



Ap FÖRSTA
AP-FONDEN

Interim report
2024

Contents

This is Första AP-fonden	1
First half of the year in figures	2
Comments from the CEO	3
Return and assets	7
Financial summary	8

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 2023. Unless otherwise stated, the same accounting policies and calculation methods have been used as in the Annual Report 2023. 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 2024 will be published in February 2025.

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

SEK **22.7** bn

Total assets as at 30 June

SEK **476.2** bn

AP1's expense ratio

0.06
per cent

Paid into the pension
system in the first half
of 2024

SEK **0.9** bn

Average real return after
expenses for the last ten-
year period

4.8
per cent

Return after expenses for
the first half of the year

5.0
per cent

Responsible ownership

AP1 has had a responsible ownership role during the first half of the year and voted at AGMs

85 Swedish

1,038 foreign
(to 31 May 2024)

Ahead of the 2024 AGM season
AP1 participated in

20

nomination committees in listed
and unlisted companies

Key ratios

	30 June 2024	30 June 2023	31 Dec 2023
Closing net assets, SEK bn	476.2	446.4	454.4
Net investment income for the period, SEK bn	22.7	27.8	38.0
Net flow Pension system, SEK bn	-0.9	-2.6	-4.8
Opening net assets, SEK bn	454.4	421.2	421.2
Expense ratio, Operating expenses, %*	0.06	0.06	0.06
Expense ratio, Commission expenses, %*	0.00	0.00	0.00
Total expense ratio, %*	0.06	0.06	0.06
Return after expenses, %	5.0	6.6	9.1
Real return after expenses, %	4.3	5.3	4.7
Annualised return after expenses, 5 years, %	7.7	7.5	8.7
Annualised return after expenses, 10 years, %	7.8	8.4	7.9
Real annualised return after expenses, 10 years, %	4.8	5.7	5.0

* In the six-month interim report, the expense ratio is calculated as the full-year effect.
The CPI for June 2024 is an estimate as this figure was not available at the time of the half-year closing.

COMMENTS FROM THE CEO

Optimism and stabilisation as visibility improves

Global equity markets rallied during the first half of 2024, while valuations of unlisted assets stabilised. A strong US economy and slowly declining inflationary pressures were the main reasons for company and investor optimism, despite interest rate cuts being fewer than expected and repeatedly postponed. Carefully balanced long-term as well as medium-term portfolio positioning combined with a steadfast focus on cost-efficiency generated a return of 5.0 per cent in the first half of 2024, which corresponds to net investment income of SEK 22.7 billion.

Strong stock market performance and stabilisation for unlisted assets

Net investment income amounted to SEK 22.7 billion, corresponding to a return of 5.0 per cent. Assets under management amounted to SEK 476.2 billion as at 30 June 2024, and in 2024 so far, AP1 has transferred SEK 0.9 billion 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 4.8 per cent. Positive contributions in the first half of 2024 came from listed equities, while the returns from unlisted assets, such as real estate, private equity investments and infrastructure assets, stabilised. Our continued focus on cost-

efficiency has led to a consistently low expense ratio of 0.06 per cent.

Challenges remain but the outlook is getting clearer

Market movements over the last few years have been driven by developments in inflation and interest rates, with markets dropping due to negative inflation outcomes and expected interest rate rises, only to climb again in the hope of more favourable developments going forward. In spring 2024 that pattern was somewhat broken, and global investors were once again reminded that expected correlations between fixed interest and equity market trends are not always quite that predictable. The world's stock markets



“A larger share of equities in the portfolio, a thoughtful allocation strategy and successful company selections within Swedish listed equities had a particularly positive impact on net investment income.”

reached new heights even though resistant inflationary trends in the US prompted the Central Bank of the United States to delay planned decreases in interest rates and led to increases in market rates. The underlying forces driving the US inflationary developments were the exceptionally strong American economy, robust household demand in the country and expected productivity gains. Many companies reported surprisingly positive results during the period, in spite of geopolitical uncertainty and the relatively weak performance of the Chinese economy. Divergent macroeconomic outcomes in the US, the eurozone and Sweden led to the historically unusual pattern of Sweden's Riksbank and the ECB lowering their policy

rates ahead of the Federal Reserve, which subsequently became a contributory factor to the American Dollar performing stronger against other currencies, including the Swedish krona, than in previous, comparable situations.

