



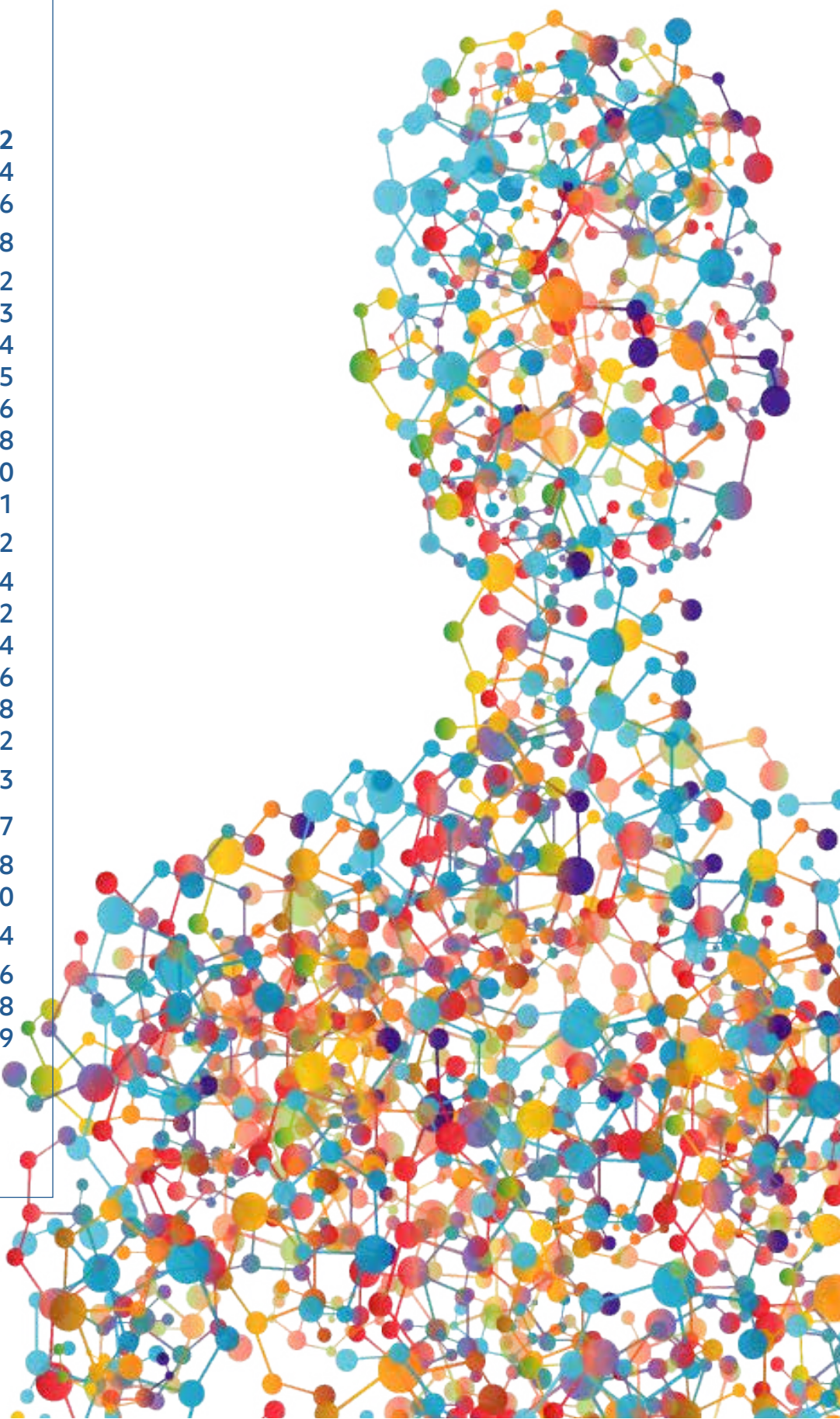
# Annual Report 2019

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The sustainability report examined by the auditors can be found on pages 21–35.



# Brief facts about Första AP-fonden (AP1)

Första AP-fonden's (AP1's) mandate is, in an exemplary way, to manage part of the buffer capital in the national pension system so as to deliver long-term high returns at a low cost.

AP1 plays a key role for current and future pensioners. Good performance by the Fund helps to create stability across generations.

Our assets of more than SEK 365 billion are distributed across equities, fixed-income securities, real estate, infrastructure, private equity funds and hedge funds.

We are firmly anchored in Sweden but have investments worldwide.

We are a responsible, long-term investor and an active owner.



The company Olink is part of private equity fund Summa Equity II's portfolio, and is an example of how AP1 invests and manages pension assets. Summa invests in small, fast-growing companies in the field of resource efficiency, demographic change and new technology. Olink is an international company that uses groundbreaking technology to develop biomarkers and applications for measuring protein in humans and animals, so as to better understand the occurrence and progression of diseases, find new drugs and monitor therapies. Pictured here is Olink's platform for analysing protein biomarkers.



# Highlights of the Year



Net investment income for the year amounted to

SEK **48.6** bn

(–2.1) after expenses.  
This equals a return of  
15.1% (–0.7).

Return after expenses for the year amounted to

**15.1%**

The average annual real return after expenses for the past ten-year period is 6.9%, which is higher than the target of 4.0%.

AP1's total assets amounted to

SEK **365.8** bn

(323.7) on 31 December 2019.

The Fund's administrative expenses totalled

SEK **0.4** bn

(0.5), which equates to  
0.12% (0.14) of  
average AUM.

Net flow into the pension system totalled

SEK **6.5** bn

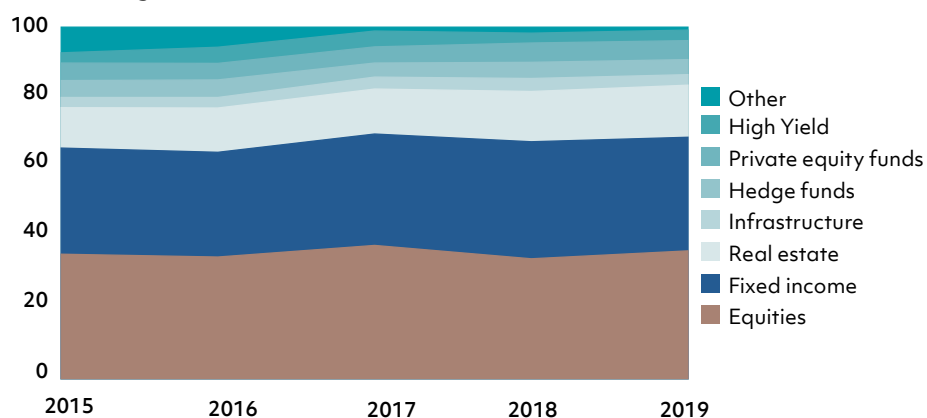
(6.8).

## Significant events during the year

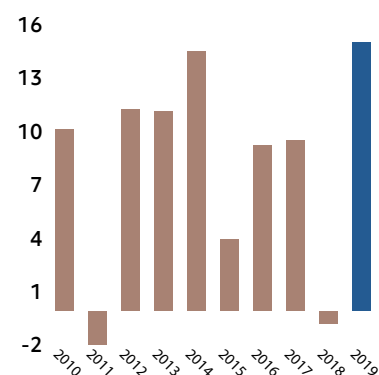
- On 1 January, the National Pension Insurance Funds (AP Funds) Act changed. A goal was introduced that the AP Funds must contribute to sustainable development by managing their funds in an exemplary way, without compromising the overall objective of attaining a high return. The Funds' investment rules were also modified.
- The Board of Directors made a decision on a new sustainability strategy and climate strategy, partly based on the updated legislation. One of our new goals is for the Fund's portfolio to be carbon-neutral by 2050, with several interim goals along the way.
- The First, Third and Fourth AP Funds jointly formed Polhem Infra AB. The company invests in unlisted Swedish companies that focus on sustainable infrastructure. During the autumn, the company made its first investment in Solör Bioenergi Holding AB.
- During the year, the Fund's Board decided to reduce the medium-term return target after expenses by one percentage point to 3 per cent in real terms, measured on rolling ten-year periods from 2020. The Board also decided to introduce a long-term (40-year) return target of 4 per cent average real annual return after expenses.
- At Swedbank's general meeting of shareholders, AP1 voted to deny the CEO discharge from liability regarding alleged money laundering in the Baltics. During the autumn, the AP Funds organised a seminar on financial crime with the major banks, government authorities and others.
- In September the Board decided to dismiss AP1's CEO Johan Magnusson as he had violated the Fund's internal regulations. General Counsel Teresa Isele was appointed Acting CEO.
- AP1 received a number of distinctions for its sustainability management, including from Institutional Investor Europe (IIE) and the UN's Principles for Responsible Investment (PRI). It also won two categories in the Nordic Fund Selection Awards.
- The AP Funds drove several important initiatives via their Council on Ethics. One such initiative was improved safety at mines, with an open database of tailing dams. Alongside other international investors, we also support initiatives to fight deforestation in the Amazon.
- At year-end, AP1 decided to make certain changes to its asset management practices. For instance the equities strategies were modified by increasing the proportion of internal passive and systematic management.



Holdings 2015–2019, %



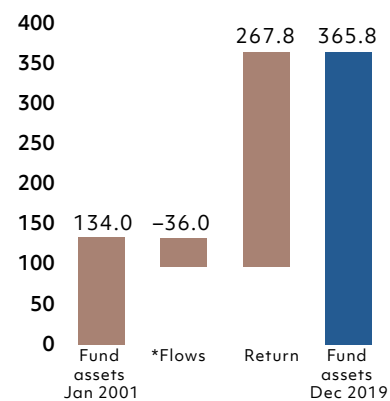
Return after expenses 2010–2019, %



## Five-year overview – summary

	2019	2018	2017	2016	2015
Return before expenses, %	15.3	-0.6	9.7	9.5	4.1
Expense ratio, %	0.12	0.14	0.14	0.15	0.17
Return after expenses, %	15.1	-0.7	9.6	9.3	4.0
Net investment income after expenses, SEK bn	48.6	-2.1	29.3	27.0	11.3
Net flow to the pension system, SEK bn	-6.5	-6.8	-7.4	-6.6	-4.9
Closing net assets, SEK bn	365.8	323.7	332.5	310.5	290.2
Share of external management, %	31.4	33.5	32.5	31.8	31.0

Net asset performance 2001–2019



\* Incl. flows from liquidation funds/special investments in 2001–2008

# A strong year

*During 2019, our activities have helped to boost the pension system by SEK 48.6 billion, which equates to a return of 15.1 per cent after expenses. The year was an eventful one on the world's capital markets, and also for AP1. I am proud to see that our organisation has been able to develop our operation with such great drive and dedication.*

ALL CLASSES OF ASSET saw positive development during the year, and the equities market in particular. The return figure for 2019 is our highest for the past decade, despite the fact that we have gradually become less willing to take financial risks, based on the various structural, political and geopolitical risks that we believe could lead to a sustained period of weak global growth. Due to our defensive strategy, we have not been able to fully benefit from developments on the equities market during the year. This does, however, mean that we are well-positioned for the raised risk situation that is still evident in the wider world.

## Changes in asset management

At year-end, we decided to develop our asset management by restructuring some of our equities strategies and establishing a new organisational structure. In certain areas we decided to move away from active fundamental equities strategies to more passive or systematic strategies, primarily for internally managed equities in developed markets and emerging markets. This also affected our organisational structure and led to some staff redundancies. The change will, however, afford us better conditions for generating returns and optimising risk utilisation moving forward. We will also be able to reduce our annual costs.

In addition we have set up a new exposure unit, with specific responsibility for

our flows in areas such as trading and liquidity. We have also merged all our units that deal with external asset managers into a new unit for partnership and innovation, the aim being to achieve synergies and new ways of integrating innovation in the Fund. Our tangible assets in real estate and infrastructure have also been brought into a single, new unit for tangible assets. Taken together, these changes lay a stronger foundation for us to achieve our return targets and fulfil our mandate.

## A new return target

This year's result means that we have once again exceeded our target of 4 per cent real return over rolling ten-year periods, with an average return of 6.9 per cent over the past ten years.

During the autumn, the Board made a decision to reduce the Fund's real, medium-term return target by one percentage point to 3 per cent after expenses over rolling ten-year periods, starting in 2020. The decision is based on our continued belief in weak market growth moving forward, and that many assets are relatively highly valued. The extremely low interest rates also reduce our return potential for some time ahead, since under the AP Funds Act at least 20 per cent of our portfolio must be invested in fixed-income securities with low liquidity and credit risk.

The Board also decided to introduce a long-term (40-year) return target of 4 per cent average real annual return after

expenses. The target is an ambitious one, but we deem it possible to achieve.

## Changes to the AP Funds Act

We welcomed changes in the AP Funds Act from 1 January 2019, which imposed more clearly defined sustainability requirements and also brought slightly more flexible investment rules.

From 1 May 2020, the Act will be further adjusted regarding investment rules in smaller, liquid asset classes. The change will improve our return potential by further increasing our flexibility to some extent.


## Sustainability and active ownership

Climate challenges are likely to have a major impact on companies we invest in, and on our ability to carry out our mandate. Based on our approach to risk and opportunities, but also our ambition to promote sustainable development both as an investor and an owner, we have taken further steps forward in our sustainability work.

During the year, a new sustainability strategy and climate strategy were formulated, and these have now been adopted by the AP1 Board of Directors. The strategies encompass all classes of asset and clarify existing efforts related to sustainability, while also staking out an ambitious path for ongoing evolution of the Fund's work.

One of the new goals is for the Fund's portfolio to be carbon-neutral by 2050. Interim targets on the way to achieving this will be formulated in 2020. We will also identify dedicated investments that contribute to a good return and to sustainable development in line with the UN's global Sustainable Development Goals.

Dedicated, active ownership is second nature for us. AP1 plays a significant role as a shareholder on the Swedish equities



This year's result means that we have once again exceeded our target of a 4 per cent return over rolling ten-year periods.

market, and this entails a responsibility and an opportunity to exert an influence. The same also applies on foreign markets, although our influence is somewhat less there. Our basic approach is that we prefer to guide companies towards improvement, rather than just selling our holdings. This is of course something of a balancing act, but we generally feel that dialogue and discussion should always precede an exclusion.

In the area of sustainability, collaboration with other investors is important in highlighting issues and influencing development in an effective manner. For instance the AP Funds' Council on Ethics is a crucial forum for raising issues internationally. One of the Council's initiatives during the year has been to improve safety at mines, with an open database of tailing dams. Alongside many other investors, the Fund also supports initiatives to fight deforestation in the Amazon.

### Distinctions

We receive international recognition for our sustainability work, and have won several distinctions during the year. Some of the major ones come from Institutional Investor Europe (IIE), PRI Leaders Group 2019, IRRI Survey and the Nordic Fund Selection Awards. I see these distinctions as firm proof that we are at the leading edge internationally in asset management, sustainability and active ownership.

### A turbulent autumn

I stepped up as Acting CEO in September after my predecessor was dismissed due to a breach of internal regulations. It was in many ways a tough time for the organisation, but together we managed to maintain momentum and keep the Fund moving forward. Our amazing co-workers demonstrated a tremendous ability, even under difficult circumstances, to focus on our mandate and generate returns for current and future pensioners.


### Development of internal processes

Internally, we have continued our work on operational risks in processes and systems. We have also begun an initiative for ongoing streamlining and continuous improvement. In the IT area too, we have carried out important projects to increase security.

It is important that we can attract, retain and develop the best employees, and we have therefore embarked upon a raft of activities in HR and leadership towards our vision of being a world-class employer.

Finally, I would like to thank all personnel for their tremendous efforts through good times and bad, and for helping us to advance our position in a range of key areas during the year.

Stockholm, 10 February 2020

  
Teresa Isele,  
ACTING CEO

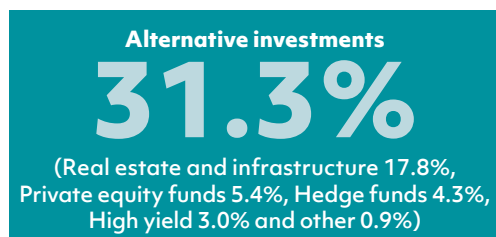
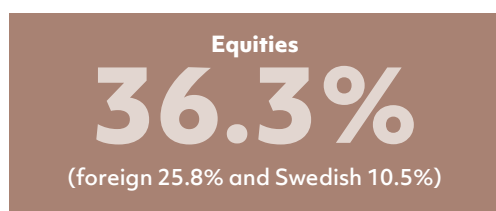
# Our Mandate

## Första AP-fonden's mandate



### What we do

*On behalf of Swedish Parliament we manage income pension assets of over **SEK 365 billion**. During 2019, the objective has been to produce an inflation-adjusted return of **4 per cent** after expenses over rolling ten-year periods. From 2020, this target has been adjusted to 3 per cent in real terms over rolling ten-year periods, and 4 per cent in real terms over 40 years. We invest sustainably and long-term, and practise responsible ownership.*



## The AP Funds' common core values

### Democracy

To serve the public good and maintain the public's trust.

### Legality

To comply with laws and regulations. Not to have trade policy or economic policy objectives.

### Objectivity

To handle conflicts of interest systematically and transparently. To promote a culture free from corruption.



*In an exemplary way, to manage pension capital for current and future pensioners, so as to deliver long-term high returns.*

## How we work

- A well-considered investment strategy
- Efficient investment processes
- Carefully balanced risk control
- Talented, competent personnel
- Active ownership
- Sustainability is an integral part of our operation

**7** Our seven investment beliefs,  
read more on pages 14–21.

**5** Our five sustainability beliefs,  
read more on page 21.

**67** Dedicated, competent personnel

## Value created in 2019

SEK **48.6** bn  
net investment income 2019

**6.9** %  
average real return after  
expenses in the past ten years

SEK **6.5** bn  
was paid into the pension system in 2019

### Transparency

To be characterised by openness, with objective information.

### Respect

Everyone shall be treated with respect, both internally and in relations with the wider world.

### Efficiency and good service

The operation shall be run cost-effectively. Service to the public is a part of the mandate.

# The foundation of the Swedish national pension system

*Sweden's national pension system is designed to be stable and reliable.  
The Swedish National Pension Funds (AP Funds) play an important part  
in balancing and helping to ensure that all generations are treated equally.*

## Payments to and from the system

Every year 18.5 per cent of pension-qualifying income, i.e. salary and other taxable remuneration up to 7.5 income base amounts, is paid into the national pension system. Sixteen per cent goes to the income pension and 2.5 per cent to the premium pension. Received income pension is used to pay out pension to people who are pensioners in that year. People who work have pension rights that are decided by their lifetime income. Pensions and pension rights are adjusted upwards annually by the average wage growth with an income index.

Incoming premium pension is invested in funds, either in the Seventh AP Fund/AP7 or with private fund companies.

## The AP Funds' assets

If more is paid into the income pension system in a year than is needed for that year's pensioners, the surplus goes into the AP Fund's buffer capital. If receipts are not sufficient to pay out pension disbursements in a year, the difference comes out of the AP Funds' buffer capital.

The purpose of the AP Funds is thus to make the pension system more stable and to bridge short-term imbalances over time, primarily due to the demographic composition of pensioners relative to the gainfully employed. The large number of people born in the 1940s have now retired, which is currently creating a deficit in the system. The AP Funds are therefore expected to make net disbursements to the pension system for about 20 years. After

that, the AP Funds are expected to once again achieve a net inflow.

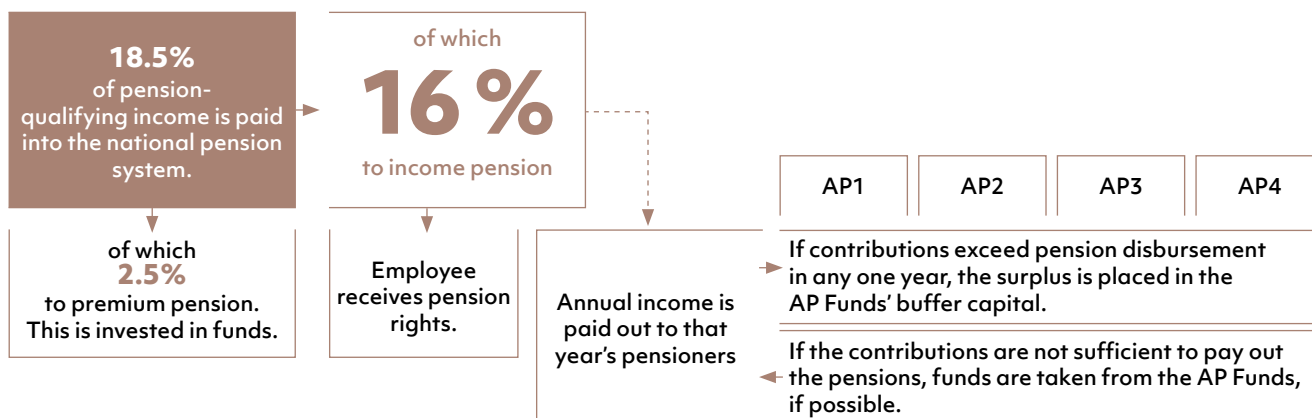
## The AP Funds' asset management

The AP Funds jointly manage approximately 15 per cent of the assets in Sweden's national pension system. Alongside the other AP Funds, AP1 has to manage the income pension assets in the national pension system for current and future pensioners in an exemplary way, to reap the highest possible benefit so that a high return can be generated at a low risk.

## A pension system in balance

If the pension system were to become seriously imbalanced financially, i.e. if total liabilities to pensioners exceeded the

## The Swedish pension system





assets, including the AP Funds' assets, an automatic balancing mechanism or 'brake' is activated so that income is adjusted upwards more slowly. Assets comprise future pension contributions including the AP Funds' assets, and liabilities are the value of earned pension rights. Until the system is once again in balance, income pension will be lower as it is not being adjusted upwards using the income index.

### The AP Funds help to balance

The return on the AP Funds' assets means that automatic balancing has been avoided for several years, even though the AP Funds represent a relatively low propor-

tion of the pension system. The balancing mechanism was last activated in 2009 following the economic downturn in the wake of the global financial crisis. At present assets in the system are approximately 4 per cent larger than liabilities.

### Other pension

In addition to state pension, nine out of ten employees in Sweden have an occupational pension plan as a benefit from their employer. This plan is usually determined under collective agreements, but may also be agreed directly between employer and employee. According to the Swedish Pensions Agency, on average we receive 60–75 per cent of our salary as pension including

occupational pension, depending on the number of years in paid work.

Additional state support, known as the guarantee pension, is available for people who have been on low incomes and have no occupational pension. This is taken from the government budget.

### Increase in pension age

An increase in the pension age has been proposed, and this could have major positive effects on the pension system's financial position. The change refers both to the age at which the pension may be taken out, and the age until which a person has the right to work.

## How the AP Funds are governed

The AP Funds are national agencies but by law they must be independent of the Swedish government. For example, the Funds must not be influenced by industrial or economic policies. The Fund's Board of Directors is appointed by the Swedish Government, via the Ministry of Finance.

The AP Funds' operations are regulated through special legislation, the National Pension Insurance Funds Act (2000:192), the AP Funds Act. It is set out in law that the AP Funds must be able to take a long-term approach and have a good foundation for executing its mandate.

The act states that the Fund has three different objectives.

