

Initiative with the UN to reduce carbon footprint



310
billion SEK in fund capital



6,8 %
in total return



20
billion SEK in profit

ANNUAL REPORT 2015

With a profit of 20 billion, AP4's fund capital increased to SEK 310 billion.

Seventh consecutive year with a better return than the index.

AP4's work, in collaboration with the UN, to collect asset managers worldwide - to measure, disclose and reduce their carbon footprint in investments - exceeded the targets.

The Fourth Swedish National Pension Fund (AP4) Annual Report 2015

The annual report describes AP4's management operations and sustainability initiatives during 2015, which together with three additional reports represents AP4's overall reporting:

- AP4's Sustainability- and Corporate Governance report describes in more detail AP4's work in the areas of sustainability and corporate governance. AP4's Sustainability and Corporate Governance Report is for the fiscal period July 1 through June 30. The report period follows the cycle for public companies from the Nomination Committees through to the AGMs.
- AP4's Fund Governance Report contains the elements applicable to AP4 of the Swedish Code of Corporate Governance.
- The AP Funds Ethical Council Annual Report describes the work with foreign companies that are carried out in collaboration between the First through the Fourth AP Funds within the Ethical Council.

All reports are available at www.ap4.se.

We hope readers find the reports interesting.

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The figures in this reports tables and charts are displayed separately, so the total does not always correspond with the parts.

Positive results for all investment horizons

With a positive profit of SEK 20.1 (40.2) billion the fund capital increased to SEK 310.0 (294.9) billion in 2015. Total return after expenses was 6.8 (15.7) percent. For the seventh consecutive year active Tactical management outperformed the benchmark index.

310

billion crowns in Fund capital

20

billion crowns total profit

6,8

percent total return after costs

Awards

for AP4's environmental work, governance structure and reporting

Portfolio Decarbonization Coalition (PDC)

In close cooperation with the United Nations, AP4 worked during the year to bring together investors worldwide to the PDC coalition, which drives investors to measure, disclose and reduce their carbon footprint. PDC surpassed the target set for the climate summit, COP21, in Paris 2015.

YEAR IN BRIEF, KEY FIGURES	2015	2014	2013	2012	2011	2010	2009 ¹
Net profit, SEK bn	20.1	40.2	37.0	23.4	-1.6	21.2	34.9
Net disbursements to pension system, SEK bn	-4.9	-5.1	-6.9	-3.8	-1.2	-4.0	-3.9
Closing net assets, SEK bn	310.0	294.9	259.7	229.6	210.0	212.8	195.7
Total return after expenses	6.8	15.7	16.4	11.2	-0.7	10.9	21.5
Annual total return after expenses, average 5 years	9.7	10.5	11.6	3.3	1.6	3.8	4.9
Annual total return after expenses, average 10 years	6.7	7.6	7.2	7.2	4.1	3.6	-
Strategic management, investment horizon 3-15 years:							
Active return (compared to index)	4.8	0.7	1.2	-0.4	-	-	-
Profit contribution, SEK bn	14.1	1.8	2.6	-0.8	-	-	-
Tactical management, investment horizon 0-3 years:							
Active return (compared to index), average 3 years	0.4	0.7	0.6	0.7	0.8	0.4	-0.1
Active contribution to earnings, average 3 years, SEK bn	0.8	1.4	1.0	1.1	1.2	0.7	-0.4
Active return (compared to index)	0.1	0.7	0.5	1.0	0.2	0.8	1.4
Profit contribution, SEK bn	0.2	1.4	0.9	1.8	0.3	1.3	1.9
Operating expenses, % of AuM	0.06	0.07	0.08	0.08	0.08	0.09	0.10
Operating and commission expenses, % of AuM	0.11	0.11	0.11	0.10	0.10	0.10	0.11

¹ In 2009 the current administrative structure was in place, after two years of change.

AP4 at a glance

AP4 manages buffer capital for current and future Swedish pensioners and is part of the Swedish State pension system. Everyone that works, receives a salary and pays taxes in Sweden collects a public pension. Shortfalls in pension payments are covered by, among others, AP4.

Mission

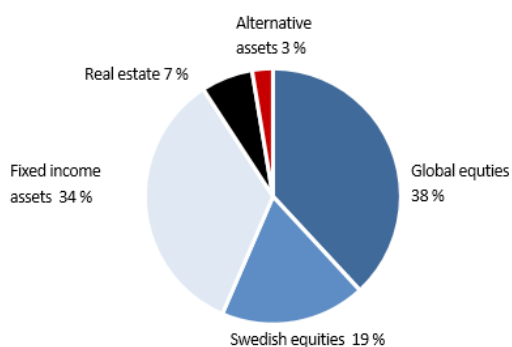
AP4's mission is to contribute to the pension system's stability by managing capital with the aim to maximize returns over time. Environmental and ethical issues must be taken into account without compromising the goal of the best possible return. AP4's Board of Directors and the business operations may not be controlled by Government directives or by business policy or economic policy interests. Investment rules are specified in the law (2000:192) regarding public pension funds (AP Funds).

Assets and expenses

Fund capital amounted to SEK 310 billion at the end of 2015. The Board has resolved that AP4 has the best chance to achieve the real long-term goal by having a high proportion of listed shares. Both global and Swedish listed shares represent about 57 percent of assets.

AP4's management costs amounted to 0.1 percent, which is very low and competitive in both domestic and international comparisons. For the seventh consecutive year the AP Funds injected capital into the pension system in 2015. AP4 has paid in total SEK 30 billion to the pension system when the pension system's net flows turned negative.

Listed shares more than half of the assets

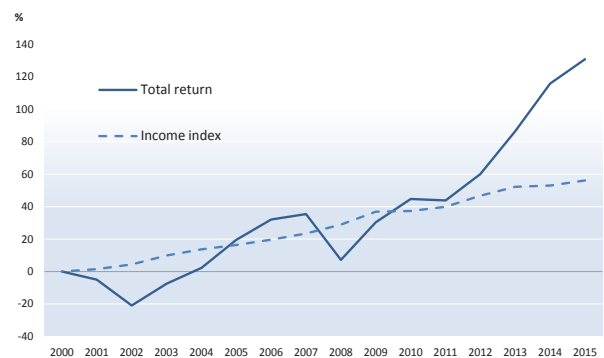


The chart above shows the asset allocation Dec. 31, 2015. Listed shares, both global and Swedish, represent more than half of the assets.

Sustainability important over the long-term

Sustainability - environment, ethics and corporate governance - is one of the four cornerstones of AP4's business philosophy. AP4 drives the integration of sustainability in the management because it is considered to reduce risk and promote long-term returns. Climate Change and Governance are two priority areas within sustainability with explicit sustainability goals.

The total return exceeds the income index



AP4's total return (the dark blue line) outperformed the income index Dec. 31, 2015, and therefore AP4 contributed positively to the stability of the Swedish pension system.

Goals and outcomes

Goal: 4.5 percent real inflation-adjusted total return on average per year measured since July 1, 2001, which is the starting point for the evaluation period. The target is set, according to AP4's assessment, based on the average long-term total return required for the current pension system's assets and liabilities to balance over a 40 year period.

Outcome: 4.3 percent in real total return after expenses indicates a profit slightly below the target of 4.5 percent as of Dec. 31, 2015.

Goal Strategic Management, investment horizon of 3-15

years: 0.75 percentage points in active return (in addition to the benchmark index) on average per year. Up to and including 2013 the target was 0.5 percentage points.

Outcome: Since the start January 1, 2013 the positive profit contribution amounts to SEK 18.6 billion, equivalent to 2.2 percentage points on average per year. The evaluation period is a rolling five years, and as such a full evaluation period will be reached 2017.

Goal Tactical Management, investment horizon up to three

years: 0.5 percentage points active return (in addition to the benchmark index) on average per year over a three year period.

Outcome: The positive active return was 0.4 percentage points on average over the past three years, which is slightly below the target of 0.5 percentage points. AP4's active management delivered a positive additional contribution of SEK 7.8 billion since 2009.

Business philosophy builds on four cornerstones

AP4's business philosophy builds on four cornerstones: long-term approach, sustainability, businesslike approach and the individual before the model.

Long-term approach

The benefit of being able to be long-term is an important element and a cornerstone of AP4's business philosophy.

Many of today's regulations push pension funds towards increased short-termism, limiting their ability to act as long-term investors. In this respect the AP Funds have an almost unique mandate with good opportunities to take a long-term approach. AP4 can tolerate volatility, which can also be considered as a measure of the ability to be long-term

Sustainability

Addressing sustainability aspects - the environment, ethics and corporate governance - is a necessity for long-term investors.

No company can be successful over time, and generate good returns, if sustainability aspects are not prioritized and adequately managed by the respective boards and management. Sustainability aspects must be examined and evaluated in order to function and evolve.

AP4's cornerstones



Businesslike approach

A businesslike approach is another cornerstone of our business philosophy. AP4 endeavors to pursue the option that is best for the Swedish pensioner, present and future, in every decision and every investment we make.

AP4 strives to choose simple solutions where possible. This means seeking alternatives that will over time give the best possible return at the lowest cost. Fundamental to AP4's investments is that they generate positive returns at an expected risk. The same applies to AP4's investments with explicit focus on sustainability. Transparency is an element of being businesslike. It is important that return, risks and costs are measured, reported and monitored.

The AP Funds in general, and AP4 in particular, have among the lowest cost levels in the industry, even in an international comparison.

The individual before the model

Focus on the individual is the fourth cornerstone of AP4's business philosophy. AP4 believes that it is the individual who creates results, and that it is the individual who can pursue added value in different locations using different methodologies.

AP4 works with, and looks for, individuals with effective investment strategies that can take advantage of the opportunities the market offers.

Awards

AP4's efforts gets positive attention in several different contexts, both in Sweden and internationally. During 2015 AP4 received several awards in addition to an award for the AP funds' Ethical Council.

Environmental Finance presented AP4's CEO an award motivated by that he:

"...has helped drive the Portfolio Decarbonization Coalition forward ahead of the all-important UN climate talks in Paris."



Institutional Investor European Awards 2015 - Scandinavian Public Pension Manager of the year awarded AP4's Chief Investment Officer and Deputy Chief Executive Officer for AP4's focus on sustainability and the long-term nature of the management structure for the creation of good returns. AP4's Chief Investment Officer and Deputy Chief Executive Officer was also profiled in an article in Institutional Investor.



AP4's Chief Investment Officer and Deputy Chief Executive Officer Magnus Eriksson receives an award for AP4's focus on sustainability and the long-term nature of the management structure in order to create good returns.

Asset Owners Disclosure Project (AODP) Global Climate 500 awarded AP4 **the highest rating AAA** for its management of climate risks in investments, and AP4 **ranked 9th** of 500 international pension funds.



In January, the **CFA Society Sweden** presented AP4 with the **2014 CFA Sweden ESG Award** for efforts to raise awareness about the importance of including sustainability elements, with a focus on fossil fuels, into the investment process.

Three Swedish institutions shared the award and the justification reads:

"These institutions have demonstrated leadership and commitment to this challenge, each in their own way, as it relates to their fiduciary duty and clients.

All three have incorporated their views on fossil fuels to implement investment strategies to capitalize and generate higher investment returns. They have demonstrated that you do not need to sacrifice short-term goals in order to achieve long-term objectives.

Through their leadership they have invited to an industry dialogue and initiated the development of toolkits for a sustainable approach."



Yearly, **MiljöAktuellt** ranks **Sweden's most environmentally influential** people by highlighting role models and people who set the agenda for environmental and sustainability issues, and drive the development in a more sustainable direction. **AP4's CEO is ranked number two** with the motivation that:

"The Fourth AP-Fund is one of the initiators behind the "Portfolio Decarbonization Coalition", a coalition where some of Europe's largest institutional investors, together with the UN, will work to influence global financial markets to direct investments towards assets that are more carbon efficient. The initiative sends a clear message to carbon intensive companies: Now is the time to reconsider."



Also the **AP Funds Ethical Council Secretary General** ranks high at **15th place** on MiljöAktuellt's 2015 list of the most environmentally influential people on the grounds that:

"Through their long term and focused efforts, the AP Funds' Ethical Council contributes in influencing companies worldwide to work more sustainably. Since environmental analyst John Howchin became Secretary General of the AP Funds Etikråd, the Funds have strengthened their efforts to enforce environmental and ethical issues in the foreign companies whose shares they own."



The Responsible Investor (RI) Reporting Awards 2015

presented AP4 with an award for its sustainability and corporate governance reporting. Simplicity, relevance, transparency and process are some of the assessment criteria for which the report is judged.

More than 1,000 pension fund's reports were evaluated and 16 funds were nominated. AP4 was nominated for the second time in three years as one of eight funds in the category of Best Report RI report - Large Fund.

The purpose of the Responsible Investor (RI) prize is to encourage 'best practice' and transparency in the reporting of pension funds sustainability efforts in their investments.



AP4's CEO was awarded **5th place** in the category "Pensions and Investments" when **Financial News** presented its FN100 Most Influential list with the following motivation:

"As head of Sweden's Fourth National Swedish pension fund, Andersson provides significant institutional clout in environmental and corporate activism.

The Skr295 billion (36.4 billion) AP4 fund co-founded the Portfolio Decarbonization Coalition, an alliance of institutional investors committed to reducing investments in the worst fossil-fuel pollutes. Launched at UN Secretary General Ban Ki-Moon's climate summit in late 2014, it has attracted 12 institutional investors.

Andersson, a former head of Nordic equities at Deutsche Bank, also plans to step up to the fund's corporate activist positions. In 2014, AP4 doubled its investment in the Governance for Owners' Japan Engagement Fund and was vocal in its opposition to Volkswagen's 6.7 billion takeover of truck maker Scania. It also had its best performance yet, returning 15.7 %.



Letter from the CEO

The value of daring to be different



"For those who can have a long-term approach as a guiding principle it is possible to achieve a better result, even when the journey is periodically dotted with large earnings fluctuations. It's simply a function of the chosen strategy."

For a long-term manager sustainability is a way to reduce risk and enhance returns over the long-term. Climate change can illustrate this approach. To try to reduce this risk requires the courage to be different!

Today most people realize that one of the biggest risks the world is facing is climate risk, that is to say that a temperature increase leads to large portions of earth are no longer inhabitable. No company, no organization, no asset manager can be successful long-term unless sustainability is high on their agenda.

By law the AP Funds are required to allocate their capital with a time horizon of 30-40 years. In addition, the AP Funds, unlike traditional pension funds, do not have any so-called solvency capital to defend, a restriction which often tends to impose short-term action. These conditions mean that the AP Funds have a better opportunity to act as long term and responsible investors.

Over the past five years AP4 has gradually tried to develop this opportunity to invest and act long-term to create added value on behalf of the Swedish pensioner.

More focus on the long term mandate

Three years ago a visionary board assigned the AP4 organization a Strategic mandate, where investments would be evaluated over a 3-15 year time horizon.

The organization has gradually sought and found investment opportunities with a longer-term perspective. This has been achieved with the belief that over time we are able to generate a better return.

The added value generated by the Strategic mandate over the past three years could today be estimated to be nearly SEK 19 billion.

It involves approximately 30 investments, together with about 10 positions connected to currencies, interest rates and allocations between asset classes.

Let me give some examples that clarify how we at AP4 regard and utilize the Strategic mandate.

Few institutional owners are willing or able to take long-term responsibility as investors. As previously mentioned, regulations and short-term evaluation horizons often forces many institutions investors to safeguard results over the short-term.

As a result, they elect not to engage in something that can take time and where the reward - in the form of increased value of the investment - is typically far in the future.

Large proportion Swedish equities contributed positively

AP4 has since inception always held a high proportion of Swedish equities. The Fund's share of Swedish equities is 30 times higher than Sweden's share in the global index. Furthermore the volatility, namely price fluctuations, is far higher on the Swedish stock exchange than on the major international capital markets.

Over the past decade many Swedish managers have as a result reduced the proportion of Swedish equities in favor of foreign shares. Over time, however, the Swedish stock market has outperformed the rest of the world, measured against a passive World Index. The main reason is likely the combination of a good Swedish Corporate Governance model and a significant element of committed and knowledgeable principal shareholders.

AP4 participates in nominating committees in Sweden and as such actively contributes to the “right” directors being elected at the Swedish listed companies’ annual general meetings. During 2015, AP4 was represented in more than 25 nominating committees. This work, however, is not visible in the Fund’s short-term returns. On the contrary, the results are not more than an unspecified cost item in the Fund’s income statement for 2015.

A model worth defending

It is a matter of course that we should involve ourselves in issues threatening the ownership model by which Swedish companies are governed given the large proportion of Swedish equities AP4 owns. It was therefore natural for AP4, together with three other institutional investors, to engage when we discovered serious flaws in the so-called Industrivärden Sphere during 2014/2015. Subsequently we contributed to a clearer governance and ownership structure of the large and important companies that are included in this sphere. It was in no way something that AP4, and other institutional owners, would have managed on our own. But we were without a doubt a driving force in the difficult change process.

As a long-term owner we can also participate and support companies looking to go public through an IPO. AP4 was one of the first institutions responsible for the concept of “anchor investors” when companies have sought to broaden their ownership base via a listing on the Stockholm Stock Exchange. We are often a welcome owner due to our serious and long-term approach.

25 billion crowns extra

AP4 has chosen a strategy to hold a large proportion of Swedish equities since the re-launch of the pension fund system in 2001.

This choice has in total given pensioners an extra capital contribution of just over SEK 25 billion.

The results for AP4’s Swedish equities were particularly good during the past business year. The Strategic Swedish equity portfolio performed a full ten percentage points better than what index management would have returned!

Overall AP4’s approach - with a high proportion of Swedish equities, a positive active earnings from the Fund’s Swedish management and the choice to have a large proportion of small and medium-sized Swedish companies in the portfolio - gave an extra return contribution of an impressive SEK 7 billion during 2015.

In hindsight we can note that AP4’s strategy to work as a long-term and committed owner in Sweden has been richly rewarded. At times, however, the journey has been volatile and will likely remain so for the foreseeable future. However, undeniably interesting possibilities become available for those that can tolerate volatility and maintain a long-term evaluation horizon and - not least - are insightful and have fearless principals. This is nevertheless my absolute conviction.

"For seven consecutive years AP4's Tactical management has delivered a positive active contribution to earnings and outperformed the index. The same applies to 13 of the last 14 six-month period. This is something that many estimates are impossible. The positive results show, however, the value of daring to go your own way."

Better return than the index seven years in a row

There are several “truths” in asset management that are rarely questioned. One is the claim that over time you cannot get a better return than what passive index management would provide. AP4 will continue to try to prove the opposite. For seven consecutive years AP4’s Tactical management has delivered a positive active contribution to earnings and outperformed the index. The same conclusion applies to 13 of the last 14 six-month periods!

Sustainability in focus

Another common perception is that the choice to take sustainability into account will always be reflected in lower returns. It has been said that sustainability costs money. I consider this conclusion to be incorrect. It is, in my opinion, quite the contrary. No company, no organization, no asset manager can be successful long-term unless sustainability is high on their agenda. Managed properly, returns will also be higher. Climate change can illustrate this approach.

Today most people realize that one of the biggest risks facing the world is climate risk, that is to say that a temperature increase will lead to large portions of earth are no longer inhabitable. Moreover this risk is a real risk in my view - that is that it can lead to permanent loss of capital for a pension fund.

AP4 started work with the aim to reduce climate risk in our global portfolio almost five years ago. We did this without lowering requirements of good returns. AP4 has gradually addressed climate risk in our investment process by opting out of companies that have the greatest negative impact in terms of carbon emissions. We have applied this approach on a sector-by-sector basis.

Since we made our first investment in accordance with these principles four years ago the outcome overall has given an excess return of almost two percentage points. You do not have to compromise on performance when sustainability is on the agenda.

PDC - a coalition to make a difference

Fostered by our experience, AP4 was one of the four initiators of the Portfolio Decarbonization Coalition, PDC. The PDC was launched during the climate summit in New York in the autumn of 2014. The target was set high. The coalition would bring together USD 100 billion of pension capital invested in strategies aimed at reducing climate impact by the climate meeting in Paris in December 2015.

At the climate summit, COP21, in December last year, the coalition was able to report that 25 members had collectively invested USD 600 billion of capital in some form of low carbon strategy. The 25 PDC members now manage capital amounting to USD 3200 billion. We are all in agreement that our work aims to reduce risks and simultaneously increase returns - over the long term! This of course requires a long-term approach.

Long-term goal

A more detailed review of the business year 2015 is found in the following pages of the Annual Report. But let me briefly highlight the really long-term outcome - that is since the start in 2001.

AP4 managed to deliver a real return, i.e. adjusted for inflation, amounting to 4.3 percent given the 2015 positive earnings contribution of SEK 20 billion, or an additional 6.8 percent.

This outcome should be seen against the starting point for AP4's journey at the top of a stock market cycle, not to mention the fiscal crisis and debt crisis we experienced along the way.

So far the story has proved that for those who can have a long-term approach as a guiding principle it is possible to achieve a better result, even when the journey is periodically dotted with large earnings fluctuations as witnessed in the start of 2016. But this is simply a function of the chosen strategy.

Finally, I want to recognize all the dedicated employees at AP4 for their contributions to the outcome of 2015. During three of the last five years the AP Funds have been the subject of extensive change proposals on how the AP Funds' assets should be governed and managed. The proposal was not supported in the Pension Group and the evaluation was discontinued during the fall of 2015. My dedicated colleagues have never given way in the ambition and the mission to deliver good returns for current and future pensioners.

They are worthy of admiration and of a big THANK YOU!



Mats Andersson

CEO

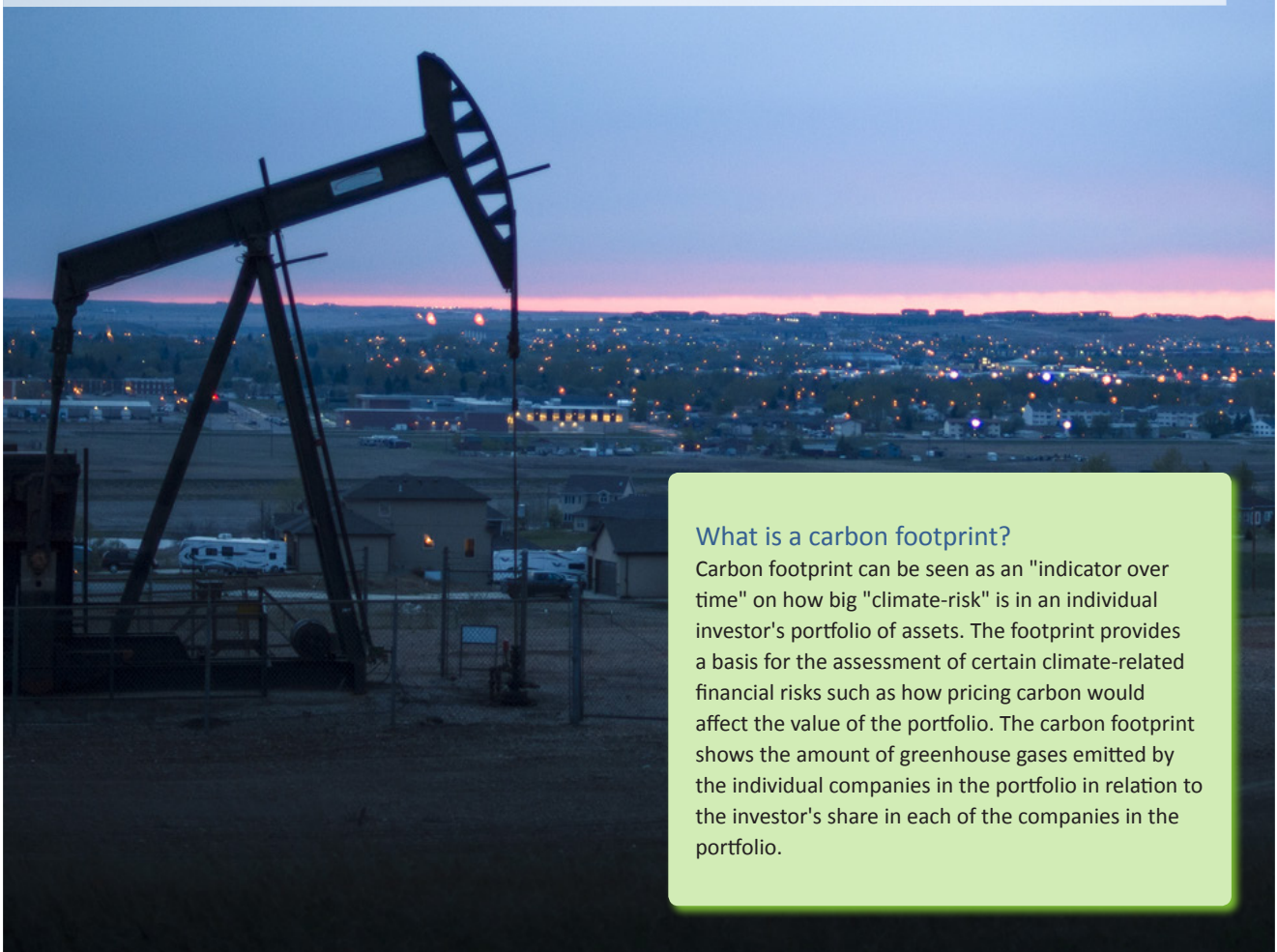
>> Special theme: Climate change and carbon emissions

On the following pages AP4 presents elements of the work conducted during the year regarding the theme "Climate change and carbon emissions" in the Climate Change focus area.

It has been a special year. In cooperation with the UN AP4 has also worked to bring together investors to the Portfolio Decarbonization Coalition (PDC). PDC is a global coalition of investors who have decided to measure, disclose and reduce their carbon footprint. AP4 is one of the four founders of the PDC. The coalition was launched at the UN Climate Conference in 2014 with a focus to reach its goals by the climate meeting, COP21, in Paris at the end of 2015. The PDC surpassed the goal of bringing together investors and capital to COP21.

For many years AP4 has worked with low-carbon strategies and the reduction of our carbon footprint in order to manage and reduce climate risks in the portfolio that arise due to climate change.

It is AP4's belief that many different approaches and methods are required to stem the negative climate change. Everyone needs to find the method that best suits their business.



What is a carbon footprint?

Carbon footprint can be seen as an "indicator over time" on how big "climate-risk" is in an individual investor's portfolio of assets. The footprint provides a basis for the assessment of certain climate-related financial risks such as how pricing carbon would affect the value of the portfolio. The carbon footprint shows the amount of greenhouse gases emitted by the individual companies in the portfolio in relation to the investor's share in each of the companies in the portfolio.

>> PDC - measure, disclose and reduce

Portfolio Decarbonization Coalition (PDC) drives investors to measure, disclose and reduce their carbon footprint. The PDC surpassed the goal set for the climate summit COP21 in Paris in 2015.

Background to AP4's commitment

In 2012 AP4 invested in its first low-carbon strategy, which was designed to halve the exposure to carbon dioxide and other greenhouse gases. Since then, work has continued to develop strategies and increase the level of investments in this area. Climate risk has been reduced in AP4's assets. It is still too early to evaluate these long-term investments, but so far the returns are in line with a broad global equity index.

PDC - a coalition to make a difference

Our experience and the realization that more must be done contributed to AP4, together with UNEPFI, CDP and Amundi, took the initiative in 2014 to establish the Portfolio Decarbonization Coalition, PDC.

The PDC was launched during the climate summit in New York during the autumn 2014, and the goals were set high. The goal was that by the climate meeting COP21 in Paris – 15 months later - the coalition would have amassed investors with at least USD 100 billion of assets invested in various strategies aimed at reducing climate impact. The second goal was to engage investors generally to measure and disclose their carbon footprint in an effort to demonstrate that it could eventually be reduced.

AP4's work with the PDC during 2015

In 2015 AP4 was appointed by the UN to be "ambassador" for the PDC. The mission was to bring together and support other institutional investors to join the PDC and through a variety of strategies to reduce, begin to measure and to disclose their carbon footprint. The goal was to accomplish this by the climate summit COP21 in Paris. It was hoped that this would make companies and politicians aware that climate risk is high on investors' agendas.

Surpassed the target

Our ambition and the targets were exceeded. At the climate summit COP21 the PDC could report that the coalition had increased to 25 members from leading pension funds globally. The members collectively invested about USD 600 billion in some type of low carbon strategy. Jointly the 25 members of the PDC managed capital amounting approximately to USD 3200 billion at the end of 2015. Members all agree that the work aims to reduce risk while increasing returns long-term. PDC also exceeded its other goal of helping to bring together investors from around the world that, through the Montreal Carbon Pledge, decided they should measure and publish their carbon footprint. Investors with assets under management totaling USD 10 000 billion signed the Montreal Carbon Pledge.

Measure and disclose their carbon footprint ...

... Reduce their carbon footprint



Portfolio Decarbonization Coalition (PDC)

PDC is a coalition of investors focused on reducing climate risk. PDC was founded in 2014 by four organizations, the UN (United Nations Environment Program, UNEP), CDP, Amundi and AP4. PDC was launched during the United Nations summit in New York, Autumn 2014.

PDC's first goal – to measure and publish the carbon footprint - is all about transparency. The goal is founded on the belief that "what gets measured also gets managed". The interim target was to bring together institutional investors that measure and disclose their carbon footprint and manage assets of at least USD 500 billion by the climate summit COP21 in Paris in 2015.

PDC's second goal - to reduce the carbon footprint is all about bringing together investors that use different strategies to reduce the indirect emissions generated by fund assets. This, for example, can be done through low-carbon strategies by opting out of companies with the worst emissions. Another strategy is investments in, comparatively, carbon-efficient companies, projects or technologies. Reduced emissions can also be achieved through advocacy dialogues with companies. The interim target to be reached by the climate summit COP21 was a minimum of managed assets in various low-carbon strategies of USD 100 billion.

Read more about the PDC at www.unepfi.org/pdc/.



Reduce risks and create opportunities

“Decarbonization” is all about developing and integrating carbon dioxide information in investment decisions. This applies to both investment strategies and to capital allocations. The aim is to contribute to the transition to a low carbon society. For an investor this means both reduced fossil-related risks and increased opportunities for good returns through various investments that promote the transition to a low-carbon society.

In practice an investors’ work includes efforts to reduce the carbon footprint of assets, increase the level of investments in areas such as renewable energy and reduce investments in high energy consuming assets, among others. The PDC’s work involves encouraging companies and other organizations to reduce their emissions, as well as to support in the transformation to a low carbon society.

The significance of a signal to companies and politicians

The fact that investors take this challenge very seriously sends a clear signal to companies and politicians that major risks associated with climate change are the focus for investors and managers. There is a current need for rules and regulations that support and drive the transformation to a low carbon society.

Collaboration essential

Investors on their own have a limited ability to effect change. The transition to mitigate the worst effects of climate change requires fast action. Only by working together and with other stakeholders - mainly politicians and companies - can a quick turnaround be achieved.

A major shift is required

Major changes in the real economy - changes that must be supported and promoted by effective rules and regulations – are required in order to succeed in implementing a transition to a low carbon society. A conversion of the magnitude that is necessary also requires large investments, which are dependent on the availability of capital. Private investors play a key role given several governments and states are experiencing limitations in how much they can increase taxes. This applies both to providing capital as well as ensuring that capital is invested in low fossil-exposure options. Despite the fact that investors have a key role it is important not to exaggerate their potential impact. Investors are a stakeholder among many stakeholders that can affect the actions and decisions of companies and politicians.

There are many challenges

It is important to build momentum in the transition to a low carbon society. It is also important to increase knowledge about how different investment strategies work over the long term, and how these can minimize risks for investors while also encouraging a shift in society.

Major changes often take time to implement. There can be long lead-times before the result of changes in investment strategies have a greater impact on the portfolio’s assets. For example, it can take several years of dialogue and engagement before companies take note and act in accordance with investors’ requirements to limit emissions or take other measures. It can also take several years before capital allocations to renewable energy projects are realized given development and production of such projects often takes time.



AP4’s CEO Mats Andersson, far right, during the climate meeting COP21 in Paris 2015.

Transparency and the exchange of knowledge

PDC advocates for transparency and the exchange of knowledge in order to promote and facilitate investors to quickly and successfully reduce carbon in their portfolios. PDC wants to contribute to the development of “best practice”.

How can the PDC contribute going forward?

PDC believes it is important to increase the number of investors that contribute to a transition to a low carbon society. To achieve this it is important that investors share knowledge, tools and strategies for how to move forward. The outcomes of different strategies need to be developed, particularly for strategies that can improve return on assets. Similarly the PDC wants to support the development of metrics and tools that enables PDC members to report progress in a consistent and credible manner.

