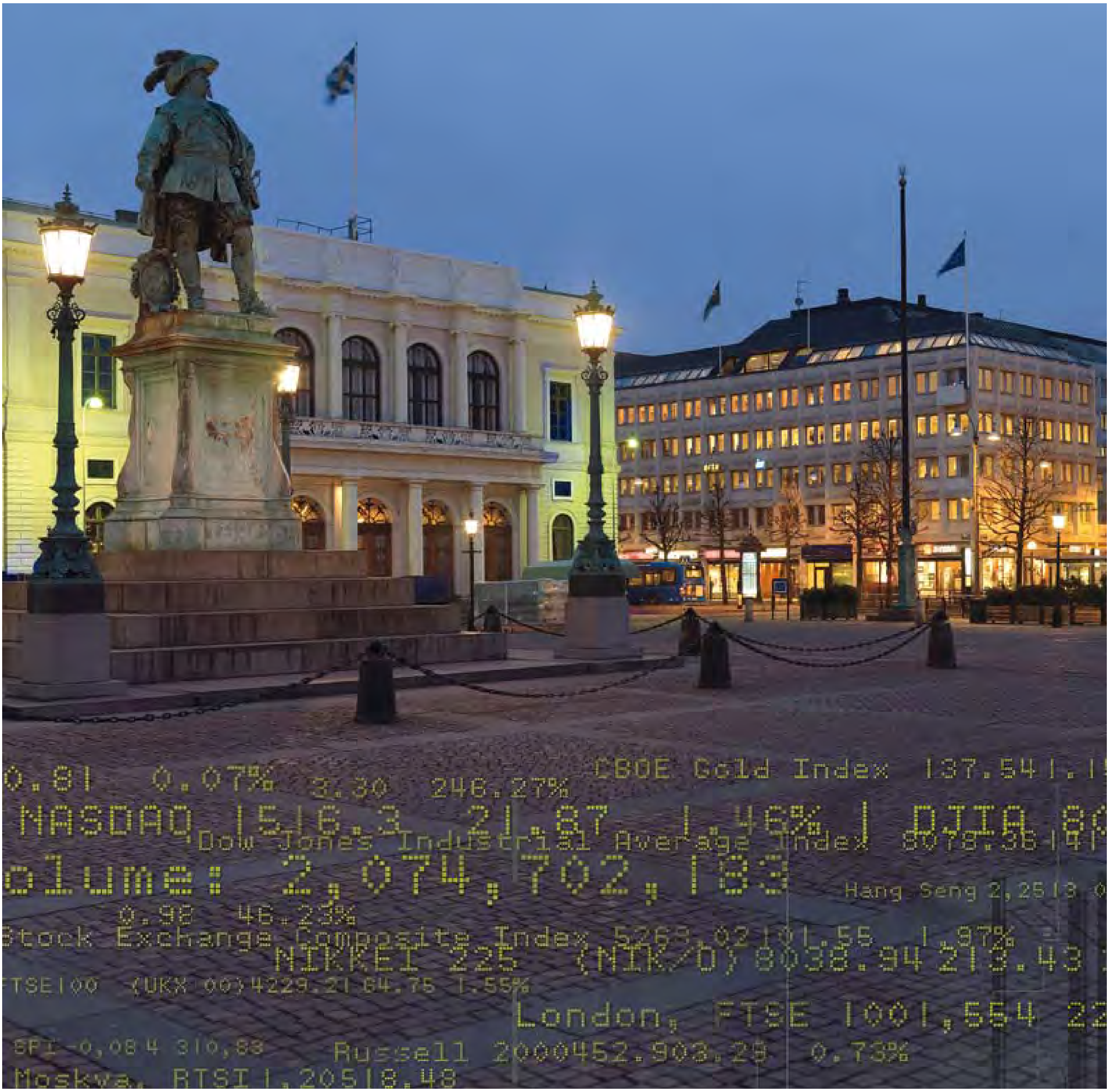
Andra AP-fonden

Second Swedish National Pension Fund - AP2

Second Swedish National Pension Fund/AP2

2008/2009



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This is the Second AP Fund

Global investment manager

The Second Swedish National Pension Fund/AP2* manages national pension reserve assets and is one of five 'buffer' funds within the national income-based pension system, with a global investment portfolio.

Based in Gothenburg

The Second AP Fund was established in 2001 and is based in Gothenburg. The Board of Directors is appointed by the Swedish Government.

Future pensions – vital task

The Second AP Fund's overall target is to optimize the Swedish pension assets for which it is responsible.

Innovative workplace

The Second AP Fund is a young, innovative organization, with a strong team spirit, alert to its responsibilities. This promotes a stimulating work environment.

Long-term investment horizon

The Second AP Fund conducts long-term investment of assets based on efficient risk management, supported by analytical models developed in-house.

Sustainable development

Within the framework of its broad mission to create value through efficient investment of capital, the Second AP Fund contributes to sustainable development in terms of environmental and ethical issues.

Unless otherwise stated, the portfolio assets referred to in this report are "allocated exposures". In addition to booked fair values, these also refer to allocated (but not yet invested) liquidity for the specific class of asset, and the liquid funds held as collateral for positions already taken in derivative instruments. Classes of asset, derivative instruments and liquid funds are reported individually in the balance sheet at their fair values.

All monetary amounts are expressed in Swedish kronor and abbreviated as SEK k (thousand), SEK million or SEK m (million) and SEK billion or SEK bn (thousand million).

The 2008 Annual Report is available as a separate publication.

* The Second AP Fund is officially translated as the Second Swedish National Pension Fund/AP2. In body text, for convenience, this is shortened to the Second AP Fund and, in some cases, AP2.

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2008 in brief

- The fund had total assets of SEK 173.3 billion under management as per December 31st 2008, a decline of SEK 54.2 billion compared with the preceding year. During the year, the fund reported a net inflow of SEK 0.9 billion. The net result for the year was SEK -55.1 billion. This sharp decline in assets under management was primarily attributable to the sharp decline of the world's stock markets in 2008.

- The fund posted a return of -24.0 percent on the total portfolio, excluding commission fees and operating expenses. After expenses the portfolio generated a return of -24.1 percent.

- The fund posted a relative return of -1.8 percent for market-quoted assets, excluding commission fees and operating expenses. The weak result may be attributed to a number of the fund's equity mandates and some investment products that were poorly positioned in the extreme turbulence that affected the financial market in the autumn. As a result of the financial crisis, almost all active investment mandates, both internally and externally managed, underperformed simultaneously.

- To limit the risks in the portfolio, a number of decisions were taken in the autumn. These included decisions to reduce risk in the equities portfolios managed in-house. Furthermore, the size of the fund's positions in fixed-income and foreign-exchange markets was reduced. A number of investment strategies were terminated completely.

- The fund's return on unquoted investments in private equity funds and real estate was -1.9 percent.

- The fund's low exposure in foreign currencies (12 percent) meant that the depreciation of the Swedish krona had a negative impact on the total return.

- AP Fastigheter, in which the Second AP Fund has a 25-percent interest, acquired the real-estate company Vasakronan in the autumn. This increased the fund's exposure to real estate by 2 percentage points. The new company, which has taken the name Vasakronan, is by far the largest real-estate company in Sweden.

Three-year review

	2006	2007	2008
Fund capital, SEK bn	216,775	227,512	173,338
Net inflow, SEK bn	1,676	2,019	884
Net profit for the year, SEK bn	24,506	8,718	-55,058
Annual return on total portfolio, before commission costs and operating expenses, %	13.0	4.2	-24.0
Annual return on total portfolio, after commission costs and operating expenses, %	12.8	4.0	-24.1
Relative annual return on market-quoted assets, before commission costs and operating expenses, %	0.2	-0.4	-1.8
Active risk, ex post, %	0.7	0.7	1.0
FX exposure, %	12	11	12
Under active (incl. enhanced) management, %	93	96	99
Under external management (incl. investments in private equity funds) , %	17	24	22
Share of management expenses, incl. commission costs, %	0.15	0.13	0.16
Share of management expenses, excl. commission costs, %	0.06	0.06	0.08

The Second AP Fund's objectives and result

Global stock markets experienced dramatic declines and extreme levels of volatility in 2008. Consequently, the Second AP Fund did not reach the established targets for absolute and relative return.

The Second AP Fund's assets are managed with a view to generating a buffer for future pension disbursements as part of the national pension system.

To generate the greatest possible benefit in this role, the fund's primary focus is to minimise the consequences of automatic balancing, the 'brake', within the pension system over the longer term. The fund's target in real terms is a 5.0 percent annual return over the long term.

The fund's activities are long term and are therefore judged over a long period. Rolling five-year periods are considered adequate for measuring the performance of actively managed assets, while that of the strategic portfolio may need to be assessed over a considerably longer period.