Our asset management teams worked intensively and dynamically to adapt investments in both specific companies and in overall allocations to global fixed-income, currencies and listed equities, to create value in the positive, but uncharted market environment that we were operating in. A larger share of equities in the portfolio, a thoughtful allocation strategy and successful company selections within Swedish listed equities had a particularly positive impact on net investment



“We want to constantly improve how we carry out our mandate within responsible investments and responsible ownership, and promote sustainable development without compromising on the return.”

income. There were still attractive opportunities for us to carry out so-called repo transactions in both directions, from both a liquidity and an earnings perspective. Reduced uncertainty ahead led to a stabilisation of the valuations of unlisted assets, as expectations regarding future interest rate levels over the longer term are an important factor in the discounting of future cash flows. More transactions in the market and greater confidence in estimated valuations led to more deal completions in the real estate market, although still at very low levels. The bond market paved the way for more real estate companies, on a larger scale and with longer maturities, while credit margins decreased. At the same time, many real estate companies reported that vacancies had crept upwards, especially in office space. We expect that real estate valuations have now almost bottomed out in the Swedish and European market. We also believe that many companies will need to adapt their strategies, business models and customer offerings over a longer period as we cannot expect a return to the zero-interest environment that drove the dramatic upsurges in value up until 2022. Our real estate companies have retained their excellent credit ratings and continued access to the capital market, and evaluated many opportunities in existing portfolios and externally. We have also committed to maintaining our financing strategies to uphold the trust investors have in us. During spring we have continued to make new investments in the private equity segment, based on the pre-determined strategy and allocations. We saw players in the private equity market who successfully raised new funds but also, fewer companies than in the past left the portfolios through IPOs or acquisitions by other players,

which indicates that the wheels of the private equity cycle are not entirely turning smoothly yet in the current interest conditions.

A responsible investor and a sustainable transition

We want to constantly improve how we carry out our mandate within responsible investments and responsible ownership, and promote sustainable development without compromising on the return. AP1 was one of several institutional owners who were early in advocating for the right of shareholders to participate in person at annual general meetings, in order to meet boards, management teams and other shareholders there and discuss relevant matters. We are happy to see that so many companies have continued to offer in-person AGMs and make extra efforts to ensure that the meetings are as fruitful as possible for both major and minor owners. During the first half of the year, we have voted at 85 of a possible 85 Swedish AGMs, 79 of which we attended in person.

We believe that gender equality and diversity widen the base of experience and skills for boards, and lead to dynamic board work that equips the board to handle risk and opportunities in a changing and uncertain world. We have set a clear target of a 40 per cent share of the least represented gender on the listed companies' boards. One way to achieve this is through the nominations committee, an important cornerstone of the Swedish corporate governance model. We always want to contribute to the work of nominations committees when this is warranted by the size of our shareholding. In this regard, we institutional owners and other owners have a major responsibility and an important role to play by drawing from our different experience

and perspectives to ensure that each company's board has the right composition of members for our times.

AP1 together with a number of other major Swedish and European investors have drawn up and signed a joint statement supporting the rights of shareholders to be able to submit and vote on shareholder proposals at general meetings of shareholders. We believe that this right may become restricted in the US after a company took a shareholder to court and sued it, rather than allow the responsible US government agency to determine whether a shareholder proposal is correctly formatted, per the usual custom. If these kinds of actions become widespread, it's likely that shareholders' desire and scope to submit proposals to AGMs will diminish, while it also highlights the importance of shareholders to use this right responsibly. It is important that the companies we invest in respect international conventions and agreements backed by Sweden, and this includes the right of association and collective bargaining. Together with a large number of other investors, we have drawn up and we support a shareholder proposal to the AGM of Amazon, encouraging the company to appoint a third party to audit how the company complies with its internal obligations related to the right of employees to form organisations and carry out collective bargaining. Tesla is another company that has been extensively debated this spring. Through the AP Funds' joint Council on Ethics, we are in discussions with the company regarding employees' fundamental rights globally, and we have also discussed the situation that has arisen in Sweden.

