

2022

Interim Report

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This half-year interim report has been prepared in accordance with the accounting and valuation principles jointly adopted by the AP Funds and described in AP4's 2021 Annual Report. Unless specifically indicated, the same accounting principles and calculation methods have been used as for the 2021 Annual Report.

The interim report has not been reviewed by AP4's auditors.

The figures in the interim report's tables and charts have been rounded separately, which is why their sum does not always exactly match their constituent parts. Figures in parentheses refer to the first half of 2021 unless indicated otherwise.

No significant events have taken place after the end of the reporting period. AP4's annual report for the 2022 financial year will be published in February 2023.



A turbulent and challenging first half-year

2022 has thus far been very different compared with the almost euphoric gains in the stock market we saw at the end of 2021. In fact, the first half of 2022 was also very challenging from an historic perspective, with considerable market turmoil and not least sharply falling stock markets at the same time that interest rates have risen quickly. This development, of course, has not left AP4's portfolio unscathed.

AP4 is a very long-term investor

The return for the first half of the year was strongly negative, at -12.6%. In terms of returns, this means that the first half of this year was one of the toughest for AP4 since the pension reform in 2001, and a negative result of SEK 66.6 billion is almost hard to comprehend in concrete terms. However, in this context it must be kept in mind that AP4 is a very long-term investor and trying to make an evaluation of an individual half year is not

meaningful. If we just stretch out the horizon a bit to also include 2021, AP4's portfolio has delivered a positive net result of SEK 19.1 billion. If we stretch out the time horizon even further to five and ten years, AP4 has delivered a very favourable portfolio return in both absolute and relative terms. For example, AP4's portfolio has generated a return of 151% over the last ten years (which corresponds to an average of 9.7% per year), of which approximately one fourth consists of the active return.

Historic events

Just like in spring 2020, when the world was affected by Covid-19, spring 2022 will have an obvious place in the history books for two certainly interlinked reasons. First, the unthinkable happened – and something that we thought had been relegated to the past. What I'm referring to, of course, is the war that Russia has initiated on Ukraine. Secondly, it has become increasingly obvious that the world is facing macroeconomic challenges of a type we have not experienced since



the 1970s, with the problematic combination of having more or less soaring inflation at the same time that economic growth is slowing down.

War in Europe

On 24 February Russia shocked the world by launching a full-scale military invasion of Ukraine out of alarming rhetoric that harkens back to the era of imperialism. The war has had many grave consequences for the world as a whole. But what the focus must remain on, and what we must constantly keep in our thoughts, is the enormous suffering that this war has inflicted upon the Ukrainian people.

The war has shaken up the entire world view we have had in the West and shattered the security order which we perhaps naively thought was fundamentally stable. The implications for the global economy are also many and tangible. This applies not least to the reduced and uncertain supply of energy, grain, synthetic fertilisers and many minerals and other input goods, which in turn is driving inflation and creating new bottlenecks that are hampering the economy's recovery following the pandemic.

Another significant consequence of Russia's invasion of Ukraine is

that large parts of Europe have had to re-think their energy supply. To swiftly reduce its dependence on Russian gas and oil, Europe will need to quickly adapt its current energy systems and accelerate the work on transitioning to a future, fossil-free energy system, which will require very large and, not least, earlier scheduling of investments. The changed security policy situation has also prompted many countries to revise their own security policies in a tangible way and increase military defence spending.

Global inflation worries and rapid interest rate hikes

We find ourselves in an economic situation in which several different forces are pulling in different directions. To some extent this is due to the fact that we are still in a recovery phase following the pandemic, where the economy has not yet managed to normalise after the strains it has been subjected to.

A key reason for the economy's adaptation problem is the large and rapid changes we have seen in consumption patterns. During the pandemic, consumption could be held up at a comparatively high level via various forms of financial support and stimulus measures. However, consumption quickly shifted over to



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a considerably larger share of digital trade of products and away from things that were essentially no longer possible to consume (such as amusement, travel, and many other services).

The rapidly changed consumption behaviour has led to extensive transition problems in the job market and large capacity shortages in many supply chains coupled to production and distribution of products, which has been further intensified by various types of pandemic-related restrictions that have caused production losses and other types of bottlenecks. As a result, today we have an economic environment with strong inflation tendencies, which have also been tangibly enhanced by the war in Ukraine and created challenges above all for energy and food supply.



