

Interim report  
**2022**

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This six-month interim report has been prepared in accordance with the accounting and valuation policies formulated jointly by the AP Funds; see the AP1 Annual Report 2021. Unless otherwise stated, the same accounting policies and calculation methods have been used as in the Annual Report 2021. The figures in the tables and charts for this six-month interim report have been individually rounded off, which is why they may not always add up to the totals provided.

The six-month interim report has not been reviewed by AP1's auditors.

There have been no significant events since the end of the period.

The AP1 Annual Report for the financial year 2022 will be published in February 2023.

# Brief facts about 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 retirement security for us all, today and for the future. Good performance by the Fund helps create stability for generations.

We are a Swedish government authority that has investments all over the world.

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

## First half of the year in figures



Net investment income for the first half of the year amounted to

SEK **-43.6** bn  
after expenses.

## Active ownership

AP1 has played an active ownership role during the first half of the year by voting at

**79** Swedish and  
**699** foreign AGMs  
(to 31 May 2022)

Ahead of the 2022 AGM season AP1 worked on

**14** nomination committees in listed companies and Vasakronan.

Return after expenses for the first half of the year amounted to

**-9.4%**

The average real return after expenses for the last ten-year period was 6.9%.

Total assets amounted to

SEK **420.1** bn

on 30 June 2022.

## Key ratios

	30 Jun 2022	30 Jun 2021	31 Dec 2021
Closing net assets, SEK bn	420.1	431.5	465.8
Net investment income for the period, SEK bn	-43.6	43.1	80.7
Net flow Pension system, SEK bn	-2.0	-4.2	-7.5
Opening net assets, SEK bn	465.8	392.6	392.6
Expense ratio, Operating expenses, %*	0.06	0.06	0.05
Expense ratio, Commission expenses, %*	0.01	0.02	0.02
Total expense ratio, %*	0.07	0.08	0.07
Return after expenses, %	-9.4	10.9	20.8
Real return after expenses, %	-14.7	10.4	16.9
Annualised return after expenses, 5 years, %**	7.3	9.9	10.6
Annualised return after expenses, 10 years, %**	8.7	9.0	10.3
Real annualised return after expenses, 10 years, %**	6.9	8.0	9.0

\* In the six-month interim report, the expense ratio is calculated as the full-year effect.

\*\* In the six-month interim report, the annualised return is calculated for 5 and 10 years respectively.

Administrative expenses amounted to

SEK **145** m

which equates to 0.07% of the average AUM, annualised

In the first half of the year

SEK **2.0** bn

was paid to the pension system.

## COMMENTS FROM THE CEO

# Market unease and a focus on climate transition in new geopolitical circumstances

*Global fixed interest markets and stock markets showed negative returns in the first half of 2022 against a backdrop of soaring inflation and higher interest rates, war and pandemic lockdowns. There was also great focus on the importance of energy supplies to the climate transition, society and business over the short and long term. AP1's portfolio return amounted to -9.4 per cent and assets under management totalled SEK 420.1 bn at mid-year.*

## Alternative assets countered a drop in the value of equities and fixed income.

Net investment income amounted to SEK 43.6 or -9.4 per cent. Assets under management amounted to SEK 420.1 bn as of 30 June 2022, and during the first half of 2022 AP1 transferred SEK 2.0 bn to the income pension system. Even after taking the weaker return into account from the first half of 2022, we have still achieved our long-term goal of 3 per cent real return over rolling ten-year periods as the average amounts to 6.9 percent. There

were positive contributions to net investment income from foreign exchange and alternative assets such as private equity, real estate and infrastructure, but this did not counterbalance the negative return from listed equities and bonds. Our continued focus on cost-efficiency has led to a continued low expense ratio of 0.07 per cent.

## Long-term approach during global and market uncertainty

Russia's invasion of Ukraine has brought war to our doorstep, and Europe is dealing with

its most severe refugee crisis since World War II. One consequence of the war has been a reassessment of energy supplies, trade relations and security policy collaboration in Sweden, the EU and the global arena. Geopolitical tensions have exacerbated the lingering challenges of the pandemic, such as lockdowns, bottle-necks in supply chains, transportation problems, a shortage of intermediate goods and shifting patterns of demand. This has resulted in steep rises in prices for many goods and services, which has prompted global central banks to tighten

their monetary policies more than previously expected. Uncertainty over future developments and the complex risk landscape led to a sharp and simultaneous drop in fixed income and equity markets, a historically unusual pattern to see.

