



**Ap** FÖRSTA  
AP-FONDEN

Annual Report  
**2023**





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# This is Första AP-fonden

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

AP1 helps build pension security for us all, today and for the future. Good performance by the Fund helps create long-term stability for generations.

We shall maximise long-term returns while ensuring balanced risk, efficiency and sustainability so as to achieve or exceed the Fund's return target. We can help to promote sustainable development through responsible investments and committed ownership.



# The year in numbers

Net investment income for the year amounted to

38.0  
SEK bn

The Fund's expense ratio totalled

0.06  
per cent

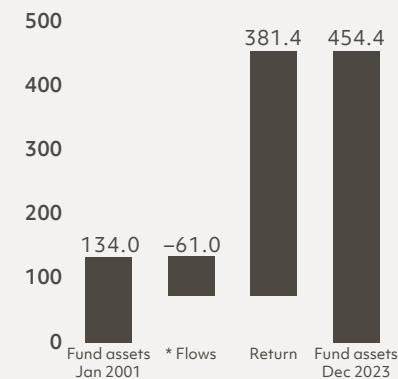
The amount paid into the pension system in 2023 was

4.8  
SEK bn

Total assets as of 31 Dec amounted to

454.4  
SEK bn

Net asset performance 2001–2023, SEK bn



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

## Return

Return after expenses amounted to

9.1  
per cent

The average real return after expenses for the last ten-year period was

5.0  
per cent

## Climate

Since 2019 the carbon intensity of the listed equity portfolio has decreased by

64  
per cent

Share of the equity portfolio's carbon emissions covered by climate targets, in line with the Paris Agreement

49  
per cent

## Responsible ownership

AP1 has had a responsible ownership role during the year and voted at shareholders' meetings

88 Swedish  
1,154 foreign

Ahead of the 2023 AGM season AP1 worked on

21 nomination committees in listed and unlisted companies

## Key ratios

	2023	2022	2021	2020	2019
Return before expenses, %	9.1	-8.5	20.8	9.8	15.3
Expense ratio, %	0.06	0.06	0.07	0.08	0.12
Return after expenses, %	9.1	-8.6	20.8	9.7	15.1
Net investment income after expenses, SEK bn	38.0	-39.9	80.7	34.8	48.6
Net flow pension system, SEK bn	-4.8	-4.7	-7.5	-7.9	-6.5
Closing net assets, SEK bn	454.4	421.2	465.8	392.6	365.8
Share of external management, %	8.2	10.1	15.9	22.6	31.4

# Short summary of 2023

## ASSET MANAGEMENT

- **Through proactive decision-making** and a focus on seizing the opportunities that have arisen in the volatile market we've experienced during the year, AP1 reports a return of 9.1 per cent.
- **Actively managed assets to change our positions** based on new market conditions. Equity exposure has been raised, duration of the fixed-income portfolio has been increased, and the open currency exposure has been reduced, all of which have contributed to the Fund's increase in value.
- **In the Fund's global tactical allocation** the focus has been on making data flows and calculations more efficient. A foundation has now been laid for more efficient processing, development of more advanced methods and analysis. We have also continued to develop the Fund's systematic management of equities with a view to making management more efficient and reducing costs.
- **Equity exposure has increased during the year**, in part via buying in the portfolio, and in part thanks to the increasing markets. Continued central interest rate hikes and a resilient macroeconomic environment meant that fixed-income securities as an asset class has had a challenging year.
- **After poor developments** in the real estate market, we have put great effort into adapting the portfolio's real estate holdings to the new market environment we've had during 2023. A comparatively cautious strategy regarding new acquisitions in previous years and disposals when the market was valued higher has had positive results.

## SUSTAINABILITY AND CLIMATE CHANGE

- **The carbon intensity of the Fund's listed equity portfolio** continues to decrease and has gone down by 64%

since 2019. Companies that account for 49% of the emissions have science-based climate targets, consistent with the Paris Agreement and in accordance with the Science Based Targets initiative.

- **To bring even more structure to how we address nature-related risks** in our investment activities, we have started to work on improving our understanding of the portfolio's risk exposure, both in terms of the companies' dependence and impact on natural capital. As an example, natural capital has become an integral ESG factor in our systematic strategies.
- **New investments in private equity funds** focused on companies that contribute to sustainable development and at the same time fulfil the Fund's risk and return requirements.
- **Structure and process for stakeholder dialogues** have been improved and will be further embedded into regular business operations to provide valuable insight.

## STEWARDSHIP ACTIVITIES

- **Responsible stewardship is a focus area** that helps raise shareholder value. During 2023, the Fund has participated in nomination committees, voted at general meetings and driven issues related to gender equality in boards and sustainable operations.
- **An updated ownership policy**, which is the foundation of the Fund's stewardship activities has been adopted by the Board.
- **Through the Council on Ethics of the Swedish National Pension Funds, we conduct dialogues** with foreign portfolio companies to influence them to make positive changes, in our capacity as a responsible owner. In 2023, the Council on Ethics, chaired by Första AP-fonden, has

established a new governance model and organisation that better positions it to achieve a greater impact in a cost-efficient manner. Jenny Gustafsson was appointed as Head of the Council on Ethics during the year, and two analysts have been recruited to the Council secretariat.

## BOARD AND CEO

- **In May 2023 the government appointed** Lars Fresker and Linda Jonsson as new members of the Board of Första AP-fonden, and Gunilla Hellqvist was appointed as a new member in October.
- **In our efforts to be transparent**, our CEO, Kristin Magnusson Bernard, has been a visible spokesperson in the media, in Sweden and internationally. The focus of this media activity has been to convey the Fund's views on the macro situation, inflation, the interest rate situation and the real estate sector.

## EVALUATIONS

- **The annual international cost comparison** performed by CEM concluded that AP1 has cost-efficient operations compared to similar international organisations. During the year, the Fund has reduced its costs by SEK 9m, partly by increasing the share of internally managed assets.
- **The government's annual evaluation** of the AP Funds, concluded that we have contributed to the long-term financing of the national income pension system. We have worked hard to fulfil our statutory objective of managing the Fund's assets in an exemplary manner and to achieve our ESG goals.
- **An analyst has been assigned by the government to review the operations of the National Swedish Pension Funds** with a view to modernising and making the management of the pension funds more efficient. The results of the assignment will be presented in 2024.



COMMENTS FROM THE CEO

# On the brink of a new era

“With carefully considered portfolio positions and a steady focus on implementation, Första AP-fonden’s return reached 9.1%.”

*In the first half of 2023, global fixed-income and equity markets recovered after the sharp market downturns of the previous year. The year alternated between substantial upturns and sharp market downturns as investors tried to assess the situation, and deal with the increased volatility. With carefully considered portfolio positioning and a steady focus on implementation, Första AP-fonden’s return reached 9.1 per cent, which corresponds to net investment income of SEK 38.0 bn.*

## **The recovery of the equity and fixed-income markets compensated for the drop in value of unlisted assets.**

Net investment income amounted to SEK 38.0 bn or 9.1 per cent. Assets under management amounted to SEK 454.4 bn as of 31 December 2023, and Första AP-fonden transferred SEK 4.8 bn to the income pension system in 2023. We have once again exceeded our target of 3 per cent real return over rolling ten-year periods, as the average return over the past ten years amounts to 5.0 per cent. Positive earnings contributions came from listed equities and from fixed income, which offset the negative return from unlisted assets such as real estate, infrastructure and private equity funds. We have maintained our low expense ratio at 0.06 per cent at the same time as we have strengthened the Fund’s IT capacity and infrastructure.

## **Two-phased market development towards the interest-rate peak**

Trends in inflation and interest rates continued to drive the market, while other factors such as liquidity and geopolitics shifted in their significance during the

year. During the spring, inflation gradually decreased in many developed countries but remained well above the target inflation levels set by the world’s central banks. Despite tighter monetary policies, labour markets in many countries showed consistently strong performance and many financial reports exceeded analysts’ expectations. Financial turbulence in the form of defaulting banks in the US and Switzerland was considered by the market as being due to isolated failings in business models and lack of control of interest rate risks and liquidity risks. The early part of the second half of the year saw risk appetites and the markets crumple under sharp upward pressure on long-term interest rates, partly as a result of major borrowing requirements, especially in the US. Towards the end of the year though, a weakening inflationary pressure and economic situation became more apparent in most countries. Conviction that the peak in interest rates had been reached, less uncertainty ahead of 2024 and seasonal market patterns propped up the equity and fixed-interest markets, which rose sharply in the last two months of the year.

Given the higher cost of capital, concern grew for commercial real estate companies, and companies that have expanded heavily through extensive borrowing were punished harshly on the stock exchange. As uncertainty about the future inflation and interest rate situation decreased, it became easier for investors in real estate companies to assess underlying earning capacity based on the quality of the real estate portfolio as well as vacancy and financing risk. This would indicate that the transactions market can recover, despite very few deals being closed last year. Furthermore, given that the peak in interest rates has probably been reached, this would also indicate that more positive movements in the real estate market might start to materialise in 2024.

Our positive full-year net investment income is a result of a carefully considered portfolio positioning and focused implementation. Based on a thorough analysis of expected growth, we gradually increased the allocation to equity and the duration, i.e. sensitivity to interest rates, via neutral to somewhat higher levels, after holding more conservative positions last year. Greater allocation to equity and the longer duration paid off, particularly towards the end of the year, while several of the underlying portfolios also exceeded their benchmark indices. During the second half of the year we assessed that the Swedish krona would strengthen, and the positions we took in terms of increased currency hedging and option strategies served us well. We also chose to underweight our allocation to emerging markets last year based on our assessment that there would be better returns from developed markets, which was a significant contributor to the good net investment income.



Kristin Magnusson Bernard and executive assistant Katarina Appellos

### Knowledge, skill and action: - the keys to transition

The climate transition towards the targets of the Paris Agreement is probably one of the most important structural social shifts affecting the financial market. Taking a helicopter view, it is easy to be concerned and disappointed that progress is not happening faster, given that the adverse impacts of climate change on the environment and society are becoming more apparent all over the world. As investors we do see progress, in the targets and transition plans of individual companies and in entire sectors when innovation and technological advances provide new and increasingly scalable solutions, as is reflected in the decreasing carbon footprints of the companies we own. Experience from previous structural transitions shows that the pace of change is not constant; after an often cautious start the speed of

transition gets exponentially faster once the understanding of how a sustainable transition can be achieved increases, and enough people get access to new solutions. To get to that point, building knowledge in a variety of areas is essential given the complexity of the climate transition. We are proud to be supporting two initiatives for their contribution to our and to others' increased knowledge. One is the three-year research project "Klimatomställningen och näringslivet" (The green transition and the business sector) being run by the Centre for Business and Policy Studies (SNS), and "Nature Action 100" a collaborative international investor initiative aimed at protecting biodiversity and raising companies' ambitions and efforts regarding nature-related risks.

Good stewardship activities are at the core of our mandate for responsible investments and exemplary asset management.

When our stewardship activities support the companies we own in achieving sustainable value creation, we as a major institutional owner can also contribute to sound market development, which paves the way for greater trust from the general public whom we serve. Achieving results through stewardship activities requires skilled craftsmanship and persistent work on the part of owners and boards. Good corporate governance and our role as a responsible owner have naturally been in focus during the challenging market environment of the last year. We have actively participated in and voted at general meetings, worked in nomination committees and conducted dialogues with companies regarding matters of principal importance to us. We have also been part of discussions concerning the Swedish corporate governance model and the question of whether virtual general meetings should completely or partially replace physical meetings, and how we can get more shareholders to participate in the general meetings. I also see a need to continue discussions about the growing international ownership on the stock exchange, and the related need to develop our model of owner-led nomination committees. During the year we have also updated our ownership policy which explains clearly and transparently how the Fund acts as a responsible and committed owner. It states our fundamental principals for our stewardship activities, describes our expectations of the companies in which we invest, and explains how the Fund works to influence companies to move in a positive direction.

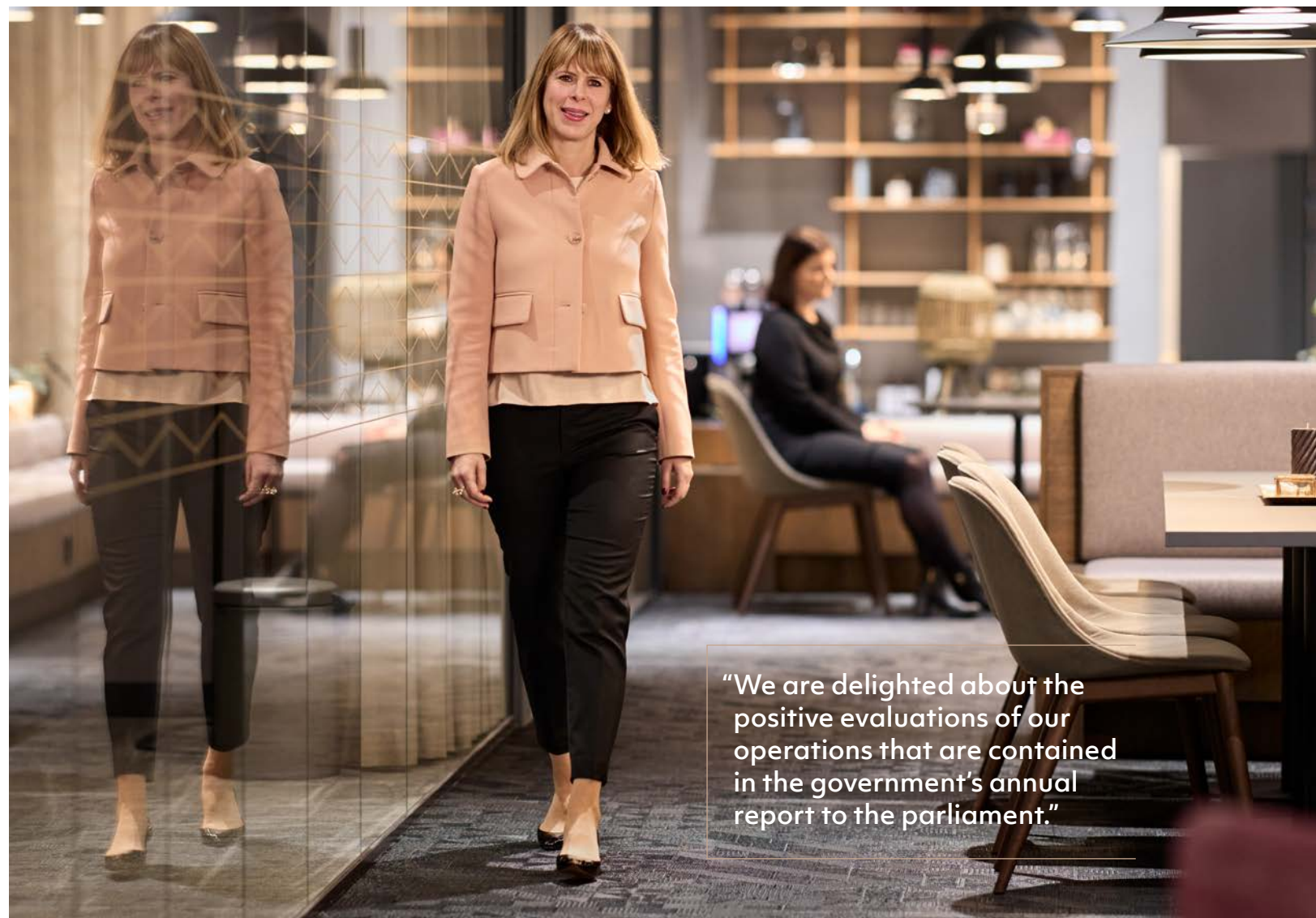
Together with our colleagues from the Second, Third and Fourth AP Funds, we have worked on implementing the new strategy of the National Swedish Pension Funds' Council on Ethics, including a new organisa-



tion and a wider remit. More resources have been recruited and under the leadership of Jenny Gustafsson, the secretariat will be fully staffed come the beginning of 2024. I'm convinced that the Council on Ethics will thus be able to play an even greater role in driving positive change through dialogue, primarily with the foreign companies that the National Swedish Pension Funds own. With new long-term goals for the Council on Ethics, and good transparency in our monitoring, we are making the most out of our mutual resources and work to ensure that the National Swedish Pension Funds remain exemplary asset managers and responsible owners in the area of sustainability, contributing to a high level of trust and a strong reputation.

### Positive evaluations and great engagement in our business from our elected representatives

We appreciate the great engagement in our business that we experience from the public, the government and the Swedish parliament. The parliament's pensions committee has been reactivated and includes all parliamentary parties, which enables the broadest possible parliamentary support and a long-term approach to any future changes to the income pension system and our mandate. Furthermore, the government has opened an inquiry looking at the operations of the National Swedish Pension Funds to ensure that they continue to be run well. This will be concluded in spring. We were visited by the Minister of Finance and colleagues in August when we had an open and much-appreciated discussion about how we practically carry out our mandate, and what we see as the important issues to be addressed to achieve even better results. In conclusion, we are delighted about the positive evaluations of our opera-



tions contained in the government's annual report to the parliament, including the clear confirmation that we have fulfilled the expectations of our principal and that our results hold up well in international comparisons

### Strategic initiatives for the next few years

Since 2021, our work has been structured around our strategic framework, 1AP1, which encompasses all areas of our operations and was adopted by our Board. This year we

completed many of the initiatives and activities that were initiated when our framework was created. We are very happy to see the improved results that our work has delivered in the various dimensions that our Board decided on. During the year extensive work





**“The forthcoming period will not be without challenges as we strive to achieve our mandate to create high returns and sustainability value with good risk management.”**

has therefore been carried out by the board and the operating business to formulate new strategic initiatives and activities.

Together with the Fund’s Executive Management Team, our Board has carried out a major review of the governance model for our risk framework that has been in place for almost ten years. We used external experts to help us ensure that our risk framework puts us in the best possible position to fulfil our statutory mandate, and that it is on a par with the most professional pension funds around the world. We are happy that we are considered to maintain a high international standard in our corporate governance, but also that we have identified some areas for improvement in how we work, analyse risk and shape our

risk mandate. We intend to address these in the years ahead. At the operating level, we will simultaneously develop our portfolio structure, allocation, liquidity management and systems support to harness the new possibilities and ensure transparency and follow-up capabilities.

Technology is advancing at a rapid pace all over the world, which is both an opportunity and a risk for us. Using collaboration solutions can make us more efficient in how we document, communicate and make information available to each other and between different systems. It is important that we adapt the solutions to our needs and conditions and at the same time take cybersecurity risks into account and take responsibility for our digital

security. Furthermore, we also see data and the benefits of data analysis becoming increasingly important. If we manage our data more efficiently, make our operations data available and enhance our knowledge of both data and ways of working with it, we believe we can improve our operations over the next few years.

In an uncertain world, we want to bolster our preparedness for potential disruptions and interruptions in our business activities, so that readiness becomes a natural part of our working day. This requires awareness of what may occur and of how we can lower the likelihood of negative events. We are also focusing on how we can minimise the effect of negative events and on the key processes that must continue to operate even if a negative event does happen.

A complex business characterised by a constantly changing world places great demands on employees to constantly be learning in order to achieve progress and results. We create the conditions for learning and openness guided by the theories of psychology safety. Our managers have a key role in creating a sense of community, and we therefore place great emphasis on developing our leadership while endeavouring to give each employee what they need for their own learning.

### **Towards new goals with high expectations**

At the moment there are still no signs that the tragic invasion of Ukraine will come to an end any time soon. Israel and Gaza are also in a more critical situation than we’ve seen for many years. Geopolitical tensions and energy dependencies will likely affect the investment climate for a long time to come, and our world is likely to be characterised by more uncertainty than in the last decade. Innovative

solutions and productivity advancements will become more crucial to growth and prosperity than in the period we have just lived through, when market growth was driven by constantly falling interest rates and other stimulation measures. At the same time, the economies of the world are facing more extensive investment in artificial intelligence, electrification and the green transition than we have seen for several decades.

For a long time to come, we will not be without challenges as we strive to achieve our mandate to create high returns and sustainability value, with good risk management of the pension capital entrusted to us. I am therefore particularly grateful to the Board and my colleagues at Första AP-fonden for their openness and ability to take on and implement changes together, and to see things from different perspectives. A huge and warm thank you to you all! I am also convinced that our capacity for strategic shifts and daily operational work will position us excellently to take on the opportunities and challenges that may lie ahead.

I would also like to take this opportunity to welcome Lars Fresker, Linda Jonsson and Gunilla Hellqvist to us as new members of the Fund’s Board, and also warmly thank Kent Eriksson, Per Klingbjör and Charlotte Nordström who left the Board during spring. On the brink of a new era, I very much look forward to continuing to develop Första AP-fonden together with our Board and all our employees over the next few years.

Stockholm, February 2024

*Kristin Magnusson Bernard*  
**Kristin Magnusson Bernard**  
 CEO

# Första AP-fonden's mandate



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

## What we do

On behalf of the Swedish Parliament we manage income pension assets of SEK 454.4 billion. Our target is a return of 3 per cent after expenses in real terms over rolling ten-year periods, and 4 per cent in real terms over 40 years. We invest sustainably and for the long term, and we are a committed owner. Our portfolio exposure is divided between equities, fixed-income securities and alternative investments.

**Equities**  
**61.2** per cent  
 (foreign 39.2% and Swedish 22.1%)

**Fixed-income securities**  
**24.9** per cent

**Alternative investments**  
**23.1** per cent  
 (Real estate and infrastructure 15.8 %, Private equity funds 6.9%, Other 0.3%)

**Purpose:**  
 AP1's purpose is to build pension security for us all, today and for the future.

**Promise:**  
 We promise to maximise long-term return while ensuring balanced risk, efficiency and sustainability.

## How we work ↓

- A well-considered investment strategy
- Efficient investment processes
- Responsible stewardship
- Sustainability integrated into our operations
- Independent risk control and compliance
- Competent and talented employees

**6** Our six investment beliefs  
 read more on pages 13-22.

**67** Talented and engaged employees

**!** Första AP-fonden's ESG strategy  
 read more on page 28.

## Net investment income 2023 ↓

**SEK 38.0** bn  
 net investment income 2023

Return after expenses  
**9.1** per cent

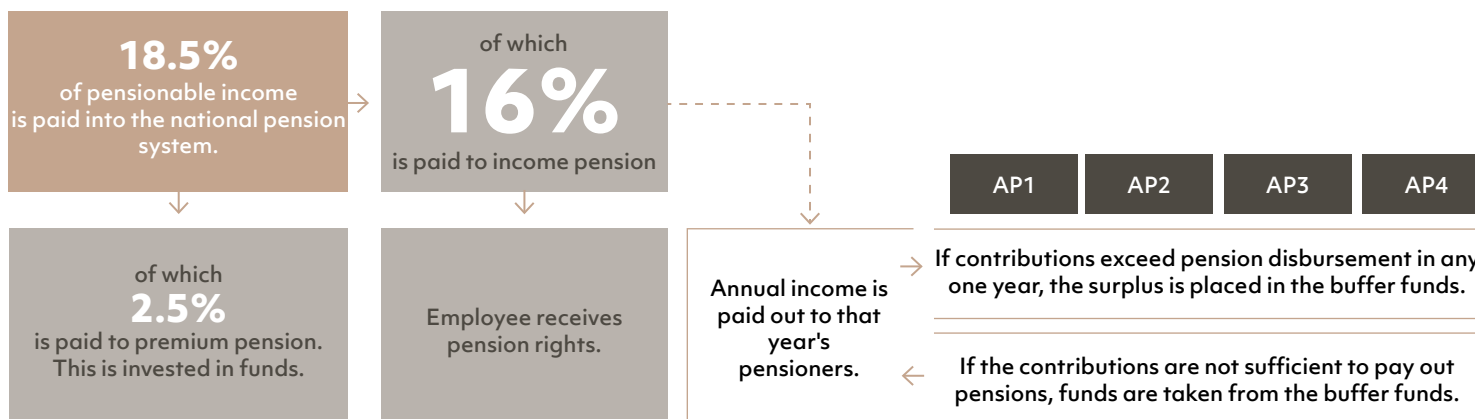
**SEK 4.8** bn  
 was paid into the pension system in 2023



# 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.*

## The Swedish pension system



### Payments to and from the system

Every year 18.5 per cent of pensionable income, i.e. salary and other taxable remuneration up to 7.5 income base amounts after deductions, is allocated for national pension fees. Sixteen per cent goes to the income pension and 2.5 per cent to the premium pension. Payments received into income pension are used to pay out pension to people who are pensioners in that year. People who work have pension rights that are determined by the contributions they make. Pension rights are adjusted upwards annually by the average wage growth (income index).