Some of the problems described above are of a transitory character and will ease as the labour market and various supply chains adjust, and also as various consumption patterns successively – at least for the most part – revert to the situation before the pandemic (which, granted, may give rise to converse adjustment problems). However, there is uncertainty surrounding whether more structural problems have managed to take root given the circumstances and cause

more permanent harm to the economy's way of working.

One reason that we find ourselves in today's difficult situation and that is closely coupled to the above is the powerful finance policy stimulus measures and the exceptionally expansive monetary policy that large parts of the world have applied during the last more than a decade. Certainly, one can argue that the pursued policies have been necessary to deal first with the financial crisis, then the euro crisis,

and finally the consequences of the pandemic. But over time, significant imbalances and problems have built up, such as poorly functioning capital allocation, strained asset values, a large debt burden and structural inflationary pressure. If the economy needs to normalise following the strains that it was subjected to by the pandemic, then it needs to normalise to an equally large degree following the somewhat experimental economic policy that has been pursued since the financial crisis.

In the midst of all this, the world's central banks are facing a tremendous challenge. They need to get control over inflation and not least over inflation expectations without at the same time being too forceful in their efforts to dampen real growth and driving the economy into a deep and long recession. The situation continues to be very hard to discern. It is currently at an impasse and balancing upon whether the central banks will succeed with their nearly monumentally difficult task of soft-landing the economy, which is creating considerable turmoil and large fluctuations in the world's financial markets.

Asset management in a state of readiness with maintained long-term perspective

AP4 regularly conducts analyses surrounding which asset allocation is best suited in relation to our obligations as a buffer fund for the income pension system. These show that AP4 needs a relatively high share of equities in our asset allocation in order to fulfil our mission in the best way over the long term. However, this means that we also need to be prepared for a situation in which we may have comparatively large fluctuations in our result from one

year to another, and also to have a tolerance for large, negative results during individual years. However, as a buffer fund in the income pension system, we have a very long investment horizon and thereby also a good ability to withstand periods of large market movements. This ability to act long-term is a major asset for us during periods of difficult, disorderly and turbulent markets of the type we experienced during the first six months of this year.

On this point it can also be noted that AP4 has been working for several years in accordance with an economic main scenario that includes a normalisation following more than a decade of expansive and at times previously untested economic policy. This scenario implies, among other things, a return to a more reasonable level of interest rates over the long term and a structurally elevated risk for inflation as well as a considerably lower expected return on financial assets than what we have seen during the last ten years combined with recurring periods of market turbulence. In addition, in recent years AP4 has taken a number of measures to prepare the portfolio for this main scenario.

In short one could say that the ambition has been to uphold the

portfolio's return potential as far as possible at the same time that we have strengthened our protection against both a normalisation of the pricing of bonds and rising inflation. A prime example of the adjustment of our portfolio is that we have actively sought out and considerably increased the presence in our portfolio of investments with



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long-term reasonable, stable real cash flows (something that has also been facilitated by the change in the AP Funds Act that was carried out in 2019). Another significant example is that, ahead of 2022, we introduced what we call defensive equities as a new asset class in AP4's long-term allocation. More precisely, this asset class is a composition of equities that are especially suited to offer comparatively favourable qualities in a somewhat tougher economic environment of the character

that exists in our economic main scenario.

Even though the adjustments we have made in our investment portfolio at least partly have strengthened its robustness to certain circumstances that took place during the spring, I must also admit that we had not anticipated the extreme scenario that we are now in the midst of. The war in Ukraine combined with adjustment problems following the pandemic has with warp speed driven a scenario that we expected would develop at a calmer pace over a succession of years.

In the type of extraordinary markets that we have had in recent months, AP4's asset management has segued in to what we call a state of readiness, since the external circumstances require another focus and another dynamic than what is the case with AP4's work with the investment portfolio during more normal conditions. This state of readiness entails, among other things, a considerably higher meeting frequency than normal (and flexible, specially adapted meeting constellations for the purpose) to ensure an effective exchange of information, a cohesive grip on the Fund's major positions, and to focus on being able to swiftly adjust the portfolio's risk.