In these negative circumstances, our focus has been on protecting our portfolio by lowering the allocation to listed equities, reducing duration, optimising liquidity management and taking advantage of the strong US dollar as allowed by our hedging requirements. Given that the majority of the capital



“Market expectations on the future actions of central banks have not yet stabilised, which is normally a prerequisite for global stock markets to recover in a more sustained manner.”



“As a long-term investor with a mandate to act in an exemplary and responsible way, we also want to foster sustainable development in more complex situations.”

in our portfolio is invested in listed assets, in the short term it is more complicated for the Fund to parry a market drop of the magnitude we have seen in the last six months. In a very challenging market we have successfully managed to protect our portfolio relative to benchmarks and report a return of minus 9.4 per cent for the first half of 2022, while the Stockholm Stock Exchange (OMXSPI) is down by minus 30 per cent and global market indices (MSCI World) by 20 per cent over the same period. As a long-term investor our approach is instead to constantly monitor investment opportunities that may arise for both listed and alternative assets when other

investors are prompted to sell. We therefore continuously push ourselves to learn from previous periods of market turbulence and to question historic patterns so that we act in a way that creates value.

Our divestment of companies with operations in the fossil fuel industry, that we implemented a few years ago, means that our portfolio lacks some degree of protection in times of high inflation. We have instead worked to restore this through other strategies and assets that do not have the disadvantages of climate risks. In spite of the negative market development during the first half of the year, we are confident that

we can deliver on our purpose; to maximise long-term returns while ensuring balanced risk-taking, high efficiency and sustainability so as to build retirement security for us all, today and for the future.

### Sharper focus on sustainable transition as a result of the war

During crises, the necessary management of the immediate fallout can mean that the focus on long-term issues is lost, or that short-term decisions even aggravate structural challenges. The war in Ukraine, the lingering effects of the pandemic, soaring inflation rates and the ensuing global market turbu-

lence have given rise to fears that efforts to achieve the climate transition will wane. On the contrary, there are many signs that the Ukraine invasion in particular has had the opposite effect as it has exposed both vulnerabilities in the form of energy dependencies and energy security as well as the need for social and environmental trade-offs for a faster phasing out of fossil fuels. Other transition-critical elements – technological advancements in production, distribution and storage of energy, responsible mining of essential metals and minerals, concession processes and regulations that fulfil climate, environmental and social needs – are all now being discussed intensively by political decision-makers, business representatives and civil society. As a long-term investor we monitor developments closely so that we can quickly detect and ready ourselves for the business opportunities we believe will arise.

Our portfolio companies have also been very focused on the climate transition since price increases have accelerated ongoing efforts to become more resource-efficient. The shortage of intermediate goods and labour is being felt by our directly-owned real estate companies and they are working innovatively to build and renovate using materials even more resourcefully, increase recycling and lower their energy consumption further. Earlier investments in renewable energy, for instance in wind power generation through Polhem Infra, are now also nearing completion. With Karin Karlström as the new permanent CEO of Polhem Infra, we as the owners are also confident that the company's ambitions for returns and sustainability will continue to be a positive contribution to our mandate.

Active ownership is a core element of our ESG efforts. Prior to the 2022 round of

AGMs, the Fund participated in nominations committees, voted at AGMs and promoted issues related to board diversity and sustainable operations. Through dialogues with the boards of Swedish companies, the Fund has been able to positively influence the remuneration for the senior executives of a number of companies. However, in five cases we have not been able to come to a satisfactory solution, which is why the Fund has voted against these remuneration programmes. At the Ericsson AGM the Fund voted against discharge from liability for the Board and CEO, a decision that the general meeting also adopted. The reason for this unusual decision to vote against discharge from liability was that, as shareholders in the company, we had not received adequate information about the company's management of the corruption allegations in Iraq, including the internal report that was produced in 2019. Despite the shortcomings in terms of information provision, we voted in favour of re-election of the Board. The Board and executive leadership of Ericsson are working hard to improve the culture within the company, its suppliers and intermediaries. AP1 considers that the current board is best placed to conclude these efforts and the Fund will monitor progress carefully.