Systemic issues related to climate change mitigation and sustainable development are becoming more important both in our man-



date, and for society generally. These issues require us to constantly keep our knowledge up to date, and participate in early dialogues in diverse contexts with different stakeholders. As an example, within the Council on Ethics we are looking at matters related to antimicrobial resistance, an issue that has

gained attention in Sweden and at the EU level. In collaboration with many other investors, and consistent with Sweden and the EU's position, we have expressed our support for a global agreement on the reduction of pollution from plastics and the regulation of chemicals. Sectors and companies that face

particularly large challenges in transitioning to lower emissions, such as the steel industry, could also potentially act as a massive lever in bringing about a profitable and sustainable transition. For that reason, we engage in partnerships such as Climate Action 100+ and as an owner of companies to ensure that

relevant and credible transition plans are in place, based on the companies' roles as manufacturers or users of steel. Guided by our long-term mandate and its generation-neutral target, we also contribute an investor's perspective to matters regarding fossil-free energy supply and infrastructural needs, when our views are sought.

Positive evaluations of our activities and discussions regarding our future mandate

Every year the Swedish government submits an official report to the parliament assessing the operations of the National Swedish Pension Funds over the prior year against the expectations set in the statutory mandate. The report is based on a comprehensive evaluation carried out by an external party, which as of this year is the consulting firm Arkwright. This year's evaluation also contained a specific focus on the AP Funds' investments in non-listed assets, given the change in investment guidelines in this area adopted by the parliament a few years ago. The report stated that the AP Funds have fulfilled the government's expectations and that the return generated by AP1 and the other AP funds is higher across different timeframes compared with the international pension funds that are considered to be world-class. Our expenses have also been substantially lower than our international peers, and our ESG work is of a high standard. We 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 performance stands up favourably in international comparisons. We are highly ambitious in how we fulfil our mandate and believe evaluations

and transparency are important for retaining the trust of the general public and other stakeholders.

In autumn 2023, the government opened an inquiry into the AP Funds and the investigation was expanded in January 2024 with more questions to be considered. The stated purpose of the inquiry is to modernise and optimise the collective management of the net assets of the buffer funds in order to protect the shared resources that the net assets constitute, and to take into account the fact that the investment context in which the National Swedish Pension Funds operate has changed over the years. The inquiry, which encompasses administrative matters, changes in investment guidelines, composition of the boards, and an evaluation of the number of AP Funds and their areas of cooperation, was presented to the government in mid June. The conclusion and proposed changes have been sent out for consultation to a number of bodies, including the AP Funds, after which the government may decide to propose a bill to parliament regarding sections of the inquiry that are deemed desirable to take further.

Evolving by learning from others and through new technology

As stated in our long-term strategy, 1AP1, our vision is to be a world-class pension fund that enjoys a high level of trust from our external stakeholders, and a workplace where our employees are happy, can develop and make a difference. During the year we participate in a major study with some twenty other pension funds from ten or so countries. These are considered to be world-class organisations and we collectively manage SEK 70 trillion. As part of the study we identify common

success factors for world-class pension funds, and share different experiences and challenges with the aim of improving what we do. We have used this opportunity to pro-actively follow up with those funds that have focused on areas we wish to develop, and we've welcomed funds that want to learn from us.

We have made great progress in our digitalised work processes and transaction flow, and we are happy with the results we are seeing in terms of increased productivity when we expand our use of different AI tools. New technologies and a digital work process combined with increasing threats from the external environment can present a risk of exposure. We therefore hold courses and carry out real-life tests to check the security of our data, processes and systems. To ensure that our changes are taking us in the right direction, we perform regular measurements with employees, external stakeholders and the media, where we are compared with similar institutions. We are happy with our strong performance which spurs us on to become even better.

A strong position for continued target achievement

There are still no signs that the tragic invasion of Ukraine will come to an end any time soon, and the exceptionally serious situation in Israel and Gaza is also becoming protracted. In the next few months, many people around the world will go to the polls, and whoever gets voted in as the next US president or the EU's decision-makers can have a major impact on many of us. Current political issues are interacting with crucial structural forces such as demographics, the green transition and technological progress, with the latter sometimes changing so gradually that their

effects are hard to perceive in the short term. Geopolitical tensions and energy dependencies are also likely to continue to affect the near-term investment climate.

Being able to create value in this kind of environment requires the ability to remain focused on and improve ongoing work, to constantly evaluate different risks against each other, and be able to tackle major change, even during uncertainty. I'm grateful for the strong commitment, drive and engagement shown by all our staff, and how you work closely together to support each other to achieve even better results. Coupled with the strategies, frameworks and compliance systems set out by our Board, we are well-positioned to continue to create high returns and sustainability value with good risk management of the pension capital entrusted to us.