- 1 The funds should be invested with a selected risk level so as to achieve a high return in the long run.
- 2 The funds shall be managed in an exemplary way through responsible investment and responsible conduct without compromising the objective in point 1.
- 3 The Fund should be sufficiently prepared to be able to transfer funds to the Swedish Pensions Agency as required.



## The AP Funds' investment rules

*New investment rules were introduced for the AP Funds in 2019. For example, the AP Funds have greater opportunity to invest more in different types of unlisted assets, which may lead to further diversification in the portfolio.*

### Investment rules

Investments may be made in essentially all instruments on the capital market.

The First to Fourth AP funds should mainly acquire or own liquid assets. The term 'liquid assets' refers to money market instruments or transferable securities that are, or are intended within one year of issue to be, subject to trading in an execution venue or an equivalent marketplace outside the European Economic Area (EEA), etc.

No less than 20 per cent of the Fund's assets shall be invested in fixed-income securities with low credit and liquidity risk.

No more than 40 per cent of assets may be exposed to foreign exchange risk.

No more than 10 per cent of the Fund's assets may be exposed to an issuer or group of connected issuers.

Equities in listed Swedish companies may equate to up to 2 per cent of the total market value.

The Fund may own no more than 10 per cent of the votes in any single listed company.

At the time of investment, no more than 40 per cent of the Fund's assets may be invested in illiquid assets.

On 1 May 2020, the investment rules will be changed further. The Funds will be able to make indirect investments in bonds and receivables not issued for public trading, make loans to real estate companies and unlisted private equity firms owned by the Funds, and retain a holding of more than 10 per cent of the votes upon the listing of a real estate company or private equity firm in which an AP Fund owns equities or participations prior to listing. The restriction on voting share is being increased from 30 to 35 per cent for equities or other participations in private equity firms.



## AP1's objectives

**THE API** Board of Directors establishes the return target and decides the level of financial risk the Fund should take. The Board also specifies on a general level how much capital should be invested in equities and fixed-income securities respectively. It also establishes which deviations from the objectives and which asset classes are permitted.

During the year, the Fund's Board decided to reduce the medium-term return target after expenses by one percentage point. The Fund's medium-term target for the real return after expenses on the total

portfolio is being reduced from 4.0 to 3.0 per cent a year, measured over rolling ten-year periods from 2020. The Board also decided to introduce a long-term (40-year) return target of 4 per cent average real annual return after expenses. This is ambitious, but achievable.

The Board's guidelines are broken down into a more detailed division of assets over a ten-year term and tactical management in the shorter term. This is then executed by the investment organisation and formulated as a set of reference values, a benchmark, for each individual asset manager.

The return should be at least

# 4.0%

in real terms after expenses,  
measured over 40 years.

# 3.0%

in real terms after expenses,  
measured over 40 years.

## Investment beliefs guide the way

AP1's investment beliefs set out frameworks for how the portfolio should be composed. The beliefs are applied both in assessing new investments and in evaluating existing ones.

### Diversification

We invest worldwide and in many different types of asset. The aim is to spread the risks and create several options for generating returns.

*Read more on page 14.*

### Long-term approach

A long-term approach creates more opportunities to take risks, and thereby create returns. The risks are balanced over time.

*Read more on page 16.*

### Cost efficiency

AP1 should act on a commercial basis and have low costs in relation to the profit it makes.

*Read more on page 20.*

1

2

### Risk premiums

Risk-taking on the financial markets is assumed to yield a positive return over time. The risk premium is the extra return earned in relation to risk-free interest.

*Read more on page 15.*

3

4

### Inefficient markets

An information advantage and meticulous analysis provide opportunities for higher returns on less well-analysed markets.

*Read more on page 18.*

5

6

### Sustainable value creation

Focus on sustainable value creation makes it possible to increase returns and reduce financial risk in the long term.

*Read more on page 21.*

*We strive to be a world-class pension manager, and to perform on the same level as leading global asset managers.*

1

**A clear slowdown in global growth**, chiefly due to the trade dispute between China and the US and the effects of the monetary policy austerity previously implemented by the Fed and the ECB. The manufacturing industry is at the centre of the downturn, while to date private consumption is maintaining growth. The question is whether the renewed modest monetary policy stimuli, together with a potential trade deal between China and the US, can boost the economy again. There is great uncertainty.

**High indebtedness and low interest rates.** Interest rates have continued to fall to record-low levels as central banks have struggled to meet their inflation targets. This has led to a further increase in the level of indebtedness from existing high levels and a rapid increase in the price of risky assets. Low or even negative interest rates are pushing many market operators further along the risk curve so that they have an opportunity to achieve their long-term return requirements.

However, this strategy is beginning to draw to a close and central banks are starting to put a stop to their monetary policy tools.

2

## Trends in the wider world

Various external factors affect the return on the Fund's assets, the principal ones being growth and interest rates. AP1 has pursued a defensive investment strategy in 2019 because we see a world with weak growth, a high level of indebtedness and great uncertainty in general, while all classes of asset are relatively highly valued.

3

**Uncertainty about geo-political developments.** The dispute between the US and China goes deeper than the trade barriers that have been put up and even though the parties have come to an agreement regarding a trade deal, this dispute is likely to continue for a very long time. Furthermore, the US presidential elections, as well as Iran and Brexit, are other potential clouds on the political horizon.

**Fiscal policy is viewed by many as the saviour in an emergency.** As central banks are no longer able to stimulate the economy to any appreciable extent, it is hoped that fiscal policy can halt the next global recession. Major infrastructure projects are one possible solution. However, they are of a long-term nature and will not have the same immediate effect as major cuts in interest rates. In addition, many countries already have a large and growing public debt, which complicates the picture.

4

5

6

**Climate change** and the long-term effects of global warming are difficult to predict. There are also many risks and opportunities associated with a transition in line with the Paris Agreement. Changes in regulations and consumption patterns along with new technology affect companies and, therefore, our investments, and also create new investment opportunities.

**Bank resilience.** Since the crisis in 2008, new regulations have been introduced which mean that banks have had to shrink their balance sheets considerably, especially in the US. As a result, the resilience of the banking system to an economic downturn is relatively good. However, it is highly uncertain how robust the Chinese banking system is following a decade of very fast credit expansion.

# Our investment beliefs

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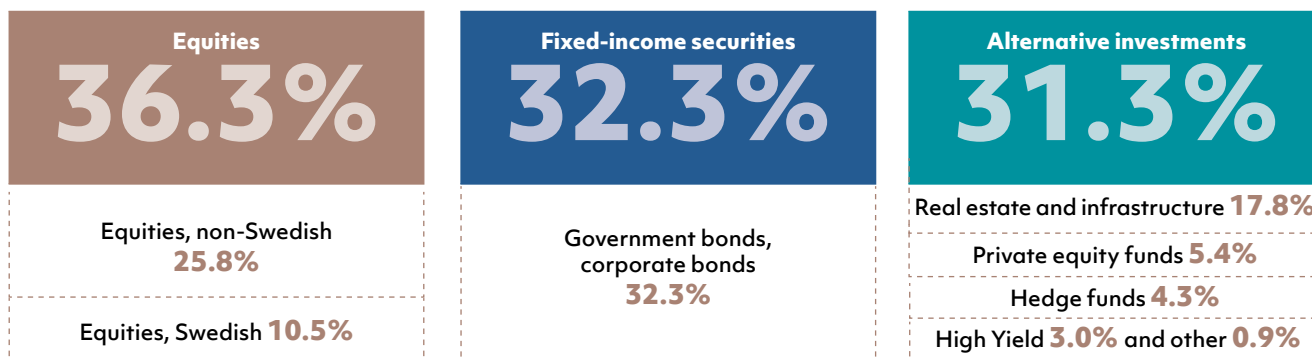




## INVESTMENT BELIEF

# Diversification

*We invest worldwide and in many different types of asset. The aim is to spread the risks while also creating several options for generating returns.*



WE HAVE A BROAD global asset portfolio consisting of equities and fixed-income securities along with alternative investments such as real estate, infrastructure, private equity funds and hedge funds. Various investment aspects and market risks are weighed against each other.

The asset classes are affected in varying ways by changes in the market and economic environment. We aim to take market risks to achieve our return target and spread risk through diversification. The liquidity of the different asset classes – i.e. the ability to sell them quickly to take advantage of new investment opportunities or make disbursements into the pension system – also varies.

Our asset managers strive actively to achieve a better result than would be possible by simply following the Board's general investment allocation between different asset classes. In our day-to-day asset management we work with a wide range of asset classes of different character, and on different markets with varying time horizons.

## Equities entail taking a risk

Investing in equities entails a risk, but it also enables high returns. The Fund's equities portfolio includes a selection of companies in Sweden and developed foreign markets, primarily the US and Europe, but also some in Asia. We also invest in equities on emerging markets. We mainly

take a long-term outlook on equities. All Swedish equities and the majority in Europe and the US are managed internally.

Equities on emerging markets are managed in collaboration with selected external business partners.

## Fixed income reduces the risk

Fixed-income securities normally lower the risk in the total portfolio while at the same time contributing to the return. However, today's extremely low interest rates will have a negative impact on the future contribution from fixed-income securities.

The foundation of our fixed-income securities are government bonds with a high credit rating and high liquidity, supplemented by corporate bonds with a limited risk level. The vast majority of AP1's fixed-income assets are foreign.

## Alternatives to equities and fixed income

As well as equities and fixed-income assets, the Fund also spreads its assets across alternative investments; primarily real estate, infrastructure, private equity funds and hedge funds.

## Real estate and infrastructure

Real estate and infrastructure often provide good protection against inflation in the longer term. We invest directly in Sweden and via unlisted companies and

funds outside of Sweden. Our long-term approach means that these investments are a good fit for AP1. Our equities portfolio also includes listed real estate equity.

## Private equity

AP1 invests globally when it comes to private equity. As a rule, the investments are carried out together with other major investors in private equity funds. Managers of private equity funds invest in unlisted companies, where they serve as active owners with a clear strategic agenda for the company's development. As the managers can choose to invest in sectors where they have special expertise, the return in this asset class is usually higher than for listed equities.

Investments in private equity funds still account for a relatively small share of the global total market value, but the share is rising and this asset class requires a long-term approach because most portfolio companies take at least 5–7 years to develop and realise.

## Hedge funds

The aim of investing in hedge funds is to mitigate the effect of dramatic price fluctuations, primarily in equities, and to create a more diverse portfolio. AP1 has been managing similar strategies internally for a couple of years.

**All of AP1's investments at the end of the year are on our website.**



## INVESTMENT BELIEF

# Risk premiums

*Risk-taking on the financial markets is assumed to yield a positive return over time.*

**THE RISK PREMIUM** is the additional return obtained in relation to the risk-free interest for the investor that takes a market risk. The Fund has to take market risks in order to achieve a return. In each situation we choose what we consider to be the most effective risk premiums in order to achieve our objectives.

AP1's potential to benefit from risk premiums is closely linked to the Fund's long-term approach. There is no guarantee that the Fund will receive payment for its risk premiums every year; over the long term, the Fund counts on receiving a higher payment on average.

## 2019 – a good year

2019 was a very good year for AP1. All asset classes delivered a positive return. Return after expenses was 15.1 per cent for the year and the average real return was 6.9 per cent for the period 2010–2019, compared to our target of 4.0 per cent for that period. As of 2020, the target has changed to 3.0 per cent over ten years, see page 11.

## Our investment strategy

AP1 has adopted a somewhat defensive position over the past two years and has gradually decreased its appetite for risk. External factors have indicated that we are at the end of an economic upturn, read more on page 12. We have gradually positioned ourselves to reduce the proportion of equities and increase the proportion of fixed-income securities and alternative investments.

## A stable strategy

Our investment perspective is long-term and, therefore, the reallocation is long-term. Risk in the portfolio has been progressively decreased in small steps, while at the same time we are also preparing which strategies to choose if we have reason to think the markets will strengthen.

## Equities market better than we forecast

Our microeconomic forecast was accurate, and this was apparent in the equities market in 2018, but the equities market performed better in 2019 than we thought.

One contributory factor was that there are few alternatives to equities as interest rates are so extremely low. Due to our defensive investment strategy, we have been unable to benefit fully from the upturn in the equities market. Nevertheless, 2019 was one of our better years in terms of development.

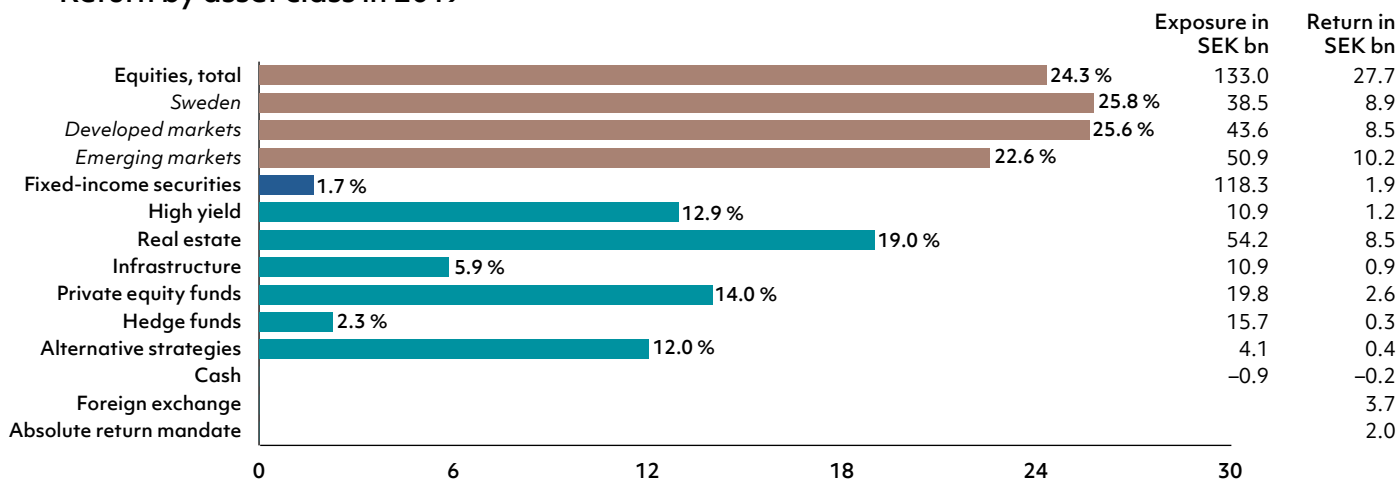
## Choice of companies

On the basis of our investment strategies, globally we have largely chosen stable companies with low volatility. We have had a positive long-term view of emerging markets and we plan to continue having relatively high exposure there. We have also been positive towards Swedish small caps.

## Alternative investments

We have continued to increase the proportion of alternative investments during the year. Real estate and infrastructure developed positively, but not to the same extent as the equities market. Generally speaking, the market for hedge funds/leverage developed positively during the year. Our assets in private equity funds generated good returns.

## Return by asset class in 2019



## INVESTMENT BELIEF

# Long-term approach

*Taking a long-term approach creates opportunities for taking risks. This in turn creates returns, since the risks are balanced over time.*

## THE LONG-TERM INVESTMENT APPROACH

gives AP1 benefits over other investors. It opens up options and enables us to be stable and take a long-term approach in our investment beliefs. But simply because the focus is long term, this does not mean that the Fund has to forego tactically interesting investments in the short term.

### Higher risk tolerance

Higher risk creates more opportunities for a higher return, and as we take a long-term approach we can afford a higher risk tolerance.

### Investments in real estate

Our long-term perspective enables us to capitalise on competitive advantages and invest in assets that are not liquid, for example. A significant proportion of our

illiquid holdings comprise investments in real estate, which are long term by nature.

The largest real estate holding is 25 per cent in Vasakronan, Sweden's biggest real estate company, which focuses on commercial properties in Sweden's four largest cities. We own rental properties in growth areas around Sweden through the wholly-owned housing company Willhem, while our ownership in Aros Bostad provides exposure to the development of tenant-owner apartments in the Stockholm region. Together with ICA Fastigheter, AP1 owns the company Secore, which focuses on properties from the north to south of Sweden that have ICA supermarket as a tenant. Over time the Fund's investments in real estate have generated a good return, partly through continuous rental income and partly through increases in property values.

### Investments in infrastructure

The least liquid assets include infrastructure, in which ownership is generally very long term. Infrastructure is often publicly regulated and a natural monopoly, which can provide stable, predictable cash flows. In the long term, income follows growth in society. The idea with investments in infrastructure is not only to earn a high return in relation to risk, but also to contribute to sustainable value creation.

During the year the First, Third and Fourth AP Funds formed Polhem Infra AB. The company will invest in unlisted Swedish companies that focus on infrastructure. During the autumn, the company made its first investment in Solör Bioenergi Holding AB.







# White Peak develops housing in China

In addition to our Swedish real estate holdings, we have global holdings in this sector. These include White Peak, which focuses on urban development in ten cities in China and targets the growing middle class.

In autumn, White Peak was named industry leader for sustainable property development in China and East Asia by GRESB (Global Real Estate Sustainability Benchmark) – the world's leading ranking institute in the real estate sector with a special focus on Environment, Social and Governance (ESG).

The GRESB ranking opens up new opportunities for White Peak as sustainability is high on the agenda for Chinese cities and is also key from a funding perspective.

## INVESTMENT BELIEF

# Inefficient markets

*An information advantage and meticulous analysis provide opportunities for higher returns on less well-analysed markets.*

ON AN EFFICIENT MARKET, the price of an asset reflects in a rational way all the available information and the collective analysis of all investors. The finance markets do not always work in this way, although large parts of them are well analysed. Through active asset management on well-selected less analysed markets, AP1 can gain an analytical edge. We also reallocate between asset classes if we think that assets have been incorrectly priced.

## Small, innovative Swedish companies

We often have a certain analytical edge over foreign investors when it comes to Swedish companies. This is one of the reasons why we have invested more heavily in Sweden than required in the AP Funds Act, even though Swedish equity trading represents such a small share of global trading. Another reason is the lower foreign exchange risk.

In addition, we actively seek Swedish growth companies which we think have potential, for example in small caps or via private equity funds. In 2019 we decided to look in particular at companies in the energy transition sector.

## Companies on emerging markets

Furthermore, we believe there are inefficient markets in less developed economies. In general, the companies there are less subject to due diligence and the social structures do not always work the same way as in more developed economies. AP1's fundamental approach is therefore that it is worth being active on these markets. Success requires in-depth local knowledge, which would require a lot of resources if we were to do this ourselves. The Fund therefore works with external asset managers on emerging markets.

## Investments in small caps on emerging markets

Emerging markets in general and small caps in particular are more likely to be incorrectly priced than companies in developed markets, and they offer opportunities for an investor with a long-term investment horizon and active asset management to create added value.

Small caps in emerging markets are less subject to due diligence and together with a more in-depth analysis of sustainability factors and dialogue with companies, they open up opportunities to achieve a better return. Small caps often have a more direct link to the local economy and tend to be less state owned or export oriented, which improves the Fund's diversification and utilises the inefficiency in the market. AP1 is investing in Emerging Markets Small Cap Growth together with William Blair.

*William Blair*



# Nilar develops batteries to store energy

We have analysed companies in the energy transition sector with a view to identifying innovative companies at an early stage. As a result, AP1 has invested in Nilar which develops nickel-metal-hybrid batteries for various types of energy storage. The company's batteries boast high capacity and, above all, a long lifespan and they are suitable for storing solar energy in the home, for industrial use and to balance the power grid and charge electric cars. After several years' investment in research and development and through a close collaboration with leading scientists from Stockholm University, in 2019 Nilar announced that it had developed a method to multiply the lifespan of its batteries.



## INVESTMENT BELIEF

# Cost efficiency

*AP1 should act on a commercial basis and have low costs in relation to the profit it makes.*

**THE FUND'S RETURN LEVEL** should not be burdened by inefficient cost utilisation. It is, however, crucial that costs be measured in relation to returns in the portfolio. In 2019, the Fund's administrative expenses totalled SEK 424 million (451), equaling 0.12 per cent (0.14) of assets under management. The administrative expenses comprise operating expenses and commission expenses. Operating expenses are primarily personnel, IT and premises costs. Commission expenses mainly comprise fees for external managers and custodian fees at banks.

## International comparison

Since 2014, cost efficiency has been measured annually by the market-leading Canadian company CEM Benchmarking. All the measurements have shown that AP1 is cost efficient by international comparison. Comparison is made with 18 asset managers with a similar distribution of assets. The aim is to consider differences that may be

attributable to different asset classes having different levels of cost demand.

## Internal versus external management

We are striving, where possible, to manage assets internally and we are gradually increasing internalisation, partly because the costs are lower. On 31 December 2019, we managed 68.6 per cent (66.5) of the assets internally. Internal asset management also increases the control we have over our investments. Increased internal asset management often entails a slight increase in operating expenses, but this is offset by lower commission expenses. Internal asset management requires the right resources and internal expertise, which is why the internalisation process is not always as fast as we would like.

Sometimes external asset management is more efficient, such as on emerging markets. Then we focus on minimising the costs for a chosen asset management

strategy, investment style, quality, analytical methodology, ESG and historical return. During the year we have decided to concentrate our investments and reduce the number of business partners we work with.

## Systematic asset management

During the year we have also decided to increase the proportion of systematic, quantitative rule-based investments, while reducing the proportion of active fundamental asset management. Systematic asset management, which is scalable and cost effective, is generated by the models we create based on our strategies. The restructuring in the portfolio has affected the organisational structure and work approach, and there was a management reorganisation in late 2019.

However, we will always have a certain level of fundamental active or discretionary asset management, mainly to benefit from inefficient markets.



## INVESTMENT BELIEF

# Sustainable value creation

*Focus on sustainable value creation makes it possible to increase returns and reduce financial risk in the long term.*



## Sustainability vision

AP1 shall be a responsible investor and active owner that promotes sustainable development through investment and active ownership. Our strategy for sustainable value creation shall contribute to meet or exceed the Fund's return target.

## Sustainability beliefs

*AP1's investments focus on the following aspects of sustainability:*

### Integration

Considering sustainability issues in the investment process enhances our due diligence about the investment objects and puts us in a better position to generate high returns at a well-balanced level of risk. We believe that well-managed companies have greater potential than others to generate a good return over time.

### Prioritisation

We prioritise material sustainability aspects and adapt how they are taken into account depending on the asset class managed by the Fund. The overriding consideration is that the companies we own must not violate any international conventions or national laws. Otherwise we weigh up aspects that are important to the portfolio, where;

- the risk and return are significantly affected
- major sustainability effects are achieved in relation to invested capital, or
- the reputational risk is considered to be significant.

### Real improvements

We consider the companies' entire value chain. The sustainability analysis covers everything from raw materials to end use of the products. Real improvements are of higher priority and more profitable than improvements to the portfolio solely from changed ownership of securities.

### Influence and active ownership

By being an active, long-term owner, we can try to influence companies we own in a desirable direction when it comes to sustainability. To maximise the impact we like to work with other investors through dialogue with individual companies, and through investor initiatives when it comes to influencing more systematic aspects.

### Transparency

Increased transparency of sustainability data enable us to make more informed investment decisions. We promote the development of relevant and comparable sustainability reporting, both among companies and ourselves.





