



# 2023

Interim Report

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This half-year interim report has been prepared in accordance with the accounting and valuation policies jointly adopted by the AP Funds and described in AP4's 2022 Annual Report. Unless specifically indicated, the same accounting policies and calculation methods have been used as for the 2022 Annual Report.

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

Figures in parentheses refer to the first half of 2022 unless indicated otherwise.

No significant events have taken place after the end of the reporting period. AP4's annual report for the 2023 financial year will be published in February 2024.



# 485.6

SEK billion in fund capital  
at end of period

# 27.7

SEK billion net result

# 2.6

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

# 6.0

% return after costs.  
The return before costs was 6.1%

# -3.4

% active return before costs

# 0.09

% of total costs indexed on a full-year basis.  
Operating expenses amounted to 0.06%,  
and commission expenses were 0.03%

# Cautious stabilisation in first half of 2023

The strong performance of the stock markets at the start of the year has been favourable for AP4's portfolio, which showed a return of 6.0% after costs for the first half of 2023. This means that fund capital increased by SEK 25.1 billion, from SEK 460.5 billion at the start of 2023 to SEK 485.6 billion at mid-year. At the same time, AP4 has contributed SEK 2.6 billion in net payments to the pension system. This result represents a slight recovery from the weak 2022.

AP4 has a very long-term mission, and what is of significance is the return that our investment portfolio generates over long time horizons. If we stretch out our perspective to five and – even more relevantly – ten years, AP4 shows average portfolio returns of 7.4% and 9.2% per year, respectively. If we extend the horizon all the way back to 2001, which is the starting point for the new pension system, the average annual return is 6.4%.

## Great economic uncertainty

The financial markets continue to be characterised by great uncertainty. Having said this, during the first six months of the year we saw generally positive performance in the world's stock markets, with a broad, global equity index rising by 14%. Interest rate development has been characterised by large fluctuations rather than any actual trend. A broad, international fixed-income portfolio showed a return of 1.2% during the first half of the year.

The historically high rate of inflation we saw in 2022 reached its highest levels so far in the USA and the EU during the second half of 2022, while in Sweden

the high point wasn't reached until around December 2022/January 2023. Even though much indicates that the rate of inflation will now gradually begin to fall quickly, there are concerns that the inflation will take hold at an unacceptably high level and also continue to be unsteady. On top of this, Sweden is struggling with a structurally weak exchange rate for the krona, which is hampering the domestic inflation battle.

At the centre of this, stands the world's central banks. They need to bring down inflation incrementally without at the same time overly dampening real growth and pushing the economy into a deep and prolonged recession. On top of this, the central banks need to be keenly vigilant to ensure that the historically large and rapid interest rate hikes do not lead to unforeseen shocks to financial stability, with potentially significant negative consequences for the real economy. All in all, the situation continues to be very hard to discern.

Despite the rapid interest rate hikes, thus far the economy and labour market have proved to be surprisingly resilient, even though in many respects it is a split picture with a slowdown in manufacturing



sectors but continued strong demand and labour shortages in service sectors. This is partly due to lingering effects from the pandemic, where a large, pent-up demand for consumption has been built up by products that could not be consumed during the pandemic (mainly various types of services). At the same time, this part of the economy is very labour-intensive, and the workers who left the affected sectors in connection with the pandemic have not yet fully returned. With continued tight monetary policy it is likely that demand for these services will also subside as the pent-up demand is gradually met, with falling inflation for services and rising unemployment as a result. Given the challenges described above,



**The strong performance of the stock markets has been favourable for AP4's portfolio, which showed a return of 6.0% after costs.**

there is a tangible risk that when the central banks begin to observe the impact of their policy measures in incoming data, they will realise that they have already managed to tighten so much that the acknowledged necessary constraints will instead be both faster and more extensive than what was intended.

Given the uncertain economic situation, during the spring AP4 continued its work on increasing the portfolio's diversification and robustness. The ambition is to as far as possible uphold the portfolio's long-term return potential while at the same time ensuring that it will offer better protection against the more negative scenarios that we have identified in our economic analysis.

Examples of measures that have been carried out include a strengthening of the portfolio's inflation protection through an increased allocation to assets that can offer a high degree of real cash flows, and preferably also reasonably stable ones. With the same goal in mind, we have also slightly increased the portfolio's allocation to the Defensive Equities asset class, which has been designed specifically for this purpose.

From a more tactical perspective, the large fluctuations in the world's fixed-income and foreign exchange markets, for example, have offered many opportunities for reallocations, owing to – by our assessment – temporary overreactions.