During the spring we also made adjustments to our portfolio while also putting major emphasis on maintaining our long-term perspective. A few examples of measures carried out are that we have slightly reduced our equity allocation in connection with the outbreak of war and increased our allocation of defensive equities and real assets. We have also looked over the regional allocation within our equity portfolio and have worked actively with both our currency positioning and the duration of our fixed income portfolio.

Such a difficult, disorderly and nervous market that we had during the spring brings challenges, but it is also important to remember that it entails opportunities for a long-term investor such as AP4. The fact is that in a long-term perspective, many good investments are done during difficult market conditions rather than in such a strong financial market that we saw at the end of 2021. For this reason, the focus in our state of readiness is to a very great extent also on identifying and capitalising on business opportunities that for various reasons arise in a turbulent and challenging market situation. In addition to taking advantage of opportunities related

to large, relative price changes between various asset classes of the type described above, we have for example also actively sought out opportunities coupled to the changed security policy situation and the somewhat new conditions for the energy transition especially in Europe.

In closing, I want to extend great thanks to all of AP4's employees for the determination and engagement that you have demonstrated as you have dealt with your work challenges during the spring. In addition to dealing with the continuous management of AP4's investment portfolio with great focus and responsibility during a period of very turbulent and difficult markets, you have also managed to continue developing our organisation and operations.

Stockholm, 12 July 2022

Niklas Ekvall, CEO

First half of 2022 in summary

459.1

SEK billion
in fund capital

-66.6

SEK billion
half-year result

2.0

SEK billion paid out
to the pension system

-12.6

% return after costs.
Return before costs was -12.6%.

-2.3

% active return

0.08

% in asset
management costs

Portfolio performance first half of 2022

AP4's return after costs for the first half of 2022 was -12.6%. AP4's exposure to listed equities, both in Sweden and globally, was the main reason for the negative return. Fixed income investments also made a negative return contribution owing to the rising market interest rates during the first half of the year. The real assets asset class, which consists mostly of unlisted property and infrastructure investments, but also of shares in listed property companies, made a marginally positive return contribution during the first half of the year.

Portfolio management made a negative active contribution of 2.3 percentage points to the portfolio's return, mainly driven by negative contributions from allocation effects, listed equities and real assets.

AP4's currency exposure was 19.9% of fund capital as of mid-year 2022 and made a positive return contribution of 2.1 percentage points as a result of the weakening of the Swedish krona during the first half of the year.

Fund capital at the end of the first half of 2022 amounted to SEK 459.1 billion, compared with SEK 527.6 billion at the start of the year. The change in fund capital consists of a negative result of SEK 66.6 billion and net payments from AP4 to the pension system of SEK 2.0 billion.

Total costs indexed on a full-year basis amounted to 0.08% of average assets under management. AP4's cost level is slightly less than half that of corresponding pension funds in an international comparison.

AP4 exceeds long-term return target

AP4's long-term return is evaluated over time periods from the start of the new pension system in 2001 and over ten years. AP4 has exceeded both the real return target and growth of the income index over these time periods, which means that AP4 has contributed to the pension system's funding and stability. Since the start of the new pension system in 2001, AP4's return after costs has averaged 6.4% per year. The return target was 5.8% per year over the same time period,

and growth in the income index has averaged 3.0% per year during the same time period. Measured over ten years, AP4's return has averaged 9.7% per year, the return target has been 5.4% per year, and the income index has grown by an average of 2.7% per year.

The active return is evaluated over rolling five-year periods and averaged 1.4% during the last five years, compared with the return target, which averaged 1.0% per year.

Thematic sustainability investments

AP4 continuously analyses sustainability trends and performance in various sectors. The various asset management units actively search for investments that contribute to and benefit from the transition to a sustainable society. The goal is to make good investments from both financial and sustainability perspectives. Based on the thematic sustainability analysis, during the first half of 2022 AP4 made new investments amounting to approximately SEK 4.4 billion.