To ensure attainment of the pension system's long-term overall objective, the buffer funds must achieve a certain joint annual return on investment. If the AP funds satisfy this long-term target, and if Sweden's demographic trend develops in line with the population forecasts published by SCB (Statistics Sweden), there is a good chance that the pension system, at least the national pension system, will function relatively smoothly.

The AP Funds jointly account for just over 10 percent of Sweden's total pension system.

Major decline of portfolio value

The Second AP Fund posted a real return of -24.9 percent for 2008. This is a truly dramatic decline and a direct effect of the turbulent financial markets, developments on global stock markets having had a particularly negative impact.

Accumulated return over the eight years since the fund's inception has averaged 1.7 percent a year. Including the negative return posted for 2008, this is substantially below the long-term target.

The major fluctuations in return on investment for the year derive primarily from the high percentage of equities in the strategic portfolio. It should be noted that the return posted at year-end 2007 was in line with long-term targets.

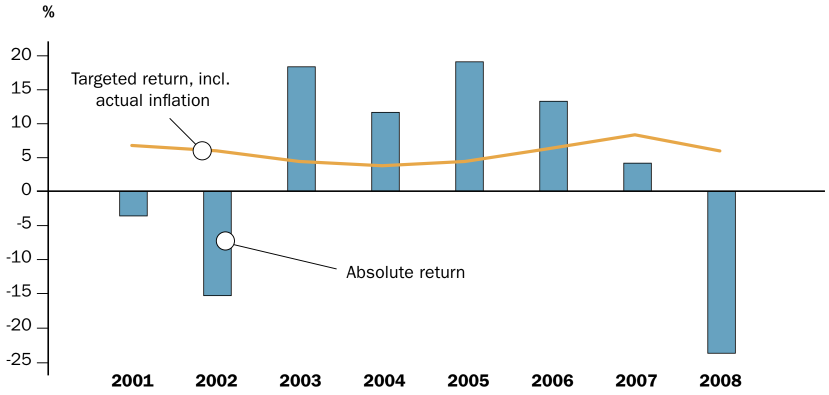
Relative return

The Second AP Fund's long-term target for relative return on investment is 0.5 percent per year. This means that the fund must outperform the strategic portfolio by 0.5 percentage points. This is a measure of the fund's success in managing its assets to generate a value in excess of that generated by mere exposure to the markets. The Second AP Fund posted a relative return on investment of -1.8 percent in 2008. The weak result may be attributed to a number of the fund's equity mandates and some investment products that were poorly positioned in the extreme turbulence that affected the financial market in the autumn. As a result of the financial crisis, almost all active investment mandates, both internally and externally managed, underperformed simultaneously.

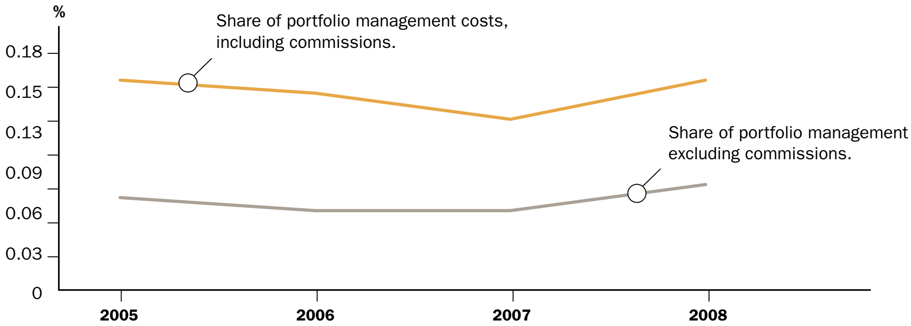
Risk utilisation within prescribed limits

Day-to-day management of the fund's assets is conducted so that the anticipated active risk for the entire portfolio of quoted assets shall not exceed 3 percent. In the past year, the financial markets have demonstrated exceptional volatility, i.e. have been unusually unstable. Rated as a standard deviation from ROI, volatility for the portfolio of market-quoted assets was 19.1 percent. As for risk utilisation by asset class, active risk for Swedish equities was 1.9 percent, foreign equities 2.0 percent and, for fixed-income assets, 0.5 percent.

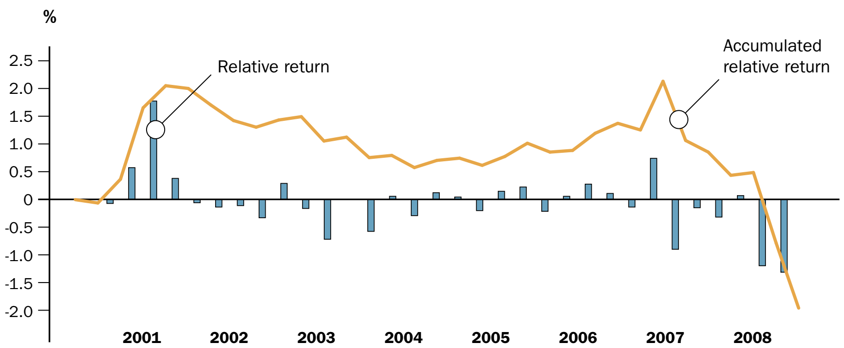
Seven years' statistics for absolute return, 2001-2008



Portfolio management costs as percentage of total assets, 2005-2008



Relative return on Fund's quoted assets, 2001-2008



The graph shows the Fund's accumulated relative return since its inauguration in 2001. The bars show relative return by period.

Cost efficient

As of January 1st 2007, the Second AP Fund has targeted a real return of 5 percent. With current real interest at 1.5 to 2 percent, it is essential that the fund identify investment opportunities that can generate a higher return with a balanced risk. Exposure in high-yield asset classes often incurs higher portfolio management costs. Private equity funds provide one example where, compared to other asset classes, the most successful fund managers have been able to generate high returns over a considerable period. Conversion to a 'core/satellite' strategy in 2004 made the fund's portfolio management more cost-efficient. In line with this strategy, the fund has organised its asset management activities into 'low risk' (assets with broad exposure to fixed-income and equities markets, managed in-house and at low cost) and 'high risk' (assets involving greater active risk), incurring higher portfolio management costs. Broad exposure to less mature markets requires a higher level of specialist expertise and is therefore often managed under external mandates – also incurring higher costs.

A year full of negative surprises

Looking back, 2008 produced one of the worst financial crises since the 1930s. What we have seen in recent years started as a financial crisis in the US, but soon turned global, affecting the real economy in a manner unknown in modern times.

What were the consequences for the Second AP Fund? Our portfolio mainly comprises equities and was therefore severely affected by the dramatic decline of global stock markets. To limit the risk in the portfolio, we took a number of decisions in the autumn that were designed to reduce risk in the equities portfolios managed in-house, to reduce the size of our positions in fixed-income and foreign-exchange markets and to terminate a number of investment strategies. In spite of these measures, the decline in portfolio value was considerable, resulting in a negative return of no less than 24 percent (- SEK 54 bn). To put this in the perspective of developments in other parts of the financial market, it is worth noting that the world's main stock markets have posted declines of approximately 40 percent.

While stating that our reported result is the worst since the fund was established in 2001, it may be appropriate to put this in the context of a longer perspective. A year ago, the average return generated by the fund since its inception was consistent with its long-term target. This in spite of the fact that we had experienced a period in 2002 during which the equities markets noted a dramatic decline. The fund's historically solid growth derives from a long-term strategy based on consistent exposure to the equities market, despite periods of sharp decline. The result contributed by the fund over several years has had a positive impact on pensions. Without these returns, the automatic balancing function would have had to be activated on at least a couple of occasions in recent years.

This leads me to the question of how asset classes are allocated in our portfolio. In light of the major decline we have witnessed in 2008, many are no doubt asking themselves why our portfolio features such a high proportion of equities. The explanation lies in our mission as a 'buffer fund', which requires a real annual average return on invested assets of 5 percent, to be able to fulfil our long-term role in the pension system. We cannot achieve this level of return by investing in bonds alone, and have decided to invest a high proportion of our capital in assets that are expected to yield higher returns over the long term, especially in equities. At the same time, these assets carry a higher degree of risk, which means that the market value of the fund's portfolio will in the short term vafy more than a portfolio with a lower equity allocation. The relatively high share of equities may also be seen in the light of the fund's role in the pension system. The Second AP Fund's assets account for no more than just over 3 percent of the pension system's total assets.