## Sustainable value creation at AP1

### Change of the AP Funds Act

Our operation is based on the AP Funds Act and the wording which states that the assets should be managed in an exemplary way through responsible investment and responsible ownership. Special emphasis shall be given to how sustainable development can be promoted without compromising on the overall objective regarding return and risk.

The First, Second, Third and Fourth AP Funds have developed common core values and common guidelines for reporting on how the sustainability objective has been achieved, and which assets funds should not be invested in. The guidelines are available on our website. AP1 has interpreted how the guidelines will affect the Fund's portfolio and has made certain adjustments to its holdings.

In 2019, the Board also decided to set up a special sustainability committee within the Board to focus in greater depth on supporting and analysing the Fund's sustainability efforts based on the requirement for exemplary conduct.

In spring 2020, the Swedish Government will review the first year of the new law.

*The Fund's sustainability strategy clarifies AP1's approach to sustainability including how climate risks are more extensively integrated into the investment process.*

## Sustainability targets

Target	Comment
1 The portfolio should be carbon-neutral by 2050, mainly by the companies we own reducing their carbon footprint.	The carbon footprint decreased in 2019. More interim targets will be developed in 2020.
2 We shall increase dedicated investments.	SEK 1,751 million at the end of 2019.
3 All holdings in the real estate portfolio shall report in accordance with GRESB (Global Real Estate Sustainability Benchmark) and continuously improve their GRESB score.	94% of the total real estate portfolio reports in accordance with GRESB at the end of 2019.
4 We shall vote at all shareholders' general meetings in Swedish portfolio companies. When the Fund votes against a board or nomination committee's proposals, a dialogue shall be initiated.	The Fund has voted at all 37 shareholders' general meetings in Swedish companies. In some cases the Fund voted against proposals, for example against discharge from liability for the CEO of Swedbank.
5 We shall strive to have at least 40 per cent of women on the board of the companies in which the Fund is represented in the nomination committee.	After the AGMs in 2019, the percentage of women was 40.1%.
6 We shall vote at a minimum 800 foreign shareholders' general meetings a year.	In 2019, the Fund voted at 556 shareholders' general meetings in 544 foreign companies.
7 Every year we shall send follow-up letters to at least 50 foreign companies where the Fund has voted against the board's proposals.	We sent 50 letters in 2019.



## New sustainability strategy

AP1's Board of Directors has decided on a new sustainability strategy during the year. The strategy encompasses all asset classes and clarifies existing efforts related to sustainability, while also staking out a path for the continued development of the Fund's work with the aim of:

- Maximising the Fund's risk-adjusted return by integrating material sustainability aspects into investment decisions.
- Ensuring that investments do not violate the Fund's core values by choosing not to invest in particular companies or sectors.
- Promoting sustainable development, without compromising on the overarching return target, through dedicated investments and active ownership.

As we consider climate change and its knock-on effects to be one of the biggest systemic risks to our assets in the long run, we have drawn up a separate climate strategy as part of the overall sustainability strategy, see page 32.

## Sustainability aspects in the investment process

We are convinced that the Fund is best placed to achieve the overarching goal of delivering the best possible return by considering sustainability aspects in our investment decisions. This is why it is vital to be able to measure, analyse and follow-up material sustainability aspects so that we can make informed decisions where sustainability issues are considered

both as a risk and an opportunity in the investment process.

The way in which sustainability aspects are integrated into the investment process is adjusted to each investment strategy, and our asset managers have direct access to data and analyses from various external suppliers.

We have specific guidelines and processes for investments in companies we assess have a particularly high sustainability risk.

## Investments we refrain from

When an industry or company operates in a way that is inconsistent with our core values, we refrain from investing altogether, see page 28.

## Dedicated investments

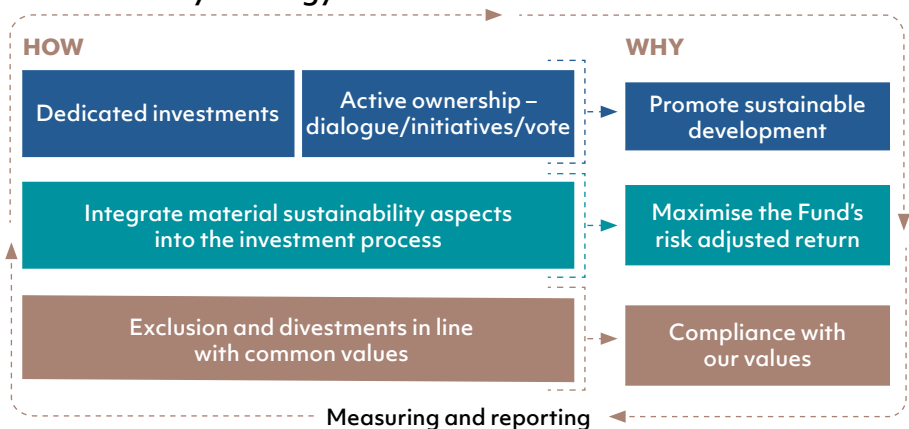
We intend to increase the number of dedicated investments that support the UN's

Sustainable Development Goals. These are investments that contribute to major sustainability effects in relation to the capital invested, and also meet the Fund's overarching return target. We prioritise four of the UN's 17 goals in our dedicated investments, see page 29. Through the infrastructure company Polhem Infra AB, for example, we will invest in unlisted companies that readily meet the requirements for dedicated investments.

## Active ownership

Through the Fund's active ownership, we work in a meaningful way to help reduce risks and promote sustainable development. We engage in dialogue with individual companies, support and participate in initiatives, vote at shareholders' general meetings and take part in nomination committees.

## Sustainability strategy



## The Board's sustainability reporting

AP1 aims to comply with the guidelines set out in the Swedish Annual Accounts Act on sustainability reporting, although the Fund is not formally obliged to apply them. The Fund's sustainability report for 2019 can be found on pages 21–35. There is also a GRI index on the Fund's website.

## The auditors' statement regarding AP1's sustainability report, corp. ID no. 802005-7538

### Mandate and division of responsibility

The Board of Directors has been responsible for the sustainability report for 2019 and for ensuring that it has been drawn up in accordance with AP1's principles for sustainability reporting, which correspond to those set out in the Swedish Annual Accounts Act.

### The focus and scope of the review

Our review has been guided by recommendation RevR 12 (The auditors' statement on the statutory sustainability report) issued by FAR, the institute for the accountancy profession in Sweden. This means that our review of the

sustainability report has a different focus and far narrower scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that this review provides us with sufficient grounds for our statement.

### Statement

A sustainability report has been prepared.

**Peter Nilsson** *Authorised Public Accountant*  
Appointed by the Swedish Government

**Helena Kaiser de Carolis,**  
*Authorised Public Accountant*  
Appointed by the Swedish Government

# Engaged owner

*By being a business-oriented and transparent owner, taking a long-term approach and with high integrity in its actions, the Fund builds trust in companies, other owners and stakeholders, and among the general public.*

## Active ownership increases the return

The aim of shareholder activism is to increase returns and reduce financial risk in the long run. AP1 believes that well-managed companies have greater potential to generate profits and avoid risks. It is therefore important for the Fund to strive to influence companies in the desired direction. We want to make responsible use of the position afforded us through ownership so as to be a positive influence on the companies.

Many risks and opportunities relating to sustainability lie a number of years ahead. As a long-term owner, we want to understand and respond to them. We do this via dialogue, in nomination committees and by voting at shareholders' general meetings.

At the end of 2019, AP1 owned equities in just over 30 Swedish companies and in 2019 we voted in all of their shareholders' general meetings. We were also active in ten Swedish nomination committees and voted in 556 foreign shareholders' general meetings, see page 26.

## Influence via dialogue

AP1's ownership engagement largely takes place via information and dialogue.

First of all, we talk about the expectations we have of the companies as a shareholder by publishing our ownership policy, see page 25. We have also produced a brochure that explains our expectations. Through regular dialogue with the companies' boards, management teams and individual board members we can put forward our views. The brochure clarifies our expectations of the businesses in which we invest in areas such as human rights, corruption and corporate governance. The brochure is available to read on our website: [www.ap1.se](http://www.ap1.se).

In general, Swedish companies are easy to work with as they hold regular discussions with their major shareholders ahead of the shareholders' general meetings. Such meetings provide opportunities to influence the boards' proposals and jointly arrive at compromises that satisfy both the shareholders and the boards.

There is less opportunity to exert an influence in foreign companies. One reason for this is that the Fund's holding, and therefore its voting power, is lower. Another is that it is more difficult to maintain regular dialogue with company boards. In many countries, few rights are given to shareholders in law.

## EU initiatives

There are several initiatives within the EU that aim to increase shareholders' rights and engagement. AP1 supports this aim and notes that Swedish regulations are very advanced in this area. In the US, the trend seems to be moving in the opposite direction. The Securities and Exchange Commission (SEC), which regulates the securities market in the US, recently issued a proposal that renders it more difficult for shareholders to put forward their proposals at shareholders' general meetings and vote them through. AP1 has forwarded its views on this to the SEC.



"We have had an excellent collaboration with AP1 since 2015, and our relationship deepened further in 2019 when the Fund increased its investment in Aros Bostad and became a major shareholder. As a shareholder, the Fund not only contributes capital but also expertise and experience in corporate governance, strategy work and, not least, as a requirement setter in the area of sustainability."

Magnus Andersson, VD Aros Bostad

"Active shareholders play a key role in Swedbank's ambition to continuously improve. AP1 is a meaningful business partner, not least when it comes to sustainability issues, where the whole financial sector needs to join forces to achieve the global development goals."



Jens Henriksson, CEO of Swedbank



## Eight principles for shareholder activism

As of 1 January 2019, AP1 has a new ownership policy. The ownership policy, together with our sustainability policy, permeates our conduct and our decisions. Both policies are available in their entirety on our website. In brief, the ownership policy deals with:

### 1 Voting rights

The right to vote in shareholders' general meetings must be unrestricted and changes in voting rights must be voluntary. All shareholders should be entitled to present proposals to the shareholders' general meeting and have them dealt with.

### 2 Equal treatment

Shares granting equal financial rights should always be treated equally. Minority shareholders must be protected.

### 3 Capital structure

The capital structure should be appropriate with regard to the company's future opportunities to generate returns for its shareholders. Capital that is not used effectively should be distributed to the shareholders. In the ownership policy we describe our views on buying back shares, new share issues, dividends and non-cash issues. We also oppose the introduction of obstacles to takeovers.

### 4 Company boards of directors

The shareholders appoint the board of directors and all shareholders should

be entitled to propose and vote for board members. The nomination process should be open and clear. Board members should have the right expertise and a high level of integrity. The composition should promote diversity and an even gender balance. AP1 strives to ensure that the board chairman and managing director are not the same person, and that each board of directors includes members who have an independent status in relation to the company's management and major shareholders. Remuneration should be reasonable, market-based and reflect the demands set.

### 5 Remuneration

Remuneration to senior executives should benefit the company and be reasonable, market-based and openly justifiable to the company's stakeholders.

### 6 Audit and internal control

The auditors are appointed by the shareholders. Very high demands shall be placed on their independence from the company and its management.

### 7 The environment and social issues

Operations should be conducted in a financially, environmentally and socially responsible manner. AP1's assessment of the companies shall be based on an official examination in each individual case. The Fund's assessment shall consider the seriousness of the offence and how it has been judged by the relevant authority. Deliberate or repeated infringements will be judged more severely. If the company has taken measures to correct the problem, this will be taken into account in the assessment.

### 8 Information disclosure

The companies should maintain an open and continuous dialogue with the shareholders, with information that is accurate, clear, objective and trustworthy. The companies should also be transparent in matters related to tax, for example by publishing a tax policy.



# Ownership strategies for different shareholdings

## INFLUENCE

Companies in which we own > 10%,

**13.5%**  
of total holding.

### Work practice

In companies where our shareholding is more than 10 per cent, i.e. in real estate and infrastructure companies, AP1 has a seat on the company board. The companies should be good role models in corporate governance issues. On 31 December, AP1 was represented on the boards of 11 companies.

## BIG

Swedish listed equities,  
with a major shareholding,

**1.9%**  
of total holding.

We have chosen to place stricter requirements on Swedish companies than foreign companies in our ownership policy. This is because we often have a relatively large holding in certain Swedish companies. In these companies we often participate in the company's nomination committees as representatives in order to propose board members, for example. In 2019 we participated in nine nomination committees. As a major shareholder, we also engage in discussions with these companies in other contexts.

Swedish equities  
with smaller shareholdings

**8.1%**  
of total holding.

As regards larger Swedish and foreign companies, our most important role is to vote at shareholders' general meetings. In Sweden we participate in person, and abroad we are aided by consultants who conduct analyses based on our rules and deal with the practicalities of voting. In 2019, we voted in 556 shareholders' general meetings and AGMs in total. In Swedish companies we usually vote in favour of the board proposals, and in several cases we have been able to influence the proposals in advance. In foreign meetings we vote against approximately 23 per cent of the time. How we vote is published on our website

## SMALL

Foreign listed equities,

**24.4%**  
of total holding.

We also regularly select a number of issues where we write to the companies and explain why we voted a particular way. This is often about remuneration to senior executives.

Externally managed equities,

**14.3%**  
of our holding.

The scope for exerting an influence on externally managed companies is far less than in any of the above cases. We can, however, influence the way in which our asset managers work with ownership issues. We let some of our asset managers vote on our behalf.

## NONE

Sectors we do not invest in.

Although we prefer to have a positive influence on companies than to exclude them from our portfolio, we have decided to exclude investments in certain sectors. Read more on page 28.

Companies we have  
excluded after failing to achieve  
the desired results from dialogue.

In addition, a number of companies have violated laws or international agreements that are backed by Sweden and we have chosen not to invest in these companies. The companies in question are listed on our website. Before we exclude a company, we always give it an opportunity to answer questions, and if it demonstrates that it is willing to make a change, it may still be considered for investment.

## Key activities in 2019

**Polhem Infra** was formed by the First, Third and Fourth AP Funds during the year, with the aim of investing in unlisted Swedish companies focusing on infrastructure. The investments will be made in businesses that manage or provide services and assets that benefit society such as renewable power production, energy storage and digital infrastructure. In the late summer, Mikael Lundin was appointed Managing Director of the newly formed company. The company made its first investment in November, in Solör Bioenergi Holding AB.

In June, AP1 decided to accept the public offer for **Oriflame**.

AP1 owned approximately 2.9 million shares in Oriflame, which equates to 5.15 per cent of the votes and capital.

After careful consideration, AP1 decided to vote against granting Birgitte Bonnesen, CEO of **Swedbank**, discharge from liability for 2018 at the AGM. However, we voted to grant the board discharge from liability. "For many years we have insisted that our portfolio companies, both in Sweden and abroad, actively strive to prevent corruption and money laundering. The accusations against Swedbank regarding money laundering have damaged the bank's reputation and the board has a responsibility and an important role to play in the work ahead," says Ossian Ekdahl, Chief of Active Ownership at AP1.

The Fund's most frequent objections at shareholders' general meetings and AGMs outside of Sweden in 2019 related to remuneration without performance requirements and cases where the board chairman and managing director are the same person. The standpoints were clarified in letters to the companies.

In 2019, the Fund decided to exclude Brazilian mining company **Vale**; read more about this on page 30.



## Together

*In most of what we do we prefer to act alongside other parties. After all, the work is only meaningful if we truly can have an influence.*

Read more on page 30.



## Sometimes we exclude industries or companies

THE AP FUNDS have drawn up common guidelines for which assets funds should not be invested in, and these mainly relate to international conventions signed by Sweden. We expect the companies we invest in to comply with national legislation and that adheres to the UN Global Compact's Ten Principles for responsible business.

### Engagement is important

Sometimes we remain an owner even if a company does not meet the set requirements, with the aim to influence the company in a desirable direction. Dialogue and engagement represent our main opportunities to contribute to better companies with good return potential.

If the dialogue doesn't lead to desired outcome, the Fund will consider

expressing the views publicly. As a final step, we can sell the holding.

If we terminate our ownership, the problems in question will not disappear and the unacceptable conditions will continue. For that reason, exclusion of the company from the Fund's investment universe is a last resort, to be taken only when the opportunities to make a difference are without hope of success.

The current exclusion list is available on our website.

## AP1 no longer invests in

AP1 excludes industries when their activities are not consistent with our core values.



### Nuclear weapons

We do not invest in companies with operations that are not in line with the spirit of the Non-Proliferation Treaty, the aim of which is to rid the world of nuclear weapons. We include the modernisation and upgrading of existing nuclear weapons in this category.



### Tobacco and cannabis for non-medical use

Investments in tobacco production are not compatible with the spirit of the Framework Convention on Tobacco Control, which aims to dramatically reduce tobacco consumption and the harmful effects of smoking tobacco. The AP Funds' Council on Ethics has recommended that the AP Funds exclude companies that operate in the area of cannabis for recreational use or for religious purposes on the basis of the UN conventions on narcotic drugs.



### Coal and oil sands

In our opinion, extracting coal and oil sands, which have by far the worst climate footprints, makes it difficult to achieve the climate goals set out in the Paris Agreement.



### Cluster munitions and land mines

The Anti-Personnel Mine Ban Convention and the Convention on Cluster Munitions say that states which have signed and ratified the treaty must stop producing, trading in and using anti-personnel mines and cluster bombs.



## Together for sustainability

AP1 is a major investor that plays an important role in society, and we have signed up to a number of international and Swedish frameworks, principles and collaborations. A more detailed description is available at [www.ap1.se](http://www.ap1.se).

### International frameworks

- **UN Global Compact** Ten Principles for sustainable business.
- **The UN Guiding Principles on Business and Human Rights (UNGPR)**
- **The UN's Sustainable Development Goals (SDGs)**
- **The OECD Guidelines for Multinational Enterprises.**

### Industry initiatives

- **The Institutional Owners Association, IÄF**, which promotes the good development of self-regulation on the Swedish stock market.

- **Principles for Responsible Investment (PRI)** To date over 2,300 investors have signed up to the UN-backed network, which collaborates to improve understanding of responsible and sustainable investment. The principles are a key element of AP1's work on responsible investment.
- **Global Real Estate Sustainability Benchmark (GRESB)**, with the starting point that real estate accounts for a high proportion of the Fund's investments. The organisation collects and compares sustainability data on real estate and infrastructure on behalf of investors.

### Climate-oriented initiatives

- **The Institutional Investors Group on Climate Change (IIGCC)** is a collaboration for European investors on climate issues.
- **Climate Action 100+** Investors engage in dialogue with the 100 plus companies globally that are assessed as emitting the most greenhouse gases.
- **Task Force on Climate-Related Financial Disclosure (TCFD)** Recommendations on reporting climate-related financial risks.

## The UN's Sustainable Development Goals

AP1 has pledged to invest in accordance with the UN's Sustainable Development Goals. The 17 goals are very wide-ranging and the Fund has therefore chosen to focus on the seven goals that are deemed to be most commercially relevant to a long-term investor, while also helping to create a positive change in society.

### Dialogue within active ownership framework

Our dialogue with companies often focuses on the following UN goals:

-  **5 – Gender equality**
-  **8 – Decent work and economic growth**
-  **16 – Peace, justice and strong institutions** (with a focus on the sub-targets related to corruption and bribery)

Via the AP Funds' Council on Ethics, AP1 has played an active role in the dialogue on money laundering in Sweden and, for example, organised a seminar for major banks and authorities.

### Dedicated investments

Investments that contribute to major sustainability effects in relation to the capital invested, and also meet the Fund's overarching return target. Furthermore, the Fund shall add value through, for example, financing, as an owner or in another way.

-  **7 – Affordable and clean energy**
-  **9 – Industry, innovation and infrastructure**
-  **11 – Sustainable cities and communities**
-  **12 – Responsible production and consumption**



## Exerting an influence with others – initiatives in 2019

Our opportunity to exert an influence increases if we can act together with others. We are therefore looking for potential collaborations with other parties.

### Overview of standards for tailing dams

The AP Funds' Council on Ethics has long engaged in a far-reaching dialogue with mining company Vale on its safety work. When the dialogue failed to come to a satisfactory outcome and a tragic accident took place in Brazil in January 2019, we decided to exclude Vale. Subsequently, the Council on Ethics and other investors jointly introduced an initiative to increase transparency by collecting and publishing information on the tailing dams of all mining companies worldwide.

"We have lost confidence in the sector's ability to self-regulate on this issue. It is too early to say exactly what caused this disaster, but the consequences when something goes wrong are clear and dev-

astating. We will work with the Church of England and other investors to demand that the necessary measures are taken," says John Howchin, the Secretary General of the AP Funds' Council on Ethics.

The initiative is backed by investors who jointly manage assets worth over USD 10,000 billion. In 2019, 98 of the 680 mining companies contacted published reports in the database. They account for over 50 per cent of the total market value of listed mining companies and a total of 1,900 tailing dams have been reported.

### Seminar on money laundering

In the autumn, the AP Funds organised a seminar for banks, government author-

ities and others on combatting money laundering and financial crime. The AP Funds want to have an influence and a seminar is a good forum for dialogue. Several participants agreed that it is necessary to review banking secrecy, the principle of public access to official records, and also reporting. Collaboration between banks, supervisory authorities and crime investigators continues to be a priority.

### Measures against fires and deforestation in the Amazon

During the year, AP1 and 230 other international investors, who jointly manage assets worth USD 16,000 billion, signed a statement co-ordinated by PRI regarding deforestation in the Ama-



zon. The statement calls on companies with operations or subcontractors in Brazil and the Amazon to take more robust measures to fight deforestation and the forest fires. During the year we also signed a letter to President Bolsonaro of Brazil, about deforestation.

## Appeal for greater gender equality

In autumn AP1, together with 65 international investors, signed an appeal targeted at around 1,200 global companies urging them to strengthen their gender equality work.

## Climate Action 100+ and Shell

The AP Funds participate in Climate Action 100+, an initiative run jointly with several of the world's biggest investors that aims to encourage companies to improve their corporate governance on climate challenges and reduce their greenhouse gas emissions, among other areas.

Dialogue is being held with e.g. oil giant Shell and the company has now decided to set up short-term goals for its carbon emissions. It has also committed to carrying out a review of its membership in various lobby groups, as some lobby groups may possibly work against the spirit of the Paris Agreement.

## The AP Funds' Council on Ethics

In the AP Funds' Council on Ethics, the First to Fourth AP Funds collaborate on issues relating to foreign companies that violate international conventions. The fundamental principle of the Council on Ethics is primarily to influence companies in the right direction, and as a last resort to recommend that the AP Funds exclude them. Each AP Fund considers the recommendations and makes its own decision on exclusion.

The Council on Ethics also runs a number of proactive projects to encourage companies to act more responsibly, and every year it publishes a report with details of these projects. The report also shows the status of ongoing processes, and the results of the various dialogues and initiatives. For further information on the Council on Ethics, visit [www.etikradet.se](http://www.etikradet.se)

# Awards and distinctions

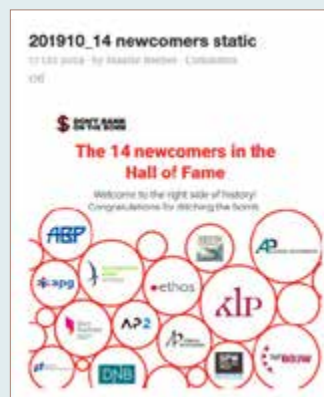
AP1 received several distinctions for its sustainability efforts in asset management during 2019.