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

### Capital in the buffer funds

If more income pension is received in a year than is needed for that year's pensioners, the surplus is transferred to the First–Fourth AP Funds, which act as the buffer funds of the pension system. If contributions are not sufficient to pay out pension disbursements in a year, the difference comes out of the capital of the buffer funds.

The purpose of the buffer funds, the First–Fourth 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 and the gainfully employed.

### The AP Funds' asset management

The First–Fourth AP Funds jointly manage approximately 16 per cent of the assets in Sweden's national pension system. When the National Swedish Pension Funds were first started this figure was 10 per cent, but it has grown at pace with the high return.

Alongside the other buffer funds, AP1 has to manage the income pension assets 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 assets, including the buffer funds' assets, an automatic balancing mechanism is activated so that income is adjusted upwards more slowly. Assets comprise future pension contributions including the buffer funds' assets, and the 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 buffer funds help to generate stability

The return on the assets of the four buffer funds means that automatic balancing has not been necessary for several years. The balancing mechanism was last activated in 2009 following the market downturn in the wake of the global financial crisis.

Nowadays, as the assets of the First–Fourth AP Funds are so large, the risk of such a balancing is very small as the assets exceed 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 through 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. This is taken from the government budget. An income pension supplement was introduced in September 2021, which is also a form of state support for people who have worked but nonetheless have a small pension.

### Increase in pension age

The Swedish Parliament has recently increased the minimum age for drawing a national pension. Further, from 2023 people now have the right to continue working until the age of 69. The Swedish Parliament has also introduced a target age to link the age for the national pension, guarantee pension and housing supplement to average life expectancy. The target age will be set annually and used six years later, and it can only be changed by one year at a time. The target age must also have remained constant for three years before it can be changed. In 2026, when the target age will start to be used, it is likely to be 67 years, which would make the minimum age for drawing a national pension 64 years. The change in the pension age has major positive effects on the pension system's financial position.



**The buffer funds  
help to generate  
stability**



# How the AP Funds are governed

The AP Funds are government authorities, but unlike other authorities, the AP Funds are more independent of the Swedish Government. While the parliament decides in law on the overarching goal for the AP Funds, it is the Boards of Directors of the AP Funds that have complete responsibility for the operations of

the funds. The Funds' Boards are appointed by the Swedish Government and the Funds must not be influenced by industrial or economic policies. The government evaluates the operations of the AP Funds annually, on behalf of the Swedish Parliament. The AP Funds' operations are regulated through special

legislation: the National Pension Insurance Funds Act (2000:192), the AP Funds Act. The law stipulates that the AP Funds must adopt a long-term approach and have a good foundation for executing their mandate. The law specifies a number of overarching objectives for the operations, such as:

## Första AP-fonden's return targets

The AP1 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 in securities. It also establishes the divergences from the targets and the asset classes that are permitted.

The Fund's medium-term target for the real return after expenses on the total portfolio is 3.0 per cent a year, measured over rolling ten-year periods.

The long-term return target for 40 years is 4 per cent average real annual return after expenses.

### 1 HIGH RETURN –

The funds should be invested with a selected risk level so as to achieve a high return over the long term. There should be a low overall level of risk in the Fund's investments.

### 2 EXEMPLARY –

The funds are to be managed in an exemplary way through responsible investment and responsible ownership, and foster sustainable development without compromising the objective in point 1.

### 3 PREPARED –

The Fund should be sufficiently prepared to be able to transfer funds to the Swedish Pensions Agency as required.

## Our investment rules under the AP Funds Act

Investments may be made in essentially all instruments on the capital market, with the exception of commodities.

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).

### OF THE PORTFOLIO'S VALUE:

- No less than 20% of the Fund's assets shall be invested in fixed-income securities with low credit and liquidity risk.
- No more than 40% of the Fund's assets may be exposed to foreign exchange risk.
- No more than 40% may be invested in illiquid assets.

- No more than 10% of the Fund's assets may be exposed to one issuer or group of connected issuers.
- No more than 10% ownership in any single listed company.
- Equities in listed Swedish companies may equate to up to 2% of the total market value.

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 rolling ten-year periods.

# Macro-economic developments in 2023

**THIS LAST YEAR** brought with it plenty of drama in the macro-economic arena. Inflation developments continued to play the leading role. At the start of the year there was general consensus around the central banks' massive austerity measures which would inexorably entail a global recession in the near term. The expected interest rate rises did indeed come, but the economy proved itself to be pretty resilient. Growth slowed down, but more in the guise of a shallow recession. The unusually strong resistance was bolstered by the massive Covid stimulation measures from the prior years; households had built up a mountain of savings which could now counter the effects of increases in interest rates. Additionally, companies appeared to be unwilling to lay off their labour force as they didn't want to end up with a recruitment issue when the economy turned upwards (wise from their Covid experience).

Inflation was curbed during the year and rapidly approached the central banks' inflation targets. Above all, the supply disruptions that caused dramatic upturns in costs for raw material, electricity and freight did an about turn with rapidly falling prices. The lingering inflation stemmed mainly from the slower-moving service sector. In late autumn, most central banks assessed that inflationary pressure had come down sufficiently to at least warrant a pause the austerity cycle.

## Market development in 2023

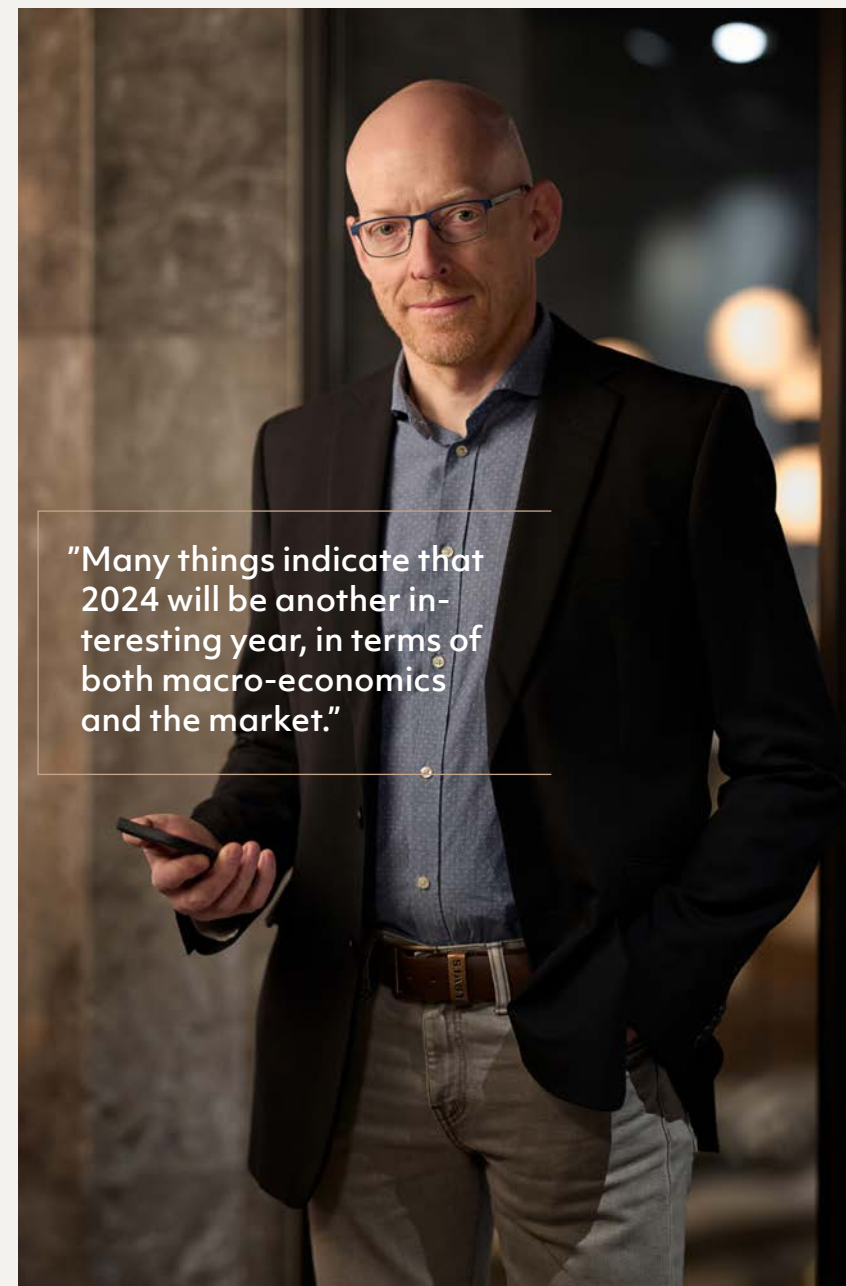
As expectations of an imminent recession came to nothing, the equity markets took a distinct turn upwards during the first half-year. The drop in inflation also meant that market players could see the end of the cycle of austerity and sensed that a soft landing of the economy would be more likely. Expectations for larger decreases in interest rates during 2024 catalysed the positive trend. In late summer and early autumn, this narrative started to crack as the central banks came out and stated emphatically that decreases in interest rates were actually not on the short-term horizon, as a subsequent accel-

eration in growth could not be ruled out. On top of this, the fixed-income markets started to get jittery about the substantially greater supply of government bonds in the USA. This resulted in a massive upturn in long-term interest rates which took the wind out of the sails of the equities markets and a great deal of the increase from the first half-year disappeared. Towards the end of the year, the market once again started to question whether the central banks' message about sustained high interest rates was reasonable given that inflation continued to drop rapidly while most other leading indicators suggested there was modest growth. With that, the long-term interest rates started to fall and the equity market turned upwards and ended the year on a lighter note.

## Outlook for 2024

Many things indicate that 2024 will be another interesting year, in terms of macro-economics and the market. For the first time in a very long time the bond markets offer real interest rates that appear to be fairly attractive. Meanwhile, the value of the equity market has improved substantially and in many cases, it looks appealing given that a deeper recession might be avoided, while the central banks may gradually loosen the monetary policy in the wake of the continued slowing pace of inflation. The foreign exchange markets also seem exciting with the strength of the dollar potentially being tested if the American central bank starts to loosen the monetary policy, while the opposite is true of the Yen if the Japanese central bank finally abandons its zero-interest-rate policy.

Over the mid-term, the growth outlook looks relatively good as investments in the green transition, artificial intelligence and bolstering the Armed Forces are likely to provide a robust platform to build from. At the same time, it has to be remembered that continued escalation of geopolitical turbulence is not a negligible adverse factor for both growth and inflation.



"Many things indicate that 2024 will be another interesting year, in terms of both macro-economics and the market."

Magnus Lomakka, Macro-economics strategist





## Our investment beliefs

### Investment beliefs guide the way

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

### Diversification

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

Read more on page **14**.

### 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**.

### 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 **17**.

### Inefficient markets

Good access to information and meticulous analysis provide opportunities for higher returns on less-analysed markets.

Read more on page **18**.

### Cost efficiency

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

Read more on page **20**.

### Sustainable value creation

A focus on sustainable value creation makes it possible to increase returns and reduce financial risks for the long term, and contribute to sustainable development.

Read more on page **22**.

## INVESTMENT BELIEF

# Diversification

*We invest worldwide and in many different types of assets and strategies. Our aim is to spread the risk while also creating several options for generating returns. Diversification increases the opportunities for an improved, risk-adjusted return and successful diversification requires excellent understanding of the underlying forces driving investments. An improved, risk-adjusted return is best achieved through diversification within and between assets, risk premiums, risk factors, strategies and investment horizons.*

**We invest in several** classes of assets and strategies globally, consisting of equities and fixed-income securities along with alternative investments such as real estate, infrastructure, and private equity funds. Various investment aspects and market risks are weighed against each other, based on the investment rules set out in the AP Funds Act and the overall asset allocation decided by the Board.

The asset classes are affected in varying ways by changes in the market and the wider world. 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 – varies.

Our asset managers strive to achieve a better result than would otherwise 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 and strategies of different character, on different markets, and with varying time horizons. The Fund uses derivatives to make management more efficient and to manage risks. A derivative position can affect the Fund's exposure and lead to the exposure to an asset class differing from the contributed capital.

## Equities entail taking risk

Investing in equities entails a risk, but it also enables high returns over time. 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 in emerging markets. We mainly take a long-term perspective on equities. All listed equities are managed internally.

A complete list of AP1's listed and unlisted shareholdings at year-end is available on our website, [www.ap1.se](http://www.ap1.se).

## Bonds spread the risk

Fixed-income securities normally lower the risk in the total portfolio, while contributing to the Fund's return. After a decline spanning almost three decades, however, global interest rates quickly turned upwards driven by soaring inflation, which has led to an historically large loss in value in fixed-income instruments. As the market rates rise, the outlook for positive nominal return contributions from fixed-income instruments to the total portfolio becomes attractive.

The foundation of the Fund's fixed-income securities is nominal and real government bonds, with a high credit rating and high liquidity, supplemented by mortgage bonds and corporate bonds with a limited risk level. The vast majority of the holdings are foreign. Apart from balancing the risk in the total portfolio, the fixed-income portfolio is a key component of the Fund's liquidity management as, relative to other assets, these

bonds can be readily converted into means of payment.

## Alternatives to equities and fixed income

Apart from equities and fixed-income assets, the Fund also spreads its assets across alternative investments, including real estate, infrastructure and private equity..

## Real estate and infrastructure

Real estate and infrastructure often provide good protection against inflation in the longer term. We make direct investments in Sweden and invest via private companies and funds abroad. Our long-term approach means that these investments are a good fit for the Fund.

## Private equity

Första AP-fonden invests globally in private equity funds and, generally speaking, the investments are carried out together with other major investors. Managers of private equity funds invest in unlisted companies, where they serve as committed and responsible owners with a clear strategic agenda for the company's growth.

Investments in private equity funds as an asset class require a long-term approach because most portfolio company strategies take at least five to seven years to materialise. Sustainability has become a more important component of our investment strategy over time, and it is given greater weighting than before in investment assessments.

## Foreign exchange

Foreign exchange diversifies the asset portfolio over the long term, but it is also an important area for managing overarching risk on an ongoing basis and generating return.

## Exposure



## INVESTMENT BELIEF

# Risk premiums

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

**One of our core** investment beliefs is that risk-taking on the financial markets is assumed to yield a positive return over time. The reason for this is that financial market players, that can largely be considered as being rational over a longer time, require compensation for taking financial risks, i.e. the risk of a loss in value. As an investor, compensation comes in the form of financial risk premiums.

A risk premium is the extra return, over and above the risk-free interest, that is retained by the investor who takes a market

risk in some form of asset class. The Fund has to take market risks to achieve a return. In each situation we choose what we consider to be the most effective and attractively priced risk premiums in order to achieve our objectives. AP1's potential to benefit from risk premiums is closely linked to our long-term approach. There is no guarantee that the Fund will be paid for its exposure to risk premiums every year, but over a longer period the Fund expects to achieve a good return on average.

## **The equities market has the largest financial risk**

There is a vast amount of financial risks that can affect the portfolio. It is important to distinguish between those risks we consider generate a higher return from exposure to them, such as credit risk, equities risk and liquidity risk, and those where we are more uncertain as to whether that is the case, such as geopolitical risk. Those risks that do not provide a chance of higher returns should be managed or avoided.

The largest financial risk to which the Fund is exposed is that of the equities market. Accordingly, it is the most significant risk premium in terms of expected compensation for the Fund's risk taking. By increasingly doing internal, systematic asset management in developed foreign equities markets, we can identify and take advantage of equity risk premiums in different equities markets around the world, and do so cost-efficiently.





Helena Ring,  
General Counsel

“We must be meticulous in our decisions and processes and we must be able to justify our decisions.”

## We are a government agency operating in a private market

**HELENA RING** is the General Counsel at Första AP-fonden. In her team are two more lawyers as well as a paralegal and an archivist. Helena is also the secretary of the Fund's Board and Investment committee.

“Being a lawyer at Första AP-fonden is a major responsibility. We manage assets of SEK 454 bn on behalf of today's and tomorrow's pensioners, and it must be beyond any doubt that everything is done correctly.”

### Comprehensive requirements on transparency and on creating trust

“There are comprehensive requirements on transparency into our business and that we act in a trustworthy way. It is part of my responsibility to point out that we must be meticulous in our decisions and processes and that we must be able to justify our decisions. In my role not only do I provide legal support when needed but I am also

the person who ensures that we comply with the rules so that we create trust in our business and, consequently, in the entire pension system.

Many of my working hours are spent negotiating and finalising all kinds of agreements, big or small, everything from being part of selling a large company to writing a contract with a smaller supplier after a public procurement.

### Quick solutions to diverse world issues

“Första AP-fonden makes investments all over the world in widely diverse asset classes and sectors, and it is obviously a challenge to keep oneself sufficiently up-to-date on the legal requirements in every country, especially given that we often have to act quickly. We are a government agency operating in a private market, which also entails certain legal aspects. I receive great support in my role, not just from the other lawyers at Första AP-fonden, but also from the lawyers at the other AP funds. We help each other with external monitoring and with finding solutions to the legal issues that arise.

From a purely legal perspective, my job is very challenging as it touches upon so many different branches of law and jurisdictions, but that's what also makes it fun. I'm proud of the prestigious assignment I have and that I get to share some of the responsibility for ensuring that the pension system works properly.”

## INVESTMENT BELIEF

# Long-term approach

*We have a long-term investment horizon which creates opportunities to take higher risks, and thereby increases the chances of a high future return.*

## Stable strategies open up opportunities

Our long-term approach means that unlike many other investors, we can ride out short-term volatility. In turn, this means we can have a higher risk tolerance. A higher level of risk gives us more opportunities for a higher return. Our long-term perspective enables us to capitalise on competitive advantages and invest in assets that are not liquid.

Our illiquid holdings mainly comprise investments in real estate, private equity funds and infrastructure which are long term in nature.

## Long-term and sustainable real estate investments

The largest real estate holdings are Willhem, Vasakronan and Cityhold. In addition to these three holdings, which make up the majority of the real estate portfolio, we have a number of smaller real estate investments in Sweden, the rest of Europe and Asia. Over time the Fund's investments in real estate have generated a good return, partly through continuous rental surpluses and partly through an increase in the value of real

estate, which has meant our real estate holding has gradually grown. We stipulate that all holdings in our real estate portfolio must report in accordance with GRESB (Global Real Estate Sustainability Benchmark) and steadily improve their GRESB score.

## 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, even if they can be exposed to political risk. In the long term, income follows growth in society. The idea behind investments in infrastructure is not only to earn a high return in relation to risk, but also to contribute to sustainable value creation.

AP1, together with AP3 and AP4, owns the company Polhem Infra, which invests in and manages unlisted infrastructure assets, primarily in Sweden. These assets can include renewable energy production, energy storage, energy distribution and digital infrastructure.



## INVESTMENT BELIEF

# Inefficient markets

*Structured and meticulous analysis provide opportunities for higher returns on less-analysed and scrutinised markets.*



**The finance markets cannot** be considered to be fully efficient, and consequently, meticulously planned and executed asset management with proactive choices creates good opportunities for high returns. The pricing of securities markets, asset classes and different systematic risk premiums swing between periods of relative efficiency and periods of relative inefficiency. Pricing of individual securities is efficient, to varying degrees, depending on the situation and time horizon. Pricing is less efficient the longer the time horizon, and the more non-profit-maximization players there are on the market, the less analysed the area is.

If a market were completely efficient, all the available information via the collective analysis of all investors would be rationally reflected in the correct price of an asset. This is based on the assumption that most investors are logical and have all the information. The finance market does not always work in

this way, even though the majority of it is 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.

### **Swedish companies and small caps**

We potentially have an analytical edge over foreign investors when it comes to Swedish companies. This is one of the reasons we have invested more heavily in Sweden than required by the AP Funds Act, even though Swedish equity trading represents only one small share of global trading. Another reason is the lower foreign exchange risk and that the Swedish equity market has rendered excellent returns over time. There are also better chances of identifying gems among small caps. These investments take place internally via active mandates.



## Focus on long-term value creation

**MARTIN NILSSON** is responsible for Första AP-fonden's management of Swedish small caps. The portfolio comprises between 40 and 50 holdings. Our focus is on creating attractive long-term risk-adjusted returns. It is precisely the long-term approach that Martin believes is a competitive advantage for Första AP-fonden. "We want to identify and invest in interesting small caps with reasonable valuations, and be part of the companies' growth journeys. As we have a relatively concentrated portfolio, that means we become large shareholders in several of the companies in which we invest. This is where our role as committed and responsible owners comes in. We believe that this is a powerful way to reduce risks while also being able to improve long-term potential. Quite simply, it's about looking after our and other shareholders' interests."

### Sweden is fantastic at creating good companies

"Swedish small caps have grown well over the years. There is a strong SME culture in Sweden which is based on entrepreneurship and innovation. Small companies often have faster profit growth as they grow from lower levels, and the companies' founders/entrepreneurs often stay in the companies. New, interesting small companies emerge all the time and some of these have the potential to become the major companies of tomorrow", says Martin.

Martin Nilsson, responsible for Första AP-fonden's management of Swedish small caps.

### Fundamental analysis

"Our portfolio holdings are based on our own fundamental analyses. The advantage of small caps is that, in many cases, they are under-analysed, in other words there are fewer analysts that monitor the company. When we evaluate a company, there are a whole host of characteristics that we would like to see in our investments: products and services that benefit the companies' stakeholders, tried-and-tested business models with a high degree of innovation and growth potential, demonstrated stable and high return on capital, strong market position and competitive advantages, a focus on sustainability, quality in the companies' boards of directors and leadership team. The companies quite simply have to have sustainable, resilient business

models, be reasonably valued and have sound finances. Investing in companies with sound finances reduces the risk while also creating opportunities, especially in economically challenging times", continues Martin.

### Internal cooperation

Martin also emphasises how important it is to day-to-day work and the Fund's growth that everybody at the Fund works together as ONE fund. "I have a lot of responsibility but we work together as one asset management team and in close dialogue with the Director of Corporate Governance, the Sustainability team and others at the Fund. We cooperate and help each other to achieve the best possible results for the Fund as a whole."



"There is a strong SME culture in Sweden which is based on entrepreneurship and innovation."