AP4 has taken its ownership responsibility

AP4's corporate governance work aims to contribute to generation of the highest possible return over time. The goal is that the companies AP4 invests in will conduct sustainable,

responsible and efficient operations. This creates conditions for the companies to be successful and to deliver long-term favourable returns. AP4 also advocates for development of quality and best practice in corporate governance and promotes development of a well-functioning securities market. A distinct trend in recent years is that AP4 has become an increasingly larger owner in a larger number of listed Swedish companies. Today AP4 is one of the ten largest owners in more than 100 listed Swedish companies, and in more than 80 of these companies, AP4 is one of the five largest owners. As a result, our responsibility and the expectations on AP4 as an active owner are growing. AP4 took its active ownership responsibility during the first half of 2022 by participating in and voting at the Annual General Meetings of 112 Swedish companies and 1,100 foreign companies. Ahead of the 2022 AGM season, AP4 served on the nomination committees of 47 Swedish companies. Ensuring that the companies elect the best possible boards that are suited for the respective companies' unique needs is one of AP4's most important duties as an owner and is an essential part of AP4's work with taking long-term ownership responsibility.

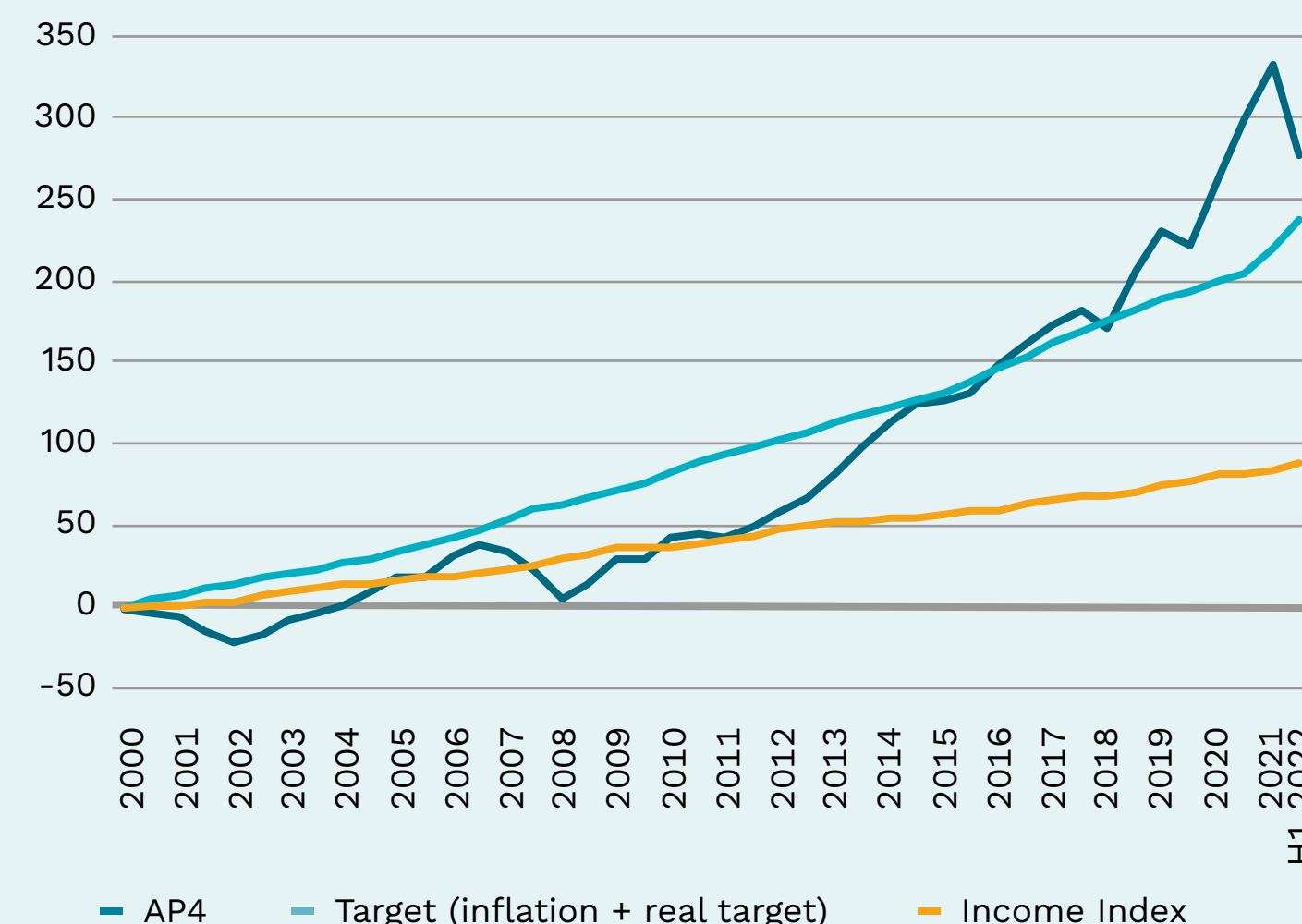
AP4 has joined the ESG Data Convergence Initiative