Looking a bit forward in time, my impression is that the current market situation is highly complex, even for a long-term investor. We have reached a decision to retain a relatively high proportion of equities. The rapid decline of global stock markets last year reflects to some extent the fact that risk premiums have risen from low levels and that the long-term return on equities is now higher than before. Given our mission and the fact that the Swedish pension system as a whole features minimal exposure to equities, we therefore believe there is good reason to maintain the strategic focus of the portfolio, in spite of the considerable uncertainty surrounding current developments in financial markets.

As for our active management result, it is far from satisfactory. The weak result may be attributed to a number of the fund's equity mandates and some investment products that were poorly positioned in the extreme turbulence that affected the financial market in the autumn. As a result of the financial crisis, almost all active investment mandates, both internally and externally managed, underperformed simultaneously.

In view of our unsatisfactory performance in active portfolio management, we have decided to restructure the investment management organization, as of January 1st 2009. In brief, the strategy for this new organization is focus, simplicity and flexibility, involving a reduction in the degree of active management, and it will concentrate on fewer areas. This change has involved some personnel cutbacks, reducing in-house management costs by slightly less than 10 percent.

Although the year has naturally been largely dominated by the events on global equity markets, I would like to take this opportunity to highlight another important part of the portfolio, namely our unquoted real-estate holdings. During the year, AP Fastigheter acquired Vasakronan. The new company, which has assumed the name Vasakronan, is by far the largest real-estate company in Sweden. Even though the real-estate market may be sluggish in the short term, the acquisition of Vasakronan forms an important

element in the long-term development of our unquoted real-estate portfolio, which in addition to Vasakronan comprises Norrporten. Norrporten has also improved its strategic position during the year, making several acquisitions and building new properties. The acquisition of Vasakronan has increased the fund's exposure to real estate by about 2 percentage points.

In spite of the turbulent market situation, we have tried to maintain focus on the other long-term and important tasks that are also part of our overall mission, such as our commitment to corporate governance and environmental issues. The work we have done in the field of sustainability has yielded valuable knowledge, which we believe increase the fund's potential for making better future investments.

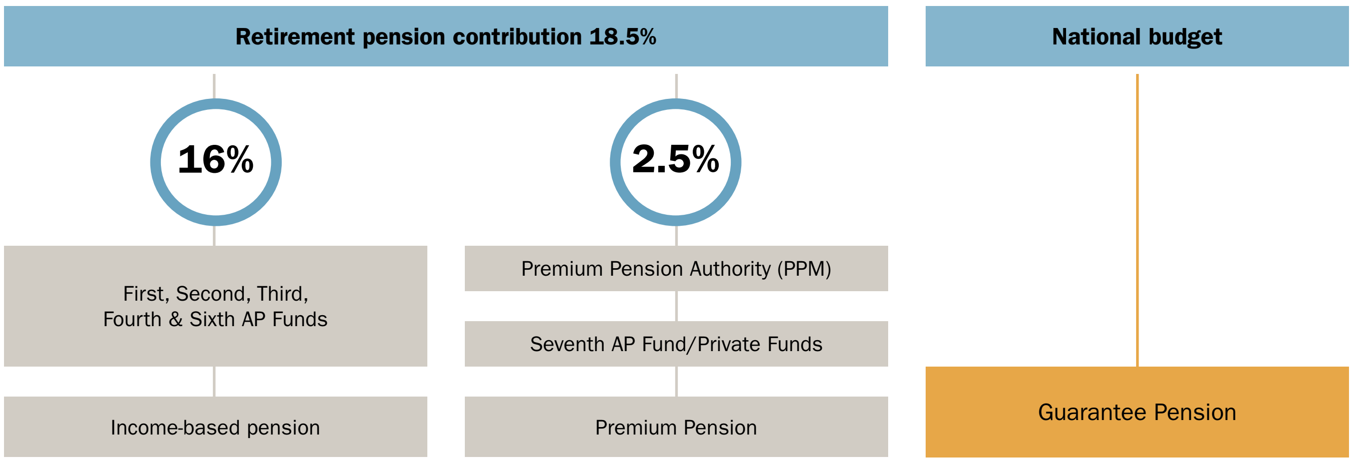
An area that has been – and continues to be – important is to chart and evaluate the level of CO_2 emissions generated by portfolio companies. We have also developed in-house environmental goals and have been engaged in a broad range of initiatives in the environmental sphere.

It has been a year like no other in the financial markets and, during the beginning of 2009, the economic crisis has continued to spread to most countries in the world. For us, it has naturally been a demanding year, but it has also been instructive. Many old assumptions have been tested and proved wrong. The operational changes now being implemented will continue to place severe demands on the organization – which is why I should like to conclude by thanking all members of staff for their commitment during the year.

Eva Halvarsson
CEO, Second AP Fund

The AP Funds are part of the pension system

Sweden's income-based pension system was reformed almost a decade ago. The reform was designed to address the demographic demands of the next few decades by establishing a clearer link between income generated over a working life and pension. The stability of the system is based partly on the fact that it is independent and self-financing.



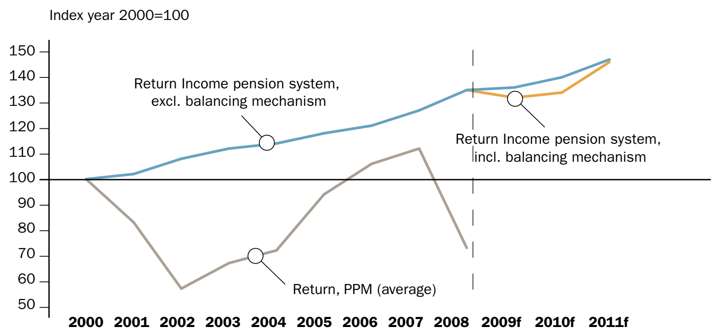
The national retirement pension comprises two main elements – an income-based pension and a premium pension. These are financed by a retirement pension contribution, levied from those in gainful employment, which corresponds to 18.5 percent of income earned. Of this amount, 16 percent goes to the income-based pension system and 2.5 percent to the premium pension system. There is also a guarantee pension, funded by the State. The Second AP Fund forms part of the income pension system.

Eight years of stable and high return

Since 2001, the income pension system has generated a relatively high and stable return for pensions. Individual pension capital has on average returned 3.8 percent a year over the period 2001-2008, equivalent to a total gain in value of about 35 percent. This may be compared to the average return achieved by the premium pension system, which during the same period posted a negative total return of -35 percent.

The AP Funds' primary mission as part of the income pension system is to serve as 'buffer funds', to balance fluctuations in payments that derive from demographic changes.

Since the early 1960s, annual contributions to the pension system have exceeded pension disbursements and helped build up a capital base. In the immediate future, however, pension disbursements are expected to exceed contributions received, resulting in net-outflows from the AP Funds.



Return on investment, income pension and premium pension, 2001-2008

The income pension system has generated stable incremental growth while the PPM funds have posted sharply fluctuating returns, producing a joint negative return for the period. For the average Swede, the pension entitlement from the income pension system amounted to SEK 647 400 on December 31st 2007. The corresponding value of the PPM portfolio was SEK 53 200.

The stability of the system is now being tested

As the baby-boomers of the 1940s progressively enter retirement, the stability of the pension system is really being put to the test. 2008 was at the same time an exceptional year on global financial markets, a year in which stock markets across the world saw their values almost halved. This has contributed to the fact that, for the first time, pension liabilities exceed pension assets, triggering activation of the 'brake' (the Swedish pension system's automatic balancing mechanism).

Tomas Franzén, Chief Investment Strategist at the Second AP Fund, explains what automatic balancing involves.

"The annual upward adjustment of individuals' pension assets in the income pension system is normally based on a percentage that corresponds to the average rise in income, known as the income index. In some years, however, to maintain long-term stability, this adjustment may be lower if the assets in the system are unable to fully cover pension entitlements. In such cases, the adjustment reflects the balance index, which indicates the degree of imbalance between pension system assets and pension entitlements: the greater this imbalance, the slower the upward rate of adjustment."

Temporary decline in rate of increase

Does this mean that pensions will always fall behind, once the automatic balancing mechanism has been activated?

"No. The idea is that the upward adjustment should be accelerated, once balance has been restored and pension assets exceed pension entitlements. This accelerated upward rate of adjustment applies until the effect of the balancing process has been compensated."

Can we be sure that we are looking at no more than a reduction in the rate of upward adjustment, or might we actually be looking at a reduction in pensions?

"It depends on the degree of imbalance. If large, this might involve a temporary drop, but it also depends on other factors, such as increases in income and inflation."

Has the automatic balancing mechanism been activated before?

"No. Every year, the pension system's combined assets have exceeded the combined value of pension entitlements. The high return generated by the AP Funds' investments has enabled us to avoid having to activate the mechanism in the past few years. Without this high return, it would have been necessary to activate the 'brake' on at least a couple of occasions."