## INVESTMENT BELIEF

# Cost efficiency

*AP1 should act on a commercial basis and have low costs in relation to the income it makes. Our focus on cost is an integrated approach that permeates all of the Fund's activities.*

**Exemplary management** calls for high cost-consciousness and stable costs over time, which is why cost efficiency is a natural part of our mandate. Cost efficiency does not necessarily mean the lowest costs, but the costs must be appropriate in relation to expected activities and results. Cost-efficiency requires an understanding of how costs arise, which underlines how important it is to establish fee structures that are as transparent and simple as possible and also helps to maintain public trust.

## Administrative expenses

We still have an efficient cost structure and the Fund's expense ratio (the sum of the operating expenses and commission expenses as a percentage of assets under management) has fallen from 0.12 per cent to 0.06 per cent in the period 2019-2023. Operating expenses are primarily personnel, IT and costs for premises. Commission expenses mainly comprise fees for external managers and custodian fees at depositories.

Since 2021, we have worked according to a cost management framework adopted by the Board and policies aimed to create clarity in cost management.

## Working with the other AP Funds

Cost efficiency is also achieved by the AP Funds collaborating in areas outside of investment, such as joint procurements, cooperation on various information security matters and training initiatives. Collaboration between the Funds leads to resource efficiencies and enables experience and knowledge-sharing.

## International comparison and the Government's review

AP1 monitors its costs in a number of different ways to ensure good cost control. The Fund is transparent with its costs through different reports and other forms of communication.

Since 2014, cost efficiency has been measured annually by the market-leading

Canadian company CEM Benchmarking, amongst others. All the measurements have shown that AP1 is cost efficient compared with other international players. Comparison is made against some 20 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. The Government's annual evaluation also concludes that for many years, AP1 has fulfilled expectations on high cost-efficiency and contributed to the net return and to the general public's trust in the national pension system. The net return adds to the buffer funds' long-term financing of the income pension system.

## Internal versus external management

Where possible, we aim to manage assets internally, as we know that this has a positive impact on the return via lower costs. As at 31 December 2023, we managed 91.8 per cent (89.9) of our assets internally. Internal asset management also increases the control

we have over our investments and makes us more flexible. Increased internal asset management often entails a slight increase in operating expenses, but this is offset by lower commission expenses. During the year we have increased the share of internal asset management.

## Increased systematic portfolio management

Over the last few years, we have gradually increased 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 quantitative decision-support systems we develop internally are also a valuable addition to our active fundamental equity strategies.

Filippa Frithz, quantitative analyst in Valuations, Returns and Risk Analysis and Jesper Svensson, systems developer in IT Development

## Achieving simplification and improvements at a lower cost

**FILIPPA FRITHZ AND JESPER SVENSSON** have created a new data flow between Första AP-fonden's portfolio system where all investments are registered, and the Fund's risk system. Filippa is a quantitative analyst within Valuations, Returns and Risk Analysis, which means she continuously evaluates and calculates return and analyses the risk in the portfolio. Jesper is a systems developer in IT Development where he develops systems, creates data flows and performs data visualisations.

### Our aim was to gain better control

The Fund has four core values that guide its day-to-day work – open, considerate, responsible and forward-thinking. “We are always forward-thinking and responsible in our work. We saw a clear opportunity to

simplify data transfer and make it more efficient, while also gaining better internal control. It was obvious to us that we had the skills to build the system ourselves. That means we can stay in control of how the system needs to work and that makes it more transparent and simpler to make changes to it. What's more, it's also cost-efficient. As we've also been able to remove one external system, it's now also cheaper for the Fund”, explains Jesper.

### A complex project

It was a complex and relatively large project that took half a year to complete, and there were of course more than just the two of us involved in it”, says Filippa. “One clear effect is that the asset managers now receive the risk figures in the morning instead of at lunch



“It was obvious to us that we had the skills to build the system ourselves.”

time. It goes without saying that this alone better enables them to act on the opportunities that arise.”

“Overall I'd say that it was a really interesting project where we both had the opportunity to learn. As this was a system that affects the entire Fund, I've also gained

a more holistic understanding of the Fund. Another positive effect of this project is that our two teams, Valuations, Returns and Risk Analysis and IT Development, have built closer relationships and collaborate more and even better now”, says Jesper.



## INVESTMENT BELIEF

# Sustainable value creation

*A focus on sustainable value creation makes it possible to increase returns and reduce financial risks for the long term, and contribute to sustainable development.*

**At AP1** we are convinced that we position ourselves better to deliver the Fund's long-term return target when we consider sustainability in our investment decisions. A broader perspective gives us greater knowledge and understanding about our investment objects, and puts us in a better position to generate returns at a well-balanced level of risk.

## Different aspects of sustainability vary in importance

The aspects of sustainability that are most relevant to different investments vary in their importance, both in terms of scope and over time. We therefore constantly enhance our understanding of how different elements of sustainability affect the return and risk for different asset classes, management strategies and time horizons. This serves as a guideline for our asset management.

## Focus on resource efficiency

We believe that efficient use of resources and responsible conduct are core characteristics of long-term profitable companies. A focus on resource-efficiency in our asset management, and on transitioning the holdings towards more resource-efficient companies, contributes to the portfolio's return and supports more sustainable development over the long term. We define resource-efficient as efficient and responsible use of natural capital, human capital and financial capital, across the entire value chain. Our ambition is to increase the share of resource-efficient companies, which will be achieved by integrating sustainability into the investment process and through our stewardship activities.

## We set clear expectations

One of the prerequisites to sustainable value creation is that the businesses in which we

invest act responsibly. That is why we expect the companies to respect human rights and other areas covered by the international conventions and international agreements backed by Sweden. We also expect the companies to work strategically to minimise risks and limit any negative impact they have on society, as well as take advantage of the opportunities presented by sustainable development. An important component of AP1's sustainability work is that we are clear in the expectations we have of the businesses in which we invest, and we act based on these. By being transparent, committed, responsible owners, we can reduce ESG shortcomings in our holdings and encourage companies to act responsibly and actively manage relevant risks and opportunities in a sustainable way. All this aims to increase returns and reduce financial risks for the long term, and contribute to sustainable development.

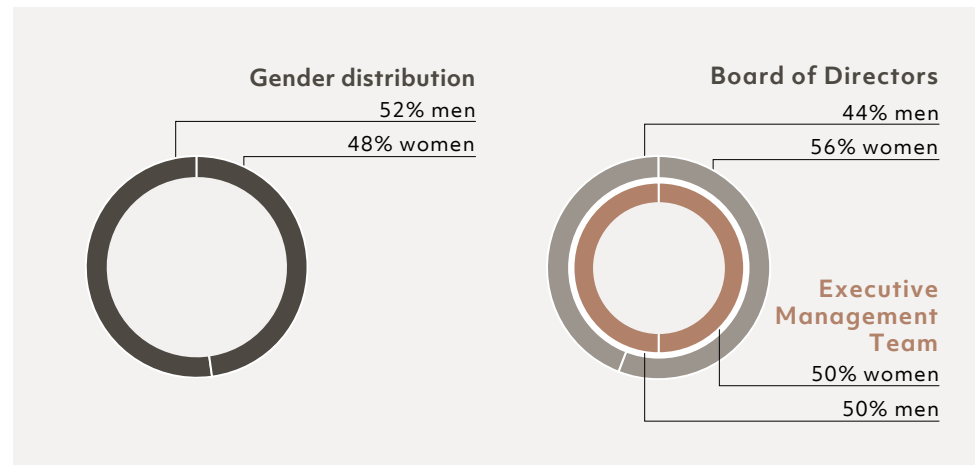


**“By being transparent, committed, responsible owners, we can reduce ESG shortcomings in our holdings and encourage companies to act responsibly and actively manage relevant risks and opportunities in a sustainable way.”**

Magdalena Håkansson,  
Head of Sustainable Value Creation, AP1

# Employees

*Our employees are the focus of everything we do at AP1. The important mandate we have is achieved by just 70 people, which means that the efforts of each individual make a difference. While the organisation is small in size, the competence of our employees is deep and the matters they deal with on a daily basis require substantial and up-to-date knowledge of what's happening in the world. Our ability to attract and develop competent and engaged employees is intrinsically linked to how well we succeed in our mandate, which is why issues regarding leadership, organisation and employees are always high on the agenda.*



## WE PROMISE

Challenges, responsibility and security in a goal-oriented team with a meaningful mandate.

## IN A WAY THAT IS

Forward-looking, Open, Responsible and Considerate.

## SO THAT WE BECOME

A world-class, highly trusted pension fund where our employees are proud to work, can continuously develop and have the possibility to make a difference.

AP1's purpose is to build pension security for us all, today and for the future, and this is the foundation for everything we do. Our employees are guided every day by our core values - forward-thinking, open, responsible and considerate. We want to create an encouraging, inclusive environment with equal opportunities for everyone. It should be a place where employees feel pride, motivation and joy in their work, while also being given scope to take responsibility and develop. Collaboration and a shared and clear direction are crucial for us to achieve our goals.

## A focus on leadership during the year

During the year we have developed the leadership within the Fund with a focus on enabling our managers to lead their employees based on the Fund's new strategy. Our goal is for every employee to feel strongly engaged, that they grow, perform and are happy so that we can deliver on our mandate. In autumn 2023 we started a leadership programme for all our managers. It is guided by our strategy and the Fund's leadership principles along with theory on psychology safety and learning. Amongst other things the managers will learn to use tools to enhance

psychological safety with a lot of emphasis on collaboration and learning, even between the managers during the programme. The objective is to enhance work enjoyment and engagement and improve the conditions for learning and development for all of the Fund's employees.

## Employees' opinions and feedback are important

To continuously develop as an organisation we need feedback from our employees. We know that a high level of employee satisfaction has a positive impact on our results.

Last year we moved away from the annual employee survey towards more frequent pulse surveys that continuously measure the mood of the organisation.

Through more frequent measurement we aim to facilitate regular and better analysis to be able to take action on an ongoing basis if needed.

The results of this year's surveys were strong in terms of work motivation, whether employees look forward to their working day, whether they feel that they can express their opinions freely, and whether they feel supported by their managers when needed. Similarly, a very high share of employees feel that there is clarity around how the goals of their team support the achievement of the organisation's overall goals. The Executive Management Team and other managers monitor the results of the pulse surveys continuously, and actively use them as a basis for dialogue with employees about their strengths and opportunities to develop.

**An organisation that continuously develops**

In 2023 the Fund's training and development initiatives have included areas such as infor-

mation security and sustainability. Office 365 was implemented during the year which has further improved digital working methods. Training courses have been run so that all employees can fully use the tool with a view to making cooperation at the Fund more efficient.

**Well-being and a safe working environment**

AP1 has a long-term, preventive approach to ensure that we offer a healthy and safe workplace, support the well-being of our employees, and enable a good balance between work and private life. As we know that healthy employees are both happier and perform better we take care of our employees' health and well-being. We offer them tailored benefits, preventive health benefits and exercise time to support a healthy and balanced lifestyle. All employees are also offered regular health check-ups. In addition to the pulse surveys, annual surveys are also carried out regarding the physical, social and organisational working environment. These surveys are a valuable tool in the regular management of the working environment.



**Key ratios for employees**

	2023	2022	2021	2020	2019
No. of employees, average	67	67	66	66	65
of whom women, %	48	45	45	44	40
No. of executive management members	4	4	5	5	7
of whom women, %	50	50	40	60	71
Average age, years	46	45	45	44	44
Employee turnover, %	9	11	13	8	7
Sick-leave, %	2.2	0.9	1.7	1.0	1.0



## An interesting place to work with complex subjects

Första AP-fonden is a organisation made up of specialists, where every employee has an important part to play and great responsibility. We value different perspectives and skills as we know that diversity is positive for our business. Interaction between our senior and junior members is important for the Fund's development. Meet some of our people who learn from each other



Diana Hellgren, Project Manager

In her role as a project manager at the Fund, **DIANA HELLGREN** has two important areas of responsibility. One of these is acting as the project management office that plans and coordinates all the projects within the Fund and ensures they all follow a structured process. This gives her a helicopter view that helps her support the projects, identify dependencies and collaboration, ensure that deadlines are met and not least, that effective follow-up is carried out. The second part is that Diana is also the project manager in all larger projects.

"In 2023 a total of 25 different projects have been done, usually with about 8-9 projects running at the same time. This can involve everything from improving HR processes and implementing system support to different procurements. We have so many projects ongoing because the organisation strives to remain at the forefront and new ideas are always emerging." Diana works closely with the Executive Management Team to prioritise what needs to be done based on the Fund's strategy

and external requirements such as new regulations. Diana participates in all the Executive Management Team meetings, both to report on project progress and also to identify new issues that need to be solved.

**"We have so many projects ongoing because the organisation strives to remain at the forefront."**

Diana studied Finance at Stockholm School of Economics (Sw: Handelshögskolan) and previously worked as a management consultant. "I am interested in finance matters and this really is an interesting place to work with complex subjects, there's so much competence gathered here and incredible energy. What I really enjoy is getting to work with so many different people and subjects at the Fund and I learn something new every day."



“You can voice your opinion and there are always new and interesting problems to tackle.”

Michele Oliboni, quantitative analyst and  
Patrik Nyman, Head of the Asset Allocation group

## We looked for someone who dared to question us

**PATRIK NYMAN** is the head of the Tactical Asset Allocation group and **MICHELE OLIBONI** is one of six members of the team. Tactical Asset Allocation has two main responsibilities, one is the operational management of the Fund's regular total risk allocation between different asset classes within stipulated frameworks, and the other is systematic management of global equities on developed markets.

Patrick has worked with tactical allocation for the National Swedish Pension Funds for more than 30 years, since before the new AP Funds were created in 2001 and then in 2003. “The new data-driven strategies and

the ability to manage large amounts of data efficiently have drastically changed how we work since then, and will most likely continue to change society and the finance sector fundamentally”, says Patrik.

Michele is the newest member of the team and joined the Fund last year. He mainly works with the new data-driven strategies which involves a great deal of programming. “I explore new approaches to problems and identify patterns. When it comes to machine learning it's easy to see it as a black box, but it's actually a lot about statistics. Of course, theoretically you can do calculations by hand with a pen and

paper, but it's not practically doable due to the complexity of these problems and how time-consuming they are. This is where computers and programming are incredibly valuable. The choice of methods and techniques is also important as these have a big impact on the final result.”

Patrick explains his thoughts from when Michele was recruited. “We naturally wanted someone with mathematical skills, but also who was knowledgeable, curious and interested in programming. We looked for a person with a solid understanding and view of risk, which is essential in our field, but otherwise we wanted to find someone who

thinks differently to the rest of us and brings us new perspectives. Somebody who dares to question our choices and take things on. My thought is that for our organisation, a new employee should be a person who can help us all develop”, says Patrik. “In my role I really get to use all the knowledge I've gathered related to mathematics, risk and programming, which I think is really cool. Patrik and the team always listen to my ideas and thoughts, and I feel that I have a lot of freedom to shape my work. You can voice your opinion and there are always new and interesting problems to tackle”, says Michele.

# Sustainability report

**Första AP-fonden** attaches great importance to reporting on its business operations and sustainability work openly and transparently. In this sustainability report we summarise how the Fund works with responsible investments and responsible ownership, and present the outcomes of this work.

- Together with the other AP funds we have drawn up common guidelines on how we are to report on the goal of exemplary asset management and how we take into account international reporting standards.
- We also report the carbon footprint of the investments in accordance with guidelines that the AP Funds have drawn up.
- We report more information on the Fund's website. For example, we present how we have voted at both Swedish and foreign holdings' general meetings.
- The work and results of our cooperation through the Council on Ethics of the Swedish National Pension Funds to drive positive change in foreign portfolio companies, is collated and reported in a separate annual report.

## *Outlook for the future*

The First-Fourth AP Funds and AP6 are not directly subject to the EU Sustainable Finance Disclosure Regulation (SFDR), the purpose of which is to increase transparency surrounding sustainability matters, and increase the comparability of different financial market participants and financial products. Nevertheless, since the regulation is expected to affect market practice over time, the AP Funds will gradually develop their reporting in the coming years in line with the SFDR.

## **Our sustainability work**

AP1's sustainability work is based on the mandate we have been given; to manage part of the buffer capital of the national pension system in an exemplary way, through responsible investments and responsible ownership in order to deliver long-term high returns at a low risk. We place particular emphasis on promoting sustainable development without compromising on the overall return target, in accordance with the AP Funds Act.

### *An important element of the Fund's strategy*

Paying attention to environmental, social and governance (ESG) matters is an important part of a modern asset management strategy in order to achieve a high return and good risk management for the long term. We believe that efficient use of resources and responsible conduct are often core characteristics of long-term sustainable returns. By being a committed and responsible owner, we can influence the companies in which we invest to manage relevant risks in a sustainable way..

### *Important for trust in the Fund*

As a government agency and manager of state pension funds, we work actively to integrate different elements of sustainability into our operations. This has great importance for retaining public trust in the AP Funds and the pension system. The Government performs an annual evaluation of how well the Fund lives up to its statutory mandate. We share our mandate with other buffer funds, which provides opportunities for various forms of collaboration.





## ESG strategy

**Första AP-fonden's ESG strategy** builds on the organisation's objectives, targets and potential for further enhancements within the ESG area to deliver on our mandate. The strategy provides the direction for the Fund's sustainability work and is approved by the Fund's Board of Directors. Every year, the CEO of the Fund adopts an ESG plan to realise the ESG strategy and implement it within the organisation. The strategy is implemented within each investment mandate based on the unique conditions of each investment model and asset class.

## Responsible investments

### Integration of sustainability into the investment process

We consider how material aspects of sustainability affect our investments over time. Well-informed investment decisions better position us to generate high returns at a well-balanced level of risk.

Read more on page **29**.

### Investments consistent with our core values

We expect the companies we invest in to comply with the international conventions backed by Sweden. When we identify companies that act contrary to these core values, and we believe that our ability to influence them via committed stewardship activities is limited, we can choose to sell our holding in the company. Read more on page **30**.

### Opportunity to promote sustainable development

We are to promote sustainable development without compromising on our return target. This requires us to be meticulous and constantly focus on the entire investment process and adapt it to different asset classes. Read more on page **32**.

## Responsible ownership

### Responsible and committed ownership

We are committed and responsible in our stewardship activities with the aim of influencing the companies to make positive change, reducing risk and promoting sustainable development, in Sweden and internationally. Read more on page **33**.

### Collaborating and engaging with other investors

To strengthen our ability to influence others, we collaborate with other investors and have joined a number of international and Swedish collaborations and initiatives. Read more on page **36**.

## Focus area Climate change

### Climate action

We believe that climate change and the ongoing transition to a less fossil-dependent world impact the Fund's opportunity to create long-term value for generations to come. The Board of Directors has therefore identified climate change as a specific focus area, and has set a target for the portfolio to be carbon-neutral by 2050, with an interim goal of halving our carbon footprint by 2030. Read more on page **38**.

## RESPONSIBLE INVESTMENTS

# Integration of sustainability into the investment process

*We are convinced that the best way for the Fund to achieve its overarching objective of delivering a long-term high return is by considering sustainability aspects in our investment decisions.*

## Adapted to investment strategies and over time

We consider aspects of sustainability in the investment process of all our investment mandates. How and to what extent depends on the asset class and is adapted to the chosen investment model. For example, we use quantitative factors specifically focused on resource-efficiency for the global, systematic equities strategy, while in our Swedish equities strategies we perform a more fundamental ESG assessment of each company.

The aspects of sustainability that are most relevant to our portfolio tend to vary over time. We constantly strive to improve our understanding of the significance of various sustainability issues and further refine how we integrate sustainability into our asset management. One example is biodiversity where we are working to improve our understanding of the portfolio's risk exposure, in terms of the companies' dependence on and negative impact on natural capital, to bring even more structure to how we address the issue in our investment process and stewardship activities.

## Access to relevant and accurate data

To be able to make well-informed decisions, it is essential that we have access to accurate, meaningful and comparable data that enables us to measure, analyse and evaluate different aspects of sustainability. We are therefore positive to the development of global reporting standards aimed at increasing both the transparency and quality of ESG-related

information from the portfolio companies. We use various sources of information and analyses, and regularly evaluate new ones, to supplement our understanding of material risks to the portfolio, to people and to the environment.

## Companies with greater sustainability risk

We have guidelines and processes for investments in companies that we assess as having a particularly high level of sustainability risk. The purpose of these is to ensure effective risk management by taking into account the sustainability risk in the investment decision and, for the companies in which we chose to invest, to act as a responsible owner. Companies that are deemed to have a greater sustainability risk include those with operations in certain sectors or those that do not adequately address their most material sustainability risks. We use data and analyses from a number of ESG data providers to support our assessments.

## Climate risks

We identify and analyse climate risks in the Fund's investment strategies, and consider climate-related aspects in a range of different investment decisions, from asset allocation to investments in individual companies. As part of managing the financial risks related to the portfolio's climate risk exposure, we have gradually phased out our exposure to companies in the fossil-fuels sector and set targets for transitioning the portfolio towards net-zero.



## RESPONSIBLE INVESTMENTS

# Investments consistent with our core values

*We expect the companies we invest in to respect human rights and other areas covered by the international conventions and international agreements backed by Sweden.*



**The First, Second, Third, Fourth and Seventh AP Funds** have defined common guidelines on the assets in which capital should not be invested. The guidelines are based on the AP Funds' common core values and primarily relate to the international conventions and international agreements backed by Sweden. We expect the companies we invest in to respect these conventions and national legislation, and that their operations adhere

to the UN Global Compact's ten principles for responsible business conduct, as well as the UN's Guiding Principles on Business and Human Rights.

### **Influencing is most important**

Dialogue and engagement present a key opportunity for us as a responsible owner to promote sustainable development, by helping to create better companies with good return

potential in the long run. The Fund therefore sometimes remains an owner even if the company does not currently meet our expectations, with the aim of influencing the company to move in a desirable direction. This is particularly relevant to AP1, as a long-term investor with a global, well-diversified portfolio.

Sometimes we choose to sell the holding in a company though. Exclusion of a company from the Fund's investment universe is a last

resort and only occurs when we consider that our chances of influencing the company are very small. If we end our ownership, this does not automatically lead to any change. Via the Council on Ethics of the Swedish National Pension Funds, AP1 collaborates with AP2, AP3 and AP4 regarding dialogue and engagement. Read more about our dialogues with foreign companies at [www.etikradet.se](http://www.etikradet.se) and at [www.ap1.se](http://www.ap1.se).



## → Outcomes in 2023

To identify companies that may be associated with violations of international conventions, AP1 along with the Second to Fourth AP funds use an external provider to regularly screen the holdings. From 2023, credits and indirect holdings via funds have also been included in the screening

During the year, incidents that were assessed as being a possible or confirmed violation of an international convention were identified in 84 of more than 3,500 companies. Through the Council on Ethics of the Swedish National Pension Funds, AP1 has held dialogues with the companies identified to get them to address the problem.

In 2023 the Council on Ethics commenced three new dialogues and were able to close seven where the objectives were achieved. At the year-end, active dialogues were ongoing with 54 companies.

During 2023, the Council on Ethics recommended excluding three companies that were assessed to be in violation of international conventions, and where attempts at dialogue had not achieved the desired results. The companies are AviChina Industry & Technology Company Limited, China Northern Rare Earth High Tech Co Ltd. and Metallurgical Corporation of China. The Council on Ethics also recommended re-inclusion of one company, Wal-Mart Inc., during the year. Första AP-fonden has chosen to adopt all these recommendations via approval of the CEO.