### Managing sustainability in complex circumstances as a responsible investor

As a long-term investor with a mandate to act in an exemplary and responsible way, we also want to foster sustainable development in more complex situations. The war in Ukraine has given rise to many questions for investors with ESG ambitions. One example is whether the defence industry can be a responsible and sustainable investment.



Our point of view remains the same – that it is possible to make responsible and sustainable investments in the defence industry, but in sectors whose activities can entail higher sustainability risks, there is a large difference between companies that actively and thoroughly work with such matters, and those that adopt a less ambitious approach. We are therefore selective in our choice of companies in which to invest in these sectors, and we draw up specific action plans to

ensure that the investments we have fulfil our expectations regarding sustainability. We also believe that as owners with integrity, clear principles and a long-term approach we have a better ability to influence. One of the important trade-offs that comes with our mandate is to assess when we can handle more challenging investments in a trustworthy manner, and when the risk landscape dictates that we should abstain instead. Given that, after Russia's invasion of Ukraine, we no

longer deem investments in Russian assets to be compatible with our mandate, we decided to sell the small shareholdings we had and not make any new investments.

During spring, we have also continued to work with our colleagues at AP2, AP3 and AP4 on the review of The Council on Ethics of the Swedish AP Funds, which commenced in autumn 2021. The Council on Ethics engage in dialogue with companies to ensure that sustainability challenges that are materially important to the portfolios of the buffer funds are addressed in an exemplary and responsible manner. If a company contravenes the conventions signed by Sweden, and does not take responsibility for addressing failings, the Council on Ethics can recommend that the buffer funds exclude the company from the potential investment universe. The work of the Council on Ethics requires integrity, perseverance, transparency and the ability to both set expectations and support companies in dealing with their sometimes complex sustainability challenges. We look forward to presenting the outcomes of this strategic overview of The Council on Ethics of the Swedish AP Funds.

### Our mandate: Create high returns with exemplary management at low costs

According to the government's annual evaluation of the AP Funds, we have made a positive contribution to the long-term financing of the national income pension system. We have also worked actively to achieve our ESG goals and according to the government's assessment, in 2021 we fulfilled our statutory objective of managing the Fund's assets in an exemplary manner. In spring we also participated in the Riksdag's Committee on Finance's open hearing on the AP Funds' investments of the

capital in the pension system, which was focused on sustainability and resulted in a very positive and much appreciated dialogue.

## Towards an even larger surplus in the income pension system

In spring, long-term analyses were published by the Swedish Pensions Agency and the Government Offices which show that the so-called balance ratio of the income pension system is expected to improve further, in part because the buffer funds' returns are expected to grow at a faster rate than average incomes, and in part because the negative net contribution currently covered by the buffer funds will be replaced by inflows to the buffer funds going forward. Introducing a "boost" (*Sw. gas*) within the income pension system to distribute the surplus to retirees has therefore been discussed by several parliamentary parties since the balance ratio is expected to exceed the level at which previous inquiries have proposed such a change. A decision to distribute any surplus entails a choice in how different generations are treated, which will be determined by the Riksdag. As an AP Fund, our focus is to continue to increase the return and be well prepared for any future changes in the disbursements to the Swedish Pensions Agency.

## Steady course ahead through unknown terrain

At the time of writing, there are no signs that the tragic invasion and war in Ukraine will end any time soon. Geopolitical tensions and energy dependencies and their effects on inflation are likely to affect the investment climate for a long time to come. In the near term, pandemic lockdowns in China are likely to continue impacting global supply chains. Market expectations on the future actions of

central banks have not yet stabilised, which is normally a prerequisite for global stock markets to recover in a more sustained manner.

There is also particular uncertainty about how markets and economies will react to a series of rapid interest rate increases from very low levels, in combination with the pruning of balance sheets after a very long period of expansive monetary policy. Over the longer term though, all the efforts that are now being put into building more profitable and sustainable companies and to moderating risk-taking on global financial markets could foster greater resilience and positive outcomes.