First effects in 2010

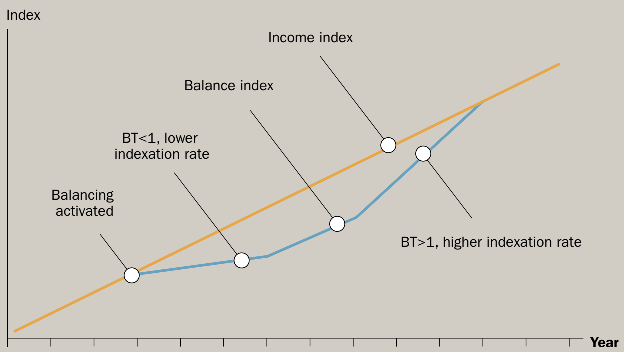
When will pensions start to notice the impact of the automatic balancing mechanism?

"Pensions will not be affected until 2010. During 2009, the Swedish income index will rise by no less than 6.2 percent."

How balancing works

The 'balance ratio' (BT) is determined by dividing the system's assets by combined pension liability. Where the 'balance ratio' is less than 1.0, the automatic balancing mechanism is activated. This means that pension liability and pensions are only adjusted upward by the income index multiplied by the 'balance ratio'. This continues until balance has been restored.

(Source: Swedish Social Insurance Agency)



What will the impact be in 2010?
"The extent to which pensions and pension entitlements will be affected in 2010 will be determined when the Swedish Social Insurance Agency presents its forecasts in the spring of 2009. In its most recent report, from December 2008, the Swedish National Institute of Economic Research estimates that the 2008 'balance ratio' will be 0.974. In this case, implementation of the balancing process would involve a reduction in pension entitlements and pensions of about 2.6 percent in 2010. For a gainfully employed individual with a future monthly pension of SEK 11 000, this balancing adjustment would mean SEK 286 less a month, based on the Swedish National Institute of Economic Research's forecast. A decline in real incomes and a falling CPI (Consumer Price Index) suggest that pension entitlements for the gainfully employed are likely to shrink by a total of SEK 230."

You refer to the gainfully employed and their pension entitlements. Will the effects on disbursements to those who already receive pensions be the same?
"The balancing process, real incomes and inflation will affect pensions that are already being paid out in the same way. At the same time, they will also note a 1.6 percent reduction as a consequence of the pay adjustment index. This has nothing to do with the automatic balancing process, however, but applies anyway. The forecasts suggest that pension disbursements will decline by 3.7 percent in 2010."

What can the AP Funds do to ameliorate the effect that activating the automatic balancing mechanism will have on pensions?
"In principle, the only way the AP Funds can influence future pensions is by limiting the future requirement to apply the balancing mechanism by the successful management of pension assets. The system is based on the premise that each AP Fund should achieve a real annual return of 4-5 percent, with a view to minimizing in the long term the negative effects on pensions incurred by the application of automatic balancing."

Will it be enough?
"As long as we manage to avoid even more drastic demographic developments and a dramatic rise in unemployment, it should suffice. If, in the long term, Swedish employment levels prove to be a percent lower than the Fund's predictions, the AP Funds would have to generate a return more than 50 percent higher than that deemed reasonable to compensate for long-term lower employment."

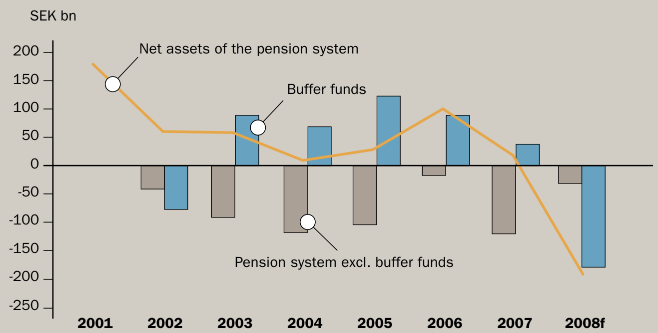
Is it reasonable to assume that the AP Funds will be able to compensate for the major increase in the number of retirees in coming years?
"In the longer term, the AP Funds expect to be able to limit the relative impact on pensions. This said, activation of the balancing mechanism cannot be totally avoided. The overall aim of the Second AP Fund's investment strategy is that, over time, its asset management activities shall contribute to minimizing the negative effects of automatic balancing on current and future pensions."

The AP Funds are just a small part of the system

Given developments on global stock markets during the year – aren't the AP Funds overexposed in equities?
"The AP Funds' exposure to the stock market must be judged in the context of their relative size compared to the rest of the pension system. Furthermore, it is important to assess such exposure in terms of the system as a whole. AP Fund assets account for no more than just over ten percent of the Swedish pension system's total assets. The Second AP Fund accounts for approximately a quarter of these."

"Placed in this perspective, the ROI required of the Funds is relatively high. This explains why the portfolio contains such a relatively high proportion of risk-related assets, especially equities."
"Fifty-six percent of the Second AP Fund's long-term allocation is in quoted equities. This means that the value of the Fund's portfolio will, in the short term, vary more than a portfolio featuring a lower percentage of equities. For the pension system as a whole, however, the overall long-term return on invested assets is more important than the annual variation."

Surely equities are not the only risky assets?
"In this respect, we are limited to some extent by the investment regulations that apply to the AP Funds. In particular, the regulation specifying that no more than 5 percent of Fund capital may be invested in unquoted assets. Normally speaking, this type of asset otherwise forms a natural part of a portfolio with an extended investment horizon, and can make a valuable contribution by diversifying risk. Commodities, in which the AP Funds are not allowed to invest, can also offer a valuable means of uncorrelated returns."

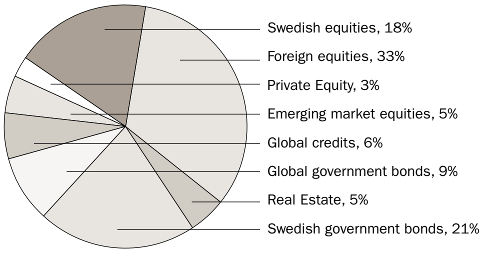


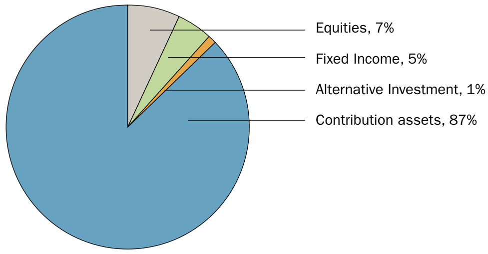
Status of pension system, 2001-2008

In the period 2003-2007, the AP Funds noted positive returns and inflows (blue bars) that compensated for the weakening of the other part of the pension system (grey bars), as a result of which total net assets were positive, as indicated by the orange curve. In 2008, the AP Funds' assets noted negative growth in market value, and pension liabilities exceeded assets in the pension system. This meant that the 'balance ratio' fell below 1, and that the automatic balancing mechanism will be activated for the first time, in 2010.

f = forecast (Swedish National Institute of Economic Research)
Source: Swedish Social Insurance Agency, Swedish National Institute of Economic Research and own calculations.

What other assets does the pension system rely on?
"The predominant asset, accounting for some 90 percent of total assets, is the Pension Contribution asset, which reflects the combined value of monthly pension contributions. It reflects developments in income and employment and may therefore be compared most closely to a index-linked bond. Index-linked bonds feature low correlation with most of the risk-related assets in the AP Fund's portfolios and are therefore good diversifiers in relation to the AP-funds."





Asset allocation for Second AP Fund and entire pension system

The left pie chart shows asset allocation in the Second AP Fund's strategic portfolio. The right pie chart shows asset allocation for the entire Swedish pension system, after taking account of the fact that the AP Funds represent just over 10 percent of the system's combined assets. Approximately 90 percent of pension system assets have no exposure in financial markets.

The strategic portfolio – the investment management rudder

The composition of the strategic portfolio represents the mix of assets that the Second AP Fund deems likely to yield the best long-term result for future pensions. The allocation of different asset classes within the strategic portfolio is relatively stable and since 2001 has been adjusted only a few times.

At year-end 2008, the portfolio was composed of the following asset classes:

- Swedish equities
- Foreign equities
- Emerging market equities
- Fixed-income assets
- Real Estate
- Private Equity

The composition of the strategic portfolio is analyzed every year by the Second AP Fund's board. This analysis is based on an ALM (Asset Liability Modelling) study, developed by the Second AP Fund.

Stable portfolio in the long term

The adjustments made in the composition of the portfolio over the years have mainly involved the addition or expansion of alternative investments (real-estate and private-equity funds) and allocation of a considerable part of the equity portfolio to emerging markets.