### Continued full-scale war

Russia's full-scale invasion of Ukraine is in its second year. The war is raging with continued high intensity and enormous human suffering. Unfortunately, currently nor are there any real indications that the war will imminently come to a situation where there may be prospects for constructive peace talks.

The war has also led to a more uncertain and polarised world. The security policy order that we have lived with in recent decades – which we had begun to regard as being reasonably stable – has changed

fundamentally because of the war. New geopolitical challenges and tensions have emerged, which – together with reduced and uncertain supply of, among other things, energy and grain – have led to long-term consequences as well as short-term shocks to the world economy.

### Greater focus on increased supply of fossil-free energy

One prerequisite for a successful climate transition is to prioritise and significantly accelerate the build-out of generation, distribution and storage of fossil-free energy, most notably electricity. This is the actual engine in the transition, regardless of whether we are talking about replacing existing power generation or new applications for the transition of transports as well as for most other climate-intensive industrial sectors.

The need for a significant and rapid expansion of supply of fossil-free energy and electricity has historically received too little scope in the discussion about what is needed to successfully be able to live up to the ambitious climate goals that have been set in Sweden and many other countries coupled to the Paris Agreement. Building out the supply of fossil-free energy sufficiently quickly requires a mobilisation from the political system as well as from the business sector and institutional capital. Given the long lead times from decision to real capacity, this needs to be done now.

In this context it is therefore gratifying that the supply side has also gradually begun coming more into focus in the debate in several key parts of the world, which also includes the USA through recent passage of the Inflation Reduction Act. Let's hope that this is just the beginning of a structural shift in focus to what is necessary to bring into place, so that politicians, the business sector and society in general can work together to ensure a sufficiently fast and extensive build-out of supply of fossil-free energy and electricity.



### During the last three years AP4 has invested close to SEK 30 billion in thematic sustainability investments.

One of the methods that AP4 uses to implement sustainability in the investment portfolio is to identify investments coupled to sustainability trends with the ability to contribute to the transition at the same time that they generate a favourable return. This way of integrating sustainability has increased over time. In the past three years alone, AP4 has invested close to SEK 30 billion in thematic sustainability investments, and our ambition is to gradually increase the allocation to this type of investment at the rate at which we can identify those with good potential.

During the past year AP4 has also carried out a large and ambitious project to update and strengthen the organisation's competence surrounding the most important sustainability trends that will also be attractive for investment in the years immediately ahead. This undertaking together with the aforementioned, increased focus on swiftly increasing the supply of fossil-free energy and electricity should further strengthen the prospects for AP4 to identify attractive, trend-based sustainability investments.

### Artificial intelligence once again a hot topic of debate

Artificial intelligence (AI) is nothing new, and AI's great potential as well as the risks that the new technology may entail have been debated intensively off and on for far longer than a decade. The past year's launch of concrete and essentially revolutionary products, such as ChatGPT, has once again intensified a broad debate

on the opportunities and threats that are emerging with greater use of AI.

Of course, we must not turn a blind eye to the fact that increased application of AI is associated with short-term as well as structural challenges. Laws and other frameworks also need to be adapted to cover and – where necessary regulate – this new technology. In the long term, however, we must take a positive view of the opportunities and productivity gains that this new technology offers, and technological development needs to be encouraged and be given the right conditions to best strengthen growth and prosperity.

We have already seen one tangible effect of the renewed focus on AI in the recent, sharp stock market gains for tech companies active in this area. This can be exemplified by looking at performance during the year in the American stock exchanges. More precisely, companies that are at the vanguard in AI showed an average rise in their stock price of more than 80% during the first six months of the year. If we exclude these types of companies, the average price rise was only 5%.

Much to our pleasure, AP4 has during the first half of 2023, received the distinctions "Sovereign Wealth Fund of the Year" at the Sustainable Investment Awards and "Nordic Investor" at the IPE Global Real Estate Conference & Awards. These awards are validation of our successful asset management work in various areas of our operations. They give us inspiration and motivation to continuously develop and strengthen our operations.

In closing I want to extend a thank you to all of the employees at AP4 for your dedication and the responsibility you take. It is truly a privilege to work together with you on contributing to the national pension system in the best way possible.