Regardless of the external world situation, our joint capacity to analyse, act and execute also has a great impact on AP1's final results. I would therefore like to thank our Board of Directors who, through well-defined mandates and clarity in risk appetites, have provided the framework that enables a long-term approach and confidence in times of change. I would also like to take this opportunity to warmly welcome Annika Andersson and Erica Sjölander as new members of the Fund's Board of Directors. Finally, I would like to express my particular thanks to all our employees who work fastidiously, communicate openly and collaborate closely every day to improve returns, sustainability and risk management throughout our entire operations. You are the difference that makes a difference.

Stockholm, 19 July 2022

*Kristin Magnusson Bernard*

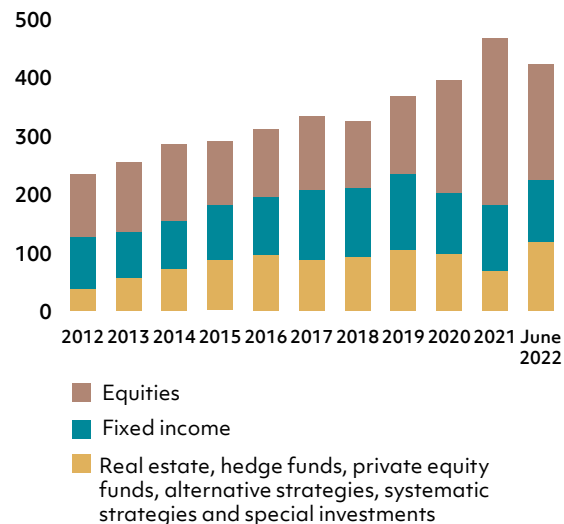
**Kristin Magnusson Bernard**  
CEO

Helen Idenstedt, Head of External partnerships & Innovation,  
Patrik Nyman Head of Asset allocation & Quantitative  
analysis and Patrik Lundborg, System administrator

