency.



## ILMAR REEPALU

Member of the board since 2000. Born 1943.  
Member of the Malmö City Executive Board.  
Other board assignments:  
Deputy chairman of Swedish Association of Local Authorities (SKL) and Regions and SKL Företag AB. Member of the board of E.ON Sverige AB and KPA AB.



## CHARLOTTE STRÖMBERG

Member of the board since 2007. Born 1959.  
CEO of Jones Lang LaSalle, the Nordics.  
Other board assignments:  
Member of the board of Gant Company AB and member of the executive council, Stockholm Chamber of Commerce.



## ULRIK WEHTJE

Member of the board since 2004. Born 1956.  
CEO Rydsgårds Gods AB. Other board assignments:  
Deputy chairman of Swedish Bookbinders' Union, the Swedish Graphic Companies' Federation. Member of the board of Confederation of Swedish Enterprise, Confederation of Swedish Enterprise's SME Committee, and AFA Trygghetsförsäkring and Livförsäkring.

# EXECUTIVE MANAGEMENT COMMITTEE



## MATS ANDERSSON

Born 1954. Chief Executive Officer and Chief Investment Officer. Employed at AP4 since 2006. B.Sc. Economics. Previous employment: Deutsche Bank, AP3, and Skandia Liv.



## ANNIKA ANDERSSON

Born 1958. Head of Corporate Governance and Communications. Employed at AP4 since 1994. B.Sc. Economics. Previous employment: Aktiv Placering, Bohusbanken, and the Swedish Society of Financial Analysts.



## TOBIAS FRANSSON

Born 1968. Portfolio manager responsible for unlisted investments. Employed at AP4 since 2003. B.Sc. Economics. Previous employment: ABB, SEB, and Capto Financial Consulting.



## BJÖRN KVARNSKOG

Born 1965. Head of Global Equities. Employed at AP4 since 2008. Business & Economics. Previous employment: Handelsbanken Liv (RKA), Alfred Berg Asset Management, AP3, and DnB NOR.



## AGNETA WILHELMSON KÅREMAR

Born 1952. Director of Administration. Employed at AP4 since 2001. Bachelor of Laws and DIHM Diploma in Business Finance. Previous employment: Nordnet, Swedbank Markets, and Handelsbanken.



## BENGT LINDEFELDT

Born 1962. Head of Fixed Interest and Foreign Exchange Management. Employed at AP4 since 2008. M.Sc. Engineering. Previous employment: Investor, Nordea, Carnegie, and AFA.



## CATRIN ABRAHAMSSON POHJANEN

Born 1961. Head of Tactical Asset Allocation. Employed at AP4 since 1999. B.Sc. Economics. Previous employment: LF, AMF pension, ABB IM, and SEB.



## GÖRAN SCHUBERT

Born 1953. Head of Performance and Risk Control. Employed at AP4 since 2004. B.Sc. Economics. Previous employment: Alecta and Nordea.



## THOMAS WUOLIKAINEN

Born 1966. Head of Swedish Equities. Employed at AP4 since 1998. B.Sc. Economics. Previous employment: KP Pension & Försäkring and Myrberg Fondkommission.

# GLOSSARY

## Active management

Asset management using a portfolio composed differently from the index in an effort to secure a higher return.

## Active return

Difference between the return on a portfolio compared to the return on its benchmark or reference index. Synonymous with relative return. See also Excess return.

## Active risk

Risk that is a result of 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.

## Benchmark index

Combination of various reference indexes. Basket of indexes against which AP4's total risk and return is compared. The return on the index basket mirrors the return on the strategic portfolio.

## Corporate bond

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

## Credit risk

Risk that a counterparty cannot perform all or part of their obligations as a result of financial incapacity.

## Derivatives

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

## Duration

Measure of interest rate risk. Measures the average time to maturity of all future cash flows (coupon yields and final redemption) for a bond or bond portfolio. Also known as Macaulay duration. See also Modified duration.

## Enhanced index management

See semi-active management.

## Fixed income portfolio

Comprises fixed income assets including interest rate derivatives. The foreign portion of the fixed income portfolio's benchmark index is hedged in Swedish kronor.

## Foreign exchange exposure

Denotes the proportion of the portfolio exposed to currencies 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 World 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.) The benchmark index for 2008 is the MSCI Daily Total Return Index, hedged.

## Hedging

Neutralisation of foreign exchange risk by swapping exposure, from foreign currencies to Swedish kronor, using foreign exchange forward contracts, for example.

## 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.

## 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 risk

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.

**Outperform**

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

**Passive management**

Management of a portfolio so that the holdings mirror the composition of a chosen index so that the portfolio return matches the return on the index.

**Portfolio risk, ex post**

The standard deviation of return on the portfolio during the period. 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 series against which a portfolio's return and risk is compared, such as the SIX Return Index.

**Return**

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

**Return contributions**

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 in a specific area.

**Return versus index**

Difference between the return on a portfolio and the return on its benchmark or reference index. Synonymous with active return and relative return. See also Outperform.

**Semi-active asset management**

Portfolio management carrying somewhat higher active risk than passive management, that is, indexed management with limited 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 on the portfolio.

**SIX Return Index**

Benchmark index for the Fund's Swedish equity portfolio. Charts the market performance, including dividends, of companies listed on the A and O lists of the NASDAQ OMX Stockholm exchange.

**Strategic allocation**

Medium-term deviations from the normal portfolio's asset allocation, foreign exchange exposure, duration, and so forth aimed at enhancing returns on and risk characteristics of the strategic portfolio. Strategic allocations are decided by the Board of directors based on the normal portfolio and medium-term forecasts of risk and return.

**Swedish equity portfolio**

For 2008, the portfolio consists of equities and equity-based instruments listed on a Swedish exchange and unlisted Swedish shares and investments other than holdings in AP Fastigheter. The benchmark index for 2008 is the SIX Return Index. The portfolio is divided into two parts: large-cap listed companies, with the SIX60 Return Index as the reference; and other listed companies, with the SIX Return Index, excluding companies in the SIX60 Index, as the benchmark.

**Tactical asset allocation**

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

**Volatility**

Risk yardstick that corresponds to the measured standard deviation of the return on an asset. It shows how much returns vary.

This annual report was produced by AP4 in cooperation with Oxenstierna & Partners.  
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