### Audit of the holdings of the AP Funds

	2023	2022	2021	2020	2019
Number of companies in the AP Funds' portfolios	3,510	3,202	3,168	2,430	3,557
– of which, confirmed violations	18	28	23	22	29
– of which, risk of violations	66	83	89	72	91
– of which, no remarks were made during the audit	3,426	3,091	3,056	2,336	3,437

## Sometimes we refrain from investing

In accordance with our core values, AP1 does not invest in companies that are associated with the following products or businesses:



### Nuclear weapons

We do not invest in companies considered to be incompatible with the objective of the Non-Proliferation Treaty.



### Tobacco and cannabis for non-medical use

We do not invest in companies that manufacture tobacco.

We do not invest in companies that manufacture cannabis for non-medical use.



### Cluster munitions and land mines

We do not invest in companies that manufacture or market cluster bombs or land mines.

### Individual companies can also be excluded.

When we identify companies that contravene the international conventions that Sweden backs, and we believe that our ability to influence them is limited, we can choose to sell our holding in the company.

The current exclusion list is available on our website, [www.ap1.se](http://www.ap1.se)

RESPONSIBLE INVESTMENTS

# Opportunity to promote sustainable development

*We are specifically aim to promote sustainable development without compromising on our return target. This requires us to be meticulous and constantly focus on the entire investment process and adapt it for different asset classes*

**As part of our mandate** AP1 is to give particular weighting to promoting sustainable development without compromising on the overarching return target. In addition to trying to support ESG improvements in all our holdings, we have identified investments that we consider could potentially lead to major ESG progress while fulfilling our required return. As an example, within alternative investments and credits we believe that the impact of an investment on the underlying assets is more apparent than in other asset classes. Another case where we can make a larger impact if we succeed is if we have a substantial shareholding.

Over the years we have identified several interesting investment opportunities that meet AP1's requirements on risk and return and can be expected to promote sustainable development.

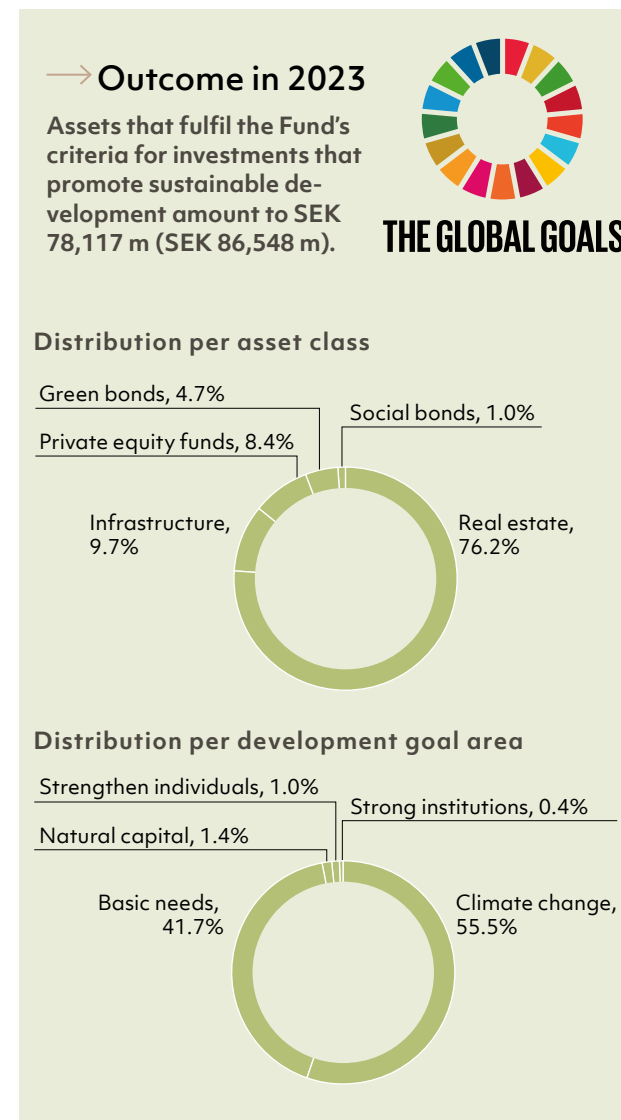
Last year we made investments in private equity funds, both in venture capital and buy-out funds, specialised in companies whose products support the SDGs. The largest share of investments are targeted at solutions that enable the climate transition, but other areas such as health, education and more

resource-efficient businesses are included in the strategies we have invested in – while also meeting our required return and risk profile.

We also invest in green and social bonds that finance specific shifts in ESG matters at the rate such bonds that fulfil the funds risk and return requirements are issued.

### Real assets focused on climate transition

The majority of the Fund's holdings that meet AP1's criteria for investments that promote sustainable development are currently comprised of unlisted real estate and infrastructure assets. Första AP-fonden has investments in real estate companies such as Willhem and Vasakronan that have ambitious, credible targets for their climate efforts and have set social goals. Another example is Polhem Infra, which AP1 owns together with AP3 and AP4. This company invests in and manages unlisted infrastructure assets in areas such as renewable energy, energy storage and digital infrastructure, which are all important components of the transition as they help meet society's rapidly growing need for electricity.



RESPONSIBLE OWNERSHIP

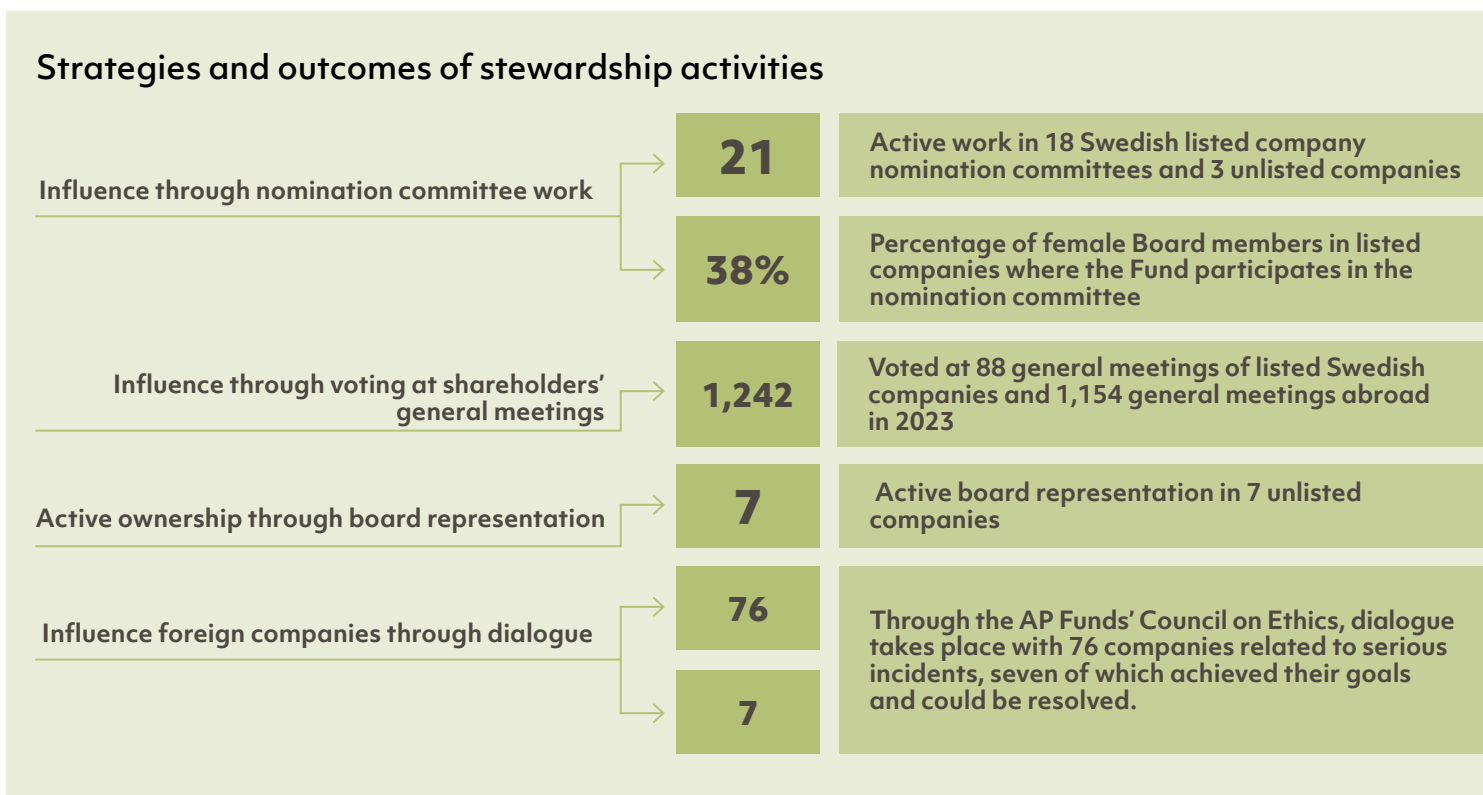
# Responsible and committed ownership

*By being a long-term, committed and transparent owner with a high level of integrity, we help to create a high return and strengthen trust in the Fund. A high level of trust from companies, other owners and stakeholders gives us a greater possibility to influence companies to make positive changes.*

## Responsible ownership increases the return

Första AP-fonden's stewardship activities aim to increase the return on the assets we manage over the long term, reduce the financial risk and contribute to sustainable development. Our stewardship activities are guided by eight fundamental principles for governance as laid out in our Ownership Policy. The work is based on our belief that efficient use of the world's resources, such as natural capital, human capital and financial capital, along with corporate responsibility pave the way for sustainable development and long-term, sustainable returns. We are convinced that well-managed companies have a greater potential to generate profits and avoid risks.

We want to make responsible use of the position afforded us through our ownership to be a positive influence on the companies we own. Given that we generally have a larger holding in Swedish companies, we have a greater ability to influence these companies via direct dialogue with the Board, or the





Chairperson of the Board, through nomination committee work and active participation at general meetings. In terms of foreign companies, the Fund generally has a smaller shareholding in the company and our main tools to use for stewardship activities are voting at general meetings and cooperating with other investors to influence the company to make positive changes. For unlisted companies and private equity funds in which Första AP-fonden has a significant share of voting power, we draw up owner directives for the company, work in nomination committees or similar forums, and endeavour to have our own representation in the companies' boards of directors.

### Shareholders' general meetings in 2023

AP1 puts great efforts into participating in general meetings and voting on various issues at general meetings in Sweden and around the world. We aim to vote at all the general meetings of the companies in which we have ownership. For the Swedish holdings, we use internal resources to analyse and make decisions on all the matters requiring votes. For the foreign holdings, we use external advisers who vote or provide voting recommendations, always guided by our Ownership Policy.

When it comes to Swedish companies, there is plenty of opportunity for discussions with company boards prior to the general meetings. It is therefore very unusual that institutional owners need to submit shareholder proposals for the general meetings. It is also rare for the Fund to vote against the proposals of the boards of Swedish companies as compromises can be reached before the proposal is submitted for the general meeting. Should this nevertheless occur, Första AP-fonden clearly declares its standpoint.

To increase transparency and also to put additional pressure on the companies we seek to influence, we publish how we have voted at every general meeting on our website, [www.ap1.se](http://www.ap1.se).

### Shareholder proposals

In many other markets than Sweden, in particular in the US, shareholder proposals are becoming more common and are sometimes a more effective tool for shareholders to influence the company. AP1 takes a position and votes on all of these proposals. We are seeing a rising trend in the number of shareholder proposals, particularly suggestions related to sustainability. We are generally positive to suggestions aimed at increasing transparency or monitoring within an ESG issue. We may also decide to not back a proposal if we deem that the company is adequately addressing the issue and the proposal does not thus add to the company's value creation or increase our insight into and ability to analyse the company. We also see proposals emerging that claim to relate to an ESG matter but are actually aimed at impairing a company's climate efforts or reporting, for example. AP1 votes against these types of proposals. Examples of shareholder proposals that Första AP-fonden has backed in 2023 include proposals for better transparency regarding human rights efforts for companies in the tech industry and proposals for policies for phasing out loans to new extraction of fossil fuels.

There were substantially fewer shareholder proposals in our Swedish holdings compared to other markets. One example was a climate proposal from Fair Finance that was submitted to the AGMs of a number of major banks. While the proposals were



legitimate, Första AP-fonden voted against them primarily because we consider that the climate efforts of the banks have progressed well during recent years and they currently work actively with managing climate risks in their organisations.

### Fair and market-based remuneration

It is fundamentally important to AP-fonden that the remuneration of senior executives in the companies we invest in is designed to reward efforts that create long-term shareholder value and simultaneously ensure that the company is able to attract and retain the right competence. The remuneration structure must incentivise participants to achieve

financial and non-financial objectives, the achievement of which contributes to the long-term value creation of the company. We see an increase in the number of companies that are tying remuneration to sustainability-related objectives, a development that we are favourable to when it is clear that the non-financial goals are linked to the companies' long-term financial progress. AP1 participates in discussions with Boards every year, mainly in Swedish holdings, when we seek to influence the companies to re-formulate their remuneration programmes so that they include clear and challenging performance requirements. In 2023 these discussions resulted in good compromises in most cases. In a few cases, the companies' boards

were not willing to compromise with the Fund so we voted against the proposals they put forth at their general meeting.

The structure of the remuneration of senior executives is the issue where we most frequently vote against the Board's proposal, and in most cases this is because we believe that the performance requirements are too low and the programmes are otherwise too generous and extensive.

### Discharge from liability

Like last year, Ericsson's 2023 AGM generated a great deal of attention. At the 2022 AGM, Första AP-fonden and several other shareholders of the company did not grant discharge from liability to any member of the Board, the Chairman of the Board or the CEO. It was our view that the Board and Executive Management of Ericsson had not been adequately transparent regarding the issue of corruption in Iraq and disclosure of information to the US Department of Justice. Första AP-fonden along with a number of other major shareholders therefore initiated discussions with the company, in part to convey our opinions and in part to better understand how the company was dealing with the situation. As a responsible owner it is important to have access to facts and information to be able to assess situations like these and their potential consequences on the company. While there is still more to be done, the company's information to shareholders has improved. Första AP-fonden therefore voted in favour of discharge from liability for the members of the board for the 2022 financial year. Given that some of the

global proxy advisory firms did not recommend discharge from liability for the year, it was not granted to the majority of the board members anyway.

### Virtual general meetings

In a number of jurisdictions it has been possible for companies to hold fully virtual general meetings, and from the beginning of 2024 this is also possible in Sweden. Första AP-fonden is favourable to the opportunities brought about by technological advancements, including holding general meetings, but we believe that physical general meetings of shareholders are a fundamental component of the Swedish corporate governance model and that the opportunities provided by technological advancements should therefore be regarded as a complement to the physical general meeting. In the Swedish Corporate Governance Code revised in 2023, the Swedish Corporate Governance Board (Sw: Kollegiet för Svensk Bolagsstyrning) has also laid down that best practice for companies listed on the Swedish market is to offer physical attendance to all shareholders who wish to attend in person. Första AP-fonden believes there is great value in attending as many physical general meetings as possible to meet Boards, the companies' executive management teams and other shareholders.

### Stewardship activities in nomination committees

One of the most important tasks we have in our capacity as an owner is to appoint competent, experienced and effective Boards. Första AP-fonden uses the position accorded

to us as owners responsibly, and is therefore active in nomination committees of Swedish and Nordic holdings when this is warranted by the size of our shareholding. Ahead of the 2023 AGMs, Första AP-fonden participated in 18 nomination committees of listed companies. In addition to those, we were active in three nomination committees, or the equivalent, in unlisted holdings.

Our work in these nomination committees is based on the Fund's mandate, our core values, our Ownership Policy and our view of what is best for each company. When we participate in nomination committees, we strive to identify new candidates based on a requirement profile derived from the assessment of each company's unique strategic and operational challenges. We believe that groups, and therefore Boards of Directors, with high cognitive diversity are more effective and therefore better equipped than homogeneous groups to deal with risks and opportunities. Första AP-fonden deems that the Board's experience and skills base and foster dynamic Board work. For that reason, our nomination committee representatives work to broaden the recruitment base to increase diversity and gender equality.

The Swedish Corporate Governance Code also stipulates that the composition of listed companies' Boards should be structured so that there is a diversity and breadth of competence, experience and background, and that an equal balance between the genders should be aimed for. The Swedish Corporate Governance Board recommends a long-term goal of a 40 per cent share of the least

represented gender overall in listed companies' boards. In December 2022 the new EU directive 2022/2381 on improving the gender balance among directors of listed companies came into force. Given that in Swedish listed companies, the share of female board members is 36.2%<sup>1</sup>, Sweden is exempt from the requirement to implement the directive, as long as this level is maintained.

Ahead of the 2023 AGMs, 15 new directors were recruited to the Boards of the listed companies where we worked within the nomination committees, including eight men and seven women. The total percentage of women on the Boards of these companies decreased somewhat, from 41 per cent to 38 per cent<sup>2</sup>, and the target of at least 40 per cent of each gender was achieved in 6 out of 17 companies. We achieved the target in all three of our unlisted companies, Vasakronan, Willhem and Polhem Infra.

On [www.ap1.se](http://www.ap1.se) we present more information about our nomination committee activities and the nomination committees we worked on prior to the 2023 AGMs, along with the nomination committees we are part of prior to the forthcoming AGMs in 2024.

- 1 Swedish Corporate Governance Board report: "The SCGB's report on the gender balance of listed company boards, 2023" published on 15 June 2023. This figure includes all board members elected by the general meetings, including CEOs if they are also elected by the general meetings.
- 2 The statistic includes CEOs who are also elected to the Board by the general meeting.

RESPONSIBLE OWNERSHIP

# Collaborating and engaging with other investors

*As a major individual investor, we can influence companies to make positive changes and contribute to efficient capital markets. By collaborating with others we become even more effective in our work and can strengthen our knowledge. Below is a selection of the collaborative initiatives that Första AP-fonden is part of.*

## The Council on Ethics of the Swedish National Pension Funds

The First to Fourth AP Funds collaborate on sustainability matters through the Council on Ethics of the Swedish National Pension Funds. The aim is to have a positive impact on the portfolio companies and their value chains from an economic, environmental and social perspective. We use dialogue to influence companies when we identify holdings that can be linked to serious incidents. We also conduct more proactive advocacy work with a number of focus areas, see the box on the right.

Our objective is to influence the companies to act responsibly when severe incidents arise, and work strategically to prevent violations of international conventions and agreements, as well as address systemic risks that are important to the Funds. This work is based on structured processes to identify, prioritise and escalate advocacy dialogues, and it is performed against clear goals and is regularly monitored. The Council on Ethics' experience to date shows that cooperation around dialogue is an effective tool that generates results. During 2023, 76 company dialogues were conducted to address serious incidents, seven of which were concluded as

the goals of the dialogue were achieved.

As the sustainability work of the National Swedish Pension Funds has evolved, and is now well integrated into each fund's operations, the Council on Ethics' role and processes have been updated to ensure that the work it performs complements, and remains an important element of the National Swedish Pension Funds' own responsible ownership work. Find out more about the Council on Ethics' activities at [www.etikradet.se](http://www.etikradet.se).

## Fighting corruption together

Corruption, unlawful influence and organised crime hamper all forms of progress and they are a challenge for many companies as they jeopardise companies' chances to create value and profitability. As a major investor, AP1 can contribute by influencing the companies and placing expectations on them.

To further enhance the role of investors as responsible and committed owners, AP1 has joined forces with Transparency International

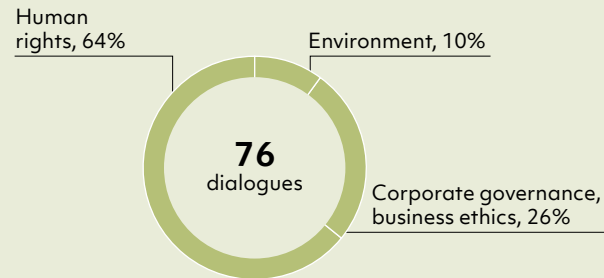
Sweden and a number of other Swedish investors to form the Investors Integrity Forum. This is a platform from which we can collectively drive important matters related to corruption risks, obtain and share knowledge, and foster transparency, integrity and accountability, and thereby create better conditions for sustainable and profitable investments. During 2023 the initiative focused on and held discussions with companies in the Swedish construction industry.

### Focus areas of the Council on Ethics

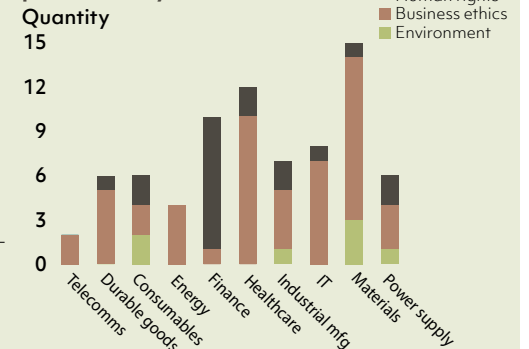
- Antimicrobial resistance
- Child labour and forced labour
- Climate transition
- Tech companies and human rights
- Water

### Company dialogues to address severe incidents

#### Company dialogues by sustainability issue



#### Council on Ethics' dialogues per industry





## A responsible and committed owner with clear expectations on the companies in which we invest

### As an owner, Första AP-fonden builds trust by being

- Business-oriented
- Long term
- Committed
- Transparent with a high level of integrity

### Our main advocacy tools are:

- Dialogue
- Participating in nomination committees
- Voting at general meetings
- Collaboration with other investors

### Well-managed companies:

- Increase the opportunity for long-term return
- Reduce risk over time
- Contribute to sustainable development

### Eight ownership principles – our basic expectations

1. Rights to vote and right to submit proposals at general meetings
2. Equal treatment of all shareholders
3. Appropriate capital structure
4. Effective Boards of Directors
5. Fair and market-based remuneration
6. Audit and internal control
7. Climate, environmental and social responsibility
8. Accurate, clear, objective and trustworthy information with relevant policies and guidelines

Company boards are responsible for creating long-term value for their shareholders and for ensuring their businesses are run in a financially, environmentally and socially responsible manner.

This means that:

- |   |   |  |
|---|---|--|
| <ul style="list-style-type: none"> <li>• International conventions that Sweden backs must be respected</li> <li>• International regulations and national legislation must be complied with</li> </ul> | <ul style="list-style-type: none"> <li>• Swedish companies must adhere to the Swedish Corporate Governance Code</li> <li>• A strategic process must be in place to integrate</li> </ul> | <ul style="list-style-type: none"> <li>ESG matters into business operations</li> <li>• Relevant, ambitious and credible targets for the strategic sustainability work must be adopted</li> </ul> |
|---|---|--|

### Institutional Owners Association

The Swedish model for corporate governance and stewardship is based on committed and responsible owners. Institutional ownership in Sweden accounts for almost one fifth of the value of Nasdaq Stockholm. This brings with it a responsibility to contribute to efficient capital markets and developing good practice in the field. Första AP-fonden is one of eighteen institutional owners involved in the Institutional Owners Association (IÄF), the purpose of which is to protect the interests of institutional owners on the stock market. One way it does this is by supporting the proper development of the stock market's self-regulation mechanism, the Swedish Corporate Governance Code. In 2023 the association celebrated its twenty-year anniversary by holding a seminar in which its members and representatives for other forms of ownership, the media and academia gathered to discuss ownership and the development of the Swedish financial market.