A more minor change introduced within the framework of the Fund's portfolios of equities is the increased degree of alternative indexation, at the expense of traditional capital-weighted fundamental portfolios. In the long term, this approach is expected to spread portfolio risk more effectively and contribute to a higher return.

The AP Funds are a limited part of the pension system

Since 2001, the AP Funds have been more clearly linked to the pension system and future pensions than before. The Second AP Fund's strategic portfolio reflects the investment focus that is deemed to provide the best support for future pensions. This portfolio strategy derives from the AP Funds' special role within the pension system and the pension system's anticipated development in general. Since the AP Funds represent a relatively small part of the pension system, their ability to influence future pensions will be limited. In the same way, the result of the AP Funds' investment activities will have a relatively limited effect on the size of future pensions.

Thinking long-term is part of the job

The Second AP Fund's assignment is long-term investment. A long-term investment horizon enhances the capacity to adopt risk in the strategic portfolio. The type of risk associated with the short-term and unpredictable fluctuations of the equity market are reduced, because they tend to cancel each other out over an extended period. The return on risk-related investments varies much more dramatically in the short rather than the long term. A period of high return is often followed by a period of low return, and vice versa.

According to the way in which different investment assets are valued in each instance, the risk adopted is compensated in the form of a risk premium, whose size also varies, even in the long term. Throughout virtually the entire decade, the future risk premium and return assigned to a whole range of risk-related investments has been historically low.

Severely exposed in equities

The AP Funds' major exposure in equities should be seen in relation to the fact that they represent a relatively limited portion of the pension system's total assets, and that the Funds operate on a very long investment horizon. The buffer funds combined assets account for just over 10 percent of the entire pension system's combined assets. Most of the remaining almost 90 percent of the pension system's assets are not exposed to financial market risks.

The relative allocations of Swedish and foreign equities and the percentage of equities in emerging markets ensures the spread of portfolio risk. Due to the increased pace of globalization, however, the ability to spread risk between different sub-markets is more limited, as correlation between different equities markets has increased. Another way of increasing the long-term diversification of risk in the Fund's equity portfolios is to reduce the risk concentration often demonstrated by traditional market-weighted portfolios, by selecting a high percentage of major companies that are relatively highly valued.

Different ways to spread risk

The main diversification of risk in the strategic portfolio is achieved through its general division into equities and bonds. As long as inflation does not rise significantly beyond the current level in the long term, correlation between these two classes of asset is expected to be very low.

Another effective means of diversifying risk is by investing in alternative assets such as private equity funds and real estate. In the Fund's portfolio, these assets are deemed to possess a relatively low correlation with equities and bonds. Nevertheless, current investment regulations impose certain limits concerning further diversification of risk by investing in this class of asset.

Changes in strategic portfolio 2009

During the autumn of 2008, the spread between government bonds and credit bonds increased dramatically. The credit risk premium had gradually declined in recent years. The Second AP Fund's exposure to credit bonds has therefore been relatively limited. However, in the light of the rise in risk premiums in the autumn of 2008, a decision was taken to double the portion of the Fund's portfolio invested in credit bonds, from 3 to 6 percent.

A year like no other

Until the end of the summer of 2008, the global economy was still in relatively good shape. Since then, things have gone downhill fast, with one piece of bad news after another. What was initially perceived as a problem affecting the US home loan market rapidly gained an international dimension. The first phase affected the entire US financial system, but this rapidly developed into a global financial crisis. Since then, the downturn has also had an impact on the real economy – first on the western economies, but later in the autumn on the emerging economies too.

"What makes the current crisis special is the sheer scale of the decline and the fact that it is the first time we have been confronted by a crisis that derived from the financial system itself. This makes it particularly unpredictable. Furthermore, the instruments we have previously employed in dealing with crises are not designed for this situation," says Johan Held, CIO (Chief Investment Officer), Second AP Fund.

According to Johan Held, to understand the crisis in which we now find ourselves, we must study its historical development.

"We experienced a stock market decline and a fairly mild recession after the IT bubble burst around the turn of the millennium. The downturn in the economy was fairly gentle – mainly attributable to interest cuts that sustained consumer confidence in the economy.

Strong growth

During 2004 and 2005, the economy picked up speed again, partly because the property market remained buoyant and because cheap loans made it easy to finance consumption and investment. Added to this, growth elsewhere, especially in Asia, was extremely strong.

"For a few years, global growth was stronger than it had been for the past 20 years. Much of this was fuelled by growth in the Chinese economy. For a long time, this went hand in hand with extremely low inflation and, consequently, low interest rates. As a result, both private individuals and corporates became accustomed to low interest rates, and started to believe that this favourable climate would last forever," explains Johan Held.

Problems arose when inflation took off and interest rates started to climb, which had the effect of exposing the consequences of the dubious lending practices adopted by the US home loan market.

"In furthering a political ambition that everyone should be able to own their own home, the US state supported the granting of shaky loans to people who lacked any true creditworthiness. Furthermore, these loans – known as subprime loans – had been formulated with artificially low initial interest rates, which subsequently rose sharply. A large proportion of these loans were also securitized in a manner that made it difficult for investors to understand the risks they were actually taking."

The first indication – autumn 2007

The problems started to become increasingly conspicuous in the autumn of 2007. The first phase affected those who had taken out subprime loans. As increasing numbers of them were forced to sell their homes, the housing market as a whole was drawn into the vortex.

Initially, many believed the problem would be limited to the subprime market. Eventually, however, in addition to the problems proving worse than originally anticipated, other parts of the financial sector were also affected. The banks that had lent money to the players in the subprime market suddenly found themselves with bonds that nobody wanted to own and were rapidly forced to write down the value of their holdings.

"As late as March 2008, however, it still seemed as if the crisis would not be that serious, given the fact that the American state, the US Federal Reserve and JP Morgan had joined forces to save the US investment bank Bear Sterns."

September – a fateful month

During two weeks in September, however, everything changed. The first was when the US state stepped in and took over the mortgage institutes Freddie Mac and Fannie Mae. This was followed by Lehman Brothers' bankruptcy, the rescue and nationalization of AIG and the collapse of Washington Mutual. During the same period, two investment banks, Morgan Stanley and Goldman Sachs, were transformed into ordinary banks, thereby gaining access to the US state's guarantees.

"If asked to define the single event that helped the financial crisis acquire its present proportions, it would have to be the failure of Lehman Brothers. Investment banks are, by their very nature, entirely dependent on the financial markets for wholesale finance. They have no stable deposit base in the form of private savings. When the American state failed to step in and rescue Lehman Brothers, it sent a shockwave through the entire system. What had already been a sluggish credit market quite simply stopped functioning, because the banks no longer dared to grant loans – even to each other," says Johan Held.

Crisis becomes global

In October, the crisis spread to Europe, and to the global economy as a whole. Countries with banks that had substantial holdings in the US market were the first to feel the effects, but uncertainty and an increasing risk aversion gradually spread throughout the entire European banking system. Countries such as Iceland, Belgium and Latvia nationalized their banks. Uncertainty and the lack of credit then in its turn had a negative impact on heavy industry. At the same time, consumer confidence in the economic prospects reached new lows, resulting in a slowdown in private consumption.

"For a long time, it seemed as if the emerging markets would do better than developed countries, but declining demand led to falling commodity prices, affecting commodity-dependent countries such as Brazil and Russia. In December, reports started coming in of negative Chinese export growth, signalling the fact that the crisis had become truly global."

Johan Held considers the final quarter of 2008 to have been the worst quarter experienced by western financial markets since the Second World War.

"Stock markets fell around 40 percent during the year, causing an unparalleled flight to more secure assets, such as government bonds. On a number of occasions, US treasury bills posted negative returns. At the same time, the rates quoted for corporate bonds went through the roof."

Credit markets are crucial

According to Johan Held, if we are to extricate ourselves from this serious economic crisis, we must first and foremost get the credit market functioning more normally again. The banks must regain confidence to provide credit to each other and to their clients at reasonable rates. This assumes a banking system that is sufficiently capitalized, which means that fresh equity must be injected. "Governments and central banks worldwide have acted aggressively to mitigate the effects of the economic decline and, sooner or later, the various bank rescue packages, interest rate cuts and investments in infrastructure will yield positive effects. The question is when and how vigorous the economic recovery will be. Much depends on consumer optimism. Unfortunately, there is a real risk that such a recovery may be a long time coming. The key reason for this is that that the global economy is currently undergoing what is in many respects a healthy phase of de-leveraging after having built up massive debts over an extended period."

Integrated system

Johan Held believes that the debt restructuring requirement is greatest in the USA and Great Britain, where the excesses have been most blatant. The effects will nevertheless be apparent globally as well, due to the highly integrated nature of the global economy. This applies to financial markets as well as to most commodity markets.

