



Ap FÖRSTA
AP-FONDEN

Interim report
2023

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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 2022. Unless otherwise stated, the same accounting policies and calculation methods have been used as in the Annual Report 2022. 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 2023 will be published in February 2024.

This is Första AP-fonden (AP1)

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

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 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 **27.8** bn

Total assets amounted to

SEK **446.4** bn

The Fund's expense ratio was

0.06 per cent

In the first half of 2023, **SEK 2.6** bn was paid to the pension system.

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

5.7 per cent

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

6.6 per cent

Active ownership

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

74 Swedish

760 foreign
(to 31 May 2023)

Ahead of the 2023 AGM season AP1 worked on

17

nomination committees in listed companies and in Vasakronan.

Key ratios

	30 June 2023	30 June 2022	31 Dec 2022
Closing net assets, SEK bn	446.4	420.1	421.2
Net investment income for the period, SEK bn	27.8	-43.6	-39.9
Net flow Pension system, SEK bn	-2.6	-2.0	-4.7
Opening net assets, SEK bn	421.2	465.8	465.8
Expense ratio, Operating expenses, %*	0.06	0.06	0.05
Expense ratio, Commission expenses, %*	0.00	0.01	0.01
Total expense ratio, %*	0.06	0.07	0.06
Return after expenses, %	6.6	-9.4	-8.6
Real return after expenses, %	5.3	-14.7	-20.9
Annualised return after expenses, 5 years, %**	7.5	7.3	6.7
Annualised return after expenses, 10 years, %**	8.4	8.7	8.1
Real annualised return after expenses, 10 years, %**	5.7	6.9	5.6

* 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.

The CPI for June 2023 is an estimate as this figure was not available at the time of the half-year closing.



“Market sensitivity to unexpectedly high inflation outcomes over the period was high, which is not surprising given that the central banks’ austerity measures were historically dramatic both in terms of pace and scope.”

COMMENTS FROM THE CEO

Looking ahead during a time of transition

In the first half of 2023, global fixed-income and equity markets recovered from the sharp market downturn of the previous year. It seemed as if the world’s investors struggled to interpret risk, and between prolonged periods of slow activity, the tentative upturns grew almost unnoticeably stronger. Despite an uncertain and volatile market, Första AP-fonden (AP1) contributed positively to the stability of the income pension system with a return of 6.6%, and reported net investment income of SEK 27.8 billion. Assets under management totalled SEK 446.4 billion at mid-year.

Positive return as the equity and fixed-income market countered a drop in the value of unlisted assets

Net investment income amounted to SEK 27.8 bn, corresponding to a return of 6.6 per cent. Assets under management amounted to SEK 446.4 bn as of 30 June 2023, and during the first half of 2023 AP1 transferred SEK 2.6 bn to the income pension system. 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 5.7 per cent. Positive earnings contributions came from listed equities and from foreign exchange, which offset the negative return from unlisted real estate. Our focus on cost-efficiency has led to a consistently low expense ratio of 0.06 per cent.

Uncertain investors led to more tentative market upturns and gradual revaluations.

High and rising inflation rates have been the main concern of global investors for some time now. During the spring, the rising inflation gradually subsided in many developed countries but remained well above the target inflation levels set by the world’s central banks. Both market pricing and communication from central banks clearly indicated that interest rate peaks were within sight. There was nevertheless greater uncertainty about how long interest rates could be expected to remain high. Market sensitivity to unexpectedly high inflation outcomes over the period was high, which is not surprising given that the central banks’ austerity measures were historically dramatic, both in terms of pace and scope. Despite this, labour markets in many countries showed consistently strong performance and many financial reports exceeded analysts’ expect-

tations. However, the importance of proper control over interest rate risks and liquidity risks in this new market environment, which has taken a back seat for a long time, became painfully obvious for American niche banks and one major Swiss bank. Fast action from the relevant authorities, in the form of closure and sale of the affected institutes, limited concerns and prevented the situation from spiralling into a systemic threat. There are still some reservations though about the stringency in the application of, and possible gaps in, the regulations that were introduced after the global financial crisis to make the banking system more secure.