PDC also encourages legislators to adopt policy tools and methods that directly assist investors to take action to halt climate change.

>> Standardization of the carbon footprint

AP4, together with the other AP Funds, call for a global standardization of the measurement methods and the reporting of a carbon footprint. Therefore the AP Funds have coordinated their reported carbon footprint.

Striving for increased standardization

Since 2014 all the AP Funds have measured and reported the carbon footprint of their investments, which is a measure of climate risk in the asset portfolio. The AP Funds want to see a global standardization of both the measurement and reporting of the carbon footprint, and to promote this the AP Funds decided to coordinate their measurement and reporting. The AP Funds pursued this collaborative project during 2015.



Carbon footprint is a measure of climate risk

To measure and publicly account for an investment's climate emissions through a carbon footprint is a good start and a prerequisite in managing climate risk and bringing about the reduction of emissions of the portfolio's assets.

The carbon footprint gives a basis for assessing climate-related financial risks such as the effect that a price on carbon could have for the value of the investment. A carbon footprint also provides the starting point of a company's impact with regards to the requirements for emissions reduction, risk management, business strategies and transparency. Greater transparency from investors regarding the reporting of their carbon footprint will also lead to greater transparency and data quality from the companies.

The carbon footprint, like all measurement methods, has its limitations. For example, the emissions data available from the companies is not comprehensive. This leads to the need for estimates where some asset classes are easier to measure than others.

The relative risks and opportunities of different investments' climate exposure are taken into account when assessing the possible effects of climate change on the value of the asset portfolio. Some examples of these risks and opportunities include the physical risks that a business can suffer in extreme weather such as flooding or drought, or how well a business is positioned for the consequences of increased legislation on energy efficiency and the transition to a low carbon society.

A "directional indicator" over time

AP4 believes that the carbon footprint should be primarily seen as a "directional indicator over time" of the climate risk for an individual investors portfolio of assets. Comparisons between investors carbon footprint must account for the differences in the measurement methodologies used.

An investor's carbon footprint shows the level of greenhouse gas emissions by the companies included in the portfolio of assets in relation to the investor's stake in each company. The size of an investor's carbon footprint is affected by the use of different investment strategies and asset allocations to different asset classes, such as equities or debt securities. Other factors affecting the carbon footprint are the measurement methodologies used, the assumptions used in preparing the carbon footprint and the indicators reported.

As a result it is difficult to obtain fully comparable carbon footprint information to be able to fairly compare different investors.

The AP Funds published a joint fact sheet on the carbon footprint during the autumn of 2015. This fact sheet describes the indicators used for the reporting of the carbon footprint as agreed by the AP Funds. More information can be found on AP4's website: www.ap4.se or on www.apfonderna.se.



AP Funds coordinate the carbon footprint

For 2014 the AP Funds have individually measured the carbon footprint. To increase transparency and the opportunity to evaluate the AP Funds' efforts on climate change, the Funds agreed to coordinate the methodology for measuring and reporting during 2015.

From 2015 the AP Funds' carbon footprint will be calculated for investments as of December 31 of the current year using the latest available carbon data for direct emissions (Scope 1) and indirect emissions from energy (Scope 2). The First, Second, Third, Fourth and Seventh AP Funds will calculate and report the carbon footprint of their respective listed equity portfolio shareholdings¹. The Sixth AP Fund will report on these indicators for their unquoted equity portfolio based on their shareholdings.

Three indicators for the carbon footprint

The carbon footprint will be presented with the following three indicators, which are currently the most common.

1. The absolute carbon footprint of the equity portfolio * equivalent to owned share of the companies' total emissions (tCO₂e).
2. Carbon Intensity, the absolute carbon footprint relative to the shareholding of the companies' market value ** (tCO₂e/MSEK).
3. Carbon Intensity, the absolute carbon footprint relative to the shareholding of the companies' revenues (tCO₂e/MSEK).

The AP Funds will include information regarding the percentage of the respective fund's capital that has been determined, and the proportion that is based on reported emission figures versus estimated emissions.

* Listed share portfolio for First, Second, Third, Fourth and Seventh AP Fund. Unquoted equity portfolio for the Sixth AP Fund.

** Market capitalization of the listed equities portfolios and the market value according to the latest valuation for the portfolio of unlisted shares.



¹ Equity exposure via equity futures and other derivatives where the underlying collateral comprises listed equities will not be included. Equity exposure via funds may be included as long as information about the Funds' underlying assets is available. The reason exposure via funds cannot always be included is that the detailed information on assets – essential for measuring the carbon footprint – is not always available. For equity futures and other derivatives there is currently no standard for how they should be calculated in a carbon footprint.

AP4's carbon footprint



AP4's carbon footprint continues to decline for the portfolio of publically listed shares. The goal is to have the entire global equity portfolio invested in low-carbon strategies by the end of 2020.

Low Carbon Strategies reduce climate risk

AP4's investments in low-carbon strategies has lead to the reduction of the climate risk in the global equity portfolio. AP4's low carbon strategies reduced the carbon footprint in 2015 by 13 percentage points in the global equity portfolio compared to global indices. In the transition to a low carbon economy these strategies are judged to contribute to a better return on AP4's assets over the long term.

A high proportion of Swedish equities reduce the carbon footprint

The Swedish stock market has a relatively low carbon footprint when compared internationally, where one reason is that there are relatively few companies from sectors with high emissions such as energy and raw materials. Consequently AP4's high proportion of Swedish equities relative to global equity indices contributes to a lower carbon footprint for AP4's total assets. The carbon footprint for the total equity portfolio was 34 percentage points lower compared with the global index.

55% of the companies report their carbon emissions

By the end of 2015, 74 (84) percent of the value of AP4's publicly listed equities portfolio, or 55 (63) percent of the companies in the portfolio, reported their carbon emissions either through their annual report, a sustainability report or via the Carbon Disclosure Project, CDP. AP4 commissioned carbon emissions estimates from consulting firm South Pole Group for the remaining 26 (16) percent of the equity portfolios. 99.8 percent of AP4's listed share portfolio is charted.

The footprint measures the emissions from investments

The equities portfolio's indirect exposure to a company's emissions of greenhouse gases such as carbon dioxide, is measured by a carbon footprint.

The footprint shows the level of greenhouse gas emissions by the companies in the investor's asset portfolio in relation to the investor's stake in each company. The carbon footprint of an investment in a share is calculated as AP4's ownership of the company's emissions. That is, if AP4's ownership interest in a company is three percent, AP4 then assigns three percent of the company's total emissions to its carbon footprint. The carbon footprint includes both direct emissions from operations (wholly owned or controlled by the company) and indirect emissions from the purchase of electricity and district heating.

The urgency to reduce emissions

According to the International Energy Agency (IEA), several measures are required to reduce the risk of a permanent global temperature increase of two degrees. This will require efforts from the whole industry including pension funds like AP4. Some important measures that can be taken are the energy efficiency of industrial motors, appliances and heating and cooling systems.

AP4's absolute carbon footprint



* For 2012 and 2013 the measurements relate to the portfolio's composition at mid-year.

The bar chart shows AP4's absolute carbon footprint corresponding to AP4's ownership interest in the portfolio companies' total emissions (tCO₂e).

AP4's GHG emissions/Carbon footprint ¹	2015	2014	2013 ²	2012 ²
CO ₂ e (number of tons of carbon dioxide-equivalent emissions)				
Carbon Intensity, absolute carbon footprint relative to the shareholding of the companies' market value, tCO₂e/MSEK				
Global equities	18.5	20.7	29.8	35.4
Swedish equities	4.6	6.1	7.9	7.8
Equities, total	14.0	16.2	23.1	26.5
Relatively carbon footprint				
Global equities, compared with global index %	-12.7	-7.6	-0.1	1.4
Swedish equities, compared with Swedish index %	-34.5	1.0	-14.4	-7.8
Equities, total, compared with global index %	-34.0	-28.0	-22.7	-24.0

¹ AP4's ownership stake in a company is the share of greenhouse gas (GHG) emissions calculated to belong to AP4. GHG emissions include Scope 1 (emissions from the company's operations, wholly owned or controlled by the company) and Scope 2 (indirect emissions resulting from the purchase of energy). As yet no standardized methodology is available for calculating the carbon footprint of financial holdings. Consequently the calculated carbon footprint is not always comparable between different suppliers. Source: The South Pole Group has analyzed AP4's listed holdings and calculated AP4's indirect GHG emissions and carbon footprint. Historical figures are revised compared to AP4's Sustainability and Corporate Governance Report 2013/2014.

² For 2012 and 2013, the measurements of the portfolio composition refers to the mid-year.

Market developments 2015

The total return of global equity markets was close to zero in 2015. There were significant differences in returns between regions and sectors. The global bond market returns were positive but low. Currency fluctuations continued to be significant. A trade-weighted US dollar strengthened against other currencies - particularly against currencies in emerging markets.



Market developments during the year

Currency fluctuations were crucial to stock market returns. Measured in USD, returns for both the European and the US stock markets were close to zero. Emerging markets were very weak closely related to the feeble developments for the energy and raw materials sectors. The Russian market developed positively, while Brazil was very weak. Returns for China and India were negative.

In terms of sectors, the year was characterized by a very weak development for energy and raw materials. Sectors characterized by growth or that are considered defensive, such as IT, pharmaceuticals and consumer products, performed well.

The long-term perspective

In a somewhat longer perspective, and taking into account continued share price declines at the turn of the year 2015/16, the return on the global equity markets measured in US dollars failed to materialize over the past two years. During the same period, earnings per share for the stock market fell more than ten percent.

The strong recovery on global equity markets since the financial crisis of 2007-2008 has been driven primarily by low valuations and high-risk premiums relative to fixed-income assets. Continued share price increases will need the support of rising profits

China

Overcapacity from primarily the mining industry and the construction sector put pressure on investments and industrial production. Falling prices and high debt constituted a continued risk for companies' financial positions. The ongoing restructuring of the Chinese economy is positive and necessary, but could present significant challenges over the short term, which has led to a depreciation of the Chinese currency and falling interest rates.

Global growth weaker than expected

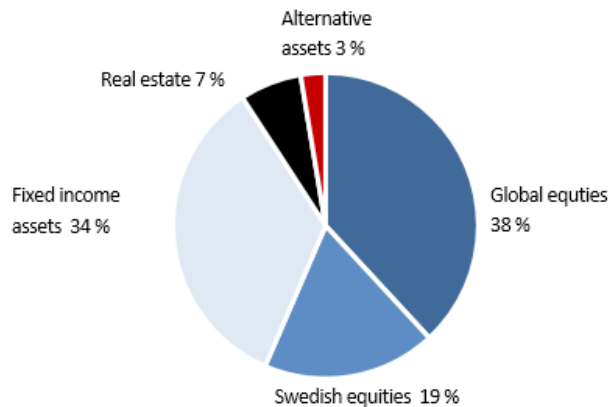
The expected economic recovery did not materialize in 2015. AP4 estimates that global growth amounted to just 2.5 percent in 2015. The momentum of growth in the last quarter was surprisingly weak, which - if it persists - suggests a continued fall in profits at the beginning of 2016.

Falling commodity prices and increased economic uncertainty in emerging markets, particularly China, inhibited both investment and industrial production globally. A falling oil price strengthens the purchasing power of households, but the decline in oil prices during the year did not fully result in the anticipated increased demand for consumer goods. Economic statistics during the last months of 2015 indicated significant inventory reductions that may possibly come to an end in early 2016.

Market value and return on asset classes

The assets of SEK 310 billion consists mainly of Swedish and global equities, fixed income, real estate and alternative investments. AP4 has the largest percentage of assets under management invested in publically listed shares amounting to 57 percent.

SEK 310 billion in total assets



Global and Swedish listed shares accounted for more than half of the assets as of December 31, 2015. The underlying values for derivatives in the passive allocation have been allocated over the respective asset classes in the diagram.

The assets are managed with different investment horizons

AP4's assets are managed through the Strategic management based on an investment horizon of 3-15 years, and the Tactical management based on an investment horizon of up to three years.

The Strategic management assets amounted to SEK 94 billion. This corresponds to 30 percent of total assets, where 21 percent consists of Swedish and global equities and the remaining nine percent consist of real estate and alternative assets.

Active management and index management

The management undergoes an unbiased assessment every year regarding the possibilities for creating active returns requiring making important choices. For example, decisions are made whether the management should be Strategic or Tactical, internal or external, active or passive (index management). At the end of the year 70 (63) percent of the assets were actively managed and 30 percent (37) were passively managed (index management). Further, 29 (31) percent of assets were managed externally, of which 10 percent (13) was external passive management.

Asset class	Market value, SEK bn	Portfolio return, %	Exposure ¹ %	Contribution to total return, %	Contribution to profit/loss for the year, SEK bn
Equities, total	175.0	5.5	56.9	3.4	9.9
Global equities	118.0	1.7	38.4	0.8	2.3
Strategically managed	32.5	-1.4	10.5	-0.2	-0.6
Tactically managed	85.6	2.7	27.9	1.0	3.0
Swedish equities	57.0	14.1	18.5	2.5	7.6
Strategically managed	32.4	21.2	10.5	1.7	5.1
Tactically managed	24.5	5.8	8.1	0.9	2.5
Fixed income assets, Tactically managed	103.8	-0.1	33.8	0.0	-0.1
Real estate, Strategically managed	20.5	32.1	6.6	1.7	5.0
Alternative assets, Strategically managed	8.2	11.3	2.6	0.3	0.9
Currency	0.0	1.7	0.0	1.7	5.0
Other ²	2.5	-0.1	0.0	-0.1	-0.2
Total investment assets³	310.1	6.9	100.0	6.9	20.4

¹ Underlying value of derivatives in passive asset allocation for each asset class.

² Other consists of cash as well as strategic and tactical asset allocation.

³ Return and profit/loss before expenses. Return after expenses was 6.8 percent, corresponding to a profit after expenses of SEK 20.1 billion. The investment assets amounted to SEK 310.1 billion, of which AP4's assets is SEK 310.0 billion.

Management goals and results

Strategic and Tactical management account for SEK 14.3 (3.2) billion of the total management profit of SEK 20.4 (40.5) billion, before costs. Since AP4's new management structure was introduced in 2013 the Strategic management contributed SEK 18.6 billion.

Active management was re-organized in 2007-2008 and has every year during the past seven years delivered a positive active contribution to earnings, which in total amounts to SEK 7.8 billion in addition to the benchmark index. Management delivered a profit for the last three years amounting to SEK 2.5 (4.1) billion.

	Normalportfolio	Strategic management	Tactical management	Total portfolio
Investment horizon	40 years	3-15 years	Up to three years	
Decided by	Board of Directors	CEO	CEO or person appointed by CEO	
Evaluated in relation to		Normalportfolio	Strategic portfolio	
Consists of	A reference portfolio consisting of different indices	Index, active investments and strategic macro and factor positions	Active and passive investments	
Decision-making data	Liability and asset analyses (ALM analyses)	Long-term market and portfolio analysis	Market analysis for equities, bonds and currencies	
Target for active return /evaluation period		0.75 percentage point calculated on five-year average (0.5 percentage points for previous years)	0.5 percentage points calculated on three-year average	
Active return on average over evaluation period		Started on 1 January 2013 and has not yet been active an entire evaluation period. To date, the contribution is positive	0.4 percentage points	
Long-term target in real terms				4.5 % real (inflation-adjusted) return over average for the total.
Real total return				6.2 % real return in average. 5.0 % real return in average since the evaluation start Jul 1, 2001.
<i>AP4's work on sustainability within the focus areas of Climate change and Corporate governance is reported under each focus area.</i>				

	Normalportfolio	Strategic management	Tactical management	Total portfolio
Time since start, 2013-01-01 ¹	3 years	3 years	3 years	3 years ⁴
Return contribution ² , %	10.4	2.2	0.3	13.0
Result contribution ² , mdr kr	77.1	18.6	2.5	98.2
Risk contribution ³ , %	7.2	-0.2	0.0	7.0
Operating expense ratio, %	0.04	0.04	0.03	0.11

¹ All values in the table are annualized except for Earnings Contribution, which represents the total results for the period.

² Returns and profit before costs.

³ Risk Contribution is calculated using 36-month historical standard deviation.

⁴ 0.0 percentage points Return Contributions from passive management is included, corresponding to a profit contribution of SEK - 4 million.

Return, risk and cost per investment horizon

Assets are managed in sub-portfolios with different investment horizons.

Normal portfolio, 40 years

Strategic management, 3-15 years

Tactical management, up to 3 years

Three management horizons

The Normal portfolio is AP4's reference portfolio. The Board of Directors determines the asset allocation. The Normal portfolio is fictitious and consists of a number of indices. The investment horizon is 40 years.

Assets are managed Strategically and Tactically

The assets are managed in the Strategic and Tactical management. Strategic management has an investment horizon of 3-15 years and the Tactical management has an investment horizon up to three years.

Being long-term is part of the business philosophy

AP4's business philosophy is that the long-term mandate enables additional positive returns allowing a longer investment horizon than is usual for an average investment professional.

Since 2013 AP4's management structure includes an additional investment horizon, Strategic Management, allowing for more investment strategies and further risk diversification. The investments and evaluation horizon of the Strategic Management extends between 3-15 years.

Transparency

The management structure enables a high level of measurability and transparency regarding return, risk and cost. The Board and other stakeholders are also better able to monitor and evaluate management.

The evaluation period for the new structure started in 2013 and is a rolling five years, which means that the first full evaluation period will be 2017.

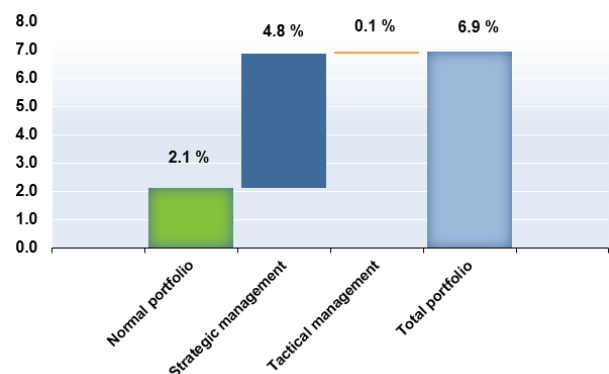
A high proportion of equities is crucial

The Board of Directors determines annually the asset allocation. At the turn of the year 2015/16 the Normal portfolio's asset allocation was 64 percent equities and 36 percent fixed-income securities. The Normal portfolio had an open currency exposure of 29 percent. This asset allocation generated a return contribution equivalent to 2.1 (14.5) percentage points. The Normal portfolio has generated a return of 10.4 percent annually since inception in 2013.

The decision to have a high proportion of equities in the very long-term Normal portfolio could lead to high volatility. However, this is very important in order to reach a high positive return over the long term.

In 2015, the return on shares outperformed government bonds and as such the high proportion of equities was positive for AP4's return. The Swedish crowns continued weakening against the USD was significant for open currency exposures and provided a positive return contribution. Strategic and Tactical management contributed positively to the portfolio's total return of 6.9 (15.8) percent before expenses.

Return Contribution 2015

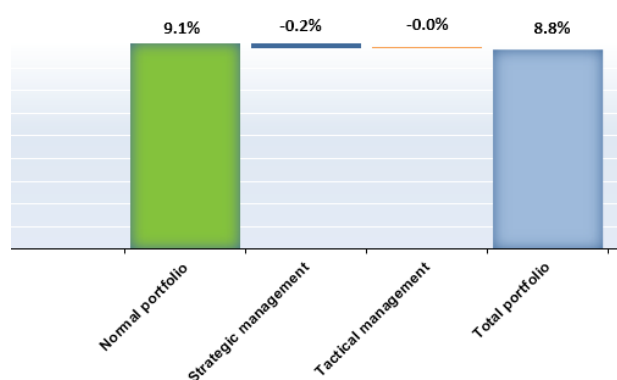


2015 return contributions from different decisions regarding investments in the three different investment horizons.

Strategic management lowers risk

The high proportion of equities in the Normal portfolio accounts for the largest risk contribution to the total portfolio. AP4 forecasts and measures the outcome of risk contributions to the total portfolio from the Strategic and Tactical management and the Normal portfolio. Strategic management contributed to reducing risks of AP4's total portfolio. See chart below and Note 20 for further details.

Risk contribution 2015

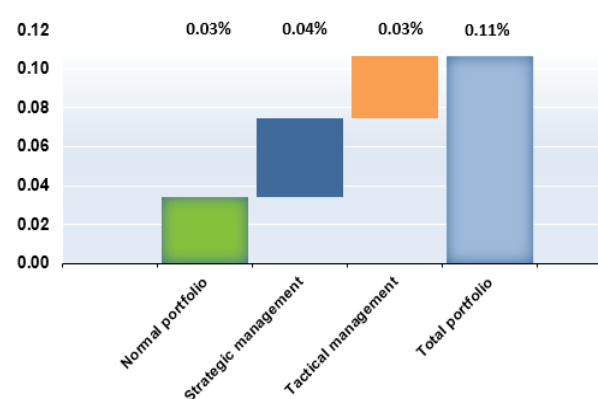


The Normal portfolio's equity allocation accounts for the largest risk contribution to the total portfolio. Risk contribution, illustrated in the bar chart above, is calculated with a historical 12 months standard deviation.

What does the management cost?

The Strategic and Tactical management, which is where the assets are managed, account for 68 percent of AP4's costs. This is approximately SEK 222 million out of SEK 325 million.

Cost of management, percentage 2015



The costs of managing the assets are distributed fairly evenly between the three management horizons. The management cost ratio is measured as operating expenses including commission expenses as a percentage of average fund capital.

Contribution of the management horizons to return, net profit, risk and cost.¹

	Normal portfolio 40 years		Strategic management 3-15 years		Tactical management up to three years		Total portfolio ²	
	3 years	2015	3 years	2015	3 years	2015	3 years	2015
Return contribution ³ , %	10.4	2.1	2.2	4.8	0.3	0.1	13.0	6.9
Contribution to net profit ³ , mdr kr	77.1	6.1	18.6	14.1	2.5	0.2	98.2	20.4
Risk contribution ⁴ , %	7.2	9.1	-0.2	-0.2	0.0	0.0	7.0	8.8
Operating expense ratio, %	0.04	0.03	0.04	0.04	0.03	0.03	0.11	0.11

¹ All values in the table are annualized except for earnings contributions, which represent the total results for the period.

² Return contribution of passive management in 2015 was 0.0 percentage points, corresponding to a profit contribution of SEK -14 million. For the past 3 years the return the contribution from passive management was 0.0 percentage points, corresponding to a profit contribution of SEK -4 million.

³ Returns and profit before costs.

⁴ Risk Contribution is calculated using a 36-month historical standard deviation for the three-year figures and 12-month historical standard deviation for one-year figures.

The cost of index management

Even index management (passive management) requires staff, administration and investments in systems for the monitoring of risks and returns.

AP4 estimates that it would cost just over SEK 100 million per year to pursue a completely passive management with all assets invested in accordance with the chosen index management. Personnel costs would constitute half of the management costs.

The costs of active management

The estimated additional cost for AP4 to pursue active management amounts to approximately SEK 100 million per year. This should be seen in relation to the extra contribution of SEK 7.8 billion, or just over SEK 1.1 billion per year that AP4's active management has delivered over the past seven years since the inception of the current management organization in 2009.

High information ratio

AP4 generated 1.7 crowns of positive returns for each crown of risk. The risk, including the additional risk taken by AP4 and that is a prerequisite in active management, has been acceptable indicating that the management has been able to generate extra returns that have increased fund capital.

The current organization was instituted seven years ago in 2009. The active risk over the past seven years has corresponded to a volatility of 0.4 percent in annualized terms. In relation to the active return, which generated 0.7 percent annually, an information ratio for the period of 1.7 was achieved. This is an exceptionally high figure. Values above 0.5 for an individual year are usually considered to be a good result.

Active management supports our role as owners

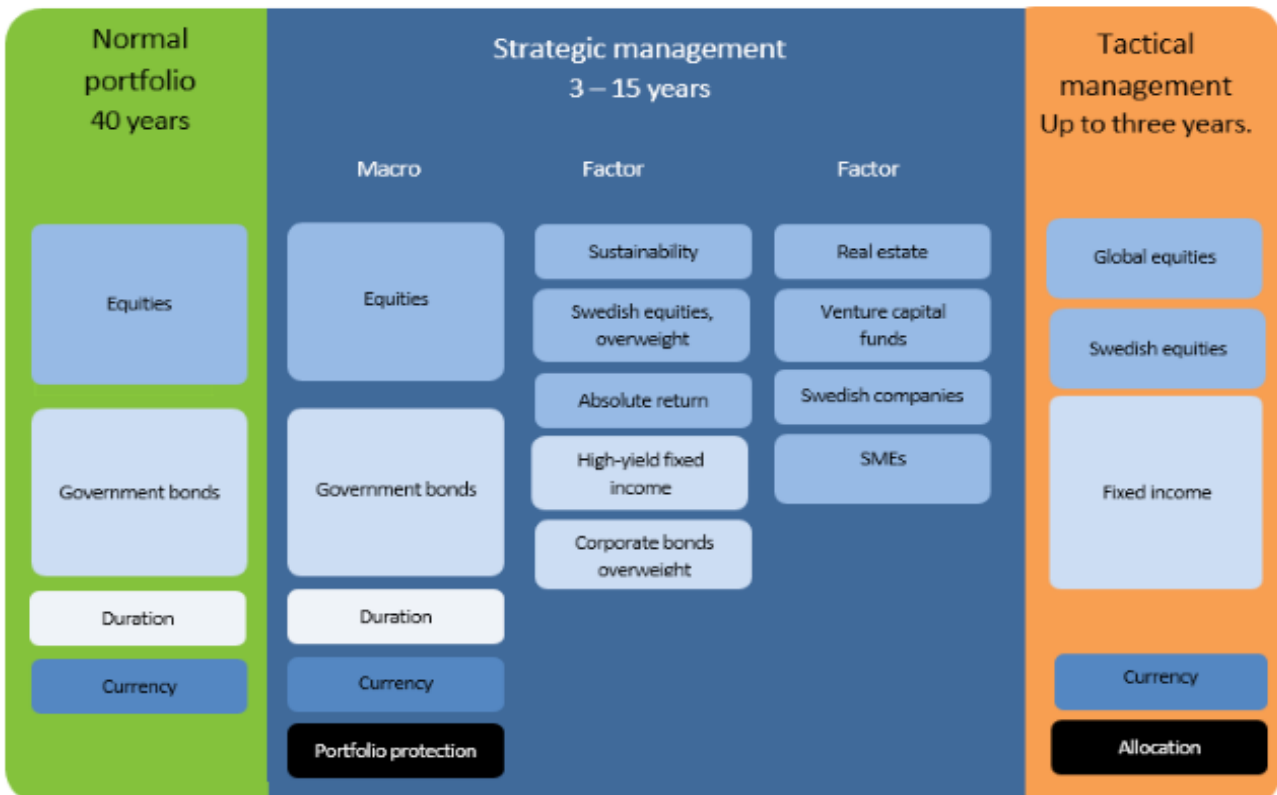
One aspect that should receive more attention is how active management increases the opportunities to be a skilled and long-term owner. AP4 is one of the largest owners on the Stockholm Stock Exchange and is often contacted by companies regarding various ownership issues. AP4's analysis and assessment of companies, which active management demands, increases opportunities to have constructive discussions with companies regarding the business in general and sustainability specifically.

Contribution to net profit 2015

+ SEK 6.1 bn

+ SEK 14.1 bn

+ SEK 0.2 bn



Normal portfolio

The Normal portfolio, AP4's reference portfolio, consisted of 64 percent equities and 36 percent fixed income assets at the end 2015. The Normal portfolio has an investment horizon of 40 years.

The Normal portfolio returned 2.1 (14.5) percent during the year.

Normal portfolio

Asset class	31 Dec 2015		1 Jan 2015 – 31 Dec 2015	
	Weight, %	Foreign exchange exposure, %	Return, %	Return contribution, %
Equities	64.2		1.1	0.8
Government bonds	35.8		0.1	0.0
Currency	-	28.9	1.2	1.2
Total	100.0	28.9	2.1	2.1

The proportion of equities relative to fixed income securities is decisive.

The proportion of equities relative to fixed income securities in the Normal portfolio is crucial for AP4's returns. The asset allocation accounts for between 80 to 90 percent of total return assessed over the long-term.

The Board of Directors determines annually the asset allocation, foreign exchange exposure and the duration with an expected investment horizon of 40 years. The decision reflects the Normal portfolio, which is fictitious and only consists of indices.

The Normal portfolio indicates the combination of equities, government bonds, decided duration and the currency exposure that gives the best total return over a 40-year horizon based on AP4's investment rules.

The Normal portfolio does not take into account whether the market is at a peak or bottom of a current economic or stock market cycle.

High proportion of equities meet the mandate

The mandate from the Swedish parliament requires, according to AP4's estimates, an average real return of 4.5 percent of pension assets over a 40-year period for the system's assets and liabilities to balance.

AP4 has chosen to invest a high proportion of the assets in equities in order to have the ability to fulfill the mandate from parliament. As a result AP4's returns are largely determined by developments in global equity markets given approximately 65-percent of the assets are allocated in equities. The exposure to equities can be expected to generate higher returns in the long-term, but also means that AP4's returns may vary significantly from year to year.

The long-term retirement context of 30-40 years

In assessing the value performance of an asset class where a fair time frame for a pension fund might be 30–40 years a longer evaluation period must be used. The real, inflation-adjusted, return of equities has varied greatly over the past 90 years. The average real return for global equities between 1924 and 2014 was around 6.1 percent annually.

Real returns on equities have, in various 10-year periods, varied sharply from over 20 percent annually (1980s) to negative returns for other periods. It is common to have major differences between consecutive 10-year periods.

Historically, real returns on equities have been much more stable over 35-year periods. It is only in a 35-year perspective that real performance for equities are reasonably comparable in terms of stability and a 10-year perspective for the real wage trend.

The real wage trend is what largely governs the income pensions performance. The real wage trend between 1918 and 2012 was 2.1 percent annually. The difference between the real trend for equities and for wages has been greatest over the last two to three decades.

Global real return on equities and the Swedish real wage growth per employee¹



The graph shows the real total return per year (including dividends) since 10 or 35 years back in time and the percentage change per year in the real wage per employee since 10 years back in time.

¹Source Orange Report 2014, Swedish Pensions Agency

Strategic management

Strategic management takes advantage of AP4's long-term mandate through investments and positions with an investment horizon of between 3 to 15 years.

Strategic management delivered a positive active contribution of 4.8 (0.7) percentage points in 2015. This corresponds to an active profit contribution of SEK 14.1 (1.8) billion.

Investment horizon of 3-15 years

The Strategic management investment horizon is between 3 to 15 years. It is deemed that a shorter investment horizon will likely create restrictions on management, which can lead to lower returns due to, among others, lower liquidity.

Since the start 2013 the Strategic management has made a positive active return contribution of more than 2.2 percentage points on average, exceeding the target of more than 0.6 percentage points on average for the three year period 2013-2015.

The evaluation comprises a rolling five-year period and as such the outcome of individual years should be interpreted with caution since Strategic positions are taken in the medium-term.

SEK 94 billion in the Strategic management

SEK 94 billion of AP4's total assets are managed in the Strategic management, representing 30 percent of AP4's assets.

AP4's total assets amounts to SEK 310 billion



The Strategic management (the blue pie slice) consists of real estate, Swedish equities, low-carbon strategies and strategies with a corporate governance focus, among others.



Strategic management, Jan. 1, 2015 – Dec. 31, 2015

	Return contribution, active, %	Active earnings contribution, SEK m
Strategic management		
<i>Macro positions:</i>		
Asset class	0.0	116
Currency	0.4	1 195
Duration	-0.1	-279
Total macro positions	0.4	1 033
<i>Factor positions:</i>		
Swedish equities	2.2	6 397
Corporate bonds	0.0	158
Sustainability*	0.2	529
Real estate	1.8	5 189
Other strategic positions	0.3	791
Total factor positions	4.4	13 064
Total strategically managed positions	4.8	14 096

*Sustainability includes a number of sub-portfolios, including low-carbon strategies and strategies with a corporate governance focus.

Strategic macro management

Strategic macro management comprises determined discrepancies between the Strategic portfolio's and the Normal portfolio's allocation of assets.

Positions can be taken in different asset classes, currencies and duration levels for the fixed income portfolio. Positions can also be taken in order to protect the Strategic portfolio when prices decline. The positions are based on AP4's assessment of deviations from fundamentally justified values.