### Nature Action 100 and Climate Action 100+

A new collaborative investor initiative was launched in 2023 focused on increasing companies' understanding and management of nature-related risks, in part to limit the loss of biodiversity. Through this initiative, Första AP-fonden together with other participating investors will engage with 100 companies in selected sectors considered to be systemically important to the issue. The collaboration will also enable exchange of experience with other investors regarding nature-related risks. The initiative is coordinated by the Institutional Investors Group on Climate Change (IIGCC), which is also the group behind Climate Action 100+. Climate Action 100+ is a collaborative initiative that drives better governance and disclosure of climate-related risks so as to reduce climate emissions. In 2023 the initiative launched a new strategic plan covering the period up until 2030, which Första AP-fonden will continue to be part of.

We present all the international initiatives and frameworks that we support on [www.ap1.se](http://www.ap1.se).

More information about Första AP-fonden's Ownership Policy is available at [www.ap1.se](http://www.ap1.se)

## FOCUS AREA CLIMATE CHANGE

# Climate action

*Climate change and the ongoing transition to a less fossil-dependent economy, in line with the Paris Agreement, is one of the biggest challenges of our time and is key to sustainable development and future economic results. AP1 considers climate change to be a major risk that affects our ability to create value for generations to come.*

## Climate action

AP1's climate action is based on understanding, identifying and analysing climate risks and how they might affect the Fund's investments, as well as the Fund's ability to mitigate these risks. This analysis lays the foundation for how we integrate and address climate risks in the Fund's different investment decisions and in our stewardship activities. Our aim is for the companies in which we invest to understand and manage their pertinent risks, as well as to bring about a reduction of carbon emissions in the real economy. Our climate-related efforts are influenced by the recommendations of the TCFD (Task Force on Climate-related Financial Disclosure).

## Governance

AP1's Board of Directors has adopted an ESG strategy and related objectives. These objectives are to be achieved without compromising on the Fund's overarching mandate of attaining a long-term, high return. The Board's Sustainability committee regularly monitors the Fund's ESG progress and objectives. Every year the CEO of the Fund also adopts an ESG

plan, which acts as the CEO's guiding document for how the ESG strategy is realised and implemented across the organisation, as well as how follow-up reporting should take place.

## Strategy

*Climate can be broken down into:*

**TRANSITION RISKS** – how our portfolio or an individual investment is affected by a climate transition in line with the Paris Agreement. This may be due to technical developments, regulatory changes or new consumption patterns that may impact anything from a company's costs for input goods to the demand for its products

**PHYSICAL RISKS** – how our portfolio or an individual investment is affected by the physical consequences of climate changes. Amongst other things, this may be due to rising temperatures, water shortages or extreme weather conditions that may end up affecting the company's direct operations or value chain.

Different regions, industries and thus individual companies will be affected to a different degree depending on the scenario.

Climate scenario analyses are used to increase our understanding of how potential scenarios might affect the Fund's assets over time and to inform the Fund's strategic asset allocation. AP1 considers that transition risk is still the primary risk to its portfolio in the coming years. At the same time, it is important that we give greater consideration to the physical risks related to longer-term and less liquid investments. We integrate climate-related factors in the majority of our managed mandates, in combination with responsible ownership. Responsible ownership can also involve our selling assets when improvements are not implemented, or when we identify risks that we do not believe we can manage well.

## Risk management

The Fund has developed a tool, referred to as a heat map, for identifying the most material transition risks for the total portfolio and for each mandate. The tool was developed to increase our understanding of the portfolio's climate risk exposure, and also provides support in prioritising efforts to integrate climate considerations into the investment process

and in the Fund's stewardship activities. We regularly monitor the development of our climate risk exposure.

As our understanding of different climate-related risks changes, and the availability of better and more relevant data increases, the Fund's management of these risks evolves. Recently more future-oriented actions have been implemented, for example related to the companies' goals and transition plans.

As a responsible owner we use voting and engagement to influence the companies to adopt relevant, ambitious and credible targets and associated transition plans to reduce carbon emissions. We support the development of better data and analyses through initiatives such as the Transition Pathway Initiative.

We also believe the transition presents many opportunities and we therefore look for investments in assets that meet the Fund's return requirements while also contributing to sustainable development.

As a result of this climate work we have gradually reduced our exposure to companies



with fossil-based activities. We believe that the transition to a less fossil-dependent economy involves particularly large uncertainty for companies operating in the coal, oil and gas industries, and over time, investments in these companies may entail a higher financial risk for the Fund. At the end of 2018 we sold companies that had substantial coal and oil sands activities. In 2020 we divested companies in the energy sector (coal, oil and gas companies) as well as companies that either extract coal, own large coal reserves or are major coal-power producers.

### Targets and metrics

AP1 will reduce the carbon footprint of its portfolio to net-zero by the end of 2050, primarily through the companies we own reducing their carbon footprints in line with the goals of the Paris Agreement. The Fund's interim target is a halving of the portfo-

lio-weighted carbon footprint by 2030, compared to 2019. This goal reflects the portfolio's global and well-diversified exposure and is based on the fact that, as a long-term asset manager, we should work towards reducing the carbon emissions of the real economy. An important aspect for achieving these goals is that the portfolio companies, in turn, adopt targets and make efforts to reduce carbon emissions. We therefore monitor the percentage of the Fund's listed shareholdings that have science-based climate targets, in accordance with the Science Based Targets initiative. See page 40 for outcomes.

Furthermore, the Fund aims to increase its investments in assets that promote sustainable development. We focus on investments that fulfil the Fund's overarching return target and lead to major sustainability outcomes in relation to the capital invested. See page 32 for outcomes.

## Facts on carbon footprint reporting

### How we report our carbon footprint

The AP Funds report the carbon footprint of their listed equity portfolios according to mutually developed guidelines, see [www.ap1.se](http://www.ap1.se). In 2023 the AP Funds have amended these guidelines to align with the TCFD's updated recommendations

### Scope 3:

The reporting has been expanded to the portfolio companies' indirect emissions. Scope 3 includes emissions in the company's value chain, from the creation of purchased materials to emissions from the usage of the company's product, and thereby supplements the understanding of a single company's climate-risk exposure. When Scope 3 data is summarised for a portfolio that contains several companies within one and the same value chain, a certain amount of double counting occurs. Data is mainly based on assumptions as relatively few companies currently report Scope 3 emissions. As reporting requirements on companies increase, we believe that the access and quality of reported Scope 3 data will grow.

### EVIC

The total of the owned share of portfolio companies' carbon emissions is calculated in relation to the company value (EVIC - Enterprise Value Including Cash), rather

than, as before, in relation to the companies' market value. One advantage is that this metric can be applied to several asset classes, but it also means that the shareholders' portion of the companies' carbon emissions, and thereby the equity portfolio's carbon emissions, are now affected by stock market developments.

### How we use the carbon footprint metrics in our organisation

The carbon footprint provides a basis for assessing certain climate-related financial risks, such as a price on carbon, and enables AP1 to prioritise stewardship activities with the companies regarding adoption of goals and transition plans to reduce emissions.

The metric should be viewed in the context of the Fund's overall sustainability work and in relation to developments in the real economy.

### A historic, varying snapshot

The carbon footprint provides a historic snapshot of the emissions from the companies in the Fund's portfolio.

The numbers will vary as the companies' emissions change, but also as the composition of the portfolio is changed. Changes in data quality and fluctuations in exchange rates can also affect this metric in certain years, and inflation also has an cumulative effect over time.



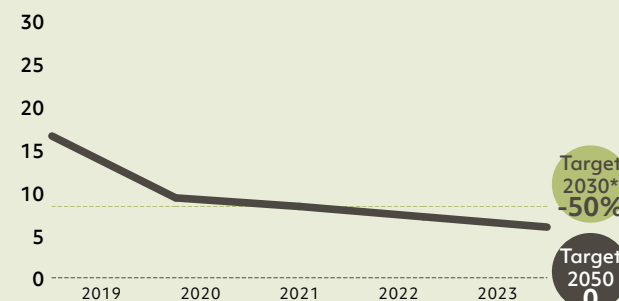
## → Outcome in 2023

The listed equity portfolio's share of the portfolio companies' carbon emissions<sup>1</sup> (Scope 1 and 2) has increased to 0.61 million tCO<sub>2</sub>e (0.40), which is the same level as in 2021. The increase is explained in part by the strong positive development on the stock market during the year, which means the shareholders' portion of the companies' emissions increases overall, and in part by changes in the portfolio with an increased allocation to equities and a few new holdings in the active Swedish equity portfolio adding to the increase. The companies are considered to have long-term opportunities to contribute positively to the return and to the climate transition. At the same time we note that the portfolio companies' actual emissions have decreased by 5% compared to 2022 and that companies accounting for 49% of the carbon emissions have science-based climate targets that are consistent with the Paris Agreement, in accordance with the Science Based Targets initiative. From 2023 the equity portfolio's share of the companies' indirect carbon emissions (Scope 3) are also being reported, and amount to 11.9 million tCO<sub>2</sub>e.<sup>2</sup>

1) From 2023 the carbon emissions in relation to EVIC are being reported. Previous years' emissions have been recalculated based on EVIC.

2) Uncertainty, and thus comparability, of this figure is high as there is only reported data for approx 20%. Both reported and estimated Scope 3 data is based on a number of assumptions.

### Weighted average carbon intensity (TCFD)(tCO<sub>2</sub>e/SEK m)



\* The base year is 2019, which means that 50% corresponds to 8.25 tCO<sub>2</sub>e /SEK m

### Companies that account for 49% of carbon emissions have approved climate targets according to SBTi



The portfolio's weighted carbon intensity, (Scope 1 & 2) continued to decrease for all asset classes. For the listed equity portfolio, the intensity decreased to 5.9 tCO<sub>2</sub>e/SEK m (7.1), which is explained by changes in the holdings of the portfolio and a reduction of the companies' carbon intensity. Other factors also impacted the carbon intensity, such as inflation which was relatively high during the period. Compared to the 2019 base year, the portfolio's weighted carbon intensity has decreased by 64%, which after adjustment for inflation during the same period corresponds to a reduction of 57%.

In 2023, the portfolio's weighted carbon intensity for the other asset classes amounted to 8.2 tCO<sub>2</sub>e/SEK m (15.0) for real assets and 6.3 tCO<sub>2</sub>e/SEK m (7.7) for credits. The carbon footprint of government bonds, measured as territorial production-based emissions related to the GDP, decreased to 18.8 tCO<sub>2</sub>e/SEK m (20.5). Inflation development over time also has an accumulated effect on the footprint for these asset classes. A description of how we calculate these metrics is available on the Fund's website [www.ap1.se](http://www.ap1.se).

## Carbon footprint of the listed equity portfolio

	2023	2022	2021	2020	2019
<b>Total carbon emissions, Scope 1&amp;2 (million tCO<sub>2</sub>e)<sup>1)</sup></b>	<b>0.61</b>	<b>0.40</b>	<b>0.60</b>	<b>0.58</b>	<b>0.80</b>
Change in the portfolio's carbon emissions, Scope 1&2 in relation to last year, (%)	51	-35	5	-28	
- of which change due to changes in portfolio holdings, percentage points	56	-34	4	-29	
- of which change due to changes in the companies' emissions, percentage points	-5	-1	1	1	
<b>Carbon emissions, Scope 3 (million tCO<sub>2</sub>e)<sup>1)</sup></b>	<b>11.9</b>				
<b>Relative carbon emissions, Scope 1&amp;2 (tCO<sub>2</sub>e/SEK m)<sup>2)</sup></b>	<b>2.6</b>	<b>2.1</b>	<b>2.6</b>	<b>3.2</b>	<b>6.5</b>
<b>Weighted average carbon intensity, Scope 1&amp;2 (TCFD) (tCO<sub>2</sub>e/mkr)<sup>3)</sup></b>	<b>5.9</b>	<b>7.1</b>	<b>8.2</b>	<b>9.3</b>	<b>16.5</b>
Change in the portfolio's carbon intensity (TCFD) compared to last year, %	-17	-14	-11	-44	
- of which change due to changes in portfolio holdings, percentage points	-8	-4	1	-52	
- of which change due to changes in the companies' carbon intensity, percentage points	-9	-10	-12	8	
Mapped market value as a percentage of total net assets, %	51	46	51	47	34
Percentage of the mapped market value for which reported emission data exists for Scope 1&2, %	91	86	79	72	68
Percentage of the mapped market value for which reported emission data exists for Scope 3 %	22				

1) Total of the owned share of portfolio companies' individual carbon emissions based on the companies' EVIC. Years 2019 - 2022 recalculated based on EVIC

2) Total of the owned share of portfolio companies' individual carbon emissions in relation to the portfolio's market value based on the companies' EVIC. Years 2019 - 2022 recalculated based on EVIC

3) 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.

## AP1's direct environmental impact

	2023	2022 <sup>1)</sup>	2021 <sup>1)</sup>	2020 <sup>1)</sup>	2019
Power consumption in own offices, MWh	67.0	114.3	141.7	137.5	148.7
District cooling consumption in own offices, MWh	19.6	77.9	96.4	101.7	132.8
Heating consumption in own offices, MWh	62.9	51.4	45.8	41.5	48.5
Water consumption, m <sup>3</sup>	495.0	404.8	488.2	530.0	725.6
Paper consumption, tonnes	0.3	0.1	0.3	0.3	0.8
Percentage of eco-labelled paper out of total paper consumption, %	100	100	100	100	100
Business travel by air, tens of thousands of km	19.5	12.9	0.1	6	52
Business travel by air, emissions in CO <sub>2</sub> tonnes	24.3	16.5	0.1	16	69

1) The pandemic affected the results.

## The auditors' statement regarding AP1's sustainability report

org.no 802005-7538

### *Engagement and responsibility*

The Board of Directors has been responsible for the sustainability report for 2023 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.

### *Focus and scope of the audit*

Our examination of the statutory sustainability report has been guided by FAR's auditing standard RevR 12, Auditor's report on the statutory sustainability reporting. This means that our examination of the statutory sustainability reporting is different and substantially less in scope than an audit

conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

### *Opinions*

A sustainability report has been prepared.

### **Peter Nilsson**

*Authorised Public Accountant*

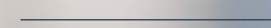
Appointed by the Swedish Government

### **Helena Kaiser de Carolis**

*Authorised Public Accountant*

Appointed by the Swedish Government

## Director's report



# Director's report

The Board of Directors and the CEO of Första AP-fonden hereby submit their Directors' Report for 2023.

The Directors' Report, together with the annual accounts and notes, has been reviewed by the auditors of the Fund. The review covers pages 42-58.

## Result and return

Första AP-fonden's (AP1's) net investment income for 2023 was SEK 38.0 billion (-39.9), which means a return after expenses of 9.1 per cent (-8.6). Measured over the last ten-year period, the annual return was 7.9 per cent. This equates to an average real return of 5.0 per cent a year, exceeding the medium-term target of a real return after expenses of 3.0 per cent over rolling ten-year periods.

Rising interest rates, high inflation and volatile currencies have made this another challenging year with large movements in all classes of assets. The organisation has been very focused on managing the volatile market while also working to improve the organisation.

Pursuant to the allocation decisions made, the share of equities has increased and the share of fixed-income assets has somewhat decreased. At the same time, the

Fund's unlisted real estate holdings have been lowered in value during the year.

In the Fund's global tactical allocation the focus has been on making the data flow and calculations more efficient. In addition to a continued increase in the internal, systematic equity management, we have gathered all strategies on one shared platform and laid the foundation for more efficient processing and development of more advanced methods. A milestone was achieved when the Fund internalised the management of European small caps in order to reduce costs and make the management more efficient. Liquidity management has also improved and become more efficient.

## Asset classes and return

### Equities

During the year, exposure to equities has increased, partly via buying into the portfolio and partly due to rising markets. The equity exposure of AP1's portfolio was SEK 278.3 billion at year-end, equating to 61.2 per cent of the total portfolio. The equity portfolio comprises SEK 100.3 billion in Sweden and SEK 178.0 billion in foreign developed markets. Swedish listed equities and listed equities on developed markets are managed internally. The return on the equity portfolio

for 2023 was 21.2 per cent, which equates to SEK 47.2 billion.

### Fixed-income securities

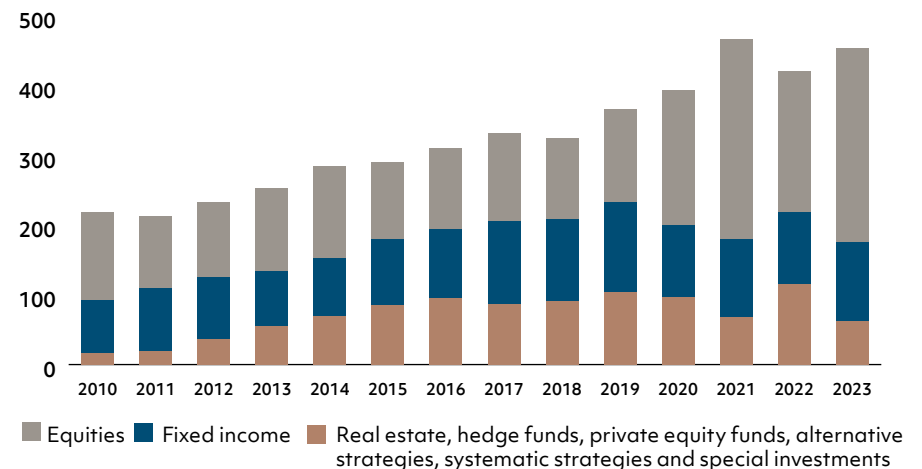
AP1's fixed-income portfolio had a market value of SEK 113.0 billion at year-end, equaling 24.9 per cent of net assets. The majority comprise investments in foreign bonds. Continued rises in interest rates from a host of different central banks, accompanied with resilient macro-economic developments were major reasons for the challenging year for

fixed-income securities as an asset class. The return on the Fund's fixed-income portfolio was 4.8 per cent, which equates to SEK 5.2 billion. During the second half of the year the Fund raised the duration of fixed-income securities as interest rate increases were considered to have reached the peak for this economic cycle.

### Alternative investments

After a very long period of constantly high positive returns for Alternative investments,

Net asset performance, SEK bn





2023 became a year when a new environment of high inflation, rising interest rates and lower availability of capital had a marked effect on market sentiment and valuations, which resulted in write-downs, mostly driven by rising returns requirements on revaluations.

On the whole the portfolio is showing strong resilience, in part as a result of our historically balanced level of financial risk-taking, and that in recent years at the peak of the market, we have in fact been restrictive with major new acquisitions and have reduced the portfolio's exposure. Our representation in companies through Boards, investment committees and advisory boards has meant that we have been able to have an influence and been active in the development of the companies.

#### Real estate

AP1's real estate holding had an exposure of SEK 64.4 billion at year-end, equalling 14.2

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. In terms of value, Willhem and Vasakronan together comprise the majority of the real estate portfolio. Both of these holdings have decreased in value during the year as a result of increased return requirements. In Willhem the annual rent increases have not offset the entire effect of high inflation and higher costs. For Vasakronan the high inflation has partially been mitigated through indexation in the existing rental contracts. In a totally transformed real estate market, a few players have ended up in financial difficulties which creates potential opportunities for new investments. We have assessed a large number of new business opportunities, some directly and some via the Boards and different committees we are part of. Our assessment is that these opportunities will remain long into

2024. The return on the real estate portfolio in 2023 totalled -14.9 per cent, corresponding to SEK -11.0 billion.

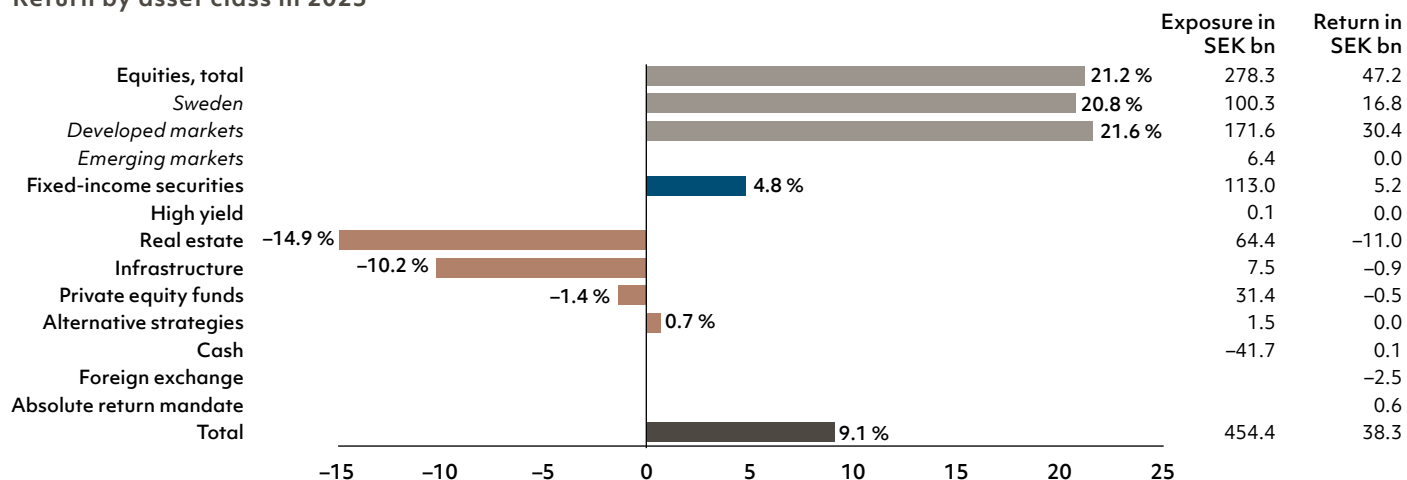
#### Infrastructure

The Fund's investments in infrastructure amounted to SEK 7.5 billion at year-end, equalling 1.6 per cent of net assets. The continued build-up of infrastructure exposure is mainly currently happening via Polhem Infra. Potential investment opportunities are discussed regularly by the investment committee and are raised to the Board of Directors for decision. A number of potential investments were discussed during the year but we find that there is still a wide gap between the expectations of sellers and buyers, which has resulted in a stagnation in transaction activities. The return on the infrastructure portfolio was -10.2 per cent, which equates to SEK -0.9 billion.

#### Private equity funds

AP1's investments in private equity funds amounted to SEK 31.4 billion at year-end, equalling 6.9 per cent of net assets. Return for the year amounted to -1.4 per cent. There continued to be a lower level of activity last year compared to the highs of 2021, given the high interest rates, inflation and geopolitical uncertainty. This has added to uncertainty about where the economy is going, which affects how buyers and sellers perceive the value of private equity funds' portfolio companies. Fewer transactions in the market have led to reduced distributions and dividends, which resulted in a cautious private equity market and a subdued growth in value in the private equity portfolios, even if we see a generally good development in our portfolio companies in terms of revenue and net investment income growth. We have continued to invest in private equity funds that promote sustainable development, such

### Return by asset class in 2023



as funds specialised in health, education, resource efficiency and new technologies, as well as buy-out funds with a clear focus on the climate transition, reduced GHG emissions and reduced environmental damage.

**Expenses in 2023**

To gauge the Fund’s cost efficiency, the Fund takes part in international cost benchmarking every year conducted by CEM Benchmarking. The Fund is compared against a group comprising of some 20 global pension funds with approximately the same portfolio breakdown and size as Första AP-fonden. None of the other AP Funds are in the comparison group. The analysis for 2023 shows that the Fund’s costs are still lower than those of the comparison group. Operating expenses for 2023 amounted to SEK 247 million (238). Commission expenses amounted to SEK 10 million (27). Over the past two years, the Fund has actively worked to reduce its

commission expenses, which is now having an effect. The Fund has increased its internal asset management, amongst other things. The Fund’s total expense ratio has dropped from 0.14 per cent to 0.06 per cent since 2017.