Given the higher cost of capital, concern has grown for commercial real estate companies during this six-month period. Companies that have expanded heavily through extensive borrowing were punished harshly on the stock exchange. At the same time, contracts for office premises are often index-linked to inflation, which propped up real estate companies' income. Very few transactions took place on the market during the period, leading to valuations depreciating somewhat, particularly in the Nordics. In markets where external valuers made larger write-downs more rapidly, such as the UK, the market seemed to stabilise faster. It also appeared to be difficult for many investors to navigate growth markets in the new geopolitical environment, and returns generally fell short of expectations. We are selective in our approach to growth markets and evaluate investment opportunities that meet our sustainability, liquidity and cost-efficiency requirements.

In the hesitant, but over time positive market sentiment, we gradually increased the allocation to equity and the duration, i.e. sensitivity to interest rates, returning

to just above neutral levels after holding a more conservative position last year. The central banks' different views on the macro-environments affected their interest rate and balance sheet decisions and also meant that interesting opportunities emerged between different foreign exchanges. There were attractive opportunities for us to carry out so-called repo transactions in both directions, from both a liquidity and an earnings perspective. The real estate companies we own have retained their excellent credit ratings and continuous access to capital. We have also committed to maintaining our financing strategies to uphold the trust from investors.

Handing over the baton in key positions

In our largest holding, Willhem, Mariette Hilmersson will take over as the new CEO sometime around mid-2023, thus succeeding Mikael Granath who plans to retire after 13 successful years in the position. Under Mikael's leadership, Willhem has experienced an impressive growth journey during which commercial benefit, customer focus and determined sustainability work have been supported by a strong balance sheet and clear values. We would like to thank Mikael warmly for his excellent achievements that have strengthened the income pension system by SEK 27 billion during his time as CEO, and we are convinced that Mariette's substantial industry experience and unpretentious leadership will create the best conditions for Wilhem's continued positive progress.

Good owner governance is at the core of our mandate for responsible investments and exemplary asset management. When our owner governance supports the companies we own in achieving sustainable value creation, we as a major institutional owner



can also contribute to good market development. This brings about greater trust from the general public whom we serve. After 24 successful years as the Chief Active Ownership Officer, Ossian Ekdahl has decided to embark on new challenges and will be succeeded by Anna Magnusson in summer. Ossian has worked tirelessly to improve owner governance, both at AP1 and across the sector more broadly, which has contributed significantly to AP1 becoming a respected

and professional owner with great integrity and a high level of ambition. I'm convinced that Anna's extensive experience, analytical expertise and huge engagement will put us in the best position to continue developing our corporate governance going forward.

Since it started in 2007, the Council on Ethics of the Swedish National Pension Funds (The Council on Ethics), a collaboration between AP1, AP2, AP3 and AP4, has established a strong position nationally and

internationally. Today the Council on Ethics plays an important role in driving positive change through dialogue and engagement, primarily in the foreign companies in which the Swedish AP Funds have an ownership. In autumn 2021, we and our colleagues at the Second-Fourth AP funds initiated a review of The Council on Ethics of the Swedish AP Funds, which resulted in a new governance and leadership structure, an expanded mandate which also included credits as well as equities, and added further resources. Jenny Gustafsson will now take over as the head of the “new” Council on Ethics, and under Jenny’s experienced leadership the Council on Ethics will work towards its new long-term goals, build up an organisation and ensure that the AP Funds remain exemplary fund managers and responsible owners in the sustainability area, enhancing trust in us as well as our reputation.

Strong outcome in international comparison

According to the annual evaluation of the AP Funds carried out by McKinsey on behalf of the Government Offices, AP1 has fulfilled its mandate in accordance with expectations. A further analysis was conducted comparing six selected state-owned pension funds in Denmark, Norway, the Netherlands, Canada and the US, and this also shows that we perform well. AP1 has delivered a higher return than the average for the group both during the challenging market of 2022 and over the last five and ten years. All of us at AP1 are naturally delighted to get such confirmation that our management model and how we carry out our mandate have created value for the income pension system and that our results stand out so favourably in international comparisons.