The macro Strategic positions generated a total active return contribution of 0.4 (1.1) percentage points, implying an active profit contribution of SEK 1.0 (-2.6) billion.

Strategic macro positions during 2015 were:

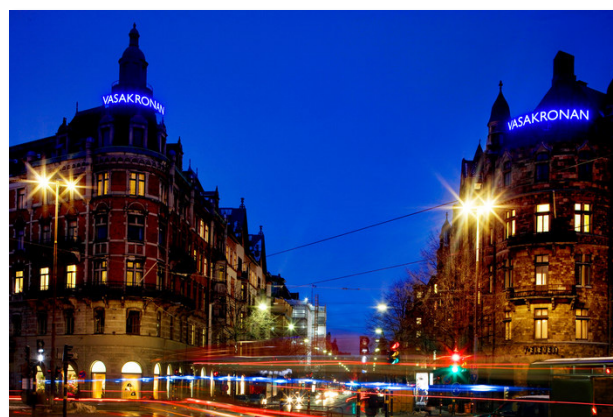
- **ASSET CLASSES:** Overall, the Strategic asset allocation contributed a positive active return contribution of 0.0 (-0.1) percentage points, corresponding to a profit contribution of SEK 116 (-137) million. The positive result was primarily from the allocation of debt securities.
- **CURRENCIES:** The Strategic currency positions had an active contribution of 0.4 (0.2) percentage points, equivalent to SEK 1 195 (470) million. The positive result was primarily attributable to an overweighting in the US dollar relative to the euro, Japanese yen and the Swedish crown.
- **DURATION:** AP4's decision to have a shorter duration in the Strategic portfolio relative to the Normal portfolio had an active contribution of -0.1 (-1.2) percentage point, which corresponds to SEK -279 (-2916) million.

Strategic factor management

Strategic factor management consists of a number of mandates divided into the following positions and portfolios:

- Swedish equities
- Fixed income
- Sustainability
- Real estate
- Other Strategic positions

The Strategic factor management had a positive active return contribution of 4.4 percentage points. This corresponds to an active profit contribution of SEK 13.1 billion. The largest contribution came from Swedish equities, which provided an active return contribution of 2.2 percentage points. This corresponds to an active profit contribution of SEK 6.4 billion.



The Strategic management comprises the sub-portfolio Real Estate that includes the property company Vasakronan. The photo above shows two of Vasakronan's properties at Birger Jarlsgatan in Stockholm.

• Swedish equities

AP4's Strategic management comprises allocations to Swedish shares including two sub-portfolios with investments in Swedish equities.

Strategic allocations to Swedish shares of SEK 57 billion

The Strategic allocation to Swedish shares amounted to SEK 57 billion at year-end, equivalent to over 19 percent of AP4's assets. The Normal portfolio only held 1 percent Swedish shares.

The allocation to Swedish equities was the Strategic management's largest active position, and was based on the conviction that the Swedish stock market will continue to outperform the rest of the world's stock markets. AP4 believes that the fund over the long-term will achieve a better return by allocating capital to Swedish equities rather than global equities.

Allocations to Swedish equities generated a large positive contribution to active return of 0.8 percentage points. This corresponds to an active profit contribution of SEK 2.2 billion.

The Strategic allocation to Swedish equities has contributed SEK 4.6 billion since 2013 when the new management structure was introduced.

Strategic overweight Swedish equities	2015	2014	2013
Active return contribution, %	0.8	1.0	-0.1
Active earnings contribution, SEK m	2 226	2 451	-81

Of the SEK 57 billion allocated to Swedish equities SEK 32.4 billion is managed in the Strategic management. This is allocated as follows: SEK 28.3 billion to the Swedish Strategic equities, SEK 2.0 billion to the Sustainability sub-portfolio and SEK 2.2 billion to the sub-portfolio publically listed real estate. SEK 24.5 billion is allocated to the Tactical management of Swedish equities.



Swedish companies sub-portfolio

The actively managed Swedish companies sub-portfolio has a target of 25 - 35 holdings with a market capitalization in excess of SEK 1 billion. The Swedish companies sub-portfolio had a positive value appreciation of 14.8 percent. The market value at the end of the year was SEK 18.7 billion, equivalent to 6.0 percent of assets.

The Swedish companies sub-portfolio contributed positively to AP4's active return in 2015. The result for the sub-portfolio to date, albeit with a relatively short evaluation period, has been positive. The evaluation period is still too short for investments made with a long-term investment horizon.

Swedish companies	2015	2014	2013 ¹
Market value, SEK bn	18.7	12.1	10.5
Percentage of AP4's assets	6.0	4.1	4.0
Return, %	14.8	14.7	5.5
Earnings contribution, SEK m	1 734	1 548	546
Active return contribution, %	0.6	0.0	0.0
Active earnings contribution, SEK m	1 702	16	32

¹ Sub-portfolio Swedish companies was launched in late 2013.

The management is based on fundamental company analysis where corporate governance and sustainability are included in the evaluation process. The primary source of information is meetings with the companies where management meets regularly with the senior management of the portfolio holdings. The management conducted approximately 200 meetings during 2015.



The investment strategy focuses on companies with strong market positions, good profitability on operating capital with good growth opportunities, particularly through positive structural trends affecting the demand for their products or services. The companies' work with sustainability - environment, ethics and corporate governance - is included in the management's assessment of the share's relevant price risk and potential. The investment horizon is between three to five years.

Small- and Medium-sized companies sub-portfolio

Small- and medium sized companies is an actively managed sub-portfolio included in the Strategic management given that liquidity can periodically be low. A short investment horizon would likely lead to restrictions, which can lead to poorer results.

The sub-portfolio Small- and Medium sized companies had a positive value appreciation of 29.3 percent, and the market value at year-end amounted to SEK 9.8 billion corresponding to 3.1 percent of assets. The active return was 0.8 percentage points, corresponding to a positive active profit contribution of SEK 2.5 billion in addition to the index, primarily attributable to the decision to allocate to small- and medium-sized companies.

Small- & Medium-sized companies	2015	2014	2013
Market value, SEK bn	9.8	8.3	7.8
Percentage of AP4's assets	3.1	2.8	3.0
Return %	29.3	21.6	41.8
Earnings contribution, SEK m	2 422	1 563	2 457
Active return contribution, %	0.8	0.2	0.4
Active earnings contribution, SEK m	2 469	518	843

Over a rolling investment horizon of three years the active management of the sub-portfolio Small- and Medium sized companies delivered an active profit contribution of SEK 3.8 billion. The result for the sub-portfolio has been positive since the start. At year-end the sub-portfolio consisted of two different mandates split between an internal mandate, which is the largest in terms of assets, and an externally managed small cap mandate.

The internal sub-portfolio is managed on the basis of fundamental company analysis. The portfolio's management regularly meets with senior management in the majority of the portfolio holdings. These meetings are the primary source of information and in 2015 management conducted more than 200 meetings.

The portfolio contains several different investment strategies. Companies are chosen on the basis of growth opportunities, stable cash flows and dividends, mega trends and structural industrial trends, among others. When selecting shares consideration is also given to the economic and stock market cycles.

The companies' work with sustainability - environment, ethics and corporate governance - is included in the management's assessment of the share's relevant price risk and potential. The investment horizon is between three to five years. The external small cap mandate consists of Lannebo MicroCap 2, which focuses on smaller companies listed in Sweden.

• Strategic overweight in fixed income

During the year AP4 had a strategic overweight in fixed income of SEK 42 billion relative to the Normal portfolio.

AP4 deemed the capital allocations to fixed income securities with good creditworthiness from government bonds would provide a better return over the long-term.

At year-end the strategic overweight in fixed income securities amounted to SEK 42 billion and accounted for 14 percent of AP4's assets.

The overweight in fixed income securities provided an active return contribution of 0.0 percentage points, corresponding to SEK 158 million.

The overweight in fixed income securities is managed within the Tactical management sub-portfolio Fixed income securities.

Strategic overweight position, corporate bonds	2015	2014	2013
Active return contribution, %	0.0	0.0	0.6
Active earnings contribution, SEK m	158	-32	1 361



• Sustainability sub-portfolio

Sustainability is an actively managed sub-portfolio consisting of a number of sub-portfolios with a focus on AP4's two focus areas: Climate Change and Governance.

The market value of the sub-portfolio Sustainability amounted to SEK 30.1 billion at year end, equivalent to 9.7 percent of AP4's total assets.

The overall positive active return contribution amounted to 0.2 percentage points, corresponding to SEK 529 million in profit contribution.

Sustainability, including low-carbon strategies and strategies focused on corporate governance	2015	2014	2013
Market value, SEK bn	30.1	15.8	8.4
Percentage of AP4's assets	9.7	5.4	3.2
Return, %	3.5	9.0	38.3
Earnings contribution, SEK m	334	1 092	859
Active return contribution, %	0.2	0.0	0.1
Active earnings contribution, SEK m	529	-38	159



Low carbon strategies



The aim is that with limited risk opt out of investments with the greatest negative impact on the environment in terms of carbon dioxide. This is considered to reduce climate risk in AP4's equity portfolio and provide the opportunity for positive returns over the long-term.

AP4 has worked over many years with trying to reduce climate risk in equity investments by reducing exposure to companies with the greatest relative carbon emissions and fossil reserves.

The companies in AP4's investments are regularly evaluated on the basis of their emissions and fossil reserves.

Carbon dioxide emissions and other greenhouse gases affect the Earth's climate negatively, which over time leads to an increase in average temperature. AP4 believes that the environmental cost of emissions is, to a limited extent, taken into account in current valuations of listed companies. AP4 estimates that this will likely look different in the future.

In the transition to a climate-neutral society AP4 estimates that carbon dioxide emissions and other greenhouse gases will lead to rising costs. Companies with large emissions and / or fossil reserves are expected to be negatively affected and long term they should be valued and priced differently.

AP4 believes that current valuations do not reflect the increasing costs of emissions. Companies with lower emissions than their competitors should receive an economic benefit and increase, relatively, more in value over the long-term.

Internal low-carbon portfolios

During 2015 AP4 continued the implementation of the internal sub-portfolios based on low-carbon strategies. The European low-carbon portfolio was accompanied in late 2015 with two sub-portfolios, a North American and Pacific sub-portfolios. Therefore, AP4 has invested in low-carbon portfolios covering all regions in global stock markets.

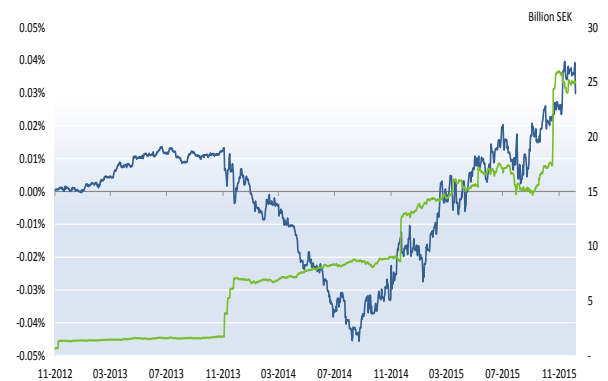
25 percent of the global equity portfolio

The preparatory work to reach 25 percent of the global equity portfolio invested in low-carbon strategies at year-end 2015/16 is now completed, and the investments will be carried out after year-end. At year-end the total investment in low-carbon strategies amounted to 22 percent of AP4's global equity investments.

Return in line with the index

All strategies have been developed in line with its respective benchmark index, measured from the initial investment in each strategy. At the same time emission levels were 50 percent lower than their benchmark index. The evaluation period, which to date is three years, is too short for these long-term investments.

Low carbon strategies - return and invested capital



Returns for all low-carbon strategies have been developed in line with its benchmark index, measured from the initial investment in each strategy. The relative performance of low carbon strategies' is shown through the blue line. The total amount invested in low-carbon strategies is shown through the green line.

The next milestone is 100% of the portfolio

AP4 continues to develop strategies to reduce climate risk in the global equity portfolio, and the goal is to increase investments in low-carbon strategies to 100 percent of the global equity portfolio. The goal should be reached by 2020.

USA

At the end of 2012 AP4 made its first investment in a low carbon strategy - a low carbon fund with focus on equity markets in the United States. The American low-carbon strategy is sector-neutral, in other words each investment is independently evaluated, and halves the exposure to carbon emissions and other greenhouse gases. At year-end the American low-carbon strategy showed a weak positive performance relative to its index S&P 500 measured since the initial investment was made in late 2012.

North America

At the end of 2015 AP4 invested in an internal sub-portfolio based on low-carbon strategies for North American equity markets (USA and Canada). The strategy opts out companies with high greenhouse gas emissions and companies with large fossil reserves. The investment period is far too short to be evaluated.

Europe

In late 2014 AP4 invested in a European low carbon strategy. The strategy opts out companies with high emissions of greenhouse gases and companies with large fossil reserves.

Since the investment was carried out a year ago the strategy has performed well relative to its benchmark, MSCI Europe.

Emerging markets

AP4's low carbon strategy in emerging markets opts out of companies with high emissions of greenhouse gases, and companies with large fossil reserves. Emerging markets are China, Brazil, Russia and other emerging countries.

The strategy has evolved slightly negative relative to its benchmark MSCI Emerging Markets since the initial investment two years ago.

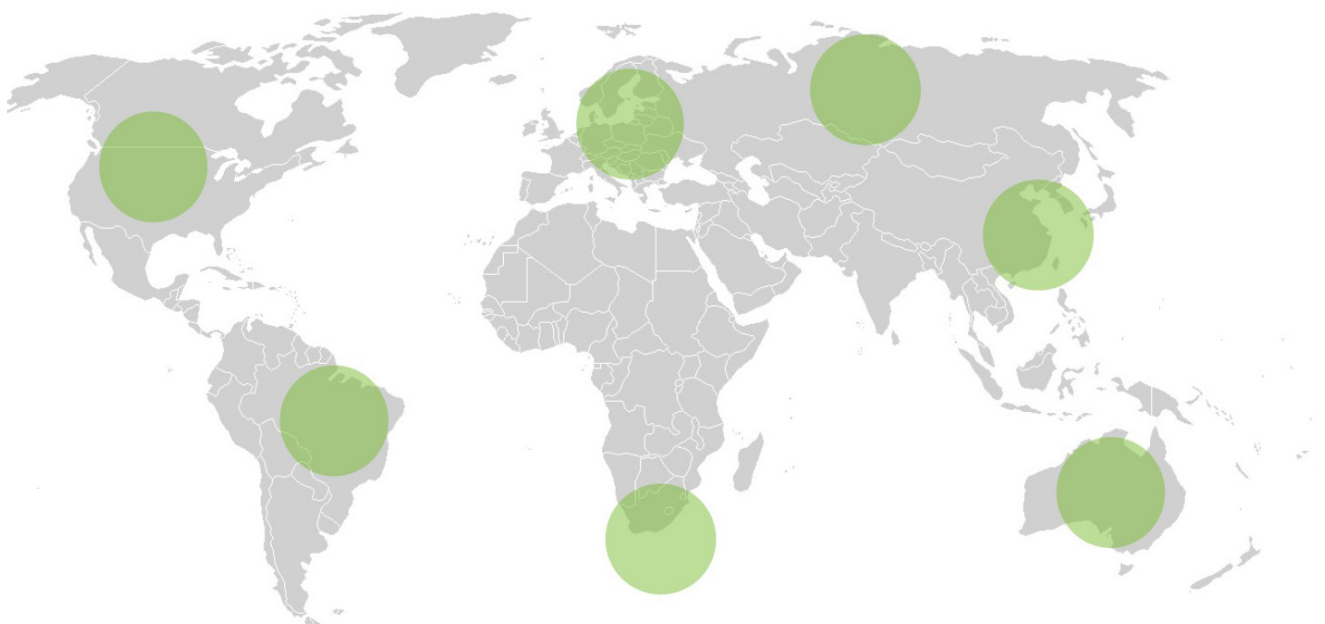
Pacific

In the spring of 2015 AP4 invested in a low carbon strategy in the Pacific region, excluding Japan. The strategy opts out companies with high emissions of greenhouse gases and companies with large fossil reserves.

During the short period of the investment, so far barely nine months this year, the strategy has developed in line with its benchmark index.

In December 2015 AP4 invested in an internal sub-portfolio based on low-carbon strategies for the whole of the developed equity markets in the Pacific region - including Japan. The strategy opts out of companies with high emissions of greenhouse gases and companies with large fossil reserves. The investment period is far too short to be evaluated.

AP4 has a global platform for low carbon strategies



Strategies with a focus on corporate governance

Investing with external managers with a focus on corporate governance is one way to develop better governance and increased shareholder influence in foreign equity markets, while creating conditions for higher returns. AP4's external management invests in companies with an identified potential for improvement where they actively pursue corporate governance issues in cooperation with companies.

Japan. AP4's Japanese strategic investments are managed through TMAM GO Japan Engagement Fund and GO Japan Engagement Consortium with a corporate governance focus.

The Japanese strategies with a focus on active corporate governance have performed well and made a positive contribution to both total return and active return. The qualitative improvements achieved to strengthen ownership influence are satisfactory. However, the evaluation horizon is still much too short for an investment made with a long-term investment horizon.

Japan is one of the world's largest economies and also one of the largest countries in the MSCI World equity index. Japan is a country physically located "far away" and is significantly different culturally and linguistically in comparison to Sweden, which affects the ability of AP4 to exercise corporate governance. It is difficult for non-Japanese who neither know the language, the social codes or have the right local networks to conduct good and effective governance.

Europe. AP4 invests in a fund that actively works with a few small and medium-sized companies in Europe.

Sweden. AP4's investments include, among others, CapMan Public Market Fund and Zeres Public Market Fund (Zerez), which are managed with a clear focus on active corporate governance. A commitment was made in 2013 to Zeres to invest SEK 1.5 billion. At year-end 2015 SEK 1.1 billion was invested.

Other strategies with a sustainability focus

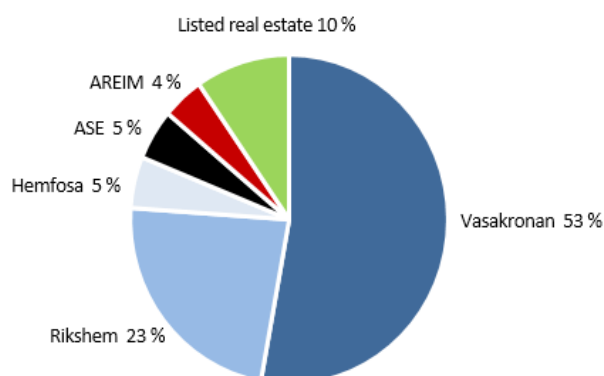
In 2015 AP4 made further investments with a focus on sustainability. In total AP4 has invested SEK 1.4 billion in Generation Asia Fund, RobecoSAM Global Child Impact Equities and RobecoSAM Global Gender Equality Impact Equities. These funds focus on active management and include explicit sustainability criteria in the management process. The evaluation period is far too short to be evaluated.



• Real estate

The real estate portfolio consists primarily of real estate directly owned by AP4. There is also an actively managed sub-portfolio comprised of publically listed real estate shares.

Real Estate portfolio holdings December 31, 2015



The real estate portfolio market value amounted to SEK 22.7 billion at year-end, representing 7.3 percent of AP4's assets.

Returns for the year amounted to 32.2 percent, which corresponds to a positive contribution of 5.5 billion.

The active real estate holdings had a positive active return contribution of 1.8 percentage points. This corresponds to a positive active profit contribution of SEK 5.2 billion in addition to the index.

Real estate	2015	2014	2013
Market value, SEK bn	22.7	17.4	14.9
Percentage of AP4's assets	7.3	5.9	5.7
Return, %	32.2	16.1	27.2
Earnings contribution, SEK m	5 520	2 418	3 235
Active return contribution, %	1.8	0.4	0.1
Active earnings contribution, SEK m	5 189	916	171

Directly owned real estate

In recent years AP4 has expanded within the strategic asset class real estate. AP4 primarily directly owns real estate companies because it is deemed cost-effective, transparent and increases the possibilities for good expected returns. The holdings are managed in the Strategic management.



Vasakronan's property Kista Science Tower in Stockholm.

VASAKRONAN

The property company **Vasakronan** is equally owned by the First, Second, Third and Fourth AP Funds. Vasakronan manages commercial properties in Sweden valuing more than SEK 100 billion, and the company is Sweden's largest property owner. Vasakronan increased the outstanding volume of issued green bonds by SEK 871 million during the year. The total return for the real estate portfolio in Vasakronan remained strong in 2015.

rikshem

The real estate company **Rikshem** is owned equally by AP4 and AMF. At year-end 2015 Rikshem's real estate portfolio had a market value of approximately SEK 30 billion. The portfolio focuses on housing and so-called social properties, which are properties with long leases where the tenant is typically a municipality. Rikshem issued green bonds during the year totally approximately SEK 800 million. The total return on Rikshem's real estate portfolio remained good in 2015.

AP4 is one of the founders of **Hemfosa Fastigheter** (Hemfosa), established in 2009, which went public in 2014 through a listing on Nasdaq Stockholm.

Areim Fastigheter II AB, specializing in Swedish real estate and **ASE Holdings (ASE)**, which invests in and develops commercial property in the UK, are additional investments comprising the real estate portfolio.

Publicly listed real estate portfolio developed positively

There are a number of listed real estate companies on the Stockholm Stock Exchange that have over time achieved a good earnings growth and total return. AP4 believes that the prospects for continued good earnings growth are favorable. As a result AP4 during the end of 2014 launched a Strategic portfolio with investments in listed real estate companies, primarily in Sweden.

The listed real estate portfolio had a positive active return contribution of 0.16 percentage points, corresponding to a profit contribution of SEK 486 million. The returns were primarily attributable to the allocation to a Swedish property index. The evaluation period is, however, far too short for an investment made with a long-term investment horizon.



Rikshems property Försommaren 1 in Stockholm.

• Other strategic investments

Other strategic investments include management of the following sub-portfolios:

- o Venture capital funds
- o High-yield fixed income
- o Absolute return
- o Emerging market

The market value of rest of the Strategic investments amounted to SEK 12.4 billion at year-end. This represented close to 4.0 percent of AP4's assets.

The overall positive active return contribution amounted to 0.3 percentage points, corresponding to SEK 791 million.

Other strategic positions	2015	2014	2013
Market value, SEK bn	12.4	16.2	14.7
Percentage of AP4's assets	4.0	5.5	5.6
Return, %	2.3	9.9	12.3
Earnings contribution, SEK m	370	1 461	819
Active return contribution, %	0.3	0.2	0.0
Active earnings contribution, SEK m	791	528	82



o Venture capital funds

The market value of the venture capital funds amounted to SEK 3.2 billion at year-end, corresponding to 1.0 percent of AP4's assets.

Investments in venture capital funds are developing well with a return of 17.6 percent. These gave a positive active return contribution of 0.1 percentage points, which is equivalent to SEK 412 million.

Venture capital funds	2015	2014	2013
Market value, SEK bn	3.2	3.2	2.9
Percentage of AP4's assets	1.0	1.1	1.1
Return, %	17.6	27.7	18.4
Earnings contribution, SEK m	498	730	499
Active return contribution, %	0.1	0.2	-0.1
Active earnings contribution, SEK m	412	454	-182

In 2015 AP4 committed a total of SEK 0.7 billion to venture capital funds. New commitments were made to Creandum IV, Keyhaven Capital Partners IV and Priveq Investment V. All these funds invest in small or medium-sized companies.

Activity levels remained high in 2015 and the positive performance of the venture capital funds continued during the year. The activity level for the sale of portfolio companies was high and several portfolio companies went public during the year. Venture capital funds made new investments amounting to SEK 0.5 billion. In 2015 AP4 was paid back SEK 1.1 billion from completed sales transactions of portfolio companies.

o High-yield fixed income

The high-yield fixed income portfolio had a market capitalization amounting to SEK 3.6 billion at year-end, equivalent to 1.2 percent of AP4's total assets.

The high-yield fixed income portfolio developed positively and returned 8.9 percent. The active management of high-yield fixed income delivered a positive active return contribution of 0.1 percentage points, corresponding to SEK 311 million.

High-yield fixed income	2015	2014	2013
Market value, SEK bn	3.6	2.9	2.5
Percentage of AP4's assets	1.2	1.0	1.0
Return, %	8.9	14.0	14.4
Earnings contribution, SEK m	302	355	248
Active return contribution, %	0.1	0.0	0.1
Active earnings contribution, SEK m	311	101	282

During the year, AP4 committed SEK 2.2 billion, the bulk of which was invested in EQT Mid Market Credit and Proventus Capital Partners Alpha.

Market rates turned up during 2015 after several years of falling interest rates. The sharpest impact was on investment intensive sectors like energy and raw materials, which were also affected by falling oil price.

The High-Yield Fixed Income sub-portfolio benefits from continued low interest rates in the portfolio and new investments made at relatively high interest rate levels.



o Absolute return sub-portfolio

The sub-portfolio Absolute return had a market value amounting to SEK 1.5 billion at year-end, equivalent to 0.5 percent of AP4's assets. The Absolute return sub-portfolio developed positively with a return of 5.9 percent.

Management of the Absolute return sub-portfolio delivered a positive active return contribution of 0.0 percentage points, which is equivalent to SEK 89 million.

Absolute return	2015	2014	2013
Market value, SEK bn	1.5	1.8	1.6
Percentage of AP4's assets	0.5	0.6	0.6
Return, %	5.9	11.9	14.9
Earnings contribution, SEK m	104	190	188
Active return contribution, %	0.0	0.0	0.0
Active earnings contribution, SEK m	89	24	-23

Absolute return is a strategic sub-portfolio that utilizes market mispricing, which can, for example, arise from new regulations and investment rules and / or as a result of the investment restrictions of various capital owners. This can create situations in which different parts of a company's capital structure is incorrectly priced, which can provide the conditions for generating a positive return.

o Emerging markets sub-portfolio

The investments in the externally index-managed emerging markets sub-portfolio amounted to SEK 4.2 billion at year-end, corresponding to 1.4 percent of AP4's total assets.

The geographic exposure of the Emerging markets sub-portfolio is managed in the Strategic management with a long-term investment horizon. This allows for better opportunities to cost-effectively manage the externally index managed investments.

Emerging Markets	2015	2014	2013
Market value, SEK bn	4.2	8.3	7.7
Percentage of AP4's assets	1.4	2.8	3.0
Return, %	-8.7	2.3	-1.1
Earnings contribution, SEK m	-534	186	-116
Active return contribution, %	0.0	0.0	0.0
Active earnings contribution, SEK m	-22	-51	4



Tactical management

The Tactical management investments are primarily in fixed income, global equities and Swedish equities and delivered SEK 0.2 billion in additional profit contributions during the year. This corresponds to a positive active return of 0.1 percentage points.

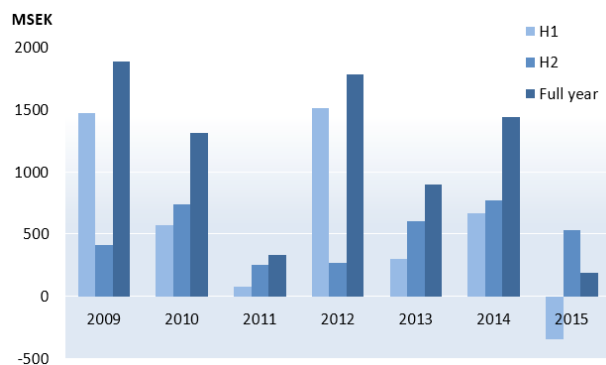
Positive active returns for 13 six-month periods over the last 14

AP4's Tactical management delivered a positive active contribution to earnings over thirteen of the fourteen six-month periods since the new management organization was introduced. The positive extraordinary profit in total over the seven-year period amounts to nearly SEK 8 billion.

The Tactical management mandate is to create excess returns by taking advantage of mispricing in order to surpass the performance of a passive index management.

Tactical management is AP4's shortest investment horizon, which is up to three years. The evaluation of the results takes place over a rolling three-year period.

Seven consecutive years of positive active returns



Good risk-adjusted return

The management units Information ratios, which shows risk adjusted returns, are generally high. Values above 0.5 for individual years are considered a good result. AP4's risk-adjusted returns, since the new management organization's inception, have been very good.

Active and risk-adjusted return, Jan. 1, 2015 – Dec. 31, 2015

Tactical management	Active return, %	Information ratio, 12-month	Active return contribution, %	Active earnings contribution, SEK m
Global equities	0.4	0.9	0.1	427
Swedish equities	1.3	1.8	0.1	337
Fixed income	-0.6	neg	-0.2	-626
Equities index ¹	-0.1	neg	-0.1	-157
Currency ¹	0.1	2.3	0.1	207
Total tactically managed assets	0.1	0.2	0.1	187

¹ Active return to total investment assets.



Global equities sub-portfolio

The management of global equities focuses on the selection of external managers, portfolio construction and index management.

Global equities sub-portfolio performed well during the year. At year-end the market value amounted to SEK 86 billion, equivalent to 27.9 percent of AP4's assets.

The return for the year was 2.7 percent, outperforming the benchmark index by 0.4 percentage points. This corresponds to a positive active profit contribution of SEK 427 million. The sub-portfolio generated a positive active profit contribution of SEK 1.7 billion over the rolling evaluation horizon of three years.

Global equities	3 years (on annual basis)		
	2015	2014	2013
Market value, SEK bn	86	98	88
Percentage of AP4's assets	27.9	32.8	34.3
Return, %	13.3	2.7	10.9
Active return, % points	0.7	0.4	0.6
Information ratio	1.8	0.9	1.7
Active earnings contribution, SEK m	1 683 ¹	427	496

¹Total profit for the period.

Active management, external managers

The active management is conducted by external managers in a number of sub-portfolios. The external managers are selected in order to broaden sources of returns. They differ in terms of region, sources of information and investment strategies. The active managements total portfolio of external sub-portfolios are therefore less sensitive to changes in market factors, allowing for a good risk-adjusted returns over time.

The Global equity management is responsible for the selection and allocation to external managers, where management believes there is a high probability to successfully pursue active management. External management is monitored through a structured evaluation process and based on both qualitative and quantitative methods, supported by a high degree of transparency.

Active management has outperformed the index since the start autumn 2010 and delivered a stable and positive active contribution with only short periods of negative returns.

Internal Index management contributes positively

Internal Index management activities are focused on cost efficiency, good execution and low risk, and since its inception in 2009 have on average delivered positive returns.



Swedish equities sub-portfolio

The management of Swedish equities in the Tactical management is divided into actively managed equities and passive index management.

The market value of the sub-portfolio Swedish equities, which includes both active and passive index management, amounted to SEK 25 billion at year-end, corresponding to 8.1 percent of AP4's assets.

The return for the year was 5.8 percent, outperforming the benchmark by 1.3 percentage points. This corresponds to a positive active return contribution of SEK 337 million.

The sub-portfolio contributed a positive active profit contribution of SEK 316 million over the rolling three-year evaluation horizon.

Swedish equities (active and passive management)	3 years			
	(on annual basis)	2015	2014	2013
Market value, SEK bn		25	32	31
Percentage of AP4's assets		8.1	10.8	11.9
Return, %	15.1	5.8	14.1	26.4
Active return, % points	0.4	1.3	-0.6	0.4
Information ratio	0.8	1.8	-1.0	2.3
Active earnings contribution, SEK m	316 ¹	337	-156	135

¹ Total result for the period.

Active management

The management of the actively managed portfolio of Swedish equities is conducted on the basis of fundamental company analysis. The management's investment strategies focus on companies with attractive valuations relative to anticipated future outlooks. Company visits are the primary source of information and fund managers meet regularly with senior management in the majority of the portfolio holdings. Sustainability and corporate governance is included in the management analysis process. Companies' sustainability work (environment, ethics and corporate governance) is accordingly part of the assessment of the companies' and of their respective share price risk and price potential.

Internal Index management

The internal Index management activities are focused on cost efficiency, good execution and low risk.





Interview with Thomas Woulikainen,
Senior fund manager, Swedish equities at AP4.

"A good fund manager needs good self-esteem, and that you get from having management who believe in you. That's what I have at AP4. The long-term mandate also means that I dare hold positions that, over the short term, have not gone as I expected."

What is your investment philosophy?

- I like to try to find shares that are for some reason undervalued, which, for example, could be due to myth-making, lack of knowledge, disinterest and companies that are new to the market, says Thomas. We often have good opportunities to meet with the companies' management. Perhaps it's because we already know management or that we have access at the board or shareholder level. This allows us to get a more nuanced and accurate view of the company.