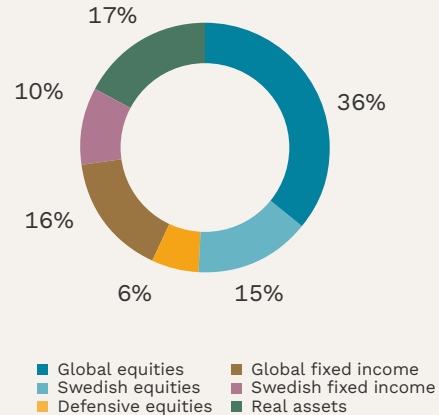
Stockholm, 12 July 2023  
Niklas Ekvall, CEO

# First half 2023

## Portfolio performance first half of 2023

AP4's return after costs for the first half of 2023 was 6.0%. Listed equities made the largest positive contribution to the return. Fixed income investments and currency exposure also made a positive contribution to the return. Unlisted assets such as venture capital companies and property companies showed negative returns during the first half of the year, owing to a time lag in the reporting of values for these assets.

## Asset class allocation 2023-06-30



Fund capital at the end of the first half of 2023 amounted to SEK 485.6 billion, compared with SEK 460.5 billion at the start of the year. Fund capital increased owing to the result of SEK 27.8 billion (-66.6) for the first half of the year and a net payment of SEK 2.6 billion (2.0) to the pension system.

The active return in relation to AP4's benchmark portfolio was -3.4%. The negative active return was driven by the asset class Real Assets which returned -3.3%. Real Assets are compared to a return target of CPI + 3 percentage points per year. The target return for the first half of the year was 5.6%. Also, other unlisted assets underperformed the return targets, and thus contributed negatively to the active return.

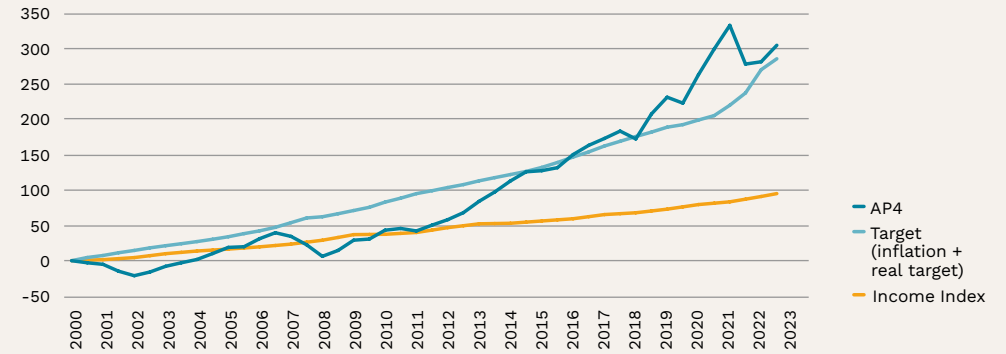
Total costs indexed on a full-year basis amounted to 0.09% of average assets under management. AP4's cost level is roughly half that of corresponding pension funds in an international comparison.

## Exceeding long-term return targets

AP4's long-term return is evaluated over two periods of time: from the start of the new pension system in 2001, and over the last ten years. The goal is to exceed both the target return of the CPI+3 percentage points per year and the performance of the income index. AP4 has exceeded the two targets in both 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 6.2% per year, and growth of the income index averaged 3.0% per year during the same

## AP4's return, after costs, since start 2001



## Asset class market value and return

Asset class	Market value, SEK bn	Portfolio return <sup>1</sup> , %	Exposure <sup>2</sup> , %	Return % contribution <sup>1</sup> , %	Net result contribution <sup>1</sup> , SEK bn
Global equities	174.7	10.9	36.0	3.6	16.8
Swedish equities	72.9	8.8	15.0	1.4	6.4
Defensive equities	26.5	9.5	5.5	0.5	2.2
Global fixed income	79.5	1.1	16.4	0.3	1.1
Swedish fixed income	47.7	1.0	9.8	0.1	0.4
Real assets	84.2	-3.3	17.3	-0.6	-2.8
Other assets <sup>3</sup>	0.0	0.0	0.0	0.0	0.0
Currency	0.0	0.8	0.0	0.8	3.7
<b>Total investments</b>	<b>485.5</b>	<b>6.1</b>	<b>100.0</b>	<b>6.1</b>	<b>27.9</b>

1) Portfolio return, return contribution and result contribution are reported before costs. The portfolio return after costs was 6.0% (-12.6%). The result after costs was SEK 27.7 billion (-66.6).

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

3) Consists mainly of various overlay mandates.

time period. Measured over ten years, AP4's return has averaged 9.2 per year, the return target has been 6.4 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 0.5% per year during the last five years, compared with the return target, which averaged 1.0% per year during the same period.

