

The background of the image is a high-angle aerial photograph of a city, likely Stockholm, showing a dense urban area with numerous apartment buildings, green spaces, and a large industrial or port complex with several large ships and cranes in the water. A bridge spans a river or bay in the center-left.

AP2

Andra
AP-fonden

HALF-YEAR REPORT
1 JANUARY - 30 JUNE 2023

Six months characterised by tentative improvements in the global economy

Andra AP-fonden reported a total return of 4.8 per cent, after costs, for the first half year of 2023. The result amounted to SEK 19.4 billion and the Fund assets amounted to SEK 423.9 billion by the end of the first six-month period of 2023. The Fund's return relative to the benchmark index was 0.1 per cent, excluding alternative investments and expenses.

- On 30 June 2023, Andra AP-fonden's assets under management amounted to SEK 423.9 (411.7) billion. The Fund's assets saw a net outflow of SEK -2.6 (-2.0) billion to the pension system.
- A result of SEK 19.4 (-27.3) billion was reported for the first half of the year.
- The return on the total portfolio was 4.8 (-6.2) per cent, after commission fees and operating expenses. Excluding these costs, the portfolio returned 4.85 (-6.2) per cent.
- The relative return of the listed portfolio, excluding alternative investments and costs, stood at 0.1 (0.05) per cent.
- Operating expenses, expressed as share of management costs, remained low during the period at 0.07 (0.06) per cent.
- The total share of management costs remained low and was 0.10 (0.11) per cent.
- The Fund has generated an annual average return, after costs, of 7.5 per cent over the past ten years and 5.5 per cent over the past five years.
- The total profit generated by the Fund since it was launched in 2001 amounts to SEK 348.6 billion, equating to an average annual return of 5.8 per cent, including the Fund's costs.
- The currency exposure of the Fund was 24 (31) per cent.

Key ratios	Jan.-June 2023	Jan.-June 2022	Jan.-Dec. 2022
Fund capital carried forward, SEK billion	423.9	411.7	407.1
Net result for the period, SEK billion	19.4	-27.3	-29.2
Net outflows to the national pension system, SEK billion	-2.6	-2.0	-4.7
Fund capital brought forward, SEK billion	407.1	441.0	441.0
Asset management costs: operating expenses, %	0.07	0.06	0.06
Asset management costs: commission expenses, %	0.03	0.05	0.05
<i>Total asset management costs, %</i>	<i>0.10</i>	<i>0.11</i>	<i>0.11</i>
Return after costs, %	4.8	-6.2	-6.7
Real return after costs, %	2.3	-9.7	-16.9
Annualised return after costs, 5 years, %	5.5	6.1	5.2
Annualised return after costs, 10 years, %	7.5	8.2	7.4
Real annualised return after costs, 10 years, %	4.8	6.5	5.0

Unless otherwise stated, the portfolio assets referred to in this report are "allocated exposures". In addition to booked fair values, these also refer to allocated (but not yet invested) liquidity for the specific class of asset, and the liquid funds held as collateral for positions already taken in derivative instruments. Classes of asset, derivative instruments and liquid funds are reported individually in the balance sheet at their fair values. All monetary amounts are expressed in Swedish kronor and abbreviated as SEK k (thousand), SEK million or SEK m (million) and SEK billion or SEK bn (thousand million), in accordance with the Swedish Language Council's recommendations. Figures in parentheses refer to the same period of time preceding year.

Half-year result

In the first half of 2023, the global economy performed better than expected, but with growth forecasts still subject to considerable uncertainty. Lower energy prices helped to dampen overall inflation and reduce the pressure on households. China's reopening after the pandemic earlier than expected initially gave a boost to global activity. Core inflation persisted, however, and the effects of higher interest rates had an increasing impact on the global economy.

The equity and fixed-income markets performed well during the first half of 2023, which contributed to the Fund's total return of 4.8 per cent during this period.

The equity portfolios performed best, with a return of 11.7 per cent for Swedish equities, 13.4 per cent for equities in developed markets and 10.4 per cent for equities in emerging markets. Interest and credit portfolios also performed positively, at 0.6 per cent for Swedish government and mortgage bonds, 7.5 per cent for green bonds, 4.8 per cent for foreign government bonds, 7.2 per cent for corporate bonds and 13.2 per cent for government bonds in emerging markets.

The Fund's portfolio of alternative investments achieved a return of 0.8 per cent during the period. Asset classes comprising private equity funds, unlisted

credits, catastrophe bonds and timberland and farmland real estate contributed positively, while traditional real estate and sustainable infrastructure contributed negatively.

The Fund's relative return in the listed portfolios was positive at 10 basis points.