American private consumption accounts for no less than 70 percent of the entire US economy – and about 20 percent of the global economy. For this reason, a slowdown in the USA has a dramatic impact on corporate profits, the rate of inflation and financial markets across the world. As a result of the sharp decline in the price of assets such as homes and equities, in combination with rising unemployment, the aversion to risk demonstrated by investors and lenders has led to a virtual paralysis of the financial market. In view of this situation, private individuals are likely to act cautiously for a long time to come, and focus on saving rather than spending money.

One positive effect of the crisis is a dramatic drop in the rate of inflation, preparing the way for low interest rates over the coming years. We are likely to experience extremely low levels of interest for some time to come, both in terms of short money market rates and bond yields.

Has the stock market bottomed?

According to many models, the market value of the world's stock markets is lower than it has been for a long time. The future, however, both in the short and long term, is unusually difficult to predict, and the reported profits of quoted companies are expected to decline quite dramatically during 2009.

"This makes it very difficult to know whether we have really reached the bottom of the stock market in this cycle.

2008 – a highly eventful year

January February March April May June July August September

March

14th
JP Morgan Chase, with the help of the American State and the US Federal Reserve, takes over investment bank Bear Sterns.

September

11th
The American State takes over home loan institutes Freddie Mac and Fannie Mae, which receive a USD 200 billion guarantee to cover outstanding loan commitments.

15th
Investment bank Lehman Brothers goes bankrupt when the American State decides not to rescue it. Merill Lynch is acquired by Bank of America.

17th
The American State acquires an 80 percent majority interest in AIG, which at the same time receives a loan of USD 85 billion from the US Federal Reserve.

Assuming that the global economy stages a recovery during the latter part of 2009, however, global stock markets ought to note an upturn some time later in the year. Because of the extreme decline of the stock market in 2008 – the single worst year on stock markets in modern times – we should probably be prepared for continued turbulence in the stock markets, with dramatic fluctuations for a relatively long time ahead."

Dramatic results

The sheer scale and breadth of the stock market decline, combined with the Second AP Fund's relatively high allocation to equities, had a severe effect on the fund's result.

"The net worth of the total portfolio fell by 24 percent. We were not satisfied with the performance of the actively managed portfolio either. Even though we decided to reduce the level of risk in the portfolios that we managed in-house relatively early in the autumn, it was not enough. First it took time before all the portfolio changes could be implemented, because of the speed at which the markets became illiquid. Second the degree of turbulence rose extremely fast during September and October, forcing us to reduce risk in several stages. Difficulties in trading certain types of securities and instruments made it very difficult to adjust the portfolios as quickly as we had wished. Measures implemented included reductions in equity-specific risks, reductions in the size of the positions taken in fixed-income securities and foreign exchange markets and the complete shutdown of a number of investment strategies."

Looking ahead

"We believe that the extremely demanding markets we have experienced in the past year are likely to stay for some time to come. We conclude that we need to concentrate competence in a number of portfolio management sectors and create a simpler and more transparent investment management organization to ensure future success."

"In future, therefore, the Second AP Fund will manage fewer in-house mandates and we have lowered our ambition with respect to in-house management of portfolios of global equities. As of year-end, the fund's asset management organization is structured as follows: Equities Management, Fixed Income Management, Quantitative Strategies, External Management and Strategic Exposure & Trading. In addition to this we have created one forum to work with tactical asset allocation decisions and another to work with larger and more long-term deviations from our strategic portfolio."

October

3th
The US President decides on a major rescue package that has previously been rejected by the Senate.

6th
The Icelandic krona falls 30 percent against the euro, at the same time that the country's next largest bank, Landsbanki, is nationalized. The Belgian State takes over Fortis.

8th
A large number of the world's central banks cut their base rates by 0.5 percentage points. Great Britain presents bank guarantees totalling GBP 250 billion.

24th
Dramatic decline of global stock markets. OMX has its worst day ever, losing 10 percent of its market value in a single day.

November

8th
Latvia's second largest bank, Parex Bank, is nationalized. China launches a crisis package worth SEK 4 500 billion.

10th
The Swedish Financial Supervisory Authority revokes Carnegie's operating licence.

15th
The leaders of the G20 countries decide on measures to combat the financial crisis.

19th
Latvia initiates talks with the IMF about loans. Similar talks have already been initiated by the Ukraine, Iceland, Pakistan and others.

20th
Chrysler, Ford and GM apply to the American Congress for help to solve their liquidity problems. In Sweden, Handelsbanken, Nordea and SEB discuss a state guarantee programme with the Swedish Government.

23th
The US Treasury Department and the Federal Reserve agree on a USD 20 billion package to rescue Citigroup from a liquidity crisis.

23th
The IMF and the EU promise help to Latvia in the form of a loan of not more than USD 2.1 billion, following a 4.2 percent decline in the country's economy during the third quarter.

24th
The IFO index, indicating the health of German trade and industry, falls to its lowest level since 1993.

December

The cornerstones of portfolio management

The Second AP Fund's investment strategy is based on a set of 'cornerstones', or 'Investment Beliefs'. These describe the fund's understanding of the way capital markets function. The composition of the strategic portfolio and the manner in which active management is conducted is based on a number of Investment Beliefs. These are designed to ensure a common approach in value creation and in enabling the organization to achieve success.

Two key sources of value creation

Possibly the most fundamental of these cornerstones is the fact that value creation in financial portfolios derives from two main sources – systematic exposure to risk premiums in the markets and active value-generating portfolio management.

As an investor, the Fund must decide whether the risk premium is deemed to be high enough to motivate an investment. As an investor, the Fund cannot avoid accepting a certain amount of risk. Due to the strategic portfolio's composition, the risk premium only varies according to point in time and asset class.

As well as exposure to systematic risk premiums, management of the strategic portfolio features low investment turnover, so that it is long-term by nature, involves a limited number of asset classes and seldom alters. This type of exposure is open to all, and means that one investor's investment decisions do not exclude other investors from the same investment. It also involves a fairly inexpensive form of exposure, with relatively little diversification.

Active utilization of price inefficiencies

In active portfolio management, the investor utilizes temporary price inefficiencies in the market. What this means is that a specific asset or security may be priced for a return that is not justified by its relative risk compared to the market as whole. Unlike exposure to systematic risk premiums, the utilization of temporary price inefficiencies is therefore a zero-sum game. If one investor deviates from the market portfolio, other investors must deviate in the opposite direction, Other differences that distinguish active portfolio management from exposure to premiums for systematic risk are the higher investment turnover and higher costs, as the investment skills of active managers are in short supply. It also brings a higher degree of diversification to the portfolio.

Inefficiency a condition

If the markets were fully efficient, price inefficiencies would never arise and it would therefore be unprofitable to deviate from a broad market portfolio.

The recognition that financial markets are not entirely efficient is one of the Investment Beliefs on which the Second AP Fund bases its portfolio analysis. The belief that equities are mean-reverting in the long term, and that diversification is the only way in which an investor can increase total return without increasing the total portfolio risk, also belong to this category.

Investment in equities is part of the mission

Another group of Investment Beliefs focus on the Fund's own mission, the illiquidity of specific assets or securities, and corporate governance issues.

An important starting point is the understanding that a long-term investor in equities incurs less risk than one operating on a short-term investment horizon. This is closely related to the idea that any valuation of equities in the long term is mean-reverting. In contrast, the short-term investor may be forced to realize his investment at a time of general market decline.

Given the fact that the Second AP Fund's mission is long-term, this means in principle that exposure to the equities market is consistent with the nature of the assignment. This understanding is also in line with the fact that the AP Funds account for no more than approximately 10 percent of the pension system's total assets and, consequently, that the pension system in its entirety features minimal exposure to the equities market.

Long-term approach offers greater potential

A long-term approach offers the possibility of waiting to achieve the result of an active management strategy, which a more short-term investor may not feel he has time for. It also creates opportunities for value-generating active corporate governance. By systematically identifying weaknesses and by influencing companies in a responsible manner, an active owner can generate additional return, compared to investments where active governance is lacking. This potential has grown, as a growing amount of corporate ownership becomes a collective experience, increasing the distance between shareholders and executive managements.

Another door opened by a long-term investment horizon is the possibility of choosing investments involving a certain fixed element. This may be investments with low liquidity, or that are linked to a pledge not to realize the investment within a specified minimum term. These types of investment often carry a premium for the lock-in, since many investors are averse to poor liquidity. The premium is designed to compensate the investor for the risk that new and negative information could depreciate the value of such an investment, without the investor being able to dispose of his holding. Examples of investments known for poor or limited liquidity include private equity and infrastructure funds and, to a certain extent, real estate.