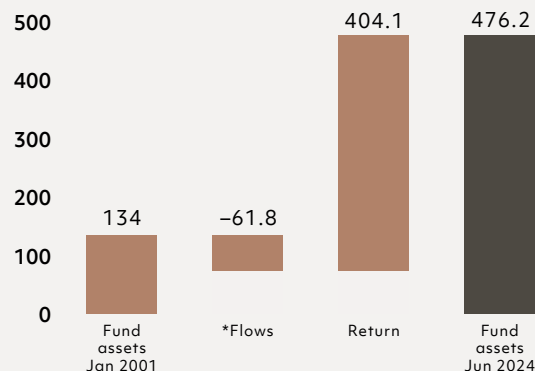
After spending eight years, usually the maximum period, as our Chairman of the Board, Urban Hansson Brusewitz left AP1 in May. I would like to extend a special thank you to Urban for the good cooperation we've had that has also developed and challenged me in my CEO role. I would also like to extend a warm welcome to Eva Lindström as AP1's new Chair of the Board. I look forward to working with you, the Board and all our employees to continue to evolve AP1 as a world-class pension fund.

Stockholm, 16 July 2024


Kristin Magnusson Bernard
CEO

Return and assets

Net asset performance
2001–June 2024, SEK bn

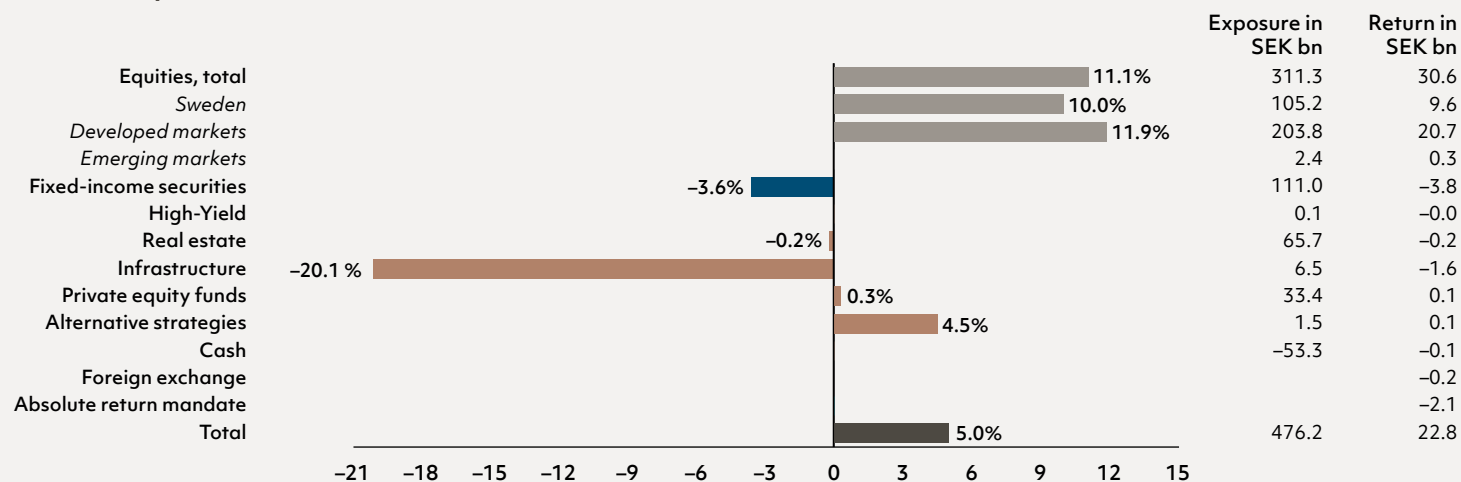


* Incl. flows from liquidation funds/special investments in 2001–2008

Composition of the portfolio, 30 June 2024



Return by asset class in the first six months of 2024



Ten-Year Overview

	30 June 2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	
Net investment income and inflow, SEK bn												
Net assets, at 30 June	476.2	454.4	421.2	465.8	392.6	365.8	323.7	332.5	310.5	290.2	283.8	
Net flow from the pension system	-0.9	-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	22.7	38.0	-39.9	80.7	34.8	48.6	-2.1	29.3	27.0	11.3	36.4	
Return, expenses and risk, %												
Return before expenses	5.0	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	0.06	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	0.00	0.01	0.02	0.02	0.05	0.07	0.07	0.09	0.11	0.10	
Return after expenses	5.0	9.1	-8.6	20.8	9.7	15.1	-0.7	9.6	9.3	4.0	14.6	
Market returns ⁽¹⁾	9.9	16.5	-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	22.8	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	-0.1	-0.3	-0.3	-0.3	-0.3	-0.4	-0.5	-0.4	-0.5	-0.5	-0.5	
Exposure, %												
Equities	65.4	61.2	47.9	61.4	49.2	36.3	34.1	37.9	34.1	34.7	48.9	
Sweden	22.1	22.1	18.8	18.6	17.3	10.5	11.2	12.9	12.3	12.3	11.6	
Developed markets ⁽²⁾	42.8	37.8	29.1	34.6	21.8	11.9	8.8	10.7	12.5	14.4	27.1	
Emerging markets	0.5	1.4	0.0	8.3	10.2	13.9	14.1	14.2	9.2	8.0	10.1	
Fixed-income securities ⁽³⁾	23.3	24.9	24.1	22.9	24.2	32.3	33.3	31.7	29.8	30.2	30.9	
Cash ⁽⁴⁾	-11.2	-9.2	-0.7	-10.1	-0.2	-0.3	-2.5	-2.4	-1.1	-0.1	-1.1	
Real estate	13.8	14.2	17.7	15.2	14.1	14.8	14.3	12.8	12.6	11.5	8.8	
Infrastructure	1.4	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	7.0	6.9	7.9	6.0	4.9	5.4	5.5	4.6	4.7	5.0	4.4	
High-yield	0.0	0.0	0.3	1.1	1.9	3.0	2.8	4.5	4.5	2.9		