## We are ranked tenth in the IRRI Survey 2019

The IRRI Survey (Independent Research in Responsible Investment) has been carried out annually since 2012 and is the best-established survey in sustainable investment. In 2019, AP1 came an honourable tenth in the survey of global capital owners in the category for 'most positive contribution to sustainable investments'. Almost 1,000 asset managers, independent research houses, professional investors, IR and CSR managers from listed companies from 44 countries took part. AP1's Ossian Ekdahl, Chief of Active Ownership, Magdalena Håkansson, Head of Sustainability, and Tina Rönholm, Portfolio Manager for External Management, were also mentioned in the category for 'most positive contribution to the development of SRI & corporate governance practice'.

## New report puts AP1 in its hall of fame!

During the year, Nobel Peace Prize Laureate for 2017 ICAN (International Campaign to Abolish Nuclear Weapons), and Dutch organisation Pax released the report *Don't Bank on the Bomb*. The report analyses investments made by banks and other financial institutions in companies that are linked to nuclear weapons production. We are delighted that AP1 has been entered into the report's hall of fame! This is because we do not invest in companies that are involved in nuclear weapons production and because our policy is considered to set a good example for the financial sector.



## AP1 – a leader in sustainability

To encourage investors to learn from each other, the UN's Principles for Responsible Investment (PRI) highlight a number of investors who have performed particularly well in a selected area – the Leaders' Group. The themes for 2019 were investors selection, and monitoring of external managers in private equity and listed equities. AP1 was in the 2019 Leaders' Group for both categories. By means of the Leaders' Group, PRI aims to showcase good leadership and raise standards of responsible investment amongst all of its signatories.

## Institutional Investor Europe (IIE) recognises AP1

At the beginning of the year, AP1 was awarded an international distinction by Institutional Investor Europe (IIE) for its sustainability efforts. The award is voted for by European investors and it was presented in connection with the European Pensions Symposium in Rome.



## FOCUS AREA:

## Climate

*Climate change is one of the biggest challenges of our time and affects us all. API's direct climate impact is relatively limited. However, as an asset manager, it is crucial for us to understand how the value of our portfolio might be impacted. Here we report the Fund's governance, strategy, risk management and the metrics and targets for climate-related risks in accordance with the Task Force on Climate-Related Financial Disclosure's (TCFD's) recommendations.*

### Climate strategy

API's work on climate focus on understanding, identifying and analysing climate risks and how they may affect the value of the Fund's investments, and on the Fund's ability to support sustainable development. The analysis forms the basis for:

- How we integrate and address climate risks in the Fund's portfolio strategies in a relevant way,
- How, through active ownership and dedicated investments, we contribute in a meaningful way to limit global warming in accordance with the Paris Agreement, and
- How we measure and report our work.

### Governance

API's Board of Directors has adopted a climate strategy based on the goal of reducing the portfolio's carbon emissions to become climate neutral by 2050, mainly by ensuring the companies we own reduce their carbon footprints. This should be achieved without compromising on our objective of attaining a high return in the long run. In 2019, the Board of Directors also set up a sustainability committee to facilitate more in-depth monitoring of the Fund's work and objectives.

### Strategy

Climate risks are usually divided into transition risks – mainly driven by regulatory changes, technological development and new consumption patterns – and physical risks – as a result of gradually increasing temperatures and extreme weather events. Different companies and industries will be affected to different degrees depending on future scenarios.

In 2018, together with other financial institutions and several academic ones, API began a study looking at different climate-related scenarios and their impact on strategic portfolio allocation. The project combines research on climate transition and the physical risks linked to global warming with macro-economic risk factors such as growth, inflation and interest rates. The project and the potential implementation of the analysis in our asset management are currently being evaluated.

### Risk management

Greater consideration is given to material climate risks when investing in different asset classes. The Fund has developed a tool for identifying the most material climate risks in the equities portfolio based on transition risks. The tool will be used to prioritise integration efforts and the Fund's active ownership, and over time it will encompass more asset classes. Based on the analysis, we

made adjustments to parts of our portfolio during the year.

The Fund does not invest in companies involved in the production of coal and oil sands; read more on page 28.

During the year API, together with the Second, Third and Fourth AP Funds, analysed and sent letters to over 100 companies, urging them to report in accordance with TCFD recommendations.

API has also defined and initiated work on dedicated investments with the aim of increasing them over time.

### Metrics and targets

API aims to reduce its portfolio's carbon emissions to become climate neutral by 2050, mainly by ensuring the companies we own reduce their carbon footprints. Therefore, we measure and publish the equity portfolio's carbon footprint. During the year the Fund, together with other AP Funds, developed the way in which the Funds' carbon footprint is reported, to clarify how much of the change comes from actual decreases in emissions by the portfolio companies and how much from altered portfolio holdings. The Fund buying or selling equities is unlikely to have any palpable consequences for the climate, but it may still be justified from a risk management perspective. Our carbon footprint for 2019 is reported on page 33.

# Carbon footprint

Every year, AP1 reports on the carbon footprint of its investments using four indicators.

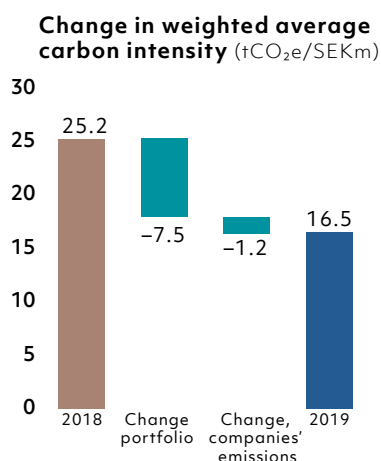
Three of them are calculated based on the Fund's share of ownership in the companies. The fourth indicator is a portfolio weighted average, reported in accordance with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD). The carbon footprint is calculated for portfolio holdings as of 31 December using the latest available CO<sub>2</sub> data for the companies' direct emissions (Scope 1) and indirect emissions from energy (Scope 2).

Changes in the Fund's carbon footprint can have two causes: changes in portfolio holdings, or changes in the companies' actual carbon emissions. By making changes to the portfolio, for example by reducing exposure to companies with relatively high carbon

emissions, the Fund can influence the carbon footprint and climate-related risk of the portfolio. At the same time, this does not change total emissions of carbon dioxide into the atmosphere. For emissions to fall, the portfolio companies have to make changes and reduce their carbon emissions.

It has previously not been possible to determine the reason for changes in the carbon footprint. The AP Funds have therefore developed their reporting, and as of 2019 they report whether the change is due to a change in the portfolio holdings or a change in the companies' actual emissions. AP1's carbon intensity has decreased by 34 per cent since 2018, of which 5 percentage points are due to a decrease in the portfolio companies'

weighted carbon intensity and 29 percentage points are due to changes in the portfolio aimed at reducing the Fund's exposure to climate risk.



## Carbon footprint of the listed equity portfolio

	2019	2018	2017	2016
<b>Weighted average carbon intensity (TCFD) (tCO<sub>2</sub>e/SEKm)<sup>1)</sup></b>	16.5	25.2	24.2	N/A
Change in the portfolio's carbon intensity (TCFD) in relation to last year (%)	-34			
– of which change due to changes in portfolio holdings (percentage points)	-29			
– of which change due to changes in the companies' emissions (percentage points)	-5			
<b>Total carbon emissions (million tCO<sub>2</sub>e)<sup>2)</sup></b>	1.6	1.8	1.6	1.7
<b>Relative carbon emissions (tCO<sub>2</sub>e/SEKm)<sup>3)</sup></b>	13	16.1	12.8	14.2
<b>Carbon intensity (tCO<sub>2</sub>e/SEKm)<sup>4)</sup></b>	18.9	24.8	20.6	24.7
Charted market value as a percentage of total net assets (%)	34	34	39	39
– for which reported emission data exists (%)	68	71	59	68

1) The metric adds together each portfolio company's carbon intensity, i.e. a company's carbon emissions in relation to its turnover, weighted according to each company's share in the portfolio.

2) The total of the owned share of portfolio companies' individual carbon emissions.

3) The total of the owned share of portfolio companies' individual carbon emissions in relation to the portfolio's market value.

4) The total of the owned share of portfolio companies' individual carbon emissions in relation to the total of the owned share of the portfolio companies' turnover.

### Our direct climate impact

Our direct climate impact is limited, and we are taking measures to reduce our negative footprint and carbon emissions. This includes the careful use of natural resources and energy, and managing waste in an environmentally friendly way. We carbon offset all business flights and the office building is powered by solar energy.

## AP1's direct environmental impact

	2019	2018	2017
Power consumption in own offices, MWh	148.717	164.915	179.012
District cooling consumption in own offices, MWh	132.8	130.9	130.7
Heating consumption in own offices, MWh	48.5	55.5	55.0
Water consumption, m <sup>3</sup>	725.6	660.4	490.0
Paper consumption, tonnes	0.8	1.0	1.0
Percentage of ecolabelled paper out of total paper consumption	100	100	100
Business travel by air, tens of thousands of km	52	81	96
Business travel by air, emissions in CO <sub>2</sub> , tonnes	69	96	119

# Employees

*AP1 is a small, cost-effective organisation in which each employee plays a key role. As we operate in a rapidly changing environment, it is important to build a culture that promotes business acumen, innovative thinking, drive and collaboration.*

## Expertise and diversity

The Fund's global focus and large capital impose stringent demands on its employees. The level of education among AP1's employees is generally high. Naturally, many employees have various qualifications in economics but we also have a high proportion of employees with a background in mathematics/engineering and IT. We believe that diversity of perspective contributes to better results and dynamics, and creates an attractive workplace. We therefore strive for diversity and inclusion.

Women account for 40 per cent of the workforce and the average age is 44. Staff turnover in 2019 was 7.0 per cent and sick leave was 1.0 per cent.

## Culture

The Fund's mandate is important – we contribute to the stability of the Swedish pension system. To succeed in our mandate, it is vital that our culture instils dedication and motivation in our employees. We therefore want to create a stimulating and supportive atmosphere where employees find their work challenging in a positive way. Our culture shall be firmly anchored in the AP Funds' core values:

The culture shall also promote business acumen, innovative thinking, drive and collaboration. Our culture is underpinned by clear leadership, which is why in 2019 we implemented leadership principles, for example, to guide our leaders in a positive way during their daily work.

In 2019 we also launched a development programme on self-leadership,

which means each individual is given a chance to develop in line with their own driving forces. Each employee maps their own values, which are then linked to the Fund's values, mandate and work practice. The aim is to promote employees' creativity, productivity and well-being, and create a culture in which all employees feel a shared responsibility for the whole.

In 2019 we launched a buddy programme for new employees, whereby all new recruits are assigned a mentor or buddy who has worked in the organisation for a while. The idea is for the buddy to provide general support and make it easier for our new employees to understand the Fund's culture quickly.

## Ongoing competence development

We want our employees to continuously develop in their professional role and everyone is responsible for making this happen. Each leader is responsible for ongoing competence development for their employees, and collaboration between senior and junior employees is a natural part of our work.

As we know that healthy employees perform better, we promote good long-term health by offering all employees regular health checks and fitness subsidies.

## Pay comparisons

AP1 regularly conducts market pay surveys to ensure that pay levels and remuneration are market-based and reasonable. We also carry out annual pay surveys to

make sure there are no unjustified pay differences between men and women in the organisation.

## Ethics and core values

The Board of Directors has drawn up a values and ethics policy. The policy is linked to a number of internal guidelines established by the CEO.

The policy and guidelines form part of the introductory training for new employees. They include rules on public procurement, remuneration and benefits, business travel, hospitality, employees' own securities dealings, insider information and secondary occupations. We also have a separate policy on gifts and other benefits, i.e. with regard to bribes, as well as a conflict of interest policy. Each employee is responsible for personally complying with the rules and guidelines. AP1 also has a separate compliance function that reports directly to the Board of Directors and CEO.

The Board of Directors and management have zero tolerance if anyone violates the internal regulations.

## Attracting new employees

As part of our corporate responsibility, and as a way of attracting new employees, we regularly accept students for paid internships during their studies. They write essays or work as trainees for a short period of time. Together with the other AP Funds, we have for example set up the AP Case Challenge for students at Sweden's Royal Institute of Technology (KTH).





Emil Danmo began working as an analyst at AP1 in April 2019. At first he worked part time while studying real estate economics at KTH. Once he had completed his studies Emil accepted a full-time position with the Fund.

#### What attracted you to working at AP1?

"A portfolio structure with the capacity to allocate assets over such a broad spectrum of asset classes, in particular real estate and other real assets, which is where my main interest lies."

#### What are your work duties at present?

"Our team is responsible for the real estate portfolio. We analyse potential new investments and evaluate existing holdings. This entails a wide range of work duties, from ongoing portfolio analysis to compiling data for investment decisions and integrating sustainability-related aspects."

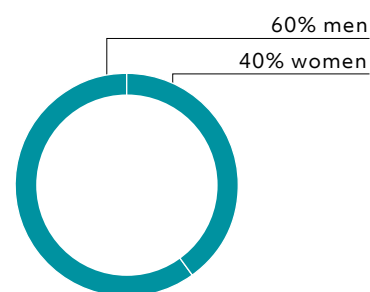
#### What's the best part of working at AP1?

"I'd say it's the variety. We invest globally and locally, in all sectors, through different structures on a large and small scale. No two days are the same. In addition, I was given a lot of responsibility early on, which I appreciate. I also like the mixture of junior and more senior colleagues and how we work together. It has been very developmental for me."

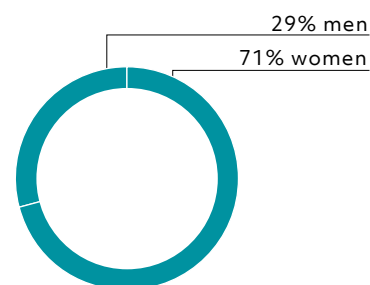
#### Is there anything that has surprised you?

"The fast decision-making, and how international the environment is."

#### Gender distribution



#### Gender distribution in executive management team



## Key ratios for employees

	2019	2018	2017	2016	2015
No. of employees, average	65	61	61	59	53
of whom women, %	40	37	39	36	34
No. of executive management members	7	7	8	8	5
of whom women, %	71	57	63	63	20

# Risk and risk management

*AP1's mandate to create returns on pension assets means that the Fund is naturally exposed to financial risks, such as market risk or credit risk. Operational risks can arise in asset management and relate to the risk of losses due to inadequate or failed processes, systems, staff or external events such as fraud. Losses may be in the form of financial losses or lost earnings, additional work, reputational damage and/or lost confidence in the operation.*

## Financial risks

AP1 consciously takes financial risks in order to generate returns and benefit from risk premiums. Financial risks enable the Fund, when employed correctly, to increase its return on invested capital. Good, controlled risk management is therefore

essential to successful asset management. Risks have to be forecast prior to an investment and controlled afterwards. One key component of the long-term investment strategy is to diversify risk in the portfolios as far as possible without detracting from high returns.

## Operational risks

The goal of managing operational risks is to create and maintain a good control culture and reduce material operational risks within the Fund. A clear risk policy expresses the approach chosen for sound management of operational risks and guides ongoing efforts to reduce such risks.

## Financial risks

### Risk

### Management

#### Financial risks

##### Market risk

Market risk – the risk that the fair value of, or future cash flow from, a financial instrument varies over time through, for example, changes in share prices, interest rates or exchange rates.

##### Issuer risk

Issuer risk – the risk that an issuer will become insolvent and be unable to fulfil its obligations.

#### Counterparty and delivery risk

##### Counterparty risk

Counterparty risk – the risk that a counterparty will become insolvent and be unable to fulfil its obligations. Losses often arise long before payments are suspended.

##### Delivery risk

Delivery risk or settlement risk – the risk that a counterparty is unable to fulfil an agreement at the time of settlement.

#### Liquidity risk

Liquidity risk – the risk that securities cannot be converted at the intended time without a considerable price cut or high costs.

#### Foreign exchange exposure

The degree of foreign exchange exposure is a risk factor that could affect the value of all asset classes traded in a currency other than the Swedish krona.

The Fund analyses and follows up market risk at total fund level, by asset class and by mandate with the help of various tools, tests and scenario analyses. Ongoing ad hoc analyses are also carried out to shed light on risk-taking in different parts of the portfolio. In addition, risk models are evaluated and the limit structure is evaluated and reviewed.

Issuer risks are restricted to credit limits for individuals and groups of issuers. The Fund's outstanding risks are followed up regularly.

All counterparties are evaluated and approved in a set process in which e.g. their official rating is considered. We also require counterparties to enter into agreements that regulate how receivables and liabilities are handled if a party can no longer fulfil its obligations. We require security for any outstanding liabilities.

Settlement risk is minimised by ensuring that purchases and sales of equities and bonds are automatically matched against a counterparty. The focus is on any deviations that can be rectified quickly. Payment and transfer for the transaction take place simultaneously.

The Fund's liquidity risk is restricted by means of the AP Funds Act because no less than 20 per cent of the Fund's assets shall be invested in receivables with low credit and liquidity risk.

The Fund's hedging policy has been drawn up by the Board and is part of the Fund's portfolio optimisation process. The policy aims to reduce risk in the portfolio and a systematic hedging programme is actively pursued.

The foreign exchange exposure of the total portfolio has had a positive effect on results in 2019 as a result of the net weakening of the krona against other currencies. The hedging programme has had a negative impact on results.

## Risk management plan

The Board of Directors annually adopts a risk management plan that sets out guidelines and limitations for the risk mandate delegated by the Board to the CEO. The plan sets out limits for financial risk-taking and stipulates well-defined decision-making structures for operating activities. More detailed instructions for managing and following up risks can be found in the instructions from the CEO. Frameworks for risk-taking are specified for individual management mandates in an investment instruction, and accompanying risk mandates based on a number of assumptions regarding long-term market development and risk levels for different asset classes. Read more about the Fund's risk function on page 63.

## Mapping operational risks

During 2018 and 2019, AP1's employees have made concerted efforts to systematically streamline risk management in the day-to-day operation. The project has encompassed operational risks relating to processes, IT systems and corporate culture. The aim has been to limit the number of incidents or detect them at an early stage. By mapping all of the processes, we have been able to identify manual procedures or other aspects that could give rise to risks. One key aspect of the project has been sharing feedback with colleagues and collaboration between different units to create a better overview.



## Operational risks

### Risk

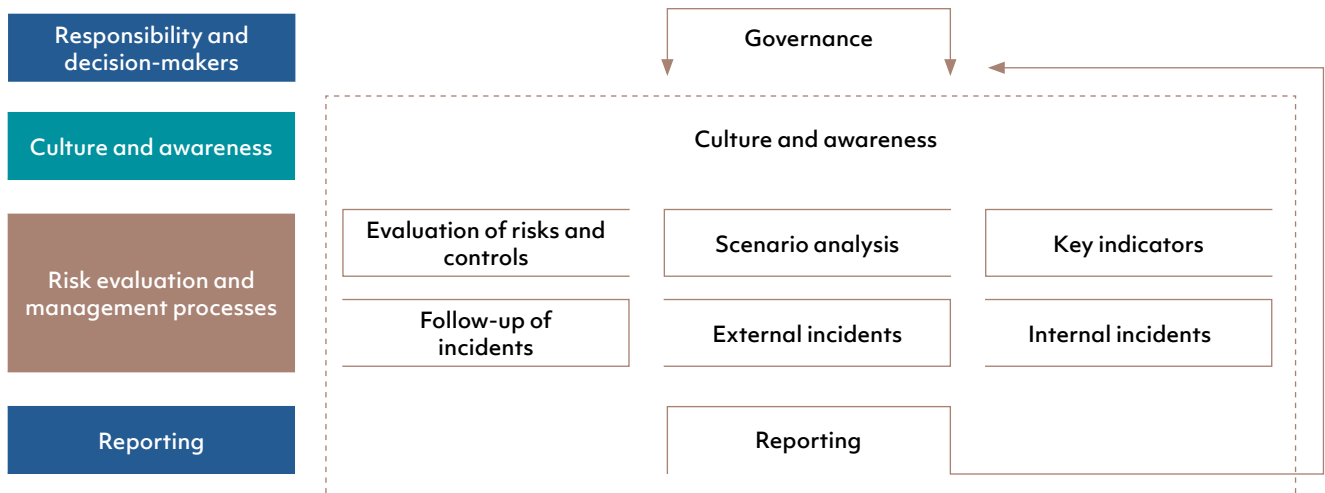
#### Operational risks

Operational risks can be administrative errors, failing processes, system errors or the occurrence of an external event that causes disruption. Operational risks also include legal risks, reputational risks, strategic risks, ESG risks and information management risks.

### Management

Operational risks are minimised by means of a good control environment and culture with, for example, incident follow-up, preparation of relevant policy documents, staff training and investment in IT systems. In addition to ongoing work on operational risks and controls, there is an annual self-evaluation of the efficiency of how operational risks are managed and existing controls are conducted, the aim being to take a cohesive approach to the operational risks. The goal is to identify, measure and evaluate the Fund's risks and controls in their entirety.

## Framework for operational risks





# Directors' Report

The Board of Directors and the CEO of Första AP-fonden hereby submit their Directors' Report for 2019. The Directors' Report, together with the annual accounts and notes, has been reviewed by the auditors of the Fund. The review covers pages 38 to 57.

Första AP-fonden's (AP1's) net investment income for 2019 was SEK 48.6 billion (–2.1), which means a return after expenses of 15.1 per cent (–0.7). Measured over the last ten-year period, the return was 8.1 per cent. This equates to an average real return of 6.9 per cent a year, exceeding the long-term target of a real return after expenses of 4.0 per cent over rolling ten-year periods.

## Transfer to the Swedish Pensions Agency

In 2019, the Fund transferred SEK 6.5 billion (6.8) to the pension system to cover the deficit in pension contributions in relation to pension disbursements. Since 2010, the Fund has paid SEK 53 billion net to the Swedish Pensions Agency to cover the deficit in pension disbursements.

## Control and mandate

The Board of Directors of AP1 bears full responsibility for the operations of the Fund and is responsible for the Fund's organisation and management of Fund assets. The Board's work is regulated by the AP Funds Act (the National Pension Insurance

Funds Act (2000:192)). The Board has delegated a management mandate to the CEO, who establishes the asset management framework. The mandate is expressed in a risk tolerance. This is manifested in an overarching asset allocation and limitations as to how much the asset allocation can be deviated from. The limitations are expressed both as exposure limits and limitations in terms of forecast tracking error. In September the Board decided to dismiss AP1's CEO Johan Magnusson as he had violated the Fund's internal regulations.

## Asset allocation and results of the Fund's management

Within the framework of the management mandate, the CEO of AP1 decides on the management orientation and asset allocation in the form of a strategic asset allocation. The CEO's strategic asset allocation forms the basis of the management organisation's work on allocation and management.