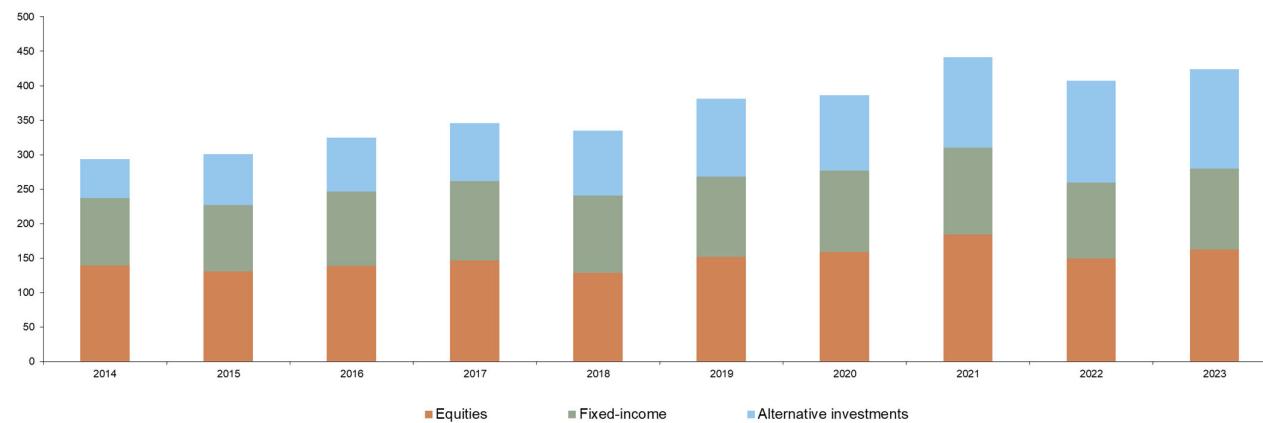
Summary of strategic portfolio, portfolio share and return, 30 June 2023

Asset class	Strategic portfolio, %	Share of portfolio, %	Value of portfolio, SEK billion	Absolute return, %	Relative return, %	Active risk ex post*, %
Equities, Swedish	9.0	7.9	33.6	11.7	1.6	2.5
Equities, developed markets	20.0	19.0	80.4	13.4	-0.1	0.7
Equities, emerging markets	12.0	11.4	48.5	10.4	0.1	0.6
Fixed-income, Swedish securities	6.5	5.1	21.5	0.6	0.4	0.6
Fixed-income, global green bonds	3.0	2.8	11.9	7.5	-0.6	0.6
Fixed-income, foreign government bonds	4.0	3.8	15.9	4.8	0.3	0.6
Fixed-income, foreign credits	9.5	8.9	37.5	7.2	-0.2	0.5
Fixed-income, emerging markets	7.5	7.2	30.7	13.2	0.0	0.6
Total listed assets, excluding alternative investments, commission and operating expenses**				8.0	0.1	0.5
Alternative investments**	28.5	34.0	143.9	0.8		
Total Fund capital, excluding commission and operating expenses**	100	100	423.9	4.8		

* Historical outcome, 12 months rolling.

** Including FX hedging.

Fund capital growth 2014 – 30 June 2023, SEK billion



Income statement

SEK million	Jan.-June 2023	Jan.-June 2022	Jan.-Dec. 2022
Operating income			
Net interest income	2 107	1 983	3 924
Dividends received	3 238	4 727	9 058
Net income, listed equities and participations	11 421	-35 135	-32 470
Net income, unlisted equities and participations	-624	7 575	549
Net income, fixed-income securities	1 582	-14 512	-16 953
Net income, derivative instruments	-2 286	-345	-4 613
Net income, foreign exchange gains/losses	4 154	8 641	11 724
Commission expenses, net	-60	-105	-201
Total operating income	19 532	-27 171	-28 982
Operating expenses			
Personnel expenses	-90	-85	-161
Other administration expenses	-51	-49	-101
Total operating expenses	-141	-134	-262
NET RESULT FOR THE PERIOD	19 391	-27 305	-29 244

Balance sheet

SEK million	30 June 2023	30 June 2022	31 Dec. 2022
Assets			
Equities and participations			
Listed	162 200	159 312	157 838
Unlisted	134 691	129 868	128 173
Bonds and other fixed-income securities	128 575	122 199	112 808
Derivative instruments	976	2 144	8 287
Cash and bank balances	2 407	6 247	7 018
Other assets	2 998	1 789	55
Prepaid expenses and accrued income	2 500	2 096	2 079
TOTAL ASSETS	434 347	423 655	416 258
Fund capital and liabilities			
Liabilities			
Derivative instruments	7 362	8 968	3 993
Other liabilities	2 510	2 597	4 170
Deferred income and accrued expenses	574	362	983
Total liabilities	10 446	11 927	9 146
Fund capital			
Fund capital carried forward	407 112	441 045	441 045
Net payments to the national pension system	-2 602	-2 013	-4 689
Net result for the period	19 391	-27 305	-29 244
Total Fund capital	423 901	411 728	407 112
TOTAL FUND CAPITAL AND LIABILITIES	434 347	423 655	416 258