**Transfer to the Swedish Pensions Agency**

In 2023, the Fund transferred SEK 4.8 billion (4.7) to the pension system to cover the deficit in pension contributions in relation to pension disbursements. Since 2009, the Fund has paid SEK 82.2 billion net to the Swedish Pensions Agency to cover the deficit in pension disbursements.

**Proportion of internal and external management**

At the end of 2023, 91.8 per cent of the assets were managed internally and 8.2 per cent of the assets were managed externally. AP1 manages assets internally when an

overall assessment indicates that internal management can achieve an equal or better return at a lower cost.

**Sustainable value creation**

AP1 is ambitious when it comes to sustainability. The Fund is convinced that investments in well-managed companies entail a lower risk and probably generate a higher return in the long run. ESG 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. AP1’s sustainability report and activities during the year can be found on pages 27-40 of this annual report.

**Collaboration and cooperation with other AP Funds**

The AP Funds’ Council on Cooperation was set up in 2016 to develop collaboration and

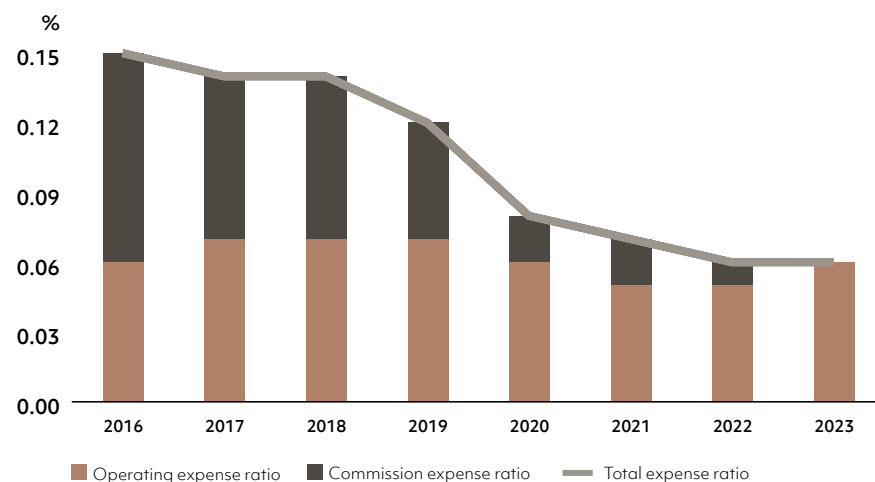
cooperation between the First–Fourth AP Funds and the Seventh AP Fund. The aim is to collaborate on areas outside of investment with the goal of achieving cost efficiency, efficient utilisation of resources, and an exchange of experience and knowledge.

In 2023 there has been active collaboration within the different operational areas. Some of the areas where the Funds have cooperated during the year include procurement, financial reporting, internal training and the development of system platforms. Joint communications initiatives have also been carried out, giving good results.

**Significant events after the end of the reporting period**

No significant events have taken place since the year-end 2023/2024.

**Development of administrative expenses 2016–2023**



## Net investment income for 2023 before expenses

	Exposure SEK bn	Return %	Return contribution %	Return contribution SEK bn
Equities	278.3	21.2	11.2	47.2
<i>Sweden</i>	100.3	20.8	4.0	16.8
<i>Developed markets</i>	171.6	21.6	7.2	30.4
<i>Emerging markets</i>	6.4		0.0	0.0
Fixed-income securities	113.0	4.8	1.2	5.2
High-yield	0.1		0.0	0.0
Real estate	64.4	-14.9	-2.6	-11.0
Infrastructure	7.5	-10.2	-0.2	-0.9
Private equity funds	31.4	-1.4	-0.1	-0.5
Alternative strategies	1.5	0.7	0.0	0.0
Cash	-41.7		0.0	0.1
Foreign exchange			-0.6	-2.5
Absolute return mandate			0.1	0.6
<b>Total</b>	<b>454.4</b>	<b>9.1</b>	<b>9.1</b>	<b>38.3</b>

## Expenses and expense ratio 2023

Asset classes	2023		2022	
	Expenses, SEK m	Expense ratio*, %	Expenses, SEK m	Expense ratio*, %
Personnel costs	146	0.03	144	0.03
Other administration expenses	101	0.02	94	0.02
<b>Operating expense</b>	<b>247</b>	<b>0.06</b>	<b>238</b>	<b>0.05</b>
Commission expenses	10	0.00	27	0.01
<b>Total expenses</b>	<b>257</b>	<b>0.06</b>	<b>265</b>	<b>0.06</b>

\*Share of the portfolio's value.

## Currency exposure, 31/12/2023

SEK m	USD	GBP	EUR	JPY	Other	Total
Shares and participations	129,801	8,985	19,073	9,394	20,061	187,313
Fixed-income securities	34,017	5,239	31,843	7,621	1,620	80,340
Other assets	2,861	26	466	33	61	3,446
Derivatives	-129,724	-40,223	-30,524	25,324	-13,508	-188,654
<b>Total</b>	<b>36,955</b>	<b>-25,974</b>	<b>20,857</b>	<b>42,372</b>	<b>8,234</b>	<b>82,445</b>

Currency exposure 31/12/2022	33,707	9,424	11,048	23,808	6,391	84,378
Currency exposure 31/12/2021	99,129	-7,424	20	29,226	20,289	141,241
Currency exposure 31/12/2020	50,480	-9,938	10,058	19,747	20,713	91,060
Currency exposure 31/12/2019	34,063	379	1,129	26,473	31,792	93,836



# Ten-year overview

Net investment income and inflow, SEK bn	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Net assets, at 31 December	454.4	421.2	465.8	392.6	365.8	323.7	332.5	310.5	290.2	283.8
Net flow pension system	-4.8	-4.7	-7.5	-7.9	-6.5	-6.8	-7.4	-6.6	-4.9	-5.1
Net investment income for the year	38.0	-39.9	80.7	34.8	48.6	-2.1	29.3	27.0	11.3	36.4
<b>Return, expenses and risk, %</b>										
Return before expenses	9.1	-8.5	20.8	9.8	15.3	-0.6	9.7	9.5	4.1	14.8
Operating expenses, annualised, % of AUM	0.06	0.05	0.05	0.06	0.07	0.07	0.07	0.06	0.06	0.07
Commission expenses, annualised, % of AUM	0.00	0.01	0.02	0.02	0.05	0.07	0.07	0.09	0.11	0.10
Return after expenses	9.1	-8.6	20.8	9.7	15.1	-0.7	9.6	9.3	4.0	14.6
Market returns <sup>(1)</sup>	16.5	-14.2	17.9	6.8	19.7	-3.4	9.1	8.0	1.5	
<b>Net investment income and expenses in total portfolio, SEK bn</b>										
Net investment income before expenses	38.3	-39.6	81.0	35.1	49.0	-1.6	29.8	27.4	11.8	36.9
Operating expenses and commission expenses	-0.3	-0.3	-0.3	-0.3	-0.4	-0.5	-0.4	-0.5	-0.5	-0.5
<b>Exposure, %</b>										
Equities	61.2	47.9	61.4	49.2	36.3	34.1	37.9	34.1	34.7	48.9
Sweden	22.1	18.8	18.6	17.3	10.5	11.2	12.9	12.3	12.3	11.6
Developed markets <sup>(2)</sup>	37.8	29.1	34.6	21.8	11.9	8.8	10.7	12.5	14.4	27.1
Emerging markets	1.4	0.0	8.3	10.2	13.9	14.1	14.2	9.2	8.0	10.1
Fixed-income securities <sup>(3)</sup>	24.9	24.1	22.9	24.2	32.3	33.3	31.7	29.8	30.2	30.9
Cash <sup>(4)</sup>	-9.2	-0.7	-10.1	-0.2	-0.3	-2.5	-2.4	-1.1	-0.1	-1.1
Real estate	14.2	17.7	15.2	14.1	14.8	14.3	12.8	12.6	11.5	8.8
Infrastructure	1.6	1.9	2.5	2.1	3.0	3.7	3.4	3.0	2.9	
Hedge funds		0.5	0.8	3.8	4.3	4.6	4.0	5.0	4.8	5.9
Private equity funds	6.9	7.9	6.0	4.9	5.4	5.5	4.6	4.7	5.0	4.4
High-yield	0.0	0.3	1.1	1.9	3.0	2.8	4.5	4.5	2.9	
Alternative strategies	0.3	0.3	0.2	0.0	1.1	0.9	1.0	5.0	4.4	
Systematic strategies						3.2	3.0	4.5	5.2	5.6
Special investments								0.5	0.7	
Foreign exchange	18.1	20.0	30.3	23.2	25.7	26.0	25.3	22.1	31.3	35.1
<b>Risk</b>										
Volatility, % <sup>(5)</sup>	6.6	9.3	6.4	10.6	3.8	4.9	3.6	6.4	8.1	5.4
Sharpe ratio	0.9	neg.	3.3	0.9	4.2	0.0	2.9	1.5	0.5	2.6
Market volatility, % <sup>(1)</sup>	7.5	12.5	7.2	15.8	6.1	7.4	4.3	8.1	9.4	
<b>External management, %</b>										
Share of total portfolio as of 31 December <sup>(6)</sup>	8.2	10.1	15.9	22.6	31.4	33.5	32.5	31.8	31.0	34.6

1) Market returns and Market volatility: Refer to the returns and the volatility in the investment universe that arise as a consequence of the buffer funds' statutory mandate.

2) Starting in 2019, systematic strategies are included as a part of Equities in developed markets.

3) Investment grade bonds (fixed income incl. cash funds in accounts = 24.0% for 2023).

4) Cash exposure includes commitments related to certain equity derivative instruments

5) Standard deviation calculated on daily return in 2023.

6) 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	31/12/2023	31/12/2022
<b>Operating income</b>			
Net interest income	2	2,753	2,822
Income from equity shares		5,868	6,537
Net gains/losses, listed shares and participations	3	39,139	-48,649
Net gains/losses, unlisted shares and participations	4	-11,664	3,722
Net gains/losses, fixed-income assets		2,302	-16,080
Net gains/losses, derivative instruments		1,949	-3,748
Net gains/losses, foreign exchange movements		-2,062	15,755
Commission expenses	5	-10	-27
<b>Total operating income</b>		<b>38,276</b>	<b>-39,668</b>
<b>Operating expenses</b>			
Personnel costs	6	-146	-144
Other administrative expenses	7	-101	-94
<b>Total operating expenses</b>		<b>-247</b>	<b>-238</b>
<b>Net investment income</b>		<b>38,029</b>	<b>-39,906</b>

## Balance Sheet

SEK m	Note	31/12/2023	31/12/2022
<b>Assets</b>			
Shares and participations, listed	8	232,915	197,893
Shares and participations, unlisted	9	100,609	114,678
Bonds and other fixed-income assets	10	108,450	101,117
Derivatives	11	9,958	2,251
Cash and bank balances		3,716	6,544
Other assets	12	894	493
Prepaid expenses and accrued income	13	763	506
<b>Total assets</b>		<b>457,304</b>	<b>423,482</b>
<b>Liabilities</b>			
Derivatives	11	655	2,246
Other liabilities	14	2,259	42
Deferred income and accrued expenses	15	5	5
<b>Total liabilities</b>		<b>2,919</b>	<b>2,293</b>
<b>Net assets</b>	16		
Opening net assets		421,189	465,784
Net payments to/from the pension system		-4,833	-4,689
Net investment income for the year		38,029	-39,906
<b>Total net assets</b>		<b>454,386</b>	<b>421,189</b>
<b>Total net assets and liabilities</b>		<b>457,304</b>	<b>423,482</b>
Memorandum items	17	39,490	36,846

# Notes to the accounts

Amounts are in SEK million (SEK m), unless otherwise stated.

## Note 1 – 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 currencies

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.

**Note 1 – Accounting policies, continued****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 pledged. 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. 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 2 – Net interest income**

SEK m	2023	2022
<b>Interest income</b>		
Bonds and other fixed-income securities	2,515	2,426
Other interest income	244	407
<b>Total interest income</b>	<b>2,760</b>	<b>2,833</b>
<b>Interest expenses</b>		
Other interest expenses	-7	-11
<b>Total interest expenses</b>	<b>-7</b>	<b>-11</b>
<b>Total net interest income</b>	<b>2,753</b>	<b>2,822</b>

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

SEK m	2023	2022
Net gains/losses	39,176	-48,649
Less brokerage commissions	-37	
<b>Net gains/losses, listed shares and participations</b>	<b>39,139</b>	<b>-48,649</b>

**Note 4 – Net gains/losses, unlisted shares and participations**

SEK m	2023	2022
Capital gains/losses	1,662	3,869
Unrealised value changes	-13,326	-147
<b>Net gains/losses, unlisted shares and participations</b>	<b>-11,664</b>	<b>3,722</b>

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 133 million (145) was paid in management fees for unlisted assets, of which SEK 114 million (138) permit refunds. Furthermore, SEK 55 million (33) was repaid during the year and the unrealised net gains/losses for unlisted shares and participations were therefore negatively affected by SEK 78 million net (112).

**Note 5 – Commission expenses**

SEK m	2023	2022
External management fees, listed assets	0	-16
Other commission expenses, incl. custodian bank expenses	-10	-11
<b>Commission expenses</b>	<b>-10</b>	<b>-27</b>

Commission expenses do not include performance-based fees. During the year performance-based fees amounted to SEK 0 million (40), in addition to which repayment has been made for the prior year's fees of SEK 0 million (131). The fees affect the net investment income for each asset class.



## Note 6 – Employees

Number of employees	2023			2022		
	Total	Men	Women	Total	Men	Women
Average no. of employees	67.1	36.2	30.9	67.5	35.9	30.6
Closing no. of employees	67	36	31	67	36	31
No. of executive management members at year-end	4	2	2	4	2	2

Personnel costs 2023, SEK thousands	Salaries and remuneration	Pension costs	of which salary sacrifice	Social security costs*	Total
Board Chairman	207			65	272
Other Board members (8 people)	876			275	1,151
CEO	4,273	1,927	635	1,816	8,015
<i>Executive management team, excl. CEO</i>					
Head of Communications	1,446	491	127	589	2,526
Head of Operations	2,174	1,058		948	4,180
Head of Business Support & Development	1,931	491		733	3,154
Other employees	71,157	23,389	2,866	28,679	123,224
<b>Total</b>	<b>82,063</b>	<b>27,355</b>	<b>3,628</b>	<b>33,105</b>	<b>142,523</b>
Other personnel costs					3,681
<b>Total personnel costs</b>					<b>146,204</b>

Personnel costs 2022, SEK thousands	Salaries and remuneration	Pension costs	Of which, salary sacrifice	Social security costs*	Total
Board Chairman	220			69	289
Other Board members (8 people)	817			257	1,074
CEO	3,997	1,887	635	1,718	7,602
<i>Executive management team, excl. CEO</i>					
Chief Investment Officer	3,450	1,040	2	1,338	5,829
Head of Communications	1,356	452	127	547	2,356
Head of Operations	2,140	933		907	3,980
Head of Business Support & Development	1,880	450		705	3,035
Other employees	68,654	18,747	2,907	26,907	114,307
<b>Total</b>	<b>82,515</b>	<b>23,508</b>	<b>3,671</b>	<b>32,449</b>	<b>138,471</b>
Other personnel costs					5,705
<b>Total personnel costs</b>					<b>144,176</b>

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

From 2023 the effect of salary sacrifice is reported under Pension costs.

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 divergences from the policy or guidelines in 2023.

### 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 12 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 to the above. For cost-related reasons, these agreements have not been 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 5.8 per cent, which corresponds to the difference between payroll tax and social security fees. The premium exchange is therefore cost-neutral for the Fund. From 1 January 2023, Första AP-fonden switched to enhanced pensions for employees in BTP1 and BTP2 born in or later than 1967. Enhanced pension means that the employer pays an extra 2% contribution to the occupational pension. This is done by exchanging 1.45% of the holiday pay supplement for a higher pension premium. Other benefits are taxable and amount to smaller amounts.

**Note 7 – Other administrative expenses**

SEK m	2023	2022
Cost for premises	-15	-17
Purchased services	-19	-17
Information and data expenses	-64	-55
Other administration expenses	-4	-5
<b>Other administrative expenses</b>	<b>-101</b>	<b>-94</b>
<b>The amount for purchased services includes remuneration for the Fund's auditors, broken down into the following assignments, SEK thousands:</b>		
<i>PwC</i>		
Audit services	-705	-678
Other assignments, primarily tax related	-292	-50
	<b>-997</b>	<b>-728</b>

**Note 8 – Listed shares and participations**

Fair value, SEK m	31/12/2023	31/12/2022
Equities, Swedish	90,060	72,104
Equities, foreign	142,855	125,789
Participations in Swedish funds	-	-
Participations in non-Swedish funds	-	-
<b>Total fair value</b>	<b>232,915</b>	<b>197,893</b>

**Five largest Swedish equity holdings**

Name	Number of shares	Fair value
Atlas Copco	53,444,397	8,827
Investor	31,310,010	7,311
Volvo	22,651,373	5,928
Assa Abloy	12,413,253	3,604
Hexagon	27,262,247	3,297
		<b>28,967</b>

**Note 8 – Listed shares and participations, continued****Five largest non-Swedish equity holdings**

Name	Number of shares	Fair value
Apple	3,820,300	7,412
Microsoft Corp	1,724,900	6,537
Alphabet	1,439,900	3,833
Amazon.com	2,236,200	3,424
Nvidia	597,300	2,981
		<b>24,187</b>

A complete list of all listed holdings at 30 June and 31 December is available on the Första AP-fonden website, [www.ap1.se](http://www.ap1.se)

**Note 9 – Unlisted shares and participations**

Fair value, SEK m	31/12/2023	31/12/2022
<i>Swedish unlisted shares and participations: Subsidiaries and associated companies</i>	56,091	64,334
<i>Non-Swedish unlisted shares and participations: Subsidiaries and associated companies</i>	4,177	5,888
<i>Other unlisted shares and participations</i>	40,340	44,456
<b>Total</b>	<b>100,609</b>	<b>114,678</b>

Subsidiaries and associated companies	Domicile	Corp. ID No.	Number of shares	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	54	1,002	353
Polhem Infra AB	Stockholm	559183-3917	20,000	33.3	0	0	0
Polhem Infra KB	Stockholm	969789-2413		33.3	-1,061	7,273	2,424
Urbanæa Fastigheter AB	Stockholm	559201-2008	93,575	98.5	64	509	632
Vasakronan Holding AB	Stockholm	556650-4196	1,000,000	25.0	-10,904	78,873	24,426
Willhem AB	Gothenburg	556797-1295	770,381,717	100.0	-4,309	22,265	26,799
4 to 1 Investment AB	Stockholm	559313-2490	6,250	25.0	-1	2	0
4 to 1 Investment KB	Stockholm	969795-3033		25.0	39	5,822	1,456
							<b>56,091</b>
<b>Foreign shares and participations, subsidiaries and associated companies</b>							
First Australian Farmland Pty Ltd	Australia	155,718,013		100	-16**	670**	602
Chapone S.à.r.l	Luxembourg	B 200297		100	-812**	2,925**	1,814
Jutas Invest Finland OY	Finland	2793175-3		100	-161**	11**	117
OMERS Farmoor 3 Holdings B.V.	Netherlands	699691750000		100	-709**	2,061**	1,185
ASE Holdings S.à.r.l	Luxembourg	B 169327		38	-278**	13**	66
Anglo Scandinavian Estates III Limited	United Kingdom	13518833		35	-617**	837**	392
							<b>4,177</b>

\*Pertains to figures released 31/12/2022 \*\*Refers to 31/12/2022 translated at the exchange rate on 31/12/2022

**Note 9 – Unlisted shares and participations, continued****Five largest holdings, unlisted shares and participations**

	Domicile	Holding, %	Cost
Fourth Stockholm Global Private Equity L.P., Hamilton Lane	USA	100	7,522
Fifth Stockholm Global Private Equity L.P., Hamilton Lane	USA	100	7,064
Idiosyncratic AI Lp Class C	USA	100	1,903
Blackstone Strategic Capital Holdings L.P.	Cayman Islands	5	1,337
HSEPP II Co-Investment, L.P.	Jersey	50	987

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

**Note 10 – Bonds and other fixed-income assets**

Fair value, SEK m	31/12/2023	31/12/2022
<b>Breakdown by type of issuer</b>		
Swedish state	24,319	21,110
Swedish municipalities	–	–
Swedish mortgage institutions	2,708	1,897
Other Swedish companies:		
Financial companies	830	882
Non-financial companies	1,165	2,816
Foreign states	62,721	48,389
Other foreign issuers	16,707	26,022
<b>Total</b>	<b>108,450</b>	<b>101,117</b>
<b>Breakdown by type of instrument</b>		
Inflation-indexed bonds	29,915	26,036
Other bonds	78,535	73,756
Treasury bills	–	–
Certificates	–	–
Other instruments	–	1,324
<b>Total</b>	<b>108,450</b>	<b>101,117</b>

**Note 11 – Derivatives**

Fair value, SEK m	31/12/2023		31/12/2022	
	Derivative instruments with: Positive fair value	Derivative instruments with: Negative fair value	Derivative instruments with: Positive fair value	Derivative instruments with: Negative fair value
<b>Equity-linked instruments</b>				
Options				
Held			0	
Issued		–1		–1
Swaps	166	–14	15	–26
Futures				
<b>Total</b>	<b>166</b>	<b>–15</b>	<b>15</b>	<b>–27</b>
<b>Interest-linked instruments</b>				
Swaps	90	–78	14	–16
Futures				
<b>Total</b>	<b>90</b>	<b>–78</b>	<b>14</b>	<b>–16</b>
<b>Currency-linked instruments</b>				
Swaps	8,960	–262	2,222	–2,203
Futures				
Options				
Held	742			
Issued		–300		
<b>Total</b>	<b>9,702</b>	<b>–562</b>	<b>2,222</b>	<b>–2,203</b>
<b>Total derivative instruments</b>	<b>9,958</b>	<b>–655</b>	<b>2,251</b>	<b>–2,246</b>

Derivative positions with a negative value amounting to SEK –33 million (–21) have a maturity exceeding 12 months. For maturity analysis thereof, see Note 19.