## Cost efficiency through cooperation with other AP Funds

The AP Funds' Council on Cooperation was set up in autumn 2016 to lay a better foundation for the First, Second, Third and Fourth AP Funds to work together in areas that do not jeopardise

## Net investment income for 2019 before expenses

	Exposure SEK bn	Return	Return contribution %	Return contribution SEK bn
Equities	133.0	24.3%	8.6%	27.7
<i>Sweden</i>	38.5	25.8%	2.8%	8.9
<i>Developed markets</i>	43.6	25.6%	2.7%	8.5
<i>Emerging markets</i>	50.9	22.6%	3.2%	10.2
Fixed-income securities	118.3	1.7%	0.6%	1.9
High yield	10.9	12.9%	0.4%	1.2
Real estate	54.2	19.0%	2.6%	8.5
Infrastructure	10.9	5.9%	0.3%	0.9
Private equity funds	19.8	14.0%	0.8%	2.6
Hedge funds	15.7	2.3%	0.1%	0.3
Alternative strategies	4.1	12.0%	0.1%	0.4
Cash	–0.9		0.0%	–0.2
Foreign exchange			1.1%	3.7
Absolute return mandate			0.6%	2.0
<b>Total</b>	<b>365.8</b>	<b>15.3%</b>	<b>15.3%</b>	<b>49.0</b>

the Funds' mutual independence. The aim of cooperation is to achieve cost savings, synergies and efficient utilisation of resources. It is also important to secure a relevant exchange of experiences, knowledge and working methods between the organisations.

In 2018 the Council was extended to include the Seventh AP Fund. The work takes place in different established forums in the shape of nine cooperation groups, with a varying composition of representatives from the various AP Funds. The common denominator in these collaborations is that they are run based on the added value created by the cooperation, both for each individual Fund and for the Funds jointly. During the year a new cooperation group was formed to focus on problems that can be resolved with the aid of modern technological platforms. Under the new AP Funds Act, the proportion of illiquid assets in each AP Fund's total portfolio may amount to 40 per cent. One consequence of the increased scope for investment is a greater focus on reporting from the Funds' managers in terms of quality, transparency and reporting format. In 2019, the AP Funds jointly identified the industry-specific challenges that the Funds share with most other global institutional investors. The AP Funds can conclude that there is a strong mutual interest in managing these in the long term and that the AP Funds play a pivotal role by, together with other players, actively bringing issues relating to standards, transparency and degree of digitalisation to the fore.

## Sustainable value creation

AP1's ambition in the field of sustainability is high. The Fund is convinced that investments in sustainable companies entail a lower risk and probably generate a higher return in the long run. Sustainability aspects are integrated into investment decisions and the Fund's work as an engaged owner. AP1's entire asset management is steeped in its ambition to generate long-term sustainable value growth. In December 2019 the Board made two policy decisions. One was to set measurable interim goals for achieving the goal of ensuring the portfolio is carbon-neutral by 2050, and the other relates to further withdrawing investment from companies with fossil-related operations, a process that must always be preceded by an impact analysis. AP1's sustainability report can be found on pages 21–35 of this annual report.

## Asset class

### Equities

AP1's equity portfolio was valued at SEK 133.0 billion at year-end, equating to 36.3 per cent of the total portfolio. The equity portfolio comprises SEK 38.5 billion in Sweden, SEK 43.6 billion in foreign developed markets and SEK 50.9 billion in emerging markets. Swedish equities and equities in foreign developed markets are chiefly managed internally, while emerging markets are handled by external managers. The return on the equity portfolio for 2019 was 24.3 per cent, which equates to SEK 27.7 billion.

### Fixed-income securities with a higher credit rating

AP1's fixed-income portfolio was valued at SEK 118.3 billion at year-end, equalling 32.3 per cent of net assets. The majority comprise investments in foreign bonds. AP1 also has fixed-income securities through Fund holdings within the alternative strategies sub-portfolio. The return on the Fund's fixed-income portfolio in 2019 was 1.7 per cent, equalling SEK 1.9 billion.

### Fixed-income securities with a lower credit rating

AP1's investments in bonds with a lower credit rating (high-yield investments) amounted to SEK 10.9 billion or 3.0 per cent of the total portfolio on 31 December 2019. The return on the high-yield portfolio for 2019 was 12.9 per cent, which equates to SEK 1.2 billion.

## Alternative investments

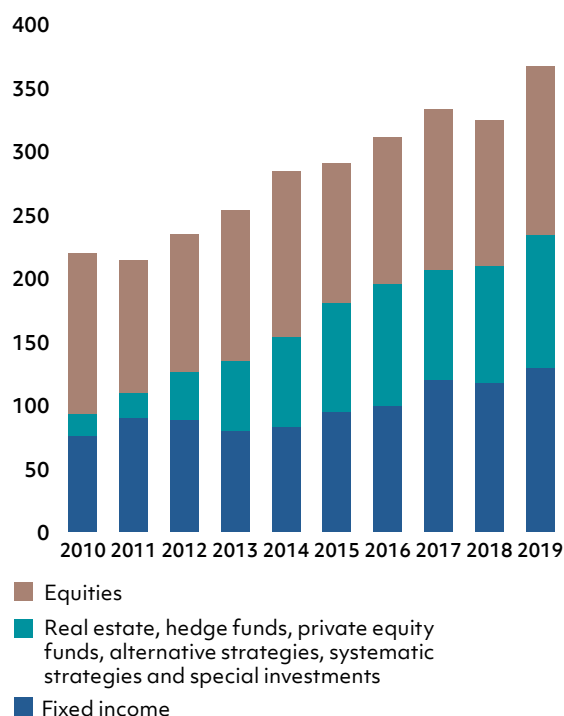
### Real estate

AP1's real estate holding was valued at SEK 54.2 billion at year-end, equalling 14.8 per cent of net assets. The main long-term focus of the Fund's real estate investments is running return from rent payments, and to some extent expected value appreciation. The return on the real estate portfolio in 2019 totalled 19.0 per cent, equalling SEK 8.5 billion.

### Infrastructure

The Fund's investments in infrastructure amounted to SEK 10.9 billion at year-end, equalling 3.0 per cent of net assets. The return on the infrastructure portfolio was 5.9 per cent, which equates to SEK 0.9 billion and is slightly higher than for the previous year.

Net asset performance, SEK bn



## Hedge funds

AP1's hedge fund portfolio was valued at SEK 15.7 billion at year-end, equalling 4.3 per cent of net assets. Investments in hedge funds are designed to generate a more diversified, robust portfolio, which tones down the effects of sharp price volatility in the rest of the portfolio. The return on the hedge fund portfolio in 2019 was 2.3 per cent, equalling SEK 0.3 billion.

## Private equity funds

AP1's investments in private equity funds amounted to SEK 19.8 billion at year-end, equalling 5.4 per cent of net assets. The Fund invests globally in private equity funds. Exposure has increased slightly during the year and is currently just under the target allocation of 6.0 per cent. The return on this asset class is expected to be higher than for listed equities over time. The return on the private equity portfolio for the year was 14.0 per cent, equalling SEK 2.6 billion.

## Alternative strategies

AP1's alternative strategies portfolio amounted to SEK 4.1 billion at year-end, equalling 1.1 per cent of net assets. Alternative strategies include a risk parity portfolio with the purpose of limiting macroeconomic risks without renouncing return opportunities and a portfolio consisting of alternative beta strategies designed to systematically obtain risk premiums. The return on the alternative strategies portfolio for 2019 was SEK 0.4 billion. (The great majority of the underlying strategies do not tie up capital, which is why the return in relation to funded capital is not relevant.)

## Foreign exchange

AP1 owns assets in several different currencies. Currency is treated as a separate asset that is managed according to special foreign exchange strategies. The value of all foreign assets is translated into Swedish kronor. The majority of the Fund's foreign assets are protected, in terms of exchange rate fluctuations, using currency hedges. The return contribution from these currency hedges amounted to -2.7 per cent in 2019, which equates to SEK -8.9 billion.

## Expenses 2019

To gauge the Fund's cost efficiency, in recent years the Fund has been part of international cost benchmarking conducted by CEM Benchmarking. The Fund is compared against a group comprising 18 global pension funds with approximately the same portfolio breakdown and size. None of the other AP Funds are in the comparison group. The analysis for 2019 showed that the Fund's costs are still lower than those of the comparison group.

Operating expenses for 2019 amounted to SEK 237.8 million. This figure includes costs for organisational changes and the CEO's departure of SEK 15.4 million. Excluding these costs, operating expenses amount to approximately SEK 223.4. Commission expenses total SEK 186 million. The Fund took measures during the year and succeeded in reducing its commission expenses by around SEK 40 million compared with the previous year. In 2020, commission expenses will be further reduced and the total reduction in expenses will be approximately SEK 100 million compared with 2018.

The expense ratio for operating expenses and commission expenses has fallen from 0.17 per cent to 0.12 per cent in the period 2015–2019. Measured in Swedish kronor, expenses have fallen from just over SEK 500 million to SEK 424 million during the period. The organisational changes implemented by AP1 in late 2019 are expected to create further efficiency gains.

## Significant events after the year-end

The Board of Directors decided on 13 February 2020 to appoint Kristin Magnusson Bernard as the new CEO of AP1. She will take up her post by 1 September 2020 at the latest.



**Expenses and expense ratio 2019**

Asset class	2019		2018	
	Expenses, SEK m	Expense level, %	Expenses, SEK m	Expense level, %
Personnel costs	149	0.04	135	0.04
Other administration expenses	90	0.03	88	0.03
<b>Operating expense</b>	<b>239</b>	<b>0.07</b>	<b>223</b>	<b>0.07</b>
Commission expenses	186	0.05	228	0.07
<b>Total expenses</b>	<b>425</b>	<b>0.12</b>	<b>451</b>	<b>0.14</b>

**Currency exposure, 31/12/2019**

SEK m	USD	GBP	EUR	JPY	Others	Total
Shares and participations	90,989	5,363	13,151	3,450	30,261	143,214
Fixed-income securities	48,005	6,317	22,701	12,059	2,152	91,234
Other assets	5,966	64	2,013	39	149	8,231
Derivatives	-110,897	-11,365	-36,726	10,925	-770	-148,843
<b>Total</b>	<b>34,063</b>	<b>379</b>	<b>1,129</b>	<b>26,473</b>	<b>31,792</b>	<b>93,836</b>
Currency exposure, 31/12/2018	22,349	-1,456	-3,689	32,051	34,939	84,194
Currency exposure, 31/12/2017	32,198	6,406	7,057	8,103	30,244	84,008

# Ten-Year Overview

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>Net investment income and inflow, SEK bn</b>										
Net assets, at 31 December	365.8	323.7	332.5	310.5	290.2	283.8	252.5	233.7	213.3	218.8
Net flow from the pension system	-6.5	-6.8	-7.4	-6.6	-4.9	-5.1	-6.9	-3.8	-1.2	-4.0
Net investment income for the year	48.6	-2.1	29.3	27.0	11.3	36.4	25.7	24.2	-4.2	20.5
<b>Return, expenses and risk, %</b>										
Return before expenses	15.3	-0.6	9.7	9.5	4.1	14.8	11.3	11.4	-1.7	10.3
Operating expenses, annualised, % of AUM	0.07	0.07	0.07	0.06	0.06	0.07	0.07	0.08	0.07	0.08
Commission expenses, annualised, % of AUM	0.05	0.07	0.07	0.09	0.11	0.10	0.07	0.06	0.05	0.05
Return after expenses	15.1	-0.7	9.6	9.3	4.0	14.6	11.2	11.3	-1.9	10.2
<b>Net investment income and expenses in total portfolio, SEK bn</b>										
Net investment income before expenses	49.0	-1.6	29.8	27.4	11.8	36.9	26.0	24.5	-4.0	20.8
Operating expenses	-0.4	-0.5	-0.4	-0.5	-0.5	-0.5	-0.3	-0.3	-0.3	-0.3
<b>Exposure, %</b>										
Equities	36.3	34.1	37.9	34.1	34.7	48.9	49.2	47.4	49.2	60.3
Sweden	10.5	11.2	12.9	12.3	12.3	11.6	12.0	11.4	12.6	15.7
Developed markets <sup>(1)</sup>	11.9	8.8	10.7	12.5	14.4	27.1	27.5	25.0	25.3	
Emerging markets	13.9	14.1	14.2	9.2	8.0	10.1	9.7	11.0	11.4	
Fixed-income securities <sup>(2)</sup>	32.3	33.3	31.7	29.8	30.2	30.9	31.2	36.4	40.9	32.5
Cash	-0.3	-2.5	-2.4	-1.1	-0.1	-1.1	-0.7			
Real estate	14.8	14.3	12.8	12.6	11.5	8.8	8.8	7.7	5.6	5.0
Infrastructure	3.0	3.7	3.4	3.0	2.9					
Hedge funds	4.3	4.6	4.0	5.0	4.8	5.9	4.9	4.3	0.2	0.3
Private equity funds	5.4	5.5	4.6	4.7	5.0	4.4	3.3	3.2	2.8	2.0
High yield	3.0	2.8	4.5	4.5	2.9					
Alternative strategies	1.1	0.9	1.0	5.0	4.4					
Systematic strategies		3.2	3.0	4.5	5.2	5.6	4.8	0.7	0.6	0.7
Special investments				0.5	0.7					
Foreign exchange	25.7	26.0	25.3	22.1	31.3	35.1	29.2	27.4	21.3	24.0
<b>Risk</b>										
Risk <sup>(3)</sup>	3.8	4.9	3.6	6.4	8.1	5.4	5.0	5.9	8.9	7.4
Sharpe ratio	4.2	0.0	2.9	1.5	0.5	2.6	2.1	1.9	neg.	1.1
<b>External management, %</b>										
Share of total portfolio at 31 December <sup>(4)</sup>	31.4	33.5	32.5	31.8	31.0	34.6	37.1	39.3	41.4	43.7

(1) From the start in 2019, systematic strategies are included as a part of Equities in developed markets.

(2) Investment grade bonds (fixed income incl. cash funds in accounts = 33.65% for 2019).

(3) Standard deviation calculated on daily return in 2019.

(4) In accordance with a joint decision, the AP Funds report wholly or partially owned real estate companies as being internally managed.

# Income Statement

SEK m	Note	31/12/2019	31/12/2018
<b>Operating income</b>			
Net interest income	1	2,336	2,462
Dividends received		4,998	5,330
Net gains/losses, listed shares and participations	2	22,277	-12,548
Net gains/losses, unlisted shares and participations	3	10,108	8,200
Net gains/losses, fixed-income assets		3,763	-1,660
Net gains/losses, derivative instruments		-1,783	-7,820
Net gains/losses, foreign exchange movements		7,343	4,413
Commission expenses	4	-186	-228
<b>Total operating income</b>		<b>48,856</b>	<b>-1,851</b>
<b>Operating expenses</b>			
Personnel costs	5	-149	-135
Other administrative expenses	6	-90	-88
<b>Total operating expenses</b>		<b>-239</b>	<b>-223</b>
<b>Net Investment Income</b>		<b>48,617</b>	<b>-2,074</b>

# Balance Sheet

SEK m	Note	31/12/2019	31/12/2018
<b>Assets</b>			
Shares and participations, listed	7	127,072	118,183
Shares and participations, unlisted	8	94,433	83,537
Bonds and other fixed-income assets	9	131,400	110,515
Derivatives	10	4,356	3,735
Cash and bank balances		9,029	6,570
Other assets	11	982	2,835
Prepaid expenses and accrued income	12	805	811
<b>Total assets</b>		<b>368,077</b>	<b>326,186</b>
<b>Liabilities</b>			
Derivatives	10	1,526	1,450
Other liabilities	13	746	1,011
Deferred income and accrued expenses	14	46	63
<b>Total liabilities</b>		<b>2,318</b>	<b>2,524</b>
<b>Net assets</b>	15		
Opening net assets		323,662	332,509
Net payments to/from the pension system		-6,520	-6,773
Net investment income for the year		48,617	-2,074
<b>Total net assets</b>		<b>365,759</b>	<b>323,662</b>
<b>Total net assets and liabilities</b>		<b>368,077</b>	<b>326,186</b>
Memorandum items	16	29,834	25,412



# Notes

## Accounting and valuation policies

The National Pension Insurance Funds Act (2000:192) sets out that the annual report shall be prepared in accordance with generally accepted accounting principles, whereby the assets in which the Fund invests shall be entered at market value. In light thereof, the First to Fourth AP Funds (AP1, AP2, AP3 and AP4) have developed joint accounting and valuation policies which have been applied and are summarised below. The Funds' accounting and valuation policies are being gradually adapted to International Financial Reporting Standards, IFRS. Complete adaptation to IFRS would have no material impact on the reported net investment income and net assets. AP1 meets the requirements to be defined as an investment entity under IFRS 10. Compared to the currently applicable IFRS, the only major difference is that a cash flow statement has not been prepared and IFRS 16 has not been applied.

### Trade date accounting

Transactions in securities and derivative instruments in the money, bond, equity and foreign exchange markets are recognised in the balance sheet at the trade date, i.e. the time at which material rights and hence risks are transferred between the parties. The receivable from or liability to the counterparty between the trade date and settlement date is recognised in "other assets" or "other liabilities". Other transactions, primarily those relating to unlisted equities, are recognised in the balance sheet at the settlement date, which is consistent with market practice.

### Netting

Financial assets and liabilities are recognised net in the balance sheet when there is a legal right to net transactions and there is an intention to pay net proceeds or realise the asset and simultaneously settle the liability.

### Translation of foreign currency

Transactions in foreign currencies are translated to SEK at the exchange rate on the transaction date. In the balance sheet, assets and liabilities in foreign currencies are translated to SEK at the exchange rates on the balance sheet date. Changes in the value of assets and liabilities denominated in foreign currency are broken down into the part attributable to the change in the value of the asset or liability in local currency and the part caused by fluctuations in the exchange rate. Foreign exchange gains/losses arising from changes in foreign exchange rates are recognised in the income statement in the line Net gains/losses, foreign exchange movements.

### Shares in subsidiaries/associated companies

In accordance with the National Pension Insurance Funds Act, shares in and loans to subsidiaries/associated companies are both stated at fair value. Fair value is determined using the same methods that apply for unlisted shares and participations. There is no requirement to prepare consolidated accounts.

Loans to subsidiaries and associated companies that are intended to be held until their maturity are measured at fair value via the fair value option in IFRS 9. However, the total change in value is recognised as part of the shareholding in the line net gains/losses, unlisted shares and participations.

### Valuation of financial instruments

All of the Fund's investments are measured at fair value, and both realised and unrealised changes in value are recognised in the income statement. Consequently, the lines for net gains/losses per asset class include both realised and unrealised gains/losses. Equity instruments are held for trading and therefore measured at fair value through profit or loss. Debt instruments are held for trading and therefore measured at fair value through profit or loss. Loans to subsidiaries and associated companies are intended to be held until their maturity, but the fair value option is applied here so that the National Pension

Insurance Funds Act's requirement on measurement at fair value is met. The AP Funds monitor all of their assets based on fair value. A description of how the fair values of the Fund's various investments are determined is provided below.

### Listed shares and participations

For shares and participations that are admitted to trade on a regulated market or trading venue, fair value is determined based on official quoted market prices on the balance sheet date according to the Fund's designated index supplier, most often the average price. Holdings that are not part of an index are valued at quoted prices observable in an active market. Paid brokerage commissions are recognised in net gains/losses on listed shares.

### Unlisted shares and participations

For shares and participations that are not admitted to trade on a regulated market or trading venue, fair value is determined based on the valuation provided by the counterparty or other external party. This valuation is updated when a new valuation has been obtained and is adjusted for any cash flows up to the close of accounts. In cases where the Fund has reasonable grounds to consider the valuation to be incorrect, the valuation received is adjusted. Valuations of unlisted participations comply with International Private Equity and Venture (IPEV) Capital Valuation Guidelines or equivalent valuation policies and should be primarily based on arm's length transactions, although other valuation methods can be used. Unlisted real estate shares are valued based on the net worth method to the extent that the share has not been subject to transactions in a secondary market. Holdings in unlisted real estate companies are measured taking into consideration deferred tax liabilities at a value that is used in real estate transactions, which differs from the valuation performed in the annual accounts of the real estate companies.

### Bonds and other fixed-income assets

For bonds and other fixed-income assets, fair value is determined based on the official quoted market prices on the balance sheet date (most often the bid price) according to the Fund's designated index supplier. Holdings that are not part of an index are valued at quoted prices observable in an active market. For an instrument that is not traded on an active market and for which no reliable market prices are available, the instrument is valued using generally accepted valuation models in which cash flows are discounted to the applicable valuation curve. Interest income is recognised as interest calculated according to the effective interest rate method based on amortised cost. Amortised cost is the discounted present value of future payments, in which the discount rate is the effective rate of interest on the acquisition date. This means that acquired premiums and discounts are apportioned to periods over the remaining maturity or until the next interest adjustment date and are included in recognised interest income. Changes in value resulting from interest rate movements are recognised under net gains/losses for fixed-income assets, while changes in value resulting from foreign exchange movements are recognised under net gains/losses on foreign exchange movements.

### Derivative instruments

For derivative instruments, fair value is determined based on quoted market prices at year-end. For an instrument that is not traded on an active market and for which no reliable market prices are available, the value of the instrument is established using generally accepted valuation models in which input data consists of observable market data. Derivative contracts with a positive fair value on the balance sheet date are recognised as assets, while contracts with a negative fair value are recognised as liabilities. Changes in value resulting from foreign exchange movements are recognised in the income statement under net gains/losses on foreign exchange movements, while other changes in value are recognised under net gains/losses on derivative instruments.

**Repurchase transactions**

In a true repo (repurchase) transaction, the sold asset remains in the balance sheet and the proceeds received are recognised as a liability. The divested security is recognised in the balance sheet as a pledged asset under memorandum items. The difference between proceeds in the spot and forward legs is apportioned to periods over the maturity of the security and recognised as interest.

**Securities lending**

Securities on loan are recognised in the balance sheet at fair value, while compensation received for securities on loan is recognised as interest income in the income statement. Collateral received for securities on loan may consist of securities and/or cash. In cases where AP1 has a right of disposal over the received cash collateral, this is recognised in the balance sheet as an asset and a corresponding liability. In cases where the Fund does not have a right of disposal over the collateral, the collateral received is not recognised in the balance sheet but is stated separately in a note under the heading 'Pledged assets, contingent liabilities and obligations'. The value of securities on loan, as well as collateral for these, are also recognised under this heading.

**Items recognised directly in net assets**

Payments to and from the national pension system are recognised directly in the Fund's net assets.

**Commission expenses**

Commission expenses are recognised in the income statement as a deduction under operating income. These consist of external costs for management services, such as custodian bank fees and fixed fees for external managers, as well as fixed fees for listed funds. Performance-based fees, which are payable if the manager achieves a return over a predetermined level at which profit-sharing applies, are recognised as a deductible item from net investment income for the relevant asset class in the income statement. Management fees for unlisted shares and participations are recognised at cost and therefore included in unrealised gains/losses.

**Operating expenses**

All administrative expenses, excluding brokerage fees, fees for external managers and custodian bank fees, are recognised in operating expenses. Investments in equipment and software developed or acquired by the Fund are normally expensed as incurred.

**Taxes**

AP1 is exempt from all income tax on domestic investments in Sweden. The dividend and coupon taxes imposed in certain countries are recognised net in the income statement under the relevant income item. With effect from 2012 the Fund is registered for value added tax and is therefore liable for VAT on acquisitions from outside Sweden. The Fund does not have the right to recover paid VAT. Expensed VAT is included in the relevant expense item. Amounts are in SEK million (SEK m), unless otherwise stated.