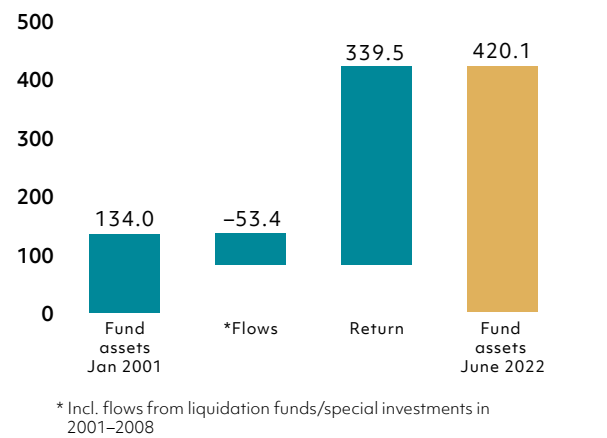


# Return and assets

**Net asset performance, 2012–June 2022, SEK bn**

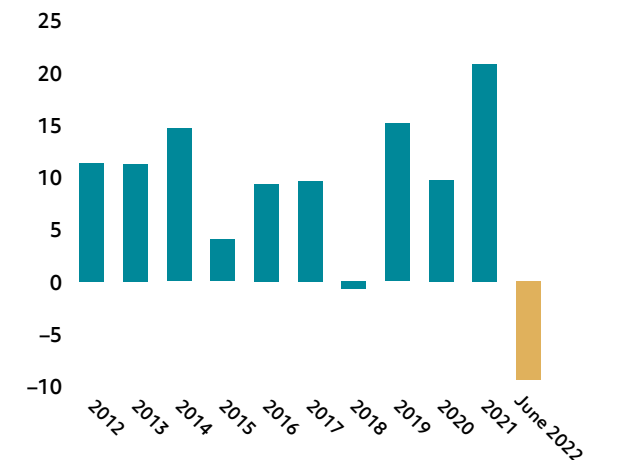


**Net asset performance 2001–June 2022, SEK bn**



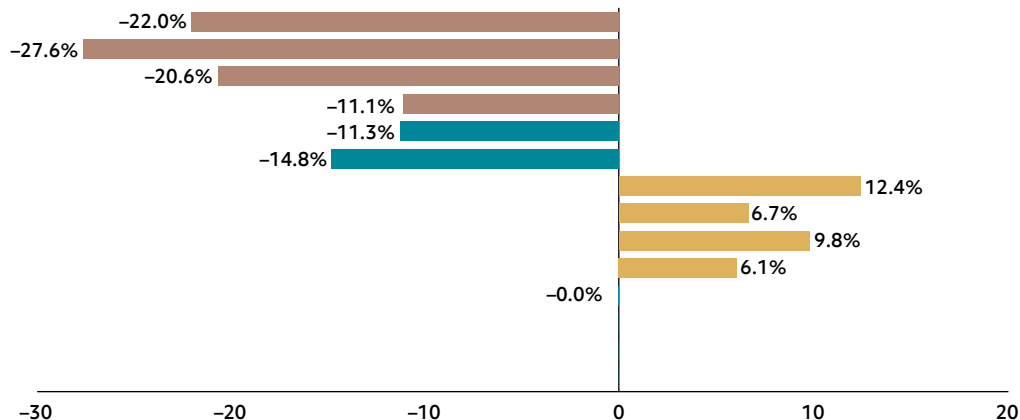
\* Incl. flows from liquidation funds/special investments in 2001–2008

**Return after expenses 2012–June 2022, %**



**Return by asset class in first six months of 2022, %**

- Equities, total
- Sweden
- Developed markets
- Emerging markets
- Fixed-income securities
- High yield
- Real estate
- Infrastructure
- Private equity funds
- Hedge funds
- Alternative strategies
- Cash
- Foreign exchange
- Absolute return mandate



Asset Class	Exposure in SEK bn	Return in SEK bn
Equities, total	196.8	-59.4
Sweden	67.4	-24.8
Developed markets	109.1	-30.9
Emerging markets	20.3	-3.6
Fixed-income securities	101.8	-12.4
High yield	3.9	-0.7
Real estate	77.6	9.0
Infrastructure	16.7	0.9
Private equity funds	33.4	2.9
Hedge funds	4.3	0.2
Alternative strategies	0.8	-0.0
Cash	-15.4	0.7
Foreign exchange		13.9
Absolute return mandate		1.4



# Ten-Year Overview

	30 Jun 2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
<b>Net investment income and inflow, SEK bn</b>											
Net assets, at 31 December	420.1	465.8	392.6	365.8	323.7	332.5	310.5	290.2	283.8	252.5	233.7
Net flow pension system	-2.0	-7.5	-7.9	-6.5	-6.8	-7.4	-6.6	-4.9	-5.1	-6.9	-3.8
Net investment income for the year	-43.6	80.7	34.8	48.6	-2.1	29.3	27.0	11.3	36.4	25.7	24.2
<b>Return, expenses and risk, %</b>											
Return before expenses	-9.4	20.8	9.8	15.3	-0.6	9.7	9.5	4.1	14.8	11.3	11.4
Operating expenses, annualised, % of AUM	0.06	0.05	0.06	0.07	0.06	0.07	0.06	0.06	0.07	0.07	0.08
Commission expenses, annualised, % of AUM	0.01	0.02	0.02	0.05	0.07	0.07	0.09	0.11	0.10	0.07	0.06
Return after expenses	-9.4	20.8	9.7	15.1	-0.7	9.6	9.3	4.0	14.6	11.2	11.3
<b>Net investment income and expenses in total portfolio, SEK bn</b>											
Net investment income before expenses	-43.5	81.0	35.1	49.0	-1.6	29.8	27.4	11.8	36.9	26	24.5
Operating expenses and commission expenses	-0.1	-0.3	-0.3	-0.4	-0.5	-0.4	-0.5	-0.5	-0.5	-0.3	-0.3
<b>Exposure, %</b>											
Equities	46.9	61.4	49.2	36.3	34.1	37.9	34.1	34.7	48.9	49.2	47.4
Sweden	16.1	18.6	17.3	10.5	11.2	12.9	12.3	12.3	11.6	12	11.4
Developed markets <sup>(1)</sup>	26.0	34.6	21.8	11.9	8.8	10.7	12.5	14.4	27.1	27.5	25
Emerging markets	4.8	8.3	10.2	13.9	14.1	14.2	9.2	8.0	10.1	9.7	11.0
Fixed-income securities <sup>(2)</sup>	24.2	22.9	24.2	32.3	33.3	31.7	29.8	30.2	30.9	31.2	36.4
Cash <sup>(5)</sup>	-3.7	-10.1	-0.2	-0.3	-2.5	-2.4	-1.1	-0.1	-1.1	-0.7	
Real estate	18.5	15.2	14.1	14.8	14.3	12.8	12.6	11.5	8.8	8.8	7.7
Infrastructure	4.0	2.5	2.1	3.0	3.7	3.4	3.0	2.9			
Hedge funds	1.0	0.8	3.8	4.3	4.6	4.0	5.0	4.8	5.9	4.9	4.3
Private equity funds	8.0	6.0	4.9	5.4	5.5	4.6	4.7	5.0	4.4	3.3	3.2
High-yield	0.9	1.1	1.9	3.0	2.8	4.5	4.5	2.9			
Alternative strategies	0.2	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	4.8	0.7
Special investments							0.5	0.7			
Foreign exchange	37.2	30.3	23.2	25.7	26.0	25.3	22.1	31.3	35.1	29.2	27.4
<b>Risk</b>											
Risk, % <sup>(3)</sup>	9.3	6.4	10.6	3.8	4.9	3.6	6.4	8.1	5.4	5.0	5.9
Sharpe ratio	neg.	3.3	0.9	4.2	0.0	2.9	1.5	0.5	2.6	2.1	1.9
<b>External management, %</b>											
Share of total portfolio as of 31 December <sup>(4)</sup>	15.4	15.9	22.6	31.4	33.5	32.5	31.8	31.0	34.6	37.1	39.3