“All of us at AP1 are naturally delighted to get such confirmation that our management model and how we carry out our mandate have created value for the income pension system and that our results stand out so favourably in international comparisons.”

Taking stock of three years as CEO

This summer I will celebrate three years as the CEO of Första AP-fonden, and I would like to take a moment to reflect on that time, as well as the period we have ahead of us. During the last three years we have successfully implemented a new organisation and firmly established our strategic framework, 1AP1, which covers all areas of our business. We have consistently chosen to manage more and more assets internally and we are very satisfied with the portfolio governance, economies of scale and ownership that comes with having 90% of the assets managed by our own

portfolio managers. Given our responsibility to the general public, we also constantly evaluate whether external partners can implement different investment strategies better than we can – and when that is the case, such as within private equity, we primarily choose external management.

I can’t stress enough the importance of excellent workmanship and first-class operational capabilities to an asset manager’s ability to steer investments and risk-taking in different market circumstances. Our persistent liquidity planning and valuation efforts, and the manner in which we pledge collateral

under counterparty agreements, creates security and energy in the organisation, even in disruptive market circumstances. We have reviewed and digitalised our critical processes and safeguarded their continuity during normal disruptions, and practised for more negative scenarios such as crises and disasters. Furthermore, digitalised workflows enable continuous learning, micro-innovations and generate an organisational memory, which substantially facilitates the management of a complex portfolio such as ours.

During the last three years we have established independent control functions

that work entirely according to the three lines of defence that apply to asset managers supervised by the Swedish Financial Supervisory Authority, as we believe that this creates internal and external trust and stability in a financial institution such as ours that is not formally subject to these requirements. During the last year we have worked extensively with information security, a particularly pressing area given the uncertain geopolitical world we live in. To meet external expectations on us for cost-efficient asset management, over the last two years we have also worked according to a well-established model for cost management that was adopted by our Board. This has delivered excellent results in terms of productivity and well-financed change initiatives, and has led to lower expense ratios. Reports about us in the media consistently demonstrate a high level of trust in our organisation and a good external understanding of our mandate.

Many colleagues have taken on new roles within the Fund, and we have welcomed many new colleagues to fill positions when employees retire and based on the strategic competence requirements we have identified. To meet the employee value proposition that is the cornerstone of our strategy, we have developed leadership principles that guide our leaders in all kinds of matters, and we now conduct more frequent pulse surveys to supplement our regular employee surveys. I am very happy and proud of the super results we achieve both in these surveys and in workplace environment analyses, and I look forward to working with our leaders to safeguard that trust. That's because the most important and biggest changes over the last three years have been all the new thinking, learning and re-examining that our employees demonstrate every day – a huge thank you to you all.

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. Geopolitical tensions and energy dependencies will likely continue to affect the near-term investment climate, and our world is likely to continue to be characterised by great uncertainty, substantial market volatility and high cost of capital. 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 shrinking interest rates and other stimulation measures. Going forward, expected market returns are likely to be somewhat lower, but hopefully more sustainable, with viable business models being strengthened, and higher prices bringing about prudent management of limited resources.

Maintaining stability and creating returns in such an environment requires good governance and management. During the year, our Board initiated a review of our ten-year old governance model and risk framework. The aim is to ensure that our risk-taking framework provides us with the best conditions possible to fulfil our statutory mandate and that it is on a par with the most professional pension funds around the world. In our asset management operations, we are simultaneously focused on improving how we use the risk scope given to us by the Board. This involves developing portfolio structures and mandates that enable dynamic allocation of risk when investment opportunities arise. I am convinced that the combination of strategic and practical work from the Board to daily activities will put us in the best position to continue creating high returns and sustainability value with good risk management of the pension capital entrusted to us.