- When the news flow becomes oversimplified price movements are often exaggerated, both up and down, and that's what I try to take advantage of, continues Thomas. The valuation of shares is always important, even if the market from time to time loses sight of this. An example of such an investment is Nobina, where we believe that the company has qualities that are not at all reflected in the valuation. Another example is CLX Communication where we were able to make an analysis of the company through our network of contacts. So far CLX has met our expectations.

Which kinds of companies do you invest in?

- The most important criterion is to have a more positive view on the company's earnings growth than is indicated by the share price, says Thomas. To make the assessment, I need a strong understanding of the company and I need to understand what other investors' think - which is what is already discounted in the share price.

If my view proves correct, then the company's earnings forecasts will be revised up and the stock price should increase. An example is Nobia, where profits have been continuously revised upwards during the year and the share price increased by 50 percent. Another example is Lifco, where profits were revised up by 20 percent and the share price increased by 60 percent.

What makes you different from other managers?

- A good fund manager needs good self-esteem, and that you get from having management who believe in you. That's what I have at AP4. The long-term mandate also means that I dare hold positions that, over the short term, have not gone as I expected, says Thomas.

- Being a fund manager could be compared to having an exam every day on topics that are unknown to you in advance nor have you been told what to study. The task is extremely complex and requires well-diversified information gathering. Often you will find pieces of the puzzle where you least expect it. My guiding principle is: "Read as much as you can and meet as many different companies as you possibly can. Always be very well prepared."

- I also have 20 years of experience from the equity markets, which is valuable. It gives you the courage to act contrary to what the market thinks when information becomes simplistic. It is rarely "different this time", even if one might be led to believe so, Thomas concludes.

Global macro management

Global macro management consists of three integrated businesses – the management of:

- Fixed income securities
- Currencies
- Equity index / Cross market

Global economies continued their recovery

The assessment for 2015 was that global economies would continue their recovery. It applied especially to the developed economies, while emerging markets, including China, were expected to bottom out.

A few surprises were the continued decline in commodity prices, specifically oil, and the declining activity in China. This led to a fear of deflation causing a large number of central banks to take further monetary stimulus measures at the beginning of the year. Many central banks already had interest rates at zero, which led central banks to introduce a number of unconventional stimuli. Two examples are our the Swedish Riksbank and the European ECB that both lowered key interest rates to negative levels together with the initiation of government bond buy-back programs.

In addition to worries about deflation came worries regarding lower growth in the US and China. As a result the Fed postponed its announcement regarding rate hikes until the end of 2015, while China began to devalue its currency.

During the year geopolitical tensions increased and there were problems in the euro zone countries such as Greece and Portugal. These concerns, however, had only minor or temporary impact on the financial markets.

Lower growth, deflation and unconventional or even surprise measures from central banks periodically had major impact on the financial markets. ECB's government bonds purchases with negative interest rates created enormous turbulence on the fixed income and currency markets during the spring. China's devaluation of the currency and the Fed's postponement of interest rate hikes, which were expected at the end of the summer, led to large stock market falls and sharp movements of fixed income and foreign exchange markets over the short term. Despite turbulent markets, the year ended with only minor changes in interest rate levels in most of the markets where Global Macro management is active. Fixed income and equity management contributed negatively to the result, while currency and cross-market performed well.



• Fixed income securities

The management of fixed income securities is responsible for the active management of AP4's government and corporate bond portfolio.

The market value of the fixed income portfolio amounted to SEK 104 billion at year-end, equivalent to 33.8 percent of AP4's assets. The return for the year was -0.1 percent, below the benchmark index by 0.6 percentage points. This corresponds to a negative active profit contribution of SEK -626 million.

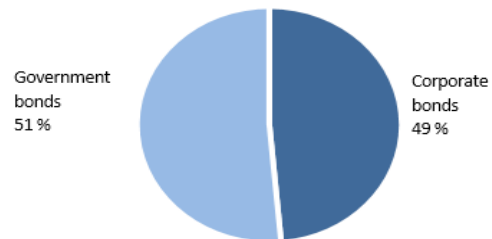
The sub-portfolio generated a positive active profit contribution of SEK 452 million over the rolling three-year evaluation horizon.

	3 years (on annual basis)			
Fixed income management	2015	2014	2013	
Market value, SEK bn	104	100	83	
Percentage of AP4's assets	33.8	33.0	32.0	
Return, %	2.4	-0.1	7.8	-0.2
Active return, % points	0.2	-0.6	1.3	-0.1
Information ratio	0.3	-0.8	3.2	-0.1
Active earnings contribution, SEK m	452 ¹	-626	1 120	-42

¹ Total results for the period.

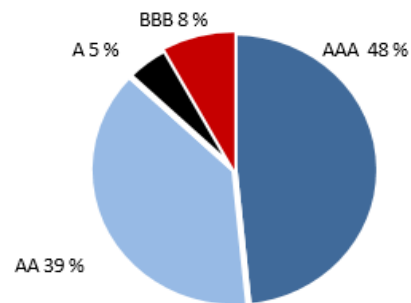
The management of fixed income securities had an overweight in credit bonds, which together with an actively managed credit portfolio contributed positively to the active return. The largest negative contributions were from trading in government bonds in the US and the EU.

Fixed income holding by issuers



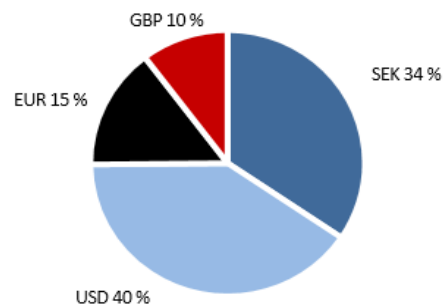
Credit bonds accounted for just under half of fixed income holdings, Dec. 31, 2015

Fixed income holdings by rating category



AAA-rated bonds accounted for just under half of AP4's fixed income holdings, Dec. 31, 2015.

Fixed income holdings by currency



Fixed income securities denominated in Swedish kronor and US dollars accounted for almost three quarters of AP4's fixed income holdings, Dec. 31, 2015.

Green bonds

The market for green bonds is growing rapidly as is the number of issuers. At times, the opportunities to create excess returns have been good, which AP4 can take advantage of both short and long term.

Management continuously evaluates green bonds and invests in them when they meet AP4's criteria for sustainability and profitability.

Green bonds contributed positively to the Tactical fixed income portfolio return and result. During the year AP4 participated in 14 issues of green bonds with a total investment value of SEK 2.9 billion. This represented approximately one percent of the total volume of green bonds in the primary market globally.

AP4's green bonds, market value



Interview with Ulf Erlandsson, Senior portfolio manager, who has built and manages AP4's green bond portfolio

Why does AP4 distinguish between the new issue of green bonds and green bonds on the secondary market?

– Green projects are funded once - when the bond is first issued. That's when our capital is transferred to the issuer and as such to the green projects, which is why we believe investors should distinguish between their total investments in green bonds versus how much has been invested in new issues, says Ulf.

What are the criteria for a green bond?

Currently there is no official classification for a "green bond", and there are a number of different standards and third-party verifications, says Ulf.

AP4 has chosen to have an overall analysis of whether a bond qualifies as green or not. On the one hand it may be about shifting from bonds in the current holdings to a recognized greener bond - even though the documen-

"When a company issues a green bond, the finance function and CFO directly gets involved in the sustainability process.

The work with sustainability then ends up in the middle of the company's central nervous system. That, I think, is a major cultural converter."

tation can be considered "weak" - based on the principle that we get a positive marginal effect from "green" risk. On the other hand, a bond can be extremely well documented on the basis of the standards that exist, but the issuer's green commitment might be questionable, so-called "green washing". As an investor you have a responsibility to examine what criteria the borrower lives up to. As with all fixed income trading, we believe it is important to buy and sell based on an issuer's merits, and not on the basis of any template.

Do green bonds have positive spillover effects?

– Yes, I think they do. I consider green bonds an effective culture converter for companies. These bonds are issued by the company's finance function, with the result that many in the company are now expected to answer investors' questions regarding sustainability. The more familiar you become with climate issues the more driven you are to work for climate smart actions within your organization, concludes Ulf.

● Foreign exchange

Foreign Exchange management works both with active currency trading and with the management of AP4's currency hedging portfolio. Currency management's active return was 0.1 percentage points, corresponding to a positive active profit contribution of SEK 207 million.

Over the rolling evaluation period of three years, the sub-portfolio generated an active profit contribution of SEK 288 million.

Foreign exchange management	3 years (on annual basis)			
	2015	2014	2013	
Active return, % points	0.0	0.1	0.0	0.1
Information ratio	0.8	2.3	-0.4	0.9
Active earnings contribution, SEK m	288 ¹	207	-35	117

¹ Total result for the period.

Currency management is divided into two mandates, one currency mandate and one interest rate risk mandate. The currency mandate has an absolute return target relative to AP4's total assets. The Interest rate risk mandate manages interest rate risk by implementing and re-balancing AP4's currency exposure in the currency futures portfolio.

The positive result is mainly due to short positions in Euro against the USD and the Swedish crowns, as well as short positions in New Zealand dollars against the USD. Positions in Sweden with higher short-term interest rates contributed negatively to the profit of the currency hedge portfolio.

Currency exposure

AP4 hedges portions of the foreign assets. At the turn of 2015/16 AP4's currency exposure, i.e. the proportion of assets in foreign currencies not neutralized by hedges, was 27.0 (28.1) percent of assets.

● Equity index/Cross market

Management of Equity Index / Cross Market generated active returns through trading in and between different equity indices, as well as through the trading of derivatives between different markets, such as credit-, fixed income-, equity- and currency markets.

Equity Index / Cross Market active return amounted to -0.1 percentage point, corresponding to an active negative profit contribution of SEK -157 million.

Equities index/Crossmarket	3 years (on annual basis)			
	2015	2014	2013	
Active return, % points	0.0	-0.1	0.0	0.0
Information ratio	-0.5	-0.7	-0.0	-1.0
Active earnings contribution, SEK m	-228 ¹	-157	3	-74

¹ Total result for the period.

Equity Index trading contributed negatively due to the equity market index positions in the US and Europe. Trading between credit and equity indices in the US and Europe had a positive contribution.



Integrating sustainability in the management



It is important that all of AP4's more than 50 employees feel involved in the business operations - regardless of their position in the organization.

All parts of the organization must function congruently in order to succeed as a pension fund. This has been a prerequisite for AP4 in delivering a high return at a low cost over several years while also increasing the focus in the management.

Ongoing work

AP4 works continuously to manage the risks and opportunities in management, including those arising from sustainability (environment, ethics and corporate governance). Including sustainability in investment assessments is essential and a necessity to be able to conduct successful long-term management.



AP4 has for many years focused on integrating sustainability into the asset management based on the materiality principle, that is to give priority to sustainability issues where AP4 can add the most value in accordance with the mission.

UN Principles for Responsible Investment

AP4 is committed to working and reporting on its sustainability work (ESG - Environment, Social and Governance) in accordance with UN Principles for Responsible Investment (PRI).



PRI's purpose is to increase investors' responsible behavior within ethics and the environment. PRI drives, in part, developments in sustainability and increases contacts and the exchange of knowledge on sustainability between responsible investors worldwide.

Read more on www.unpri.org.

Yearly report

AP4's reporting on sustainability initiatives and corporate governance is supported through various annual reports and through AP4's website. The reports are the Annual Report and Fund Governance report, the AP Funds' Ethical Council's annual report and AP4's Sustainability and Corporate Governance report. These reports are available at www.ap4.se.

Integrating sustainability

Integrating sustainability in the management takes place at several levels. AP4's Board approves the annual corporate governance policy, which summarizes the guidelines for corporate governance in Swedish and foreign companies. The CEO heads the sustainability work and delegates responsibility to the respective unit heads in the management organization. In turn the unit heads report their sustainability work to the Chief Investment Officer and the CEO.

The Corporate Governance unit reports directly to the CEO and also supports the work of integrating sustainability in the management units. AP4's representatives in the AP Funds' Ethical Council are part of the Corporate Governance unit.

AP4's sustainability work includes ongoing company dialogues as well as activities conducted within the focus areas of Climate Change and Corporate Governance.

AP4 works with the focus area of Climate Change through low-carbon strategies, the Portfolio Decarbonization Coalition (PDC) for investors and through green bonds. The focus area Corporate Governance includes the work with the Swedish nomination committees (where AP4 participated in 21 nominating committees during 2014/15) and the exercise of AP4's voting rights in Swedish and foreign companies: 79 in Sweden and 797 abroad during 2015.

Ongoing work includes reactive and preventive dialogues, mainly with foreign companies, as well as projects and initiatives undertaken by the AP Funds' Ethical Council. Company dialogues and initiatives include anti-corruption, human rights, labor rights, health and safety, pollution and biodiversity in foreign companies' operations.

Corporate Governance

Shareholder rights, board composition, diversity, compensation, capital structure, etc.

Ethics

Human rights, labor rights, child labor, health and safety, anti-corruption, etc.

Environment

Climate change to reduce emissions of carbon dioxide and other greenhouse gases, pollution and access to land, water and air, biodiversity, etc

Sustainability analysis is part of the work

In addition to so-called detailed analysis and news coverage management - equity, fixed income, and venture capital management as well as the corporate governance unit – relies on AP4's counterparties (banks and brokers) for sustainability information.

Structured and regular meetings are held between the different management units to discuss current and relevant issues and/or companies that might have an effect on the management work.

Management's sustainability goals and outcomes related to the focus areas Climate Change and Corporate Governance are included in the report.



Active management supports the role of owner

Active management is an important part of AP4's operations and long-term returns. One aspect that should receive more attention is how active management increases the opportunities to be a skilled and long-term owner. Our own company analysis and as such view of the company, which active management demands, increases opportunities to have discussions with companies in a constructive manner regarding both the business in general and sustainability specifically

Swedish equity management

The Swedish active equity management is based on fundamental analysis. A company's sustainability (environmental, ethical and governance) is included in the management's assessment of the companies, and the share price risk and price potential are an explicit part of the management strategy. Company visits are the primary source of information and fund managers meet regularly with senior management in the majority of the portfolio holdings.

The units have two joint meetings weekly and the relevant sustainability issues are reported and discussed in a structured way, covering both the ongoing management as well as AP4's nomination committee work. The units are physically located next to each other and they have regular reviews regarding matters of a sustainability nature and other ownership issues.

Review of all holdings

All holdings are analyzed twice a year in a detailed analysis with the support of external consultants. In the interim there is continuous reporting. The consultant collects and verifies information from a large number of sources, including various UN sources, media and a variety of volunteer organizations and interest group reports, and match AP4's holdings against this database. The intention is to capture any violation of international conventions regarding, among others, the environment, human rights and corruption that companies are guilty of, and include this information in the administration's analysis and corporate governance work.

Swedish and Nordic listed companies are generally well managed, and they foster their brands and strive to conduct their operations in a sustainable way. Despite this, environmental and ethical related incidents occur. When AP4 becomes aware of such incidents, or suspects that the claims may be correct, the relevant management and corporate governance units confirm the situation with each other, and they then contact the company's management to verify facts.

AP4 requests information on what steps the company is taking to address the problem and what is being done to minimize the risk of something similar happening again. If the problem cannot be solved immediately, AP4 follows up on the issue to ensure that the company complies with an action plan containing measures to deal with the incident. The companies are usually very eager to both provide relevant information and to resolve any problems.

Global equity management

The global equity management focuses on the selection of external managers, portfolio construction and index management. External managers with customized mandates execute active global equity management. AP4's global management systematically monitors the investments of the external managers.



Global equity management has regular meetings with the corporate governance unit, which is also the unit that represents AP4 within AP Funds' Ethical Council. At the meetings information is exchanged regarding various companies developments with respect to their sustainability efforts, the AP Funds' Ethical Council activities and the global equities management's investment activities. AP4's index management is mainly conducted internally and for several years has fulfilled the PRI's requirements:

- voting;
- dialogue with companies regarding any incidents and improvements;
- activities of more long-term nature, such as proactive industry projects through the AP Funds' Ethical Council.

This work is carried out through, among others, the Corporate Governance unit and through the AP Funds Ethical Council.

AP-Funds Ethical Council

The AP Funds Ethical Council works to influence positive change in foreign companies with regard to the environment and ethics. In 2015 the Ethical Council conducted approximately 300 dialogues with foreign companies, both preventive- and so-called incident dialogues. The dialogues regard how companies deal with difficult issues in their respective businesses. The AP Funds and The Ethical Council work systematically in order to influence companies to improvements in the various areas concerned. The Ethical Council's Annual Report 2014 was published in the spring of 2015. Read more on www.ap4.se.

Global macro management

Global macro management is responsible for the management of fixed income securities and currencies, among others.

The fixed income management is limited to trading in Government Securities in Europe, USA and Australia. The Fixed income management has assessed that these countries do not pose any significant risk from a sustainability perspective.

Corporate Bonds. The management conducts a business risk assessment of the holdings as part of the sustainability analysis. It can be extremely costly to own corporate bonds in companies that fail in sustainability. All corporate bond investments require at least a BBB rating. Rating agencies now place a greater focus on so-called "Contingent Liabilities" where the companies' ethics and environmental management are considered. Shortcomings in the environmental and ethical management can mean a lower rating because these factors have in recent years become increasingly important. The management evaluates and invests in green bonds when they meet AP4's criteria for sustainability and profitability. Investments in green bonds are monitored and their relative returns are assessed.



Real Estate management

Sustainability and corporate governance is part of the management process of AP4's strategic real estate portfolio. All of AP4's directly owned real estate investments currently have policies in place for how sustainability should be considered in real estate management.

AP4 uses GRESB (the Global Real Estate Sustainability Benchmark) for monitoring and comparing sustainability criteria in the real estate management. The real estate company responds to GRESB's annual electronic questionnaire. The company and AP4 then receive an assessment of the company from a sustainability perspective.

During the reporting period both Vasakronan and Rikshem issued so-called green bonds. The green bonds will, among other things, finance energy efficiency projects, often in conjunction with major renovations, but also in new production in order to achieve high environmental certification standards.

Management of unlisted investments

AP4's investments are made indirectly either through a venture capital fund or a venture capital company. AP4's focus with regard to sustainability is to evaluate and monitor how well it is integrated with the external managers investments.

Management of venture equity funds apply the UN Principles for Responsible Investment (PRI), which aims to increase the company's and stakeholder's responsible behavior with regard to ethics and the environment. It has now become a standard for venture equity funds to have internal sustainability policies and they are typically signatories of PRI.

In order to further develop the integration of sustainability, venture capital funds are now focused on implementing operational sustainability goals, activities and follow-up of the portfolio companies. This is a development that AP4 welcomes and contributes to through our commitment.

Climate change, a focus area

Climate change and global warming have major financial impact on all of AP4's investments and have incalculable consequences for the earth, its nature and its inhabitants. Further, climate change is very costly for states, companies and for individual to manage. With this insight AP4 drives for the reduction of carbon emissions.

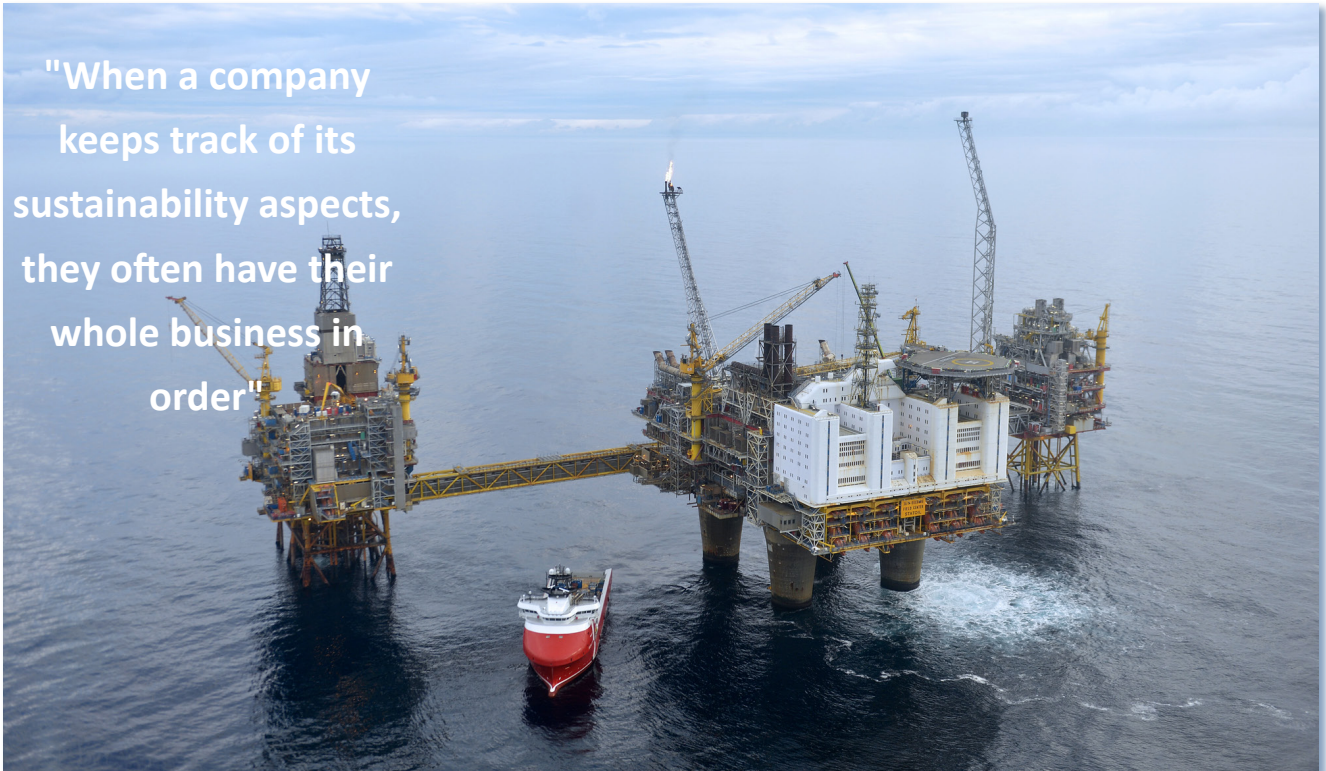


Photo: Harald Pettersen, Statoil.

According to AP4's analysis, climate change is an urgent global threat to our world, habitat and society and thus a threat to future performance and safe pensions.

The expected effects of climate change are pointed out in several reports as well as assessments of how earth is affected at different anticipated temperature increases.

Anticipated re-valuation

AP4 acts to protect the fund's assets and returns for an expected re-valuation of carbon dioxide emissions and fossil reserves.

In AP4's judgment there will be an introduction of a global price on carbon. When this happens, the worst companies will be adversely affected due to both lower valuations and profitability. AP4 currently has a "free option" on the mispricing of carbon dioxide through the fund's low carbon investments.

Return in line with targets

The management continually works to, among other things, develop and invest in different strategies and to provide knowledge about low-carbon strategies and green bonds.

So far the strategies with low-carbon investments have developed with a return in line with targets. However it is too early to assess such a long-term strategy.

PDC - an important step to make a difference

AP4 is also one of the founders of the Portfolio Decarbonization Coalition (PDC), a coalition of asset managers worldwide, who want to work against climate change by more investors investing in reducing their carbon footprint and increasing their low-carbon investments, which can contribute to the transition to a low carbon society.

PDC encourages different approaches with the same goal because this method tends to be more successful compared to only focusing on a single strategy. This is how AP4 works.

Goals and outcomes - Climate change

The focus area of climate change contributes to reduced carbon emissions to protect AP4's assets and returns for an expected re-valuation of carbon dioxide emissions and fossil reserves thus contributing to the transition to a climat-neutral society.

Goal, Comprehensive	Goal / Time frame	Outcome / Comments
<p>Increase the proportion of low carbon strategies in AP4's listed equity portfolio</p>	<p>Interim target, 2015</p> <ul style="list-style-type: none"> develop a global platform for low-carbon strategies. increase the share of low carbon strategies, from 10% to 25% of the global equity portfolio. 	<p>Completed. During 2015, AP4 invested in low-carbon strategies in Europe and the Pacific and a global platform is now established.</p> <p>At the turn of the year 2015/16, 22% of the global equity portfolio was invested in low-carbon strategies. The preparatory work for the implementation of additional low carbon investments was completed. These investments will, according to plan, be implemented after the end of the year 2015/16, with 25% of the global equity portfolio invested in low-carbon strategies.</p>
	<p>Interim target, 2020</p> <ul style="list-style-type: none"> 100% of the global equity portfolio in low carbon strategies. 	On-going.
<p>Measuring AP4's carbon footprint in the listed equity holdings.</p>	Yearly.	Completed. Refer to the annual report or www.ap4.se .
<p>Identify how the carbon footprint for other asset categories can best be measured.</p>	Annual status reporting.	On-going. During 2015, measurements and the reporting of the carbon footprint were coordinated with the other AP Funds for the portfolio of listed shares. Work with other asset classes is on-going.
<p>AP4 is an ambassador for the UN-supported initiative Portfolio Decarbonization Coalition, PDC, so investors, through their actions, contribute to emission reductions are put on the agendas of politicians, industries and companies.</p>	<p>AP4 will promote to global investors - by the climate summit COP21 in Paris December 2015 - to:</p> <ul style="list-style-type: none"> invest capital in low-carbon strategies of at least USD 100 billion. measure the carbon footprint of assets of USD 500 billion (by joining the Montreal Carbon Pledge). 	<p>The targets were exceeded. The PDC increased to 25 members with assets of more than USD 3200 billion, of which USD 600 billion was invested in some type of low carbon strategy.</p> <p>Investors with assets under management of USD 10 000 billion had been signed the Montreal Carbon Pledge at the turn of 2015/16.</p>
<p>Provide knowledge concerning low-carbon strategies and green bonds. Managers allocate time to share their knowledge and experiences with other institutional investors.</p>	On request.	On-going. On request AP4 has shared experiences and knowledge during 2015, and held a more than 50 presentations including conferences and other official events.
<p>Contribute capital to more green projects by:</p> <ul style="list-style-type: none"> be active in the new issue of green bonds. participate in the trading of green bonds and contribute to making the asset class attractive, so that it develops further. 	<p>Annually. Evaluate and invest in green bonds when they meet AP4's criteria for sustainability and profitability.</p>	<p>During 2015:</p> <ul style="list-style-type: none"> Participated in 13 new issues with an investment value of SEK 4 billion. AP4 has been active in the secondary market.

Corporate governance, a focus area

AP4 is an active owner. Corporate governance is about AP4 taking responsibility and contributing to the long-term sustainable value that can be created in companies. The goal is that companies should be managed sustainably, responsibly and as effectively as possible to create conditions for their success while delivering long-term sustainable returns. This contributes to safeguarding pensions.

"Active management is an important part of AP4's long-term earnings potential and it increases the ability to be an competent and long-term owner."



Corporate governance contributes to sustainable results

AP4's corporate governance work aims to:

- contribute to good long-term sustainable returns.
- safeguard the interests of both shareholders and the individual companies.
- take into account the individual company's unique circumstances and requirements.
- exercise the rights and duties as owner regarding corporate responsibility and sustainability.
- promote the development of good practices in the securities market.

Good corporate governance is essential in creating value in companies, and is exercised by, among others, following the company's development, taking a stand on various issues and communicating a clear picture to the company boards and management on what owners expect.

AP4's Board annually approves a corporate governance policy which summarizes the guidelines for corporate governance in Swedish and foreign companies. The ownership policy can be read at www.ap4.se

Several ways to exercise responsibility

There are numerous ways to exercise corporate governance and this can vary depending on what an owner wants to achieve and what is judged to be most effective. The application of corporate governance often differs between countries due to differences in laws, culture and traditions. Trust and respect between the parties is always a prerequisite for successful dialogue.

AP4's corporate governance work is, to some extent, carried out differently in Sweden than abroad. This is because AP4 is one of the ten largest institutional shareholders on the Swedish stock exchange, which affects how corporate governance can be pursued. For example, in Sweden AP4 participates in several nominating committees and has several points of contact with the management and the board of these companies.

By contrast, in other countries AP4 is a relatively small shareholder with holdings seldom exceeding 0.05 percent. In order to pursue corporate governance more effectively in foreign companies AP4 for the most part collaborates with other institutional investors, both Swedish and foreign.

Goals and Outcomes - Corporate governance

Corporate governance, in AP4's view, is about taking responsibility and having an effect on the company's development to be successful and deliver long-term sustainable returns, which in turn can contribute to safeguarding pensions. Good corporate governance is essential in creating value in companies and is exercised by, among other, following the company's development, taking a stand on various issues and communicating a clear picture of the expectations of owners to the company boards and management.

Goal, Comprehensive	Goal / Time frame	Outcome / Comments
Accept to participate in nomination committees when asked.	Nomination Committee season 2015/2016. Participate in the nominating committees where AP4 asked.	Asked to participate in 21 nominating committees in 2015. AP4 said yes to all.
Strive for good directorships in companies in which AP4 is involved in the nomination committee.	Annually. As part of board evaluations interviewing all or part of the board of the companies in which AP4 participates in the Nomination Committee.	Board members interviews were conducted in all companies in which AP4 has participated in the nomination committee.
When working with nomination committees, strive to increase diversity on boards particularly with regard to gender balance. Contribute to that the companies live up to the requirements of the Code	Annually. In connection with the Nomination Committee's work to ensure that the <ul style="list-style-type: none"> At least one woman is on the short list for the appointment of new directors. contribute to the Code's recommendations on the number of female board members meet. 	<ul style="list-style-type: none"> In the nominating committees where AP4 participated in 2014/15 there was at least one woman on the short lists in the recruitment process. 6 of 11 of the proposed new board members in 2015 were women. This corresponded to 54%.
Increase diversity on boards in terms of gender balance and ensure that companies live up to the requirements of the Swedish Code.	2015 respectively 2016: Identify and contact a number of companies' nominating committees in which AP4 has significant holdings and that are deemed to need an extra effort to increase the proportion of women on the board. Provide support and possible proposals for members.	Follow-up and contact with the nomination committees of 13 companies, where the proportion of women on the board ranged from 0-17%. The proportion of women was already the focus of several of the contacted companies' nominating committees. In these companies, the proportion of women on the board with 8 percentage points on average in 2015.
In addition to exercising voting rights at Swedish shareholder meetings, where AP4 has large holdings in companies, voting rights are important for fundamentally important issues.	2015 respectively 2016: Goals to be represented and take a position on the issues discussed in 60 meetings.	In 2015 AP4 participated in 79 meetings, present at 72, and by proxy at 7 meetings. The target of 60 meetings was exceeded.
Exercise voting rights at AGMs of foreign companies in which AP4 has large holdings and / or conduct dialogues with companies regarding certain issues that may be subject at the AGM.	2015 respectively 2016: Aims to consider issues raised at meetings and vote in a total of 550 (500) AGMs in the United States, Japan, Canada, Britain, Australia, France, Germany, Switzerland, Holland, Spain and Ireland and Belgium.	In 2015 AP4 exercised its voting rights at 785 AGMs, exceeding the target of 550 AGMs with a good margin. This was made possible principally through more efficient voting process.
Promote the development of good corporate governance in Japan.	2015 respectively 2016: Continue to support the Japanese ownership code and support the development of a Japanese corporate governance code.	<ul style="list-style-type: none"> 2015 AP4 was a signatory in support of the Japanese code. AP4 has participated in meetings concerning the Japanese codes, including on-site in Japan with Management Investor Forum, MIF, which is led by the Ministry of Economic, Trade and Industry, METI.
Invest additional capital in funds that actively work to better the ownership and governance of markets and companies.	2016: Evaluate and seek more funds.	Additional capital invested in Japan. Several funds evaluated.

Risk management in three steps

AP4 must take risks in order to achieve target returns. A well balanced active risk-taking, based on established risk levels, is a key component of AP4's successful asset management.

Sound risk management is crucial to successful asset management. It must be possible to forecast, and subsequently control, risks ahead of an investment. Risk management can be divided into three steps:

1. Risk management
2. On-going risk management
3. Follow-up and control

Step 1. Risk management – framework for risk tolerance

The Board of Directors adopts annually an investment policy and a risk management plan for AP4's operations. Alongside the Swedish National Pension Funds Act (AP Funds), these documents provide a framework for AP4's risk tolerance.

The Board has established a Risk Committee with three board members. The committee's task is to further improve communication and understanding of the business's financial risks.

The risk and investment strategy has been devised with due consideration of AP4's overarching objective to generate the best possible return over time and thus support the stability of the pension system.