- 1) Starting in 2019, systematic strategies are included as a part of Equities in developed markets.
- 2) Investment grade bonds (fixed income incl. cash funds in accounts = 22.6%)
- 3) Standard deviation, annualised, calculated on daily return.
- 4) In accordance with a joint decision, the AP Funds report wholly or partially owned real estate companies as being internally managed.
- 5) Cash exposure includes commitments related to certain equity derivative instruments.

# Income Statement

SEK m	30 Jun 2022	30 Jun 2021	31 Dec 2021
<b>Operating income</b>			
Net interest income	1,033	602	1,236
Income from equity shares	4,821	3,688	5,790
Net gains/losses, listed shares and participations	-55,165	25,540	39,391
Net gains/losses, unlisted shares and participations	10,038	9,852	24,458
Net gains/losses, fixed-income assets	-11,036	-1,432	-806
Net gains/losses, derivative instruments	-6,858	3,598	5,304
Net gains/losses, foreign exchange movements	13,668	1,413	5,593
Commission expenses	-25	-36	-61
<b>Total operating income</b>	<b>-43,525</b>	<b>43,224</b>	<b>80,905</b>
<b>Operating expenses</b>			
Personnel costs	-76	-67	-139
Other administrative expenses	-44	-39	-93
<b>Total operating expenses</b>	<b>-120</b>	<b>-106</b>	<b>-231</b>
<b>Net investment income</b>	<b>-43,645</b>	<b>43,118</b>	<b>80,674</b>

# Balance Sheet

SEK m	30 Jun 2022	30 Jun 2021	31 Dec 2021
<b>Assets</b>			
Shares and participations, listed	193,618	221,828	239,965
Shares and participations, unlisted	121,245	92,300	107,957
Bonds and other fixed-income assets	109,359	119,712	119,085
Derivatives	1,553	496	1,838
Cash and bank balances	1,300	2,329	5,121
Other assets	11,114	3,775	505
Prepaid expenses and accrued income	642	802	569
<b>Total Assets</b>	<b>438,830</b>	<b>441,242</b>	<b>475,040</b>
<b>Liabilities</b>			
Derivatives	4,350	2,551	6,396
Other liabilities	14,345	7,156	2,851
Deferred income and accrued expenses	9	0	9
<b>Total liabilities</b>	<b>18,704</b>	<b>9,707</b>	<b>9,256</b>
<b>Net assets</b>			
Opening net assets	465,784	392,637	392,637
Net payments to/from the pension system	-2,013	-4,220	-7,528
Net investment income for the year	-43,645	43,118	80,674
<b>Total net assets</b>	<b>420,126</b>	<b>431,535</b>	<b>465,784</b>
<b>Total net assets and liabilities</b>	<b>438,830</b>	<b>441,242</b>	<b>475,040</b>



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