During the spring of 2022 AP4 joined the ESG Data Convergence Initiative (EDCI), which is an industry initiative within private market investments for coordinating and collaboration on the standardisation of sustainability data. As a first step, the initiative has drawn up definitions and KPIs for monitoring within the categories of the climate, diversity and working conditions. Participating general partners are to report their KPIs yearly to the initiative, which enables anonymous comparison between funds. The set of KPIs is expected to be broadened in the coming years. AP4 looks favourably upon the development of an industry standard with uniform KPIs and will engage in a dialogues with its fund managers on the initiative during the year.

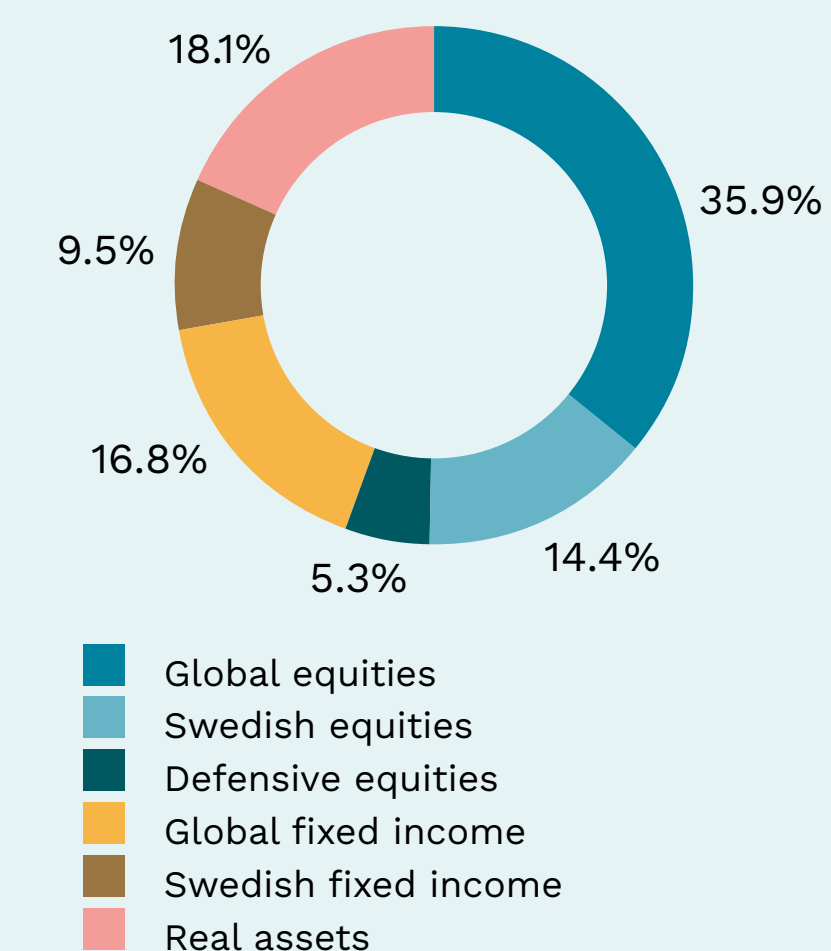
AP4 submits shareholder proposal on climate lobbying to car manufacturer

AP4 belongs to a group of investors, led by the Seventh AP Fund (AP7) and the Church of England Pensions Board, that is demanding greater transparency in companies' climate lobbying and that such lobbying is aligned with the Paris Agreement. During the spring the investor group submitted a shareholder proposal to Volkswagen's (VW's) Annual General

AP4's return, after costs, since start 2001



Asset class allocation 2022-06-30



Asset class market value and return

Asset class	Market value, SEK bn	Portfolio return ¹ , %	Exposure ² , %
Global equities	164.9	-18.3	35.9
Swedish equities	66.1	-34.2	14.4
Defensive equities	24.4	-4.8	5.3
Global fixed income	77.0	-5.6	16.8
Swedish fixed income	43.4	-3.4	9.5
Real assets	83.0	0.1	18.1
Other assets ³	80.0	0.0	0.0
TOTAL INVESTMENTS	459.1	-12.6	100.0

1) Portfolio return before costs.