Attractiveness, predictability and efficiency

To succeed as a fund manager, it is not enough merely to recognize that the financial markets offer a means of generating value and that a long-term strategy offers excellent opportunities for doing so. The Second AP Fund must also consistently attract, develop and retain competent staff. This is particularly relevant with respect to active management, which can only be justified if the Fund is able to demonstrate investment insights that are better than average.

To be able to benefit fully from the competence of the Fund's staff, the implementation of efficient and disciplined processes is decisive. This ensures that operations are conducted in accordance with the Fund's fundamental convictions and strategies, as well as ensuring that its exposure to risk is predictable and at the appropriate level. A structured approach also makes it possible to quickly identify new market information and act before other players, establishing the potential for extra high returns.

Towards greener asset management

One of the Second AP Fund's responsibilities is to consider environmental issues when choosing where to invest its money. How does the Fund interpret this responsibility? Carl Rosén, Head of Corporate Governance, provides some answers.

Is the environmental issue just one of many peripheral factors to be taken into account, or is it a condition for truly long-term value creation?
The portfolio's long-term prospects for value-creation are nil, if Man succeeds in disrupting the natural cycle. This is the really big question. It is here that major investors with long investment horizons can play a key role, highlighting issues of global relevance to industries and asset classes. One such is the UN-led PRI project, the Second AP Fund being one of its founding signatories. Other projects include the Carbon Disclosure Project and the ICGN, which are deeply involved in environment-related auditing issues (acronyms explained in box on next page). The Joint Ethical Council of the Swedish National Pension Funds has published a specially commissioned report on the environmental impact of the mining industry, indicating how we can persuade companies, legislators and the media to focus more on certain issues.

Does this global effort involve all asset classes?
Initially, the primary focus was on equities and real estate. Now intensive efforts are

being made to raise this issue within private equity, which in many respects needs to raise the level of ambition, with regards both to environmental awareness and information about these issues. As for bonds, corporate bonds are subjected to the same analysis as equities. There are even a number of initiatives on the bonds side, when issued by supranationals. The World Bank's green bond, in which the Second AP Fund has invested SEK 250 million, is one such example (see separate box).

How does the issue of the greenhouse effect influence your investments at the corporate level?
One thing is already abundantly clear: the environmental issue already affects every aspect of business. Those who are knowledgeable about environmental issues can do better business than those who are less well informed.

How do you mean?
We have our own analytical model, which we use to examine the ways companies address various aspects of sustainability. We have used it for a couple of years now, and have determined that all large Swedish quoted companies operate waste management and other programmes in compliance with current legislation. Many also protect their brand image by ensuring that the company and its subcontractors fulfil these commitments. Work focused exclusively on 'clean technologies' is less common, although there are plenty of good examples in Sweden. Investors like us can participate more actively in quoted companies that are somewhat smaller, exerting our influence to reduce the risks in our investments.

What about analysts and portfolio managers? Do they really take these issues into account?
If you had asked five years ago, the answer would have been 'No' – but the level of understanding and awareness has increased dramatically in the past few years. Examples such as GM and Ford, where a lack of environmental awareness has directly contributed to their becoming disastrous investments, has grabbed the attention of even the most conservative analysts. The emergence of Denmark's Vesta and the development of environment-friendly products by Swedish companies such as Alfa-Laval (plate heat exchangers) and SKF (wind power) demonstrate that environmental concerns are promoting the development of new markets and, consequently, leading to more attractive investment opportunities.

At the Second AP Fund, we have been working on our own owner logbook, in which environmental issues are an integral part.

We have also conducted training programmes at both portfolio manager and analyst level, as well as providing environmental training for all personnel, so we feel we have made some progress.

There is nevertheless still some way to go when it comes to input from external sales analysts about such issues. We have often had to rely on other portfolio managers or consultants to learn more. Why the sales side has been so slow to learn is difficult to work out. Perhaps they are too short-term in their thinking and too focused on the columns in their Excel tables that cover the next quarter.

The World Bank's green bond

In 2008, the Second AP Fund invested SEK 250 million in a bond that is intended to finance a number of climate-approved projects. The bond yields a return that is 0.25 percent better than Swedish government bonds and is issued by the World Bank, which has an Aaa/AAA rating.

How does the Fund itself operate?
Of course, the Second AP Fund cannot preach to the corporate world about environmental management systems and other sustainability issues unless it operates its own in-house programme. It has therefore seemed entirely natural that we should develop our own environmental policy, with our own targets.

What is the most important aspect of this work?
In concrete terms, it has meant that we have charted our environmental impact, where travel and office energy consumption are the key factors. We have now established targets to reduce our CO_2 emissions by 10 percent and energy consumption by 20 percent in 2009. This is important, but perhaps most important are the discussions that have arisen at the office.

Cooperating on transformation

PRI (Principles for Responsible Investment) is a UN-led investment initiative that involves 450 members. The Second AP Fund was one of the founding signatories. See www.unpri.org.

ICGN (International Corporate Governance Network) is a global network focused on corporate governance issues. The Second AP Fund is represented on the ICGN board. See www.icgn.org

The Carbon Disclosure Project is an initiative that has been questioning the world's largest companies about their impact on the climate since 2001. At present, 385 investors are associated with the project, the Second AP Fund having been a member from the start.
See www.cdproject.net

ECGI (the European Corporate Governance Institute) is a Brussels-based research organization, in which the Second AP Fund is a partner.
See www.ecgi.org

We have co-opted the help of environmental consultants and experts from McKinsey, Volvo and other fund managers.

But seriously, what significance does this have in terms of your portfolio? Can you point to any portfolio investments with a clear environmental profile?
Possibly the most important role we can play is in terms of international cooperation. In this role, we can help raise the standard for entire industries and asset classes. There are plenty of examples where environmental concerns are decisive, even in the day-to-day management of our portfolio.

Our decision to invest in the World Bank's green bond is one example, our investment in renewable energy sources in the private equity fund Carlyle Riverstone Renewable Energy is another. The investment in the London-based fund Generation is an example on the equities side that has proved particularly successful this year, compared with other investments.

In our real-estate portfolio, for instance, we can point to Vasakronan's commitment to environmental issues.

What will happen after the climate conference in Copenhagen?
The idea is that the nations of the world will come up with a successor to the Kyoto Protocol, which marked a first step towards getting companies to bear a greater proportion of the costs of CO_2 emissions. The outcome and its impact are difficult to gauge, but we have initiated a project to examine the portfolio effects of a new Kyoto Protocol. The project involves three stages: in the first stage, we measure the CO_2 emissions of the total portfolio (based on data from the Carbon Disclosure Project). In the second stage, we produce post-Copenhagen-Protocol development scenarios (a scenario can range from the effects of a minor change to a situation where the cost of CO_2 emissions for most companies might rise to SEK 500 per ton). In the final stage, we analyse this data in an evaluation model, to determine the effect on our portfolio.

Copenhagen meeting – what are the implications for the Second AP Fund?

The threat of global warming has become increasingly manifested in the past few years. In every part of the world, action plans are being drawn up, from local to global level. In December 2009, the world's leaders will gather in Copenhagen to formulate a new global climate agreement.

The result of the Copenhagen meeting will be of major significance to companies throughout the world. The Second AP Fund has therefore initiated a study to determine the CO_2 footprint of the Fund's portfolio companies. At the same time, the Fund is studying a number of possible alternative scenarios which might apply after the Copenhagen meeting. Among other things, the study addresses the sectors, countries and asset classes that will be affected. Based on these scenarios, an evaluation model is developed to calculate the financial impact on various companies and sectors of the increased costs incurred in controlling and regulating CO_2 emissions, as well as the impact of changes in consumer patterns and technical advances. The purpose of the exercise is to spot the potential winners that may benefit from a new climate agreement, as well as the companies that are likely to see their costs rise and may therefore be negatively affected.

Of course, the portfolio features many different possible outcomes and we do not believe the results can be applied mechanically to our investments. This said, there is no doubt of the considerable in-house curiosity about the outcome of our studies. It will provide useful input in changing our industrial exposure, possibly even at national and asset-class level.

At the investment level, where is the greatest potential in terms of environmental issues?
I believe new environmental technologies for Swedish companies offer considerable potential. Sweden is well to the fore in this field, a field which has seen some very exciting developments. One has only to think of ABB's power transmission know-how, Volvo's engine technology, Nibe's thermal pumps and so on. This applies equally to the rest of Europe.

The potential for improving the overall environmental awareness of companies outside Europe is huge. Countries where environmental legislation is weak or compliance poor have companies that are definitely not doing their bit. The Joint Ethical Council of the Swedish National Pension Funds (a coalition between the First to Fourth National Pension Funds) has met the managements of several of these companies, including some in China and the USA. It seems certain that both these countries will introduce stricter legislation and tougher demands on compliance. This in turn will require rapid adjustment on the part of companies.