The **investment policy** describes the management focus through the Board resolution regarding the Normal (reference) portfolio, which is based on AP4's ALM-process (Asset Liability Management). This establishes the Fund's long-term return goal, risk profile and risk mandates for the Strategic and Tactical management

The **risk management plan** describes the division of responsibilities and authority for the investment operations, the principal operational risks and how these risks shall be controlled and monitored. The principal risks are of a financial and operational nature.

A more detailed description of the risks is provided in Note 20.

Step 2. On-going risk management

AP4's daily risk management and control is decentralized from the organizations operational functions. It follows the principle of three lines of defense. This principle distinguishes between the functions that own the risks (first line of defense), functions for monitoring, control and compliance (second line) and functions for independent review (third line).

Three lines of defense

The **first line of defense** is the business operations, which make business decisions and "take the risk". The business operations also have a responsibility for each transaction's risk management and control. The first line includes all management units in the management operations, as well as business support functions such as back office, finance and legal.

The **second line of defense** is the unit Performance- and Risk Control unit (ARK) and the Finance unit. Performance- and Risk Control is an independent unit, which reports directly to the CEO and the Board.

Internal audit, which is the **third line of defense**, is not a fixed function within the organization. The board resolves whether and to what extent an internal audit is carried out, which is then undertaken by external auditors. No internal audits were carried out in 2015.



Financial and operational risks

On-going risk management is divided into financial risks and operational risks.

Financial risks

The CEO allocates financial risks to the various management units based on the Board of Directors risk mandate. Managers are responsible for the risk management within their respective mandate. Risk management takes place with a calculated risk-taking within the mandate, which can have both positive and negative outcomes.

Financial risks, in which primarily market, credit and liquidity risks are included, are based on the Board's resolution regarding the Normal portfolio's asset allocation. The scope for risk-taking in active management is limited based on the established risk mandates for the Strategic management in the medium term (3-15 years) and the Tactical management in the short term (up to 3 years).

Equity risk forecasts are used, which are separated by management area, instrument, risk factor and more, in order to support AP4's continuous work in optimizing risk-taking. AP4 analyzes and plans strategic risk-taking with the help of stress tests and different scenarios.

Operational risks

All units are responsible for ensuring that day-to-day operations meet the requirements set for good internal control and assigning sufficient resources for this purpose. This includes monitoring of compliance with the Fund's regulations.

Step 3. Follow-up and control

The unit ARK develops the risk processes and provides methods for risk identification, risk quantification, risk analysis and reporting of both financial and operational risks. ARK has the task of checking that the statutory investment rules, investment policy, risk management plan and that the CEO decisions are applied within operations. ARK's work includes careful measurement and analysis, as well as daily reporting of return and risk, both in absolute terms and relative to benchmarks and the reporting of any breaches of applicable regulations.



The unit is divided into a risk control, risk analysis and a compliance functions.

Risk Control function is responsible for monitoring and control of financial risks such as credit and liquidity risks. Risk Control is also responsible for monitoring the operational risks in management operations and to otherwise ensure that the rules relating to these risks are followed. Operational risks are evaluated specifically in connection with the implementation of new products, systems and organizational changes.

Instructions are documented in accordance with the risk management plan broken down by area of responsibility and authority with the aim to minimize operational risks and ensure good internal controls. Processes and procedures are regularly reviewed in order to identify weaknesses in the transaction chain or other processes. The so-called duality principle is consistently applied.

The Risk analysis function is responsible for analysis, control and reporting of predominantly market risks. Market risks are defined partly as risk relative to the benchmark and partly in absolute terms as contributions to the overall portfolio risk. The risks are broken down into AP4's three investment horizons--up to three years, 3-15 years and 40 years-- and are analyzed using risk contribution based on the respective mandates investment processes. Stress tests and scenario analyses are also used.

The Strategic management conducts a stress test analysis in connection with new investments using historical scenarios in order to assess the risk contribution to the portfolio. The risk analysis includes daily monitoring of risk and return for the Tactical management, and a monthly monitoring of the Strategic management. This gives AP4 access to forecasts for the aggregate risks in the investments, both in absolute terms and relative to their benchmarks.

The Compliance function examines the business operations based on compliance with laws, regulations, and other directives and policies, instructions and internal rules, including ethical guidelines.

Portfolio risk 2015

Good information ratio over the past five years

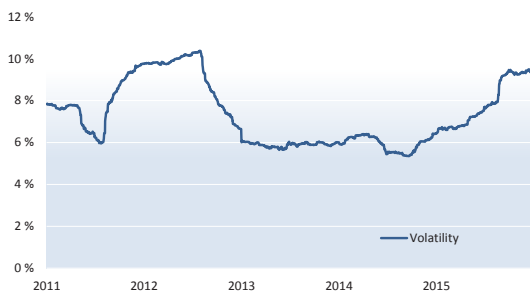
The information ratio for Tactical management amounted to 0.2 (2.9) during the year. Values above 0.5 for individual years are usually considered a good result.

For the past five years, the average information ratio for Tactical management amounted to 1.3 (1.8).

Market risk decreased in 2015

Market risk increased for AP4's liquid assets to 9.4 (6.4) because of the turmoil in the financial markets at year end, measured on a 12 month history. During the year volatility of AP4's liquid assets amounted to an average 7.9 (5.9) percent.

Volatility - liquid assets



The graph above shows the market risk of liquid assets measured with a 12-month historical standard deviation.

The volatility in the Swedish and global equities also increased, and at year-end amounted to 19.3 (13.3) percent and 13.8 percent (9.7), respectively.

Interest rate risk

Interest rate risk, measured by Modified Duration, fluctuated during 2015 within the range limit set for the fixed income portfolio.

Increased risk utilization

The active risk for AP4's Tactical management, measured with a 12 month history, increased during the year to 0.5 (0.2) percent, primarily due to a higher risk utilization in the management of fixed-income securities.

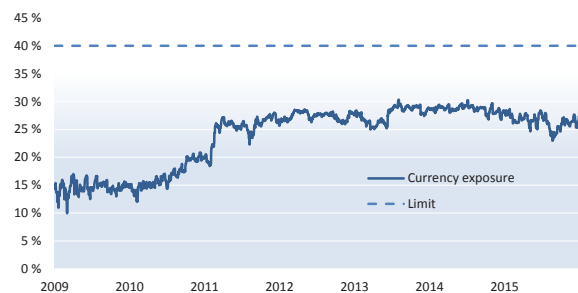
Active risk - Tactical management



Currency exposure

AP4's open currency exposure for the Total portfolio fluctuated during the year between 23 and 29 percent. AP4 had the greatest exposure to USD, which during the year rose sharply against the Swedish crown.

Currency exposure Total Portfolio



Exposure to states

AP4's exposure to countries with a rating below AAA within the Euro area has increased during the year.

Exposure to sovereign states within the Euro area with a rating below AAA, Dec. 31, 2015

Country	31 Dec 2015, SEK m	31 Dec 2014, SEK m	31 Dec 2013, SEK m
UK ¹	7 103	5 298	2 676
Italy	3 486	2 286	1 626
France	1 513	843	1 473
Belgium	520	850	553
Austria	331	322	275
Finland	264	288	²
Total	13 217	9 886	6 604

¹ Great Britain is not part of the Eurozone, but has nevertheless been included in the compilation.

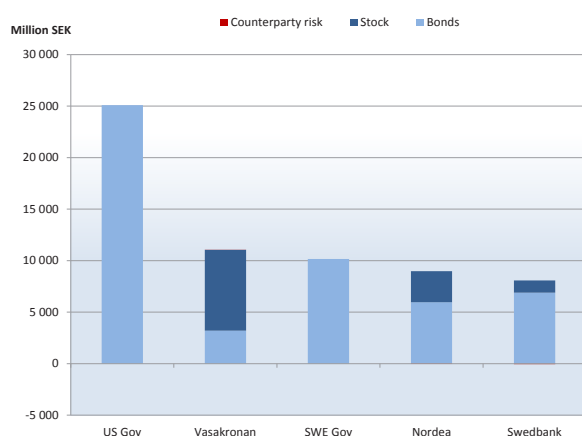
² The country had an AAA rating for the current year.

Exposure to issuers

AP4 has a large exposure to the banking and financial sector. The 15 largest holdings represent a total exposure of SEK 46 (55) billion, of which SEK 34 (42) billion is related to exposure to the Swedish banking and financial sector.

Exposure from AP4's five largest issuers represented together nearly SEK 63 (58) billion.

Total exposure to the five largest issuer groups



The graph above presents exposure in billion per issuer, Dec. 31, 2015.



Range of fixed income holdings

The percentage of listed AAA rated bonds decreased during the year and at year-end was just under 50 percent of the fixed income portfolio. The proportion of BBB rated bonds, which is the lowest rating level in the fixed income portfolio, was on average 7 percent.

Fixed income holdings in the fixed income portfolio



The graph above shows the breakdown between listed AAA and BBB rated bonds as well as the internal limit level.

Increased financial turbulence in 2016?

Falling commodity prices have put pressure on energy and commodity sectors resulting in reduced industrial output and infrastructure investments. Credit risk increased and the USD continued to strengthen since many developing countries with large exposure to commodities hold loans in USD. Growth in China, the world's second largest economy, has slowed and there is concern that China is trying to export deflation through devaluations. The refugee crisis in Europe should also be highlighted, but the concern here is perhaps primarily political rather than financial.

Stakeholders

As part of the Swedish state AP Funds, AP4 has many stakeholders. Stakeholders include every Swedish citizen, both current and future pensioners, and Parliament that establishes and enacts the laws regarding the AP Funds.

Audited and transparent

Transparency is a key word in all cornerstones of AP4's business philosophy. AP4 endeavors to be transparent in its reporting and communication as far as possible without damaging the business.

The AP-Fund's operations, and the audit of the same, are partly regulated by law. External auditors review the operations and its accounts annually. The Ministry of Finance appoints each year external consultants to review the operations including various specialist areas, where the results are documented and presented to Parliament. The government appoints the AP Funds' boards and in accordance with the above evaluates their work. As such the government is a significant stakeholder regarding the focus of the AP Funds' operations.

In addition, an AP Fund is a natural topic for media, various NGOs and interest groups judgments and examinations. Other important stakeholders are AP4's employees, whose commitment and skills are a critical success factor for managing the Fund's capital.

Additional stakeholders are Swedish and foreign companies where AP4 is a shareholder or holds securities, as well as suppliers of financial services, among others. The media and various interest groups that monitor and manage a range of issues are other important stakeholders. Stakeholders are also other institutional pension funds in Sweden and globally that AP4 either cooperates with or competes with.

Stakeholder engagement

AP4 regularly meets individually with various stakeholders to provide information regarding AP4's operations as well as to understand stakeholder views and opinions about the work pursued by AP4. This allows AP4 to better understand stakeholders' expectations while also increasing stakeholders' understanding of the framework in which AP4 operates and the risks and opportunities that can be connected to AP4's business operations both in the short and long term. The results of these meetings might also impact the sustainability work in management.



View of the eastern and western parts of the Swedish parliament.
Photo: Melker Dahlstrand/Riksdagsförvaltningen.

A table with various stakeholders is presented under the heading Global Reporting Initiative found in this report and on www.ap4.se.

The government's annual evaluation

The AP Funds are reviewed annually by auditors and by the government. The government's specific audit is compiled in a report submitted to Parliament. The government's most recent evaluation was published in the spring 2015.

Evaluation 2015

The government writes "the AP Funds, both in 2014 and since its inception in 2001 contributed positively to the long-term financing of the public pension system." The Financial Markets Minister Per Bolund also says in a press release that he "has great confidence in the AP Funds work and their knowledge. It is gratifying that they contribute in the development of a sustainable financial market".

Special Examination – Sustainability, 2014

In 2014, the government reviewed the AP Funds sustainability work as a specialist area. The assessment was that the AP Funds' "... fared well in international comparisons with other pension funds, which were selected based on their integration of sustainability in management". The importance of continued development in the area was also stressed.

Further, it was found that the AP Funds have well developed guidelines for ownership and the reporting there of. However, it was highlighted that the AP Funds could be clearer in emphasizing the main issues that are pursued and the corresponding results.

AP4's focus areas - Climate Change and Corporate Governance

At the end of 2014 AP4 announced its focus areas within sustainability: Climate Change and Corporate Governance. Work in these areas is conducted together with the ongoing work on integrating sustainability in the management.

Materiality Review 2015

A materiality review was conducted in 2015 in order to ensure that AP4's work, reporting and communication on sustainability initiatives are in line with stakeholder expectations and perceptions of what is important.

Process for materiality review

AP4 and various stakeholders have discussed global trends and the challenges of sustainability, the financial sector and financial owners in general and AP4 in particular. In addition, a number of stakeholders, both external and internal (employees) respond to a questionnaire. Some of the survey responses are complemented with a follow-up of external and internal

interviews to get a better understanding of the priorities and expectations.

Discussions regarding expectations and challenges

The Materiality review and discussions with stakeholders yielded several valuable opinions to the ongoing work with sustainability. The review confirmed that AP4's current sustainability efforts and priorities are perceived as clearly communicated. The majority of discussions focused on identifying expectations and areas of value creation.

The majority of stakeholders expect sustainability in the broader sense will affect business operations in the future. Areas that were expected to have a major effect was the impact of climate and the environment such as emissions of carbon dioxide, availability and quality of water, as well as the growth in renewable energy. In addition, changes seen in and between different countries' economies could have an impact on the development of markets and operations, as well as various political influences and policy changes.

It was also felt that climate and environmental issues are among the major concerns regarding the impact on the financial markets. Prominent themes were access to clean water, renewable energy and how "stranded assets" are managed and the development of a circular economy. Even questions regarding equality, refugee policies, and migration and, as such, changing consumption patterns were highlighted as important. Digitization and data security were also considered challenges for the financial industry.

In addition to sustainability work in general, the overall challenge was the expectation as "owner" to lead by example and to take ownership responsibility. A tremendous amount of attention was paid regarding owners being honest and transparent and being as open as possible in their actions. This included, for example, that owners should be concrete in contact with the companies and set tough but realistic demands.

The expectations for AP4 are continued work with sustainability issues and the delivery of strong returns on investment. In order to achieve this AP4 is expected to continue its current work and to further build on the link between sustainability and the financial analysis regarding what, and how, AP4 should invest in the future.

Conclusions

The discussions revealed that AP4 has succeeded in the outreach with several stakeholders regarding work on climate change and low-carbon strategies. AP4 will further work with the results and the lessons learned from the materiality review and take them into account when making strategic decisions, reporting and when communicating.

Employees

At year-end 55 people worked at AP4, where of 21 worked in the management organization and 34 worked in business support, control and staff functions.

Employees

Employees are AP4's most important resource. Opportunity for professional development, education and job satisfaction are in focus. To promote long-term good health all employees receive regular health and fitness benefits. AP4 regularly conducts a market salary survey to ensure that salary levels and compensation packages are competitive and reasonable. See more information under the heading Remuneration at AP4.

Executive Management

AP4's Board of Directors has delegated responsibility for the day-to-day management to the CEO. To support decision-making, the CEO has an Executive management team consisting of seven people: CEO, Deputy CEO / Chief Investment Officer, Head of Performance and Risk Control, General Counsel, Head of Administration, Head of Equity Management and the Head of Global Macro (fixed income, currency and equity indices). This management team makes comprehensive decisions on annual plans, prioritization of projects, policies, monitoring of budgets and staff issues.

In addition to AP4's executive management team there are two additional management groups. Business Management is a group consisting of representatives from the different management units and the Deputy CEO / Chief Investment Officer and the CEO. The Business Management group determines and establishes strategies and business decisions. The other management group drives AP4's development and consists of the management team and representatives from Business Management.

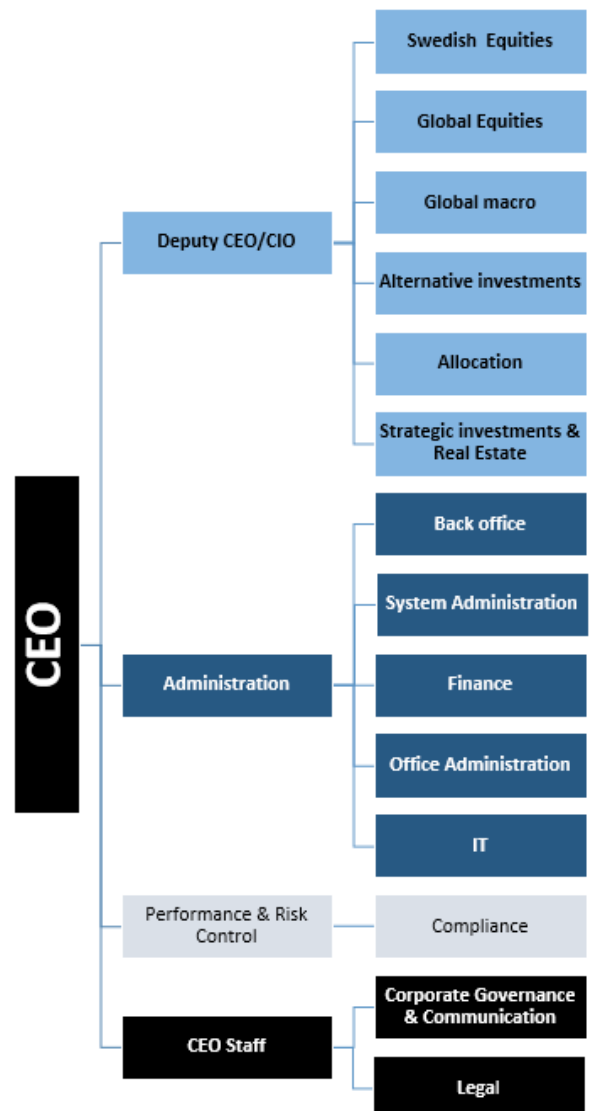
Organization

Asset Management is organized into six units: Global Equities, Swedish Equities, Global Macro (fixed income, currency and equity indices), Alternative Investments, Allocations and Strategic Investments & Real Estate.

Administration is organized into the following units: Back Office, Systems Administration, Accounting, Office Administration and IT.

Performance and Risk Control manage risk and return analysis and also includes the Compliance function.

CEO's office consists of the units Legal, Corporate Governance and Communication.



Key Ratios, employees	2015	2014	2013	2012	2011
Number of employees, average	55	56	54	51	52
Women, %	38	36	33	29	31
Men, %	62	64	67	71	69
Number of Full-time employees, average	55	54	52	50	51
Number of part-time employees, average	1	2	2	1	1
Employees covered by collective agreement, %	98	98	98	98	98
Average age	44	44	43	42	42
0-29 yrs., number of employee, %	7	5	9	10	10
30-44 yrs., number of employees, %	35	39	43	50	54
45-59 yrs., number of employees, %	54	52	46	37	37
60- yrs., number of employees, %	4	4	2	3	0
Employee turnover, %	10,9	8,9	1,9	7,8	13,5
Number of employees to start during the year	5	4	4	2	8
Number of employees to leave during the year	6	5	1	4	7
Changed position internally during the year	2	1	1	2	0
Sick leave, %	2,9	0,9	1,3	2,6	1,7
Annual working hours accounted for as parental leave	2,43	3,3	1,75	4,99	5,81
Women, %	53	39	38	33	60
Men, %	47	61	62	67	40
Number of persons in the Management team	7	5	5	5	4
Women, %	29	40	40	40	25
Men, %	71	60	60	60	75
Management positions	6	10	10	10	11
Women, %	50	40	40	40	46
Men, %	50	60	60	60	54
Number of employees in Asset Management	15	16	16	16	16
Women, %	20	19	19	19	19
Men, %	80	81	81	81	81
Number of employees in Business Support, Control and Staff functions	27	25	23	20	21
Women, %	48	44	39	30	33
Men, %	52	56	61	70	67
New employees since 2011 that are still employed	21				
Women, %	52				
Management team, %	50				
Management positions, %	50				
Asset Management, %	25				
Business Support, Control and Staff functions, %	62				
Men, %	48				
Management team, %	50				
Management positions, %	50				
Asset Management, %	75				
Business Support, Control and Staff functions, %	38				

Employee survey

Our employees are AP4's most important resource. Their commitment and expertise are critical success factors for the management of the fund capital. The goal is to create an attractive workplace with opportunities for education, health care, job satisfaction and professional development.

Over several years AP4 has conducted employee surveys in order to capture issues that matter most in order for employees to succeed, feel motivated and continue to develop the business.

The issues captured through the employee survey concerning areas of improvement are managed according to a systematic process. Each unit in the organization will discuss results of the survey and an employee group is formed each year with representatives from the various units. The employee group has the task to develop specific actions for continued improvement in the areas identified in the employee survey.

The results for most areas in the 2015 employee survey were good, but some areas were lower than the prior survey. Another employee survey was conducted during the fall in order to follow up and attain a better picture of the issues. The results of this survey have been reported internally and will be managed in accordance with AP4's improvement process.

Personnel and ethics-related policies

AP4's Board adopts yearly a personnel and ethics-related policy based on both statutory regulations and an unwritten code of ethics. The CEO also formulates a number of internal guidelines that are added to the policy each year. The policy and guidelines include rules on public procurement, compensation and benefits, business travel, entertainment, employees' personal trading in securities, insider information and ancillary activities. AP4's policy also includes policies regarding bribery and conflict of interest. No incidents involving corruption, bribery or conflict of interest were identified during the year.

Each employee at AP4 is responsible for personally complying with the rules in the above-mentioned policy and their underlying guidelines, which also state that moral or complex dilemmas should be investigated in consultation with the employee's immediate supervisor. The personnel and ethics-related policy, as described above, form part of AP4's introductory training for new employees.

All employees are encouraged to contact their immediate supervisor, the CEO, Head of Compliance or the General Counsel if they are unsure of how to handle a situation that arises, or if they suspect irregularities or that the internal ethical guidelines are being violated. Employees also have the opportunity to express opinions anonymously in the annual employee survey.

In 2015 training was provided to all employees regarding the common government fundamental values for all employees.



AP4's direct environmental impact

AP4's direct impact on the environment (with about 50 employees) in a Swedish office is relatively low. Business travel, electricity consumption (heating and cooling of offices) and waste management have the greatest impact on the environment.

Most business travel involves visiting companies and their facilities and partners outside Sweden. Telephone and video-conferencing are used when possible as an alternative to business travel.

The building in which AP4's office is located has been awarded LEED Gold certification. LEED is a comprehensive international system in which the property is assessed on a number of points, including energy consumption, waste management, infrastructure and ongoing management. AP4 even has a green electricity contract.

AP4 recycles paper and electronic waste, and also sorts cardboard, metal, plastic, batteries, light bulbs and household waste for recycling. Where possible AP4 uses eco-labeled office supplies and recycled paper, in addition to reducing paper consumption.



AP4's direct environmental impact	2015	2014
Total energy consumption in own offices	69.2	70.3
District cooling consumption in own offices kWh/m2	66.6	67.4
Heat consumption in own offices kWh/m2	64.4	70.3
Water consumption m3/m2	0.4	0.4
Paper consumption kg/employee	20.1	20.2
Percentage of eco-labelled paper of total paper consumption	100	100
Business travel by air, km	66 446	57 198
Business travel by air, emissions tons CO2	74.7	64.2

Suppliers and procurement

As a participant in the financial sector with relatively few employees, AP4's suppliers are predominately service providers. This includes services such as computer systems and management services, which are required for the Fund to be able to conduct a competitive asset management. Procurement of services and equipment comply with the Swedish Public Procurement Act (2007:1091). Wherever possible AP4 procures eco-labeled and organic office equipment and consumable products.

Remuneration at AP4

AP4's role as a manager of national pension funds requires that the level of remuneration to the Fund's employees, including the CEO, to be reasonable, justifiable and explainable.

AP4 generally strives to ensure that, overall, levels of remuneration are in line with the market and enable the Fund to attract and keep talented employees. However, the Fund shall not be a wage leader.

AP4's Board of Directors has a responsibility to address remuneration issues in a purposeful, responsible and transparent way. The Board of Directors annually determines the policies governing remuneration and other terms of employment for employees of AP4. Furthermore, the Board conducts an annual follow-up of how these policies have been applied within the Fund over the preceding year. It also verifies and establishes that government guidelines on terms of employment for Executive management in the AP Funds have been adhered to. With the support of external consultants the Board, as part of this work, regularly compare AP4's remuneration levels for both the executive management group and other employees using salary statistics from relevant and **comparable employers in the market**.

The Remuneration Committee is a Board-appointed body comprising three members of the Board. The Committee's responsibility is to serve in a consultative, monitoring and preparatory role as regards remuneration to the CEO and the Fund's executive management group, as well as managers who report directly to the CEO. The Remuneration Committee prepares important remuneration resolutions and manages other related tasks delegated by the Board. The committee also prepares issues concerning AP4's principles for remuneration and other terms of employment for all employees and is responsible for monitoring the application of these principles. Finally, the Remuneration Committee prepares the assessment of AP4's compliance with government guidelines for the terms of employment for Executive management at the AP Funds. A common **policy** for remuneration terms, staff benefits, entertainment and business travel for AP1, AP2, AP3, AP4, AP6 and AP7 was formulated in 2012, and was adopted by AP4's Board. The common overarching policy is supplemented by AP4's more detailed internal staff-related policies and guidelines, including AP4's remuneration policy. The above policies and guidelines are subject to annual review. According to AP4's **remuneration policy**, total remuneration consists of fixed salary, incentive-based salary, pension and other benefits. Incentive-based salaries are not paid to the CEO, Executives management and the Compliance officer (Compliance).

Fixed Salary - Fixed salaries shall be in line with the market and competitive, but not market leading. Salaries are determined on an individual basis, taking into account the level of responsibility and degree of difficulty of the duties involved, as well as the competency and capacity required for the work of each employee.

Incentive-based salary - the Board of Directors approve annually a plan for incentive-based remuneration for all the Fund's employees. No incentive-based salaries are paid to the CEO, the executive management or the compliance officer. The plan provides for a capped incentive-based salary amounting to no more than two months' salary, conditional on the attainment of goals based on objective criteria that have been established in advance. The goals incorporated into the incentive-based plan shall be balanced between a collective contribution and the individual employee's contribution and responsibility to the overall outcome over a rolling three-year period. Incentive-based remuneration is paid only if the Fund, in the year to which the incentive-based remuneration pertains, reports an absolute profit.

Pension - AP4 complies with the "BTP" plan, in accordance with the relevant collective bargaining agreement (BAO, the Employers' Organization of the Swedish Banking Institutions/SACO, the Swedish Confederation of Professional Associations), for all employees except for the CEO. Employees hired after April 1, 2008, with a salary exceeding 10 income base amounts, will be eligible for alternative BTP, a pension plan based on defined contributions, in which a premium corresponding to 30% of the salary component exceeding 7.5 income base amounts is paid. Other employees are covered - unless otherwise agreed - by a retirement pension based largely on defined benefits in accordance with the BTP plan. The CEO is entitled to a pension at the age of 65 years and a pension allocation corresponding to 30% of salary.

Substitution of salary for pension/increased retirement pension - All employees are entitled to substitute part of their gross salary for pension premium payments in a way that is cost-neutral to the Fund.

Other benefits - The aggregate value of other benefits amounts to a limited proportion of the total remuneration paid. Other benefits include health insurance, group insurance and fitness subsidies. AP4 also has four parking spaces that employees can use, which are taxable as a fringe benefit.

Notice of termination/Severance payments - Period of notice follows the rules of the collective agreement between BAO and SACO for all employees excluding the CEO and Deputy CEO. The CEO and Deputy CEO have a mutual notice period of six months. Upon termination, as is called for by AP4, severance pay amounts to a maximum of 18 months' salary for the CEO and 12 months for Deputy CEO. In the case of new employment or income from business activity, remuneration paid during the period of notice or severance payment will be reduced by an amount corresponding to the new income, refer to note 6.

The Board of directors' follow-up of remuneration

Board of directors' follow-up of remuneration

The Board has resolved that a comparative analysis of the compensation for senior management and managers directly reporting to the CEO shall be made annually whereby AP4's remuneration levels are compared with a group of 16 companies in the financial sector in Sweden working with long-term asset management. These companies are competing for staff with similar responsibilities, experience and skills necessary for AP4 to fulfill its mission.

Senior management

After reviewing the comparative analysis carried out by the external consultant, Towers & Watson, the Board has determined that the remuneration of senior management was deemed to be within the scope of what is considered market-based and competitive and appropriate, without being a wage leader, and fits within the framework of the Government's employment terms for senior management at the AP Funds.

All employees

During the autumn of 2015 the Board, with the help of Towers Watsons, also conducted a comparative analysis of the compensation of all AP4's employees, based on a Board resolution that such an analysis should be carried out every two years. Results of the comparative analysis will be assessed in early 2016.

Comprehensive comparative analysis in 2016

During 2016 a comprehensive comparative analysis will be carried out where every employee's compensation will be analyzed from both a gender and market perspective, that is, in comparison with corresponding positions in the financial sector in Sweden that work with long-term asset management. Follow-up on this report will be available in AP4's 2016 Annual Report.

The Swedish pension system

Income pension

The income pension is a distribution system in which pension contributions paid in by the gainfully employed during the year are used to pay out pensions to pensioners the same year. The income is thus completely independent of the national budget, and financing is linked to the contributions paid in by employers each month as part of the pension income of employees.

The size of the income pension depends on the income of the individual throughout their entire working life, in other words how many pension rights have been accumulated during gainful employment.

Guarantee pension provides a safety net

The guarantee pension is a safety net for people who are entitled to a pension but who do not have sufficient income. It is financed through the national budget and is independent of the income and premium pension system.

Occupational pensions add a little more

There are occupational pensions or contractual pensions in addition to income pension, often through a collective agreement, arranged for employees by employers, as well as private pensions, which are pension schemes entered on a voluntary basis.

You can influence the premium pension

The premium pension is the part of the national pension that individuals can themselves influence through investment choices. Each month, employers pay in 18.5% of the pensionable income of employees to income pension (16 percentage points) and to premium pension (2.5 percentage points).

The size of the premium pension is dependent on the performance results, up until the individual retires, of the securities funds where the capital was invested.

The AP Funds - a buffer between generations

The AP Funds, First - Fourth and Sixth AP Funds, assets accounted for about 14 percent of pension assets at the end of 2014. AP Funds' assets act as a buffer and ensure that the pension system is in balance across generations. A single AP Fund's total assets of about SEK 290 billion, excluding AP6 which managed approximately SEK 24 billion at the end of 2014, thus constitutes about three percent of all assets in the pension system.

Assets = Liabilities

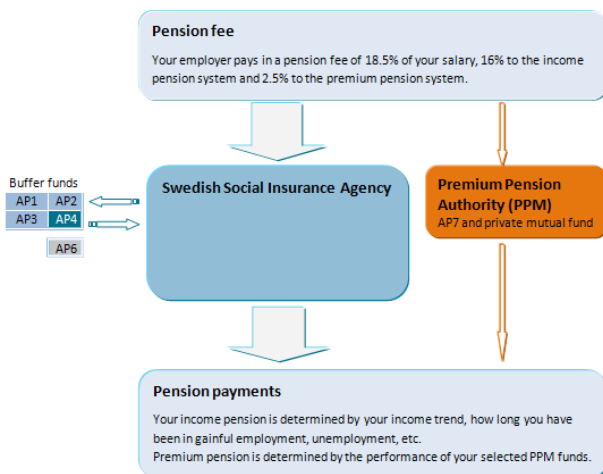
Income pension is constructed as a distribution system, which means that assets, which should be sufficient for the payment of pensions, must be equal to the liabilities, the pensions that pensioners are entitled to. The pension system's greatest asset, approximately 85 percent, is the so-called "contribution value". The contribution value is the expected value of future pension contributions from the gainfully employed. How long a person is gainfully employed, wage increases and the number of people in employment primarily affect the size of the contribution value.

Pensions and wage trend

The pension system liabilities, the accrued pension rights, are by rule adjusted up in accordance with the income index, which is the average income. Even the pension system assets, the AP Funds assets and Contribution Value, are increased by at least as much as the income index in order for the system to be in balance, i.e. assets are equal to, or greater than, the liabilities. AP4's average nominal return after expenses since January 1, 2001 amounts to 5.6 percent, which is higher than the income index that increased by 3.0 percent on average during the same period.