2) Underlying values of derivative instruments in the passive allocation are distributed among the respective asset classes.

3) Consists mainly of various overlay mandates.

Meeting calling for an amendment to VW's articles of association to ensure that the company's sustainability reporting includes transparent reporting of its climate lobbying, including information on trade organisations' work that VW supports. The AGM escalation to submit a shareholder proposal was made following three years of dialogue with VW on greater transparency. In contrast to VW, during the spring the two car manufacturers BMW and Mercedes chose to meet shareholders' demands, and both companies made public commitments to increase transparency in their reporting, which is why no shareholder proposals needed to be submitted for these two companies.

Unfortunately, the VW board chose not to meet the shareholders' demands for increased transparency. The company also rejected the shareholders' right to submit the shareholder proposal to VW's 2022 AGM. The investor group that AP4 belongs to is now reviewing the opportunities for how to best drive this issue further, in part with respect to the right to submit shareholder proposals to the AGM – which is an important matter of principle for shareholders – and in part with respect to the company's transparency surrounding its climate lobbying.

Continued net payments from AP4 to the pension system

AP4's net payment to the pension system during the first half of 2022 amounted to SEK 2.0 billion. Since 2009, when net payments from the AP Funds to the pension system began, AP4 has paid out a total of SEK 74.7 billion to the pension system. Demographic factors such as the large groups of people born during the 1940s who are now pensioners are the main reason for the net payments. The pension system is designed to handle such demographic variations over time, and the negative net payments from the AP Funds to the pension system are expected to continue until sometime around 2040.

AP Funds receive high scores in the government's 2021 evaluation

The Swedish government's annual evaluation of the AP Funds through the 2021 financial year was submitted to the riksdag (Swedish Parliament) in May 2022. The evaluation shows that AP4 has managed the net flow between incoming and outgoing payments in the income pension system as intended, that AP4 has generated a return that is contributing to the income pension system's long-term funding, and that AP4 has worked actively with sustainability issues. The evaluation

summarises that AP4 has met the government's expectations.

Two new directors on AP4's board

In May 2022 the Swedish government appointed Anders Johansson and Per Strömberg as new directors on AP4's board. Anders Johansson is Chairman of Forena, the trade union of the Swedish insurance industry, and a board member of the Swedish Confederation of Professional Employees (TCO). Per Strömberg is Professor of Finance and Private Equity at the Stockholm School of Economics. For the AP Funds the government adheres to a policy that a board member may serve for a maximum of approximately eight years. Based on this policy, Maj-Charlotte Wallin and Göran Zetterberg left their directorships on AP4's board in May 2022.

Distinctions for AP4

During the first half of the year, AP4 received two awards at the IPE Real Estate Global Awards, in the "Nordic Countries" and "Indirect Strategy" categories. AP4 was also nominated in an additional two categories: "Commitment to Diversity" and "Opportunistic Strategy".

AP4 also received the "Sovereign Wealth Fund of the Year" award at the 2022 Sustainable Investment Awards, based on AP4's ambitious climate strategy in its investment operations.



Key ratios for AP4's operations

	30 June 2022	30 June 2021	2021
Fund capital at start of period, SEK bn	527.6	449.4	449.4
Net result for the period, SEK bn	-66.6	44.5	85.7
Net flows to the national pension system, SEK bn	-2.0	-4.2	-7.5
Fund capital at end of period, SEK bn	459.1	489.8	527.6
Return, total portfolio, before costs, %	-12.6	10.0	19.3
Return, total portfolio, after costs, %	-12.6	9.9	19.2
Real return, total portfolio, after costs, % ¹	-16.5	8.8	15.3
Annualised return after costs, 5 years, %	7.5	11.5	11.6
Annualised return after costs, 10 years, %	9.7	10.6	11.8
Operating expenses, full year basis, %	0.05	0.06	0.05
Operating expenses and commission expenses, full year basis, %	0.08	0.09	0.08

1) The CPI number for June 2022 is an estimate as the data point was not yet available by the time this report was published.