Companies that are not good at addressing environmental concerns in their production, brand management and research activities are presented with fantastic opportunities for creating value. I suspect, however, that they often need encouragement to change, not just from consumers and the media, but from those of us who invest in these companies.

The Second AP Fund's in-house environmental programme

It is not just the Second AP Fund's portfolio companies that come under the fund's environmental programme. The fund's own activities must reflect the same approach. The declaration that the fund will "address ethical and environmental issues, without compromising the demand for a viable return" is central to its mission statement.

"It is important that we, in our role as a national pension fund, accept a social responsibility. To establish our credibility on environmental issues, we must set a good example. By doing so, we also strengthen the standing of the Second AP Fund," states AnCi Johannisson, who heads the Second AP Fund's in-house environmental programme.

During 2008, the Second AP Fund was engaged in implementation of an environmental management system, based on the Gothenburg City Council environmental certification programme. The system derives from the same fundamental concepts adopted by the major standardization systems, such as ISO 14001 and EMAS, but is more suited to smaller organizations.

The greatest environmental impact of the Second AP Fund's own activities derives from its consumption of electrical power (lighting, office equipment and white goods), production and waste issues relating to computers and screens, CO_2 emissions in connection with travel, and the consumption of natural resources in the form of paper and printouts.

"The environmental certification process was carried out in early 2009. The goal is to reduce electrical power consumption by 20 percent. We also mean to cut our CO_2 emissions from business travel in the Nordic countries and our use of copying paper by 10 percent each," states AnCi Johannisson.

The simplest way to cut CO_2 emissions is to increase the number of train journeys at the expense of air travel. This yields an environmental gain at no additional cost.

We are the Second AP Fund

Organization effective January 1st 2009

Fund management

Executive management and staff

Eva Halvarsson
CEO
22 years' professional experience
AP2 since 2006
Previous career: Division of State-owned companies at the Ministry of Industry, National Ministry of Communications, Swedish Tax Board.

Lena Smeby-Udesen
CFO
25 years' professional experience
AP2 since 2001
Previous career: Swedbank, Ericsson, Volvo.

Johan Held
CIO
26 years' professional experience
AP2 since 2008
Previous career: Nordea, SEB, KP Pension & Försäkring.

Tomas Franzén
Chief Investment Strategist
28 years' professional experience
AP2 since 2001
Previous career: Swedbank, Handelsbanken, SAF.

Martin Jonasson
General Counsel
19 years' professional experience
AP2 since 2001
Previous career: Volvo, Mannheimer Swartling.

Carl Rosén
Head of Corporate Governance and Communications
26 years' professional experience
AP2 since 2004
Previous career: Nordic Investor Services, Enskilda, Affärsvärlden, Alfred Berg.

Personal

Lena Sörensson
HR Manager
32 years' professional experience
AP2 since 2001
Previous career: Delphi Automotive Systems AB, Ericsson, Bostads AB Poseidon, Göteborg Municipality.

Margaretha Veres
Personal Assistant to the CEO
43 years' professional experience
AP2 since 2000
Previous career: Ericsson Microwave Systems.

AnCi Johannisson
Information & Projects
37 years' professional experience
AP2 since 2000
Previous career: Intra International, Almedahls, Wicanders.

Cathrin Olsson
Reception & Office Administration
17 years' professional experience
AP2 since 2001
Previous career: Poolia, Hotell Opera, Hotell Kung Oscar, Håfreströms AB.

Maria Andersson
Reception & Office Administration
17 years' professional experience
AP2 since 2004
Previous career: Proffice, Samuelsons Inredningar, Åhléns.

Portfolio Management

Johan Held
CIO
See “Executive Management & Staff”.

Macro & Allocation

Anders G Johansson
Analyst
10 years’ professional experience
AP2 since 2008
Previous career: Swedbank Robur.

External Management

Anders Strömblad
Head of External Management
29 years’ professional experience
AP2 since 2000
Previous career: SCA, Swedish Meats (Scan), National Tax Board.

Britta Ersman
Portfolio Manager
8 years’ professional experience
AP2 since 2001
Previous career: Sjätte AP-fonden.

Mimmi Kheddache Jendeby
Portfolio Manager
6 years’ professional experience
AP2 since 2003
Previous career: Göteborg School of Economics.

Johan Wadell
Portfolio Manager
21 years’ professional experience
AP2 since 2008
Previous career: Holtback & Partners, Bure, SEB.

Camilla Jenedahl
Portfolio Manager
13 years’ professional experience
AP2 since 2001
Previous career: Volvo Treasury.

Fixed Income

Ole Petter Langeland
Head of Fixed-Income
21 years’ professional experience
AP2 since 2001
Previous career: SEB, E Öhman jr Fondkommission, Volvo Group Finance Sweden.

Anders Johansson
Portfolio Manager
19 years’ professional experience
AP2 since 2008
Previous career: Nordea Markets, Unibank, SKF.

Jonas Eixmann
Portfolio Manager
13 years’ professional experience
AP2 since 2005
Previous career: Handelsbanken Capital Markets.

Equities

Fredrik Carlsson
Head of Equities
13 years’ professional experience
AP2 since 2002
Previous career: Bank of America, HSBC Investment Bank, Fidelity.

Claes-Göran Lyrhem
Portfolio Manager
28 years’ professional experience
AP2 since 2003
Previous career: Pricewaterhouse-Coopers, Bilspedition, KPMG.

Caroline Häggqvist
Equity Analyst
2 years’ professional experience
AP2 since 2007
Previous career: Göteborg School of Economics.

Johan Sjöström
Equity Analyst
10 years’ professional experience
AP2 since 2007
Previous career: Atlet, Volvo.

Anna Lannér
Equity Analyst
9 years’ professional experience
AP2 since 2002
Previous career: Göteborg School of Economics.

Quantitative Strategies

Tomas Morsing
Head of Quantitative Strategies
18 years' professional experience
AP2 since 2002
Previous career: Astra Zeneca R&D.

Mia Larsson
Portfolio Manager, Equities & Fixed Income
10 years' professional experience
AP2 since 2004
Previous career: Citigroup Asset Management, Hagströmer & Qviberg, Dunross & Co.

Thomas Ekström
Analyst, ALM & Tactical Allocation
5 years' professional experience
AP2 since 2004
Previous career: Göteborg University.

Claes Ekman
Portfolio Manager, Equities
13 years' professional experience
AP2 since 2007
Previous career: Astra Zeneca R&D.

Peter Mannerbjörk
Portfolio Manager, Fixed Income
4 years' professional experience
AP2 since 2005.
Previous career: Chalmers Institute of Technology, Göteborg School of Economics.

Reine Säljö
Portfolio Manager, Equities
10 years' professional experience
AP2 since 2006
Previous career: Own software company.

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Strategic Exposure & Trading

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Business Services

Lena Smeby-Udesen
CFO
See "Executive Management & Staff".

Financial Control & Accounting

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Yvonne Janslätt
Financial Accounting
22 years' professional experience
AP2 since 2001
Previous career: Ernst & Young, SEB.

Business Control

Anders Eriksson
Financial Accounting & Control
15 years' professional experience
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Previous career: Proffice, GNLD.

Lars Lindblom
Head of Business Control
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AP2 since 2001
Previous career: SEB.

Anders Waller
Business Control
22 years' professional experience
AP2 since 2003
Previous career: SEB, SKF.

Susanne Sohlberg
Business Control
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Previous career: Volvo.

Johan Lagergren
Business Control
5 years' professional experience
AP2 since 2008
Previous career: Pricewaterhouse-Coopers.

Performance Measurement

Ola Eriksson
Head of Performance Measurement
19 years' professional experience
AP2 since 2001
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Olle Eriksson
Performance Measurement
7 years' professional experience
AP2 since 2002
Previous career: Göteborg University.

Roger Hansson
Performance Measurement
3 years' professional experience
AP2 since 2007
Previous career: SEB.

Portfolio Management Systems

Jessika Ingvarsson
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Previous career: Sveriges Ångfartygs Assurans Förening (The Swedish Club).

IT

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Björn Iveland
IT Support & Operations
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AP2 since 2006
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Christian Salomonsson
IT Support & Operations
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Risk Management

Mia Tegbrant
Head of Risk Management
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Previous career: PWC, SEB, Enskilda Banken, Trygg Hansa Livförsäkring.

Camilla Jenedahl
Senior Risk Analyst
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Previous career: Volvo Treasury.

Jenny Tranberg
Risk Analyst
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AP2 since 2008
Previous career: Volvofinans, SKF Treasury.

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