**Note 12 – Other assets**

SEK m	31/12/2023	31/12/2022
Incoming payments, unsettled transactions	14	-192
Receivables from foreign tax authorities	700	496
Other assets	181	190
<b>Total other assets</b>	<b>894</b>	<b>493</b>

**Note 13 – Prepaid expenses and accrued income**

SEK m	31/12/2023	31/12/2022
Accrued interest income	634	396
Accrued dividends	129	108
Other prepaid expenses and accrued income	0	1
<b>Prepaid expenses and accrued income</b>	<b>763</b>	<b>506</b>

**Note 14 – Other liabilities**

SEK m	31/12/2023	31/12/2022
Outgoing payments, unsettled transactions	202	1
Received cash collateral for derivative positions	-	-
Other	2,057	41
<b>Other liabilities</b>	<b>2,259</b>	<b>42</b>

**Note 15 – Deferred income and accrued expenses**

SEK m	31/12/2023	31/12/2022
Accrued management fees	0	0
Other accrued expenses	5	5
<b>Deferred income and accrued expenses</b>	<b>5</b>	<b>5</b>

**Note 16 – Net assets**

SEK m	2023	2022
<b>Opening net assets</b>	<b>421,189</b>	<b>465,784</b>
<b>Net flow to/from the pension system:</b>		
Incoming pension contributions	85,004	81,822
Outgoing pension disbursements	-89,552	-86,259
Transfer of pension rights to the EC	-1	0
Settlement of pension rights	-15	0
Outgoing administrative contribution to the Swedish Pensions Agency	-269	-252
<b>Total net outflow to the pension system</b>	<b>-4,833</b>	<b>-4,689</b>
Net investment income after expenses for the year	38,029	-39,906
<b>Closing net assets</b>	<b>454,386</b>	<b>421,189</b>

**Note 17 – Memorandum items**

SEK m	31/12/2023	31/12/2022
Collateral provided for repurchase agreements	2,021	-
Securities on loan against other collateral*	-	-
Collateral provided for cleared derivatives	7,557	7,359
Collateral provided for OTC transactions**	-	974
<b>Other pledged assets and equivalent collateral</b>	<b>9,578</b>	<b>8,333</b>
Investment commitments, unlisted holdings	29,912	28,513
<b>Undertakings</b>	<b>29,912</b>	<b>28,513</b>
<b>Total memorandum items</b>	<b>39,490</b>	<b>36,846</b>
* Collateral received for repurchase agreements	1	-
* Collateral received for securities on loan	-	-
** Collateral received for OTC transactions	11,783	676

**Note 18 – 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.

For so-called OTC derivatives the valuation is based on theoretical modelling, whereby future cash flow is estimated with the help of representative underlying market data. The future cash flows are eventually discounted back to a present value using discounting curves. The theoretic modelling has different levels of subjectivity based on the type of derivative, and the choice of yield curve, volatility curve, inflation curve and interpolation method.

In periods when the market lacks liquidity for market listed securities, a higher degree of subjectivity is required in the valuation process. In these conditions, 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 mainly consist of investments in real estate and infrastructure companies, real estate and infrastructure funds, and private equity funds.

Investments in real estate companies are valued in accordance with IFRS and industry practice. The valuation of underlying real estate assets 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.

Investments in private equity funds are valued according to the IPEV (International Private Equity and Venture Capital Guidelines) or similar 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.



## Note 18 – Financial instruments, price and valuation hierarchy, continued

Investments in infrastructure assets that are considered to be more mature and have a positive cash flow are valued through discounting of future cash flows by market-based return requirements. Investments in assets where the cash flows are further into the future are usually valued at acquisition cost until stabilisation.

Valuation of investments in funds is based on the most recent available reporting. Since reporting from 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 annual accounts closing date. In a situation with rising returns in the equity markets, this means that Första AP-fonden has a lower valuation in the annual accounts than that which is later reported by private equity fund managers and vice versa.

### 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. 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.

Financial assets and liabilities, closing balance 31/12/2023, SEK m	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Shares and participations, listed	232,914	0	1	232,915
Shares and participations, unlisted	0	0	100,609	100,609
Bonds and other fixed-income assets	104,605	0	3,845	108,450
Derivatives		9,958		9,958
<b>Total assets valued at</b>	<b>337,519</b>	<b>9,958</b>	<b>104,455</b>	<b>451,932</b>
<b>Financial liabilities</b>				
Derivatives		-655		-655
<b>Total liabilities valued at</b>	<b>0</b>	<b>-655</b>	<b>0</b>	<b>-655</b>
<b>Financial assets and liabilities</b>	<b>337,519</b>	<b>9,303</b>	<b>104,455</b>	<b>451,277</b>

Financial assets and liabilities, closing balance 31/12/2022, SEK m	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Shares and participations, listed	197,890	1	2	197,893
Shares and participations, unlisted	0	0	114,678	114,678
Bonds and other fixed-income assets	95,505	0	5,612	101,117
Derivatives	0	2,251	0	2,251
<b>Total assets valued at</b>	<b>293,395</b>	<b>2,252</b>	<b>120,292</b>	<b>415,939</b>
<b>Financial liabilities</b>				
Derivatives	-	-2,246	-	-2,246
<b>Total liabilities valued at</b>	<b>0</b>	<b>-2,246</b>	<b>0</b>	<b>-2,246</b>
<b>Financial assets and liabilities</b>	<b>293,395</b>	<b>5</b>	<b>120,292</b>	<b>413,693</b>

Change, level 3	Shares and participations, listed	Shares and participations, unlisted	Bonds and other fixed-income assets	Derivatives	Total
<b>Value reported, opening balance</b>	2	114,753	5,537		120,292
Invested	0	4,072	1,054		5,126
Sold/repaid during the year	0	-5,472	-2,791		-8,263
Realised change in value	0	2,558	57		2,615
Unrealised change in value	-1	-15,319	-12		-15,332
Transfer from level 1 or 2		17	0		17
Transfer to level 1 or 2		0	0		0
<b>Value reported, at year-end</b>	<b>1</b>	<b>100,609</b>	<b>3,845</b>		<b>104,455</b>

Of the change in value reported above, SEK 49,430 million (64,862) 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 reputable valuation sources.

## Note 19 – Financial risks

### Sensitivity analysis: Reporting of market risk

#### Realised risk

Realised risk is calculated based on a joint standard that has been agreed on by the First, Second, Third and Fourth AP Funds. The table below shows the realised volatility of the total portfolio expressed at an annual rate calculated based on quarterly valuations realised over the past ten years, and on the daily valuations realised over the past year. The latter metric is also presented for the part of the portfolio for which a market value is obtained daily, this is called Liquid portfolio in the table, which amounted to 77.0 per cent of the total portfolio at the end of 2023.

	Volatility annualised %	
	2023	2022
<b>Realised market risk, at 31 Dec</b>		
Total portfolio, 10 years	7.7	7.4
Total portfolio, 1 year	6.6	9.3
Liquid portfolio, 1 year	9.3	13.5

#### Forecast risk

The assets' expected market risk is presented in the sensitivity analysis in the table below. The calculation is made by simulating the return outcomes based on the composition of the Fund's portfolio at 31 December 2023, combined with historical market returns. The simulation uses a one-year data history and risk is calculated for a horizon of a one-day change in value, but is also reported as an annual rate.

Forecast volatility (11.4%) generally differs from realised volatility (6.6%). In part, the composition of the Fund's portfolio as at year-end can be more or less representative of how the composition has been during the year as a whole, and in part the portfolio's unlisted assets are represented in the simulation of listed market index, which typically demonstrates higher volatility.

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. The first is Value at Risk which shows the outcome expected to be exceeded by the Fund with a 95 per cent probability. Expected shortfall, however, shows the expected loss given that the loss is greater than the Value at Risk measure. The table also shows the Fund's risk measured as forecast volatility, which amounted to 11.4 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 generate a lower total risk of loss compared to the sum total of the assets' individual risks.

### 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	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
<b>Sensitivity analysis, market risk, at 31 Dec</b>										
Equities	12.4	21.0	-57,087	-70,071	-65,289	-85,524	-3,540	-4,346	-4,049	-5,304
Fixed income	4.1	6.2	-7,040	-10,511	-8,937	-13,910	-437	-652	-554	-863
Alternative investments	19.4	29.2	-36,208	-57,509	-45,169	-73,629	-2,246	-3,567	-2,801	-4,566
Foreign exchange	11.0	10.3	-16,592	-14,040	-21,129	-20,331	-1,029	-871	-1,310	-1,261
Contribution from Diversification	-4.2	-4.7	31,423	32,650	38,911	46,260	1,949	2,025	2,413	2,869
Liquid portfolio	8.4	13.1	-47,143	-65,158	-56,859	-83,340	-2,924	-4,041	-3,526	-5,169
<b>Total portfolio</b>	<b>11.4</b>	<b>17.2</b>	<b>-85,504</b>	<b>-119,482</b>	<b>-101,613</b>	<b>-147,134</b>	<b>-5,303</b>	<b>-7,410</b>	<b>-6,302</b>	<b>-9,125</b>

### Liquidity risk, at 31 Dec

	< 1		1 < 3		3 < 5		5 < 10		+ 10		Total balance, SEK m	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
<b>Maturity structure, Maturity in years, SEK m</b>												
Nominal, government	3,498	9,778	6,921	9,292	6,715	4,537	17,318	22,445	23,261	11,506	57,713	57,557
Nominal, credit	892	650	5,717	4,817	3,904	3,829	4,287	6,803	2,739	2,250	17,539	18,348
Inflation-indexed	2,389	275	9,445	4,505	5,379	7,741	8,282	8,801	4,467	4,745	29,962	26,068
<b>Total portfolio</b>	<b>6,779</b>	<b>10,703</b>	<b>22,083</b>	<b>18,613</b>	<b>15,997</b>	<b>16,107</b>	<b>29,887</b>	<b>38,049</b>	<b>30,467</b>	<b>18,501</b>	<b>105,213</b>	<b>101,973</b>

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

	1 < 3		3 < 5		5 < 10		> 10		Total balance, SEK m	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
<b>Maturity structure, Maturity in years, SEK m</b>										
Equity-linked instruments									0	0
Interest-linked instruments			-15	-15	-5	-18	-1		-33	-21
Currency-linked instruments										
<b>Total</b>	<b>0</b>	<b>-15</b>	<b>-15</b>	<b>-5</b>	<b>-18</b>	<b>-1</b>	<b>0</b>	<b>0</b>	<b>-33</b>	<b>-21</b>

### Credit risk, at 31 Dec

	AAA		AA		A		BBB		<BBB		Total balance, SEK m	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
<b>Rating SEK m*</b>												
Nominal, government	17,228	20,078	29,052	29,217	7,160	5,962	4,273	2,301	0		57,713	57,557
Nominal, credit	1,632	1,977	2,569	2,397	6,848	5,768	4,630	4,198	1,860	4,008	17,539	18,348
Inflation-indexed	13,706	10,237	13,094	12,740	1,991	2,155	1,170	936	0		29,961	26,068
<b>Total</b>	<b>32,566</b>	<b>32,291</b>	<b>44,715</b>	<b>44,354</b>	<b>15,999</b>	<b>13,885</b>	<b>10,073</b>	<b>7,435</b>	<b>1,860</b>	<b>4,008</b>	<b>105,213</b>	<b>101,973</b>

\* Reporting of credit risk for fixed-income securities based on ratings issued by reputable rating agencies.

**Note 20 – Financial assets and liabilities that are netted or governed by netting agreements**

31/12/2023, SEK m	Gross amount	Netted amount in balance sheet	Net amount in the balance sheet	Related amounts that cannot be netted				Total in the balance sheet
				Framework agreement on netting	Collateral	Net amount	Other*	
<b>Assets</b>								
Derivatives	9,958	0	9,958	655	11,783	0	0	9,958
<b>Total assets</b>	<b>9,958</b>	<b>0</b>	<b>9,958</b>	<b>655</b>	<b>11,783</b>	<b>0</b>	<b>0</b>	<b>9,958</b>
<b>Liabilities</b>								
Derivatives	655	0	655	655	0	0	0	655
Repurchase transactions	2,019	0	2,019	0	2,021	0	0	2,019
<b>Total liabilities</b>	<b>2,674</b>	<b>0</b>	<b>2,674</b>	<b>655</b>	<b>2,021</b>	<b>0</b>	<b>0</b>	<b>2,674</b>

31/12/2022, SEK m	Gross amount	Netted amount in balance sheet	Net amount in the balance sheet	Related amounts that cannot be netted				Total in the balance sheet
				Framework agreement on netting	Collateral	Net amount	Other*	
<b>Assets</b>								
Derivatives	2,251	0	2,251	2,245	676	0	0	2,251
<b>Total assets</b>	<b>2,251</b>	<b>0</b>	<b>2,251</b>	<b>2,245</b>	<b>676</b>	<b>0</b>	<b>0</b>	<b>2,251</b>
<b>Liabilities</b>								
Derivatives	2,245	0	2,245	2,245	974	0	1	2,246
Repurchase transactions	0	0	0	0	0	0	0	0
<b>Total liabilities</b>	<b>2,245</b>	<b>0</b>	<b>2,245</b>	<b>2,245</b>	<b>974</b>	<b>0</b>	<b>1</b>	<b>2,246</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, in the event of insolvency, and if there is an intention to pay net proceeds or realise the asset and

simultaneously 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 21 – 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, as well as the Fund's Board members and executive management team.

See Note 6 for information regarding salaries and remuneration for Board members and the executive management team.

Counterparty	31/12/2023	31/12/2022	Counterparty	31/12/2023	31/12/2022	Counterparty	31/12/2023	31/12/2022
<b>AROS Bostad IV AB</b>			<b>ASE Holdings S.à.r.l</b>			<b>Polhem AB</b>		
Shareholder contribution during the year	–	–	Interest income	16	34	Shareholder contribution during the year	0	0
Investment commitments	36	36	Proprietary loans	0	258			
			Shareholder contribution during the year	303	–	<b>Polhem KB</b>		
<b>Chapone S.à.r.l</b>						Shareholder contribution during the year	0	0
Interest income	13	43	<b>Anglo Scandinavian Estates III Limited</b>			Investment commitments	3,473	3,473
Proprietary loans	2,477	2,326	Interest income	6	22			
Shareholder contribution/repaid during the year	16	194	Proprietary loans	8	294	<b>Urbanea Fastigheter AB</b>		
Investment commitments	253	392	Shareholder contribution during the year	398	38	Shareholder contribution during the year	49	121
			Investment commitments	43	39	Investment commitments	17	66
<b>Vasakronan Holding AB</b>			<b>Jutas Invest Finland OY</b>					
Rent for premises*	11.5	12	Interest income	44	40	<b>4 to 1 Investment AB</b>		
Interest income	9	9	Proprietary loans	472	578	Shareholder contribution during the year	0.3	0
Shareholder contribution during the year	–	–	Shareholder contribution during the year	151	15			
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	Investment commitments	541	540	<b>4 to 1 Investment KB</b>		
						Shareholder contribution during the year	0.1	598
<b>Willhem AB</b>			<b>First Australian Farmland Pty Ltd</b>					
Interest income	28	28	Interest income	35	24			
Shareholder contribution during the year	1,001	–	Proprietary loans	608	588			
Undertaking, on the request of Willhelm, to purchase commercial papers in the company, up to the highest total settlement amount at any time of:	8,000	8,000	Shareholder contribution during the year	–	–			
						<b>OMER Farmoor 3 Holdings B.V.</b>		
						Proprietary loans	280	
						Shareholder contribution during the year	14	14

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



# Statement of assurance from the Board of Directors and the CEO

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 2024

**Urban Hansson Brusewitz**  
*Chairman*

**Anna Nilsson**  
*Vice Chairperson*

**Annika Andersson**  
*Member of the board*

**Lars Fresker**  
*Member of the board*

**Peter Hansson**  
*Member of the board*

**Gunilla Hellqvist**  
*Member of the board*

**Linda Jonsson**  
*Member of the board*

**Erik Rosenberg Sjöström**  
*Member of the board*

**Erica Sjölander**  
*Member of the board*

Our Auditor' audit report has been submitted on 20 February 2024

**Peter Nilsson**  
*Authorised Public Accountant*

**Helena Kaiser de Carolis**  
*Authorised Public Accountant*

Appointed by the Swedish Government Appointed by the Swedish Government

# Auditor's report

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

## Report on the annual report

We have audited the annual accounts of Första AP-fonden for the year 2023. The Fund's annual accounts are on pages 42–58 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

2023 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 responsibilities under those standards are further described in the Auditor's Responsibilities section. 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 opinions.

### *Information other than the annual accounts*

This document also contains information other than the annual accounts, and this can be found on pages 1–41 and 61–72.

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 required to report it. We have nothing to report in this respect.

### *Responsibility of the Board of Directors and the Chief Executive Officer*

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 company'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.

### *Responsibility of the auditor*

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. Furthermore:

- 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 conclude on the appropriateness of the Board of Directors' and the CEO's use of the going concern assumption in preparing the annual accounts. Based on the audit evidence obtained, we conclude on 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 comments in general concerning the Board of Directors' and the CEO's administration of Första AP-fonden for 2023. Our audit has not resulted in any comments 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 opinions.

### *Responsibility of the Board of Directors and the Chief Executive Officer*

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 comment concerning the Board of Directors' and the CEO's administration of Första AP-fonden for the 2023 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 comments.

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 materiality. 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 2024

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

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

# Risks and risk management

*API's mandate to create returns on pension assets means that the Fund is naturally exposed to different risks, both internal and external, that affect the possibility to achieve our return target. The Fund works regularly, and in a structured manner, to identify and monitor the risks our operation may be exposed to. The Fund's key risks are financial risk, management risk, strategic risk, operational risk, political risk and reputational risk.*

## **Risk appetite framework**

The Board's risk appetite framework provides guidelines for how the operation is to manage and work with the key risks identified by the Board. The risk appetite framework is based on the Fund's strategy, and along with the Fund's investment strategy and ESG strategy, it builds on the organisation's purpose, goals and growth potential in risk management, in the investment operations and the ESG area. The risk appetite framework identifies six key risk areas as well as principles for the proper management of each risk. The framework is an important tool for the Board and management in weighing up how much risk is acceptable to create the value the Fund wants to achieve. Read more on how the Fund manages different risks in The Board of Directors' Report on Risk Management on pages 64–67.

## **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, with 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 pages 64–67.



## Financial risk

Consciously taking financial risks is the Fund's core business. The AP Funds have been set up to manage and be compensated for financial risk, to the benefit of the income pension system. By performing financial transactions, the Fund can mitigate or replace risks that are more difficult to manage, with financial risk.

Given the objectives of the pension system and the Fund's role within it, the Fund's total level of risk should be low. The Fund's primary task is to deliver returns in line with the income index, and thereafter the Fund aims to strengthen and stabilise the system by delivering higher returns than the income index. At the selected risk level, the Fund's assets are to be invested so as to achieve long-term high returns over time, as the focus of such investments is the long-term growth of pensions. Higher expected returns can often be achieved for the price of higher financial risk. Returns and financial risk-taking must always be considered in relation to the mandate. The investment operations of the Fund shall always be sufficiently prepared with the necessary liquidity to be able to transfer funds to the Swedish Pensions Agency.

## Management

**SELECTED RISK APPETITE: OPTIMISE FOR SELECTED RISK LEVEL** The Fund works constantly to deepen our understanding of financial risk through proper analyses and appropriate systems, while being mindful of keeping asset management cost-efficient. We have agreed policies, investment beliefs and accompanying limits that guide our management practices. Fund assets are allocated according to our long-term strategy, and we aim for a good level of diversification and to take advantage of risk premiums in order to generate higher returns over time. In some cases we use inefficient markets, for instance for unlisted assets. Furthermore, we believe that sustainable value creation provides opportunities to increase returns and reduce financial risk in the long term. If the Fund uses external management mandates, strict requirements are placed in terms of management outcomes and how the mandate is to be performed. Our strategy and processes are designed to help us take conscious risks, which includes carefully following up and understanding risks and evaluating investment strategies. We shall not invest in asset classes or strategies for which the Fund does not possess the requisite knowledge and/or resources. Further, we shall not invest in unnecessarily complex or opaque products and strategies for which the financial risk is difficult to quantify. We also endeavour to not be unconsciously influenced by market trends and to maintain our strategic focus.

## Management risk

The Fund has a statutory mandate, to manage the funds so that they reap the highest possible benefit for the income pension system. We define management risk as the risk of diverging from this mandate. Management decisions are taken for the best of the beneficiaries, which is defined as the highest possible benefit for the income pension system. In all situations, the Fund and the Board of Directors adhere to good management practices and the Fund's conflict of interest policy. Asset management must be conducted in an exemplary fashion and particular emphasis is given to promoting sustainable development, without compromising on the return. Swedish law also states that the First-Fourth AP-funds are to mutually develop shared core values for asset management, shared accounting principles, and shared guidelines for assets in which funds are not to be invested.

## Management

**SELECTED RISK APPETITE: MINIMISE** Dealing with management risk properly means that the Fund focuses on its mandate, creates and complies with principles and processes that govern decision-making, and actively use our investment beliefs for support. Further, it is important to ensure that our core values and expectations are understood and integrated into the Fund's work. The Fund will also abide by good practice for the markets and asset classes in which it invests. Under no circumstances is it acceptable for anybody to make a decision that is for their own gain or to allow external pressure to influence investment decisions.

## Strategic risk

Strategic risk arises when the decisions necessary to fulfil our mandate are not taken. This risk is limited through clear requirements from the Board, a competent and decisive management team, efficient operations planning and the necessary resources.

We take conscious decisions based on a strategic framework to achieve the highest possible value in a changing world, in which the Fund makes the most of its circumstances, resources and operational capacity. A well thought-through strategy supports our brand, enabling the Fund to attract and retain very competent employees with a high level of integrity.

All of the Fund's employees endeavour to give each other and the Board the best possible basis for good decision making.

## Management

**SELECTED RISK APPETITE: LIMIT AND MANAGE** In order to manage strategic risk properly, we are clear in how we interpret our mandate, we have a well-defined vision and a well-developed strategy to achieve it. This also means that we adapt and develop our plans according to changing circumstances, resources and new information. Our way of working aims to challenge our assumptions and help us learn from our mistakes. It also ensures we employ the right people and give our employees the greatest possible freedom to perform within the set frameworks, and that we develop our leaders and our employees and enable accountability in everything we do. We aim to manage strategic risk such that it enables us to dare to make decisions, in the knowledge that the absence of decisions is also an active position to take.

## Operational risk

While financial risk is risk that the Fund has been appointed to manage, operational risk is often the result of how we choose to manage that financial risk. Our operational risk is therefore linked to how we do transactions and the instruments we use to expose ourselves to financial risk. Financial and operational risks are not independent variables, rather optimizing one set of risks will have an impact on the other. Where appropriate, we therefore select the types of instruments for our economic exposure based on a balanced combination of financial and operational risk. By operational risks we mean the risk of losses as a consequence of inappropriate or faulty internal processes, human error, incorrect systems or external events.

The Fund's operational capacity is optimised through efficient processes and optimisation of limited resources. We naturally follow all laws, regulations and agreed processes and procedures. The Fund and its employees are transparent regarding incidents and mistakes and see them as an opportunity for learning and improvement.

## Management

**SELECTED RISK APPETITE: LIMIT AND MANAGE** The Fund follows the Three Lines of Defence principles with the accompanying roles and division of responsibilities (risk owner, internal control and independent audit). We shall establish and comply with processes and procedures that are independently audited. We endeavour to minimise third-party risk. We continuously look for ways to improve our operational capacity and precision, for instance through automation. We carefully consider our resource needs so that we can fulfil our mandate yet know what we can refrain from doing in order to run operations cost effectively. We put precision before speed and introduce innovation and new technologies in a secure manner. We believe incidents, mistakes and recommendations from the audit functions provide an opportunity to improve. We set up continuity and crisis plans so that we can fulfil our mandate even under extraordinary circumstances.

## Political risk

The Fund is a government authority whose mandate is regulated by special laws and whose Board members are appointed by the Swedish Government. This means that the Fund must not be influenced by industrial or economic policies. Political risk arises if, for instance, the Fund submits to political pressure that we believe diverges from the intention of the law, or does not reflect governing laws and regulation, including good financial market practices. The Fund fulfils the expectations and commitments required of a Swedish government authority and an asset manager responsible for the general public's pension funds. This includes complying with the contracts and agreements entered into by the Swedish government, including international agreements. In accordance with our mandate, the Fund shares its core values and its view on excluded assets with the Second-Fourth AP funds. The Fund is transparent which enables accountability.