Pension system largely not funded

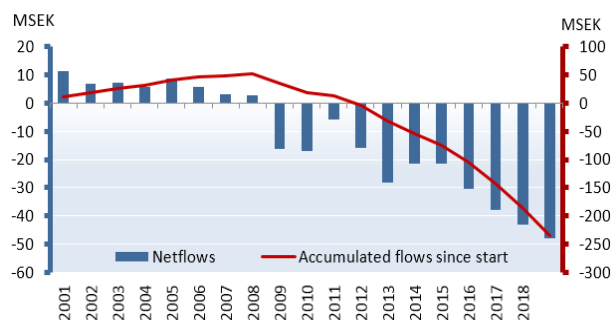
The pension system is on the whole unfunded. If many people retire without any influx of new workers there will be an imbalance in the system. This imbalance affects both the contribution value and the AP Funds – i.e. the buffer – negatively. Having fewer people in employment reduces paid-in pension contributions (the contribution value). At times negative net inflows arise, which is when pension contributions do not cover pensions paid for the year. This affects the AP Funds' fund capital, the buffer, because money is paid out from the AP Funds in the event of negative net inflows.



Net outflow from the AP Funds to pensions

Since 2009 net inflows have been negative, which means that payments to current pensioners have been greater than contributions to the pension system from current wage earners. Funds are therefore paid-out from the AP Funds annually to meet the pension payments to current pensioners. In 2015, AP4 paid out a net amount of SEK 4.9 billion (5.1) to the pension system and since 2009 AP4 has paid out a net amount of SEK 30 billion.

AP funds and net flows in the pension system



2015 and onwards are forecasted figures. The information was obtained from the Government report 2014/15: 130 Presentation of the AP Funds through 2014.

According to forecasts by the Swedish Pensions Agency payments to pensioners will be larger than the contributions made to the system through the mid 2040s.

“The brake” or automatic balancing

The Contribution Value and the AP Funds’ assets should correspond to the accumulated pension liability. The income pension system therefore has a built-in mechanism to ensure the financial stability of the system. The mechanism is called automatic balancing, “the brake”, and prevents disbursements in the system being higher than what the system can cope with in the long term. The brake is applied if the liabilities in the system are greater than the assets; that is, if the “balance ratio”, which is assets/liabilities is less than one. This is achieved by decelerating the index adjustment of the value of the pensions. This process continues until the system is again in balance.

A stable pension system

The Swedish pension system was one of the first of its kind when it was introduced at the end of the 1990s, and is, from a financial point of view, deemed stable. The challenge of a growing ageing population is similar in all parts of the world and many countries have taken an interest in the Swedish income pension system and the AP Funds’ brief.

Proposal for new AP Fund system put to rest

In March 2014 a proposal was put forward by the Pension Group – a group consisting of the Social Democrats, the Moderates, Liberals, Centre Party, the Christian Democrats and now also the Green Party - regarding changes to the current pension agreement. The proposal had been divided into four areas: the AP Fund operations; changes to the calculation rules in order to achieve a more uniform and timely development of income pensions; a change in the premium pension system to reduce the spread of the final premium pension; and a change in the retirement age to better cope with the pension and welfare systems.

Lack of cost and effect analysis

The proposal, which affected the AP Funds, was comprehensive. The proposal basically meant a new National Pension Fund System with major changes regarding how the AP Funds assets would be governed and managed. The proposal lacked a cost and effect analysis including calculations regarding the cost of implementation and how the proposal would generate increased earnings.

The proposal was not supported in the Pension Group and the proposal was laid to rest in the latter part of 2015.

Directors report 2015

Total return amounted to 6.8 percent after expenses amounting to a positive profit of SEK 20 billion, which increased fund capital to SEK 310 billion. Active Tactical management outperformed the index for the seventh consecutive year.

Fund capital SEK 310 billion

Fund capital increased by SEK 15.2 (35.1) billion to SEK 310.0 (294.9) billion. The change in fund capital consists of net profits amounting to SEK 20.1 (40.2) billion, which is the annual return, net of management fees and payments to the pension system.

Net payments to the pension system amounted to SEK 4.9 (5.1) billion, which reduced the Fund's capital by the same amount. For the seventh consecutive year the buffer funds (AP1 - AP4) have injected capital to the pension system. AP4 has cumulatively paid SEK 30 billion into the pension system since the net pension flows became negative.

Changes in fund capital

SEK bn	2015	2014
Fund capital, opening balance	294.9	259.7
Net payments to the pension system	-4.9	-5.1
Profit/Loss for the period	20.1	40.2
Fund capital, closing balance	310.0	294.9

Total return 7 percent

The total return in 2015 was 6.9 (15.8) percent before expenses and 6.8 (15.7) percent after expenses. This return corresponded to a management profit after costs of SEK 20.1 (40.2) billion.

SEK 20 billion in profit

The Strategic and Tactical management accounts for SEK 14.3 (3.2) billion of total management profit before costs SEK 20.4 (40.5) billion. The Strategic management and the Tactical management have contributed SEK 18.6 billion and SEK 2.5 billion respectively since the introduction of AP4's new management structure in 2013.

Another year of positive developments for equities

Many exchanges, particularly those with strong links to changes in raw material prices, exhibited significant declines during the year. Overall listed equities generated a positive return. Once again the Swedish market performed better than average, with small and mid-cap companies providing strong returns.

Listed shares' positive contribution amounted to 3.4 (7.0) percentage points to the total return. AP4's global equities returned 1.7 (10.0) percent and Swedish equities returned 14.1 (15.7) percent.

Market value, portfolio return and exposure, Dec. 31, 2015

Asset class	Market value, SEK m	Portfolio return, %	Exposure, %
Equities, total	175.0	5.5	56.9
Global equities	118.0	1.7	38.4
Strategically managed	32.5	-1.4	10.5
Tactically managed	85.6	2.7	27.9
Swedish equities	57.0	14.1	18.5
Strategically managed	32.4	21.2	10.5
Tactically managed	24.5	5.8	8.1
Fixed income assets, Tactically managed	103.8	-0.1	33.8
Real estate, Strategically managed	20.5	32.1	6.6
Alternative assets, Strategically managed	8.2	11.3	2.6
Currency	0.0	1.7	0.0
Other ²	2.5	-0.1	0.0
Total investment assets ³	310.1	6.9	100.0

¹ Underlying value of derivatives in passive asset allocation for each respective asset class.

² Consists of cash as well as Strategic and Tactical asset allocations.

³ Return before total costs. Return after cost amounted to 6.8 percent.

Fixed Income assets

During the year long-term interest rates were flat or moved slightly higher in all major markets in which AP4 is active. Return on fixed income securities amounted to -0.1 (7.8) percent.

Good returns from real estate and alternative assets

AP4's directly owned real estate and alternative assets performed well. Real estate was the asset class with the highest return amounting to 32.1 (16.0) percent. However, venture capital funds and high-yielding fixed income securities also provided high value growth amounting to 17.6 (27.7) and 8.9 (14.0) percent respectively.

Positive currency contributions from a weaker Swedish crown

The open currency exposure, which is primarily determined in AP4's reference portfolio - Normal portfolio, made a positive contribution of 1.7 (4.9) percentage points due to the continued weakening of the Swedish crown against the USD. AP4 had an open currency exposure of 17.2 percent per December 31, 2015.

Three years with the new management structure

In November 2012 the board delegated an expanded mandate for Strategic positions and investments as part of a new management structure. In order to better capitalize on identified business opportunities the structure and mandate of the

management units was also developed in accordance with the new management structure.

The management structure, with three different investment horizons and a clear Strategic mandate, has now been active for three years, which is too short a period to evaluate the results and draw conclusions. However, AP4's assessment is that the new structure provides better opportunities for AP4 to take advantage of the Fund's long-term mandate.

Strategic management takes advantage of business opportunities with longer investment horizons of between 3 - 15 years and the longer-term mandate allows AP4 to have a longer investment horizon than the market in general.

Positive contribution from all investment horizons

AP4's management structure consists of three investment horizons where the board decides on the composition of the longest of the three and determines the mandate and goals of the other two management horizons. The management structure was implemented from 2013.

In 2015 all investment horizons contributed positively to the Total portfolio. All investment horizons have produced annual positive profit contributions since the management structure started in 2013. Over three years the total profit contribution amounts to SEK 98.2 (101.4) billion.

Normal portfolio

Resolutions regarding the Normal portfolio made positive contributions to the Total portfolio.

- The largest contribution, SEK 3.6 (11.6) billion, came from the decision to not hedge all foreign assets.
- Equities accounted for SEK 2.4 (16.7) billion, which represented a return of 1.1 (9.6) percent. The equity portfolio, which is 64.2 (66.1) percent of the Normal portfolio, consists of about 10 percent in emerging market shares, which altogether developed negatively.
- The Normal portfolio consists of 35.8 (33.9) percent government bonds which contributed SEK 0.1 (8.9) billion.

Normal portfolio

Asset class	31 Dec 2015		1 Jan 2015 – 31 Dec 2015	
	Weight, %	Foreign exchange exposure, %	Return, %	Return contribution, %
Equities	64.2		1.1	0.8
Government bonds	35.8		0.1	0.0
Currency	-	28.9	1.2	1.2
Total	100.0	28.9	2.1	2.1

Overall, since the new management structure was implemented in 2013, the Normal portfolio has made a contribution to earnings of SEK 77.1 billion where of equities accounted for SEK 57.1 billion.

Strategic management contributes positively

Strategic management, which is divided into a Strategic macro-management and a Strategic factor management, gave an overall positive active contribution to AP4's total return of 4.8 (0.7) percentage points. This corresponds to SEK 14.1 (1.8) billion in active profit contribution. The Strategic macro management contributed 0.4 (1.1) percentage points while Strategic factor management contributed 4.4 (1.8) percentage points. The biggest positive active contribution came from the Strategic factor positions in Swedish equities and real estate, which gave an active contribution to earnings of SEK 6.4 (3.0) billion and SEK 5.2 (0.9) billion, respectively.

During the year the Strategic management reduced its exposure to fixed income by just over 3 percentage points of fund capital. Within the macro management positions in the various asset classes, the fund re-allocated from Swedish government bonds to US Treasuries, and the currency exposure against the USD decreased by more than 2 percentage points of fund capital, while total exposure against the Euro and the New Zealand Dollar increased correspondingly.

Strategic management, Jan. 1, 2015 – Dec. 31, 2015

	Return contribution, active, %	Active earnings contribution, SEK m
Strategic management		
<i>Macro positions:</i>		
Asset class	0.0	116
Currency	0.4	1 195
Duration	-0.1	-279
Total macro positions	0.4	1 033
<i>Factor positions:</i>		
Swedish equities	2.2	6 397
Corporate bonds	0.0	158
Sustainability*	0.2	529
Real estate	1.8	5 189
Other strategic positions	0.3	791
Total factor positions	4.4	13 064
Total strategically managed positions	4.8	14 096

* Sustainability includes a number of share portfolios, including low-carbon strategies and strategies with a corporate governance focus.

The total profit contribution since the implementation in 2013 of the new management structure is SEK 18.6 billion, with the largest contributions from Swedish equities and real estate with SEK 10.3 billion and SEK 6.3 billion, respectively.

The evaluation period for the Strategic management is five years and it is as such still too early to draw any conclusions.

Positive active profit for the seventh consecutive year

The Tactical management positive contribution to profits amounted to SEK 187 (1,427) million. Over the past seven years, ever since the management reorganization, the active Tactical management has made a positive contribution to earnings of SEK 7.8 billion.

The 2015 active Tactical management return amounted to 0.1 (0.7) percentage points where three of the five management units made a positive contribution.

The positive active return for the rolling three years evaluation period was on average 0.4 (0.7) percentage points, which does not reach the target of 0.5 percentage points.

Tactical management, Jan. 1, 2015 – Dec. 31, 2015

Tactical management	Active return contribution, %	Active earnings contribution, SEK m
Global equities	0.1	427
Swedish equities	0.1	337
Fixed income	-0.2	-626
Equities index ¹	-0.1	-157
Currency ¹	0.1	207
Total tactically managed assets	0.1	187

Good risk-adjusted return

The risk-adjusted return has been good since the current management organization was introduced. The management units' information ratios are generally high, and on average over the past three years the Information ratio for the Tactical management amounts to 1.3 (2.3). Values above 0.5 for individual years are usually considered as good results.

Information ratio

Tactical management	3 years (on annual basis)			
	2015	2014	2013	
Global equities	1.8	0.9	1.7	4.1
Swedish equities	0.8	1.8	neg	2.3
Fixed income	0.3	neg	3.2	neg
Equities index	neg	neg	0.0	neg
Currency	0.8	2.3	neg	0.9
Total tactically managed assets	1.3	0.2	2.9	2.0

The measure describes the annual excess return achieved in relation to the active risk taken. In the calculation of AP4's risk-adjusted returns daily data has been used, which results in a lower information ratio than if, for example, weekly or monthly data is used.

Low costs

Cost efficiency is important for AP4 and alternative ways of working and creating value are continuously evaluated.

Management costs, measured as operating expenses as a percentage of average fund capital, amounted to 0.06 (0.07) percent. Administrative costs including commissions and fees, such as fees paid to external managers and custodian costs, amounted to 0.11 (0.11) percent measured as operating expenses as a percentage of average fund capital.

AP4's management cost, both including and excluding commission fees, in both a domestic as well as an international comparisons with other pension funds is low and very competitive.

Management costs

	2015	2014
Operating expenses, SEKm	197	195
Commission expenses, SEKm	128	101
Operating expense ratio, % ¹	0.06	0.07
Operating expense ratio, % ²	0.11	0.11

¹ Operating expenses as a percentage of average fund capital

² Operating expenses including commission fees as a percentage of the average fund capital.

Read more under the heading Remuneration at AP4 or in note 6.

Areas of focus within sustainability

Corporate Governance and Climate Change are AP4's two focus areas. The focus areas have been selected because:

- they are considered to be essential for return and asset performance
- AP4's knowledge, commitment and potential to impact is considered to make a difference and affect asset returns positively over the long term.

Changes in personnel

Employee turnover was at a normal level during the year, and at year-end the number of employees totaled 55 (54) people.

Remuneration

For a pension manager of public funds it is obvious that employee remuneration levels must be reasonable, justifiable and definable. AP4 endeavors to ensure that remuneration is in line with the market and enables the Fund to attract and keep skilled staff. AP4 shall not be a wage leader.

The Board bears ultimate responsibility for remuneration matters being dealt with responsibly, sensibly and transparently. Annually the Board determines principles regarding remuneration and other employment terms. The Board also ensures compliance with the Government's guidelines regarding terms of employment for senior management.

With the help of external consultants the Board monitors to ensure compliance with the remuneration principles. For the past three years, the Board has had a Remuneration Committee consisting of three board members. The committee has the task of advising the Board and preparing matters regarding the CEO and other senior managers remuneration. The remuneration committee also prepares matters relating to AP4's policies regarding remuneration and other employment terms for all employees.

Total remuneration for AP4 employees consists of fixed salary, incentive-based remuneration, pension allocation and other benefits. The CEO, senior management and the compliance officer do not receive incentive-based remuneration.

For other employees, incentive-based remuneration is payable to a maximum of two months salary, and is payable when clear and measurable goals have been achieved. Such salaries are based on group-oriented quantitative goals and the quantitative contribution of the individual employee measured over a rolling three-year period. Incentive-based remuneration is only payable if AP4's total earnings for the financial year are positive.

Other benefits constitute a very limited value and are offered to all employees. Examples include health insurance, group insurance and fitness contributions. AP4 also has four parking spaces that employees can use whereupon they are taxed on the benefit.

Read more under the heading Remuneration at AP4 or in Note 6.

Collaboration between AP Funds

One of the basic ideas behind the management of assets in the income pension system was that several buffer funds would diversify risk, and performance would benefit from a positive competition between the AP Funds. It was feared that a single very large National Pension Fund, through its size, could have negative effects on the functioning of the Swedish capital markets. Ever since the pension system was restructured in 2001, there has been close cooperation between the AP Funds, including Sixth and Seventh AP Funds, in various areas. The aim is to achieve transparency and cost-efficiency without reducing the opportunities for competition between the AP Funds.

Cooperation takes place primarily in the following areas:

- environment and ethics
- corporate governance
- legal
- accounting and HR
- administration and IT
- business and risk control

The funds work closely with each other predominately in the Ethical Council of the AP Funds, a collaborative body formed in 2007 by AP1, AP2, AP3 and AP4. The Ethical Council consists of a representative from each AP Fund and a jointly appointed secretary general. The purpose of the Ethical Council is to jointly pursue positive change in foreign companies – both proactively and reactively. The latter occurs when a company is linked to violations of international environmental and human rights conventions. Working together with the combined capital of the AP Funds increases the possibility of influencing a company compared to sole initiatives. The Ethical Council is also an attractive partner for other international investors with similar environmental and ethical agendas, further increasing possibilities of influence. This cooperation also means that the AP Funds' work is more efficient and cost-effective. Increased efficiency emerges, for example, through more dialogues with companies and international investor initiatives, and conferences at which the Ethical Council is represented.

During the year the AP Funds coordinated the reporting of their respective carbon footprint.

To cost-effectively vote at general meetings of the global equity holdings AP4, together with the First, Second and Third AP Funds, utilize an electronic voting platform. Each AP Fund votes independently on behalf of their respective holdings. Another example of cooperation between the First, Second, Third and Fourth AP Funds is the jointly prepared document "AP Funds accounting and valuation principles" intended to ensure that the AP Funds apply common accounting principles and that the financial statements are therefore comparable. The document is updated regularly and is reviewed annually with the AP Funds auditors.

Significant events after the end of the reporting period

At the date of the publishing of this annual report, an independent review is being carried out of Rikshem, a real estate company that is jointly owned together with AMF. The review is in regards to Rikshem's representation, travel and the existence of conflict of interest. As owner of 50% of the company AP4 has a great responsibility for Rikshem. KPMG's independent review is not yet completed, and therefore it is not possible to comment further.

Financial statements and note disclosures

Key ratios, as per closing date	2015	2014	2013	2012	2011
Fund capital, flows and net profit, SEK bn					
Fund capital	310.0	294.9	259.7	229.6	210.0
Net flows, pension system	-4.9	-5.1	-6.9	-3.8	-1.2
Profit for the period	20.1	40.2	37.0	23.4	-1.6
Return, %					
Return, total portfolio before costs, %	6.9	15.8	16.5	11.3	-0.7
Return, total portfolio after costs, %	6.8	15.7	16.4	11.2	-0.7
Return, total portfolio after costs, annualized 5 yrs.	9.7	10.5	11.6	3.3	1.6
Return, total portfolio after costs, annualized 10 yrs.	6.7	7.6	7.2	7.2	4.1
Operating cost ratio % of AuM, annualized					
Operating costs	0.06	0.07	0.08	0.08	0.08
Operating cost and commission fees	0.11	0.11	0.11	0.10	0.10
Risk, %					
Total portfolio ex-post	8.8	6.0	5.6	5.6	9.2
Liquidity portfolio ex-post ¹	9.4	6.4	6.0	6.0	9.8
Liquidity portfolio ex-post, 10 yrs ²	9.3	8.9	8.6		
Sharpe ratio Total portfolio ex-post	0.8	2.5	2.8	1.8	neg
Sharpe ratio Liquidity portfolio ex-post ³	0.6	2.3	2.5	1.7	neg

¹ refers to liquid assets (investment assets excluding real estate, venture capital funds and high yield fixed income).

² refers to quarterly date for liquid assets (investment assets excluding real estate, venture capital funds and high yield fixed income).

Other key ratios, as per closing date	2015	2014	2013	2012	2011
Active return, Strategic management before costs ¹	4.8	0.7	1.2	-0.4	-
Active return, Tactical management before costs ²	0.1	0.7	0.5	1.0	0.2
Inflation	0.1	-0.3	0.1	-0.1	2.0
Real total return after costs	6.8	16.0	16.2	11.2	-2.7
Active risk ex-post, Tactical management	0.5	0.2	0.2	0.4	0.5
Currency exposure, %	27.0	28.1	28.6	27.7	25.7
Proportion active management incl. semi-active, %	69.9	62.9	58.2	50.2	63.6
Proportion external management incl. investments in venture capital funds, %	29.0	30.9	28.4	21.7	18.4
Number of employees at closing date	55	54	55	49	52
Allocation of investment assets, %³					
Equities	56.9	59.0	59.5	55.5	55.7
Global equities	38.4	40.5	40.1	37.2	37.9
Swedish equities	18.5	18.5	19.3	18.3	17.8
Fixed income	33.8	33.0	32.0	36.1	37.3
Real estate	6.6	5.5	5.7	5.2	4.5
Alternative assets ⁴	2.6	2.7	2.7	3.1	2.5
Other	0.0	-0.2	0.1	0.1	0.0
Total investment assets, %	100.0	100.0	100.0	100.0	100.0

¹ Active return, Strategic management evaluated in relation to the Normal portfolio.

² Tactical management corresponds to the part of the portfolio that between 2008 -2011 was called actively managed liquid assets. As of 2012 there are also actively managed liquid assets within Strategic management.

³ Refers to exposure, underlying derivative values in the passive allocation have been distributed by asset class.

⁴ Refers to venture capital funds, High yield fixed income securities and absolute return investments.

Carbon dioxide Indicators ¹	2015	2014	2013 ²	2012 ²	2011
Absolute carbon footprint of tCO ₂ e, listed equities	2 451 224	2 801 985	3 275 257	3 305 442	-
Carbon dioxide intensity, absolute carbon footprint in relation to ownership share of companies market value, tCO ₂ e/MSEK, listed equities	14.0	16.2	23.1	26.5	-
Carbon dioxide intensity, absolute carbon footprint in relation to ownership share of companies revenues, tCO ₂ e/MSEK, listed equities	22.2	-	-	-	-
Share of market value based on reported emission figures, %	75.2	-	-	-	-
Share of total market value of shares that have been measured, %	99.8	-	-	-	-

¹ AP4's ownership share of a company is the percentage of GHG emissions (greenhouse gas GHG) estimated to belong to AP4. GHG emissions include Scope 1 (emissions from the company's business, wholly owned or controlled by the Company) and Scope 2 (indirect emissions from the purchase of energy). Currently there are no standardized methodology for calculating the carbon footprint of financial holdings. This means that the calculated carbon footprints are not always comparable between different suppliers. Source: South Pole Group has analyzed AP4 listed holdings and the estimated AP4's indirect GHG emissions and carbon footprint.

² The measurements for 2012 and 2013 pertain to the portfolio composition at mid-year.

Income Statement

SEK m	Note	2015	2014
OPERATING INCOME			
Net interest income	2	2 002	2 736
Dividends received		5 347	4 555
Net income, listed shares and participations	3	6 651	13 295
Net income, unlisted shares and participations	4	3 833	1 109
Net income, fixed income assets		-1 151	4 978
Net income, derivatives		-781	459
Net income, changes in exchange rates		4 529	13 390
Commission expenses	5	-128	-101
Total operating income		20 302	40 421
OPERATING EXPENSES			
Employee benefits expense	6	-124	-125
Other administrative expenses	7	-73	-70
Total operating expenses		-197	-195
PROFIT/LOSS FOR THE YEAR		20 105	40 226

Balance sheet

SEK m	Note	31 Dec 2015	31 Dec 2014
ASSETS			
Shares and participations, listed	8	177 367	177 065
Shares and participations, unlisted	9	19 822	14 696
Bonds and other fixed income securities	10	106 548	104 030
Derivatives	11	3 296	4 135
Liquid assets		3 739	3 892
Other assets	12	894	252
Prepaid expenses and accrued income	13	1 431	1 605
TOTAL ASSETS		313 097	305 675
LIABILITIES AND FUND CAPITAL			
Liabilities			
Derivatives	11	1 888	10 166
Other liabilities	14	974	566
Deferred income and accrued expenses	15	220	89
Total liabilities		3 082	10 821
Fund capital			
Fund capital, opening balance	16	294 854	259 748
Net payments to the pension system		-4 944	-5 120
Profit/loss for the year		20 105	40 226
Total fund capital		310 015	294 854
TOTAL LIABILITIES AND FUND CAPITAL		313 097	305 675
Pledged assets, contingent liabilities and commitments	17		

Notes to the Income Statement and Balance Sheet

AP4, corporate identity number 802005-1952, is one of the buffer funds in the Swedish National Pension Fund system and is headquartered in Stockholm. The Board approved the annual report for the 2015 financial year on February 17, 2016. The Government will adopt the Income Statement and Balance Sheet.

Note 1. Accounting and valuation principles

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 recognized at fair value. Based on this premise, AP1–AP4 have developed and put into practice a set of common accounting and valuation policies as summarized below.

The funds' accounting and valuation principles are gradually being adapted to the international accounting standards, IFRS. Since IFRS is under extensive revision, alignment has so far focused on the information requirements of IFRS 7 and IFRS 13. A complete transition to IFRS would not materially affect the reported results and capital. AP4 meets the requirement of an investment company in accordance with IFRS 10. In the current IFRS the only major difference is that the cash flow statement is not established.

Trade date accounting

Transactions in securities and derivatives in the money and bond market, equity market and currency market are reported in the balance sheet on the trade date, i.e. at the time when the essential rights and risks are transferred between parties. Claims on or liabilities to the counterparty between the trade date and settlement date are reported under Other assets and Other liabilities. Other transactions, especially transactions in unlisted shares are recognized in the balance sheet on the settlement date, which is consistent with market practice.

Net accounting

Financial assets and liabilities are offset in the balance sheet when there is a legally enforceable right to offset transactions and there is an intention to settle net or realize the asset and settle the liability simultaneously.

Foreign currency translation

Transactions in foreign currencies are translated into Swedish crowns at the exchange rates prevailing at the transaction date. On the balance sheet date, assets and liabilities denominated in foreign currencies are translated to Swedish crowns at the closing date exchange rates. Changes in the value of assets and liabilities in foreign currency are divided between those attributable to the change in value of the asset or liability in local currency and those caused by currency rate changes. Foreign exchange earnings arising from changes in exchange rates are recognized in the income statement under Net income, changes in exchange rates.

Shares in subsidiaries / associated companies

According to the Swedish National Pension Funds shares in subsidiaries / associated companies are recognized at fair value. Fair value is determined using the same methods used for unlisted shares. There is no requirement to prepare consolidated accounts.

Valuation of financial instruments

All of the Fund's investments are stated at fair value such that realized and unrealized changes in value are recognized over the income statement. The lines Net profit/loss per asset class includes realized and unrealized gains. Please see the glossary in the annual report for information about each index in the case where reference is made to an index provider. The following describes how fair value is determined for the Fund's different investments.

Listed shares and participations

For shares and participations traded on a regulated market or trading platform, fair value is determined based on official public quotation at year-end according to the Fund's designated index, usually an average rate. Holdings not included in an index are recognized at quoted prices observable in an active market. Commission fees paid are recognized as expenses in Net income, listed shares.

Unlisted shares and participations

For shares and participations not traded on a regulated market or trading platform, fair value is determined based on a valuation obtained from the counterparty or other external party. The value recognized is updated upon receipt of a new valuation and is adjusted for any cash flows up to the end of the accounting period. If the Fund has good reason to judge the valuation to be incorrect, the valuation received is adjusted.

Stated values relating to unlisted participations comply with International Private Equity and Venture Capital (IPEVC) Valuation Guidelines, or equivalent principles, and are based primarily on transactions with third parties, though other valuation methods may be used such as discounted cash flow, net worth or multiples based valuation.

The valuation relating to unlisted real estate shares is based on a valuation according to the net worth method to the extent that the share has not been subject to transactions on a secondary market. A method for valuation of holdings in unlisted real estate companies was developed in 2013 to ensure valuation at fair value. From 2013 onwards, deferred tax liabilities are valued at the value used in real estate transactions, which differs from the valuation in the accounts of the real estate companies.

Bonds and other fixed income securities

For bonds and other fixed income securities, fair value is calculated based on the official public quotation (usually the bid rate) at year-end according to the Fund's designated index provider. Holdings not included in an index are recognized at quoted prices observable in an active market. If an instrument is not traded in an active market and reliable market prices are not available, the instrument is measured using generally accepted valuation models, which discount cash flows using a yield curve appropriate for the instrument.

Interest income includes interest calculated using the effective interest method based on amortized acquisition cost. This value is the discounted present value of future payments, where the discount rate is the effective interest rate at the date of acquisition.

This means that acquired premiums and discounts are amortized over the remaining term or until the next interest rate adjustment and is included in and reported as Interest income. Changes in value due to interest rate changes are recognized in Net income from interest-bearing assets, while changes in value due to exchange rate fluctuations are recognized in Net income changes in exchange rates.

Derivative instruments

For derivatives, fair value is calculated based on year-end market rates. If an instrument is not traded in an active market and if reliable market prices are not available, the instrument is measured using generally accepted valuation models, in which observable market data is used as the input data.

Derivative contracts with positive fair value at the balance sheet date are reported as assets, while positions with a negative fair value are reported as liabilities. Changes in value due to exchange rate changes are recognized in the income statement under Net Income, changes in exchange rates, while other changes in value are reported as Net income, derivatives. The difference between forward and spot rates for currency forwards are amortized linearly over the term of the contract and recognized as interest.

Buybacks

In repurchase transactions, so called repo, the asset remains in the balance sheet and the payment received is recognized as a liability. The security sold is reported as a Pledged asset in the balance sheet. The difference between the settlement in the spot and futures market is accrued over the term and reported as interest.

Securities Lending

Securities lent are recognized in the balance sheet at fair value, while the compensation received for the loan is recognized as Interest income in the income statement. Collateral received for loaned securities may consist of securities and / or cash. If AP4 is entitled to exercise control over cash received as collateral, the collateral is recognized on the balance sheet as an asset, and an offsetting liability. In the case the Fund does not have disposal of the security it is not recognized on the balance sheet, but is specified separately under the heading "Assets pledged, contingent liabilities and commitments". This item includes the value of securities on loan and collateral of such.

Items recognized directly in fund capital

Receipts and payments that have been made to the pension system are recognized directly in fund capital.

Commission expenses

Commission expenses are recognized as a deduction from operating income. They consist of external costs for management services, such as custodian fees and fixed fees to external managers and fixed charges for listed funds. Performance-based fees, which are paid when managers achieve returns above the agreed level where profit sharing is applied, are recognized as a deductible item in Net income for the relevant asset class.

Management fees for unlisted shares, for which a refund is permitted before dividends and where repayment is deemed probable, are recognized as Acquisition cost and will therefore be included in the unrealized result. In other cases, they are reported as Commission expenses.

Operating expenses

All management expenses, excluding brokerage fees, fees to external managers and custodian fees, are recognized as Operating expenses. Investments in equipment including in-house developed and purchased software are normally expensed as they are incurred.

Taxes

AP4 is exempt from all income tax on investments in Sweden. Tax on dividends and interest withheld in certain countries is recognized net in the income statement under each type of income.

As of 2012, the Fund is registered for value added tax and is thus liable to pay VAT for acquisitions from abroad. The Fund is not entitled to recover paid VAT. Expensed VAT is included in the expense item to which it belongs.

Amounts in SEK m, unless otherwise specified.

Note 2. Net interest income

	2015	2014
Interest income		
Bonds and other fixed income securities	2 441	2 514
Derivative instruments	1 390	797
Other interest income	64	63
Total interest income	3 895	3 374
Interest expense		
Derivative instruments	-1 893	-638
Other interest expenses	0	0
Total interest expenses	-1 893	-638
Net interest income	2 002	2 736

Note 3. Net income, listed shares and participations

	2015	2014
Net income, listed shares and participations	6 683	13 331
Less brokers' commissions	-32	-36
Net income, listed shares and participations	6 651	13 295

Note 4. Net income, unlisted shares and participations

	2015	2014
Realized gains	278	574
Unrealized changes in value	3 555	535
Net income, unlisted shares and participations	3 833	1 109

Note 5. Commission expenses

	2015	2014
External management fees , listed shares	-115	-90
External management fees , unlisted shares	0	0
Other commission expenses, including custodian bank fees	-13	-11
Commission expenses	-128	-101

Commission expenses do not include performance-based fees. Performance-based fees for the year amounted to SEK 55 (64) million and reduced Net income for the respective asset class. External management fees for unlisted assets are reported under Commission expenses to the extent agreements do not permit repayment prior to profit sharing in connection with future profitable divestments. During the year SEK 39 (48) million was paid in management fees for unlisted assets, of these SEK 39 (48) million regarded contracts permitting the repayment of management fees paid prior to profit sharing upon divestment. These are recognized as part of the assets acquisition cost.