Finally, I would also like to take this opportunity to welcome Lars Fresker and Linda Jonsson to us as new members of the Fund's Board, and also warmly thank Kent Eriksson, Per Klingbjer 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.

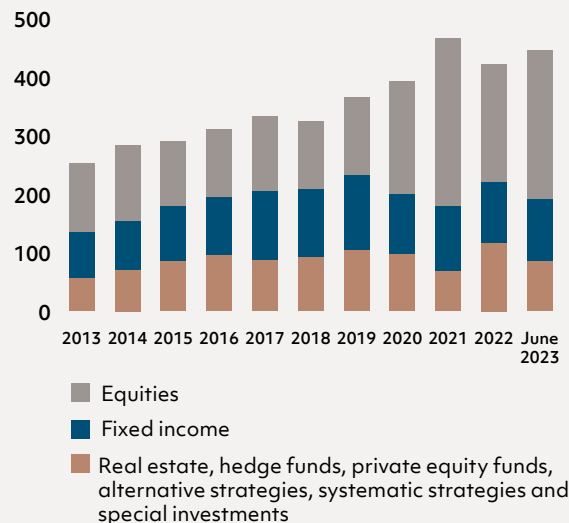
Stockholm, 20 July 2023

Kristin Magnusson Bernard
Kristin Magnusson Bernard
CEO

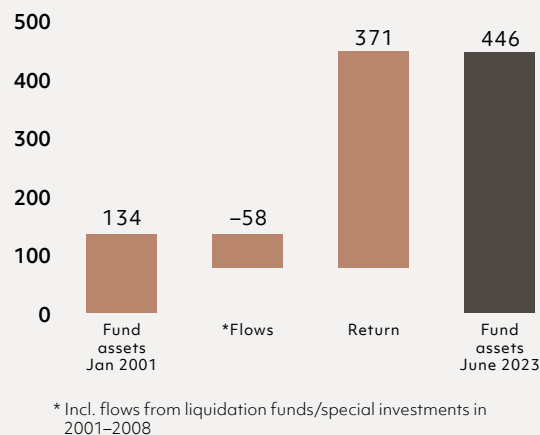
“Going forward, expected market returns are likely to be somewhat lower, but hopefully more sustainable, with viable business models being strengthened, and higher prices bringing about prudent management of limited resources.”

Return and assets

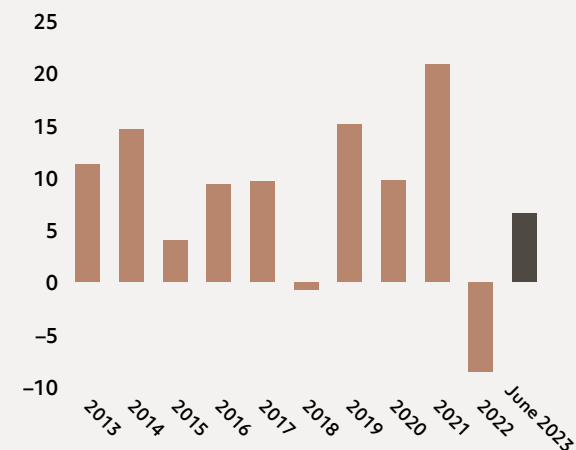
Net asset performance, 2013–June 2023, SEK bn