Half-year interim report 2022

Half-year interim report

Income statement

SEK million	Jan-Jun 2022	Jan-Jun 2021	2021
OPERATING INCOME			
Net interest income	613	607	1,190
Dividends received	4,303	3,373	5,534
Net income, listed shares and participations	-77,606	36,695	62,111
Net income, unlisted shares and participations	7,086	3,416	11,509
Net income, fixed income assets	-6,727	-1,177	-1,955
Net income, derivative instruments	-1,246	-1,538	-876
Net income/loss, changes in exchange rates	7,218	3,367	8,600
Commission expenses	-75	-77	-158
Total operating income	-66,434	44,666	85,955
OPERATING EXPENSES			
Personnel costs	-78	-82	-154
Other administrative expenses	-51	-48	-93
Total operating expenses	-129	-130	-247
NET RESULT FOR THE PERIOD	-66,563	44,536	85,708

Balance sheet

SEK million	30 June 2022	30 June 2021	31 December 2021
ASSETS			
Shares and participations, listed	266,148	311,493	340,224
Shares and participations, unlisted	80,921	55,904	68,538
Bonds and other fixed income assets	111,131	113,466	118,642
Derivative instruments	2,679	3,983	1,806
Cash and cash equivalents	8,055	7,641	4,671
Other assets	3,542	2,030	778
Prepaid expenses and accrued income	1,031	1,039	837
TOTAL ASSETS	473,507	495,556	535,496
LIABILITIES AND FUND CAPITAL			
Liabilities			
Derivative instruments	11,749	3,504	6,889
Other liabilities	2,354	2,073	731
Prepaid income and accrued expenses	351	214	247
Total liabilities	14,454	5,791	7,867
Fund Capital			
Fund capital, opening balance	527,629	449,449	449,449
Net payment to the pension system	-2,013	-4,220	-7,528
Net result for the period	-66,563	44,536	85,708
Total fund capital	459,053	489,765	527,629
TOTAL LIABILITIES AND FUND CAPITAL	473,507	495,556	535,496

Multi-year summary

Multi-year summary	30 June 2021	2021	2020	2019	2018
Fund capital	459.1	527.6	449.4	418.0	349.3
Net flows to the pension system	-2.0	-7.5	-7.9	-6.5	-6.8
Net result for the year	-66.6	85.7	39.3	75.2	-0.5
Return, total portfolio before costs	-12.6	19.3	9.7	21.8	-0.1
Return, total portfolio after costs	-12.6	19.2	9.6	21.7	-0.2
Active return, before costs ¹	-2.3	3.5	2.4	4.4	2.3
Return, total portfolio after costs, annualised 5 yrs	7.5	11.6	9.8	9.3	8.1
Return, total portfolio after costs, annualised 10 yrs	9.7	11.8	9.7	9.9	9.9
Standard deviation ex-post, Total portfolio ²	9.8	6.1	13.6	5.3	6.4
Standard deviation ex-post, Total portfolio, 10 yrs ³	8.8	7.8	8.3	6.7	7.5
Sharpe ratio total portfolio, ex-post	neg	3.2	0.7	4.2	0.1
Active risk ex-post, active management ⁴	2.4	1.9	1.7	1.2	1.5
Currency exposure, %	19.9	20.9	21.0	19.8	18.4
Number of employees on balance sheet date	63	67	65	53	52
Operating expenses, full year basis, %	0.05	0.05	0.06	0.06	0.06
Operating expenses and commission expenses, full year basis, %	0.08	0.08	0.09	0.10	0.10

1) AP4's operative portfolio is evaluated against a benchmark portfolio made up of a number of market indexes with set asset weights. The market indexes used are standardised and currency-hedged to SEK in order to simplify and increase transparency. AP4 can use its tax status as a state pension fund, and during the first half of 2022 this gave a positive contribution of 0.08 (0.08) percentage points.

2) Pertains to daily return data unless indicated otherwise.

3) Pertains to quarterly data for total assets.

4) Active risk, calculated as standard deviation, measured on a yearly basis, in the difference in the return between the operative portfolio and the benchmark portfolio.

Fjärde AP-fonden

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