Alternative strategies	0.3	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	25.3	18.1	20.0	30.3	23.2	25.7	26.0	25.3	22.1	31.3	35.1	
Risk												
Volatility, % ⁽⁵⁾	6.1	6.6	9.3	6.4	10.6	3.8	4.9	3.6	6.4	8.1	5.4	
Sharpe ratio	1.1	0.9	neg.	3.3	0.9	4.2	0.0	2.9	1.5	0.5	2.6	
Market volatility ⁽¹⁾	5.9	7.5	12.5	7.2	15.8	6.1	7.4	4.3	8.1	9.4		
External management, %												
Share of total portfolio as at 30 June ⁽⁶⁾	8.7	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 part of Equities in developed markets.

3) Investment grade bonds (fixed income incl. cash funds in accounts = 22% for 2024).

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

5) Standard deviation calculated on daily return in 2024.

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	30 June 2024	30 June 2023	31 December 2023
Operating income			
Net interest income	1,346	1,543	2,753
Income from equity shares	3,998	4,141	5,868
Net gains/losses, listed shares and participations	25,267	24,550	39,139
Net gains/losses, unlisted shares and participations	-779	-4,897	-11,664
Net gains/losses, fixed-income assets	-2,693	327	2,302
Net gains/losses, derivative instruments	-4,441	-1,369	1,949
Net gains/losses, foreign exchange movements	143	3,684	-2,062
Commission expenses	-6	-5	-10
Total operating income	22,835	27,974	38,276
Operating expenses			
Personnel costs	-79	-73	-146
Other administrative expenses	-46	-51	-101
Total operating expenses	-125	-124	-247
Net investment income	22,710	27,850	38,029

Balance Sheet

SEK m	30 June 2024	30 June 2023	31 December 2023
Assets			
Shares and participations, listed	263,072	230,694	232,915
Shares and participations, unlisted	103,667	110,456	100,609
Bonds and other fixed-income assets	112,785	108,757	108,450
Derivatives	2,260	782	9,958
Cash and bank balances	2,846	4,603	3,716
Other assets	1,422	7,492	894
Prepaid expenses and accrued income	853	696	763
Total assets	486,905	463,480	457,304
Liabilities			
Derivatives	1,198	4,615	655
Other liabilities	9,474	12,423	2,259
Deferred income and accrued expenses	3	5	5
Total liabilities	10,675	17,043	2,919
Net assets			
Opening net assets	454,386	421,189	421,189
Net payments to/from the pension system	-866	-2,602	-4,833
Net investment income for the year	22,710	27,850	38,029
Total net assets	476,230	446,437	454,386
Total net assets and liabilities	486,905	463,480	457,304



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