## Management

**SELECTED RISK APPETITE: LIMIT AND MANAGE** We manage political risk by reflecting on the expectations and commitments that our mandate entails, and by ensuring that the external demands that may be placed on the Fund are supported by our principal and comply with applicable laws and regulations. We proactively seek dialogue with external stakeholders, and provide our knowledge and perspective on the frameworks in which the Fund operates. Further, we endeavour to meet the requirement for exemplary performance through ethical conduct at all times, and we do not chase publicity at the cost of the Fund's integrity. In accordance with the AP Funds Act, the Fund must not bow to political pressure that we believe diverges from the intention of the act, and we do not act outside the boundaries of the agreed corporate governance.

## Reputational risk

Reputational risk refers to risks that, should they arise, would seriously or permanently damage the level of trust in the Fund.

Reputational risk arises if the Fund as an organisation or any of its employees in their activities act in such a way as to damage the Fund's external credibility or trust.

The Fund endeavours to be credible at all times and to retain the trust of all of its stakeholders. This is essential for us to be able to fulfil our mandate and retain the confidence of our principal and of the public.

## Management

**SELECTED RISK APPETITE: MINIMISE** Proper management of reputational risk means that the Fund has zero tolerance for corruption, conducts itself in line with the general public's expectations of a state pension fund, and strives for the highest level of transparency concerning investments and our activities. Furthermore, it means that we act in a cost-efficient manner and proactively try to reach out to the general public, for example via the media, to show what the Fund is, what it does and how it does it. This means that we make the Fund's expert knowledge available to create greater trust in the Fund, as and when appropriate given the Fund's mandate and our core values. To maintain trust in the Fund we avoid investing the Fund's assets unless we have performed a thorough analysis, nor do we invest in asset classes or strategies about which the Fund does not have the appropriate knowledge. No activities can take place outside the boundaries of our ethical frameworks.

# Första AP-fonden’s Fund Governance Report 2023

*The Board of Directors of AP1 publishes an annual Fund Governance Report. The report describes the most significant aspects of the work of the Board and the organisation during the year. The Fund Governance Report complies, as appropriate, with the Swedish Annual Accounts Act and the Swedish Corporate Governance Code (hereinafter referred to as the Code), which is good practice guidance for listed Swedish companies. However, AP1 is a Government authority and there are vast differences between public law and company law. The Fund Governance Report has therefore been limited to the sections that can be deemed relevant to the Fund.*

**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 commissioned to manage assets in the Swedish income pension system. The AP Funds are more autonomous than most Swedish authorities because their operations are only regulated in the Swedish National

Pension Funds Act<sup>1)</sup> (the AP Funds Act) and not by regulations or appropriation directions. As a Government authority, AP1 is also affected by other laws<sup>2)</sup>.

In accordance with the AP Funds Act, the Swedish Government is to evaluate the management of the fund assets every year. The results of the evaluation are to be reported to the Swedish Parliament in a written

communication no later than 1 June of the year following the financial year. Government communication 2022/23:130 describes the evaluation up to and including 2022. The communications are available at [www.ap1.se](http://www.ap1.se).

The table below shows the rules of the Code that the Fund does not follow, as well as the reasons for this. All other rules of the Code are followed.

## Board of Directors

The Board of Directors of AP1 bears full responsibility for the Fund’s operations, 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 consisted of nine members until March 2023, when Charlotte Nordström resigned from the Board. In May Linda Jonsson and Lars Fresker were appointed as Board members and Kent Eriksson and Per Klingbjör resigned from the Board. Gunilla Hellqvist was appointed as a member of the Board in October. All Board members were appointed by the Swedish Government. Two of the members are appointed by the proposal of organisations representing employee interests, and two are appointed by the proposal of organisations representing employer interests. 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

Regulation	Divergence	Explanation
Section 1:	<i>Första AP-fonden does not hold an AGM</i>	In part because the Board members of the Fund are appointed by the Swedish Government. The Fund therefore has no AGM.
Section 2:	<i>Första AP-fonden does not have a nomination committee.</i>	The Board members of the Fund are appointed by the Swedish Government, thus the Fund has no nomination committee.
7.6	<i>The Fund’s six-month interim report is not reviewed by the auditors</i>	The AP Funds report full-year and half-year results. There is no statutory requirement for the half-year report to be audited.
10.2, p1	<i>The Fund does not report the composition of the nomination committee</i>	The Fund does not have a nomination committee, see Rule, Section 2.

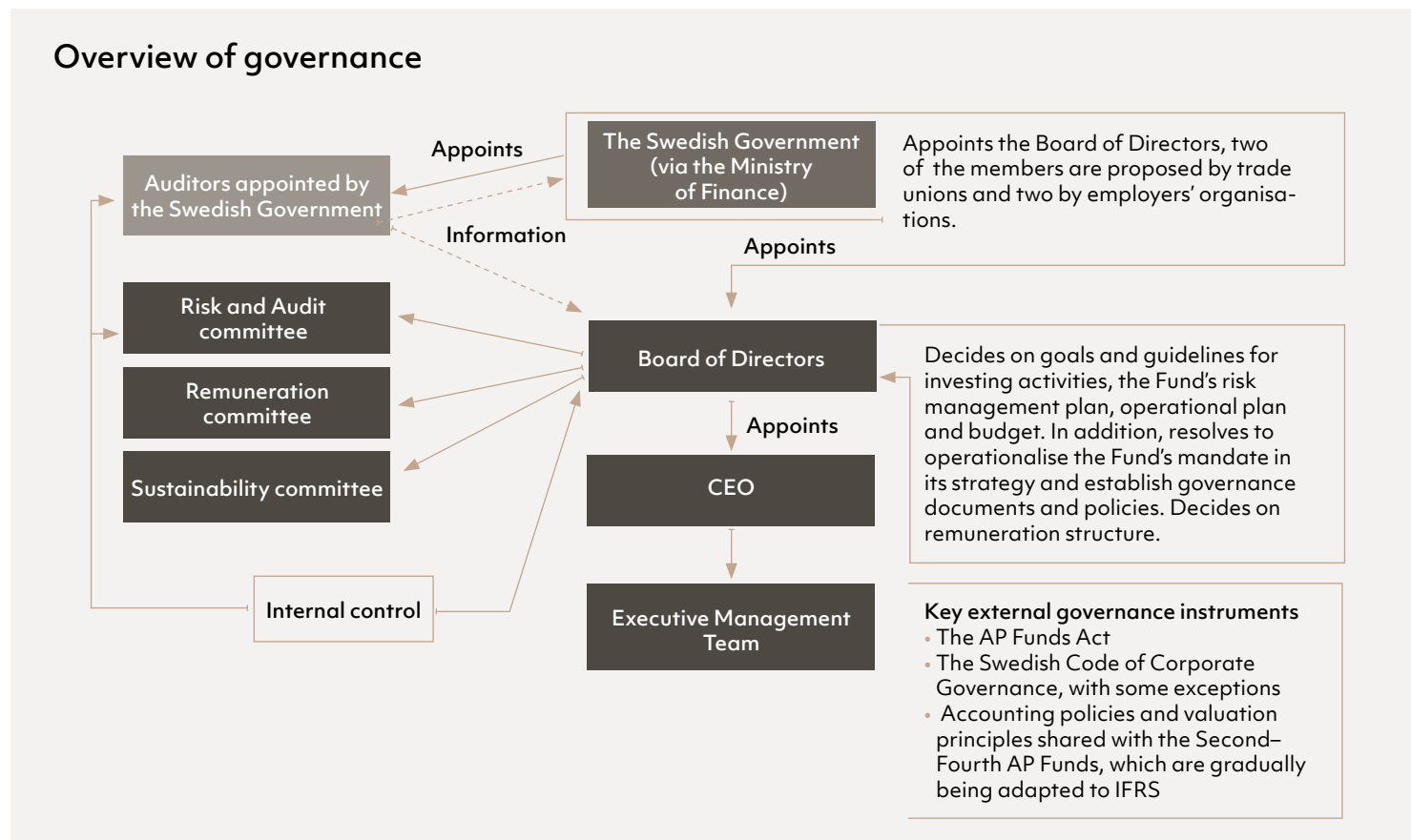
1) The National Pension Insurance Funds Act (2000:192) (the AP Funds Act).

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. The Retirement Pension (Income-Based) Act (1998:674) also affects the Fund’s operations.

appoints the Fund's external auditors. The members' term of office is one year, i.e. it lasts until the Fund's income statement and balance sheet for 2024 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 200,000 for the Chairman, SEK 150,000 for the Vice Chairperson and SEK 100,000 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 13,200 per year to each member of the Risk and Audit committee, SEK 6,600 per year to each member of the Remuneration committee and SEK 13,200 per year to each member of the Sustainability committee. For more information about fees for Board members see Note 6. A more detailed presentation of the members of the Board of Directors is provided on page 70.

**Work of the Board**

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, operational plan and budget. In addition, the Board resolves to operationalise the Fund's mandate in its strategy and a number of governance documents, such as the core values and ethics 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 the CEO to whom it delegates responsibility for the Fund's day-to-day activities. The Board resolves on rules of procedure for its own work, and on a work



instruction for the CEO. In 2023 the Board met on seven occasions. During the year, the Board addressed the governance model, risk and compliance matters, the outcome of management, expenses, ESG matters, the operational plan and the budget. The Board has also held one in-depth seminar in addition to its ordinary meetings. There was 97 per cent attendance at Board meetings (see table). Reporting of earnings development as well as risk reporting are standing items on the agenda. In addition to Board members, the CEO and the secretary to the Board

attend the Board meetings, with the exception of when the Board meets alone. The secretary to the Board is the Fund's General Counsel. Other employees of the Fund also participate on a regular basis 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: a Risk and Audit committee, a Sustainability committee and a Remuneration committee. All of the committees are preparatory organisations and the Board retains the right to make decisions in all matters addressed in the committees.



## The work of the committees

The Risk and Audit committee assists the Board in matters related to internal control, operational risks, financial reporting and auditing. In 2023 Erik Rosenberg Sjöström was the chairperson of the Risk and Audit committee, Annika Andersson was a member for the entire year, Erica Sjölander until the end of May and Lard Fresker until the end of September. The committee convened four times. Attendance at meetings of the Risk and Audit committee was 100 per cent. The Fund's auditors took part in the meetings of the Risk and Audit committee on three occasions. The CEO, CFO and the Heads of Risk control and Compliance are co-opted into the Risk and Audit committee meetings.

The Remuneration committee assists the Board in matters related to remuneration. In 2023, the committee consisted of Board Chairman Urban Hansson Brusewitz, Peter Hansson and Charlotte Nordström until she resigned in March 2023. The committee convened twice 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 the CEO's remuneration is discussed. The CFO and the Head of Human Resources are co-opted into Remuneration committee meetings, apart from when the remuneration of senior executives is discussed.

The Sustainability committee assists the Board in matters related to sustainability. In 2023 Per Klingbjer was the Chair of the committee until he resigned in May 2023, and thereafter Anna Nilsson took over as the chairperson. Kent Eriksson was a member of the committee until he resigned in May 2023, From the beginning of August, Erica Sjölander and Linda Jonsson were mem-

bers of the Sustainability committee. The committee convened four times. Attendance at meetings of the Sustainability committee was 100 per cent. The CEO of the Fund and the heads of Communication and ESG are co-opted into the meetings of the Sustainability committee.

## 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 boundaries. In support of the CEO

in decisions pertaining to operating activities, the CEO has appointed different committees and an Executive Management Team that includes representatives from different departments. The Heads of Risk Control and Compliance report to the Board and the CEO. As independent control functions, they are not part of the operational management team.

## Remuneration

AP1's Board of Directors annually adopts a policy for remuneration for senior executives (published on [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 reason-

able, 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. Furthermore, AP1, together with the Second, Third, Fourth, Sixth and Seventh AP Funds, has a joint policy for remuneration, employee benefits, hospitality and business travel. Remuneration of 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

## Attendance at board meetings and meetings of the Remuneration committee, the Risk and Audit committee and the Sustainability committee in 2023

Name	Nomination/ appointment proposed by	Board meetings (attendance) 7 meetings	Remuneration committee (attendance) 2 meetings	Risk and Audit committee (attendance) 4 meetings	Sustainability committee (attendance) 4 meetings
<b>Urban Hansson Brusewitz, Chairman</b>		Chair 7/7	Chair 2/2		
<b>Charlotte Nordström<sup>1</sup></b>		Board member 1/1	Board member 1/1		
<b>Peter Hansson</b>		Board member 6/7	Board member 2/2		
<b>Anna Nilsson</b>		Vice chair 7/7			Board member 1/1 Chair 3/3
<b>Erik Rosenberg Sjöström</b>	Nominated by Confederation of Swedish Enterprise	Board member 7/7		Chair 4/4	
<b>Kent Eriksson</b>		Board member 2/2			Board member 1/1
<b>Per Klingbjer<sup>2</sup></b>		Board member 2/2			Chair 1/1
<b>Erica Sjölander</b>	Nominated by employee organisation (LO)	Board member 7/7		Board member 2/2	Board member 3/3
<b>Annika Andersson</b>		Board member 7/7		Board member 4/4	
<b>Lars Fresker<sup>3</sup></b>	Nominated by SCP (Sw. SACO)	Board member 5/5		Board member 2/2	
<b>Linda Jonsson<sup>3</sup></b>	Nominated by SALAR (Sw SKR)	Board member 4/5			Board member 3/3
<b>Gunilla Hellqvist<sup>4</sup></b>		Board member 1/1			

1) Resigned from the Board in March 2023, 2) Resigned from the Board in May 2023, 3) Appointed as a Board member in May 2023, 4) Appointed as a Board member in October 2023

is reduced to 11.5 per cent. Remuneration for senior executives and managers of independent control functions of AP1 is determined according to a well-defined process that involves the Board of Directors, the Remuneration committee and the CEO. AP1 complies with all points (9.1–9.8) relating to remuneration for senior executives in the Swedish Code of Corporate Governance. See Note 6 for further information regarding remuneration for the executive management team paid in 2023. 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 was also done in 2023. 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.

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.

### 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. Conflicts of interest of particular importance are reported to the Board.

### 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 frame-

works 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 pages 68–69.

### Independent review

Internal audit assignments have been carried out in 2023.

### External audit

AP1's auditors are appointed by the Swedish Government. A decision by the Swedish Government, via the Ministry of Finance, dated 25 May 2023 renewed the appointment of Peter Nilsson and Helena Kaiser de Carolis as designated auditors from PwC. The term runs until the Fund's income statement and balance sheet for 2023 have been adopted. The auditors have also been appointed as auditors of the Second–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 are held with the Risk and Audit committee. 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

**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. The Board appoints a Risk and Audit committee from among its members to prepare matters pertaining to internal control. The Board submits this report on risk management annually. However, the report is not part of the formal annual report and is therefore not examined by the Fund's auditors. 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.

AP1's risk appetite framework defines and identifies key risks. The framework describes the Fund's strategy for the risks, lists principles for what proper management of the risks entails, and clarifies the risk appetite the Fund has for each key risk. The AP Funds have been set up to manage and be compensated for financial risk, to the benefit of the income pension system. Consciously taking financial risks is therefore at the heart of the Fund's core business. The Fund's financial risks shall 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.

Non-financial risk is often the result of how it has been decided to manage financial risk. The Fund's operational risk is therefore linked to

## Three lines of defence for risk management and internal control

### 1st LINE OF DEFENCE – All employees

#### Responsibility and work duties

All employees are fully responsible for ensuring that the day-to-day operation reaches the goals within the framework of relevant rules, instructions and policies.

#### Reporting

Report relevant risk situation to the Risk committee and to the second line of defence.

### 2st LINE OF DEFENCE – Risk Control and Compliance functions

#### Responsibility and work duties

*The Risk function* is responsible for the methods and procedures used to identify, quantify, follow up and report risks. Risks are measured at both a detailed and aggregate level. The risks are controlled using limits at several levels. The risk profile is monitored continuously, in part using stress tests.

*The Compliance function* works proactively on quality assurance regarding AP1's regulatory compliance. The function handles issues such as conduct on the finance market, the prevention of money laundering and official requirements and controls.

*The role of the Data Protection Officer* is to monitor that the organisation complies with the GDPR, for example by performing checks of different information initiatives.

*The Information Security function* supports and monitors AP1's information security efforts. The function is responsible for supporting methods and drawing up governance documents to ensure systematic, risk-based information-security work. The objective is to ensure that information is processed in a manner that maintains the appropriate level of confidentiality, accuracy and access.

#### Reporting

The functions are independent and report independently of each other, to the executive management team and the Board, on the operation's aggregate risk exposure

### 3rd LINE OF DEFENCE – Internal audit

#### Responsibility and work duties

Internal audit assures the quality of risk management through an independent regular review. It evaluates processes and compliance with rules, frameworks and models from an internal control perspective to ensure that they are effective and appropriate. Like the Fund's Compliance and Risk Control functions, the Fund's Internal audit function is evaluated by the external auditor.

#### Reporting

Identifies observations and reports them along with proposed improvement measures to the Board.

how investments are made. Risks should be minimised and mitigated.

### 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. This 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 include 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 Business Operations and one from the relevant investment unit. Operations functions and the independent

Risk Control function are responsible for different aspects of financial risks and counterparty and delivery risks.

The second line of defence comprises the internal risk control function, the Data Protection Officer and CISO, and Compliance function. 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 on behalf of the Board. The results of this review are reported to the Board's Risk and Audit committee and to the Board. A key component of this review is the year-end procedure, which serves as a basis for the external financial reporting. The year-end procedure encompasses valuation, reconciliation and controls of securities in connection with the closing of accounts. Aside from a general review of the processes, every year the Board establishes 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. The Board also discusses non-financial risks in more depth once per year.

### Control structure and activities

The financial information is analysed and verified by the Fund's Finance function. Different systems 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. To read more about this, see Note 1, Accounting and valuation policies.

The portfolio is managed according to forecast financial risk control 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 evaluated and 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 and other risk areas.

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. The risk and control function report to the Risk and Audit committee at the meetings of the committee. The auditors report continuously to the Risk and Audit committee and to the Board in connection with the annual closing of accounts.



# Board of Directors



**Urban Hansson Brusewitz**

**Year of birth:** 1958

*Chair and Chair of the Remuneration committee*

Elected to the Board in 2016.

PhD in Economics.

**Other assignments:** Chairman of the Board of the Swedish Public Employment Service and the Swedish Fortifications Agency.



**Anna Nilsson**

**Year of birth:** 1967

*Vice Chairperson and Member of the Sustainability committee.*

Elected to the Board in 2021.

M.Sc. Chemical Engineering.

**Other assignments:** Head of Department for Natural and Environmental Supervision, Swedish Museum of Natural History, member of Swedish Meteorological and Hydrological Institute Supervisory Council



**Annika Andersson**

**Year of birth:** 1958

*Member of the Risk and Audit Committee*

Elected to the Board in 2022.

M.Sc. Stockholm School of Economics, Sweden.

**Other assignments:** Chairman of the Boards of INVISIO AB and Sequitor Engineering AB



**Lars Fresker**

**Year of birth:** 1963

*Member of the Risk and Audit Committee*

Elected to the Board in 2023.

Appointed on the proposal of LO. Military officer and completed trade union HR programme.

**Other assignments:** President of the Officers Association, Chairperson of OFR (Public Employees Negotiating Council) and Board member of KPA.



**Peter Hansson**

**Year of birth:** 1957

*Member of the Remuneration committee*

Elected to the Board in 2019.

**Other assignments:** Chairman of the Swedish Childhood Cancer Fund's finance committee and Chairman of the Board of Nordkinn Asset Management AB.



**Gunilla Hellqvist**

**Year of birth:** 1965

Elected to the Board in 2023. Appointed on the proposal of SALAR.

BA in Business Economics and Executive Master of Business Administration

**Other assignments:** Senior Vice President and Head of Operations for European Marketplaces at Nasdaq. Member of the Boards of Nasdaq Stockholm AB, Nasdaq Köpenhamn AB and Nasdaq Vilnius Services.



**Linda Jonsson**

**Year of birth:** 1980

*Member of the Sustainability committee*

Elected to the Board in 2023.

Appointed on the proposal of SALAR. BA in Physiotherapy

**Other assignments:** Member of the Regional executive committee and the Board of the Swedish Association of Local Authorities and Regions, and Group leader of the Left Party (Vänsterpartiet) in Pajala.



**Erik Rosenberg Sjöström**

**Year of birth:** 1970

*Chair of the Risk and Audit committee*

Elected to the Board in 2020.

Appointed on the proposal of the Confederation of Swedish Enterprise.

**Other assignments:** Partner Vator Securities.



**Erica Sjölander**

**Year of birth:** 1971

*Member of the Risk and Audit Committee*

Elected to the Board in 2022.

Appointed on the proposal of LO. Masters in Economics

**Other assignments:** Administrative Director of The Swedish Unions within Industry

# Executive Management Team



**Kristin Magnusson  
Bernard**

**Year of birth:** 1979

**CEO**

**Employed:** 2020

**In current position since:** 2020.

**Education:** Doctorate in Economics from Stockholm School of Economics.

**Previous experience:** Nordea, European Central Bank, Frankfurt and the International Monetary Fund, Washington D.C.

**Other assignments:** Member of Board of Vasakronan and Swedish House of Finance, member of the European Central Bank's Financial Stability Contact Group (FSCG).



**Sara Christensen**

**Year of birth:** 1970

*Head of Communications*

**Employed:** 2019.

**In current position since:** 2019.

**Education:** Business Administration.

**Previous experience:** Swedbank, Kaupthing, ABB, GE Capital.



**Henrik Dubois**

**Year of birth:** 1975

*CFO and Head of Business*

*Support*

*& Development*

**Employed:** 2021.

**In current position since:** 2021

**Education:** BA Business Administration, Masters in Economics

**Previous experience:** Storebrand Fonder, Systembolaget, Coeli, Nykredit and Öhman.



**Mats Enebrink**

**Year of birth:** 1976

*Head of Operations*

**Employed:** 2008.

**In current position since:** 2020

**Education:** Master of Engineering, CFA.

**Previous experience:** AFA Försäkring, VPD Financial Software Consulting

## Independent control functions



**Anders Jakobsson**  
*Head of Risk*  
**Employed:** 2010.  
**In current position since:** 2020.



**Jenny Wentzel**  
*Head of Compliance*  
**Employed:** 2017.  
**In current position since:** 2018.

## Asset Management Leadership



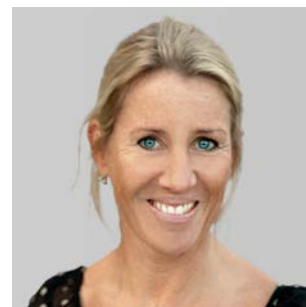
**Christian Börjesson**  
*Head of Fixed Income*  
**Employed:** 2016  
**In current position since:** 2018



**Magdalena Håkansson**  
*Head of Sustainability*  
**Employed:** 2019  
**In current position since:** 2020



**Mats Larsson**  
*Head of Equities and Strategy*  
**Employed:** 2017  
**In current position since:** 2019



**Carin Månsson**  
*Head of Exposure Management*  
**Employed:** 2000  
**In current position since:** 2020



**Patrik Nyman**  
*Head of Asset Allocation and  
 Quantitative Management*  
**Employed:** 1991  
**In current position since:** 2011



**Johan Temse**  
*Head of Alternative Investments*  
**Employed:** 2016  
**In current position since:** 2022

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