Note 6. Personnel

Number of employees	2015		2014	
	Total	Women	Total	Women
Average number of employees	55	20	56	20
Number of employees December 31	55	21	54	19
Number of Executive Management members December 31	7	2	5	2

Employee Costs, SEK k, 2015	Salaries and remuneration	Incentive-based remuneration	Pension costs	Substitution of salary for pension	Social security costs ²	Total
Chairman of the Board Monica Caneman	117	-	-	-	37	154
Other Board Directors ¹	507	-	-	-	126	633
Chief Executive Officer Mats Andersson	3 234	-	2 200	834	1 550	6 984
Other Executive Management members						
Deputy CEO and Chief Investment Officer Magnus Eriksson	1 863	-	2 533	1 485	1 200	5 596
Head of Global Macro Management Bengt Lindefeldt ³	2 930	-	1 285	281	1 232	5 447
Head of Equity Management Per Colleen ³	2 199	-	843	127	895	3 937
Directive of Administration Susan Lindkvist	1 493	-	930	322	694	3 117
Head of Performance and Risk Control Nicklas Wikström	1 599	-	752	175	685	3 036
General Counsel Ulrika Malmberg Livijn	1 427	-	807	270	644	2 878
Other Employees	47 606	4 266	16 831	1 747	19 953	88 656
Total	62 975	4 266	26 181	5 241	27 016	120 438
Other personnel costs						3 234
Total personnel costs						123 672

¹ Individual Directors' fees recognized in the fund governance report.

² The social security costs also included costs for payroll tax.

³ Member of Executive Management as of December 2015.

Personnel costs, SEK k, 2014	Salaries and remuneration	Incentive-based remuneration	Pension costs	Substitution of salary for pension	Social security costs ²	Total
Chairman of the Board Monica Caneman ¹	117	-	-	-	37	154
Other Board Directors ²	478	-	-	-	139	617
Chief Executive Officer Mats Andersson	3 284	-	1 807	731	1 470	6 561
Other Executive Management members						
Deputy CEO and Chief Investment Officer Magnus Eriksson	1 744	-	2 525	1 485	1 161	5 430
Directive of Administration Susan Lindkvist	1 541	-	870	261	695	3 106
Head of Performance and Risk Control Nicklas Wikström	1 582	-	672	127	660	2 914
General Counsel Ulrika Malmberg Livijn	1 358	-	794	254	619	2 771
Other Employees	54 324	4 809	19 046	1 754	22 821	101 000
Total	64 428	4 809	25 714	4 612	27 602	122 553
Other personnel costs						3 003
Total personnel costs						125 557

¹ SEK 50 k was paid to Monica Caneman's company for the Nomination Committee work on behalf of the Fund. The item is recognized under other administrative expenses.

² Individual Directors' fees are recognized in the Fund Governance report.

³ Social security costs also included costs for payroll tax.

Cost of personnel redundancies

The 2015 cost of personnel reductions amounted to SEK 4,301 k (1 787) and related to compensation for salary, pension costs and social security charges.

Salaries and remuneration

Remuneration for the Board of Directors, set by the Government, is unchanged in relation to the previous year. The Board sets the terms of employment for the CEO based on recommendations from the Remuneration Committee. Remuneration to the CEO, Executive management and the compliance officer consists of a base salary. As assigned by the Board and Remuneration Committee, an external consultant annually performs an examination of remuneration levels for senior management at the Fund. The Board can thereby ascertain that AP4 complies with the Government's guidelines regarding remuneration for senior management at the AP Funds. Additional information can be found in the annual report under the heading Remuneration at AP4.

Incentive-based remuneration

The plan for variable remuneration is part of the Fund's remuneration policy and is determined annually by the Board. The plan covers all employees employed more than six months, except for the CEO, Executive management and the compliance officer. The basic principle is that incentive-based remuneration should be paid for excess returns relative to the benchmark and reference indexes, provided that the fund shows a positive result for the financial year. The maximum outcome for the full-year employee is two months' salary. For 2015, SEK 4266 (4809) thousand was expensed relating to variable remuneration, excluding social security contributions.

Pensions and similar benefits

The CEO's pension benefits and severance package are specified in his employment contract. The provisions of the contract include pension entitlement at age 65, with a pension provision of 30% (30) of salary. A mutual period of notice of termination of six (6) months applies for the CEO. If the Fund gives notice, the CEO is also entitled to a severance package equal to 18 months' salary. The severance package is paid out monthly and is reduced by any other income from salary, assignments or own business. A mutual period of notice of termination of six (6) months applies for the Deputy CEO according to the employment contract. If the Fund gives notice, the Deputy CEO is also entitled to a severance package equal to 12 months salary. The severance package is paid out monthly and is reduced by any other income from salary, assignments or own business. The Deputy CEO is entitled to a pension in accordance with the Fund's pension policy.

Other executive management committee members and other employees have individual employment contracts that specify severance notice based on the current collective agreement between the Employers' Organization of the Swedish Banking Institutions (BAO) and the Swedish Confederation of Professional Associations (SACO). Pension entitlements are based on either defined benefits, according to the current collective agreement between BAO and SACO, or defined contributions, according to the Fund's pension policy specifying a pension contribution of 30% on remuneration exceeding 7.5 base amounts.

All employees are entitled to substitute gross salary for pension contributions. In such cases, the pension contribution is increased by 5.8%, corresponding to the difference between the Fund's costs for payroll tax and social security contributions. The procedure is neutral in terms of costs for the Fund.

All employees have healthcare coverage. The CEO and persons employed before 1 January 2007 have, in addition to remuneration as per the collective agreement, health insurance covering terms of illness longer than three (3) months, which pays compensation amounting to 90% of income up to 20 base amounts and 80% of income above 20 base amounts, with a ceiling amounting to 40 base amounts. The amount disbursed is reduced by any amounts paid from the Swedish Social Insurance Agency, SPP insurance, and any other insurance policies.

Other benefits

All employees can purchase group life insurance taxed as a fringe benefit. The Fund also has four parking spaces that employees can use, which are also taxable as a fringe benefit. The value of the benefits in 2015 totaled SEK 193 (170) k.

Note 7. Other Administrative costs

	2015	2014
Costs of premises	12	12
Information and IT costs	43	41
Services	7	9
Other administrative costs	11	8
Total other administrative costs	73	70

Services includes accounting firms fees as follows:

	2015	2014
Audit services, PwC	0,8	0
Audit services, Ernst & Young	-0,2	0,9
Other audit assignment, PwC	0,2	0
Other audit assignment, Ernst & Young	-0,1	0,2
Total fees to accounting firms	0,7	1,1

Note 8. Shares and participations, listed

	2015-12-31	2014-12-31
	Fair value	Fair value
Swedish equities	57 182	54 619
Foreign equities	83 386	87 450
Participation in Swedish mutual funds	4 761	3 925
Participation in Foreign mutual funds	32 038	31 071
Total shares and participations, listed	177 367	177 065

The Scope of securities on loan as well as collateral received is presented in note 17.

A complete list of holdings can be found at www.ap4.se.

Note 8. Cont. Shares and participations, listed**Five largest holdings in Swedish and foreign equities, December 31, 2015**

	No. Shares	Fair value	Participation in %	
			Equity	Votes
<i>Swedish shares:</i>				
Hennes & Mauritz	15 317 233	4 627	0,9%	0,4%
Nordea	32 334 195	3 017	0,8%	0,8%
Atlas Copco	14 060 067	2 831	1,1%	0,8%
SEB	23 171 354	2 072	1,1%	1,1%
Volvo	24 637 626	1 969	1,2%	1,8%
<i>Foreign shares:</i>				
Apple	1 609 214	1 428		
Alphabet (previously Google)	169 480	1 097		
Microsoft	2 105 402	985		
Exxon Mobil Corp.	1 172 953	771		
General Electric	2 656 850	698		

Five largest holdings in Swedish and foreign equities, December 31, 2014

	No. Shares	Fair value	Participation in %	
			Equity	Votes
<i>Swedish shares:</i>				
Hennes & Mauritz	15 498 436	5 046	0,9%	0,5%
Nordea	43 505 395	3 955	1,1%	1,1%
Atlas Copco	14 720 513	3 091	1,2%	1,0%
SEB	22 312 271	2 221	1,0%	1,0%
Investor	7 599 295	2 154	1,0%	1,0%
<i>Foreign shares:</i>				
Apple	1 907 642	1 648		
Exxon Mobil Corp.	1 359 097	984		
Microsoft	2 464 285	896		
Google	181 831	752		
Johnson & Johnson	898 642	736		

Note 9. Shares and participations, unlisted

	2015-12-31	2014-12-31
	Fair value	Fair value
Shares in Swedish associated companies	14 253	9 413
Shares in Foreign associated companies	802	579
Shares and participations in other Swedish unlisted companies	1 814	1 747
Shares and participations in other Foreign unlisted companies	2 953	2 956
Total Shares and participations, unlisted	19 822	14 696

Note 9. Conte. Shares and participations, unlisted

Shares in associated companies, December 31, 2015	Corp. ID Number	Domicile	No. Shares	Participation in %		Fair Value	Shareholder's	
				Equity	Votes		Equity	Profit/Loss
<i>Shares in Swedish associated companies:</i>								
Vasakronan Holding AB	556650-4196	Stockholm	1 000 000	25	25	8 982	29 245	10 120
Rikshem Intressenter AB	556806-2466	Stockholm	250	50	50	5 271	9 802	1 887
Rikshem Intressenter Holding AB	556924-0715	Stockholm	50	100	100	0		
Total Shares in Swedish associated companies						14 253		

Shares in foreign associated companies:

ASE Holdings S.à.r.l.		Luxemburg	1 609 214	38	33	447	Not disclosed	Not disclosed
ASE Holdings II S.à.r.l.		Luxemburg	1 200 001	45	33	355	Not disclosed	Not disclosed
Total shares in foreign associated companies						802		

Other holdings, December 31, 2015	Corp. ID Number	Domicile	Participation in %		Acquisition Cost
			Equity	Votes	
Five largest holdings in other shares & participations, Swedish unlisted companies¹					
PCP Debenture IIB	556805-6310	Stockholm	48	-	506
Areim Investment 3-1 AB	559035-6035	Stockholm	17	4	300
Areim Fastigheter 3 AB	559035-9161	Stockholm	5	3	193
HealthCap Annex Fund I-II KB	969690-2049	Stockholm	20	20	174
Areim Property Holding 5 AB	556963-0261	Stockholm	33	6	140
Five largest holdings in other shares & participations, foreign unlisted companies¹					
EQT V (No. 1) L.P.		Guernsey	2		354
EQT Mid-Market Credit SV S.A		Luxemburg	36		261
Private Equity Multi-Strategy (AP) Offshore L.P.		Cayman Islands	95		246
EQT Infrastructure II (No.1) Feeder L.P.		United Kingdom	3		246
Keyhaven Growth Partners L.P		United Kingdom	29		159

¹ Refers to AP4's holdings in limited partnership structures and other similar structures in which AP4 does not have a significant influence.

Shares in associated companies, December 31, 2014	Corp. ID Number	Domicile	No. Shares	Participation in %		Fair Value	Shareholder's	
				Equity	Votes		Equity	Profit/Loss
<i>Shares in Swedish associated companies:</i>								
Vasakronan Holding AB	556650-4196	Stockholm	1 000 000	25	25	6 949	23 094	1 797
Rikshem Intressenter AB	556806-2466	Stockholm	250	50	50	2 464	4 594	948
Rikshem Intressenter Holding AB	556924-0715	Stockholm	50	100	100	0	0	0
Total shares in Swedish associated companies						9 413		
<i>Shares in foreign associated companies:</i>								
ASE Holdings S.à.r.l.		Luxemburg	1 609 214	38	33	436	Unlisted	Unlisted
ASE Holdings II S.à.r.l.		Luxemburg	1 059 085 500	45	33	143	Unlisted	Unlisted
Total shares in foreign associated companies						579		

Other holdings, December 31, 2014	Corp. ID	Domicile	Participation in %		Acquisition
	Number		Equity	Votes	Cost
Five largest holdings in other shares & participations, Swedish unlisted companies ¹					
PCP Debenture IIB	556805-6310	Stockholm	48	-	774
PCP Debenture III	556926-8021	Stockholm	21	-	380
HealthCap Annex Fund I-II KB	969690-2049	Stockholm	20	20	202
Areim Property Holding 5 AB	556963-0261	Stockholm	33	6	140
Priveq Investment Fund III KB	969704-1524	Stockholm	31	31	128

Five largest holdings in other shares & participations, foreign unlisted companies ¹

EQT V (No. 1) L.P.		Guernsey	2		357
EQT IV (No. 1) L.P.		Guernsey	4		319
Private Equity Multi-Strategy (AP) Offshore L.P.		Cayman Islands	95		275
EQT Infrastructure (No. 1) L.P.		Guernsey	3		217
Vintage V Offshore L.P.		Cayman Islands	1		151

¹ Refers to AP4's holdings in limited partnership and other similar structures in which AP4 does not have a significant influence.

A detailed list of holdings can be found on www.ap4.se.

Note 10. Bonds and other fixed income securities

	2015-12-31	2014-12-31
	Fair value	Fair value
Breakdown by issuer category		
Swedish State	10 068	11 412
Swedish municipalities	75	0
Swedish mortgage institutions	19 714	22 290
Other Swedish financial services companies	7 274	9 606
Swedish non-financial companies	3 244	5 353
Foreign governments	43 223	17 798
Other foreign issuers	22 950	37 571
Total fixed income assets	106 548	104 030
Breakdown by instrument type		
Inflation-linked bonds	0	169
Other bonds	100 312	95 433
Treasury bills	0	0
Subordinated loans	2 500	3 281
Unlisted promissory note loans	3 058	3 000
Unlisted shareholder loans	678	2 146
Total fixed income assets	106 548	104 030

The scope of securities on loan, as well as collateral received, is presented in note 17.

Note 11. Derivatives

	2015-12-31		2014-12-31	
	Fair value		Fair value	
	Positive	Negative	Positive	Negative
Equity based instruments:				
Options, held	-	-	-	-
Options, issued	-	-	-	-
Futures	-	-	-	-
Total equity based instruments	-	-	-	-
of which cleared	-	-	-	-
Interest rate related instruments:				
FRA / Futures	-	-	-	-
Swaps	181	101	136	287
Total interest rate related instruments	181	101	136	287
of which cleared	-	-	-	-
Currency-related instruments:				
Options	949	890	3 487	3 298
Futures	2 159	724	512	6 470
Swaps	7	173	-	110
Total Currency-related instruments	3 115	1 787	3 999	9 879
of which cleared	-	-	-	-
Total derivative instruments	3 296	1 888	4 135	10 166
of which cleared	-	-	-	-

For details about areas of use and risk management for derivative instruments refer to note 20 Risks.

Maturity analysis financial instruments

The majority of the Fund's derivatives have a maturity of less than one year. Only a number of currency options, cross currency basis swaps, credit default swaps and currency forwards have a longer maturity and of these 32 (22) contracts have a negative fair value. These are presented in the tables below.

Outstanding currency options, December 31, 2015

Currency pair	Time to maturity (years)	Fair value (SEK m)
USD/SEK	1.7	-30
USD/SEK	1.7	-28
USD/SEK	1.7	-17
USD/SEK	1.7	-16
USD/SEK	1.7	-9
USD/SEK	1.7	-5
USD/BRL	1.8	0
USD/BRL	1.7	0
Total		-107

Cross Currency Basis Swaps, December 31, 2015

Currency pair	Time to maturity (years)	Fair value (SEK m)
USD/SEK	1.5	-149
Total		-149

Credit Default Swaps, December 31, 2015

Currency pair	Time to maturity (years)	Fair value (SEK m)
CDS INDEX	3.0	-22
CDS INDEX	5.0	-16
CDS INDEX	5.0	-13
CDS INDEX	5.0	-11
CDS INDEX	5.0	-5
CDS INDEX	5.0	-5
CDS INDEX	5.0	-5
CDS INDEX	5.0	-5
CDS SINGLE	3.8	-3
CDS SINGLE	1.2	-3
CDS INDEX	5.0	-3
CDS INDEX	7.1	-2
CDS SINGLE	4.5	-2
CDS SINGLE	5.0	-2
CDS SINGLE	1.5	-2
CDS SINGLE	1.2	-1
CDS SINGLE	3.5	-1
CDS SINGLE	1.5	-1
CDS SINGLE	2.5	0
Total		-104

Currency futures, December 31, 2015

Currency pair	Time to maturity (years)	Fair value (SEK m)
GBP/SEK	1.2	-5
EUR/SEK	1.3	-1
EUR/SEK	1.5	-1
EUR/SEK	1.2	-1
Total		-9

Outstanding currency options December 31, 2014

Currency pair	Time to maturity (years)	Fair value (SEK m)
USD/JPY	1.7	-128
USD/JPY	1.3	-84
USD/JPY	1.3	-84
USD/JPY	1.7	-60
USD/JPY	1.3	-34
USD/JPY	1.3	-34
EUR/USD	2.0	-16
EUR/USD	2.0	-16
EUR/USD	2.0	-16
Total		-471

Cross Currency Basis Swap, December 31, 2014

Currency pair	Time to maturity (years)	Fair value (SEK m)
USD/SEK	2.5	-97
USD/EUR	1.7	-13
Total		-110

Credit Default Swaps, December 31, 2014

Currency pair	Time to maturity (years)	Fair value (SEK m)
CDS ITRAX	5.0	-88
CDS ITRAX	5.0	-88
CDS ITRAX	5.0	-88
CDS Single	4.7	-4
CDS Single	2.2	-3
CDS Single	4.3	-2
CDS Single	4.0	-2
CDS Single	5.0	-2
CDS Single	4.8	-2
CDS Single	2.5	-2
CDS Single	2.2	-2
Total		-284

Note 12. Other assets

	2015-12-31	2014-12-31
Outstanding receivables	893	250
Other assets	1	2
Total other assets	894	252

Note 13. Prepaid expenses and accrued income

	2015-12-31	2014-12-31
Accrued interest income	1 239	1 427
Accrued dividends and repayments	184	170
Other prepaid expenses and accrued income	8	8
Total prepaid expenses and accrued income	1 431	1 605

Note 14. Other liabilities

	2015-12-31	2014-12-31
Trade accounts payable	6	12
Outstanding liabilities	962	546
Other liabilities	6	8
Total other liabilities	974	566

Note 15. Deferred income and accrued expenses

	2015-12-31	2014-12-31
Accrued interest expenses	197	62
Accrued employee benefits expenses	13	14
Accrued external management fees	7	9
Other accrued expenses	3	4
Total deferred income and accrued expenses	220	89

Note 16. Fund capital

	2015-12-31	2014-12-31
Fund capital, opening balance	294 854	259 748
Net payments to/from the pension system:		
Paid-in pension contributions	61 373	58 880
Pension funds disbursed to the Swedish Pension Authority	-66 141	-63 775
Transfer of pension rights to EC	-3	-2
Settlement of pension rights	2	1
Administration fees to the Swedish Pension Authority	-176	-224
Total net payments to the pension system	-4 944	-5 120
Profit/Loss for the year	20 105	40 226
Fund capital, closing balance	310 015	294 854

Note 17. Pledged assets, contingent liabilities and commitments

	2015-12-31	2014-12-31
Other pledged assets and equivalent collateral:		
Securities on loan against collateral received in the form of securities ¹	20 062	16 252
Collateral pledged for exchange-cleared derivative contracts	1 427	1 640
Pledged assets pertaining to OTC derivatives contracts ²	126	5 755
Commitments:		
Investment commitments to future payments for alternative and strategic investments	6 457	5 932
Subscription Commitments, see note 18	8 000	8 000

¹ Collateral received for loaned securities amounts to SEK 20 802 (16 899) m.

² Collateral received for OTC derivatives contracts amounted to SEK 1252 (22) m.

Note 18. Related parties

The purpose of this note is to disclose how AP4's results and financial position are affected by transactions and outstanding balances between, including commitments, related parties in accordance with the definitions in IAS 24.

All associated companies are considered a related party to the Fourth AP Fund, see also note 9.

	2015-12-31	2014-12-31
<i>Vasakronan Holding AB</i>		
Interest income	215	233
Rental costs ¹	11	11
Shareholder loans	3 000	3 000
Commitments ²	4 500	4 500
<i>Rikshem Intressenter AB</i>		
Interest income	125	105
Shareholder contributions during the year	1 661	0
Shareholder loans	0	1 569
Commitments ²	3 500	3 500
<i>ASE Holdings S.à.r.l.</i>		
Interest income	30	27
Shareholder loans	249	244
<i>ASE Holdings II S.à.r.l.</i>		
Interest income	21	2
Shareholder contributions during the year	66	124
Shareholder loans	293	194

¹ AP4 leases its premises from Vasakronan AB at market rates.

² On the request of Vasakronan and Rikshem, AP4 has committed to buy corporate certificates in the company at any given time up to the maximum amount reported.

Salaries and remuneration for the Board and senior management see note 6.

Note 19. Financial instruments, price and valuation hierarchy

Fair value, SEK m	2015-12-31	2015-12-31	2015-12-31	2015-12-31
	Level 1	Level 2	Level 3	Total
Financial assets				
Shares and participations, listed	139 682	35 308	2 377	177 367
Shares and participations, unlisted	-	-	19 822	19 822
Bonds and other fixed income securities	102 512	144	3 892	106 548
Derivatives	0	3 296	0	3 296
Total financial assets	242 195	38 749	26 090	307 034
Financial liabilities				
Derivatives	0	-1 888	0	-1 888
Total financial liabilities	0	-1 888	0	-1 888
Net financial assets and liabilities	242 195	36 861	26 090	305 146

Fair value, SEK m	2014-12-31	2014-12-31	2014-12-31	2014-12-31
	Level 1	Level 2	Level 3	Total
Financial assets				
Shares and participations, listed	141 892	33 896	1 278	177 065
Shares and participations, unlisted	-	-	14 696	14 696
Bonds and other fixed income securities	98 375	160	5 495	104 030
Derivatives	0	4 135	0	4 135
Total financial assets	240 266	38 191	21 469	299 926
Financial liabilities				
Derivatives	0	-10 166	0	-10 166
Total financial liabilities	0	-10 166	0	-10 166
Net financial assets and liabilities	240 266	28 025	21 469	289 760

¹Total amounts differ from the balance sheet as the table does not include accrued interest and cash equivalents.

Level 1. Instruments with publicly quoted prices

Financial instruments traded in an active market. A market is deemed active if quoted prices are regularly updated more frequently than once a week and if the prices used are unaltered to settle trades in the market. More than 80% of the fund's investment assets within the asset classes' equities, bonds and derivatives can be found here.

Level 2. Valuation methods based on observable market data Financial instruments traded in a market that is not deemed active, but where there are quoted prices that are used uncorrected for trades, or observable input data for indirect valuation, which is updated regularly. In addition, there may not be any lock-in effects that have significant impact on the valuation in the event of liquidation. This category at AP4 mainly includes publicly quoted equity funds with few trades, but with observable input data for indirect valuation, as well as OTC derivatives such as forward exchange contracts and interest rate swaps, as well as fixed income instruments and funds containing interest rate instruments with low liquidity. OTC derivatives are valued using discount curves indirectly based on observable cash input data that are interpolated or extrapolated to calculate non-observable interest rates. Input data for these interest rates used to discount the future cash flows of the instrument for valuation are liquid and observable, though this does not apply for interest rates. These instruments are therefore classified as level 2.

Level 3. Valuation methods based on non-observable market data

Financial instruments that cannot be classified as level 1 or level 2. Unlisted shares and shareholder loans in directly held real estate companies and unlisted shares in venture capital firms are mainly found here. IPEV's principles are mainly used as a framework for venture capital firms, which comprises several valuation methods such as valuation based on actual transactions, multiples valuation, net asset valuation and discounted cash flow.

The principles of IPD Swedish Property Index are used as a framework for holdings in directly owned property where two fundamental methods are prevailing. These are the local market price method and the indirect return method (NPV approach). Local market price method means that the property holdings are compared with similar properties sold on the open market while the indirect return method involves discounted forecasted future cash flows.

Sensitivity analysis

According to IFRS a sensitivity analysis shall be presented using an alternative valuation for Level 3 assets. In terms of valuation methodology, an alternative valuation of these assets is associated with tremendous difficulties. Generally speaking, for unlisted real estate the yield requirement is crucial, but assumptions about factors such as vacancies, operating costs, marketing and profit growth are also of great importance. For venture capital firms, profit growth and the stock exchange valuation multiples are important. Level 3 valuations usually include a delay that in a positive trending market entail a cautious valuation. Sensitivity analyses of Vasakronan, AP4's largest real estate holding, with a fair market value of shares and participations of SEK 9.0 billion is about 45 percent of unlisted shares of Level 3. According to the analysis a change in direct return requirement of +/- 0.25 percentage points changes the value of the holding in Vasakronan by approximately SEK -1.3 / + 1.4 billion. Significant assumptions are made about valuation multiples and future cash flows for the valuation of AP4's investments in venture capital firms reported in unlisted shares corresponding to SEK 3.0 billion. Should the assumption of the multiple of EV / EBITDA change by +/- 5 percent the valuation of these investments will change by - / + SEK 380 million. The valuation of AP4's high-yield fixed-income assets reported in listed shares is based substantially on the discount rates of interest and repayment of loans. A change in the discount rate of +/- 1 percentage point for all maturities would entail a change in value of - / + SEK 82 million.

	Shares and participations, unlisted	Shares and participations, listed	Bonds and other fixed income securities
Opening balance, January 1, 2015	14 696	1 278	5 495
Realized and unrealized gains (+) or losses (-)			
In the income statement*	3 227	429	-16
Purchase	3 215	995	222
Sale	-1 315	-325	-1 810
Closing balance, December 31, 2015	19 822	2 377	3 892
*of which unrealized gains	3 133	256	-16

	Shares and participations, unlisted	Shares and participations, listed	Bonds and other fixed income securities
Opening balance, January 1, 2014	13 782	1 401	5 711
Realized and unrealized gains (+) or losses (-)			
In the income statement*	655	208	22
Purchase	1 139	338	448
Sale	-880	-669	-686
Closing balance, December 31, 2014	14 696	1 278	5 495
*of which unrealized gains	314	117	22

Note 20. Risks

Refer to the heading Risk Management in Three Steps in the Annual Report for a more detailed description of the Fund's risk management.

Business risks

Below is a description of AP4's principal risks, which consist of financial and operational risks.

Operational risks

Operational risk is "the risk of loss resulting from inadequate or failed processes, people and systems or from external events". The definition includes legal risk.

All of the AP4's units are responsible for ensuring that day-to-day operations meet the requirements set for good internal control and assigning sufficient resources for this purpose. This covers issues such as control of compliance with all regulations that apply to the Fund. It is compulsory upon everyone within AP4's organization to perform their work duties in line with objectives and operational plans and with regard to external and internal restrictions.

The compliance function is responsible for monitoring the operational risks in the investment operations, and ensuring compliance with regulations relating to these risks. Operational risks are specifically evaluated in connection with the implementation of new products, systems and organizational changes.

AP4's legal unit is responsible for, for example, legal aspects pertaining to risk in agreements and similar.

Financial risks

The financial risks, which are primarily comprised of market, credit and liquidity risk, are monitored and controlled by an independent Performance and Risk Control department that reports directly to the CEO and Board. Management's goal is to only take positions that are expected to generate good returns within established risk mandates. Therefore, the main risks the Fund is exposed to consist of transparent financial risks that are predominantly market risks with good opportunities for risk premiums to be forecasted.

Market risks

Market risk is the risk that the value of an instrument is adversely affected due to fluctuations in share prices, currency rates or interest rates. Since AP4's holdings consists predominately of listed instruments with daily pricing on liquid markets, opportunities are good to regularly measure and report on market risk through both forecasted and realized risk amounts. The Fund aims to maintain a high proportion of listed equities and fixed income instruments.

Share price risk

Share price risk refers to the expected variation in the market value of shares. Share price risk is managed through diversification across regions, countries and sectors.

Interest rate risk Only fixed-income assets are included in the measurement of interest rate risk relating to expected variation in the market value of the Fund's fixed income assets caused by nominal interest rate movements in bond markets. AP4 manages interest rate risk by diversifying across different regions and yield curves, as well as by limiting the deviation in duration between the Tactical and Strategic management.

Currency risk

Currency risk refers to the expected variations in exchange rates on assets denominated in foreign currencies. Currency risk arises in connection with investments denominated in foreign currencies. The law on Public Pension Funds limits the total currency risk exposure of the Fund to a maximum of 40 percentage points. AP4's investment policy determines final currency risk exposure for each major currency in the normal portfolio.

Risk in investment assets

One method to calculate financial risk is the Value at Risk (VaR) metric. Value at Risk is defined as the maximum loss that can occur with a given probability and a given time horizon. The table below applies an analytical factor model for a time horizon of 10 days and a confidence level of 95%.

Management horizon	2015-12-31			2014-12-31		
	VaR, ex-ante, holding-period 10 days	Contribution volatility % 12 month portfolio	VaR, ex-ante, holding-period 1 day ²	VaR, ex-ante, holding-period 10 days	Contribution volatility % 12 month portfolio	VaR, ex-ante, holding-period 1 day ²
Equities	6 568	7,83	2 119	7 132	7,51	1 682
Fixed income	-100	-0,12	-31	-211	-0,22	-61
Currency	4	0,00	319	-333	-0,35	201
Total Normal portfolio	6 471	7,71	2 407	6 589	6,94	1 822
Strategic Management ¹	572	0,68	-66	390	0,41	-27
Tactical Management	71	0,08	-10	126	0,13	3
Total investment assets	7 116	8,48	2 330	7 087	7,46	1 797
Of which Passive management	1	0,00		-18	-0,02	

¹ Some of the Fund's Strategic assets lack market quotations of the asset prices with good periodicity or are missing underlying holdings of an index. This makes it difficult to forecast the risks of these assets to the satisfaction of the Fund's risk system BarraOne. The Fund has therefore chosen to use alternative securities as approximations for these holdings. Overall, approximations are used for 16.0 percent of the Strategic assets. Of this total, the low-carbon mandate accounts for 6.7 percent and an approximation has been used corresponding to MSCI regional indices. Real estate holdings account for 6.3 percent where Swedish listed real estate shares have been used as an approximation.

² To permit comparison with the First, Second and Third AP Fund, the Fund has also estimated VaR based on a one-day holding period, a 95 percent confidence level and a data length of one year in which the observations are given equal weight. This is a simulation method with historical return distribution used for the calculation.

Foreign Exchange exposure

The Fund hedges all holdings of foreign fixed income assets and part of its foreign equity shareholdings using currency derivatives. The Fund's currency risk exposure at year-end was 27.0 (28.1) percent. The table below shows the Fund's currency exposure.

Foreign Exchange exposure

December 31, 2015	USD	EUR	GBP	JPY	Other	Total
Shares and participations	72 237	19 600	8 504	9 474	9 223	119 038
Bonds and other fixed income securities	41 870	15 376	11 305	0	0	68 551
Derivative instruments, excl. currency derivatives	-845	-272	0	0	0	-1 117
Other receivables and liabilities, net	959	917	422	183	559	3 040
Currency derivatives	-60 832	-20 140	-11 168	-3 574	-9 949	-105 664
Foreign Exchange exposure, net	53 389	15 481	9 063	6 083	-168	83 849

December 31, 2014	USD	EUR	GBP	JPY	Other	Total
Shares and participations	74 636	18 620	8 995	9 063	10 763	122 078
Bonds and other fixed income securities	33 629	13 536	10 432	0	0	57 598
Derivative instruments, excl. currency derivatives	-767	-65	0	0	0	-832
Other receivables and liabilities, net	2 118	802	195	42	527	3 683
Currency derivatives	-50 602	-21 708	-10 532	-3 186	-13 600	-99 628
Foreign Exchange exposure, net	59 014	11 186	9 089	5 918	-2 309	82 898

Credit risks

Credit risk refers to the risk that an issuer or counterparty cannot fulfill its payment obligations. Credit exposure refers to the value that is exposed to credit risk through agreements with counterparties or issuers, that is, credit exposures include both issuer and counterparty exposure. The total credit risk is limited by the selection of the interest rate index in the Normal portfolio and limits per rating category. Credit risk per pool of issuers or issuer are restricted by limits which include both issuer and counterparty risk.

The CEO approves all counterparties with which the Fund can do business (in both standard and non-standard instruments). Further, when trading in OTC derivatives ISDA and CSA must be included with all larger counterparties.

Rating category, December 31, 2015	Bond 2)	Non-standard derivatives		Residual risk
	Exposure	Fair value ²	Collateral/security	
AAA	50 199	4		
AA	40 054	318	-375	-56
A	5 143	739	-863	-124
BBB	8 260	175	-186	-11
Lacks rating ¹	3 773			
Total credit risk exposure	107 428	1 236	-1 424	-192

Rating category, December 31, 2014	Bond 2)	Non-standard derivatives		Exposure
	Exposure	Fair value ²	Collateral/security	
AAA	53 106			
AA	32 422	-1 097	1 033	-63
A	7 275	-4 704	4 766	62
BBB	6 691	-224	233	9
Lacks rating ¹	5 387			
Total credit risk exposure	104 881	-6 024	6 032	8

¹ Refers to subordinated debt, bonds and shareholder loans in alternative investments and real estate.