Ten-year performance review

	30 June 2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Fund capital, flows and net result, SEK m										
Fund capital	423 901	407 112	441 045	386 350	381 350	334 828	345 931	324 522	300 624	293 907
Net outflows to the national pension system	-2 602	-4 689	-7 528	-7 902	-6 520	-6 773	-7 375	-6 637	-4 944	-5 120
Net result for the period	19 391	-29 244	62 349	12 776	53 042	-4 330	28 784	30 535	11 661	34 315
Return, %										
Return on total portfolio excl. commission and operating expenses	4.8	-6.6	16.4	3.7	16.1	-1.2	9.1	10.5	4.1	13.3
Return on total portfolio incl. commission and operating expenses	4.8	-6.7	16.3	3.5	15.9	-1.3	9.0	10.3	4.0	13.1
Relative return on listed assets, excl. alternative investments, commission and operating expenses*	0.1	0.3	0.5	0.0	-0.9	-0.2	0.1	-0.4	0.9	0.5
Annualised return after costs, 5.0 years, %	5.5	5.2	8.5	7.3	7.4	6.9	9.8	10.6	8.0	9.4
Annualised return after costs, 10.0 years, %	7.5	7.4	9.5	7.7	8.4	8.8	6.0	5.5	5.7	7.1
Risk, %										
Active risk ex post	0.5	0.5	0.4	0.6	0.5	0.4	0.4	0.4	0.4	0.3
FX exposure	24	23	34	34	34	32	33	31	30	24
Share of external management, %	17	21	18	20	19	17	17	17	17	28
Total asset management costs, %										
Asset management costs operating expenses	0.07	0.06	0.06	0.06	0.07	0.06	0.06	0.07	0.07	0.07
Asset management costs, incl. commission expenses	0.10	0.11	0.11	0.14	0.14	0.14	0.15	0.15	0.18	0.17
Number of employees	69	69	68	71	71	70	67	66	64	63

*Relative return refers to the difference in return between a portfolio and its benchmark or reference index.

Accounting and valuation principles

The interim report has been prepared in accordance with the accounting and valuation principles drawn up jointly by the First to Fourth AP Funds. The principles remain the same as the overview provided on page 84 in the 2022 Annual Report.

This report has not been subject to special examination by the Fund's auditors.

Board of Directors

During the spring, the Swedish Government appointed Ingrid Albinsson (took office on 1 August) and Torbjörn Dalin as new members of Andra AP-fonden's Board of Directors. Former members, Kristina Mårtensson, Lin Lerpold and Martina Björkman Nyqvist, left the Board.

Sustainability

Climate: The Net Zero Engagement Initiative is a new initiative from IIGCC (Institutional Investors Group on Climate Change), which the Fund signed in December 2022, and which has now been launched. The initiative is designed in accordance with the working method under Climate Action 100+ to continue to influence companies to meet their climate goals, and engages a further 107 companies. Andra AP-fonden is committed to conducting dialogues with five companies.

Biodiversity: Within the framework of the work on the deforestation issue, Andra AP-fonden has conducted dialogues with seven companies with a high deforestation risk under the remit of the Finance Sector Deforestation Action (FSDA) investor collaboration, which in total conducts dialogue with 25 companies in the Fund's portfolio. The Fund has also joined the forthcoming Nature Action 100 investor partnership. During the AGM season, Andra AP-fonden voted against proposals at general meetings in 13 companies with high risk and insufficient management of the deforestation issue.

Human rights: Andra AP-fonden works for a living wage in the textile industry's supply chain together with other investors in Platform Living Wage Financials (PLWF), with shared responsibility for two of the companies included in the initiative's benchmark study. During the spring, the Fund held meetings with and conducted the evaluation of both of these companies.

Diversity, equity and inclusion: The Fund's Female Representation Index for 2023 shows that the representation of female board members in companies listed on Nasdaq Stockholm has increased and now amounts to 36.1 per cent; while the representation of women in the management teams of listed companies has declined for the first time since 2010 and now amounts to 26.4 per cent.

Corporate governance: In the first half of 2023, Andra AP-fonden voted at a total of 118 (109) annual general meetings of Swedish listed companies. Among other things, the Fund voted against 23 proposals for incentive schemes, mainly due to a lack of linking to performance targets. During the same period, the Fund also voted at 1 134 (999) foreign annual general meetings. See more detailed information about the Fund's voting at www.ap2.se/wp-content/uploads/2023/07/Roster-halvar_2023.pdf

Council on Ethics: Jenny Gustafsson has started as Head of the AP Funds' Council on Ethics and will be responsible for and will further develop the Council on Ethics' activities, which entails working towards the new long-term goals for the AP Funds, building up the organisation and ensuring that the AP Funds continue to be exemplary managers and responsible owners with strong credibility and recognition in the area of sustainability.

Next reporting period

The Annual Report for the financial year 2023 will be published in February 2024.

Göteborg, 30 August 2023

Eva Halvarsson
CEO

**Andra AP-fonden**

P.O. Box 11155

SE-404 24 Göteborg

Visiting address: Östra Hamngatan 26

Tel. +46 31 704 29 00

www.ap2.se