### Continued net payments to the pension system

AP4's net payment to the pension system during the first half of the year totalled SEK 2.6 billion (2.0). Since 2009, when net payments from the AP Funds to the pension system began, AP4 has paid out a total of SEK 79.9 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.

### Updated thematic sustainability analysis

AP4 continuously analyses sustainability trends and searches for investment opportunities that it deems will incorporate sustainability aspects as well as generate a high financial return over the long term. Investments with a specific focus on the climate transition are based on the thematic analysis that AP4 conducted for the first time in 2018. Development of investment opportunities in the area of sustainability are emerging rapidly, and an extensive update of the thematic analysis was completed in early 2023. The update has led to new knowledge as well as refined tools for our asset management organisation. Both of these aspects are important for our continued work with thematic sustainability investments.

The thematic analysis took its starting point in a broad macro analysis to identify megatrends and a number of investment themes that cover roughly 90% of global greenhouse gas emissions. Five main investment themes were identified:

- Fossil phase-out in energy systems
- Cleaner industry
- Fossil-free transports
- Thriving biospheres
- Green buildings and infrastructure

Within the respective investment themes a number of investment opportunities were identified. AP4 is continually monitoring these and actively searching for investment opportunities within them.

### AP4 has taken its ownership responsibility

AP4's corporate governance work aims to contribute to generation of the highest possible return over time. Ensuring that our portfolio companies have the best possible boards that are suited for the respective companies' unique needs is one of our most important duties as owner and is an essential part of our work on taking long-term ownership responsibility. Other important matters that we are working actively with include incentive programmes and matters surrounding capital structures. We also advocate for best practice in corporate governance and promote development of a well-functioning securities market.

AP4 is one of the ten largest owners in more than 100 listed Swedish companies, and in roughly 80% of these AP4 is one of the five largest owners. We uphold this position by taking active ownership responsibility. Ahead of the 2022 Annual General Meeting season we served on the nomination committees of 56 Swedish companies, and we voted at the AGMs of 116 Swedish companies during the first half of 2023. Following

the pandemic, many companies have permanently adopted the opportunity to vote by mail, and AP4 exercised this opportunity at about half of the year's AGMs.

In foreign equities AP4 has a well-diversified portfolio of approximately 1,200 holdings. During the first half of 2023 AP4 voted in the Annual General Meetings of 1,033 foreign companies. In addition to voting at company AGMs, AP4 is actively engaged in corporate governance dialogues with focus on companies in resource-intensive sectors such as energy, power generation, commodities and transport.

### Concluded legal process against Volkswagen

For many years Volkswagen has opposed investors' demands for more information about the company's climate lobbying and has also denied minority shareholders' requests to submit shareholder proposals to Annual General Meetings for greater transparency. In 2022 AP4 together with other investors took Volkswagen to court in Germany to gain a ruling on minority owners' rights to submit proposals to general meetings. During the spring of 2023 Volkswagen acquiesced to the investors' demands for reporting on the company's climate lobbying by publishing a report entitled "Climate lobbying and industry association review". However, the regional court decided to not take up the investor group's suit. The investor group has decided to not drive the process any further.

### Good score in government's evaluation

The Swedish government's annual evaluation of the AP Funds through the 2022 financial year was submitted to the Riksdag (Swedish Parliament) in May 2023. 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 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.

### New director on AP4's board

In May 2023 the Swedish government appointed Johan Gyllenhoff as a new director and as Vice Chair of AP4's board. Johan Gyllenhoff is Head of Group Finance at Vattenfall AB. He succeeds Lars Åberg, who declined re-election as Vice Chair of AP4's board.

### Distinctions for AP4

During the first half of 2023 AP4 received the "Sovereign Wealth Fund of the Year" award at the Sustainable Investment Awards 2023, based on AP4's climate strategy in its investment operations. AP4 also received an award at the IPE Real Estate Global Conference & Awards in the "Nordic Countries" category.