² Fair values including accrued interest.

Liquidity risk

Liquidity risk includes both liquidity risks relating to cash flow and liquidity risks in financial instruments.

Liquidity risk in a financial instrument consists of the risk that the instrument cannot be sold or can only be sold at a significantly lower price than the publicly quoted price.

A large proportion of AP4's securities are lendable at short notice. Any losses on currency futures and stock index futures may, however, be of significant amounts and daily estimates of liquidity in SEK and currencies must be calculated.

The Fund's liquidity risk of financial instruments is limited by the Fund's investment universe and the choice of reference indices for fixed income securities and listed equities. Illiquid financial instruments primarily arise in the form of assets in unlisted companies and real estate. OTC derivatives and credit instruments may from time to time also become illiquid and/or show significant differences between the bid and ask prices.

Liquidity risk can also be high if large net payments are needed given the Fund has a payment obligation to the Swedish Pensions Authority. It is then necessary to keep a large proportion of liquid assets. The Fund currently makes monthly payments to the Pensions Authority, which are relatively small in relation to existing capital.

Further, the Law on National Pension Funds limits liquidity risk given at least 30 percent of the Fund's total market value must be invested in debt instruments with low credit and liquidity risk.

The Board's rules limit liquidity risks through specific guidelines for investments in interest-bearing assets and through careful monitoring of cash balances. The fund invests a large proportion of the portfolio in listed shares and government bonds with good liquidity. Overall liquidity risk in the Fund is considered to be low.

The table below presents a summary of the Fund's liquidity risk according to maturity. Bonds and interest-bearing instruments are recognized at fair value, including accrued interest.

Liquidity risk

Bonds and other fixed-income instruments carried at fair value, including accrued interest.

Maturity profile December 31, 2015						
Term	< 1 yr.	1 < 3 yrs.	3 < 5 yrs.	5 < 10 yrs.	> 10 yrs.	Total
Nominal government	634	3 434	12 537	26 852	9 847	53 304
Nominal corporate	4 042	11 703	28 256	8 066	2 058	54 124
Total	4 676	15 137	40 793	34 918	11 904	107 428

Maturity profile December 31, 2014						
Term	< 1 yr.	1 < 3 yrs.	3 < 5 yrs.	5 < 10 yrs.	> 10 yrs.	Total
Nominal government	561	6 721	5 453	16 614	14 263	43 612
Nominal corporate	1 672	23 691	27 293	6 612	2 001	61 269
Total	2 233	30 412	32 746	23 226	16 264	104 881

All liabilities have a maturity of less than one year except for a few currency options and credit derivatives (so-called credit default swaps), see Note 11. The aggregate market value of these contracts is limited and they have therefore been omitted from the above table.

Managing derivatives

The Fund uses derivatives in most management mandates. Derivatives have several different uses and purposes where the most important are the following:

- Hedging the Fund's foreign investments, for which derivatives are the only alternative.
- Making index management more efficient, where derivatives are used to minimize transaction costs and simplify administration.
- Making active management more efficient, where derivatives are used not only to minimize transaction costs and simplify administration but also to enable positions to be taken that cannot be generated using other instruments (short positions, volatility positions, and more).
- Regulating the Strategic portfolio's risk with the help of strategic derivative positions.

The use of derivatives is limited in terms of the nominal underlying values as well as market risk. All derivative positions and associated risks are subject to daily position and risk monitoring.

The CEO approves all counterparties with which the Fund may do business regarding both standard and non-standard instruments.

Furthermore, when trading in OTC derivatives, International Swaps and Derivatives Association Credit Support Annex (ISDA), and Credit Support Annex (CSA) must be included with all large counterparties. ISDA agreement relates to a standard agreement to regulate trading of derivatives between two counterparties. CSA agreements relate to an annex to an ISDA agreement. CSA agreements regulate how collateral is posted as outstanding liabilities in the form of cash or securities.

Note 21. Financial assets and liabilities are netted in the balance sheet or subject to netting agreements

December 31, 2015	Gross Amount	Netted amount in balance sheet	Net amount in balance sheet	Amount not netted in the balance sheet			Total in balance sheet	
				Offsetting of financial instruments according to agreement	Securities Received	Net amount after offsetting		Other ¹
Assets								
Derivative instrument	3 287	0	3 287	1 772	1 186	329	9	3 296
Non-liquid receivables	6 831	6 821	9	-	-	9	884	893
Total	10 118	6 821	3 297	1 772	1 186	339	893	4 189
Liabilities								
Derivative instrument	1 872	0	1 872	1 772	98	2	16	1 888
Non-liquid liabilities	6 833	6 821	12	-	-	12	950	962
Total	8 705	6 821	1 884	1 772	98	14	965	2 850

December 31, 2014	Gross Amount	Netted amount in balance sheet	Net amount in balance sheet	Amount not netted in the balance sheet			Gross Amount	Total in balance sheet
				Offsetting of financial instruments according to agreement	Securities Received	Net amount after offsetting		
Assets								
Derivative instrument	4 135	0	4 135	3 799	16	320	-	4 135
Non-liquid receivables	1 035	1 033	1	-	-	1	249	250
Total	5 170	1 033	4 136	3 799	16	321	249	4 385
Liabilities								
Derivative instrument	10 166	0	10 166	3 799	5 664	703	-	10 166
Non-liquid liabilities	1 035	1 033	2	-	-	2	544	546
Total	11 201	1 033	10 168	3 799	5 664	705	544	10 712

¹Other instruments in the balance sheet not subject to agreement that allow offsetting.

The above table shows financial assets and liabilities presented net in the balance sheet or that have rights associated with legally binding framework agreements on offsetting or similar agreements. Financial assets and liabilities are recognized in the balance sheet when the Fund has a legally enforceable right to net under normal business conditions, in the event of insolvency and if there is an intention to settle net or realize the asset and settle the liability simultaneously. Financial assets and liabilities subject to legally binding framework agreements on offsetting or similar agreements that are not presented net in the balance sheet are arrangements that usually come into force in the event of insolvency, but not under normal business conditions or arrangements in which the Fund does not have the intention to liquidate positions at the same time.

Board of directors' signatures

Stockholm, 17 February 2016

Monica Caneman
CHAIRMAN OF THE BOARD

Jakob Grinbaum
VICE CHAIRMAN

Ing-Marie Gren

Sven Hegelund

Heléne Fritzon

Stefan Lundbergh

Erica Sjölander

Maj-Charlotte Wallin

Göran Zettergren

Mats Andersson
CHIEF EXECUTIVE OFFICER

Our auditors' report was submitted on 18 February 2016

Susanne Sundvall
AUTHORISED PUBLIC ACCOUNTANT
Appointed by the Government

Peter Nilsson
AUTHORISED PUBLIC ACCOUNTANT
Appointed by the Government

Audit Report

On behalf of AP4, corporate identity number 802005-1952

Report on the annual accounts

We have performed an audit of the 2015 annual accounts of AP4. The Fund's annual accounts are found under the headings Directors Report and Financial Statements, pages 68-90.

The responsibility of the Board and CEO for the annual accounts

The Board and the CEO are responsible for preparing an annual report that gives a true and fair view in accordance with the Law on Pension Funds and for such internal control as the Board and the CEO determine is necessary to establish an annual report that is free from material misstatement, whether due to fraud or error.

The responsibility of the auditors

Our responsibility is to express our opinion on the annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and Generally Accepted Auditing Standards in Sweden. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts.

The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board and CEO, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Swedish National Pension Funds Act (2000:192) for the AP Funds, and present fairly, in all material respects, the financial position of AP4 as of December 31, 2015, and of its financial performance for the year then ended according to the Swedish National Pension Funds Act.

The Report of the Directors is compatible with the other sections of the annual accounts. We therefore recommend that the income statement and balance sheet be adopted.

Report regarding other legislated and statutory requirements

In addition to our audit of the annual accounts, we have also examined the inventory of assets managed by AP4. We have also reviewed whether there is any qualification otherwise regarding the Board and CEO's administration of AP4 for 2015.

The responsibility of the Board and CEO

The Board and CEO bear responsibility for these accounting documents and the administration of the Fund's assets in accordance with the Swedish National Pension Funds Act.

The responsibility of the auditors

Our responsibility is to express, with reasonable assurance, our opinion on the results of our examination and inventory of the assets managed by the Fund, and on the administration in general on the basis of our audit. We conducted our audit in accordance with Generally Accepted Auditing Standards in Sweden.

As a basis for our opinion regarding the inventory of assets, we have examined the Fund's holdings register and, on a test basis, supporting evidence thereof.

As a basis for our opinion regarding the administration in general we have, in addition to our audit of the annual accounts, examined material decisions, measures and circumstances in the Fund in order to assess whether a Board member or the CEO has acted in violation of the Swedish National Pension Funds Act.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

The audit has given us no reason for qualification with regard to the inventory of assets or of the administration in general.

Stockholm February 18, 2016

Peter Nilsson

AUTHORISED PUBLIC ACCOUNTANT
Appointed by the Government

Susanne Sundvall

AUTHORISED PUBLIC ACCOUNTANT
Appointed by the Government

Board of directors

AP4's Board of directors consists of nine members. All members are appointed by the government. Two members are appointed by proposal from the employees organization and two members are appointed by proposal from the employers organizations. The government appoints the chairman from among the members who are not appointed on the recommendations of the employee/employer organizations.



Monica Caneman

Chairman of the board since 2008.

Born 1954.

Other board assignments

Chair: Arion Bank hf, Big Bag AB, Bravida Holding AB, Viva Media Group AB.

Director: My Saftey AB, SAS AB, Intermail AS, ComHem AB.



Jakob Grinbaum

Vice chairman since 2011.

Born 1949.

Other board assignments

Chair: Oscar Properties Holding AB

Vice Chair: SBAB

Board Director: IK Sirius, Jernhusen AB and Östgöttagården Uppsala Foundation.



Heléne Fritzon

Director since 2015.

Born 1960.

Local Government Commissioner, Kristianstad Municipality

Other board assignments:

Chair: Koncernbolaget KKF, SKL:s förhandlings-delegation

Director: SKL, EU - Committee of the Regions



Göran Zettergren

Director since 2015.

Born 1958.

MBA

CFO Confederation of Professional Employees



Erica Sjölander

Director since 2012.

Born 1971.

Investigations Manager, IF Metall.



Sven Hegelund

Director since 2012.

Born 1947.

Master in Political Science.

Other board assignments

Director: Nordiska investeringsbanken (NIB).



Maj-Charlotte Wallin

Director since 2014.

Born 1953.

MBA

Other board assignments

Director: Kammarkollegiets Fund delegation, Heart-Lung Foundation and Swedbank AB.



Stefan Lundbergh

Director since 2011.

Born 1968.

PH D.

Director Cardano Insights.



Ing-Marie Gren

Director since 2011.

Born 1951.

Professor.

Executive management

AP4's Executive management consists of seven members.



Mats Andersson

Chief executive officer

Employed since 2006. Born 1954.

B. Sc. Economics.

Previous positions include Deutsche Bank, AP3 and Skandia Liv.

Director: Svolder AB, Streber Cup Foundation, Global Challenges Foundation, PRI Pensionsgaranti and Nationalmusei vänner.



Magnus Eriksson

Deputy CEO and Chief investment officer

Employed since 2008. Born 1959.

CEFA.

Previous positions include Catella, AP3 and MGA.

Director: Rikshem AB, Rikshem Intressenter AB, Hemfosa fastigheter AB and Vasakronan.



Ulrika Malmberg Livijn

General counsel.

Employed since 2009. Born 1968.

BSc. Law.

Previous positions include Lindahl, Setterwalls and Skandia.

Director: Rikshem AB and Rikshem Intressenter AB



Nicklas Wikström

Head of Business and Risk Control

Employed since 2008. Born 1968.

Ms. in Accounting and Financing, CEFA, AFA.

Previous positions include AFA Försäkring.



Per Colleen

Head of Equity management.

Employed since 2013. Born 1969.

B.Sc. Economics

Previous positions include SEB, DnB, MGA and AP3.



Susan Lindkvist

Director of administration

Employed since 2013. Born 1960.

B.Sc Economics.

Previous positions include Avanza, Erik Penser and RAM Rational Asset Management.

Other assignments: CEO in Vasakronan Holding AB.



Bengt Lindefeldt

Head of Global macro management.

Employed since 2008. Born 1962.

M.Sc.

Previous positions include Investor, Carnegie, Nordea and AFA Försäkring.

Global Reporting Initiative

This sustainability report complies with Global Reporting Initiative (GRI) guidelines Version G4 level "Core" and the sector-specific addition for Financial Services. The tables on pages 94-95 list the GRI indicators that AP4 reports as well as references to where the information can be found.

The GRI publishes international guidelines for sustainability reporting that are used by companies and organisations all over the world. The report includes AP4's operations and no limitations have been applied. 2014 was the first year that AP4 reported according to GRI.

This GRI report has not been audited by a third party.

Abbreviations used in the GRI table

AR = 2015 Annual Report

I = Holdings specification 2015

HAR = Sustainability and corporate governance report 2014/2015

ER = Ethical Council of the AP Funds annual report 2014

F = Full application

P = Partial Application

Standard disclosure	Description	Page reference	Application
Strategy and Analysis			
G4-1	Statement from the organisation's most senior decision-maker about the relevance of sustainability to the organization and its strategy	AR: 8-10; HAR: 6-7	F
Organisational Profile			
G4-3	Name of organisation	AR: 1	F
G4-4	Most important brands, products and services	AR: 4	F
G4-5	Location of organisation's headquarters	AR: 100	F
G4-6	Countries where the organisation operates	AR; I	F
G4-7	Nature of ownership and legal form	AR: 4	F
G4-8	Markets	AR: 78-81; I1	F
G4-9	Scale of the organisation	AR: 60-61, 72	F
G4-10	Employee data	AR: 60-63	F
G4-11	Percentage of employees covered by collective bargaining agreements	AR: 61	F
G4-12	Organisation's supply chain	AR: 63	F
G4-13	Significant changes during the period regarding the organisation, size, structure, value chain, ownership	AR: 3, 74-75	F
G4-14	Whether and how the organisation addresses the precautionary principle	AR: 54-57	F
G4-15	External regulations, standards, principles to which the organisation subscribes/endorsees	AR: 12, 58-59, 74-75, 99	F
G4-16	Membership in organizations and associations	AR: 12, 47 HAR: 10, 44-45	F
Identified material aspects and boundaries			
G4-17	Entities included in reporting and those that are not included	AR: 74-75	F
G4-18	Process for defining report content and how reporting principles implemented	AR: 58-59, 94, 96	F
G4-19	Identify material aspects	AR: 59, 97	F
G4-20	Each aspect's boundaries within the organisation	AR: 59-59, 62-63, 74-75, 94, 96	F
G4-21	Each aspect's boundaries outside the organisation	AR: 58-59, 94, 97	F
G4-22	Effect of and reason for restatements from previous reports	AR: 3, 58-59, 62-63, 94	F
G4-23	Significant changes from previous reporting regarding focus and boundaries	AR: 3, 58-59, 62-63, 94, 96	F
Stakeholder Engagement			
G4-24	Stakeholder groups	AR: 58-59, 96	F
G4-25	Identification and selection of stakeholder groups	AR: 58-59, 96	F
G4-26	Approach to stakeholder engagement	AR: 58-59, 96; HAR: 9-43; ER: 6, 8-23	F
G4-27	Significant issues raised by stakeholders in dialogue and initiatives taken	AR: 51, 53, 58-59, 96; HAR: 18-43; ER: 6, 8-23	F
Report Profile			
G4-28	Reporting period	AR: 2	F
G4-29	Most recent previous report	AR: 94	F
G4-30	Reporting cycle	AR: 2	F
G4-31	Contact data	AR: 100	F
G4-32	GRI content and index, as well as selection of reporting level	AR: 94	F
G4-33	Policy for external assurance	AR: 94	F

Standard disclosure	Description	Page reference	Application
Corporate governance			
G4-34	Governance structure and responsibility for finance, environment, and social impact	AR: 4, 58-59, 60-63, 64, 65, 96, 99	F
G4-35	Process of delegating authority for economic, environmental and social topics	AR: 47	F
G4-36	Responsible for economic, environmental and social issues at executive level or not	AR: 47	F
Remuneration			
G4-51	Remuneration policies for Board of Directors and Executive Management Committee	AR: 64-65, 76-77	F
G4-52	The process for determining remuneration	AR: 64-65, 76-77	F
Ethics and integrity			
G4-56	Values, principles and codes of conduct and ethics	AR: 5, 58-59, 62-63	F
G4-57	Advice on ethical and lawful behaviour	AR: 58-59, 62-63	F
G4-58	Mechanism for reporting unethical and unlawful behaviour	AR: 62-63	F
G4-DMA	Why the issues are material and how they are managed and assessed	AR: 20-22, 84-89; I	F
Economic			
DMA	Organisation's approach to social investments	AR: 11-16, 20-22, 29-32, 44, 49-50, 52-53	F
G4-EC1	Generated and delivered direct economic value	AR: 3, 19	F
G4-EC2	Financial risks and opportunities with investments related to climate change	AR: 11-16, 30-31, 44, 50-53	F
Environmental			
Energy			
G4-EN3	Energy consumption within the organisation	AR: 63	F
G4-EN6	Reduction of energy consumption	AR: 63	F
Waste			
G4-EN16	Indirect greenhouse gas emissions (Scope 2)	AR: 16, 44	F
Social			
Labour practices			
G4-LA1	New employee hires and employee turnover	AR: 61	F
G4-LA2	Benefits provided to full-time employees	AR: 61, 64, 72, 76-77	F
GA-LA3	Parental leave	AR: 61	F
Health and safety			
G4-LA5	Injuries, absence etc	AR: 61	F
Training and Education			
G4-LA11	Evaluation and training	AR: 62	P
Diversity and equal opportunity			
G4-LA12	Composition of decision-making bodies	AR: 60, 76-77	F
Human rights			
Investments			
G4-HR1	Investment agreements that include human rights	AR: 48-49, 58-59	F
Non-discrimination			
G4-HR3	Discrimination	AR: 60, 62	F
Child labour			
G4-HR5	Operations with risk for child labour	Not applicable to AP4	F
Forced labour			
G4-HR6	Operation with risk for forced labour	Not applicable to AP4	F
Society			
Local communities			
G4-FS13	Access in low-populated or economically disadvantaged areas	AR: 100	F
Anti-corruption			
G4-SO4	Communication and training	AR: 60-62	P
G4-SO5	Incidents of corruption	AR: 62	F
Product responsibility			
G4-DMA	Guidelines, processes and evaluations relating to environmental and social impacts for employees, as well as their interactions in the investments	AR: 60-63	F
G4-FS6	Product portfolio	AR: 16, 18-22, 68-70	F
G4-FS8	Value of products and services with environmental value	AR: 26, 30-31, 44	F
Revisions			
G4-DMA	Revisions to evaluate environmental and social policies	AR: 52-53	P
Active ownership			
G4-DMA	Voting policy applied to environmental or social issues	AR: 52-53, 58; HAR: 9-43	F
G4-FS10	Proportion of companies in which the Fund collaborated in environmental and social issues	AR: 12-13, 30, 50-51, 52-53	F
G4-FS11	Assets subject to environmental or social evaluation criteria	AR: 11-16, 30-32, 44, 50-53	F

Stakeholders

Stakeholder	Expectations	Dialogue
Brief from: Riksdag and government	<ul style="list-style-type: none"> • Contribute to long-term financing of the pension system and act as a buffer fund. • Return target, cost efficiency and transparency. • Compliance with policies, legislation and rules. • Systematic effort to include ethical and environmental considerations in investment analyses, 	<ul style="list-style-type: none"> • Meetings, individual and in groups. • Annual Government review and evaluation. • External audit by auditors appointed by the Government. • Reports, ownership policy and website serve as a basis for dialogue.
The pensioner (present and future)	<ul style="list-style-type: none"> • Help to ensure that automatic balancing is not activated. • Help to cover the deficit in the pension system. • Return target, cost efficiency, transparency. • Compliance with policies, legislation and rules. • Systematic effort to include ethical and environmental considerations in investment analyses, 	<ul style="list-style-type: none"> • Dialogue initiated at seminars and meetings. • Dialogue by telephone and email, with active outreach, current and future pensioners. • Participation at seminars and conferences. • Reports and website serve as a basis for dialogue.
Society (representatives from various organisations, government agencies, NGOs, students etc.)	<ul style="list-style-type: none"> • Contribute to long-term financing of the pension system. • Help to ensure that automatic balancing is not activated. • Help to cover the deficit in the pension system. • Return target, cost efficiency, transparency. • Compliance with policies, legislation and rules. • Systematic effort to include ethical and environmental considerations in investment analyses, • Responsible investments and transparency regarding corporate impact and sustainability risks in investments. • Knowledge transfer. 	<ul style="list-style-type: none"> • Individual meetings. • Roundtables. • Dialogue initiated when participating at seminars. • Contacts with the academic world, including interviews and questionnaires. • Contacts with organisations, government agencies and nonprofit organisations (NGOs). • Reports and website serve as a basis for dialogue.
Employees	<ul style="list-style-type: none"> • Interesting tasks, skills development, job satisfaction and compensation. • Gender equality, diversity and openness. • Long-term approach, clear objectives, delegated responsibilities and authorities, businesslike approach, transparency and cooperation. 	<ul style="list-style-type: none"> • Daily dialogues. • Meetings. • Employee surveys,
Suppliers.	<ul style="list-style-type: none"> • Business. • Long-term relationships. 	<ul style="list-style-type: none"> • Dialogues and negotiations • Meetings.
Media	<ul style="list-style-type: none"> • Transparency. • Accessibility. 	<ul style="list-style-type: none"> • Individual meetings. • Dialogue by telephone and email. • Reports and website serve as a basis for dialogue.
Other investors	<ul style="list-style-type: none"> • Collaboration on corporate influence. • Knowledge transfer. • Long-term, dedicated and professional owners. 	<ul style="list-style-type: none"> • Individual meetings and group meetings. • Roundtables. • Joint dialogues with companies. • Collaboration through various initiative and organisations. • Dialogue initiated at seminars, conferences and meetings. • Reports, ownership policy and website serve as a basis for dialogue.
Company	<ul style="list-style-type: none"> • Long-term, dedicated and professional owners. 	<ul style="list-style-type: none"> • Individual meetings, and group meetings. • Dialogues with companies. • Nominating process. • Roundtables • Reports, ownership policy and website serve as a basis for dialogue.

Glossary

ABSOLUTE RETURN TARGET

A targeted return intended to produce over time a positive return regardless of market trends. Contrast with a relative return target, for which the target is to outperform a specific index.

ACTIVE MANAGEMENT

Management of a portfolio with a composition that differs from the index in an effort to achieve a higher return. The opposite of passive management, or index management.

ACTIVE POSITION

Difference between a portfolio and its reference or benchmark index in terms of, for example, the weight of individual equities (on equity selection), sector weightings (with active sector allocation) or duration (with active duration position).

ACTIVE RETURN

The difference between the return on a portfolio and the return on its benchmark index. Active return is reported in the Fund's full-year and six-month reports. The term is used synonymously with return versus index, relative return, and outperformance.

ACTIVE RISK

Risk that results from 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.

ALLOCATIONS

Refer to Strategic allocations below.

BRAKE

Automatic rebalancing, also called "the brake", is triggered when liabilities exceed assets in the pension system. This reduces the indexing of pensions until the pension system is once again in balance.

CORPORATE BOND

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

CREDIT RISK

Credit risk refers to the risk of an issuer or counterparty being unable to meet its payment obligations.

CSA AGREEMENT

Credit Support Annex Agreement. CSA agreements relate to an annex to ISDA agreements. CSA agreements regulate how collateral is posted for outstanding liabilities in the form of cash or securities.

CURRENCY EXPOSURE

Denotes the proportion of the portfolio denominated in a currency other than the Swedish krona and for which the currency risk has not been neutralized through hedging.

CURRENCY HEDGE

Neutralization of currency risk by converting exposure in foreign currencies to Swedish krona by using currency derivatives such as forward contracts.

DERIVATIVES

The collective term for many different instruments. The value of a derivative is linked to the value of an underlying instrument.

DIVERSIFICATION

Diversification means the spreading of risks. In other words, assets having varying correlation with each other, thereby reducing the total risk in the portfolio.

DURATION

A measure of interest rate risk. Defined as the percentage change in value of fixed-income securities as a result of a 1% parallel shift in the yield curve. Calculated by dividing the duration (see above) by one plus the market rate

FIXED INCOME PORTFOLIO IN TACTICAL MANAGEMENT

Comprises fixed income assets including interest rate derivatives. The foreign portion of the fixed income portfolio's reference index is hedged in Swedish kronor. The benchmark indices are customized government bond and corporate bond indices from Handelsbanken's and Bank of America Merrill Lynch hedged in Swedish crowns.

FUNDEMENTAL ANALYSIS

Analysis aiming to forecast a company's future value. Based mainly on information about companies and their environments, such as information about the companies' management, strategy, earnings forecasts, financial position or performance.

GLOBAL EQUITIES PORTFOLIO IN TACTICAL MANAGEMENT

Consists of equities and equity-based instruments listed on stock exchanges included in the MSCI World. (Note that an equity listed on a Swedish stock exchange can be included in the global as well as the Swedish equities portfolio. At the time of purchase, the holding is assigned to the intended portfolio.) Foreign exchange derivatives are also managed in this portfolio. The benchmark indexes were MSCI North America, MSCI Europe and MSCI Pacific, adjusted for the Fund's current tax rate for each market and by excluding non-US REITs and currency-hedged to SEK. The index has also been adjusted from an ethical standpoint through exclusion of companies in accordance with the recommendations of the Ethical Council.

INDEX MANAGEMENT

Also referred to as passive management. Management of a portfolio so that the holdings mirror the composition of a designated index so the portfolio achieves the same returns as the index.

INFORMATION RATIO

A measure of risk-adjusted return. Measured as a portfolio's active return in relation to its active risk. The measure describes the amount of annual additional return that has been measured in relation to the active risk taken. Values over 0.5 for individual years are considered to be a good result.

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 recognized in the balance sheet but not as investment assets.

ISDA AGREEMENT

International Swaps and Derivatives Association. ISDA agreements relate to a standard agreement to regulate trading of derivatives between two counterparties.

LISTED PROPERTY PORTFOLIO IN STRATEGIC MANAGEMENT

Comprises equity and equity related securities listed on a Swedish or other Nordic exchange. The benchmark index was NASDAQ OMX SX8600GI.

LIQUIDITY RISK

Liquidity risks cover both liquidity risks relating to cash flow and liquidity risks in financial instruments. Liquidity risk in a financial instrument consists of the risk that the instrument cannot be sold or can only be sold at a significantly lower price than the publicly quoted price.

LONG POSITION

Positive exposure to a market or asset class. For example, a positive exposure to a foreign currency using derivatives.

MARKET RISK

Market risk is the risk that the value of an instrument is adversely affected due to fluctuations in share prices, foreign exchange rates or interest rates.

MODIFIED DURATION

Measure of interest rate risk. Defined as the percentage change in value of debt securities as a result of a one percent parallel shift in the yield curve. Calculated by dividing the duration (see above) with a change in interest rates.

NORMAL PORTFOLIO

The normal portfolio is a fictitious asset portfolio, a model portfolio, made up of different indices for each asset class. It consists of a combination of equities, government bonds and decisions regarding duration and foreign exchange exposure. Index choices for the asset class equities are MSCI North America, MSCI Europe, MSCI Pacific and MSCI Emerging Markets, adjusted for the Fund's current tax rate for each market as well as by excluding non-US REITs and currency-hedged to SEK. The index has also been adjusted from an ethical standpoint through exclusion of companies in accordance with the recommendations of the Ethical Council. The index for the asset class treasuries are customized from Handelsbanken's treasury index and Merrill Lynch treasury index, currency-hedged to SEK.

OPERATIONAL RISKS

Operational risk is the "risk of loss resulting from inadequate or failed processes, people and systems or from external events." This definition includes legal risk.

OUTPERFORMANCE

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

PASSIVE MANAGEMENT

Also referred to as Index management. Portfolio management is when holdings mirror the composition of a designated index so that the portfolio achieves the same returns as the index. Also known as indexing.

PORTFOLIO RISK, EX POST

The standard deviation of the return on the portfolio during the period. Indicates the extent of fluctuations in the value of the portfolio and reflects the portfolio's risk level. See also Volatility.

REAL RETURN

Return minus inflation.

REFERENCE INDEX

Index against which a portfolio's return and risk are compared. Also called benchmark index.

RETURN CONTRIBUTION

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 for a specific area.

SEMI-ACTIVE MANAGEMENT

Portfolio management that carries a somewhat higher active risk than passive management, i.e. indexed management with limited active 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 of the portfolio. A high Sharpe ratio indicates a good trade-off between risk and return.

SHORT POSITION

A negative exposure to a market or asset class. A short position is the sale of a borrowed security, commodity or currency with the expectation that the asset will fall in value. For example, negative exposure to a foreign currency using derivatives.

STRATEGIC ALLOCATIONS

Medium-term deviations from the Normal portfolio's asset allocation, currency exposure, duration, etc. in order to improve the Strategic portfolio's returns and risk attributes.

SWEDISH EQUITY PORTFOLIO IN TACTICAL MANAGEMENT

Consists of equities and equity-based instruments listed on a stock exchange in Sweden or another Nordic country. The reference index was SIX 60.

SWEDISH EQUITY PORTFOLIO IN STRATEGIC MANAGEMENT

Consists of equities and equity-based instruments listed on a stock exchange in Sweden or another Nordic country. The reference index was SIX 60.

SWEDISH SME'S IN STRATEGIC MANAGEMENT

Consists of equities and equity-based instruments listed on a stock exchange in Sweden or another Nordic country. The reference index is NASDAQ OMX Small Cap Sweden.

TACTICAL ASSET ALLOCATIONS

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

VALUE AT RISK (VAR)

A measure of risk that indicates the maximum loss a portfolio risks for a specific period given a certain confidence level.

VOLATILITY

Risk measure equal to the standard deviation of the return on an asset. Volatility indicates how much the return varies. Unless stated otherwise, standard deviation is measured using 12-month daily history.

Fund governance report

AP4 submits a Fund Governance Report each year comprising those parts of the Swedish Code of Corporate Governance appropriate for AP4.

AP4's Board of Directors, comprised of nine ordinary members, is appointed by the Government and is responsible for the organization and the management of AP4's capital.

On January 22, 2015 Göran Zettergren and Heléne Fritzon were appointed as new Board Directors, following Helene Hellmark Knutsson and Roger Mörtvik, who requested to decline re-election during the autumn of 2014.

On May 30, 2015 the Government recommended that all AP4's Board Directors be re-elected. These are Monica Caneman, Chairman, Jakob Grinbaum, vice Chairman, Ing-Marie Gren, Stefan Lundbergh, Sven Hegelund, Erica Sjölander, Maj-Charlotte Wallin, Göran Zettergren and Heléne Fritzon.

The Board has delegated responsibility for day-to-day management to AP4's CEO, who has an Executive Management group of six employees to support the CEO in the decision-making process.

The Government appoints AP4's Auditors. The current audit mandate for 2015 is valid until the income statement and balance sheet for 2015 are adopted. The Auditors report to AP4's Board and to the Ministry of Finance. The Fund's Auditors have not examined the Fund Governance Report.

The 2015 Fund Governance Report can be read and downloaded at www.ap4.se.

Investment rules according to law

Investment rules for the First - Fourth AP Funds are specified in law (2000: 192) National Pension Funds Act (AP Funds).

- Investments may be made in all listed and tradable instruments except commodity-related investments.
- At least 30 percent of the assets are invested in fixed income securities with low credit- and liquidity risk.
- Currency risk exposure may not exceed 40 percent of the assets.
- Exposure to a single issuer or group of related issuers may be no more than 10 percent of assets.
- Shares in listed Swedish companies may not exceed 2 percent of the market's total capitalization.
- Holdings should not exceed 10 percent of the voting rights of a single listed company.
- No more than 5 percent of the assets may be invested in unlisted securities. These investments must be made indirectly via venture capital companies or similar.
- Shares and participations in real estate companies may be directly owned.
- External managers should manage at least 10 percent of assets.



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