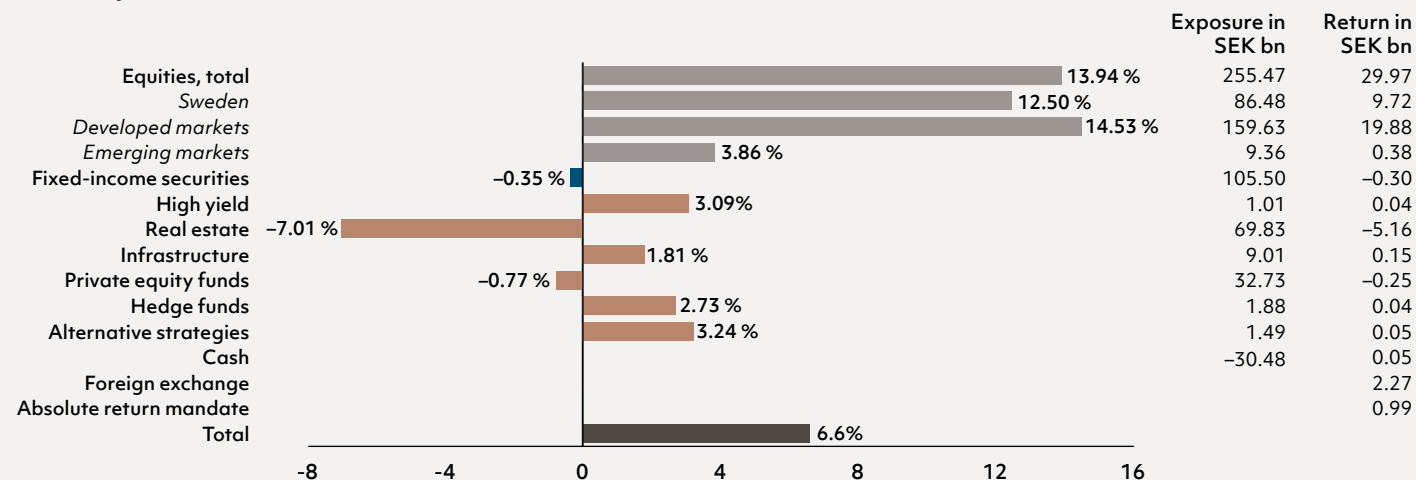
Net asset performance 2001–June 2023, SEK bn



Return after expenses 2013–June 2023, %



Return by asset class in the first six months of 2023



Ten-Year Overview

	30 June 2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	
Net investment income and inflow, SEK bn												
Net assets, at 30 June	446.4	421.2	465.8	392.6	365.8	323.7	332.5	310.5	290.2	283.8	252.5	
Net flow pension system	-2.6	-4.7	-7.5	-7.9	-6.5	-6.8	-7.4	-6.6	-4.9	-5.1	-6.9	
Net investment income for the year	27.8	-39.9	80.7	34.8	48.6	-2.1	29.3	27.0	11.3	36.4	25.7	
Return, expenses and risk, %												
Return before expenses	6.6	-8.5	20.8	9.8	15.3	-0.6	9.7	9.5	4.1	14.8	11.3	
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	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	0.07	
Return after expenses	6.6	-8.6	20.8	9.7	15.1	-0.7	9.6	9.3	4.0	14.6	11.2	
Market returns ⁽⁶⁾	12.1	-14.2	17.9	6.8	19.7	-3.4	9.1	8.0	1.5			
Net investment income and expenses in total portfolio, SEK bn												
Net investment income before expenses	28.0	-39.6	81.0	35.1	49.0	-1.6	29.8	27.4	11.8	36.9	26.0	
Operating expenses and commission expenses	-0.1	-0.3	-0.3	-0.3	-0.4	-0.5	-0.4	-0.5	-0.5	-0.5	-0.3	
Exposure, %												
Equities	57.2	47.9	61.4	49.2	36.3	34.1	37.9	34.1	34.7	48.9	49.2	
Sweden	19.4	18.8	18.6	17.3	10.5	11.2	12.9	12.3	12.3	11.6	12.0	
Developed markets ⁽¹⁾	35.8	29.1	34.6	21.8	11.9	8.8	10.7	12.5	14.4	27.1	27.5	
Emerging markets	2.1	0.0	8.3	10.2	13.9	14.1	14.2	9.2	8.0	10.1	9.7	
Fixed-income securities ⁽²⁾	23.6	24.1	22.9	24.2	32.3	33.3	31.7	29.8	30.2	30.9	31.2	
Cash ⁽⁵⁾	-6.8	-0.7	-10.1	-0.2	-0.3	-2.5	-2.4	-1.1	-0.1	-1.1	-0.7	
Real estate	15.6	17.7	15.2	14.1	14.8	14.3	12.8	12.6	11.5	8.8	8.8	1) Starting in 2019, systematic strategies are included as a part of Equities in developed markets.
Infrastructure	2.0	1.9	2.5	2.1	3.0	3.7	3.4	3.0	2.9		4.9	2) Investment grade bonds (fixed income incl. cash funds in accounts = 22.81%).
Hedge funds	0.4	0.5	0.8	3.8	4.3	4.6	4.0	5.0	4.8	5.9	3.3	3) Standard deviation, annualised, calculated on daily return in 2023.
Private equity funds	7.3	7.9	6.0	4.9	5.4	5.5	4.6	4.7	5.0	4.4	4.8	4) In accordance with a joint decision, the AP Funds report wholly or partially owned real estate companies as being internally managed.
High-yield	0.2	0.3	1.1	1.9	3.0	2.8	4.5	4.5	2.9		4.8	5) Cash exposure includes commitments related to certain equity derivative instruments.
Alternative strategies	0.3	0.3	0.2	0.0	1.1	0.9	1.0	5.0	4.4		4.8	6) 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.
Systematic strategies						3.2	3.0	4.5	5.2	5.6	4.8	
Special investments								0.5	0.7			
Foreign exchange	22.9	20.0	30.3	23.2	25.7	26.0	25.3	22.1	31.3	35.1	29.2	
Risk												
Risk, % ⁽⁵⁾	6.5	9.3	6.4	10.6	3.8	4.9	3.6	6.4	8.1	5.4	5.0	
Sharpe ratio	1.7	neg.	3.3	0.9	4.2	0.0	2.9	1.5	0.5	2.6	2.1	
Market volatility, % ⁽⁶⁾	8.0	12.5	7.2	15.8	6.1	7.4	4.3	8.1	9.4			
External management, %												
Share of total portfolio as of 30 June ⁽⁴⁾	9.5	10.1	15.9	22.6	31.4	33.5	32.5	31.8	31.0	34.6	37.1	