**Note 1 – Net interest income**

SEK m	2019	2018
<b>Interest income</b>		
Bonds and other fixed-income securities	2,219	2,378
Other interest income	131	112
<b>Total interest income</b>	<b>2,350</b>	<b>2,490</b>
<b>Interest expenses</b>		
Other interest expenses	-14	-28
<b>Total interest expenses</b>	<b>-14</b>	<b>-28</b>
<b>Total net interest income</b>	<b>2,336</b>	<b>2,462</b>

**Note 2 – Net gains/losses, listed shares and participations**

SEK m	2019	2018
Net gains/losses	22,325	-12,483
Less brokerage commissions	-48	-65
<b>Net gains/losses, listed shares and participations</b>	<b>22,277</b>	<b>-12,548</b>

**Note 3 – Net gains/losses, unlisted shares and participations**

SEK m	2019	2018
Capital gains/losses	3,792	1,358
Unrealised value changes	6,316	6,842
<b>Net gains/losses, unlisted shares and participations</b>	<b>10,108</b>	<b>8,200</b>

During the year, there has been a change in the way management fees for unlisted assets are reported. The comparison figures in the note have not been changed in the equivalent way, but follow previous policies. The items affecting comparability in the comparison figure for unrealised value changes amount to SEK 44 million.

External management fees for unlisted assets are recognised as part of the cost of the asset and therefore burden the unrealised net gains/losses for unlisted assets. Refunded management fees accordingly have a positive effect on unrealised gains/losses.

During the year, a total of SEK 118 million (152) was paid in management fees for unlisted assets, of which SEK 118 million (109) permit refunds. Furthermore, SEK 225 million (0) was repaid during the year and the unrealised net gains/losses for unlisted shares and participations were therefore positively affected by SEK 107 million net (negatively by SEK 109 million net).

**Note 4 – Commission expenses**

SEK m	2019	2018
External management fees, listed assets	-167	-161
External management fees, unlisted assets	-	-44
Other commission expenses, incl. custodian bank expenses	-19	-23
<b>Commission expenses</b>	<b>-186</b>	<b>-228</b>

Commission expenses do not include performance-based fees. During the year, performance-based fees amounted to SEK 48 million (90) and reduce net investment income for the respective asset class.

During the year, there has been a change in the way management fees for unlisted assets are reported. The comparison figures in the note have not been changed in the equivalent way, rather they follow previous policies. The items affecting comparability in the comparison figure for external management fees for unlisted assets amount to SEK 44 million.

**Note 5 – Employees**

Number of employees	2019			2018		
	Total	Men	Women	Total	Men	Women
Average number of employees	65	39	26	61	38	23
Closing no. of employees*	67	40	27	60	38	22
No. of executive management members at year-end	7	2	5	7	3	4

\* At the 2019 year-end, 1 (0) individual was employed on a project basis.

Personnel costs 2019, SEK thousands	Salaries and remuneration	Pension expenses	Payroll overheads*	Total
Board Chairman	113		27	140
Other Board members (8 people)	550		173	723
CEO (incl. salary during the notice period and severance pay)	9,376	2,948	3,292	15,616
Acting CEO (as of 1 Sep)	651	158	244	1,053
<i>Executive management team, excl. CEO</i>				
Chief Investment Officer	3,238	916	1,241	5,395
Head of Communications (as of 4 Mar)	1,131	264	421	1,816
Head of Business Support	1,233	1,121	662	3,016
Head of IT	1,711	691	709	3,111
Head of Middle Office & Risk	1,522	375	571	2,468
General Counsel (until 31 Aug then Acting CEO)	853	194	316	1,363
Head of HR	1,424	866	660	2,950
Other employees**	61,884	19,503	24,180	105,567
<b>Total</b>	<b>83,686</b>	<b>27,036</b>	<b>32,496</b>	<b>143,218</b>
Other personnel costs				5,419
<b>Total personnel costs</b>				<b>148,637</b>

\* Payroll overheads also include the cost of payroll tax.

\*\* Other personnel costs include salary during the notice period and severance pay for one individual. In total, incl. the CEO's salary during the notice period and severance pay, these items (incl. social security fees and pension expenses) amount to SEK 15.4 million.

Personnel costs 2018, SEK thousands	Salaries and remuneration	Pension expenses	Payroll overheads*	Total
Board Chairman	113		36	149
Other Board members (8 people)	511		161	672
Chief Executive Officer	4,267	1,212	1,343	6,822
<i>Executive management team, excl. CEO</i>				
Chief Investment Officer	3,154	1,128	1,266	5,548
Chief Active Ownership Officer (Jan–Sep)	1,252	571	533	2,356
Head of Communications (Jan–Oct)	1,128	355	441	1,924
Head of Business Support	1,212	902	601	2,715
Head of IT (May–Dec)	1,106	205	268	1,579
Head of Middle Office & Risk	1,431	361	538	2,330
General Counsel	1,157	196	316	1,669
Head of HR	1,391	831	640	2,862
Other employees	58,118	19,028	23,106	100,252
<b>Total</b>	<b>74,840</b>	<b>24,789</b>	<b>29,249</b>	<b>128,878</b>
Other personnel costs				6,221
<b>Total personnel costs</b>				<b>135,099</b>

\* Payroll overheads also include the cost of payroll tax.

## &gt; Note 5 continued

AP1's remuneration policy for senior executives is based on the Government's guidelines for remuneration to senior executives and other employees. There were no deviations from the policy or guidelines in 2018 or 2019.

**Salaries and other benefits**

Board fees are determined by the Government. The Fund governance report provides information about fees and attendance for each Board member. The Board of Directors determines the terms of employment for the CEO, following preparation in the remuneration committee. All employees have individual employment contracts. Since 1 January 2010, AP1 has no variable remuneration. In the event of termination on the part of the employer, the notice period for the CEO is 18 months. For members of the executive management team and other employees it is between 2 and 6 months. A few agreements entered before April 2009 contain divergences. For cost-related reasons, these agreements are not being renegotiated.

In the event of the Fund issuing notice of termination of employment, severance pay can equal a maximum of 18 months' salary. The severance pay shall only consist of the fixed monthly salary, without the addition of benefits. Both salary during the notice period and severance pay shall be reduced by an amount equal to any income from new employment or business activity during the pay-out period. Severance pay is never paid out beyond 65 years of age.

**Pensions and similar benefits**

The employment contract of the CEO includes an obligation for the Fund to pay pension premiums equal to 30 per cent of salary. For the portion of salary granting entitlement under the national pension, the pension premium is reduced to 11.5 per cent.

As of 1 February 2013, AP1 has switched to a defined contribution pension plan, BTP1, for newly hired employees. The pension agreement has been signed and agreed on between the parties. This means that the Fund has two occupational pension plans – BTP1, which is a defined contribution plan, and BTP2, which is a defined benefit plan.

All employees have the option of participating in a salary exchange scheme in which gross salary is exchanged for pension premiums. The pension premium is then increased by 5 per cent, which corresponds to the difference between payroll tax and social security fees. The premium exchange is therefore cost-neutral for the Fund. Other benefits are taxable and amount to smaller amounts.

**Note 6 – Other administrative expenses**

SEK th	2019	2018
Costs for premises	-13,208	-12,892
Purchased services	-19,979	-25,867
Information and data expenses	-52,734	-44,694
Other administration expenses	-4,375	-2,995
<b>Other administrative expenses</b>	<b>-90,296</b>	<b>-86,448</b>
<b>The amount for purchased services includes remuneration for the Fund's auditor, PwC, broken down into the following assignments:</b>		
Audit services	-691	-687
Other assignments, primarily tax related	-307	-
<b>Total remuneration to auditors</b>	<b>-998</b>	<b>-687</b>

**Note 7 – Listed shares and participations**

Fair value, SEK m	31/12/2019	31/12/2018
Equities, Swedish	30,235	24,706
Equities, non-Swedish	69,088	77,936
Participations in Swedish funds	-	-
Participations in non-Swedish funds	27,749	15,541
<b>Total fair value</b>	<b>127,072</b>	<b>118,183</b>

**Five largest Swedish equity holdings**

Name	Number	Fair value
SAAB B	8,692,325	2,728
Volvo B	16,767,051	2,631
Essity B	5,677,710	1,714
Ericsson (LM) B	20,224,961	1,649
Indutrade	4,552,400	1,526
<b>Total fair value</b>		<b>10,248</b>

**Five largest non-Swedish equity holdings**

Name	Number	Fair value
Nordea Bank	22,375,320	1,692
AstraZeneca Plc	1,364,614	1,283
Tencent Holdings Ltd Common Stock Hkd 0.00002	2,834,110	1,279
Veoneer Inc.	8,426,483	1,263
Alibaba Group Holding Ltd Adr	591,421	1,174
<b>Total fair value</b>		<b>6,691</b>

A complete list of all listed holdings at 30 June and 31 December is available on AP1's website [www.ap1.se](http://www.ap1.se)



**Note 8 – Unlisted shares and participations**

Fair value, SEK m	31/12/2019	31/12/2018
<i>Swedish unlisted shares and participations:</i>		
Subsidiaries and associated companies	41,312	35,281
<i>Non-Swedish unlisted shares and participations:</i>		
Subsidiaries and associated companies	6,072	5,398
Other unlisted shares and participations	47,049	42,858
<b>Total</b>	<b>94,433</b>	<b>83,537</b>

**Subsidiaries and associated companies**

	Domicile	Corp. ID No.	Number	Holding, %	Net Investment Income	Equity	Fair value
<b>Swedish shares and participations, subsidiaries and associated companies</b>							
Aros Bostad IV AB	Stockholm	559032-9503	14,747	29.5	2.5*	700*	548
Ellevio Holding 1 AB	Stockholm	559005-2444	6,250	12.5	401*	4,727*	1,313
Secore Fastigheter AB	Stockholm	559018-9451	25,000	50.0	27*	812*	542
Polhem Infra KB	Stockholm	969789-2413	–	33.3	0.821	926	309
Vasakronan Holding AB	Stockholm	556650-4196	1,000,000	25.0	12,894*	60,271	20,590
Willhem AB	Gothenburg	556797-1295	769,880,846	99.9	2292*	18,010*	18,010
							41,312
<b>Non-Swedish shares and participations, subsidiaries and associated companies</b>							
First Australian Farmland Pty Ltd	Australia	155,718,013		100	-37**	313**	280
Chapone S.à.r.l	Luxembourg	B 200297		100	277**	2,034**	2,472
OMERS Farmoor 3 Holdings B.V.	Netherlands			100	4**	2,546**	2,569
Jutas Invest Finland OY	Finland	2793175-3		100	-2**	246**	292
ASE Holdings S.à.r.l	Luxembourg	B 169327		38	348**	453**	136
ASE Holdings III S.à.r.l	Luxembourg	B 207618		35	-220**	510**	323
							<b>6,072</b>

\* Pertains to figures released 31/12/2018

\*\* Refers to 31/12/2018 translated at the exchange rate on 31/12/2018

**Five largest holdings, unlisted shares and participations**

	Domicile	Holding, %	Cost
Fourth Stockholm Global Private Equity L.P., Hamilton Lane	USA	100	9,836
FRM Investment Management L.P.	Guernsey	100	12,904
Bridgewater Tailored All Weather Fund L.P.	Cayman Islands	100	2,104
WP North America Private Equity II	US	99	208
FIRST II Private Equity Investments, L.P. Inc, LGT	Guernsey	100	1,115
Fifth Stockholm Global Private Equity L.P; Hamilton Lane	USA	100	984

A complete list of all unlisted shares and participations is available on AP1's website [www.ap1.se](http://www.ap1.se)

**Note 9 – Bonds and other fixed-income assets**

Fair value, SEK m	31/12/2019	31/12/2018
<b>Breakdown by type of issuer</b>		
Swedish state	23,978	17,857
Swedish municipalities	2,439	2,317
Swedish mortgage institutions	1,532	3,386
Other Swedish companies:		
Financial companies	2,211	2,454
Non-financial companies	8,550	9,083
Foreign states	67,077	48,844
Other foreign issuers	25,613	26,574
<b>Total</b>	<b>131,400</b>	<b>110,515</b>
<b>Breakdown by type of instrument</b>		
Inflation-indexed bonds	36,397	35,019
Other bonds	87,828	66,344
Treasury bills	–	–
Commercial papers	–	–
Other instruments	7,175	9,152
<b>Total</b>	<b>131,400</b>	<b>110,515</b>

**Note 10 – Derivatives**

Fair value, SEK m	31/12/2019 Derivative instruments with:		31/12/2018 Derivative instruments with:	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
<b>Equity-linked instruments</b>				
Options				
Held	794		16	
Issued		–529		–198
Swaps	11	–176	16	–721
Futures	4	0		
<b>Total</b>	<b>809</b>	<b>–705</b>	<b>32</b>	<b>–919</b>
<b>Interest-linked instruments</b>				
Swaps	22	–216	50	–203
Futures	17	0	1	–16
<b>Total</b>	<b>39</b>	<b>–216</b>	<b>51</b>	<b>–219</b>
<b>Currency-linked instruments</b>				
Swaps	3,508	–605	3,446	–106
Futures				
Options			206	–206
<b>Total</b>	<b>3,508</b>	<b>–605</b>	<b>3,652</b>	<b>–312</b>
<b>Total derivative instruments</b>	<b>4,356</b>	<b>–1,526</b>	<b>3,735</b>	<b>–1,450</b>

Derivative positions with a negative value amounting to SEK –392 million have a maturity exceeding 12 months. For maturity analysis thereof, see Note 18.

**Note 11 – Other assets**

SEK m	31/12/2019	31/12/2018
Outgoing payments, unsettled transactions	16	1,961
Receivables from foreign tax authorities	149	123
Reinvested cash collateral for derivative positions	655	622
Other assets	162	129
<b>Total other assets</b>	<b>982</b>	<b>2,835</b>

**Note 12 – Prepaid expenses and accrued income**

SEK m	31/12/2019	31/12/2018
Accrued interest income	688	646
Accrued dividends	116	147
Other prepaid expenses and accrued income	1	18
<b>Prepaid expenses and accrued income</b>	<b>805</b>	<b>811</b>

**Note 13 – Other liabilities**

SEK m	31/12/2019	31/12/2018
Outgoing payments, unsettled transactions	50	367
Received cash collateral for derivative positions	655	622
Other	41	22
<b>Other liabilities</b>	<b>746</b>	<b>1,011</b>

**Note 14 – Deferred income and accrued expenses**

SEK m	31/12/2019	31/12/2018
Accrued management fees	27	40
Other accrued expenses	19	23
<b>Deferred income and accrued expenses</b>	<b>46</b>	<b>63</b>

**Note 15 – Net assets**

SEK m	2019	2018
<b>Opening net assets</b>	<b>323,662</b>	<b>332,509</b>
<b>Net flow to/from the pension system:</b>		
Incoming pension contributions	72,344	69,552
Outgoing pension disbursements	-78,681	-76,110
Transfer of pension rights to the EC	-	-1
Settlement of pension rights	3	2
Outgoing administrative contribution to the Swedish Pensions Agency	-185	-216
<b>Total net outflow to the pension system</b>	<b>-6,520</b>	<b>-6,773</b>
Net investment income after expenses for the year	48,617	-2,074
<b>Closing net assets</b>	<b>365,759</b>	<b>323,662</b>

**Note 16 – Memorandum items**

SEK m	31/12/2019	31/12/2018
Pledged assets and equivalent collateral for own liability	none	none
Securities on loan against other collateral*	-	-
Collateral provided for futures transactions	2,382	293
Collateral provided for OTC transactions**	51	732
<b>Other pledged assets and equivalent collateral</b>	<b>2,433</b>	<b>1,025</b>
Investment commitments, unlisted holdings	27,401	24,387
<b>Undertakings</b>	<b>27,401</b>	<b>24,387</b>
<b>Total memorandum items</b>	<b>29,834</b>	<b>25,412</b>
* Collateral received for securities on loan.	-	-
** Collateral received for OTC transactions	2,481	929

## Note 17 – Financial instruments, price and valuation hierarchy

This Note provides disclosures about how fair value is determined for the financial instruments used by the AP Funds. The Funds' accounting and valuation policies are in accordance with the international reporting standard. The objective is to present information about the fair values of financial assets and liabilities and to ensure transparency and comparability between different companies. This means that the disclosures about valuation of assets and liabilities in the balance sheet take account of whether trade occurs on an active or inactive market and whether quoted prices are available at the time of valuation.

### Valuation of the Fund's net assets – market-listed assets

The majority of the Fund's assets are market listed, which means that they are traded on an active market at prices that represent actual and regularly occurring market transactions. The majority of the Fund's market listed assets are valued daily at their quoted market prices and consist of equities, bonds, derivatives, funds and foreign exchange. Some Fund holdings with listed holdings in underlying securities are valued less frequently than daily, e.g. weekly or every other week. A handful of Fund holdings with listed holdings in underlying securities are valued only once a month.

For OTC derivatives the valuation is based on either theoretical modelling or on a valuation from an external party. For the Fund's holdings of currency futures the valuation is based on theoretical modelling, whereby the model's subjective feature at present consists exclusively of the choice of yield curve and methodology for calculating and forecasting future value (interpolation and extrapolation). The same methodology is applied for deposits, short-dated commercial papers and similar instruments. For other OTC derivatives, valuation is performed exclusively by an external party as a comparison to the Fund's own valuations. In periods when the market lacks liquidity for market listed securities, a higher degree of subjectivity is required in the valuation process. At such times, the market features sharply increased spreads between bid and ask prices, which can also differ substantially between market participants. At such times, Funds have used a conservative approach to valuation.

### Valuation of net assets – alternative investments

For assets that are not valued in an active market, different valuation methodologies are applied to determine fair value. Fair value equals the price that would have been received or paid in an orderly transaction between two independent parties. AP1's unlisted investments consist of investment in hedge funds, risk parity funds, private equity funds, real estate companies and real estate funds. Investments in unlisted hedge funds and risk parity funds are normally valued with a one-month lag. These funds invest primarily in market listed securities. Valuation of fund participations is based on the same principles as for market listed assets. Investments in private equity funds are valued according to the IPEV (International Private Equity and Venture Capital Guidelines) or equivalent principles. According to IPEV, the valuation can be based on completed transactions, market multiples in valuation, the net asset value or discounting of future cash flows. Valuation of the Fund's investments in private equity funds is based on the most recent available reporting. Since reporting from private equity funds is received with a lag, the Fund's annual accounts are generally based on reports at 30 September adjusted for cash flows for the subsequent period and up to the closing date. In a situation

with rising returns in the equity markets, this means that the Fund has a lower valuation in the annual accounts than that which is later reported by private equity fund managers and vice versa.

Investments in real estate companies are valued in accordance with IFRS and industry practice as established in IPD's recommendations. The valuation is based on discounting of future rental income, operating expenses and sales prices by market-based return requirements. With regard to valuation of deferred tax in a real estate company, this is measured at fair value, i.e. a discounting of future tax effects by an interest rate that is relevant for the individual company. Investments in real estate funds are valued according to recommendations from industry organisations such as INREV.

### Fair value

The fair value of a financial instrument is defined as the amount for which an asset could be transferred or a liability settled between knowledgeable and willing parties in an arm's length transaction. Depending on which market data is available for valuation of the financial instruments, these are broken down into three levels:

- Level 1:** Financial instruments traded in an active market. The market is deemed active if there are quoted prices that are regularly updated with a greater frequency than once a week and if the prices are used unaltered to settle trades in the market.
- Level 2:** Financial instruments\* traded on a market that is not considered active but for which there are quoted prices that are used unaltered to settle trades, or observable input data that is regularly updated for indirect valuation using generally accepted models.
- Level 3:** Instruments belong to level 3 if they cannot be included in level 1 or level 2. Instruments belong to level 3 if they cannot be included in level 1 or level 2. In such cases, no observable market data can be used for valuation. Valuations are based on information with consideration to the circumstances, and may require a significant element of estimation from the Fund's management.

### Active market

An active market is one in which quoted prices are readily and regularly available from an exchange, a trader or similar and where transactions are priced on commercial terms. It is virtually only equities for listed companies, currencies and fixed-income securities issued by governments, municipalities, banks or major corporations that are traded on an active market and can thus be included in level 1. For example, currency derivatives are traded on very active markets, but are classified at level 2 since the value must be derived from prices of other instruments.

### Inactive market

An inactive market features a low trading volume and a much lower level of trading activity than on an active market. Available prices vary sharply over time or between market participants. In most cases, the prices are not current.

\*In classification to an appropriate level in the valuation hierarchy, financial instruments shall be assessed without screening.



&gt; Note 17 continued

Financial assets and liabilities, closing balance 31/12/2019, SEKm	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Shares and participations, listed	125,379		1,692	127,071
Shares and participations, unlisted			94,433	94,433
Bonds and other fixed-income assets	117,996	6,543	6,861	131,400
Derivatives		4,356		4,356
<b>Total assets valued at</b>	<b>243,375</b>	<b>10,899</b>	<b>102,986</b>	<b>357,260</b>
<b>Financial liabilities</b>				
Derivatives		-1,526		-1,526
<b>Total liabilities valued at</b>	<b>0</b>	<b>-1,526</b>	<b>0</b>	<b>-1,526</b>
<b>Financial assets and liabilities</b>	<b>243,375</b>	<b>9,373</b>	<b>102,986</b>	<b>355,734</b>

Financial assets and liabilities, closing balance 31/12/2018, SEKm	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Shares and participations, listed	115,990		2,293	118,283
Shares and participations, unlisted			83,537	83,537
Bonds and other fixed-income assets	96,814	9,059	4,642	110,515
Derivatives		3,735		3,735
<b>Total assets valued at</b>	<b>212,804</b>	<b>12,794</b>	<b>90,472</b>	<b>316,070</b>
<b>Financial liabilities</b>				
Derivatives		-1,450		-1,450
<b>Total liabilities valued at</b>	<b>0</b>	<b>-1,450</b>	<b>0</b>	<b>-1,450</b>
<b>Financial assets and liabilities</b>	<b>212,804</b>	<b>11,344</b>	<b>90,472</b>	<b>314,620</b>

**Change, level 3**

SEK m	2019	2018
<b>Shares and participations, listed, opening balance</b>	<b>2,293</b>	<b>2,060</b>
Reclassification from level 2, opening balance 2019		-
Buy	234	443
Sell	-1,071	0
Change in value	236	-210
Change in shares and participations, listed	-601	233
<b>Shares and participations, listed, closing balance</b>	<b>1,692</b>	<b>2,293</b>
<b>Shares and participations, unlisted, opening balance</b>	<b>83,537</b>	<b>71,568</b>
Reclassification from level 1, opening balance 2019	169	-
Buy	7,326	15,810
Sell	-9,753	-14,382
Change in value	13,154	10,541
Change in shares and participations, unlisted	10,727	11,969
<b>Shares and participations, listed, closing balance</b>	<b>94,433</b>	<b>83,537</b>
<b>Bonds and other fixed-income assets, opening balance</b>	<b>4,643</b>	<b>4,436</b>
Reclassification from level 1, opening balance 2019	1,498	
Buy	3,537	543
Sell	-2,977	-411
Change in value	160	75
Change in bonds and other fixed income assets	720	207
<b>Bonds and other fixed-income assets, closing balance</b>	<b>6,861</b>	<b>4,643</b>
<b>Total change, level 3</b>	<b>10,846</b>	<b>12,409</b>

Of the change in value reported above, 59 per cent (79) was unrealised on the balance sheet date. The Fund has the majority of its investments at level 1 where the valuations are obtained from independent and reputed valuation sources. Level 3 listed equities refer to listed fund participations, for which prices are updated less frequently than every seventh day.