# Multi-year summary

	2023-06-30	2022-06-30	2022	2021	2020	2019	2018
Fund capital, opening balance (SEK bn)	460.5	527.6	527.6	449.4	418.0	349.3	356.6
Net result for the period (SEK bn)	27.7	-66.6	-62.5	85.7	39.3	75.2	-0.5
Net flows to the pension system (SEK bn)	-2.6	-2.0	-4.7	-7.5	-7.9	-6.5	-6.8
Fund capital, closing balance (SEK bn)	485.6	459.1	460.5	527.6	449.4	418.0	349.3
Return, total portfolio before costs (%)	6.1	-12.6	-11.8	19.3	9.7	21.8	-0.1
Return, total portfolio after costs (%)	6.0	-12.6	-11.9	19.2	9.6	21.7	-0.2
Active return, before costs (%) <sup>1</sup>	-3.4	-2.3	-3.8	3.5	2.4	4.4	2.3
Return, total portfolio after costs, (%) annualised 5 yrs	7.4	7.5	6.9	11.6	9.8	9.3	8.1
Return, total portfolio after costs, (%) annualised 10 yrs	9.2	9.7	9.2	11.8	9.7	9.9	9.9
Standard deviation total portfolio, ex-post (%) <sup>2</sup>	5.8	9.8	9.4	6.1	13.6	5.3	6.4
Standard deviation total portfolio, ex-post, 10 yrs (%) <sup>3</sup>	8.9	8.8	9.0	7.8	8.3	6.7	7.5
Sharpe ratio total portfolio, ex-post (%) <sup>2</sup>	1.9	neg	neg	3.2	0.7	4.2	0.1
Active risk ex-post, active management (%) <sup>4</sup>	1.6	2.4	2.0	1.9	1.7	1.2	1.5
Currency exposure (%)	19	20	19	21	21	20	18
Share of externally managed capital (%) <sup>5</sup>	22	20	20	16	14	15	16
Number of employees, end of period	68	63	61	67	65	53	52
Asset management costs, excl. commission expenses (%)	0.06	0.05	0.05	0.05	0.06	0.06	0.06
Asset management costs, incl. commission expenses (%)	0.09	0.08	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 adapted based on the Board's decisions on sustainability-based divestments and are hedged to Swedish kronor (SEK). AP4 can use its tax status as a state pension fund, and during the first half of 2023 this gave a positive contribution of 0.10 (0.08) percentage points. Active return is calculated as the difference in returns between the operative portfolio and the benchmark portfolio.

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.

5) Includes investments in private equity companies.





# Half-year interim report 2023

# Income statement

SEK million	Jan-Jun 2023	Jan-Jun 2022	2022
<b>OPERATING INCOME</b>			
Net interest income	1,033	613	1,701
Dividends received	3,360	4,303	6,322
Net income, listed shares and participations	20,958	-77,606	-72,422
Net income, unlisted shares and participations	-2,889	7,086	4,895
Net income, fixed income assets	223	-6,727	-8,454
Net income, derivative instruments	596	-1,246	-2,980
Net income/loss, changes in exchange rates	4,680	7,218	8,856
Commission expenses	-61	-75	-140
<b>TOTAL OPERATING INCOME</b>	<b>27,900</b>	<b>-66,434</b>	<b>-62,222</b>
<b>OPERATING EXPENSES</b>			
Personnel costs	-87	-78	-147
Other administrative expenses	-64	-51	-112
<b>TOTAL OPERATING EXPENSES</b>	<b>-151</b>	<b>-129</b>	<b>-259</b>
<b>NET RESULT FOR THE PERIOD</b>	<b>27,749</b>	<b>-66,563</b>	<b>-62,481</b>

# Balance sheet

SEK million	2023-06-30	2022-06-30	2022-12-31
<b>ASSETS</b>			
Shares and participations, listed	290,204	266,148	261,446
Shares and participations, unlisted	86,530	80,921	82,853
Bonds and other fixed income assets	109,410	111,131	106,928
Derivative instruments	1,592	2,679	5,765
Cash and cash equivalents	6,052	8,055	7,729
Other assets	3,734	3,542	20,778
Prepaid expenses and accrued income	1,329	1,031	1,194
<b>TOTAL ASSETS</b>	<b>498,851</b>	<b>473,507</b>	<b>486,693</b>
<b>LIABILITIES AND FUND CAPITAL</b>			
<b>Liabilities</b>			
Derivative instruments	8,637	11,749	5,413
Other liabilities	4,005	2,354	20,028
Prepaid income and accrued expenses	604	351	793
<b>Total liabilities</b>	<b>13,246</b>	<b>14,454</b>	<b>26,234</b>
<b>Fund Capital</b>			
Fund capital, opening balance	460,459	527,629	527,629
Net payment to the pension system	-2,603	-2,013	-4,689
Net result for the period	27,749	-66,563	-62,481
<b>Total fund capital</b>	<b>485,605</b>	<b>459,053</b>	<b>460,459</b>
<b>TOTAL LIABILITIES AND FUND CAPITAL</b>	<b>498,851</b>	<b>473,507</b>	<b>486,693</b>