Income Statement

SEK m	30 June 2023	30 June 2022	31 December 2022
Operating income			
Net interest income	1,543	1,033	2,822
Income from equity shares	4,141	4,821	6,537
Net gains/losses, listed shares and participations	24,550	-55,165	-48,649
Net gains/losses, unlisted shares and participations	-4,897	10,038	3,722
Net gains/losses, fixed-income assets	327	-11,036	-16,080
Net gains/losses, derivative instruments	-1,369	-6,858	-3,748
Net gains/losses, foreign exchange movements	3,684	13,668	15,755
Commission expenses	-5	-25	-27
Total operating income	27,974	-43,525	-39,668
Operating expenses			
Personnel costs	-73	-76	-144
Other administrative expenses	-51	-44	-94
Total operating expenses	-124	-120	-238
Net investment income	27,850	-43,645	-39,906

Balance Sheet

SEK m	30 June 2023	30 June 2022	31 December 2022
Assets			
Shares and participations, listed	230,694	193,618	197,893
Shares and participations, unlisted	110,456	121,245	114,678
Bonds and other fixed-income assets	108,757	109,359	101,117
Derivatives	782	1,553	2,251
Cash and bank balances	4,603	1,300	6,544
Other assets	7,492	11,114	493
Prepaid expenses and accrued income	696	642	506
Total assets	463,480	438,830	423,482
Liabilities			
Derivatives	4,615	4,350	2,246
Other liabilities	12,423	14,345	42
Deferred income and accrued expenses	5	9	5
Total liabilities	17,043	18,704	2,293
Net assets			
Opening net assets	421,189	465,784	465,784
Net payments to/from the pension system	-2,602	-2,013	-4,689
Net investment income for the year	27,850	-43,645	-39,906
Total net assets	446,437	420,126	421,189
Total net assets and liabilities	463,480	438,830	423,482



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