## Note 18 – Financial risks

### Forecast risk

The assets' expected market risk is presented in the sensitivity analysis according to the table below. The calculations are based on the Fund's portfolio composition at 31 December 2019 and historical market returns.

The sensitivity analysis is carried out through simulation of return outcomes for the Fund's assets. By using the historical return breakdown in the simulation, any extreme outcomes are taken into account. Hence, no assumptions about normal distribution are necessary. The simulations shown in the table are created for a short-term risk perspective. The simulation uses a one-year data history and risk is presented for a horizon of a one-day change in value. The simulation is based on a joint standard that has been agreed on by the First, Second, Third and Fourth AP Funds.

The simulation is shown with two different but related risk measures. Value at risk shows the outcome exceeded by the Fund with 95 per cent probability. The expected shortfall measure estimates the extent of the loss that may occur with 5 per cent probability. Expected shortfall shows the expected loss given that the loss is greater than the value at risk measure.

The Fund's risk measured as forecast volatility amounted to 4.2 per cent annualised for the Fund's total portfolio at 31 December. The foreign exchange asset class shows the Fund's total currency risk, while

the other assets in the table are hedged for currency risk. The table shows the diversification gain achieved through the Fund's investment in different assets, which together reduce the Fund's risk of loss compared to the risks specific to each individual asset.

### Realised risk

Average realised risk is calculated based on a joint standard that has been agreed on by the First, Second, Third and Fourth AP Funds and which is founded on the principle that calculation of risk shall reflect the market valuation of the Fund's total assets. The valuation frequency is established as quarterly and the period for calculation is established at ten years. Consequently, for the total portfolio the realised standard deviation for the past ten years has been expressed at an annual rate based on quarterly data.

AP1's average realised risk for the past ten-year period was 6.1 per cent based on this calculation methodology.

The First, Second, Third and Fourth AP Funds have also agreed to report average realised risk for the past year both for the total portfolio and for the assets for which a market value is obtained daily. For this calculation of standard deviation, daily data is used. The average realised risk during the year was 3.8 per cent for the total portfolio and 4.6 per cent for the part of the portfolio for which a market value is obtained daily. The share of the portfolio for which a market value is obtained daily was 73 per cent at the end of the year.

### Financial risks

	Volatility annualised %		Value at risk annualised, SEK m		Expected shortfall annualised, SEK m		Value at risk one day, SEK m		Expected shortfall one day, SEK m	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<b>Sensitivity analysis, market risk, at 31 Dec</b>										
Equities	8.5	12.8	-18,685	-24,576	-29,423	-32,696	-1,159	-1,524	-1,825	-2,028
Fixed income	2.6	1.3	-5,526	-2,460	-7,769	-3,014	-343	-153	-482	-187
Alternative investments	7.4	10.9	-12,820	-16,551	-18,348	-24,641	-795	-1,026	-1,138	-1,528
Foreign exchange	6.9	8.7	-4,858	-5,319	-6,194	-6,725	-301	-330	-384	-417
Contribution from Diversification	-2.8	-2.4	16,660	12,808	25,821	14,252	1,033	794	1,601	884
Liquid portfolio	4.0	6.1	-18,971	-25,237	-27,060	-34,809	-1,177	-1,565	-1,678	-2,159
<b>Total portfolio</b>	<b>4.2</b>	<b>6.8</b>	<b>-25,229</b>	<b>-36,098</b>	<b>-35,911</b>	<b>-52,825</b>	<b>-1,565</b>	<b>-2,239</b>	<b>-2,227</b>	<b>-3,276</b>

### Liquidity risk, at 31 Dec

Total balance, SEK m												
		< 1		1-3		3-5		5-10		> 10		
Maturity structure, Maturity in years, SEK m	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Nominal, government	4,762	13,868	4,602	6,674	10,483	7,469	19,478	11,548	13,813	4,290	53,139	43,850
Nominal, credit	6,379	4,025	7,285	11,726	4,749	7,474	13,775	11,821	4,256	5,240	36,444	40,286
Inflation-indexed	6,085	2,432	9,194	11,373	7,869	6,318	11,046	6,572	5,353	5,823	39,547	32,518
Total portfolio	17,226	20,325	21,082	29,773	23,101	21,262	44,300	29,941	23,422	15,353	129,130	116,654

### Derivative positions with a negative fair value, maturity exceeding 12 months, at 31 Dec

									Total balance, SEK m	
	1-3		3-5		5-10		> 10			
Maturity structure, Maturity in years, SEK m	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Equity-linked instruments	-176	-683		0		0		0	-176	-683
Interest-linked instruments	-103	-69	-113	-132		-3		0	-216	-204
Currency-linked instruments		0		0		0		0	0	0
Total	-176	-752	-113	-132	0	-3	0	0	-392	-887

&gt; Note 18 continued

**Credit risk, at 31 Dec**

Rating SEK m	AAA		AA		A		BBB		<BBB		Total balance, SEK m	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Nominal, government	17,152	18,372	15,615	17,394	14,148	5,602	6,225	2,482	0	0	53,139	43,850
Nominal, credit	7,524	9,656	4,778	5,246	5,836	6,834	5,505	7,777	12,802	10,773	36,444	40,286
Inflation-indexed	13,923	15,434	25,218	16,702	406	383	0	0	0	0	39,547	32,518
<b>Total</b>	<b>38,598</b>	<b>43,461</b>	<b>45,611</b>	<b>39,341</b>	<b>20,389</b>	<b>12,820</b>	<b>11,730</b>	<b>10,259</b>	<b>12,802</b>	<b>10,773</b>	<b>129,130</b>	<b>116,654</b>

1) Reporting of credit risk for fixed income securities based on ratings issued by reputed rating agencies.

**Note 19 – Financial assets and liabilities that are netted or governed by netting agreements**

31/12/2019, SEK m	Gross amount	Netted amount in balance sheet	Net amount in the balance sheet	Related amounts that cannot be netted			Other*	Total in the balance sheet
				Framework agreement on netting	Collateral received	Net amount		
<b>Assets</b>								
Unsettled assets	0	0	0	0	0	0	21	21
Derivatives			4,336	1,526	2481	329	20	4,356
<b>Total assets</b>	<b>0</b>	<b>0</b>	<b>4,336</b>	<b>1,526</b>	<b>2481</b>	<b>329</b>	<b>41</b>	<b>4,377</b>
<b>Liabilities</b>								
Unsettled liabilities	0	0	0	0	0	0	50	50
Derivatives			1,526	1526		0	0	1,526
<b>Total liabilities</b>	<b>0</b>	<b>0</b>	<b>1,526</b>	<b>1526</b>	<b>0</b>	<b>0</b>	<b>50</b>	<b>1,576</b>

31/12/2018, SEK m	Gross amount	Netted amount in balance sheet	Net amount in the balance sheet	Related amounts that cannot be netted			Other*	Total in the balance sheet
				Framework agreement on netting	Collateral received	Net amount		
<b>Assets</b>								
Unsettled assets	1		1				1,961	1,961
Derivatives			3,734	1,434	929	1,371	1	3,735
<b>Total assets</b>	<b>1</b>	<b>0</b>	<b>3,735</b>	<b>1,434</b>	<b>929</b>	<b>1,371</b>	<b>1,962</b>	<b>5,696</b>
<b>Liabilities</b>								
Unsettled liabilities	1		1				367	367
Derivatives			1,434	1434		16	16	1,450
<b>Total liabilities</b>	<b>1</b>	<b>0</b>	<b>1,435</b>	<b>1,434</b>	<b>0</b>	<b>16</b>	<b>383</b>	<b>1,817</b>

\* Other instruments in the balance sheet that are not governed by netting agreements

The table above shows the financial assets and liabilities that are presented net in the balance sheet, or that carry rights associated with legally binding framework agreements regarding netting or similar agreements. Financial assets and liabilities are recognised net in the balance sheet when the Fund has a legal right to perform netting in normal business conditions and in the event of insolvency, and if there is an intention to pay net proceeds or realise the asset and simulta-

neously settle the liability. Financial assets and liabilities that are governed by legally binding framework agreements regarding netting or similar agreements that are not presented net in the balance sheet are arrangements that commonly come into legal effect in the event of insolvency, but not in normal business conditions or arrangements in which the Fund does not intend to settle the positions simultaneously.

**Note 20 – Related parties**

The table shows AP1's transactions, outstanding dealings and obligations with related parties in accordance with definitions in IAS 24. Related parties to AP1 are considered to be subsidiaries and associated companies in which the Fund's ownership is a minimum of 20 per cent, and the Fund's Board members and executive management team.

See Note 5 for information regarding salaries and remuneration for Board members and the executive management team.

Counterparty and ownership	31/12/2019	31/12/2018	Counterparty and ownership	31/12/2019	31/12/2018
<b>AROS Bostadsutveckling, 29%</b>			<b>ASE Holdings S.à.r.l, 38 %</b>		
Interest income	–	–	Interest income	28	22
Proprietary loans	–	–	Proprietary loans	255	226
Shareholder contribution during the year	90	106	Shareholder contribution during the year	–	–219
Investment commitments	64	400			
<b>Chapone S.à.r.l, 100%</b>			<b>ASE Holdings III S.à.r.l, 32%</b>		
Interest income	47	39	Interest income	12	7
Proprietary loans	1,405	1,022	Proprietary loans	196	112
Shareholder contribution/repaid during the year	86	–168	Shareholder contribution during the year	70	56
Investment commitments	1,887	2,771	Investment commitments	228	223
<b>Secore AB, 50%</b>			<b>Jutas Invest Finland OY, 100%</b>		
Interest income	–	–	Interest income	25	22
Proprietary loans	–	–	Proprietary loans	378	321
Shareholder contribution during the year	–	28	Shareholder contribution during the year	–	164
Investment commitments	608	608	Investment commitments	588	570
<b>Vasakronan Holding AB, 25%</b>			<b>First Australian Farmland Pty Ltd, 100%</b>		
Rent for premises*	12	11	Interest income	37	34
Interest income	–	–	Proprietary loans	485	458
Proprietary loans	–	–	Shareholder contribution during the year	–	–
Shareholder contribution during the year	–	–			
Undertaking, on the request of Vasakronan, to purchase commercial papers in the company, up to the highest total settlement amount at any time of:	4,500	4,500	<b>OMER Farmoor 3 Holdings B.V. 100%</b>		
			Interest income	–	–
<b>Willhem AB, 100%</b>			Proprietary loans	–	–
Interest income	–	–	Shareholder contribution during the year	–	1,313
Proprietary loans	–	–			
Shareholder contribution during the year	–	–1	<b>Polhem AB/KB 33%</b>		
Undertaking, on the request of Willhem, to purchase commercial paper in the company, up to the highest total settlement amount at any time of:	6,000	6,000	Interest income	–	
			Proprietary loans	–	
			Shareholder contribution during the year	312	
			Investment commitments	2,687	
			<b>Urbanea Fastigheter AB 98%</b>		
			Interest income	–	
			Proprietary loans	–	
			Shareholder contribution during the year	2	
			Investment commitments	491	

\* AP1 rents office premises from Vasakronan on market terms.



# The Board of Directors' Statement of Assurance

We hereby give our assurance that, to the best of our knowledge, the annual accounts have been prepared in conformity with generally accepted accounting principles in Sweden and with the joint accounting and valuation policies developed by the AP Funds, that the information therein gives a true and fair presentation of the actual conditions, and that nothing of material significance has been omitted that could affect the presentation of the Fund created by this annual report.

Stockholm, 20 February 2020

**Urban Hansson Brusewitz**  
*Chairman*

**Annika Sundén**  
*Deputy Chairman*

**Kent Eriksson**

**Peter Hansson**

**Anna Hesselman**

**Åsa-Pia Järliden Bergström**

**Per Klingbjör**

**Charlotte Nordström**

**Eva Redhe**

Our auditors' report was submitted on 20 February 2020

**Peter Nilsson**  
*Authorised Public Accountant*  
Appointed by the Swedish Government

**Helena Kaiser de Carolis**  
*Authorised Public Accountant*  
Appointed by the Swedish Government

# Auditors' Report

For Första AP-fonden, Corp. ID No. 802005-7538

## Report on the annual accounts

### *Opinion*

We have audited the annual accounts of Första AP-fonden for the year 2019. The Fund's annual accounts are on pages 38–56 of this document.

In our opinion the annual accounts have been prepared in accordance with the National Pension Insurance Funds Act (2000:192) and present fairly, in all material aspects, the financial position of Första AP-fonden as of 31 December 2019 and its financial performance for the year then ended in accordance with the National Pension Insurance Funds Act.

The statutory administration report is consistent with the other parts of the annual accounts.

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

### *Basis for our opinion*

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibility as set out in these standards is described in more detail in the section on "The auditor's responsibility". We are independent of Första AP-fonden in accordance with generally accepted auditing standards in Sweden and we have otherwise fulfilled our professional ethical responsibility in accordance with these requirements.

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

### *Information other than the annual accounts*

This document also contains information other than the annual accounts, and this can be found on pages 1–37 and 60–68. The Board of Directors and the CEO are responsible for this other information.

Our opinion regarding the annual accounts does not extend to this information, and we do not provide any opinion with assurance regarding this other information.

In connection with our audit of the annual accounts, it is our responsibility to read the information identified above and to consider whether or not the information is, to a material extent, inconsistent with the annual accounts. During this review, we also take into consideration the knowledge we have otherwise gained during the audit and assess whether the information otherwise seems to contain material misstatement.

If, based on the work carried out regarding this information, we conclude that the other information contains a material misstatement, we are obliged to report it. We have nothing to report in this respect.

### *The Board of Directors' and the CEO's responsibility*

The Board of Directors and the CEO are responsible for the preparation of the annual accounts and for ensuring that they provide a true and fair presentation in accordance with the National Pension Insurance Funds Act. The Board of Directors and CEO are also responsible for such internal control as the Board of Directors and the CEO deem necessary for the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

While preparing the annual accounts, the Board of Directors and the CEO are responsible for assessing the Fund's ability to continue its operation. They disclose, where applicable, conditions that could affect the Fund's ability to continue its operation and to apply the going concern assumption. The going concern assumption, however, is not applied if the Board of Directors and the CEO intend to liquidate the Fund, close down the operation or do not have a realistic alternative to one of these options.

### *The auditor's responsibility*

Our goals are to express an opinion with reasonable assurance on whether the annual accounts as a whole contain any material misstatements, whether due to fraud or error, and to provide an auditors' report containing our opinions. Reasonable assurance is a high degree of certainty, but it is no guarantee that an audit performed in accordance with ISA and generally accepted auditing standards in Sweden will always discover a material misstatement should one exist. Misstatements can occur due to fraud or error, and are deemed to be material if individually or jointly they can reasonably be expected to affect the financial decisions made by users based on the annual accounts.

As part of an audit performed in accordance with ISA, we use professional judgement and we take a professionally sceptical approach during the entire audit. We also carry out the following stages:

- We identify and assess the risks of material misstatement in the annual accounts, whether due to fraud or error, we design and perform audit procedures, partly based on these risks, and we obtain audit evidence that is sufficient and appropriate to provide

a basis for our opinion. There is a higher risk of not discovering a material misstatement due to fraud than one due to error as fraud may entail acting in collusion, falsification, intentional omissions, incorrect information or disregarding internal control.

- We acquire an understanding of the part of the Fund's internal control that is important to our audit in order to design audit procedures that are appropriate taking into account the circumstances, but not in order to express an opinion on the efficacy of the internal control.
- We evaluate the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and pertaining disclosures made by the Board of Directors and the CEO.
- We test the appropriateness of the Board of Directors and the CEO applying the going concern assumption when preparing the annual accounts. Based on the audit evidence obtained, we test whether there are any material uncertainties relating to any events or conditions that could result in significant doubt about the Fund's ability to continue the operation. If we conclude that there is a material uncertainty, we must draw attention in the auditors' report to the disclosures in the annual accounts about the material uncertainty, or, if such disclosures are insufficient, we must modify our opinion of the annual accounts. Our conclusions are based on the audit evidence obtained up until the date of the auditors' report. Future events or conditions may, however, mean that the Fund is no longer able to continue its operations.
- We evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts render the underlying transactions and events in a way that provides a true and fair presentation. We must inform the Board of Directors of the planned scope and direction of the audit, as well as the timing of the audit, for example. We must also provide information about significant observations during the audit, including any significant shortcomings we identify in the internal control.

## Report on other legal and regulatory requirements

### Opinion

In addition to our audit of the annual accounts, we have examined the inventory of the assets managed by Första AP-fonden. We have also examined whether there are any qualifications in general concerning the Board of Directors' and the CEO's administration of Första AP-fonden for 2019.

Our audit has not resulted in any qualifications concerning the inventory of assets or in general regarding the administration of the Fund.

### Basis for our opinion

We have conducted our audit in accordance with generally accepted auditing standards in Sweden. Our responsibility as set out in these standards is described in more detail in the section on "The auditor's responsibility". We are independent of Första AP-fonden in accordance with generally accepted auditing standards in Sweden and we have otherwise fulfilled our professional ethical responsibility in accordance with these requirements.

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

### *The Board of Directors' and the CEO's responsibility*

The Board of Directors and the CEO are responsible for the preparation of the accounting documents and for the management of the Fund's assets in accordance with the National Pension Insurance Funds Act.

The Board of Directors is responsible for Första AP-fonden's organisation and for the management of Första AP-fonden's affairs. This includes, for example, continuously assessing Första AP-fonden's financial situation and ensuring that Första AP-fonden's organisation is designed so that accounting, asset management and Första AP-fonden's financial affairs are otherwise controlled in an adequate manner. The CEO shall manage the ongoing administration in accordance with the Board of Directors' guidelines and instructions and, for example, take the necessary measures to ensure that Första AP-fonden's accounting is fulfilled in conformity with legislation and to ensure that asset management is handled in an adequate manner.

### *The auditor's responsibility*

Our goal regarding the audit of the administration, and thereby our opinion on the administration, is to obtain audit evidence in order to assess with reasonable assurance whether or not there is any qualification concerning the Board of Directors' and the CEO's administration of Första AP-fonden for the 2019 financial year.

Reasonable assurance is a high degree of certainty, but it is no guarantee that an audit performed in accordance with generally accepted auditing standards in Sweden will always discover measures or omissions that can result in qualifications.

As part of an audit performed in accordance with generally accepted auditing standards in Sweden we use professional judgement and we take a professionally sceptical approach during the entire audit. The review of the administration is primarily based on the audit of the annual accounts. Decisions regarding additional audit procedures carried out are based on our professional judgement with the starting points of risk and material aspects. This means that we focus the review on such procedures, areas and conditions that are material to the operation and where deviations and non-compliance would have particular significance for Första AP-fonden's situation. We review and test the decisions made, bases for decisions, measures taken and other conditions that are relevant to our opinion of the administration.

Stockholm, 20 February 2020

### **Peter Nilsson**

*Authorised Public Accountant*

Appointed by the Swedish Government

### **Helena Kaiser de Carolis**

*Authorised Public Accountant*

Appointed by the Swedish Government

# Första AP-fonden's Fund Governance Report 2019

*The Board of Directors of AP1 has chosen to publish a Fund Governance Report to provide information on the work of the Board and Fund on governance and risk management. AP1's principles and core values – professionalism, engagement, a long-term approach and sustainability – are at the heart of its corporate culture.*

THE FUND GOVERNANCE REPORT, including the Board of Directors' report on risk management, has not been reviewed by the auditors. Första AP-fonden (AP1) is a Government authority (for details see the Fund's website, [www.ap1.se](http://www.ap1.se)) commissioned to manage assets in the Swedish income pension system. The AP Funds are more independent than most Swedish authorities because their operations are only regulated in the National Pension Insurance Funds<sup>1</sup> (AP Funds) Act and not by regulations or appropriation directions. As a Government authority, AP1 is also affected by other laws<sup>2</sup>. Each year, the operations of all AP Funds are evaluated by order of the Swedish Government. The results of

the evaluation are presented in a communication to the Swedish Parliament, presented in May of the year following the review period. Government communication 2018/19:130 describes the evaluation through 2018. The communications are available at [www.ap1.se](http://www.ap1.se). AP1 voluntarily complies with the Swedish Code of Corporate Governance where it is possible. Publication of this Fund Governance Report is part of this compliance. However, not all rules in the Code are applicable to all parts, since AP1 is a Government authority. In the table, the rules which the Fund does not follow are set out, and the reasons for this. All other rules of the Code are followed.

Rule	Divergence	Reason
Section 1	Första AP-fonden does not hold an AGM	The Board members of the Fund are appointed by the Swedish Government. Therefore, the Fund has neither an AGM nor a nomination committee.
Section 2	Första AP-fonden does not have a nomination committee	The Board members of the Fund are appointed by the Swedish Government. Therefore, the Fund has neither an AGM nor a nomination committee.
7.6	The Fund's six-month interim report is not reviewed by the auditors	AP Funds report full-year and six-month results. The six-month report, which does not affect the pension system, is not reviewed for cost reasons.
10.2 pi	The Fund does not report the composition of the nomination committee	The Fund's Board members are appointed by the Government and there is thus no nomination committee.

(1) The National Pension Insurance Funds Act (2000:192) (the AP Funds Act).

(2) For example, the Public Procurement Act (2007:1091), the Public Access to Information and Secrecy Act (2009:400), the Financial Instruments Trading (Market Abuse Penalties) Act (2005:377) and Anti-Bribery legislation in Chapter 10 of the Criminal Code. /??see comment/ The Retirement Pension (Income-Based) Act (1998:674) also affects the Fund's operations.

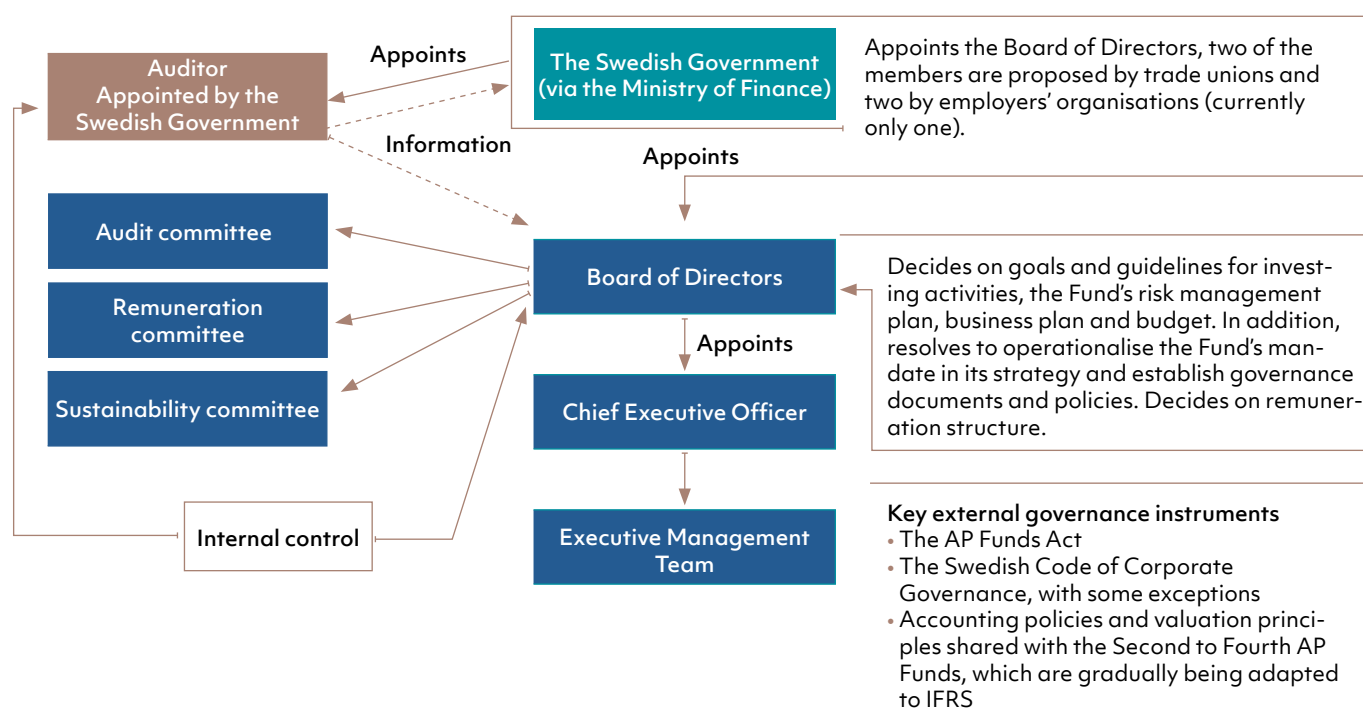
## Board of Directors

The Board of Directors of Första AP-fonden bears full responsibility for the operations of the Fund and is responsible for the Fund's organisation and management of Fund assets. The work of the Board is regulated in the National Pension Insurance Funds (AP Funds) Act. AP1's Board of Directors consists of nine members, all of whom are appointed by the Swedish Government. Two of the members are appointed on the proposal of organisations representing employee interests, and two are appointed on the proposal of organisations representing employer interests. Since 2007, the Confederation of Swedish Enterprise has abstained from proposing members. The Government also appoints the Chairman and Deputy Chairman from among the members not proposed by labour market parties. The Fund's CEO is not a member of the Board. The Government also appoints the Fund's

external auditors. The members' term of office is one year, i.e. it extends until the Fund's income statement and balance sheet for 2019 have been adopted. Fees and other remuneration for members of the Board are determined by the Government. Remuneration for the full year amounts to SEK 100,000 for the Chairman, SEK 75,000 for the Deputy Chairman and SEK 50,000 each for the other Board members. In addition, there is scope to pay total fees of SEK 100,000 for work on the Board's committees. The Board has resolved to pay fees of SEK 20,000 per year to each member of the audit committee and SEK 13,000 per year to each member of the remuneration committee. For more information about fees for Board members see Note 5. A more detailed presentation of the members of the Board of Directors is provided on page 52.



## Overview of governance



### Work of the Board of Directors

Each year, in compliance with the requirements imposed by the National Pension Insurance Funds (AP Funds) Act, the Board of Directors establishes targets and guidelines for the investing activities, the Fund's risk management plan, ownership policy, business plan and budget. In addition, the Board resolves to operationalise the Fund's mandate in its strategy and a number of governance documents, the most important being its principles and ethical policy, policy for gifts, hospitality and other benefits, remuneration policy for senior executives and rules governing employees' trade in financial instruments. The Board also appoints a CEO to whom it delegates responsibility for the Fund's day-to-day activities. The Board has resolved on rules of procedure for its own work. In 2019 the Board met on ten occasions. During the year, the Board addressed the outcome of management, expenses, ownership matters, the business plan and budget, etc. In addition to the ordinary meetings, the Board of Directors also discussed the Fund's mandate, strategy and targets ahead of forthcoming decisions at a seminar. API's comments on the proposed change in investment rules were raised at an extraordinary Board meeting in October. Extraordinary Board meetings were also held in view of the CEO's dismissal. Average attendance at Board meetings was 87 per cent (see table). Reporting of day-to-day asset management and risk reporting have been standing items on the agenda. At Board meetings, in addition to Board members, the CEO of the Fund attends as well as the secretary to the Board. The secretary to the Board is the Fund's General Counsel. Other staff of the Fund also participate as experts or reporting persons. External speakers are also invited

to Board meetings when needed. The Fund's external auditors report to the Board at least once a year. On these occasions, there is time for discussions between the Board and auditors without the presence of employees of the Fund. Each year, the Board conducts an evaluation of its own work. The evaluation is then used to improve the work of the Board and its committees, as well as the preparatory work of management ahead of Board meetings. The Chairman of the Board reports the main results to the Government. From among its own members the Board has appointed three committees: an audit committee, a sustainability committee and a remuneration committee. All of the committees are preparatory organs and the Board retains the right to make decisions in all matters addressed in the committees. The audit committee assists the Board in matters related to internal control, operational risks, financial reporting and auditing. In 2019 Annika Sundén was chair and Anna Hesselman, Urban Hansson Brusewitz (until April) and Åsa-Pia Bergström (from May) were members of the audit committee. The committee convened four times. Attendance at meetings of the audit committee was 75 per cent. The Fund's auditors take part in the meetings of the audit committee on two occasions. The Fund's General Counsel, the Head of Middle Office & Risk and the Head of Business Support are co-opted into the audit committee meetings. The remuneration committee assists the Board in matters related to remuneration. In 2019 the committee consisted of Board Chairman Urban Karlström (chairman of the committee until April), Göran Arrius (until April), Anders Henriksson (until April), Urban Hansson Brusewitz (chairman of the committee from May), Peter Hansson (from May) and Charlotte Nordström (from May). The

## Attendance at board meetings and meetings with the audit committee, remuneration committee and sustainability committee

	Nomination/appointment proposed by	Board meetings, attendance	Audit committee, attendance	Remuneration committee, attendance	Sustainability committee, attendance
Urban Karlström, Chair (until April)		2/2		Chairman 2/2	
Göran Arrius	Employee organisation (SACO)	1/2		Board member 2/2	
Anders Henriksson		2/2		Board member 2/2	
Urban Hansson Brusewitz Chair (from May)		10/10	Board member 2/2	Chairman 1/1	
Annika Sundén, Deputy Chair		7/10	Chairman 2/4		
Åsa-Pia Järliden Bergström	Employee organisation (LO)	10/10	Board member 2/2		
Kent Eriksson		8/10			Board member 3/3
Eva Redhe		8/10			Board member 3/3
Anna Hesselman		8/10	Board member 3/4		
Charlotte Nordström	Nominated by SALAR	7/8		Board member 1/1	
Per Klingbjör	Nominated by SACO	7/8			Chairman 3/3
Peter Hansson		8/8		Board member 1/1	
		<b>78/90</b>	<b>9/12</b>	<b>9/9</b>	<b>9/9</b>

committee convened three times during the year. Attendance at meetings of the remuneration committee was 100 per cent. The CEO of the Fund is co-opted into the remuneration committee's meetings, apart from when his remuneration is discussed. The Head of Human Resources is co-opted into remuneration committee meetings.

In autumn 2019 the Board established a sustainability committee comprising Board members

Per Klingbjör (chairman of the committee), Eva Redhe and Kent Eriksson. The sustainability committee assists the Board in matters related to sustainability. The committee convened three times in autumn. Attendance at meetings of the sustainability committee was 100 per cent.

### Management of the Fund

The Board of AP1 has delegated responsibility for operating activities to the Fund's CEO. The Board decides on the long-term risk preference of the Fund, which is manifested in overarching asset allocation. In order to implement the Fund's investment philosophy, the CEO is given a mandate to diverge from the overarching asset allocation within specified bounds. In support of the CEO in decisions pertaining to operating activities, the CEO has decided to appoint an executive management team that includes the Chief Investment Officer and the General Counsel, and the Heads of Middle Office & Risk, Business Support, IT, Communication and HR.

### Remuneration

AP1's Board of Directors annually adopts a policy for remuneration for senior executives (publicerad på [www.ap1.se](http://www.ap1.se)). The Fund's policy is based on the guidelines resolved by the Government on 20 April 2009. The policy sets out that the total amount of remuneration for each person should be fair and reasonable, balanced and characterised by moderation. Furthermore, remuneration should be market-based and competitive with respect to the labour market in which the executive works, but without being higher than the norm for comparable positions. No variable remuneration is available to the Fund's employees. AP1, together with the Second, Third, Fourth, Sixth and Seventh AP funds, also has a joint policy for remuneration, employee benefits, hospitality and business travel. It is published on [www.ap1.se](http://www.ap1.se). Remuneration to the CEO is determined by the Board of Directors and consists of fixed salary and payment of defined contribution pension premiums equal to 30 per cent of basic salary. For the portion of remuneration granting rights under the national pension scheme, the pension premium is reduced to 11.5 per cent. Remuneration for senior executives of AP1 is determined by the CEO according to a well-defined process that involves the Board of Directors and its remuneration committee. AP1 complies with all points (9.1–9.8) relating to remuneration to senior executives in the Swedish Code of Corporate Governance. In each of the past four years, the Fund's average salary increases have been low and below the corresponding increases for the comparable market. See Note 5 for further information regarding remuneration for the executive management team paid in 2019. Every year, the Fund commissions a comparison of remuneration levels with relevant

parts of the labour market as a basis for monitoring remuneration for the Fund's employees, and this also occurred in 2019. In the Board's opinion, salary levels are market-based, competitive, reasonable and appropriate without being higher than the norm with regard to the CEO, senior executives and other employees. The Board has found that the Fund is in compliance with both the remuneration policy established by the Board and the Swedish Government's "Guidelines for terms of employment of senior executives in the AP funds". A small number of old employment contracts have a notice period exceeding six months. However, the Board has decided not to renegotiate these contracts since this would result in higher costs for the Fund without achieving any significant improvement in the contracts. Compared to the other entities in the study, remuneration for the Fund's employees is in some individual cases above the median for each position. Furthermore, the Board of Directors' analysis shows that there are two reasons why the Fund's remuneration is higher than that in the comparison groups:

- **EMPLOYEES WITH CUTTING-EDGE EXPERTISE:** AP1 is a small and knowledge-intensive organisation that has an explicit strategy to hire and retain employees with cutting-edge expertise in specific areas.
- **NO VARIABLE SALARY:** The Fund's employees are offered only fixed remuneration. Many of the areas of expertise sought by the Fund are offered variable salary by other employers. To attract and retain employees, the Fund therefore offers higher fixed salaries. The fact that AP1 does not pay variable salary when other entities in the study do causes difficulties in interpreting the comparative statistics. At times when performance-based variable salary is lower, AP1's remuneration can therefore be higher than the average for comparable areas of expertise. At times of high returns in the financial industry, the Fund's remuneration will instead be lower than the average for comparable areas of expertise. Hence, the Fund's remuneration is within a range that can be regarded as market-based. The auditors perform a review to ensure compliance with the Fund's remuneration policy for senior executives, the Swedish Government's guidelines for terms of employment of senior executives in the AP funds and the joint policy with other AP funds. No divergences from the above were noted. Första AP-fonden invests in various real estate markets via companies in which the Fund has a significant voting share. This includes Vasakronan, Cityhold, Polhem Infra and Willhem and others. The Fund has issued ownership directives that affect remuneration matters for these companies. The directives are published on [www.ap1.se](http://www.ap1.se).

## Conflicts of interest

Första AP-fonden uses a three-step process to handle any conflicts of interest. The first stage is to identify potential conflicts of interest in advance. In the second stage, transpired conflicts of interest are addressed by means of the CEO deciding on the Fund's action in the individual case. For conflicts of interest of particular importance, the Chairman of the Board is consulted. Any conflicts of interest are reported to the Board and published on the Fund's website as they arise. Two conflicts of interest arose in 2019.

## Internal control

The Board of Directors is responsible for the governance and risk management of the Fund. In the Fund's risk management plan, the Board has adopted guidelines and frameworks for the Fund's overarching allocation of responsibilities, risks, risk limits and procedures for monitoring and control of compliance with rules and guidelines. The Board's report on risk management is provided on page 51.

## Independent review

In 2019 the Board decided to commission an advisory review of the Fund's model risk and critical calculation models as part of its internal audit.

## External audit

AP1's auditors are appointed by the Swedish Government. A decision by the Swedish Government, via the Ministry of Finance, dated 23 May 2019 renewed the appointment of Peter Nilsson and Helena Kaiser de Carolis as designated auditors from PwC. The term runs up until the Fund's income statement and balance sheet for 2019 has been adopted. The auditors have also been appointed as auditors of the Second, Third, Fourth and Seventh AP funds. The auditors report directly to the Board in the form of a written audit report and a verbal presentation. The auditors participate in at least one Board meeting per year. In addition, regular meetings with the audit committee are held. The auditors present an auditors' report of their findings. The auditors also submit a yearly verbal report to the Swedish Ministry of Finance. The auditors' duties include examining the Fund's operating activities, the administration of the Fund, the year-end accounts and the annual report, and expressing an opinion on the Fund's accounting documents and administration based on their audit. Their duties also include assessment of AP1's application of the accounting and valuation policies established by the AP Funds and whether the accounting records prepared provide a true and fair presentation of the operations. In addition to a regular audit, the AP Funds' auditors must append a written, signed statement to the auditors' report to express their opinion on whether or not the guidelines for remuneration to senior executives as established for the financial year have been complied with.

# The Board of Directors' Report on Risk Management

SINCE 2015, AP1 works according to a new investment process, which is an enhancement of the investment process implemented in 2014. This report describes risk management in 2019. The Swedish Government commissions external auditors to review the Fund's financial statements and risk control. An internal audit is also conducted annually, as commissioned by the Board.

According to the National Pension Insurance Funds Act (2000:192), the Board of Directors of AP1 is responsible for the Fund's organisation and management of the Fund's assets. Part of this responsibility is to ensure the high quality of the Fund's internal control. From among its members, the Board appoints an audit committee to prepare matters pertaining to internal control, for example. The Board submits this report on risk management annually. However, this report is not part of the formal annual report and is therefore not examined by the Fund's auditors.

As a participant in financial markets, the Fund distinguishes between three risk categories that are addressed in different ways.

- Financial risks – market risks and issuer risks – enable the Fund, when employed correctly, to increase its return on invested capital. Financial risks shall thus be optimised within the risk mandate delegated to the CEO by the Board, and the risk mandate further delegated by the CEO within the management organisation.
- Counterparty and delivery risks shall be minimised. Counterparties are evaluated and approved in a set process in which account is taken of, for example, their official rating.
- Operational risks shall be minimised by means of e.g. incident follow-up, preparing relevant policy documents, staff training and investment in IT systems.

## Control environment – Fund governance

The Board of Directors annually adopts a risk management plan that sets out guidelines and limitations for the risk mandate delegated by the Board to the CEO. The document serves as a basis for the internal control and monitoring of the Fund's investing activities. The plan sets out limits for financial risk-taking and stipulates well-defined decision-making structures for operating activities. The approach leads to sound internal risk control.

Although AP1 does not formally come under the regulations of Finansinspektionen (the Swedish financial supervisory authority), the Fund's risk management rests on Finansinspektionen's Regulations and General Guidelines regarding governance, risk management and control at credit institutions (FFFS 2014:1) in terms of the three lines of defence, (i) responsibility for risk management and control in the business operations, (ii) internal control and regulatory compliance and (iii) independent review. For the third line of defence, independent review through internal audit, the Board of Directors has resolved to conduct independent reviews with the support of an external consultant.

Managing financial risks is fundamental to the ability of the Fund to deliver on its mandate in the pension system. Risk management in the Fund is thus proactive, with financial risk forecast for each asset individually and for the portfolio as a whole. For this reason, there is a well-established risk culture at the Fund. Important elements of this culture are transparent reporting of the Fund's investments and a principle of duality for executing business transactions. This means that everyone in the organisation can monitor investing activities via an enterprise-wide system and that each business transaction requires the approval of at least two people – one from the Fund's Back Office and one from the relevant investment unit.



The second line of defence comprises the internal risk control function and compliance function. Middle Office focuses on financial risks and counterparty and delivery risks. The Compliance Officer works primarily with verifying compliance with external regulations.

### Risk assessment

To ensure effective financial reporting and identification of operational risks, a yearly review of the Fund's processes and documentation thereof is conducted by order of the Board. The results of this review are reported to the Board's audit committee and the Board. A key component of this review is the account-closing process, which serves as a basis for the external financial reporting. The account-closing process encompasses valuation, reconciliation and controls of securities in connection with the closing of accounts. Aside from a general review of the processes, the Chief Risk Officer, after consultation with the CEO, establishes on a yearly basis the areas to be prioritised and subjected to special review. The units within the organisation that are affected by the review participate actively in the analysis, which is based on a self-assessment method. This work results in an evaluation of identified risks and a prioritisation of measures. The Fund's Chief Risk Officer oversees the analysis process and ensures that the prioritised measures are implemented.

### Control structure and activities

The financial information is analysed and verified by the Fund's Back Office and Middle Office. The systems in Back Office and Middle Office also produce source materials for various risk analyses that are used as support for control activities.

AP1's accounting and valuation policies are being gradually adapted to International Financial Reporting Standards, IFRS.

Complete adaptation to IFRS would have no material impact on the reported net investment income and net assets. Compared to the currently applicable IFRS, the only major difference is that consolidated financial statements and cash flow statements are not prepared.

To read more about this, see the Fund's accounting and valuation policies.

The portfolio is managed according to forecast financial risk within the given mandates. Forecast risk is analysed retrospectively in relation to the actual risk outcome. In this way, the model for portfolio management can be developed.

### Communication and reporting

All guidelines and instructions with relevance for internal control are communicated clearly and are available to all employees on the Fund's intranet. This transparency also applies to the daily internal performance reports, which are also available on the Fund's intranet.

The Board is regularly informed about the Fund's financial position and performance. Each month, the Board is provided with an income, return and risk report. An income statement and balance sheet report is presented to the Board on a quarterly basis. The Fund's financial position and risk-taking are also reported at each ordinary Board meeting. Risk reporting is a standing item on the agenda of all of the Fund's ordinary Board meetings. These procedures are deemed to secure the Fund's external financial reporting. External reports of the Fund's financial position are published in connection with the annual and semi-annual accounts. Middle Office reports to the audit committee in connection with its meetings. The auditors report continuously to the audit committee and to the Board in connection with the annual closing of accounts.

# Board of Directors



**URBAN HANSSON  
BRUSEWITZ**

**Born:** 1958

*Chairman, chair of the remuneration committee*

Elected to the Board in 2016.

PhD in Economics, Director-General of the National Institute of Economic Research.

**Other assignments:** Member of the Swedish National Financial Management Authority's transparency council.



**ANNIKA SUNDÉN**

**Born:** 1964

*Deputy Chairman, chair of the audit committee*

Elected to the Board in 2011.

Associate Professor, Analysis Director at Sweden's Public Employment Agency.

**Other assignments:** Member of the Institute for Future Studies, member of the Delegation for Migration Studies, member of the Scientific Council of IFAU and board member of the National Government Employee Pensions Board.



**KENT ERIKSSON**

**Born:** 1964

*Member of the sustainability committee*

Elected to the Board in 2015.

Professor at the Royal Institute of Technology.



**PETER HANSSON**

**Born:** 1957

*Member of the remuneration committee*

Elected to the Board in 2019.

Chairman of the Swedish Childhood Cancer Fund's finance committee and board member of Nordkinn Asset Management AB.



**ANNA HESSELMAN**

**Born:** 1954

*Member of the audit committee*

Elected to the Board in 2015.

Licentiate Degree in Economics. Consulting business in accounting and finance.



**ÅSA-PIA JÄRLIDEN  
BERGSTRÖM**

**Born:** 1969

*Member of the audit committee*

Elected to the Board in 2015.

Appointed on the proposal of employee organisation (LO).

M. Sc. in Economics, 1LO economist.

**Other assignments:** Chairman of Bantorget finans AB, board member of Bio-ech R&D AB.

**PER KLINGBJER****Born:** 1964*Chair of the sustainability committee*

Elected to the Board in 2019. Appointed on the proposal of employee organisation (SACO). PhD in Physical Geography, Executive Director of the Swedish Association of Professional Scientists.

**Other assignments:** Chairman of Svenskt Friluftsliv, board member of Akademikertjänst I.A.S AB, Akademikerförsäkring AB, Förvaltningsaktiebolaget Akademikerhus and member of the Royal Swedish Academy of Agriculture and Forestry.

**CHARLOTTE NORDSTRÖM****Born:** 1963*Member of the remuneration committee*

Elected to the Board in 2019. Appointed on the proposal of employer organisation SALAR (Swedish Association of Local Authorities and Regions). Chairman of the Board of Regionhälsan/Deputy Member of the Regional Executive Board in Region Västra Götaland.

**Other assignments:** Member of the Swedish Police transparency council, member of Turistrådet Västsverige AB.

**EVA REDHE****Born:** 1962*Member of the sustainability committee*

Elected to the Board in 2013. MBA.

**Other assignments:** Chairman of the board of Ftrack AB. Board member of Axel Christiernsson International AB and Nordkinn Asset Management AB.

# Executive Management Team



TERESA ISELE

**Born:** 1982  
*Acting Chief Executive Officer*  
**Employed:** 2015.  
 General Counsel since: 2016.  
**Education:** Swedish Bachelor of Laws & Master of Laws at Stockholm University, German Bachelor of Laws at Humboldt-Universität, Berlin, Diploma in English Law at King's College London.  
**Previous experience:** EQT, Vinge.



MIKAEL ANGBERG

**Born:** 1973  
*Chief Investment Officer*  
**Employed:** 2013.  
 In current position since: 2013.  
**Education:** Civ. Ing.  
**Previous experience:** PIMCO, BNP Paribas, Goldman Sachs, AXA Investment Managers and CERN.



SARA CHRISTENSEN

**Born:** 1970  
*Head of Communications*  
**Employed:** 2019.  
 In current position since: 2019.  
**Education:** Business Administration.  
**Previous experience:** Swedbank, Kaupthing, ABB, GE Capital.



MATS ENEBRINK

**Born:** 1976  
*Head of IT and Systems Development*  
**Employed:** 2008.  
 In current position since: 2018  
**Education:** Master of Engineering, CFA.  
**Previous experience:** AFA Försäkring, VPD Financial Software Consulting.



GUN HAMMARLUND

**Born:** 1958  
*Head of Business Support*  
**Employed:** 1987. In current position since 2001. In executive management team since 2016.  
**Education:** MBA at Lund University.  
**Previous experience:** Portfolio manager, accounting manager.



KATARINA HÖLLER

**Born:** 1966  
*Head of Middle Office & Risk*  
**Employed:** 2016.  
 In current position since: 2016.  
**Education:** B. Sc. in Statistics.  
**Previous experience:** SEB Wealth Management, Finansinspektionen, DnB NOR, Skandia Asset Management.



MARINA WESTMAN

**Born:** 1960  
*Head of Human Resources*  
**Employed:** 2008.  
 In current position since: 2008.  
**Education:** Human Resources.  
**Previous experience:** HR positions in the SEB group.

# Contact



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*Head of Communications*

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